

**European Court of Justice, 30 November 2004, Peak Holding****TRADEMARK LAW****Exhaustion – put on the market**

- **Goods cannot be regarded as having been put on the market where the proprietor of the trade mark has imported them, without actually selling them**

Article 7(1) of the Directive must be interpreted as meaning that goods bearing a trade mark cannot be regarded as having been put on the market in the EEA where the proprietor of the trade mark has imported them into the EEA with a view to selling them there or where he has offered them for sale to consumers in the EEA, in his own shops or those of an associated company, without actually selling them.

**Exhaustion - prohibition on reselling**

- **A prohibition on reselling in the EEA does not mean that there is no putting on the market in the EEA**

In circumstances such as those of the main proceedings, the stipulation, in a contract of sale concluded between the proprietor of the trade mark and an operator established in the EEA, of a prohibition on reselling in the EEA does not mean that there is no putting on the market in the EEA within the meaning of Article 7(1) of the Directive and thus does not preclude the exhaustion of the proprietor's exclusive rights in the event of resale in the EEA in breach of the prohibition.

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**European Court of Justice, 30 November 2004**

(V. Skouris, P. Jann, C.W.A. Timmermans, A. Rosas and R. Silva de Lapuerta, C. Gulmann, J.-P. Puissechet, R. Schintgen and J.N. Cunha Rodrigues)

JUDGMENT OF THE COURT (Grand Chamber)

30 November 2004 (1)

*(Trade marks – Directive 89/104/EEC – Article 7(1) – Exhaustion of the rights conferred by a trade mark – Putting on the market of the goods in the EEA by the proprietor of the trade mark – Concept – Goods offered for sale to consumers and then withdrawn – Sale to an operator established in the EEA with the obligation to put the goods on the market outside the EEA – Resale of the goods to another operator established in the EEA – Marketing in the EEA)*

In Case C-16/03,

REFERENCE for a preliminary ruling under Article 234 EC from the Hovrätten över Skåne och Blekinge (Sweden), made by decision of 19 December 2002, received at the Court on 15 January 2003, in the proceedings

Peak Holding AB

v

Axolin-Elinor AB, formerly Handelskompaniet Factory Outlet i Löddeköpinge AB,

THE COURT (Grand Chamber),

composed of: V. Skouris, President, P. Jann, C.W.A. Timmermans, A. Rosas and R. Silva de Lapuerta, Presidents of Chambers, C. Gulmann (Rapporteur), J.-P. Puissechet, R. Schintgen and J.N. Cunha Rodrigues, Judges,

Advocate General: C. Stix-Hackl,

Registrar: H. von Holstein, Deputy Registrar,

having regard to the written procedure and further to the hearing on 24 March 2004,

after considering the observations submitted on behalf of:

- Peak Holding AB, by G. Gozzo, advokat,
  - Axolin-Elinor AB, by K. Azelius, advokat, and M. Palm, jur. kand.,
  - the Swedish Government, by K. Wistrand and A. Kruse, acting as Agents,
  - the Commission of the European Communities, by N.B. Rasmussen and K. Simonsson, acting as Agents,
- after hearing the **Opinion of the Advocate General** at the sitting on 27 May 2004,
- gives the following

**Judgment**

1 This reference for a preliminary ruling concerns the interpretation of Article 7(1) of First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks (OJ 1989 L 40, p. 1), as amended by the Agreement on the European Economic Area of 2 May 1992 (OJ 1994 L 1, p. 3) ('the Directive').

2 The reference was made in the course of proceedings between Peak Holding AB ('Peak Holding') and Axolin-Elinor AB ('Axolin-Elinor'), formerly Handelskompaniet Factory Outlet i Löddeköpinge AB ('Factory Outlet') at the material time, concerning the manner in which Factory Outlet marketed a consignment of clothing bearing the Peak Performance trade mark, of which Peak Holding is the proprietor.

**Legal background**

3 Article 5 of the Directive, entitled 'Rights conferred by a trade mark', reads as follows:

'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]:

...

(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 ... the goods under the sign;

...

4 Article 7 of the Directive, in its original version, entitled 'Exhaustion of the rights conferred by a trade mark', provided:

'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.

...'

5 In accordance with Article 65(2) of the Agreement on the European Economic Area ('the EEA') in conjunction with point 4 of Annex XVII to that Agreement, the original version of Article 7(1) of Directive 89/104 was amended for the purposes of that Agreement, the expression 'in the Community' being replaced by 'in a Contracting Party'.

