OPINION OF ADVOCATE GENERAL STIX-HACKL

delivered on 5 April 2001 [1]

Introductory remarks

1. The present cases raise once again the problem of exhaustion of the rights conferred by a trade mark in the context of so-called 'grey re-imports'.

2. The Court is being asked in this connection to interpret the concepts of 'consent' and 'legitimate reasons' in Article 7 of First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks [2] ('the Trade Marks Directive'). In the detailed questions which it has submitted, the national court first seeks to ascertain the circumstances from which consent may be inferred. In Case C-414/99 it also submits questions concerning the 'legitimate reasons' which, under Article 7(2) of the Trade Marks Directive, may prevent exhaustion of the rights conferred by a trade mark.

3. The Court has already on two occasions had the opportunity to set out its views on Article 7 of the Trade Marks Directive in connection with imports from non-member countries. In its judgment in the *Silhouette* case, [3] the Court stated clearly that Article 7(1) precludes national rules that provide for the international exhaustion of trade mark rights. In its judgment in *Sebago*, [4] it confirmed that view, adding that the legal consequence of exhaustion can arise only if the consent extends to every individual item of the goods in respect of which exhaustion is pleaded.

4. So far as can be ascertained, the questions submitted in the present cases appear to be based on a critical attitude to the exclusion of international exhaustion of trade mark rights pursuant to the Trade Marks Directive. [5] That exclusion is in principle intended to enable trade mark proprietors within the European Economic Area ('the EEA') to oppose the importation

1 — Original language: German.

2 — OJ 1989 L 40, p. 1.

3 — Case C-355/96 *Silhouette International Schmied* [1998] ECR I-4799.

4 — Case C-173/98 *Sebago and Maison Dubois* [1999] ECR I-4103.

5 — See also Article 13 of the similarly worded trade mark regulation, Council Regulation (EC) No 40/94 of 20 December 1993 on the Community trade mark (OJ 1994 L 11, p. 1).

into the EEA of goods bearing their trade marks which were first placed on the market outside the EEA. The scope of the principle of EEA-wide exhaustion is thus closely linked to the concept of consent.

I — Facts

Case C-414/99

5. The plaintiff in the national proceedings, Zino Davidoff SA ('Davidoff'), is the proprietor of two trade marks, 'Cool Water' and 'Davidoff Cool Water', registered in the United Kingdom and used for a wide range of toiletries and cosmetic products. The products are manufactured for Davidoff under licence and are sold by it or on its behalf both within and outside the EEA.

6. The products, their packaging and marking are identical wherever in the world they are sold.

7. Davidoff's products bear batch code numbers. These markings are intended to ensure compliance with the provisions of the cosmetics directive, Directive 76/768/EEC, [6] which, it would appear, was implemented in the United Kingdom by the Cosmetic Products (Safety) Regulations 1996 (SI 2925/1996).

8. The defendant in the national proceedings, A & G Imports Ltd ('A & G'), acquired stocks of Davidoff's products which had originally been placed on the market in Singapore by Davidoff or with its consent.

9. The defendant imported those stocks into the Community, *in casu* into England, and commenced selling them there. The only difference between the goods in question and other goods bearing the Davidoff trade marks lies in the fact that someone within the chain of distribution of the goods in question has, as it appears from the national proceedings, removed or obliterated the batch code numbers in whole or in part.

10. Davidoff brought proceedings in 1998 against A & G before the High Court of Justice of England and Wales, alleging, *inter alia*, that the importation of those goods from Singapore into England and their sale there constituted an infringement of its registered trade marks.

6 — Council Directive 76/768/EEC of 27 July 1976 on the approximation of the laws of the Member States relating to cosmetic products (OJ 1976 L 262, p. 169).

11. A & G argue that, having regard to the manner and circumstances in which the goods were placed on the market in Singapore by Davidoff or with its consent, they were, or should be treated as having been, imported and sold with Davidoff's consent. It invokes, with regard to such consent, Articles 7(1) and 5(1) of the Trade Marks Directive.

12. Davidoff denies that it consented, or could be treated as having consented, to A & G's activities, submitting, further, that it has legitimate reasons, within the meaning of Article 7(2) of the Trade Marks Directive, for opposing importation and sale of the goods. Those reasons are based on the removal or obliteration (in whole or in part) of the batch code numbers.

13. On 18 May 1999, the referring court declined to dispose of the dispute between the parties by way of summary judgment, on the ground that it did not consider A & G's arguments to be clearly unfounded. It took the view that the case raised fundamental questions relating in particular to the scope and effect of Article 7(1) and (2) of the Trade Marks Directive, a reply to which would be necessary for determination of the issues at the full trial.

14. The High Court accordingly requested the Court of Justice of the European Communities to give a preliminary ruling on the following questions:

'(A) Insofar as the Directive refers to goods being put on the market in the Community with the consent of the proprietor of a mark, is it to be interpreted as including consent given expressly or implicitly and directly or indirectly?

(B) Where:

(i) a proprietor has consented to or allowed goods to be placed in the hands of a third party in circumstances where the latter's rights to further market the goods are determined by the law of the contract of purchase under which that party acquired the goods, and

(ii) the said law allows the vendor to impose restrictions on the further marketing or use of the goods by the purchaser but also provides that, absent the imposition by or on behalf of the proprietor of effective restrictions on the purchaser's right to further market the goods, the third party acquires a

right to market the goods in any country, including the Community,

then, if restrictions effective according to that law to limit the third party's rights to market the goods have not been imposed, is the Directive to be interpreted so as to treat the proprietor as having consented to the right of the third party acquired thereby to market the goods in the Community?

(C) If the answer to Question (B) is in the affirmative, is it for the national courts to determine whether, in all the circumstances, effective restrictions were imposed on the third party?

(D) Is Article 7(2) of the Directive to be interpreted in such a way that legitimate reasons for the proprietor to oppose further commercialisation of his goods include any actions by a third party which affect to a substantial extent the value, allure or image of the trade mark or the goods to which it is applied?

(E) Is Article 7(2) of the Directive to be interpreted in such a way that legitimate reasons for the proprietor to oppose further commercialisation of his goods include the removal or obliteration by third parties (in whole or in part) of any markings on the goods where such removal or obliteration is not likely to cause any serious or substantial damage to the reputation of the trade mark or the goods bearing the mark?

(F) Is Article 7(2) of the Directive to be interpreted in such a way that legitimate reasons for the proprietor to oppose further commercialisation of his goods include the removal or obliteration by third parties (in whole or in part) of batch code numbers on the goods where such removal or obliteration results in the goods in question

(i) offending against any part of the criminal code of a Member State (other than a part concerned with trade marks) or

(ii) offending against the provisions of Directive 76/768/EEC?'

Cases C-415/99 and C-416/99

15. Levi Strauss & Co., an American corporation existing under the laws of the State of Delaware, is the proprietor of the trade marks 'LEVI'S' and '501', registered in the United Kingdom and used, *inter alia*, in respect of jeans.

16. Levi Strauss (UK) Ltd, a company incorporated under the laws of England and Wales, is the licensee of Levi Strauss & Co. under the registered trade marks in regard to the manufacture, importation, sale and distribution of, *inter alia*, Levi's 501 jeans. It sells those products itself in the United Kingdom and also licenses other retailers as part of a selective distribution system.

17. Tesco Stores Ltd and Tesco plc (together 'Tesco') are companies incorporated under the laws of England and Wales, Tesco plc being the parent company of Tesco Stores Ltd. Tesco is one of the leading supermarket chains in the United Kingdom, with retail outlets throughout Britain. Amongst other things, it sells a range of items of clothing.

18. Costco UK Ltd, now Costco Wholesale UK Ltd ('Costco'), which is also a company incorporated under the laws of England and Wales, sells a wide range of branded goods in the United Kingdom, in particular items of clothing.

19. Levi Strauss & Co. and Levi Strauss (UK) Ltd. (together 'Levis') have consistently refused to sell Levi's 501 jeans to Tesco and Costco. They have also refused to allow Tesco and Costco to operate as authorised distributors of the products in question.

20. Tesco and Costco accordingly obtained genuine top-quality Levi's 501 jeans from a variety of other suppliers, in particular traders who import such jeans from countries outside the EEA. The contracts pursuant to which Tesco and Costco purchased those jeans contained no restrictions as to the markets on which the goods could be sold. The jeans sold by Tesco had been manufactured by, or on behalf of, Levis in the United States of America, Mexico or Canada and were first sold in those respective countries. The jeans sold by Costco had likewise been manufactured in the United States or Mexico.

21. Tesco's and Costco's suppliers had obtained the goods directly or indirectly from authorised retailers in the United States, Mexico or Canada, and/or from wholesalers who bought the jeans from 'accumulators', who operate by visiting numerous stores and purchasing as many

items of clothing as possible at the same time in order then to sell them on to wholesalers.

22. In 1998 Levis commenced proceedings before the High Court of Justice of England and Wales against Tesco and Costco, claiming that the importation and sale of the Levi jeans in question by the defendants constituted an infringement of their trade mark rights.

