

Current Intelligence

Trade marks

■ Davidoff criteria for exhaustion apply also if goods were first marketed within the EEA

Makro Zelfbedieningsgroothandel CV and others v Diesel SpA, Case C-324/08, Court of Justice of the European Communities (ECJ), 15 October 2009

The ECJ rejected a suggestion put forward by the Dutch Supreme Court (Hoge Raad) that with respect to goods originating within the European Economic Area, the trade mark owner's implicit consent (leading to exhaustion) should not be tested under the strict criteria set out in the *Davidoff* decision but under more lenient criteria to be found in case law predating the Trade Mark Directive.

Legal context

A trade mark confers on the owner the right to prevent others from using the mark in the course of trade, such as by offering goods for sale or importing them under that trade mark. In the early days of the European Community, it was recognized that companies could use national trade marks in various Member States to partition the market, thus hindering the free movement of goods. A balance between the free movement of goods and the protection of IP rights was struck by the ECJ: a trade mark owner would not be allowed to prevent importation of goods which had been marketed in the Member State of origin either by himself or with his consent.

Such a principle of exhaustion would not affect the 'specific subject matter' of the trade mark right as the owner would still be the first to market the goods under the trade mark, nor would it affect the main function of the trade mark of guaranteeing to consumers the origin of the goods, in that they have been manufactured under the control of a single undertaking which is responsible for their quality. In several decisions (summarized in *IHT Danzinger v Ideal-Standard*, Case C-9/93), the ECJ ruled that the exhaustion principle would not only apply to a single owner holding various trade marks, but also to situations where separate entities were economically linked, for example, by belonging to the same group or being under a licensing arrangement.

The principle of exhaustion was codified in the Trade Mark Directive (Article 7), which specified that it applied to goods marketed within the Community (and later, the EEA). Several references called upon the ECJ to clarify

this article and a consistent case law was developed. In *Davidoff* (Case C-414/99), the ECJ ruled that the trade mark owner's consent, having serious effect in extinguishing his exclusive rights, must be so expressed that an intention to renounce those rights is unequivocally demonstrated. Such intention will normally be gathered from an express statement of consent, but may also 'be inferred from facts and circumstances prior to, simultaneous with or subsequent to the placing of the goods on the market outside the EEA'. The ECJ made it clear that such implicit consent would be very difficult to prove in practice, by listing numerous circumstances (such as the trade mark owner being silent on the issue) which would not suffice.

Facts

Diesel SpA, known for its fashionable clothes and shoes, had the Spanish company Difsfa as its distributor in Spain, Portugal, and Andorra. Difsfa granted Flexi Casual exclusive selling rights in this territory for several goods including shoes with the DIESEL word mark, and a not very clearly formulated right to conduct 'market tests' with shoes of its own design under that mark. A manager of Flexi Casual then granted yet another company (Cosmos) a broader right to manufacture shoes under the DIESEL trade mark, which it started to do. Cosmos sold some of its shoes to other Spanish companies, which resold them to Makro, a wholesaler selling through its own supermarkets, in the Netherlands. Diesel relied on its Benelux word mark DIESEL to request an injunction in the Dutch courts, which was granted and upheld on appeal.

Analysis

The key question in the *Makro/Diesel* litigation was whether Diesel had given its implicit consent to putting the shoes manufactured by Cosmos on the market in Spain. The Dutch Court of Appeal applied the criteria set out in *Davidoff*, analysed the various contracts, and concluded that Diesel had not given such consent. Makro then argued before the Hoge Raad that the criteria developed in *Davidoff* should only apply to goods which had first been put on the market outside the EEA, but not to goods first marketed within the EEA. The Hoge Raad was sufficiently persuaded for it to make a reference to the ECJ, while carefully explaining the underlying reasoning. This may be summarized as follows.

At the time of introduction of the Trade Mark Directive, there was a certain *acquis communautaire* regarding exhaustion which (i) grew out of cases regarding trade between member states and (ii) related its criteria mainly

to realizing the main function of trade marks, ie an indication of origin and guarantee of quality. With the introduction of Article 7 of the Trade Mark Directive, a new situation arose, in that a trade mark owner could first put his goods on the market outside the EEA and still prohibit importation into the EEA. New criteria were developed in *Davidoff* and other case law which were stricter than before, to ensure enjoyment of this right to control the first marketing within the EEA. But should the *Davidoff* criteria for (implicit) consent also apply to goods first marketed within the EEA and, if not, could the relevant criteria be found in the older *acquis communautaire* (as set out in *IHT Danzinger*)? Such criteria would, according to the Hoge Raad, without a doubt be more lenient or, put differently, would more readily lead to exhaustion.

The ECJ rejected this suggestion with, essentially, three arguments:

1. The intention of the trade mark owner to renounce his rights must be unequivocally demonstrated and will normally be gathered from an express statement of his consent. However, '*the requirements deriving from the protection of the free movement of goods have led the court to hold that such a rule can be qualified*'. First, exhaustion can occur when the goods are put on the market by an operator with economic links to the trade mark owner. Secondly, even if the goods were first put on the market by a person having no economic link to the trade mark owner and without his express consent, the intention to renounce his rights may result from the trade mark owner's implied consent, which can be inferred on the basis of the *Davidoff* criteria. Thus the ECJ explicitly unites the old and new case law in one conceptual framework. Express consent is the norm; involvement of an entity linked to the trade mark owner (*IHT Danzinger*) and implicit consent (*Davidoff*) are both qualifications in the interest of the free movement of goods.
2. Nothing in the *Davidoff* judgment leads to the conclusion that the criteria set out there would apply only in the factual context of that case.

3. The distinction suggested by the Hoge Raad would run counter to the system established by the Directive. The Community rule of exhaustion applies only to goods which have been put on the market in the EEA with the trade mark owner's consent. Marketing outside the EEA does not have an exhaustive effect, so what is important is only the fact that the goods in question have been marketed in the EEA.

Thus the ECJ chose to adopt a straightforward approach and to neutralize the differences a careful reader might find between the case law developed before and after the introduction of the Trade Mark Directive. It is a pity the ECJ did not really address the main point raised by the Hoge Raad, ie that the high bar set for implicit consent by *Davidoff* seems legitimate if one wants to allow the trade mark owner to control the first marketing of his goods in the EEA even if he has already marketed them elsewhere, but less so if the goods originated in the EEA.

The answer of the ECJ is that the consent of a trade mark owner to the marketing of goods bearing his mark carried out directly in the EEA by a third party may be implied,

in so far as such consent is to be inferred from facts and circumstances prior to, simultaneous with or subsequent to the placing of the goods on the market in that area which, in the view of the national court, unequivocally demonstrate that the proprietor has renounced his exclusive rights.

Practical significance

This decision clarifies the ECJ's conceptual framework when dealing with exhaustion, in particular in the grounds for the decision numbered 22–25. It confirms that the *Davidoff* criteria for implied consent apply to all goods, regardless where they were first put on the market.

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