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## Exhaustion of rights and legitimate reasons

Balancing the interests of consumers, TM holders and the market

Flip Petillion  
Partner

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## Principle

"A CTM shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that trade mark by the proprietor or with his consent." (Art. 13(1) CTMR and Art. 7(1) Harm. Dir.)

- Third parties have the right to resell these goods and use the TM
- They have the right to use the TM in their advertising

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## Exception(s)

Exhaustion shall not apply where there exist legitimate reasons for the proprietor to oppose further commercialization of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market. (Art. 13(2) CTMR and Art. 7(2) Harmonization Directive)

Not limitative, open category: change in the condition of the goods, de-branding, re-packaging, re-branding, other reasons ...

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## A balancing of interests

CJEU : a balance must be struck between :

- legitimate interests of the TM holder (protect its TM, image and reputation, realize its economic value);
- legitimate interests of the purchasers/resellers (fully enjoying their property and advertising rights in conformity with sector standards);
- general interest (maintaining undistorted competition)

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## 1. Change in the condition of the goods

- L'Oréal vs. eBay (sale of unboxed perfumes on eBay) :



- « a TM proprietor may oppose the resale of goods removed from their packaging where such removal
  - 1) results in the missing of essential information (e.g. identity of the manufacturer, certain mandatory mentions for cosmetics); and/or
  - 2) damages the image of the product and reputation of the TM (e.g. when packaging is as important as bottle or container in the presentation of the image of the product) »

(see ECJ, 12 July 2011, L'Oréal / eBay, C-324/09, paragraphs 74-83)

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## 1. Change in the condition of the goods

Viking Gas vs. Kosan Gas

(refilling and re-branding gas bottles, the shape of which is registered as a 3-dimensional CTM :



« The composite bottles, which are intended for re-use a number of times, do not constitute mere packaging of the original product, but have an independent economic value and must be regarded as goods in themselves. »

(see CJEU, 14 July 2011, Viking Gas / Kosan Gas, C-46/10, paragraph 30)

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## 1. Change in the condition of the goods

- « the sale of the composite bottles allows to realize the economic value of the marks relating to those bottles »
- otherwise « purchasers would be tied to a single gas supplier for the subsequent refilling of those bottles »
- It « would unduly reduce competition on the downstream market for refilling gas bottles and create a risk of that market being closed off »
- « sale of the composite bottle exhausts the rights and transfers to the purchaser the right to use that bottle freely, including the right to exchange it or have it refilled »
- « The corollary of that right on the part of the purchaser is the right of those competitors to refill and exchange the empty bottles »

(see CJEU, 14 July 2011, Viking Gas / Kosan Gas, C-46/10, paragraphs 32-35)

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## 2. Change in the surroundings of the goods

- Copad vs. Christian Dior** (resale of luxury corsetry goods by discount store) :




« the quality of luxury goods is not just the result of their material characteristics, but also of the allure and prestigious image which bestows on them an aura of luxury »

« the characteristics and conditions of a selective distribution system can, in themselves, preserve the quality and ensure the proper use of such goods »

(see ECJ, 23 April 2009, Copad / Christian Dior, C-59/08, paragraphs 24 and 28)

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## 2. Change in the surroundings of the goods

- « a balance must be struck between the legitimate interests of the proprietor of the Trademark to protect its reputation and the discount store's legitimate interest to resell the goods by using methods which are customary in its sector of trade. »
- « the national court should assess whether the resale is likely to undermine the quality of the luxury goods and/or the reputation of the Trademark »
- « it is important to take into consideration : the nature of the luxury goods, the volumes sold, whether the resale is done outside the selective distribution network regularly or occasionally, the nature of the goods normally marketed by the discount store and the marketing methods normally used in that sector of activity »

(see ECJ, 23 April 2009, Copad / Christian Dior, C-59/08, paragraphs 56, 57 and 32)

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## 2. Change in the surroundings of the goods

Echoes established case law since ECJ, 4 november 1997, Dior / Evora, C-337/95 :

It follows that, where a reseller makes use of a trade mark in order to bring the public's attention to further commercialization of trade-marked goods, a balance must be struck between the legitimate interest of the trade mark owner in being protected against resellers using his trade mark for advertising in a manner which could damage the reputation of the trade mark and the reseller's legitimate interest in being able to resell the goods in question by using advertising methods which are customary in his sector of trade.