23. Tesco and Costco argue essentially that they acquired an unrestricted right to dispose of the jeans as they wish. Levis, on the other hand, point to their sales policy: in the United States and Canada Levis sell their jeans to authorised retailers, who are obliged, on pain of having their supplies cut off, to sell the jeans only to end users. In Mexico, the jeans were in part sold to authorised wholesalers subject to the condition that they would not be exported from Mexico.

24. It was against this background that the High Court referred the following questions to the Court of Justice for a preliminary ruling:

'(1) Where goods bearing a registered trade mark have been placed on the market in a non-EEA country by the trade mark proprietor or with his consent and those goods have been imported into or sold in the EEA by a third party, is the effect of Directive 89/104/EEC ("the Directive") that the trade mark proprietor is entitled to prohibit such importation or sale unless he has expressly and explicitly consented to it, or may such consent be implied?

(2) If the answer to Question 1 is that consent may be implied, is consent to be implied from the fact that the goods have been sold by the proprietor or on his behalf without contractual restrictions prohibiting resale within the EEA binding the first and all subsequent purchasers?

(3) Where goods bearing a registered trade mark have been placed on the market in a non-EEA country by the trade mark proprietor:

(A) to what extent is it relevant to or determinative of the issue whether or not there was consent by the

proprietor to the placing of those goods on the market within the EEA, within the meaning of the Directive, that:

(a) the person placing the goods on the market (not being an authorised retailer) does so with the knowledge that he is the lawful owner of the goods and the goods bear no indication that they may not be placed on the market in the EEA; and/or

(b) the person placing the goods on the market (not being an authorised retailer) does so with knowledge that the trade mark proprietor objects to those goods being placed on the market within the EEA; and/or

(c) the person placing the goods on the market (not being an authorised retailer) does so with the knowledge that the trade mark proprietor objects to them being placed on the market by anyone otherwise than an authorised retailer; and/or

(d) the goods have been purchased from authorised retailers in a non-EEA country who have been informed by the proprietor that the proprietor objects to the sale of the goods by them for the purposes of resale, but who have not imposed upon purchasers from them any contractual restrictions on the manner in which the goods may be disposed of; and/or

(e) the goods have been purchased from authorised wholesalers in a non-EEA country who have been informed by the proprietor that the goods were to be sold to retailers in that non-EEA country and were not to be sold for export, but who have not imposed upon purchasers from them any contractual restrictions on the manner in which the goods may be disposed of; and/or

(f) there has or has not been communication by the proprietor to all subsequent purchasers of its goods (i.e. those between the first purchaser from the proprietor and the

person placing the goods on the market in the EEA) of its objection to the sale of the goods for the purposes of resale; and/or

(g) a contractual restriction has or has not been imposed by the proprietor and made legally binding upon the first purchaser prohibiting sale for the purposes of resale to anyone other than the ultimate consumer?

(B) Does the issue of whether or not there was consent by the proprietor to the placing of those goods on the market within the EEA, within the meaning of the Directive, depend on some further or other factor or factors and, if so, which?'

II — The legal framework

25. So far as here germane, *Article 5* of the Trade Marks Directive provides:

'(1) The registered trade mark shall confer on the proprietor exclusive rights therein. The proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade:

(a) any sign which is identical with the trade mark in relation to goods or services which are identical with those for which the trade mark is registered;

...

(3) The following, inter alia, may be prohibited under [paragraph 1]:

(a) affixing the sign to the goods or to the packaging thereof;

(b) offering the goods, or putting them on the market or stocking them for these purposes under that sign, or offering or supplying services thereunder;

(c) importing or exporting the goods under the sign;

...'.

26. *Article* 7 of the Trade Marks Directive, headed 'Exhaustion of the rights conferred by a trade mark', provides:

'(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.'

In accordance with Article 65(2) of the Agreement on the European Economic Area,[7] in conjunction with point 4 of Annex XVII thereto, Article 7(1) of the Trade Marks Directive now reads as follows: 'The trade mark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in a Contracting Party under that trade mark by the proprietor or with his consent'.

7 — OJ 1994 L 1, p. 3.

III — Assessment

27. Given the detailed manner in which the questions submitted in the national proceedings have been formulated, it seems appropriate to examine them systematically, rather than in the order presented, the better to address the essential legal issues common to them. Questions A to C in Case C-414/99 and all of the questions in Cases C-415/99 and C-416/99 concern the concept of consent in Article 7(1) of the Trade Marks Directive. Although not directly discernible from the questions, this is none the less apparent from the connection with the problem of exhaustion there raised. Questions D to F in Case C-414/99 relate to the interpretation of Article 7(2). Since, however, their relevance for the purpose of reaching a decision is subject to the answer to the first group of questions, this latter group will be examined first.

28. The parties to the main proceedings, the Federal Republic of Germany, France, Finland, Italy, Sweden, the EFTA Surveillance Authority and the Commission have submitted what are in part extremely detailed written observations. All of these parties, with the exception of Finland, Italy and Sweden, took part in the oral procedure. In what follows, the submissions of

the parties will be examined only in so far as this appears necessary for the purposes of setting out the argument.

29. A & G, Tesco and Costco (hereinafter also referred to jointly as 'the parallel importers'), advocate essentially a broad construction of the concept of consent, presumably in order to be able to derive exhaustion of the trade mark rights under less stringent conditions from the circumstances of the individual cases. Davidoff and Levis essentially defend their selective sales policy by reference to the previous case-law of the Court. The other parties, proceeding on the basis of the principle of Community-wide exhaustion, albeit with differing views in regard to the need for an examination of this principle from the juridical-policy perspective, concentrate primarily on the limits of the concept of consent, but without being able to reach agreement on a clear criterion.

A — *The interpretation of Article 7(1) of the Trade Marks Directive*

30. The question arises as to whether consent under Article 7(1) of the Trade Marks Directive is to be treated as a concept of national or of Community law.

31. An examination will first be made of those grounds which might argue in favour of an interpretation from the national perspective. Such grounds may be summarised in a variety of strands of argument: rejection in principle of any Community power to impose rules; conflict-of-laws aspects; absence of Community harmonisation of contract law and the law of property.

It is thus necessary first of all to examine the Community's power to impose rules, before going on to address the conflict-of-laws and substantive-law aspects of this line of argument.

1. The conclusive nature of Article 7(1) of the Trade Marks Directive in regard to determining whether rights conferred by a trade mark have been exhausted in the case of imports from non-member countries

32. The Italian Government, supported in this regard by the French Government, submits that, subject to the condition that the goods in issue were first placed on the market outside the EEA by the trade mark proprietors or with their consent, exhaustion of the trade mark rights within the EEA cannot occur under a rule of Community law. The question whether, in the given circumstances, consent to placing the goods on the market within the EEA can be presumed is one which concerns the existence of a commercial right of disposal and falls to be determined under national law. In this regard, Tesco and Costco also argue that there is a principle of territoriality which requires the Community to leave the

regulation of foreign trade relations to the Member States, the purpose of the Trade Marks Directive being merely to ensure that the internal market is established and is capable of functioning.

33. The Court has already addressed these arguments in its judgment in *Silhouette*. [8] It there ruled that the Directive cannot be construed as leaving it open to Member States to provide in their domestic law for the exhaustion of the rights conferred by a trade mark in respect of products placed on the market in non-member countries. In so finding, the Court conclusively based itself on the view that, while the Trade Marks Directive was adopted on the basis of Article 100a of the EC Treaty (now, after amendment, Article 95 EC), it comprehensively regulates individual aspects, in particular the exhaustion of rights conferred by a trade mark.

34. According to the *Silhouette* judgment, [9] Articles 5 to 7 of the Trade Marks Directive embody a complete harmonisation of the rules relating to the rights conferred by a trade mark. The Trade Marks Directive therefore regulates Community-wide (EEA-wide) exhaustion of the rights conferred by a trade mark, irrespective of where the goods bearing the mark were first placed on the market.

35. The Court further noted in that judgment that even if Article 7 were to be construed as providing for legal consequences in the case where the products in question were placed on the market outside the EEA, that is not intended to regulate the foreign trade relations of the Community 'but to define the rights of proprietors of trade marks in the Community'. [10] The Community legislature is thus not precluded from allowing even situations arising outside the Community or the EEA to produce legal effects within the Community, to the extent to which this is necessary to attain the objectives of the Directive, namely the establishment of a viable internal market through Community approximation of trade mark protection. The fact that the goods in issue were first placed on the market outside the EEA is therefore not a bar to application of the Trade Marks Directive.

36. Without placing in question the conclusive nature of the Trade Marks Directive as a whole, that of Article 7(1) of the Trade Marks Directive was, with regard to the assessment of whether trade mark rights had been exhausted in respect of parallel imports from non-member countries, challenged by the argument that an action for infringement of rights conferred by a trade mark must in the first instance be assessed in the light of Article 5 of the Trade Marks Directive and the condition of 'lack of consent' referred to therein; Article 7, in contrast, precludes consent on the part of

8 — Cited in footnote 3, paragraph 20 et seq.

