OPINION OF ADVOCATE GENERAL KOKOTT

delivered on 3 December 2008 [1]

I — Introduction

1. The present case raises for the first time the question of the effects of a licence agreement on the exhaustion of the right of a proprietor of a trade mark. The Court must examine the extent to which the proprietor of the trade mark can stop goods bearing the mark from being 'dumped' in discount stores even though the licence agreement contains express provisions prohibiting sale by the licensee to discount stores. In particular, the case raises the issue whether and, as the case may be, in what circumstances the reputation of a good as a luxury product has to be considered to be an indication of quality.

II — Legal context

2. The relevant legislation is First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks. [2]

3. Articles 7 concerns exhaustion of the rights conferred by a trade mark:

'1. The trade mark 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.

2. Paragraph 1 shall not apply where there exist legitimate reasons for the proprietor to oppose further commercialisation of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market.'

4. Article 8 lays down the effects of licenses for the use of trade marks:

'1. A trade mark may be licensed for some or all of the goods or services for which it is

1 — Original language: German.

2 — OJ 1989 L 104, p. 1, last amended by Annex XVII to the Agreement on the European Economic Area (OJ 1994 L 1, p. 482).

registered and for the whole or part of the Member State concerned. A license may be exclusive or non-exclusive.

2. The proprietor of a trade mark may invoke the rights conferred by that trade mark against a licensee who contravenes any provision in his licensing contract with regard to its duration, the form covered by the registration in which the trade mark may be used, the scope of the goods or services for which the licence is granted, the territory in which the trade mark may be affixed, or the quality of the goods manufactured or of the services provided by the licensee.'

III — The facts, the case in the main proceedings and the questions referred for a preliminary ruling

5. On 17 May 2000, Christian Dior couture SA ('Dior') concluded a trade mark licence agreement with Société industrielle de lingerie ('SIL') in respect of the manufacture and distribution of luxury corsetry goods bearing the Dior trade mark. Paragraph 5 of Clause 8.2 of that contract states that 'in order to maintain the repute and prestige of the trade mark the licensee agrees not to sell to wholesalers, buyers' collectives, discount stores, mail order companies, door-to-door sales companies or companies selling within private houses without prior written agreement from the licensor, and must make all necessary provision to ensure that that rule is complied with by its distributors or retailers'.

6. The file shows that, on 14 November 2001, insolvency proceedings were opened in respect of SIL.

7. SIL subsequently sold goods bearing the trade mark covered by the licence agreement to Copad International ('Copad'), a company operating a discount store business. Copad sold part of the goods to a third party. Dior brought an action against SIL and Copad for infringement of trade mark rights.

8. The Cour d'appel de Paris (Court of Appeal, Paris) decided that SIL's sales to Copad did not infringe trade mark law. However, the Cour d'appel de Paris did hold that the sales did not lead to exhaustion of Dior's trade mark rights. Since Dior could still enforce rights conferred by the trade mark, the Cour d'appel imposed measures of prohibition, confiscation and destruction against Copad.

9. Copad and Dior brought an appeal against that judgment before the Cour de Cassation (Court of Cassation). That court referred the following questions to the Court of Justice for a preliminary ruling:

'1. Must Article 8(2) of First Council Directive 89/104/EEC of 21 December 1988

to approximate the laws of the Member States relating to trade marks be interpreted as meaning that the proprietor of a trade mark can invoke the rights conferred by that trade mark against a licensee who contravenes a provision in the licence agreement prohibiting, on grounds of the trade mark's prestige, sale to discount stores?

2. Must Article 7(1) of the Directive be interpreted as meaning that a licensee who puts goods bearing a trade mark on the market in the European Economic Area in disregard of a provision of the licence agreement prohibiting, on grounds of the trade mark's prestige, sale to discount stores, does so without the consent of the trade mark proprietor?

3. If not, can the proprietor invoke such a provision to oppose further commercialisation of the goods, on the basis of Article 7(2) of the Directive?'