#### **The main proceedings and the questions referred for a preliminary ruling**

6 Peak Holding, a company in the Danish group IC-Companys, is the proprietor inter alia of the trade mark Peak Performance. The right to use that trade mark was granted to Peak Performance Production AB ('Peak Performance Production'), a company associated with that group. That company produces and sells clothing and accessories under that trade mark in Sweden and other countries.

7 At the material time Factory Outlet, a company governed by Swedish law, carried out in shops in Sweden direct sales of clothing and other items, largely trade-marked goods which were parallel imports or reimports or were obtained outside the normal distribution channels of the proprietor of the trade mark concerned.

8 In late 2000, Factory Outlet marketed, in particular, a consignment of approximately 25 000 garments under the Peak Performance trade mark, after placing advertisements in the press offering the sale of those articles at half price.

9 The articles came from the Peak Performance collections for the years 1996 to 1998. They had been manufactured outside the EEA on behalf of that company and had been imported into the EEA in order to be sold there.

10 According to Factory Outlet, the garments offered for sale from 1996 to 1998 had been offered in shops belonging to independent resellers, while, according to Peak Holding, they had been offered in Peak Performance Production's shops.

11 In November and December 1999, all the garments in the consignment formed part of those offered for sale to final consumers in Copenhagen (Denmark) in the Base Camp store supplied by Carli Gry Danmark A/S, a sister company of Peak Performance Production. The consignment thus consisted of goods which had remained unsold after the sales.

12 Peak Performance Production sold that consignment to COPAD International ('COPAD'), an undertaking established in France. According to Peak Holding, the contract concluded on that occasion provided that the consignment was not to be resold in European countries other than Russia and Slovenia, with the exception of 5% of the total quantity, which could be sold in France. Factory Outlet contested the existence of such a restric-

tion, and submitted that, in any event, it had no knowledge of it when it purchased the consignment.

13 Factory Outlet asserted that it had acquired the consignment from Truefit Sweden AB, a company governed by Swedish law.

14 It is common ground that the consignment did not leave the EEA from the time when it left Peak Performance Production's warehouses in Denmark until it was delivered to Factory Outlet in Sweden.

15 Peak Holding, claiming that the conditions of marketing chosen by Factory Outlet, in particular its advertisements, infringed Peak Holding's trade mark rights, brought an action in the Lunds tingsrätt (Lund District Court) (Sweden) on 9 October 2000. It asked that court to order that Factory Outlet pay damages, that it be prohibited from marketing and selling the clothing and other articles from the consignment in question, and that those goods be destroyed.

16 Factory Outlet contended that Peak Holding's claims should be dismissed. It submitted that the goods at issue had been put on the market in the EEA by Peak Holding, so that it was not entitled to prohibit the use of the trade mark on the sale of the goods.

17 Factory Outlet submitted, first, that the goods had been put on the market by virtue of their import into the internal market by Peak Performance Production and of payment of the customs duties on them, with the intention of selling the goods in the Community. It submitted, second, that the goods had been put on the market by virtue of having been offered for sale by independent resellers. It submitted, third, that they had been put on the market by virtue of having been marketed by Peak Performance Production in its own shops and in the Base Camp store and that, in those circumstances, they had been offered to consumers. It argued, fourth, that, in any event, the goods had been put on the market by virtue of having been sold to COPAD, regardless of whether they had been sold with or without a restriction on reselling in the internal market.

18 Peak Holding disputed that the goods had been put on the market by or with the consent of the proprietor of the trade mark. It argued that, even if the trade mark rights had been exhausted by reason of the goods having been offered for sale in the Base Camp store, that exhaustion had been interrupted and the trade mark rights restored after the goods had been returned to the warehouses.

19 The Lunds tingsrätt dismissed the application, taking the view that the goods had in fact been marketed by reason of being made available to consumers in the Base Camp store and that the rights conferred by the trade mark could not have been restored after that had occurred.

20 Peak Holding appealed to the referring court against the judgment of the Lunds tingsrätt.

21 Since it considered that the outcome of the dispute between Peak Holding and Axolin Elinor depended on the interpretation of the expression 'put on the market' in Article 7(1) of the Directive, the Hovrätten över Skåne och Blekinge decided to stay the proceedings

and refer the following questions to the Court for a preliminary ruling:

‘1. Are goods to be regarded as having been put on the market by virtue of the fact that the proprietor of the trade mark:

(a) has imported them into the common market and paid import duty on them, with the intention that they be sold there?

(b) has offered them for sale in the trade mark proprietor’s own shops or those of a related company within the common market but a sale of the goods has not taken place?

2. If goods have been put on the market under one of the above alternatives and exhaustion of the trade mark rights thereby occurs without there having been a sale of the goods, can a trade mark proprietor interrupt exhaustion by returning the goods to a warehouse?