9 — Cited in footnote 3, paragraph 25.

10 — Cited in footnote 3, paragraph 29.

the trade mark proprietor which would, within the EEA, not extend to the entire area — but would not go beyond it.

37. However, it remains unclear where it follows from that the 'lack of consent' under Article 5(1) should not correspond in all respects to 'consent' under Article 7(1). Nor are there any grounds for identifying an actual conceptual distinction, particularly given that both provisions are functionally related. With regard to the structure of the Trade Marks Directive, however, Advocate General Jacobs has already noted in *Silhouette* that 'Article 7(1) is a derogation from the rights conferred on the trade-mark owner by Article 5(1)'. [11] Article 7(1) of the Trade Marks Directive thus constitutes a restriction on the exclusive rights under Article 5(1).

38. With that it may be established that, even on the assumption that the products in question were first placed on the market in non-member countries by the particular trade mark proprietor or with his consent, the conclusive nature of Article 7(1) of the Trade Marks Directive in determining whether the rights of the trade mark proprietor are or are not exhausted within the EEA cannot seriously be brought into doubt. The question of law therefore focuses on the issue whether the existence of consent, as understood in the exhaustion theory, falls to be determined by reference to national law or Community law.

2. Consent as a concept of national law

39. If it is intended to determine consent in the light of national law, it will first be necessary to examine under which national law this interpretation ought to be made. Accordingly, the preliminary conflict-of-laws issue in regard to a national definition of what constitutes consent is of fundamental significance. However, the views of the parties involved in the proceedings diverge considerably from one another also in relation to this preliminary issue.

(a) According to which national legal system should the concept of consent be interpreted?

40. The assumption appears to be made in Case C-414/99 that consent within the meaning of Article 7(1) of the Trade Marks Directive ought to be construed on the basis of that law which is applicable to the

11 — Paragraph 34 of the Opinion in Case C-355/96 (cited in footnote 3).

first contract [12] in the distribution chain. On this view, consent to placing goods on the market pursuant to Article 7(1) would consequently have to correspond to the expression of intent made when the first contract was concluded. According to the order for reference, the contracting parties agreed that German law should apply. On the basis of a rule of evidence of the *lex fori* — English law — under which the foreign law is presumed to be identical to English law in so far as the parties do not plead that the foreign law differs substantively, the referring court bases its examination, not on the law contractually agreed — German law —, but rather on the *lex fori*. It may thus be inferred from Question B submitted in Case C-414/99 that the examination of consent is based on the law applicable to the first contract in the distribution chain, while the parallel importers in Cases C-415/99 and C-416/99 submit, without being contradicted in this regard, that they acquired the property in the trade-marked products without their right freely to dispose of those products having been effectively restricted.

41. The law under which the concept of consent falls to be construed thus remains open, as does the question whether several legal systems, depending on the number of contracts in the distribution chain, might have to be taken into consideration. An answer to these questions thus presupposes a — national or Community — rule of conflict of laws. However, determination of such a conflict-of-laws rule presupposes in turn that the national provision implementing Article 7(1) of the Trade Marks Directive is assigned to a conflict-of-laws rule, that is to say, is classified for the purposes of private international law. This demonstrates that it is not possible, without providing more detailed reasons, to determine consent, within the meaning of Article 7(1), in accordance with the national law which is applicable to the first contract in the distribution chain.

42. The wording of Article 7(1) itself makes clear that consent within the meaning of the Trade Marks Directive cannot be treated as equivalent to the expression of intent made for the purpose of concluding a contract. The crucial issue in this connection is whether the goods 'have been put on the market... under that trade mark by the proprietor or with his consent'. However, if the goods were put on the market by the trade mark proprietor himself, there must also be a contract and thus a corresponding expression of intent by the trade mark proprietor, so that here too one must proceed on the assumption that there is a conceptual identity between the expression of intent made for the purpose of concluding the contract and the expression of intent giving rise to exhaustion. Were one to go along with this view, however, it would not be clear why Article 7(1) draws a distinction between the placing of goods on the market by the trade mark proprietor himself and the placing of goods on the market with his consent, even though there is an expression of intent by the trade mark proprietor in both cases. For that reason it

12 — For the purpose of the argument, the basic concept of a 'contract' is to be understood as meaning any legal transaction by which the immediate power of disposal over the trade-marked products is transferred.

does not appear justifiable to proceed generally on the assumption that consent within the meaning of the Trade Marks Directive corresponds to the expression of intent made for the purpose of concluding a contract.

43. Such a submission appears to derive the conclusive nature of the law applicable to the contract from the verbal identity, possible purely in conceptual terms, between contractual consent and consent to the placing of goods on the market within the meaning of the Directive, but does not go beyond this mere wording to examine the content and function of consent under Article 7(1).

44. However, interpretation of the concept of consent from a national perspective cannot circumvent the prior question of classification necessary for determining the conflict-of-laws rule. Even if that classification is to follow from the particular *lex fori*, [13] it must also, that notwithstanding, be made having regard to the Trade Marks Directive in so far as trade mark protection has to that extent been comprehensively harmonised and national law for that reason falls to be construed in the light of the Directive. [14] If only in the context of the prior conflict-of-laws issue of classification, a substantive examination of the concept of consent is thus indispensable.

45. As an interim finding, it may be stated that an autonomous interpretation of the concept of consent may in any event prove requisite for resolution of the conflict-of-laws issue of classification.

46. That notwithstanding, other factors would militate against the argument put forward by the parallel importers. Apart from establishment of the conclusive nature of the contractual status for freedom to choose the law governing a contract, it also remains, given what may be the large number of points along the distribution chain, to consider whether and, if so, under what circumstances consent might be inferred at such further points and at which. That, however, would involve the risk of

13 — H. Batiffol/P. Lagarde, *Droit international privé*, Vol. I, 8th edition 1994, paragraph 293.

14 — For the established case-law, see, *inter alia*, Case C-131/97 *Carbonari and Others* [1999] ECR I-1103, paragraph 48: 'As is clear from the settled case-law of the Court of Justice, in applying national law and in particular the provisions of a law which, as in the main proceedings, were specifically introduced in order to implement a directive, the national court is required to interpret its national law, as far as possible, in the light of the wording and the purpose of the directive in order to achieve the result pursued by the latter and thereby to comply with the third paragraph of Article 189 of the EC Treaty (see Case C-106/89 *Marleasing* v *La Comercial Internacional de Alimentación* [1990] ECR I-4135, paragraph 8, and Case C-334/92 *Wagner Miret* v *Fondo de Garantía Salarial* [1993] ECR I-6911, paragraph 20).'

're-importing' international exhaustion, contrary to the objectives of the Trade Marks Directive, [15] through the fact that presumption of consent would ultimately probably always remain possible.

47. Against this background, it should be noted that the arguments of the parallel importers regarding the freedom to choose the law governing a contract and the territoriality of Community law are not dissimilar to the submissions made by the defendant in the national proceedings in the *Ingmar* case. [16] With regard to the freedom to choose the law governing a contract, the defendants in the national proceedings in the present cases invoke in particular the Convention of 19 June 1980 on the law applicable to contractual obligations. [17]

48. The *Ingmar* case essentially concerned the applicability of Council Directive 86/653/EEC of 18 December 1986 on the coordination of the laws of the Member States relating to self-employed commercial agents [18] to a commercial agency contract which, by virtue of a choice of law, was governed by the law of a non-member country, in the case where, although the self-employed commercial agent pursued its activity in a Member State, the principal was established in that non-member country. In that case also, essentially, the freedom to choose the law governing a contract and the territoriality of Community law were put forward as arguments.

49. In its judgment in *Ingmar*, the Court concluded that Directive 86/653/EEC was applicable in the circumstances there obtaining. It first pointed out in that regard that the freedom to choose the law governing a contract is subject to the application of mandatory rules of law. [19] The Court then turned to the question whether it is for Community law or national law to determine if rules are mandatory in nature. [20] The Court finally concluded, having regard to the protective purpose of the directive and to its harmonisation objective, that that directive did cover commercial agents operating within the Community, irrespective of where the principal is established. [21]

50. This path for reaching a solution may well be transposable to the cases here under consideration. The Trade Marks Directive deals with, *inter alia*, harmonisation of the degree of protection afforded by a trade mark, while also serving to ensure the operational viability of the internal market. From this it may, in accordance with the *Ingmar* judgment, be inferred that trade mark protection, harmonised at Community level, which limits exhaustion of rights conferred by a trade mark to cases where the goods bearing the trade mark have, under the relevant conditions, been placed on the market within the Community or

15 — See, on this point, the *Silhouette* judgment, cited in footnote 3.

16 — Judgment of 9 November 2000 in Case C-381/98 *Ingmar* [2000] ECR I-9305.

17 — OJ 1980 L 266, p. 1.