10. Copad, Dior, the French Republic and the Commission took part in the written procedure and attended the hearing on 19 November 2008.

IV — Legal assessment

11. Three parties are involved in the case in the main proceedings. They have entered into the following contracts with each other, that is to say, Dior has concluded a licence agreement with SIL and SIL, for its part, has sold goods to Copad. The reference for a preliminary ruling does not, however, concern the contractual claims of the various parties against one another, but Dior's rights under its trade mark. The first question concerns Dior's trade mark rights in respect of SIL, whereas the second and third questions concern its trade mark rights in respect of Copad.

12. The answer depends essentially on the effects of the licence agreement on the rights to the mark. Accordingly, the respective provisions — namely Articles 8(2) and 7(1) and (2) of Directive 89/104 — must not be examined and interpreted in isolation. Rather, it is necessary to ensure that, unless absolutely necessary, the rights conferred by the trade mark on the trade mark proprietor are not more extensive in respect of the public at large than they are in respect of the licensee.

A — *The first question*

13. By its first question, the Cour de Cassation seeks to ascertain whether SIL infringed Dior's trade mark rights when it sold the goods to Copad.

14. It is not immediately apparent why there is an interest in establishing claims under trade mark law, since it appears obvious that a contravention of the licence agreement has occurred. It is conceivable that, in the context of the insolvency proceedings against the licensee, contractual claims do not offer satisfactory protection.

15. Article 5 of Directive 89/104 lays down the rights conferred by a trade mark. The provision confers on the trade mark proprietor exclusive rights which entitle him inter alia to prevent any third party from importing goods bearing the mark, offering the goods, or putting them on the market or stocking them for these purposes. [3]

16. By its very nature, a licence agreement entitles the licensee to use the trade mark in the manner agreed in the agreement. One might assume that, where the licensee uses the trade mark in a manner that contravenes the licence agreement, the licensor is entitled to enforce his trade mark rights without restriction.

17. However, Article 8(2) of Directive 89/104 lays down a different rule. It lists contraventions of specific provisions in a licence agreement in respect of which the proprietor of a trade mark may invoke the rights conferred by that trade mark against a licensee:

'The proprietor of a trade mark may invoke the rights conferred by that trade mark against a licensee who contravenes any provision in his licensing contract with regard to its duration, the form covered by the registration in which the trade mark may be used, the scope of the goods or services for which the licence is granted, the territory in which the trade mark may be affixed, or the quality of the goods manufactured or of the services provided by the licensee.'

3 — Case C-16/03 *Peak Holding* [2004] ECR I-11313, paragraph 34.

18. It is true that the parties agree that none of those provisions expressly covers the prohibition on selling to discount stores. However, Dior submits that that list of provisions should not be considered to be exhaustive or that the prohibition on selling should be regarded as falling within the scope of one of those provisions.

19. Essentially, Dior is asking for a broad interpretation of Article 8(2) of Directive 89/104, in order to protect the intellectual property that is the subject of the licence agreement. That, it claims, is supported by the wording of that article, which refers to a contravention against 'any provision in [the] licensing contract' on the grounds of which rights conferred by that trade mark may be invoked. Furthermore, the fact that Article 8(2) of Directive 89/104 does not mention exceeding the quantity of the goods which the licensee is allowed to label with and sell under the trade mark, shows that the list is incomplete.

20. It is possible that, by way of that argument, Dior seeks to submit that restrictions on quantity in the licence agreement ought in any event to lead to consequences under trade mark law. That view, which is not supported by the wording of Article 8(2) of Directive 89/104, is however not mandatory. [4]

4 — The judgment in Case C-173/98 *Sebago and Maison Dubois* [1999] ECR I-4103, which the Commission refers to in that context, does not concern the interpretation of Article 8(2) of Directive 89/104, but that of Article 7(1).

In any event, that is also not an issue that must be decided in the present case.