3. Are goods to be regarded as having been put on the market by virtue of the fact that they have been sold by the trade mark proprietor to another company in the internal market, if, upon the sale, the trade mark proprietor imposed a restriction on the buyer under which he was not entitled to resell the goods in the common market?

4. Is the answer to question 3 affected if the trade mark proprietor, upon selling the consignment to which the goods belonged, gave the buyer permission to resell a small part of the goods in the common market but did not specify the individual goods to which that permission applied?’

#### **The questions referred for a preliminary ruling**

##### **Question 1**

22 In the light of the circumstances of the main proceedings, the national court essentially asks, by its first question, whether Article 7(1) of the Directive must be interpreted as meaning that goods bearing a trade mark are regarded as having been put on the market in the EEA where the proprietor of the trade mark has imported them into the EEA with a view to selling them there or where he has offered them for sale to consumers in the EEA, in his own shops or those of an associated company, but without actually selling them.

##### **Observations submitted to the Court**

23 Peak Holding and the Commission submit that exhaustion of the rights conferred by the trade mark occurs only when the goods are sold in the EEA by or with the consent of the proprietor of the trade mark. The rights are not exhausted in the hypotheses referred to in the first question.

24 Axolin-Elinor submits that exhaustion of the rights of the trade mark proprietor occurs by virtue of the mere fact of importation, customs clearance and warehousing of the goods in the EEA with a view to sale. In the alternative, it argues that the rights conferred by the trade mark are exhausted when the proprietor of the mark offers the goods for sale to consumers, even if the offer is not taken up.

25 The Swedish Government submits that the different language versions of the Directive must be understood as requiring the proprietor of the trade mark to have taken a step directed towards the market for it to be

possible for goods to be regarded as having been put on the market.

26 Goods should not thus be regarded as put on the market in the EEA merely because they have been imported, cleared through customs, and then warehoused in the EEA by the proprietor, since none of those steps is directed towards the market.

27 Exhaustion occurs at the latest when the proprietor of the trade mark or a person who has acquired the right to use the mark offers the goods for sale to consumers in the EEA.

28 Exhaustion does not occur, by contrast, when the proprietor of the trade mark offers his goods in the EEA to resellers, since an offer to sell frequently relates only to a certain quantity of the goods in question. In such a case it is not possible to identify the goods in relation to which exhaustion has occurred. Moreover, an offer which is not followed by a transfer cannot be regarded as a sufficiently definitive disposal on the part of the proprietor.

29 Exhaustion occurs on an actual transfer to a reseller, provided that the transfer appears as a step directed towards the market. A transfer between companies within the same group should be regarded as an internal measure within the group which does not bring about exhaustion of the rights.

##### **Findings of the Court**

30 Articles 5 to 7 of the Directive effect a complete harmonisation of the rules relating to the rights conferred by a trade mark and accordingly define the rights of proprietors of trade marks in the Community ([Case C-355/96 \*Silhouette International Schmied\* \[1998\] ECR I-4799, paragraphs 25 and 29](#), and [Joined Cases C-414/99 to C-416/99 \*Zino Davidoff and Levi Strauss\* \[2001\] ECR I-8691, paragraph 39](#)).

31 The expression ‘put on the market’ in the EEA used in Article 7(1) of the Directive constitutes a decisive factor in the extinction of the exclusive right of the proprietor of the trade mark laid down in Article 5 of that directive (see [Case C-244/00 \*Van Doren + Q\* \[2003\] ECR I-3051, paragraph 34](#)).

32 It must therefore be given a uniform interpretation in the Community legal order (see, by analogy, [Zino Davidoff and Levi Strauss, paragraphs 41 to 43](#)).

33 The wording alone of Article 7(1) of the Directive does not make it possible to determine whether goods imported into the EEA or offered for sale in the EEA by the proprietor of the trade mark are to be regarded as having been ‘put on the market’ in the EEA within the meaning of that provision. The interpretation of the provision in question must therefore be sought with regard to the scheme and objectives of the Directive.

34 Article 5 of the Directive confers on the trade mark proprietor exclusive rights which entitle him inter alia to prevent any third party from importing goods bearing the mark, offering the goods, or putting them on the market or stocking them for these purposes. Article 7(1) contains an exception to that rule, in that it provides that the trade mark proprietor’s rights are exhausted where the goods have been put on the market in the EEA by him or with his consent (see [Zino Davi-](#)

[doff and Levi Strauss, paragraph 40](#), and [Van Doren + Q, paragraph 33](#)).

35 The Court has held that the Directive is intended in particular to ensure that the proprietor has the exclusive right to use the trade mark for the purpose of putting the goods bearing it on the market for the first time (see, inter alia, [Joined Cases C-427/93, C-429/93 and C-436/93 Bristol-Myers Squibb and Others \[1996\] ECR I-3457, paragraphs 31, 40 and 44](#)).