18 — OJ 1986 L 382, p. 17.

19 — Cited in footnote 16, paragraphs 15 and 16.

20 — Cited in footnote 16, paragraphs 17 to 19.

21 — Cited in footnote 16, paragraphs 24 and 25.

the EEA, is to be applied regardless of the national law governing the contract. If compliance with the conditions for assuming consent within the meaning of Article 7(1) of the Trade Marks Directive fell to be determined according to the law governing the contract, the scope of the protection afforded to the trade mark would depend on a variety of national legal systems, a situation which would run counter to the harmonisation objective pursued by the Trade Marks Directive.

51. As an interim finding, it may therefore be stated that exhaustion of the rights conferred by a trade mark under Article 7(1) of the Trade Marks Directive must be determined independently of the question of the national law governing the contract.

52. In the light of this, it is only by way of alternative consideration that there is any need to examine the substance of the legal arguments put forward by the parallel importers. Those arguments raise issues relating to contract law and the law of property.

(b) Effects of national contract law on the concept of consent

53. From the point of view of contract law, the submissions touch in particular on the lack of Community harmonisation of this subject-matter, on the one hand, and on the need for a unitary concept of consent, on the other. The German Government thus points out that none of the provisions in the Trade Marks Directive contains rules on the creation of contracts or on the making of declarations of intent. The Swedish Government makes a similar submission. The EFTA Surveillance Authority, furthermore, notes that an autonomous [22] interpretation of the concept of consent could jeopardise the uniformity of the concept within domestic law.

54. Considered in themselves, these comments are not devoid of all basis; in the present context, however, they may fall short of the mark, being based exclusively on the verbal identity of 'consent' as used in the Trade Marks Directive and 'consent' in national legal systems. [23] However, such an interpretation based purely on wording, without any prior teleological analysis, can only be inconclusive.

55. As a fundamental objection, it should first be noted that the German Government bases its submission on the premiss that consent within the meaning of Article 7(1) constitutes a *declaration* of intent corresponding to the general doctrine of legal acts in German civil law. Such an analysis may well depend too much on the particular features of national law: not every legal system is familiar with a general doctrine of

22 — In this and what follows, 'autonomous' is to be understood as relating to the Community, without regard to how the term is construed within national legal systems.

23 — See point 43 above.

legal acts; this might also be classified under the law of obligations. Apart from this systematic objection, reference must also be made to a substantive difficulty: interpretation of the concept of consent as a legal act within the meaning of the domestic law in question cannot do justice to the harmonisation objective of the Trade Marks Directive in so far as it must be borne in mind that individual legal systems focus, not on the declared, but on the implied intent. [24] However, it would be contrary to the harmonisation objective of the Trade Marks Directive if the scope of protection for a trade mark, with regard to the conditions governing exhaustion of the right conferred by the trade mark, were ultimately to depend on differing interpretations within national legal systems. [25] Finally, an interpretation based purely on the form which consent takes also cannot explain why Article 7(1) draws a distinction between two types of marketing, even though the placing of goods on the market by the trade mark proprietor himself *a fortiori* presupposes his consent. [26]

56. The assumption that the concept may have a uniform meaning at national level also focuses too much on a domestic construction of the concept which may, in certain circumstances, be non-uniform, and fails adequately to address the inherent content and function of the concept.

57. Consequently, only an interpretation which focuses on the meaning and purpose of the provision will make it possible to provide an answer that takes proper account of the content and function of the concept of consent inherent in Article 7(1) of the Trade Marks Directive.

(c) Effects of national law of property on the concept of consent

58. The parallel importers submit further arguments based on the law of property and point out that this area has not been harmonised at Community level by the Trade Marks Directive. They propose an analogy with retention of title and argue further, particularly in Cases C-415/99 and C-416/99, on the basis of the scope of the rights transferred by way of consent.

59. The analogy with retention of title essentially proposes that in the law of property the transfer of rights is, in the interest of commercial security, limited only if the holder of the rights has expressly

24 — See, with reference only to France, B. Starck/H. Roland/L. Boyer, *Droit civil: — les obligations, Vol. 2: Contract*, 6th edition 1998, paragraph 184 and further references therein.

25 — See point 50 above.

26 — See point 42 above.

reserved the rights to himself. This analogy thus implies a restrictive construction of the concept of consent under which exhaustion would be excluded only where the proprietor of the trade mark has previously expressly reserved to himself his rights under the trade mark.

60. Such an analogy is unconvincing: consent to placing trade-marked goods on the market does not relate to the transfer of the rights deriving from that trade mark but to the exercise of those rights. Were one to go along with the analogy, trade mark rights would lose their exclusivity: exercise of those rights would be subject to the conclusion of an agreement reserving those rights which would govern all subsequent contracts. Against this background, the demand of the parallel importers for an obligation to mark the goods in question, while it may appear logical, is also alien to the system in the light of the comments made. However, even if one were to assume the argument submitted to be correct, the practical implementation of a 'trade mark reservation', in the sense of making the trade mark — permanently — visible, scarcely appears possible, whether because of the possibility of repackaging — as, for instance, in the case of cosmetics — or by reason of the nature of the products — such as the jeans here in issue —, with the result that this submission would ultimately *de facto* almost always lead to an assumption that the trade mark proprietor had given consent and would thus be tantamount to a return to international exhaustion.

61. The argument put forward by the parallel importers also fails to take account of the fact that commencement of exhaustion cannot be contractually excluded. Exhaustion is a legal consequence which is linked to the — objective — existence of factors which include the 'consent' here in issue.

62. The arguments concerning protection of the final trader in the distribution chain are equally unconvincing. That trader does not receive the trade mark right *in se*; the sole question is whether he can exploit the products bearing that mark. It is only within that context that the question of protection of legitimate expectations can arise.

63. Finally, the arguments concerning guarantee of title and freedom of expression do not really appear to be cogent. The right to property and the right freely to express one's views do, it is true, feature, as basic rights, among the general principles of Community law. Since these must, according to established case-law, also be viewed in relation to their social function, it cannot be ruled out that their exercise may be restricted, provided that any such restrictions do in fact correspond to Community objectives of general interest and do not constitute, in relation to the aim pursued, a disproportionate and intolerable interference, impairing the very substance of the

rights thus guaranteed.[27] There is nothing to suggest such an infringement of the principle of proportionality by the Trade Marks Directive, which serves to ensure the viability of the internal market.

(d) Interim finding

64. From all of this it becomes clear that the attempt to classify the concept of consent as a concept of national law does not lead to a satisfactory solution. First, it is unclear which national law should apply. Clarification of this question presupposes classification of exhaustion, for conflict-of-law purposes, from the perspective of the *lex fori*, subject to the wording and aims of the Trade Marks Directive, with the result that an inquiry into the relevant content of the Directive appears to that extent indispensable. Further, the fact that there has been no Community harmonisation of contract law and the law of property does not preclude a Community interpretation of the concept of consent under Article 7(1) of the Trade Marks Directive.

27 — See in particular the judgment in Case C-200/96 *Metronome Musik* [1998] ECR I-1953, paragraph 21, concerning the related question of the compatibility of an exclusive right under Council Directive 92/100/EEC of 19 November 1992 on rental right and lending right and on certain rights related to copyright in the field of intellectual property (OJ 1992 L 346, p. 61) with the right freely to pursue a trade or profession and with the right to property.

65. Regard being had to the foregoing, the meaning of consent for the purposes of Article 7(1) therefore falls to be examined from the Community-law angle.

3. Consent as a concept of Community law

66. Even were one to assume the correctness of the submissions of those advocating an interpretation of the concept of consent from a national perspective, this does not, as already pointed out, make it possible to arrive at a sufficiently clear meaning. The question thus arises as to how far an autonomous interpretation of the concept of consent in Article 7(1) of the Trade Marks Directive might help in finding such a meaning.

(a) Wording

67. In the examination of an interpretation which focuses on the wording of the concept in the Directive, it has already been stated that consent cannot correspond solely to the expression of intent made for the purpose of concluding a contract, since such a construction would fail to take sufficient account of the distinction in Article 7(1) of the Trade Marks Directive between the marketing of goods by the

trade mark proprietor and the marketing of such goods with his consent. [28] Further, no inference can be drawn from the mere identity of wording as between the concept of consent here in issue and that concept as understood in national law. It is for that reason necessary to examine the origin, the scheme and the meaning and purpose of the relevant provision.

(b) Origin of the condition of consent in the exhaustion principle

68. With regard to rights conferred by a trade mark, the exhaustion principle under Article 7(1) of the Trade Marks Directive traces its origin to the Court's case-law on the compatibility of the exercise of rights over intangible property — and thus also rights under trade marks — with the free movement of goods. According to the Court's judgment in *Deutsche Grammophon*, 'it would be in conflict with the provisions prescribing the free movement of products within the common market for a manufacturer of sound recordings to exercise the exclusive right to distribute the protected articles, conferred upon him by the legislation of a Member State, in such a way as to prohibit the sale in that State of products *placed on the market by him or with his consent in another Member State* solely because such distribution did not occur within the territory of the first Member State' [29] (emphasis added).