21. Moreover, Dior's argument is ultimately based on an incomplete rendering of the wording of Article 8(2) of Directive 89/104. As Copad, the French Government and the Commission rightly stress, the list of individual provisions is not presented as a series of examples. It follows that, Article 8(2) precisely does not entitle the proprietor of the trade mark to invoke the rights conferred by the mark as regards every contravention of the licence agreement that may arise. He may do so only in respect of contraventions that concern the matters expressly listed in that provision.

22. Therefore, it must be examined whether the ban on selling falls within the scope of one of the provisions in Article 8(2) of Directive 89/104.

23. First, Dior submits that the prohibition on selling to discount stores is a provision relating to the territory in which the trade mark may be affixed. According to Dior, the purpose of that provision is to authorise licensees to distribute the goods in a certain territory. Restricting sales to particular points of sale is merely a special application of the same provision.

24. However, that view is based on the wrong premiss. Article 8(2) of Directive 89/104 does not cover every contravention of territorial restrictions on use of a trade mark but, as the Commission emphasises, only infringement of clauses concerning the territory in which the trade mark may be *affixed*. In the present case, there is no indication that SIL affixed the trade mark to the goods outside the territory covered by the licence agreement.

25. Secondly, Dior and possibly also the Cour de Cassation associate the ban on selling with a provision relating to the quality of the goods manufactured or of the services provided by the licensee. That is another provision listed in Article 8(2) of Directive 89/104 in respect of which rights conferred by the trade mark may be invoked.

26. As Copad rightly submits, and contrary to what Dior claims, the sale of goods cannot be considered to be a service within the meaning of that provision. The quality of services is only of concern where the offer of services is the subject-matter of the licence agreement. [5] However, the prohibition on selling at issue in the present case concerns goods bearing the trade mark.

27. Rather, that argument is based on the fact that the Dior trade mark is associated with luxury goods, which are typically not sold through discount stores. It implies that that manner of distribution may call into question the nature of the goods as luxury goods and detract from their quality.

28. The use of the term 'quality' in Article 8(2) of Directive 89/104 recalls an essential function of the mark. It must offer a guarantee that all the goods bearing it have been manufactured or supplied under the control of a single undertaking which is responsible for their quality. [6]

29. Accordingly, Article 8(2) of Directive 89/104 intends to put the proprietor of the trade mark in a position to control the quality of the goods bearing his mark. As the Commission has rightly submitted, the point at issue concerns a situation in which the licensee affixes the trade mark to goods other than the ones agreed in the licence agreement.

30. The reference to manufacture of the goods suggests that the concept of 'quality' relates only to the characteristics that goods acquire as a result of the manufacturing

5 — See, for example, Case C-418/02 *Praktiker Bau- und Heimwerkermärkte* [2005] ECR I-5873.

6 — Case C-10/89 *HAG GF* [1990] ECR I-3711, paragraph 13; Case C-349/95 *Loendersloot* [1997] ECR I-6227, paragraph. 22; Case C-39/97 *Canon* [1998] ECR I-5507, paragraph 28; and Case C-299/99 *Philips* [2002] ECR I-5475, paragraph. 30.

process. In the context of the licence agreement at issue in the main proceedings, one could think, for example, of the use of inferior material. However, the concept would exclude characteristics that result exclusively from the manner of distribution.

31. However, in respect of luxury and prestige goods, the reputation of the goods is generally relevant as regards their quality within the meaning of Article 8(2) of Directive 89/104. Irrespective of the other characteristics of the goods, damage to the reputation of the trade mark can lead to the goods no longer being recognised, in the same way as before, as luxury or prestige goods. For those product groups, a manner of distribution that damages the reputation of the goods may at the same time call into question their quality.

32. However, the quality of a trade mark that is, among other things, also distinguished by its reputation is not called into question by every conceivable damage to its reputation. Without undertaking further investigation it is not normally possible, retrospectively, to identify the distribution channel through which a good was sold. [7] A form of distribution that is not apparent by looking at a particular item of the product in question can damage the reputation of that item only insofar as the distribution damages the reputation of *all* goods bearing the trade mark in equal measure.