As regards the instant case, which concerns prestigious, luxury goods, the reseller must not act unfairly in relation to the legitimate interests of the trade mark owner. He must therefore endeavour to prevent his advertising from affecting the value of the trade mark by detracting from the allure and prestigious image of the goods in question and from their aura of luxury.

For example, such damage could occur if, in an advertising leaflet distributed by him, the reseller did not take care to avoid putting the trade mark in a context which might seriously detract from the image which the trade mark owner has succeeded in creating around his trade mark.

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## A tricky situation in between

- Genuine, cut-price Duracell batteries sold on amazon.com
- Advertized in a genuine-looking Duracell traddress
- BUT : dispatched in a packaging that screams 'counterfeit'
- Example of issues that arise when working with OEMs



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## 3. Pharmaceutical products

- Re-packaging, re-branding, overstickering, de-branding, co-branding, etc. :







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### 3. Pharmaceutical products

Long-standing and established case law on parallel importation:

- CJEU, 23 May 1978, Hoffmann-La Roche / Centrafarm, C-102/77
- CJEU, 11 July 1996, Eurim-Pharm / Beiersdorf, joined cases C-71/94, C-72/94 and C-73/94
- CJEU, 11 July 1996, MPA Pharma / Rhône-Poulenc Pharma, C-232/94
- CJEU, 11 July 1996, Bristol-Myers Squibb / Paranova, joined cases C-427/93, C-429/93 and C-436/93 (BMS)
- CJEU, 11 November 1997, Loendersloot / Balarine, C-349/95
- CJEU, 12 October 1999, Pharmacia & Upjohn / Paranova, C-379/97
- CJEU, 23 April 2002, Merck / Paranova, C-443/99
- CJEU, 23 April 2002, Boehringer Ingelheim and others, C-143/00 (Boehringer I)
- CJEU, 19 September 2002, Avertis / Kollipharma, C-433/00
- CJEU, 8 July 2003, Paranova / Merck, E-3/02
- CJEU, 26 April 2007, Boehringer Ingelheim and others, C-348/04 (Boehringer II)
- CJEU, 22 December 2008, The Wellcome Foundation / Paranova, C-276/05
- CJEU, 28 July 2011, Orlan / Paranova, joined cases C-400/09 and C-207/10

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### 3. Pharmaceutical products

Conclusion : 5 requirements and burden of proof on the parallel importer

- The Trademark owner may legitimately oppose further commercialization of a repackaged, rebranded or overstickered pharmaceutical product, unless the parallel importer shows that :
  1. reliance on these Trademark rights would contribute to the artificial partitioning of the markets between Member States;
  2. the new packaging cannot affect the original condition of the product inside the packaging;
  3. the packaging clearly identifies the repackager and manufacturer;
  4. the presentation of the product cannot damage the reputation of the Trademark or its proprietor (must not be defective, of poor quality, untidy, etc.); and
  5. he has given notice to the Trademark proprietor before the modified product is put on sale, and, on demand, supplies the proprietor with a specimen.

(operative parts of CJEU, 26 April 2007, Boehringer Ingelheim and others, C-348/04 (Boehringer II) and CJEU, 22 December 2008, The Wellcome Foundation / Paranova, C-276/05)

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### 3. Pharmaceutical products

Requirements seem to be limited to pharmaceutical products/packaging

Viking Gas affixed its name, the filling station number and legally required mentions + the Kosan Gas Trademarks were not removed nor covered

= a form of rebranding/cobranding, but test is different :

« The labelling of the composite bottles and the circumstances in which they are exchanged must not lead the average consumer who is reasonably well informed and reasonably observant and circumspect to consider that there is a connection between the two undertakings or that the gas used to refill those bottles comes from Kosan Gas. In order to assess this, it is necessary to take into account the practices in that sector and, in particular, whether consumers are accustomed to the gas bottles being filled by other dealers. [...] it appears to be reasonable to assume that a consumer who goes directly to Viking Gas either to exchange his empty gas bottle for a full bottle or to have his own bottle refilled is more readily in a position to be aware that there is no connection between Viking Gas and Kosan Gas.