69. In subsequent judgments the Court shifted its focus from the sale to concentrate on the marketing of the products in question: thus, in its judgment in *Centrafarm* v *Winthrop*, the Court held that 'the exercise, by the owner of a trade mark, of the right which he enjoys under the legislation of a Member State to prohibit the sale, in that State, of a product which has been *marketed* under the trade mark in another Member State by the trade mark owner or with his consent' is incompatible with the EC Treaty [30] (emphasis added). In so ruling the Court based itself conclusively on the finding that the trade mark proprietor would otherwise 'be able to partition off national markets and thereby restrict trade between Member States, in a situation where no such restriction was necessary to guarantee the essence of the exclusive right flowing from the trade mark'. [31]

70. In respect of rights conferred by trade marks, this case-law thus extended the barrier of exhaustion in the sense that consent to the placing of goods on the market could no longer relate solely to the territory of one Member State but to the entire territory of the Community.

28 — See point 42 above.

29 — Case 78/70 *Deutsche Grammophon* [1971] ECR 487, paragraph 13.

30 — Case 16/74 *Centrafarm* v *Winthrop* [1974] ECR 1183, paragraph 1 of the operative part of the judgment.

31 — Cited in footnote 30, paragraph 11.

71. However, application of the concept of consent in the case-law initially lacked uniformity: in his Opinion in *Deutsche Grammophon*, [32] Advocate General Roemer referred to goods 'which the holder of that protection right *or an undertaking dependent on the holder* has placed on the market in another Member State' (emphasis added). The Court's judgment, however, replaced this criterion of dependency, which was mentioned in the question in the order for reference, by the criterion of consent.

72. The judgment in *Keurkoop* [33] contains a compromise formulation. The focus there was directed at whether the product in question 'has lawfully been marketed in another Member State by, or with the consent of, the proprietor of the right himself *or* a person legally or economically dependent on him' [34] (emphasis added).

73. It is already apparent from these formulations that the concept of consent within the framework of the Court's exhaustion theory does not relate to an expression of intent by the trade mark proprietor concerning transfer but rather to the question of accountability for the sale — or marketing — of the trade-marked products. [35] What is at issue is not to use consent to transfer of the power of disposal over the trade-marked goods in order to assess the possibility of invoking the rights under that trade mark, but rather to ascertain whether the placing of the goods in question on the market within the EEA could be attributed to the trade mark proprietor. Consequently, the distinction between the placing of the goods on the market by the trade mark proprietor himself and the placing of such goods on the market with his consent means that the goods in question were placed on the market by the trade mark proprietor himself or that that action can be attributed to him in regard to the legal consequences arising from exhaustion. The Community interpretation of the concept of consent must accordingly have as its object the search for criteria of attribution.

74. In this connection, however, one might also construe consent as a reference to entitlement to place goods on the market, regard being had to the national case-law cited by Advocate General Roemer in *Deutsche Grammophon* [36] and the comments of Advocate General Trabucchi in his Opinion in the two *Centrafarm* cases. [37] Under this view, the trade mark proprietor could, in respect of the first occasion on which the goods in question are placed on

32 — Opinion in Case 78/70, cited in footnote 29, point 1 of the conclusion.

33 — Case 144/81 *Keurkoop* [1982] ECR 2853.

34 — Cited in footnote 33, paragraph 25.

35 — See also, along these lines, the judgment in Case C-9/93 *IHT Internationale Heiztechnik* [1994] ECR I-2789, paragraph 43: 'The consent implicit in any assignment is not the consent required for application of the doctrine of exhaustion of rights'.

36 — Cited in footnote 29, at page 508.

37 — Opinion in Case 15/74 *Centrafarm* v *Sterling Drug* [1974] ECR 1147 and Case 16/74 *Centrafarm* v *Winthrop* [1974] ECR 1183.

the market in the Community or the EEA, invoke his trade mark rights only if his previous conduct, having regard to all the particular circumstances of the case, could not be construed as meaning that he had caused the trade-marked goods to be placed on the market by third parties or had at least approved of the possibility that this might happen.

75. It is unnecessary at this point to determine the criteria of attribution by which the concept of consent is to be fleshed out: an answer to that question must take into account the meaning and purpose of the Community law provision. It need for the moment only be held that the concept of consent has an objective content which will require to be given substance in what follows.

76. Further, it must be held that Article 7(1) of the Trade Marks Directive reflects the Court's case-law on the relation between the exercise of rights over intangible property and the free movement of goods. The Court has ruled in this regard that Article 7(1) is framed in terms 'corresponding to those used by the Court in judgments which, in interpreting Articles 30 and 36 of the Treaty, have recognised in Community law the principle of the exhaustion of the rights conferred by a trade mark'. [38] That, of course, does not mean that Article 7(1) has codified the corresponding case-law, since the scope of that provision extends beyond trade within the Community.

77. It was along these lines that the Court made clear in *Sebago* that 'in adopting Article 7 of the Directive, which limits exhaustion of the right conferred by the trade mark to cases where the goods bearing the mark have been put on the market in the Community (in the EEA since the EEA Agreement entered into force), the Community legislature has made it clear that putting such goods on the market outside that territory does not exhaust the proprietor's right to oppose the importation of those goods without his consent and thereby to control the initial marketing in the Community (in the EEA since the EEA Agreement entered into force) of goods bearing the mark'. [39]

78. This finding is important inasmuch as it suggests a distinction between situations arising within the Community (and within the EEA) and situations arising outside the Community. In the cases at present under consideration, such a distinction appears to be of fundamental importance since it determines conclusively the scope of the results of the evaluation carried out in the case-law. In cases occurring within the Community principles from the relevant case-law on Articles 30 and 36 of the EC Treaty are applicable, whereas situations concerning trade from non-member

38 — Judgment in Joined Cases C-427/93, C-429/93 and C-436/93 *Bristol-Myers Squibb and Others* [1996] ECR I-3457, paragraph 31.

39 — Cited in footnote 4, paragraph 21.

countries will come within the scope of Article 7(1) of the Trade Marks Directive only because the Directive has comprehensively harmonised the scope of trade mark protection in the Member States with regard to the exhaustion principle. For that reason, the parallel importers' submission concerning the need to construe the Trade Marks Directive in the light of the relevant provisions of primary law does not appear to be free from problems. They cite the Court's case-law to the effect that Articles 28 EC to 30 EC do not draw a distinction according to the origin of goods [40] and argue that Community-wide exhaustion [41] leads to a correspondingly impermissible distinction. This view, however, fails to take account of the fact that the Community approximation of trade mark protection pursuant to Article 7(1) produces effects which are not confined to trade within the Community; the free movement of goods within the Community remains unaffected by an application of the principle of Community-wide exhaustion to goods initially placed on the market outside the EEA.

79. From all of this it will be clear that consent of the trade mark proprietor to the placing of trade-marked goods on the market within the EEA is subject to the condition that he had, or could have availed of, an opportunity to exercise his right of exclusivity within the EEA. This is also confirmed by the express function of the principle of international exhaustion as evidenced by the legislative history of the Directive. [42] This finding must now be examined in greater detail in line with the meaning and purpose of the exhaustion principle.

(c) Teleological construction

80. In national legal systems the exhaustion principle rests on a balancing of interests in the conflict between the exclusivity of the rights conferred by a trade mark and commercial requirements, particularly with regard to the resale of the goods concerned within a distribution chain. In the case of parallel importation of original goods, the issue is not so much one of misrepresentation of origin or of genuineness of those goods but rather, in particular, of unauthorised use of the reputation associated with the trade mark. Through the balancing of interests, the trade mark proprietor's rights to intervene are restricted in the sense that he cannot oppose the further sale of the goods in question in so far as he was in a position adequately to assert his rights under the trade mark when the goods were first placed on the market. [43] The exhaustion principle is thus designed to prevent

40 — Reference is made in particular to the judgment in Case 125/88 *Nijman* [1989] ECR 3533, paragraph 11.

41 — For the purposes of the argument set out here, Community-wide exhaustion is to be understood as meaning exhaustion within the Community and the EEA.

42 — On this point, see paragraph 32 of the Opinion of Advocate General Jacobs in *Silhouette*, cited in footnote 3.

43 — Ingerl/Rohnke, *Markengesetz*, 1998, paragraph 24, note 5, on the regulatory purpose of the German codification of the exhaustion principle.

the trade mark proprietor's rights of control from unjustifiably fettering commerce. [44]

81. The Community-law expression of the exhaustion principle, as contained in Article 7(1) of the Trade Marks Directive, also rests on a balancing of interests between the protection of intangible property rights and the dictates of free movement of goods. Community-wide exhaustion is, pursuant to the basic idea of the internal market deriving from the Treaty, designed to prevent trade between Member States from being restricted through the invocation of trade mark rights.