33. It is possible that the mass sale of goods bearing the Dior trade mark at reduced prices in a number of discount stores could seriously affect the reputation of the Dior trade mark, especially if it is accompanied by the corresponding promotional measures. Consumers could gain the impression that goods bearing the trade mark are no longer as exclusive as they used to be. However, if such goods only occasionally appear in discount stores there may in fact be no effect on the reputation of the goods.

34. As, moreover, the following reflections on Article 7(2) of Directive 89/104 show, only such a broad interpretation of the notion of quality will guarantee that a proprietor of the trade mark cannot invoke rights conferred by the trade mark that are more extensive in respect of third parties than in respect of the licensee. Article 7(2) gives rise to rights under trade mark law to oppose commercialisation of the goods if that commercialisation seriously damages the reputation of the goods. [8]

35. Whether and to what extent a certain manner of distribution, especially the distribution through discount stores at issue in the main proceedings, actually affects the reputation and, at the same time, the quality of goods, is a question of fact. It is for the court having jurisdiction to try the substantive issues to assess this on the basis of the facts at issue in the particular case.

7 — Matters are different, for instance, in the case of goods bearing special marks, such as, for example, returns.

8 — See below, point 59 et seq.

36. The prohibition in the licence agreement at issue in the main proceedings on selling goods bearing the trade mark to certain distributors is of limited relevance to that factual assessment. That prohibition shows, in essence, that the parties to the licence agreement, at the time when they entered into that agreement, considered the manner of distribution to be important for the reputation of the trade mark. It must be examined further in the present case whether that assessment is correct.

37. Article 8(2) of Directive 89/104 is therefore to be interpreted as meaning that the proprietor of a trade mark can invoke rights conferred by the mark against a licensee on the ground that that licensee is in contravention of a provision in the licence agreement prohibiting sales to discount stores, where those sales affect the reputation of the goods to such an extent that their quality is called into question.

B — The second question

38. The second question concerns the possible exhaustion of the rights conferred by a trade mark. The Cour de Cassation wishes to know whether Article 7(1) of Directive 89/104 must be interpreted as meaning that a licensee who puts goods bearing a trade mark on the market, in disregard of a provision of the licence agreement prohibiting sale to discount stores, does so without the consent of the trade mark proprietor.

39. In this respect, it must be recalled that Article 5 of Directive 89/104 confers on the trade mark proprietor exclusive rights which entitle him inter alia to prevent any third party from importing goods bearing the mark, offering the goods, or putting them on the market or stocking them for these purposes. Article 7(1) contains an exception to that rule, in that it provides that the rights conferred by a trade mark are exhausted where the goods have been put on the market by the proprietor of the trade mark rights or with his consent. [9]

40. Dior correctly submits, first, that the licence agreement for use of the trade mark by SIL did not, as such, put the goods on the market. Rather, the licence agreement lays down the extent to which SIL may put the goods on the market. Exhaustion can only occur in respect of those of the goods that have actually been brought into circulation. However, those goods did not exist at the time the licence agreement was entered into. Therefore, the licence agreement as such does not lead to the rights conferred by the trade mark being exhausted.

41. In the present case, the rights conferred by the trade mark might have been exhausted by SIL selling the goods at issue to Copad. This is because Dior, the proprietor of the

9 — See Joined Cases C-414/99 to C-416/99 *Zino Davidoff and Levi Strauss* [2001] ECR I-8691, paragraph 40; Case C-244/00 *Van Doren + Q* [2003] ECR I-3051, paragraph 33; and *Peak Holding* (footnote 3, paragraph 34).

trade mark, agreed to the distribution of the goods when it entered the licence agreement. [10]

42. However, the licence agreement expressly excludes the sale of the goods to an operator of discount stores. Dior and the French Government take this to mean that the permission to distribute granted under the licence agreement does not cover the sale of the goods to Copad. If that were the case, the goods would have been put on the market without the consent of the proprietor of the trade mark and the rights conferred by the trade mark would not have been exhausted.