As regards the fact that the composite bottles bear word and figurative marks made up of the name and logo of Kosan Gas which remain, according to the findings of the national court, visible in spite of the labelling affixed by Viking Gas to those bottles, it must be pointed out that this constitutes a relevant factor in so far as it seems to rule out that labelling from altering the condition of the bottles by masking their origin. »

(see CJEU, 14 July 2011, Viking Gas / Kosan Gas, C-46/10, paragraphs 40-41)

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### Examples in national case law (yes)

#### Grenoble Court of Appeal (FR), 18 October 2011

- » Resale of Chanel products accompanied by :
  - ✓ '30 % rebate' and 'end of series' signs
  - ✓ leaflet with other beauty products in red letters, painting and tapestry accessories and light bulbs etc. next to it
  - ✓ generally dire conditions of the shop
  - ✓ etc.



#### Luxembourg commercial court (LUX), 13 February 2008

- » Resale of Grana Padano parmesan cheese in supermarkets, where it was, cut up, grated and reconditioned without consent



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### Examples in national case law (yes)

#### Karlsruhe Court of Appeal (DE), 23 June 2010

- » Resale of used J.LO perfume without packaging on www.hood.de



#### Aix-en-Provence Court of Appeal (FR), 25 January 2012

Resale of genuine 'Cherokee' digital decoders, but where the original 'Viaccess' technology was replaced by the 'double Mediaguard' system.



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### Examples in national case law (no)

#### Summary judge, Arnhem (NL), 10 January 2008

- » Trollbeads™ : exclusive dealers, only 3 authorized to sell online



- » Resale via www.trendy-jewels.com (discounts, other lower quality brands, but proper information, shipping and packaging)

#### German Supreme Court, 15 February 2007

- » (re)sale of tester perfumes on www.ebay.de cannot be prohibited on grounds that the condition of the goods would have been modified or deteriorated, for Lancaster (i.a. Davidoff) itself provided this more rudimentary packaging (<-> ECJ, 12 July 2011, L'Oréal / eBay, C-324/09, paragraph 73)

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### Examples in national case law (no)

#### German Supreme Court, 3 november 2005

Affixing the Jägermeister logo on the car does not amount to a legitimate reason, there is also no undue free-riding on the repute of the Ferrari TM



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### Examples in national case law

#### Pres. Brussels Commercial Court (BE), 9 February 2011

» Mylan / PI Pharma

marketing of Ratiopharm's omeprazole drug under the TM Mylan (unlawful rebranding)



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#### Pres. Brussels commercial court (BE), 12 October 2011

» Novartis / PI Pharma :

notice should be given just before importation, with an actual sample of the product/packaging (mock-up is not sufficient)



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### 4. Right to advertise

When trademarked goods have been put on the market by the proprietor or with his consent, a reseller, besides being free to resell those goods, is also free to make use of the trade mark in order to bring to the public's attention the further commercialization of those goods

(see ECJ, 23 February 1999, BMW/Deenik, C-63/97, paragraph 48)

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### Examples in national case law

#### Pres. Brussels Commercial Court (BE), 4 May 2011

» Nissan / Garage Coghe : unofficial dealer may only use Nissan TMs honestly, discretely and without creating the impression of commercialities (not on the building, not the colour and figurative marks, and not in his email address or businesscards)



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#### Pres. Brussels commercial court (BE), 17 July 2009

» BMW / Amstel Car : salient use of the BMW MS Streifen on signs on the front and sides of the garage, as well as on its company cars and license plates



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### Examples in national case law

#### Brussels Court of Appeal (BE), 14 October 2008

- » unofficial dealer may only use wordmarks discretely and may not use the figurative Trademarks
- » Mention of "independent importer" is not sufficient to take away confusion among the public

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### BMW / Deenik in an online environment

#### Same principles apply to a dealer's website

→ use of wordmarks allowed where needed, but very modest use of logo

#### External advertising online : « Google Adwords » rule

"where that advertisement does not enable an average internet user, or enables that user only with difficulty, to ascertain whether the goods or services referred to originate from the proprietor of the trade mark or an undertaking economically connected to it or, on the contrary, from a third party"

(CJEU, 23 March 2010, Google vs. Luis Vuitton et al., joined cases C-236/08 to C-238/08, operative part)

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## Principle of expansion

2012 : principle of exhaustion extended to indefinite user licences for computer programs !

(see ECJ, 3 July 2012, UsedSoft GmbH / Oracle International Corp., C-128/11)

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Questions ?

[fpetillion@crowell.com](mailto:fpetillion@crowell.com)

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