36 It has also held that, by specifying that the placing of goods on the market outside the EEA does not exhaust the proprietor's right to oppose the importation of those goods without his consent, the Community legislature thus allowed the proprietor of the trade mark to control the initial marketing in the EEA of goods bearing the mark (see [Case C-173/98 Sebago and Maison Dubois \[1999\] ECR I-4103, paragraph 21](#), [Zino Davidoff and Levi Strauss, paragraph 33](#), and [Van Doren + Q, paragraph 26](#)).

37 It has further stated that Article 7(1) of the Directive is intended to make possible the further marketing of an individual item of a product bearing a trade mark without the proprietor of the trade mark being able to oppose that (see [Case C-63/97 BMW \[1999\] ECR I-905, paragraph 57](#), and [Sebago and Maison Dubois, paragraph 20](#)).

38 It has held, finally, that for a trade mark to be able to fulfil its essential role in the system of undistorted competition which the EC Treaty seeks to establish, it must offer a guarantee that all the goods or services bearing it have been manufactured or supplied under the control of a single undertaking which is responsible for their quality (see, inter alia, [Case C-299/99 Philips \[2002\] ECR I-5475, paragraph 30](#)).

39 In the present case, it is not disputed that, where he sells goods bearing his trade mark to a third party in the EEA, the proprietor puts those goods on the market within the meaning of Article 7(1) of the Directive.

40 A sale which allows the proprietor to realise the economic value of his trade mark exhausts the exclusive rights conferred by the Directive, more particularly the right to prohibit the acquiring third party from reselling the goods.

41 On the other hand, where the proprietor imports his goods with a view to selling them in the EEA or offers them for sale in the EEA, he does not put them on the market within the meaning of Article 7(1) of the Directive.

42 Such acts do not transfer to third parties the right to dispose of the goods bearing the trade mark. They do not allow the proprietor to realise the economic value of the trade mark. Even after such acts, the proprietor retains his interest in maintaining complete control over the goods bearing his trade mark, in order in particular to ensure their quality.

43 Moreover, it should be noted that Article 5(3)(b) and (c) of the Directive, relating to the content of the proprietor's exclusive rights, distinguishes inter alia between offering the goods, putting them on the market, stocking them for those purposes and importing them. The wording of that provision therefore also con-

firms that importing the goods or offering them for sale in the EEA cannot be equated to putting them on the market there.

44 The answer to the first question must therefore be that Article 7(1) of the Directive must be interpreted as meaning that goods bearing a trade mark cannot be regarded as having been put on the market in the EEA where the proprietor of the trade mark has imported them into the EEA with a view to selling them there or where he has offered them for sale to consumers in the EEA, in his own shops or those of an associated company, without actually selling them.

#### Question 2

45 The second question is asked only if the answer to the first question is in the affirmative.

46 There is thus no need to answer it.

#### Question 3

47 By its third question, the national court essentially asks whether, in circumstances such as those of the main proceedings, the stipulation, in a contract of sale concluded between the proprietor of the trade mark and an operator established in the EEA, of a prohibition on reselling in the EEA means that there is no putting on the market in the EEA within the meaning of Article 7(1) of the Directive and thus precludes the exhaustion of the proprietor's exclusive rights in the event of resale in the EEA in breach of the prohibition.

#### Observations submitted to the Court

48 Peak Holding observes that the exhaustion provided for in Article 7(1) of the Directive presupposes a putting on the market by the proprietor himself or with his consent. Exhaustion thus requires the consent of the proprietor in either case. It does not therefore occur on a sale of the goods by the proprietor of the trade mark, if he stipulates that he retains his trade mark rights. In the event that that stipulation is not complied with, the goods have not been put on the market with the consent of the proprietor, so that exhaustion does not supervene.

49 Axolin-Elinor, the Swedish Government and the Commission submit that a stipulation such as that referred to in the third question does not prevent exhaustion, which takes place by operation of law. Such a stipulation cannot be relied on against third parties. Failure to comply with a prohibition on resale corresponds to a breach of contract, not an infringement of intellectual property rights. The legal effect of exhaustion as regards third parties is thus not left at the disposal of the contracting parties, whatever effects the agreement is supposed to have as regards the obligations. Any other interpretation would be contrary to the purpose of Article 7(1) of the Directive.

#### Findings of the Court

50 Article 7(1) of the Directive makes Community exhaustion subject either to a putting on the market in the EEA by the proprietor of the trade mark himself or to a putting on the market in the EEA by a third party but with the proprietor's consent.