43. The judgment in *Zino Davidoff and Levi Strauss* supports that finding. According to the judgment, in view of its serious effect in extinguishing the exclusive rights of the proprietors of the trade marks at issue in the main proceedings (rights which enable them to control the initial marketing), consent must be so expressed that an intention to renounce those rights is unequivocally demonstrated. Such intention will normally be gathered from an express statement of consent. [11] The licence agreement cannot be understood as an express statement of consent since — to the contrary — it expressly prohibits sale to discount stores.

44. Equally, the judgment in *Peak Holding* does not inevitably lead to the assumption that the proprietor of the trade mark gave his consent. That judgment concerned side-agreements in the context of the sale of trade-marked goods by the proprietor of the trade mark. Such agreements concern only the relationship between the parties and cannot preclude exhaustion, [12] which takes effect in respect of everyone. However, in the present case, the issue here is not a side-agreement to a contract of sale to which the proprietor of the trade mark is a party, but the effect of a licence agreement on transactions entered into by the licensee with a third party.

45. The situation in the present case is however different from the situation in earlier cases in that, in contrast to other agreements, a licence agreement has particular effects on the scope of rights conferred by the trade mark. The scope of those rights in respect of licensees is expressly laid down in Article 8(2) of Directive 89/104. Trade mark law cannot impose wider limits on use of the trade mark as regards third parties than as regards a licensee, who knows the extent of his rights as limited by the agreement. There is no apparent reason why the rights conferred by a trade mark should be limited in scope in respect of a licensee only, but take full effect in respect of a third person who is not a party to the licence agreement.

10 — The judgment in Case C-9/93 *IHT Internationale Heiztechnik and Danzinger (Ideal Standard)* [1994] ECR I-2789, paragraph 34, describes the putting on the market by the licensee as an example of exhaustion of the rights conferred by the trade mark.

11 — Footnote 9, paragraphs 45 and 46.

12 — Footnote 3, paragraph 52 et seq.

46. However, that would indeed be the outcome if Article 8(2) of Directive 89/104 were to define trade mark rights in respect of the licensee more narrowly than trade mark rights in respect of third parties. The rights conferred by the trade mark would not prevent the licensee from using the trade mark in the context of his business activity. By contrast, those purchasing from him, who would not normally know the content of the licence agreement, would run the risk of the proprietor of the trade mark invoking rights conferred by the trade mark against them, for example, by preventing them from further putting goods bearing the trade mark on the market.

47. It follows that only contraventions of the licence agreement referred to in Article 8(2) of Directive 89/104 preclude exhaustion of the rights conferred by a trade mark. Where the licensee can put goods bearing the trade mark on the market without infringing trade mark law, then those purchasing goods from him must — as emphasised, in particular, by the Commission — be able to rely on exhaustion of the rights conferred by that trade mark.

48. It is consistent with this view that, as the Commission and Copad point out, the Court of Justice distinguished in *Peak Holding* between exhaustion of the rights conferred by the trade mark and contravention of contractual obligations of the purchaser of the goods. [13] Contracts only bind the parties to that contract, whereas trade mark rights and the exhaustion of such rights take effect in relation to everyone.

49. The exclusive right of the proprietor to use the trade mark for the purpose of putting goods bearing it on the market for the first time does not permit any other conclusion. [14] Entering into a licence agreement already means that trade mark rights can be used. The rights arising under the licence agreement compensate Dior for the fact that SIL distributes the goods bearing the trade mark.

