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INTERNATIONAL EXHAUSTION OF TRADE MARK RIGHTS

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Working Party on the Community Trade Mark

III/ex XI/C/270-77-E

At the second meeting of the working Party of Experts on the Community trade mark, discussion took place on whether the future Community system of trade mark law should contain provisions providing for the exhaustion of rights arising under the Community trade mark even where proprietary goods are first placed on the market by the proprietor of the trade mark or with his consent outside the Community (principle of international exhaustion).

In order to answer this question, it is necessary, to find out whether the introduction of international exhaustion is essential on grounds of Community law, as a consequence of the function of trade marks or for reasons relating to commercial policy.

#### I. State of Community Law

1. It was clearly stated in the judgment of the Court of Justice of 15 June 1976 in the EMI/CBS case (cases 51, 86 and 96/5) that the provisions of the EEC Treaty relating to the free movement of goods (Article 30 et seq.) apply only in respect of the movement of goods between Member States, and that the sales of proprietary goods from a non-Member State are not subject to these rules.
2. However, it might be asked whether the above statement also applies to imports from non-Member States with which the Community has concluded international agreements incorporating the actual wording of Articles 30 and 36, such as those concluded with Switzerland, Austria, Sweden and the ACP States <sup>1)</sup>.

It is not yet possible to give a conclusive answer. However, it would appear for the following reasons that there is no legal obligation to recognise the principle of international exhaustion as being limited to those States.

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<sup>1)</sup> e.g. The agreement with Switzerland (OJ No L 300, 31 December 1972, p. 188 et seq):

Article 13 (1) In trade between the Community and Switzerland, no new quantitative restrictions on imports or measures having equivalent effect shall be introduced.

(2) Quantitative restrictions on imports shall be abolished on 1 January 1973 and measures having equivalent effect not later than 1 January 1975.

The wording of Article 20 corresponds to that of Article 36 of the EEC Treaty.

- a) Provisions relating to the free movement of goods are contained in Part Two of the EEC Treaty under the heading "Foundations of the Community". The Court of Justice has always based its judgments concerning the exercise of industrial property rights on the principle that in a common market, splitting up the national markets of the Member States is, by virtue of Article 30 et seq, inadmissible. The sole objective behind the judgments of the Court of Justice is therefore the creation of a unitary common market also in the field of the protection of industrial property rights.
- b) The purpose of the agreements referred to above is not to establish a common market with those non-Member States. The limited objectives of these agreements precludes the same interpretation from being placed on the provisions of those agreements which correspond to Article 30 et seq as that placed by the Court of Justice on Article 30 et seq of the EEC Treaty with regard to the Common Market itself. The Advocate-General based his final submissions in the EMI/CBS case on similar reasoning.
- c) The remarks by the Court of Justice itself in the above case are not so unequivocal. It notes in points 18 and 19 of the grounds for its judgment that measures laid down by the Community in certain agreements form part of a commercial policy and are not carried out in pursuance of an obligation imposed on the Member States under the Treaty. It also states that "The binding effect of commitments undertaken by the Community with regard to certain countries cannot be extended to others". This sentence could give rise to doubts with regards to the view put forward here.

On the other hand, the judgment by the Court of Justice in case 51-54/71, in which it was called upon to give a decision in a similar case must also be noted. The question to be decided was whether the prohibition on licences for imports between Member States contained in Article 30 et seq of the EEC Treaty also applied to licences for imports of fruit and vegetables from non-Member States, in respect of which the application of quantitative restrictions or measures having equivalent effect was prohibited by Article 1 of Regulation (EEC) No 2513/69 (OJ No L 318, 18 December 1969). In its judgment of 15 December 1971, the Court stated that it was clear from the Treaty that

the two provisions should be kept separate. In trade with non-Member States, the application of quantitative restrictions and measures having equivalent effect constituted a means of achieving a common commercial policy pursuant to Article 113. Import licences could therefore be required in pursuance of that policy.

d) The same problems also arise in the field of patent law. There has up to now never been any doubt with regard to the compatibility of the provisions of the agreements referred to above between the Community and non-Member States and the provisions of the Luxembourg Patent Convention, which provide that rights arising under the Community patent shall be exhausted only where the goods in question are marketed in a Member State.

3. However, account should be taken of the fact that the Court has stated in the EMI/CBS case that provisions in licencing agreements whereby an undertaking agrees in a non-Member State not to market proprietary goods in the Common Market may be prohibited under Article 85. However, such a prohibition on contractual restrictions on exports does not preclude the proprietor of a Community trade mark from bringing an infringement action. It might be contended that this constitutes an abuse of the right arising under the trade mark, since it would represent an obstacle to the implementation of the competition provisions of the EEC Treaty. However, such a view could probably not be entertained, since it would restrict the freedom, recognized by the Court, of the law-making institutions of the Community to formulate a common commercial policy towards non-Member States.

## II. Function of the trade mark

1. If one starts with the assumption that Community law does not require the introduction of the principle of international exhaustion, then the question arises whether this principle is not a necessary result of the function of the trade mark, as recognised by all the government experts and as set out in the Commission Memorandum, of providing a guarantee that the goods in question originate from a particular undertaking. If this is its function, the proprietor of a Community trade

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mark should not be allowed to prevent imports of goods from non-Member States where they were lawfully provided with the trade mark by him or with his consent.

The authors of the 1964 Preliminary Draft clearly intended that the trade mark's function of showing the origin of the goods precluded the granting of such an extensive right. Decisions by national courts inside and outside the Common Market are also based on the principle of international exhaustion. These decisions by national courts without exception relate to cases in which goods are imported from a country in which the proprietor of the trade mark himself, or an undertaking with which he has an economic relationship, has produced the goods and provided them with the trade mark. It would appear impossible to prohibit imports of genuine branded products originating from the proprietor of the trade mark on grounds relating to trade mark law. In such cases, the public will not be deceived either as to the origin or as to the consistent quality of the goods.

2. However, there are no known judgments prohibiting the proprietor of a trade mark from preventing the importation of goods originating from a licensee in a non-Member State by means of an infringement action. The public could in particular be deceived in cases where quality controls are not or cannot be carried out.

The question therefore arises whether the objections put forward against the introduction of international exhaustion could be dealt with by allowing only such goods sold under licence to be freely imported which have been subject to strict quality controls by the licensor and which in any case bear a licensing notice which is capable of informing the consumer, e.g. in the case of imports from developing countries, that these are proprietary goods of different or lesser quality.

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III. Considerations relating to commercial policy

The arguments put forward in II. above suppose that international exhaustion falls within the scope of the trade mark's function of indicating the origin of the goods. However, these considerations alone are not sufficient to determine whether one solution or the other should be adopted. It cannot be ruled out that the Community will for reasons relating to the common commercial policy, adopt unilateral measures whenever reciprocity is not guaranteed. Thus it might be necessary for reasons of commercial policy not to make any unilateral concessions to the developing countries now at the negotiations at present being carried on at the world Intellectual Property Organization in connection with the revision of the Paris International Convention. However, it would seem impossible, in view of the particularly close economic ties with non-Member States such as Switzerland or Austria, whose case law is based on the concept of international exhaustion, to introduce new trade restrictions by means of Community trade mark law.