82. The relevant case-law of the Court [45] concerned the permissibility of parallel imports from other Member States in the light of Articles 30 and 36 of the EC Treaty (now, after amendment, Articles 28 EC and 30 EC). For evaluation purposes, the Court focused conclusively on the fact that Article 36 of the EC Treaty permitted restrictions on the free movement of goods within the Common Market only 'where such [restrictions] are justified for the purpose of safeguarding rights which constitute the specific subject-matter of this property. In relation to trade marks, the specific subject-matter of the industrial property is the guarantee that the owner of the trade mark has the exclusive right to use that trade mark for the purpose of putting products protected by the trade mark into circulation for the first time, and is therefore intended to protect him against competitors wishing to take advantage of the status and reputation of the trade mark by selling products illegally bearing that trade mark'. [46] As the result of this evaluation, the Court thus held that invocation of the right of exclusivity, in the case of parallel imports within the Community by independent third parties, for the purpose of safeguarding the rights forming the specific subject-matter of the rights deriving from the trade mark is not covered in so far as the product in question 'has been put onto the market in a legal manner', in the Member State from which it has been imported, 'by the trade mark owner himself or with his consent', [47] since there can then be no question of abuse or infringement of the right conferred by the trade mark.

83. In the case of parallel imports from non-member countries, however, it is necessary to examine whether these considerations are directly transposable for the purpose of interpreting Article 7(1) of the Trade Marks Directive in so far as parallel imports from non-member countries do not affect the free movement of goods. [48] It has already been pointed out [49] that Article 7(1) of the Trade Marks Directive — and thus the principle of Community-wide

44 — As expressed by Advocate General Jacobs in paragraph 60 of his Opinion in *Bristol-Myers Squibb and Others*, cited above in footnote 38.

45 — Judgments in *Deutsche Grammophon* (cited in footnote 29), *Centrafarm* v *Sterling Drug* and *Centrafarm* v *Winthrop* (cited in footnote 37) and in *Keurkoop* (cited in footnote 33).

46 — See only the judgment in *Centrafarm* v *Winthrop* (cited in footnote 30), paragraphs 7 and 8.

47 — Cited in footnote 30, paragraph 10.

48 — Doubt in this regard has been expressed by Advocate General Jacobs at paragraph 49 et seq. of his Opinion in *Silhouette* (cited in footnote 3), with reference to the judgment in Case 51/75 *EMI Records* [1976] ECR 811.

49 — See point 33 et seq. above.

exhaustion — is to be applied for this assessment since the full harmonisation of the laws of the Member States achieved at Community level produces effects on external trade relations. However, to the extent to which it is argued that Article 7 of the Trade Marks Directive is to be interpreted like Article 30 EC also in regard to parallel imports from non-member countries, on the ground that 'according to the Court's case-law, Article 7 of the Directive, like Article 36 of the Treaty, is intended to reconcile the fundamental interest in protecting trade mark rights with the fundamental interest in the free movement of goods within the common market', [50] this falls short of the mark, since Article 7 cannot, in the case of parallel imports from non-member countries, have as its purpose to bring the requirements of trade mark protection into harmony with those of the free movement of goods in the Common Market, which in this regard is unaffected.

84. Indiscriminate application of Article 7(1) of the Trade Marks Directive to trade within the Community, on the one hand, and to trade from non-member countries, on the other, would fail to take account of the differences in the respective initial positions: in the case of parallel imports within the Community, transfer of the power of disposal over the trade-marked goods coincides with the placing of those goods on the market within the EEA, whereas these do not coincide in the case of parallel imports into the Community from non-member countries. This necessarily gives rise to different possibilities in regard to control over distribution, of which appropriate account must be taken when balancing the requirements of trade mark protection against the interests of free-flowing trade.

85. It follows that, even though the Court's case-law on the compatibility of the exercise of rights over intangible property with the basic freedoms is not directly transposable to the present cases, regard must be had to the evaluations forming the basis of that case-law. At this juncture, however, it must be stated that it is not the starting point in the evaluation — the specific subject-matter of the rights conferred by the trade mark — but rather the counterbalanced interests that depend on the place in which the goods were first placed on the market.

86. In regard to the specific subject-matter of the right deriving from a trade mark, Advocate General Jacobs stated as follows in his Opinion in *Bristol-Myers Squibb and Others*: [51]

'All advanced legal systems grant traders the right to use certain distinctive signs and symbols in relation to their goods. They do so (a) in order to enable traders to protect

50 — Judgment in Case C-379/97 *Pharmacia & Upjohn* v *Paranova* [1999] ECR I-6927, paragraph 30, with reference to paragraph 40 of the judgment in *Bristol-Myers Squibb and Others* (cited in footnote 38).

51 — Cited in footnote 38, paragraph 72.

the reputation of their goods and prevent the theft of their goodwill by unscrupulous competitors who might otherwise be tempted to pass their own goods off as those of another trader with an established reputation and (b) in order to enable consumers to make informed purchasing choices on the basis of the assumption that goods sold under the same name will emanate from the same source and will, in normal circumstances, be of uniform quality. Thus trade mark law seeks to protect the interests, not only of the trade mark proprietor, but also of the consumer. In so far as the trade mark protects the interests of its proprietor by enabling him to prevent competitors from taking unfair advantage of his commercial reputation, the exclusive rights conferred on the proprietor are said, in the language of the Court's case-law, to constitute the specific subject-matter of the trade mark. In so far as the trade mark protects the interests of consumers by acting as a guarantee that all goods bearing the mark are of the same commercial origin, that is known, in the Court's terminology, as the essential function of the trade mark. Those two aspects of trade mark protection are of course two sides of the same coin'.

In the case of parallel imports of trademarked products which have not been altered, what is in issue is not the origin of the products — in the present cases the genuineness of the goods involved was not in dispute — but rather the possibility reserved to the trade mark proprietor to exercise his exclusive rights within the EEA.

87. Thus, according to the cited [52] case-law on trade within the Community, invocation of the right conferred by a trade mark will be acceptable in the light of Article 30 EC only if the trade mark proprietor thereby seeks to safeguard the exclusive rights flowing from the trade mark. Those exclusive rights, however, also include the right 'to determine freely the conditions under which he markets his products'. [53] Consent under Article 7(1) of the Trade Marks Directive thus relates to this exclusive right of maximum control over marketing: invocation of the right conferred by a trade mark in order to counter parallel imports will be acceptable only if the trade mark proprietor has not yet exercised his exclusive right to control marketing of the goods within the EEA, or has been unable to exercise that right. According to the evaluation forming the basis of Article 7(1) of the Trade Marks Directive, the trade mark proprietor's rights would, in contrast, be exhausted in the case of parallel imports from non-member countries if he was able, or could have been able, to control the distribution of the goods in question within the EEA.

88. It is thus necessary to examine more closely the criterion of control over distribution. In its judgment in the *IHT Internationale Heiztechnik* case, the Court ruled

52 — Judgments in *Deutsche Grammophon* (cited in footnote 29), *Centrafarm* v *Sterling Drug* and *Centrafarm* v *Winthrop* (cited in footnote 37) and in *Keurkoop* (cited in footnote 33).

53 — Judgment in Case 19/84 *Pharmon* v *Hoechst* [1985] ECR 2281, paragraph 25.

as follows with regard to trade within the Community:

'This principle, known as the exhaustion of rights, applies where the owner of the trade mark in the importing State and the owner of the trade mark in the exporting State are the same or where, even if they are separate persons, they are economically linked. A number of situations are covered: products put into circulation by the same undertaking, by a licensee, by a parent company, by a subsidiary of the same group, or by an exclusive distributor.' [54]

89. The principle of exhaustion of rights — as a restriction on the rights deriving from a trade mark — must therefore be narrowly construed and consent for the purpose of exhaustion of the trade mark rights in trade within the Community must be presumed if the trade mark proprietor and the person marketing the products bearing the trade mark [55] are economically linked. That criterion, however, appears to be very general and could even be construed as covering the relationship between the trade mark proprietor and the person acquiring the trade-marked products. In regard to parallel imports from non-member countries, it thus also appears to be of limited assistance inasmuch as marketing within the EEA in such cases normally occurs only at a late point in time in the distribution chain by way of an independent third party. However, it might well be insufficient to reject the possibility in principle of exhaustion of the trade mark right solely by reference to the — possible — independence of the parallel importer.

90. In the *Sebago* judgment, [56] in contrast, the Court focused conclusively on the possibility for the trade mark proprietor 'to control the initial marketing in the Community (in the EEA since the EEA Agreement entered into force) of goods bearing the mark'. The Commission points out in this regard that this does not cover marketing by a parent company or subsidiary and, with regard to marketing by a licensee, is unclear in so far as the trade mark proprietor does not directly control the marketing by the licensee.

91. Consonant with the meaning and purpose of the concept of consent as outlined above, it must be assumed that both the aspect of economic linkage and that of control ultimately relate only to one and the same criterion, namely that of control over the initial distribution within the EEA. With regard to the control forming the basis of the judgment in *Sebago*, this is not a direct control but relates rather to the possibility of determining, enforcing or

54 — Case C-9/93 *IHT Internationale Heiztechnik*, cited in footnote 35, paragraph 34.