50. In this respect, trade mark rights are granted in order to guarantee the possibility of control over the quality of goods, not the actual exercise of that control. The licensor can control the licensee by including provisions in the agreement requiring the licensee to comply with his instructions and giving the licensor the possibility to verify such compliance. Where, for example, the licensor tolerates the manufacture of poor quality products, even though he has contractual means of preventing it, he must bear responsibility for it. [15] However, where Article 8(2) of Directive 89/104 does not apply, that control is exercised by means of contractual rights and not by means of rights to the trade mark.

13 — Footnote 3, paragraph 54.

14 — Joined Cases C-427/93, C-429/93 and C-436/93 *Bristol-Myers Squibb and Others* [1996] ECR I-3457, paragraphs 31, 40 and 44, and *Peak Holding* (footnote 3, paragraph 35).

15 — *IHT Internationale Heiztechnik and Danzinger* (footnote 10, paragraph 37 et seq.).

51. The same applies to unwanted forms of distribution. Where the proprietor of the mark refrains from controlling distribution or does not avail himself of contractual means of exercising such control, there is no reason to grant him trade mark rights in respect of third parties.

52. Therefore, Article 7(1) of Directive 89/104 must be interpreted as meaning that a licensee who puts goods bearing a trade mark on the market in disregard of a provision in the licence agreements acts without the consent of the licensor only if, by putting the goods on the market, the licensee at the same time contravenes the rights conferred by the trade mark within the meaning of Article 8(2).

C — *The third question*

53. Finally, the Cour de Cassation asks whether, if the licensor cannot preclude exhaustion by prohibiting sales to discount stores, he can oppose further commercialisation of the goods on the basis of Article 7(2) of Directive 89/104.

54. Article 7(2) of the Directive provides that the 'exhaustion of rights' rule laid down in paragraph (1) is not applicable where there are legitimate reasons for the proprietor to oppose further commercialisation of marked goods, especially where the condition of the goods is changed or impaired after they have been put on the market. [16]

55. The situation expressly mentioned in that provision, where the condition of the goods is changed or impaired, refers to the guarantee, already mentioned in connection with Article 8(2) of Directive 89/104 that the proprietor of the mark must furnish in relation to the quality of the goods. Where goods bearing the mark are changed after they have been put on the market, that quality guarantee is put at risk. [17] Consequently, the proprietor of the mark must have a right to oppose use of his trade mark for goods that have been changed.

56. According to the view taken here, in the situation at issue in the main proceedings, even if the quality of the goods were affected by the goods being sold to discount stores, the question of the application of Article 7(2) of Directive 89/104 does, however, not arise. That would imply that the proprietor of the trade mark could continue to invoke the rights conferred by the trade mark against the licensee, since exhaustion had not taken place.

16 — Case C-337/95 *Parfums Christian Dior* [1997] ECR I-6013, paragraph. 40.

17 — The Court of Justice has considered that situation in particular in relation to the repackaging of pharmaceutical products; see, most recently, Case C-348/04 *Boehringer Ingelheim and Others* [2007] ECR I-3391, and the case-law cited.

57. However, it must be determined whether contravention of a prohibition in the licence agreement as selling to discount stores — irrespective of whether it affects the quality of the goods — may give rise to a legitimate interest in precluding the exhaustion of the rights conferred by the trade mark.

58. The use of the word 'especially' in Article 7(2) of Directive 89/104 indicates that alteration or impairment of the condition of marked goods is given only as an example of what may constitute legitimate reasons. [18]

59. In this context, the Court of Justice has recognised that the damage done to the reputation of a trade mark may, in principle, be a legitimate reason, within the meaning of Article 7(2) of Directive 89/104, allowing the proprietor to oppose further commercialisation of goods which have been put on the market in the Community by him or with his consent. [19] The Court concluded from the foregoing that the trade mark proprietor has a legitimate interest in stopping advertising for luxury or prestigious goods that affects 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. [20]

60. However, a legitimate reason within the meaning of Article 7(2) of Directive 89/104 exists only if it can be established that, given the specific circumstances of the case, the reputation of the trade mark is seriously damaged. [21] By way of an example of such serious damage, the Court refers to the case of a reseller who, in an advertising leaflet distributed by him, does not stop the trade mark from being put in a context which might seriously detract from the image which the trade mark owner has succeeded in creating around his trade mark. [22]

61. Accordingly, where the manner in which a reseller sells the goods seriously damages the reputation of the trade mark, the proprietor may — as, in particular, the French Government submits — have legitimate reasons within the meaning of Article 7(2) of Directive 89/104 to oppose that form of sale.