51 It follows from the answer to the first question that, in circumstances such as those of the main proceedings,

putting on the market in the EEA by the proprietor presupposes a sale of the goods by him in the EEA.

52 In the event of such a sale, Article 7(1) of the Directive does not make exhaustion of the rights conferred by the trade mark subject in addition to the proprietor's consent to further marketing of the goods in the EEA.

53 Exhaustion occurs solely by virtue of the putting on the market in the EEA by the proprietor.

54 Any stipulation, in the act of sale effecting the first putting on the market in the EEA, of territorial restrictions on the right to resell the goods concerns only the relations between the parties to that act.

55 It cannot preclude the exhaustion provided for by the Directive.

56 The answer to the third question must therefore be that, in circumstances such as those of the main proceedings, the stipulation, in a contract of sale concluded between the proprietor of the trade mark and an operator established in the EEA, of a prohibition on reselling in the EEA does not mean that there is no putting on the market in the EEA within the meaning of Article 7(1) of the Directive and thus does not preclude the exhaustion of the proprietor's exclusive rights in the event of resale in the EEA in breach of the prohibition.

#### Question 4

57 The fourth question assumes that the answer to the third question is that the stipulation referred to in that question means that the goods have not been put on the market in the EEA in the event of resale in the EEA in breach of the territorial restriction agreed on.

58 There is therefore no need to answer it.

#### Costs

59 The costs incurred by the Swedish Government and by the Commission, which have submitted observations to the Court, are not recoverable. Since these proceedings are, for the parties to the main proceedings, a step in the proceedings pending before the national court, the decision on costs is a matter for that court.

#### On those grounds,

the Court (Grand Chamber) rules as follows:

1. Article 7(1) of First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks, as amended by the Agreement on the European Economic Area of 2 May 1992, must be interpreted as meaning that goods bearing a trade mark cannot be regarded as having been put on the market in the European Economic Area where the proprietor of the trade mark has imported them into the European Economic Area with a view to selling them there or where he has offered them for sale to consumers in the European Economic Area, in his own shops or those of an associated company, without actually selling them.

2. In circumstances such as those of the main proceedings, the stipulation, in a contract of sale concluded between the proprietor of the trade mark and an operator established in the European Economic Area, of a prohibition on reselling in the European Economic Area does not mean that there is no putting on the market in the European Economic Area within the meaning of Article 7(1) of Directive 89/104, as amended by the

Agreement on the European Economic Area, and thus does not preclude the exhaustion of the proprietor's exclusive rights in the event of resale in the European Economic Area in breach of the prohibition.

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#### OPINION OF ADVOCATE GENERAL

STIX-HACKL

delivered on 27 May 2004 (1)

Case C-16/03

Peak Holding AB

v

Axolin-Elinor AB

(Reference for a preliminary ruling from the Hovrätt över Skåne och Blekinge (Sweden))

(Trade marks – Directive 89/104/EEC – Article 7(1) – Exhaustion of rights conferred by the trade mark – Putting on the market in the EEA by the trade mark proprietor – Time and function of putting on the market)

#### I – Introduction

1. In the present case, the Court of Justice is once again called upon to interpret Article 7(1) of Directive 89/104/EEC (2) (hereinafter 'Directive 89/104') in relation to the principle of the EEA-wide exhaustion of the rights conferred by a trade mark.

2. In the main proceedings, marked goods were manufactured outside the EEA and imported into the EEA by the trade mark proprietor, or in any event by companies associated with the proprietor. Subsequent sales of those goods were made partly by the associated companies and partly by third parties, and it is not disputed that the sales were made within the EEA. The trade mark proprietor having brought proceedings for infringement of the mark with a view to exercising control over those sales within the EEA, the national court raised the question whether, and if so from what time, the rights of the proprietor are or were to be treated as exhausted.

3. Against that background, the national court is essentially asking whether the mere importation of the marked goods into the EEA is to be regarded as the putting onto the market which gives rise to exhaustion, or whether this should instead be treated as occurring as a result of later acts of the trade mark proprietor.

#### II – Legal framework

4. Article 5 of the Directive provides in extract: 'Rights conferred by a trade mark

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 paragraphs 1 and 2:

...

(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;

...?.

5. Article 7 of the Directive is headed 'Exhaustion of the rights conferred by a trade mark'. Article 7(1) states:

'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.'

6. Under Article 65(2) in conjunction with paragraph 4 of Annex XVII to the Agreement on the European Economic Area, Article 7(1) of the Directive was amended for the purposes of the Agreement by substituting the words 'in a Contracting State' for the expression 'in the Community'.