55 — Since an independent parallel importer is not the proprietor of the trade mark in question, the *IHT Internationale Heiztechnik* formula for that reason alone appears transposable only to a limited extent.

56 — Cited in footnote 4, paragraph 21.

monitoring the distribution chain. Construed thus, the criterium of control very likely covers marketing by an undertaking itself and marketing via licensees.

92. At this point it ought to be noted, pursuant to the judgment in *Merck and Beecham*, [57] that it is not the actual exercise of the right that is determinant, but the mere possibility that it may be exercised, since otherwise the trade mark proprietor could also invoke his rights after the products have been marketed for the first time within the EEA, if, for instance, the products are imported via a Member State in which there is no trade mark protection.

93. Consent to placing goods on the market cannot therefore be assumed in so far as the trade mark proprietor has not had any opportunity to control the initial marketing within the EEA of the products bearing the trade mark. [58]

94. The question whether the situations mentioned in the *IHT Internationale Heiztechnik* judgment are to be treated as exhaustive, with the result that a presumption of exhaustion would be excluded in other cases, need not here be addressed, in view of what the Commission has rightly referred to as the abundance of differing situations which may arise.

95. Having regard to the differing initial positions, transposition of the principle from the *IHT Internationale Heiztechnik* judgment to cases of parallel imports from non-member countries appears problematic to the extent to which it here happens [59] that the actual first marketing of the goods in question does not coincide with their initial marketing in the EEA. In such cases the parallel importer will normally have no connection whatever with the trade mark proprietor. From that, however, it does not necessarily follow that exhaustion of the rights deriving from the trade mark must always be excluded in the case of parallel imports from non-member countries, in so far as the trade mark proprietor did not yet have an opportunity in these cases, or could not have had an opportunity, to invoke his exclusive rights within the EEA. It corresponds much more to the meaning and purpose of the exhaustion principle to balance the requirements of free movement against the need to protect the trade mark and in so doing to examine whether the trade mark proprietor's conduct, under all the circumstances of the individual case, could not justify any increased grounds for subsequent purchasers to believe that he had waived exercise of his trade mark rights on the occasion on which the products were first marketed within the EEA.

57 — Judgment in Joined Cases C-267/95 and C-268/95 *Merck and Beecham* [1996] ECR I-6285.

58 — Pursuant to the judgment in *Pharmon* v *Hoechst*, cited above in footnote 53, the principle of exhaustion of rights does not therefore apply in the case of compulsory licences.

59 — See point 84 above.

96. That said, it still remains to consider the fundamental decision in Articles 5 and 7 of the Trade Marks Directive, based on grounds of juridical policy, under which the trade mark proprietor may in principle, in the event of parallel imports from non-member countries, invoke his trade mark rights when the goods in question are first placed on the market within the EEA, irrespective of whether those goods were brought into circulation in non-member countries by him or with his consent, in so far as he did not control, or could not have controlled, the initial distribution within the EEA.

97. Consideration must also be paid to the balancing of interests, which forms the basis of the exhaustion principle, under which, regard being had to the interests of free movement, the right conferred by a trade mark may not be exercised to a degree going beyond what is necessary to safeguard the rights which form the specific subject-matter of the right conferred by the trade mark.

98. Should the trade mark proprietor lose the power to dispose of the goods in question before they are first marketed in the EEA, as in the case of parallel imports from non-member countries, he may possibly attempt to control the distribution of his products at the time when they are actually first placed on the market, whether by agreeing on sales bans, territorial restrictions on the purchaser's rights of disposal, export bans, and so on. Depending on the form of these measures of distribution policy taken by the trade mark proprietor, they may, however, give rise to legitimate expectations on the part of the other contracting parties which merit protection. Such reliance on the legal transaction would have to be taken into account in the necessary balancing between the demands of trade mark protection and the interests of free movement, so that, although in such cases invocation of the trade mark rights must in principle be granted in accordance with the principle of Community-wide exhaustion of rights, the trade mark proprietor may not act at variance with his own conduct when the products were actually first placed on the market.

99. In the case of parallel imports from non-member countries, the trade mark proprietor's consent to placing the products in issue on the market in the EEA therefore consists of the waiver of his exclusive right to control distribution within the EEA. It is a matter for the national court, having regard to the abovementioned aspects of Community law, to examine whether the trade mark proprietor's conduct can, in the light of all circumstances of the individual case, be construed as constituting a waiver of this kind.

100. The result of such an examination would, however, require to be brought into line with the principle of Community-wide exhaustion of rights under Article 7(1) of

the Trade Marks Directive to the extent to which it may not be made practically impossible for the trade mark proprietor, through the adoption of an abnormally low standard in regard to acceptance of waiver, to rely on his exclusive right when the goods are first placed on the market in the Community or the EEA. In that regard, it also appears necessary to examine so-called 'presumptions of consent'.

102. In view of the proposed interpretation of the concept of consent under Article 7(1) of the Trade Marks Directive, comments on the questions concerning Article 7(2) are by way of alternative submission. That notwithstanding, the Commission's argument on the relevance of Article 7(2) in particular seems to merit discussion because it touches on a fundamental schematic question.

B — *The interpretation of Article 7(2) of the Trade Marks Directive*

103. In the Commission's view, Article 7(2) of the Trade Marks Directive is not applicable to the facts of the national proceedings in that there would be no 'further commercialisation' within the meaning of that provision to the extent to which the trade mark proprietor is treated as having consented to the marketing of the goods in question in the EEA. Article 7(2) cannot, it contends, be used to oppose the initial placing of goods on the market in the EEA.

101. The Court is being asked in Case C-414/99 also to state its views on the interpretation of Article 7(2) of the Trade Marks Directive. In the event that Davidoff must be treated as if its rights were exhausted under Article 7(1) of the Trade Marks Directive, the question arises as to whether it may be justified in pleading legitimate reasons under Article 7(2), particularly in view of the removal of the batch code numbers — ostensibly provided for under the cosmetics directive —, in order to be able to oppose parallel imports from non-member countries.

104. It must be noted in this connection that the placing of goods on the market within the meaning of Article 7(1) — regardless of the issue of consent — does not relate to sale to the end user but to the transfer of the immediate power to dispose of the products concerned. In the case of parallel imports from non-member countries it is necessary, on the one hand, to examine whether the trade mark proprietor

has consented to the importation of the products into the EEA; if he has, it will, however, also be necessary, on the other hand, to examine whether he can, on the basis of Article 7(2), oppose further commercialisation of the products within the EEA — in general this will concern the sale to end users. In so far as the Commission states merely that 'further commercialisation' within the meaning of Article 7(2) necessarily relates to a transaction after the goods have been placed on the market with the consent of the trade mark proprietor, it does not explain that Article 7(2) would in principle not be applicable to cases such as those here in issue.

105. Considered in this light, it may well be necessary to examine the interpretation of the term 'legitimate reasons'. It can be deduced from the scheme and purpose of the provision that Article 7(2) is linked to the assessment outlined above. [60] In so far as the trade-marked products have been placed in circulation in the EEA by the trade mark proprietor or with his consent, the trade mark proprietor will be in a position to oppose use of the trade mark under Article 7(2) only if further commercialisation would affect the essential function of the trade mark in a way which the trade mark proprietor could not be expected to tolerate.

60 — See point 80 et seq. above.

106. Davidoff has not argued in the national proceedings that the marketing of the products in question by an unauthorised importer would involve damage to the reputation of its trade marks. It pleaded that the reputation of its trade marks is damaged through the removal of batch code numbers.

107. In such circumstances, therefore, the parallel importer's interest in distribution which is as free as possible — with the 'leaky' position in the distribution chain remaining secret to the maximum degree — stands in opposition to the trade mark proprietor's interest in safeguarding the rights which form the specific subject-matter of the trade mark: for the purpose of balancing these interests, account has to be taken of the essential function of the trade mark, namely to guarantee to the consumer or end user the identity of origin of the goods bearing it, by enabling that consumer or end user, without any danger of confusion, to distinguish those goods from others of different origin. This guarantee of origin means that the consumer or end user can be certain that a trade-marked product offered to him has not been subject at a previous stage of marketing to interference by a third party, without the authorisation of the trade mark proprietor, in such a way as to affect the original condition of the product. [61]

61 — Judgment in Case C-349/95 *Loendersloot* [1997] ECR I-6227, paragraph 24, with reference to the judgments in Case 102/77 *Hoffmann-La Roche* [1978] ECR 1139, paragraph 7, and in Joined Cases C-427/93, C-429/93 and C-436/93 *Bristol-Myers Squibb and Others*, cited in footnote 38, paragraph 47.