18 — *Parfums Christian Dior* (footnote 16, paragraph 42 and the case-law cited).

19 — *Parfums Christian Dior* (footnote 16, paragraph 43 and the case-law cited).

20 — *Parfums Christian Dior* (footnote 16, paragraph 45 and the case-law cited).

21 — *Parfums Christian Dior* (footnote 16, paragraph 46 and the case-law cited).

22 — *Parfums Christian Dior* (footnote 16, paragraph 47 and the case-law cited).

62. By contrast, that case-law does not yet provide any indication that mere contravention of a prohibition in a licence agreement on selling marked goods to discount stores provides a legitimate reason for opposing further commercialisation. The Commission is right to point out that Article 8(2) of Directive 89/104 would be deprived of its practical effect if every contravention by the licensee of a provision in the licence agreement entitled the proprietor of the trade mark to oppose further commercialisation of the goods.

63. Equally, sale *to* discount stores does not necessarily cause serious damage to the reputation of a luxury or prestigious trade mark.

64. First, it cannot be excluded that the discount stores might not sell the goods directly to consumers, but to resellers who present the goods in an environment that does not detract from the allure and prestigious image of the goods. By way of example, it is conceivable that the operator of the discount stores might sell the goods to an exclusive shop which has so far been unable to procure the goods because it is not part of the selective distribution network for the trade mark in question. It is hardly likely that consumers purchasing in such an environment would assume that the marked goods are less exclusive than they used to be.

65. Secondly, even in the case of a form of distribution that has the potential to damage the reputation of the goods, it is necessary to establish whether the damage actually occurred and whether it was material. Just as in the case of examining whether possible damage to the reputation of a trade mark can call in question the quality of the goods bearing the mark, [23] it will be necessary to have regard to the facts of the case. This requires an assessment on the basis of the facts by the court having jurisdiction to try the substantive issues [24] which is not rendered redundant by the terms of the licence agreement.

66. Therefore, Article 7(2) of Directive 89/104 does not entitle the proprietor of a trade mark to oppose commercialisation of goods bearing his trade mark by discount stores on the sole ground that a provision in the licence agreement prohibits sales to discount stores.

23 — See above, point 30 et seq.

24 — See Case C-63/97 *BMW* [1999] ECR I-905, paragraphs 51 and 55, and *Boehringer Ingelheim and Others* (footnote 17, paragraph 46).

V — Conclusion

67. On the basis of the foregoing considerations, I propose that the Court reply as follows to the questions submitted for preliminary ruling:

(1) Article 8(2) of First Directive 89/104/EEC to approximate the laws of the Member States relating to trade marks must be interpreted as meaning that the proprietor of a trade mark can invoke rights conferred by the mark against a licensee on the ground that that licensee is in contravention of a provision in the licence agreement prohibiting sales to discount stores, where those sales affect the reputation of the goods to such an extent that their quality is called into question.

(2) Article 7(1) of Directive 89/104 must be interpreted as meaning that a licensee who puts goods bearing a trade mark on the market in disregard of a provision in the licence agreement acts without the consent of the licensor only if, by putting the goods on the market, the licensee at the same time contravenes the rights conferred by the trade mark within the meaning of Article 8(2).

(3) Article 7(2) of Directive 89/104 does not entitle the proprietor of a trade mark to oppose commercialisation of goods bearing his trade mark by discount stores on the sole ground that a provision in the licence agreement prohibits sales to discount stores.