### III – The facts, the main proceedings and the questions referred

7. Peak Holding AB (hereinafter 'Peak Holding') is the owner of a number of trade marks registered in Sweden or in the Community. The right to use the trade marks was transferred to a related company Peak Performance Production AB (hereinafter 'Peak Production'), which produces and sells garments and accessories under those trade marks in Sweden and abroad.

8. In September 2000, Handelskompaniet Factory Outlet i Löddeköpinge AB, the predecessor of Axolin-Elinor AB (hereinafter 'Axolin-Elinor'), offered a consignment of approximately 25 000 garments with Peak Holding's trade mark for sale to consumers in its stores, and advertised the offer in newspapers. The garments in the consignment were produced outside Europe on Peak Production's behalf. (3) They were imported into Europe for the purposes of sale and in 1996-1998 were included in Peak Production's standard range.

9. It is common ground between the parties to the main proceedings that 70% of those garments were displayed for sale to consumers in the stores during that period. While Axolin-Elinor claimed that those garments were displayed for sale in independent stores, Peak Holding submitted that the sales had been made in Peak Production's own stores.

10. In November and December 1999, all the garments in the consignment in question were available for sale to consumers in Copenhagen in Base Camp, the store supplied by Peak Production's sister company, Carli Gry Denmark A/S. Peak Production then sold the remainder of the garments to the French company COPAD International. Peak Production claims that it was a condition of the sale that the consignment should not be resold in countries in Europe other than Slovenia and Russia, except that 5% of the total quantity could be sold in France.

11. Axolin-Elinor expressly denies that any such restriction was agreed upon, and contends instead that it acquired the consignment from the Swedish company Truefit Sweden AB.

12. The parties do not dispute that the consignment in question did not leave the EEA from the time when it left Peak Production's warehouse in Denmark until it was delivered to Axolin-Elinor.

13. Asserting that the marketing that Axolin-Elinor had carried out infringed Peak Holding's trade mark right, Peak Holding brought an action in October 2000 before the Lunds tingsrätt (Lund District Court). The Tingsrätt dismissed the action, holding that the goods had been put on the market by virtue of the fact that they had been offered for sale to consumers in the Base Camp store and that the trade mark right could not be restored after that event. Peak Holding appealed against the judgment of the Tingsrätt to the Hovrätt över Skåne och Blekinge (Court of Appeal for Skåne och Blekinge).

14. As that court was of the opinion that an interpretation of Article 7(1) of Directive 89/104 was necessary for a resolution of the dispute, it decided to stay the proceedings and to refer the following questions for a preliminary ruling:

1. Are goods to be regarded as having been put on the market by virtue of the fact that the trade mark proprietor:

(a) has imported them into the common market and paid import duty on them with the intention that they be sold there?

(b) has offered them for sale in the trade mark proprietor's own shops or those of a related company within the common market but a sale of the goods has not taken place?

2. If goods have been put on the market under one of the above alternatives and exhaustion of the trade mark right thereby occurs without there having been a sale of the goods, can a trade mark proprietor interrupt exhaustion by returning the goods to a warehouse?

3. Are goods to be regarded as having been put on the market by virtue of the fact that they have been sold by the trade mark proprietor to another company in the internal market, if, upon the sale, the proprietor imposed a restriction on the buyer under which he was not entitled to resell the goods in the common market?

4. Is the answer to question 3 affected if the trade mark proprietor, upon selling the consignment to which the goods belonged, gave the buyer permission to resell a small part of the goods in the common market but did not specify the individual goods to which that permission applied?

### IV – Legal analysis

15. The first question asks in particular at what precise time goods bearing a trade mark are to be regarded as having been 'put on the market'. The second question appears to be supplementary to the first in that it applies if goods are to be regarded as having been put on the market as a result of the acts referred to by the national court in the first question. As the first two questions are closely connected, I should like to consider them together.

16. The third and fourth questions referred concern the relationship between the criterion of putting goods on the market and that of the consent provided for in

Article 7(1), with the fourth question merely addressing a particular form of that, possibly decisive, consent. Both questions should therefore be considered together.