108. The referring court essentially submits three questions regarding legitimate reasons within the meaning of Article 7(2) of the Trade Marks Directive: the first two concern the reputation of the trade mark, while the third asks whether and under what circumstances the removal or obliteration of a batch code number ostensibly affixed pursuant to a statutory obligation can be treated as a legitimate reason.

1. Damage to the reputation of the trade mark

109. In its judgment in *Parfums Christian Dior*[62] the Court held 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 the Directive, 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. According to the case-law of the Court concerning the repackaging of trademarked goods, the owner of a trade mark has a legitimate interest, related to the specific subject-matter of the trade mark right, in being able to oppose the commercialisation of those goods if the presentation of the repackaged goods is liable to damage the reputation of the trade mark... 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'.[63]

110. The judgment in *Parfums Christian Dior* concerned the use of a trade mark for advertising purposes. In *Bristol-Myers Squibb and Others*,[64] the Court followed the same line of reasoning in regard to the repackaging of products for purposes of sale:

'Even if the person who carried out the repackaging is indicated on the packaging of the product, there remains the possibility that the reputation of the trade mark, and thus of its owner, may nevertheless suffer from an inappropriate presentation of the repackaged product. In such a case, the trade mark owner has a legitimate interest, related to the specific subject-matter of the trade mark right, in being able to oppose the marketing of the product. In assessing whether the presentation of the repackaged product is liable to damage the reputation of the trade mark, account must be taken of the nature of the product and the market for which it is intended.'

62 — Judgment in Case C-337/95 *Parfums Christian Dior* [1997] ECR I-6013.

63 — Cited in footnote 62, paragraph 43 et seq.

64 — Cited in footnote 38, paragraph 75.

111. It may further be inferred from the judgment in *Parfums Christian Dior* that damage to reputation will be treated as a legitimate reason only if it is serious. [65]

112. Serious damage to the reputation of a trade mark is thus recognised in the Court's case-law as constituting a legitimate reason for the purposes of Article 7(2).

2. Removal or obliteration of batch code numbers

113. The essential question here is whether Article 7(2) of the Trade Marks Directive covers removal or obliteration of batch code numbers, which, it would appear, must be affixed pursuant to the provisions implementing Directive 76/768/EEC on pain of criminal proceedings.

114. The Court has already had the opportunity to set out its views on a similar issue in the *Loendersloot* judgment. In comparable fashion to the national proceedings here in Case C-414/99, the trade mark proprietor in *Loendersloot* invoked a labelling obligation under Community law, whereas the parallel importer stressed the need to remove or obliterate the identification numbers in order to carry out the parallel imports. The Court commented as follows on those issues: [66]

'It must also be acknowledged, however, that for the producers application of identification numbers may be necessary to comply with a legal obligation, in particular under Council Directive 89/396/EEC of 14 June 1989 on indications or marks identifying the lot to which a foodstuff belongs (OJ 1989 L 186, p. 21), or to realise other important objectives which are legitimate from the point of view of Community law, such as the recall of faulty products and measures to combat counterfeiting.

... where identification numbers have been applied for [specified] purposes..., the fact that an owner of trade mark rights makes use of those rights to prevent a third party from removing and then reaffixing or replacing labels bearing his trade mark in order to eliminate those numbers does not contribute to artificial partitioning of the markets between Member States. In such situations there is no reason to limit the rights which the trade mark owner may rely on under Article 36 of the Treaty.'

65 — Cited in footnote 62, paragraphs 46 and 47.

66 — Judgment cited in footnote 61, paragraphs 41 and 42.

115. Here also transposition of the assessment would appear to merit discussion since the legal framework in the present cases is to be sought in Article 7 of the Trade Marks Directive and not in Article 36 of the EC Treaty (now, after amendment, Article 30 EC). The Commission does not regard this as being an obstacle and refers in this connection to the established case-law of the Court which has already been discussed. [67] However, in so far as that case-law focuses on the restriction of trade between the Member States and on the intention artificially to partition markets, a direct application of the points there held to be conclusive to the circumstances obtaining in the present proceedings would not appear to be possible.

116. In accordance with the relationship outlined between the free movement of goods and the exercise of the rights deriving from the trade mark, [68] the exercise of these latter rights under Article 7(2) in the context of trade within the Community is understood as an exception to the free movement of goods which is permissible only so long as it is justified for the safeguarding of rights constituting the specific subject-matter of the right conferred by the trade mark. To that extent the national court is also required to examine whether the exercise of the right conferred by the trade mark pursues a justified objective with proportionate means.

117. This argument appears to be transposable to parallel imports of branded goods from non-member countries. In the conflict between the rights of the trade mark proprietor and the interest of the person purchasing the products, exercise of the trade mark rights would appear to be justified only if it is necessary in order to safeguard the rights which form the specific subject-matter of the right conferred by the trade mark. Consequently, it would also be necessary in the present case, in accordance with the evaluation carried out in the *Loendersloot* judgment, to examine how far removal or obliteration of the batch code numbers affects the guarantee of origin, impacts adversely on the original condition of the products concerned, and damages the reputation of the trade mark. As the case-law stands at present, there must in these cases be a corresponding degree of seriousness. [69] Examination as to whether these conditions have been satisfied in an individual case is, however, a matter for national courts.

118. Finally, a question arises as to how the removal or obliteration of the batch code numbers is to be assessed in isolation. So far as can be ascertained, these numbers must be affixed in order to ensure compliance with a statutory obligation deriving from a directive, and the removal or

67 — Cited in footnote 50.

68 — See point 82 above.

69 — The question of the degree of seriousness, which thereby remains open, and of the possible absence of seriousness is in issue in Case C-143/00, at present pending before the Court.

obliteration of these numbers was not accompanied by any further measure, such as, for instance, relabelling or repackaging.

119. In his Opinion in *Loendersloot*, Advocate General Jacobs noted: [70] 'It is clear that the removal of such identification numbers cannot be resisted by virtue of trade-mark rights taken alone.' The Court, however, focused conclusively on the fact that the affixing of an identification number in compliance with a statutory obligation or pursuant to some other — from the Community-law perspective — legitimate objective cannot constitute an artificial partitioning of the markets between Member States.

120. Since in the present case the last-mentioned factor cannot play any role, the removal or obliteration of batch code numbers affixed in compliance with a statutory obligation may be of relevance for purposes of trade mark rights only if it would have a disproportionately adverse effect on the specific subject-matter of the trade mark right.

121. As the Commission has correctly pointed out, there is none the less an unmistakable connection between the reputation of a trade mark meriting protection and a recall of potentially defective or substandard products which is facilitated by the obligation to affix batch code numbers. In the interests of the good reputation of the trade-marked products, the trade mark proprietor has a legitimate interest in being able to remove such products from circulation. Consequently, it would also be necessary in the national proceedings to examine whether the damage to the reputation of the trade mark is rendered — sufficiently — serious by the removal or obliteration of the prescribed batch code numbers. An infringement of the cosmetics directive [71] would be relevant in the context of trade mark rights only under this aspect.

122. It must remain open whether the legitimate reasons which would justify a trade mark proprietor in opposing further commercialisation within the EEA of products bearing the trade mark may include third-party removal or obliteration (in whole or in part) of marks identifying the products only because this constitutes a criminal offence. So far as can be ascertained, the order for reference does not indicate whether the trade mark proprietor would incur criminal liability if the identifying mark prescribed by the cosmetics directive were absent and he had not himself brought the trade-marked products into circulation within the EEA.

70 — Cited in footnote 61, paragraph 43.

71 — Cited in footnote 6.

IV — Conclusion

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

In Cases C-414/99, C-415/99 and C-416/99

(1) The consent of a trade mark proprietor to the placing on the market of products bearing the trade mark within the meaning of Article 7(1) of the Trade Marks Directive relates to the possibility of the trade mark proprietor's exercising control over the first instance in which those products are placed on the market or distributed within the EEA.

(2) If the first instance in which the products bearing the trade mark are placed on the market and their initial distribution within the EEA do not coincide, the trade mark proprietor may, when those products are first placed on the market, control their initial distribution within the EEA by waiving his exclusive right to control distribution.

(3) It is for the national court, in compliance with the provisos of Community law and having regard to all the circumstances of the individual case, to determine whether, when the products concerned were in fact first placed on

the market, the trade mark proprietor had waived his exclusive right to control distribution within the EEA. In this regard, Article 7(1) of the Trade Marks Directive in principle precludes a national rule which constitutes a general presumption of waiver or is equivalent to such a presumption;

and, alternatively, in Case C-414/99

(4) On a proper construction of Article 7(2) of the Trade Marks Directive, the legitimate reasons which justify a trade mark proprietor in opposing further commercialisation of products bearing the trade mark include any actions of third parties which seriously affect the value, allure or image of the trade mark or the products which bear that mark.

(5) On a proper construction of Article 7(2) of the Trade Marks Directive, the legitimate reasons which justify a trade mark proprietor in opposing further commercialisation of products bearing the trade mark do not include the actions of third parties or circumstances which do not affect the rights constituting the specific subject-matter and essential function of the rights conferred by the trade mark.