#### **A – The first and second questions**

17. The first and second questions essentially require that a definition of the concept of putting on the market be provided that will enable it to be determined at what time goods bearing a trade mark are to be treated as if they had been put on the market in the EEA by the trade mark proprietor himself. That point is of great practical importance. On its solution will depend in particular the analysis under trade mark law of intra-group transactions (4) and of ancillary transactions. (5)

18. It should be noted at the outset that the rights conferred by a trade mark are stated in Article 5 of Directive 89/104 to be exclusive. Article 5(3) lists the rights of the trade mark proprietor in detail. Under Article 5(3)(b), those rights include the right to prohibit offering goods or putting them on the market under that sign or stocking them for those purposes. According to settled Community case-law, the fundamental rights of the proprietor include the right to control the place and time of the putting of goods on the market in the EEA of goods bearing the mark. (6)

19. The principle of Community-wide exhaustion embodied in Article 7(1) of Directive 89/104 represents a balancing of interests between the free movement of goods on the one hand and the exercise of the rights conferred by a trade mark on the other. Without that principle, the proprietor would have the right to prevent goods bearing the mark being put onto the market in a particular Member State where he himself or a third party with his consent had put the same goods on the market in another Member State. That would materially affect the functioning of the internal market. In the interests of a properly functioning internal market, the principle of Community-wide exhaustion, now contained in Article 7(1) of Directive 89/104, thus enables the principle of the territorial scope of the protection afforded by national trade marks to be overcome. (7) Because a balancing of interests is achieved, the trade mark proprietor is given the right to decide when the goods are put on the market in the EEA for the first time, (8) but is denied any trade mark control over the subsequent distribution of the goods.

20. A particular feature of the (partial) harmonisation of national trade mark laws under Directive 89/104 is that the principle of the Community-wide exhaustion of rights, which was originally developed in the context of the internal market, has also acquired importance for trade with non-Member States. (9) The Court of Justice has made it clear in that regard that the putting of goods on the market outside the EEA does not exhaust the trade mark proprietor's right to oppose the importation of those goods without his consent and has concluded from that that 'the Community legislature has allowed the proprietor of the trade mark to control the initial marketing in the EEA of goods bearing the mark' (10) without, however, examining the spirit and purpose of the principle of exhaustion beyond the – ir-

relevant in the context – considerations of the proper functioning of the internal market. (11)

21. It should lastly be noted at the outset that a strengthening of the rights of the trade mark proprietor, for example by deferring the time of the act which is deemed to amount to exhaustion, would in principle create new opportunities for restricting the free movement of goods within the EEA.

22. The answer to the first two questions relating to the criterion of putting on the market under Article 7(1) of Directive 89/104 requires that that provision be interpreted in accordance with the customary methods of interpretation. Those methods require that the suggested meanings proposed by the national court in the first question should be considered.

#### **Literal interpretation of Article 7(1) of Directive 89/104**

23. Notwithstanding any differences that there may be in the different language versions of Article 7(1) of Directive 89/104, (12) the Swedish Government rightly points out that, if one takes everyday language as a basis, the words used in the provision would mean that an act of the trade mark proprietor that is directed towards the market is necessary in any event if the criterion of putting on the market is to be regarded as satisfied. That is also confirmed by a historical consideration. In the leading case of *Centrafarm v Winthrop*, (13) the Court stated: 'Such an obstacle [to the free movement of goods] is not justified when the product has been put onto the market in a legal manner in the Member State from which it has been imported, by the trade mark proprietor himself or with his consent, so that there can be no question of abuse or infringement of the trade mark' (emphasis added).

24. It follows from the importance of the direction of the trade mark proprietor's act, that is to say towards the market, coupled with the exhaustion of rights conferred by the mark under Article 7(1) of Directive 89/104, that the wording of that provision, of itself, means that internal transactions, such as the transfer of goods bearing the mark to a retail subsidiary, or preparatory acts, such as the importation by the proprietor of goods from non-member countries which have been manufactured there on his behalf, cannot be considered to constitute the putting on the market of the goods bearing the mark.

25. As regards goods bearing the mark manufactured outside the EEA, it may also be observed that the trade mark proprietor need not necessarily, on their importation into the EEA, have yet decided how they are to be sold for the first time in the EEA. If the mere importation of and customs clearance on the initiative of the trade mark proprietor of goods bearing a trade mark were to be sufficient to exhaust the rights conferred by the mark, the proprietor would, in the final analysis, have no control over the first sale of the goods bearing the mark in the EEA.

26. If one therefore treats the mere importation into the EEA as being irrelevant to the question when goods are put on the market, the point remains open whether the offering of goods in the EEA amounts to their being

put on the market, or whether it is instead necessary that they be sold, or at least that power to dispose of them is transferred under an arrangement that is more than a provisional one, for them to be treated as having been put on the market.

27. It hardly seems possible to resolve this question on the basis of a literal interpretation of Article 7(1) of Directive 89/104, as both the offering and sale of the marked goods are acts which are ‘directed towards the market’. The best that could be stated – as, for example, the Swedish Government has observed – in the context of a literal interpretation is that to treat the relevant point as being the sale of the goods is not convincing, inasmuch as the goods are in fact taken off the market precisely because they are sold. Axolin-Elinor adopts a similar approach when it contends that the offering of goods in a shop clearly indicates that they are on the market.

#### **Systematic interpretation of Article 7(1) of Directive 89/104**

28. From a systematic point of view, it is necessary to give primary consideration to the relationship between Article 5(3) and Article 7(1) of Directive 89/104. Article 5(3)(b) provides that the trade mark proprietor may, *inter alia*, prohibit ‘offering the goods, or putting them on the market or stocking them for these purposes under that sign ...’. Those words suggest that a distinction is to be drawn between the mere offering of goods for sale and their being put on the market.

29. It is however open to question whether putting on the market under that provision is the same as the identical expression in Article 7(1). The fact that the same words are used and that both provisions distinguish between acts directed towards the market and those which are purely internal in character support that approach. (14) The fact that the provisions serve different purposes argues against such a uniform interpretation; while Article 5 contains detailed provisions governing the extent of the protection provided by the exclusive rights in the mark, Article 7(1) contains a restriction on those exclusive rights. (15)

30. A systematic interpretation of Article 7(1) of Directive 89/104 accordingly fails to provide a clear answer.

#### **Teleological interpretation of Article 7(1) of Directive 89/104**

31. The starting point for a teleological interpretation of Article 7(1) of Directive 89/104 is the balancing function of the principle of exhaustion of rights mentioned above. (16) Any interpretation must accordingly be discounted that would restrict the right of the trade mark proprietor to control the first putting on the market in the EEA of the goods bearing the mark. It should be noted at the same time that the limitations on the proprietor’s rights under Article 7(1) of Directive 89/104 not only serve the proper functioning of the internal market, but also assist legal certainty inasmuch as they prevent the proprietor having control over all subsequent sales, thereby enabling trade mark law to protect purchasers in good faith.

32. It is also necessary in the context of a teleological interpretation to ensure that the proprietor may exercise his exclusive rights to the extent mentioned (17) and may benefit economically from them, without legal certainty being threatened thereby.

33. It was stated above that those requirements would not be satisfied if the goods bearing the trade mark were to be treated as having been put on the market merely because of their being imported into the EEA. (18)

34. Although both the Commission and the Swedish Government accept that the opportunity to derive economic benefit from the mark is the determining factor, they draw different conclusions from the point. While the Commission is of the view that the economic benefit referred to can only arise when the goods bearing the mark are sold, the Swedish Government takes the view that it is sufficient that the trade mark proprietor be in a position to offer his goods to the public, as in such a case – irrespective of whether the goods are actually sold – he could in any event control the circumstances in which the first sale of the goods occurred.

35. The opinion of the Swedish Government can certainly be supported from an economic perspective, which would equate putting on the market with marketing in the sense of introducing the goods to the market, and thus also interpret the completion of the sale of the goods as leaving the market. If the market is defined as a place where services are freely traded for consideration, in which the price is established by supply and demand, then it must be pointed out that the interpretation favoured by the Swedish Government is by no means obligatory. Prices are established in the market through the interplay of supply and demand and are only finally set when goods are sold. There is thus something to be said in favour of the interpretation favoured by the Commission. Only that interpretation does justice to the concept of the market as a place in which services are freely traded for consideration. (19)

36. According to Axolin-Elinor, it can nevertheless not be disputed that goods offered in a shop have been put on the market. It is also the case that if the relevant point is treated as being the offer to final consumers, the principal function of the trade mark, that is to say the guarantee of origin, will be maintained.

37. There are many reasons why that approach is not convincing. Even if it must be accepted that an act directed towards the market is involved, the approach fails to give adequate consideration to the interests of the trade mark proprietor, as the protection of his investment in the mark cannot be realised in economic terms purely by offering goods bearing the mark for sale. (20)

38. Practical considerations are also against treating the offering of the goods as being the relevant point. Peak Holding argues in that regard that it is difficult to treat the offer for sale as being the relevant point, since, where goods are stored in warehouses, it is unclear which of them are subject to exhaustion. Reference should also be made in that context to the judgment in *Sebago and Maison Dubois*, (21) which states: ‘... the

rights conferred by the trade mark are exhausted only in respect of the individual items of the product which have been put on the market with the proprietor's consent in the territory there defined. The proprietor may continue to prohibit the use of the mark in pursuance of the right conferred on him by the Directive in regard to individual items of that product which have been put on the market in that territory without his consent'. It follows from that judgment that in order to decide whether exhaustion has occurred, it must be established in any event which particular goods have been put on the market – whether by the proprietor himself or with his consent. If it were sufficient for goods to be offered for them to be put on the market, it would be unclear how to apply the necessary tests with adequate legal certainty to goods stored in warehouses which may possibly not be intended for sale.

39. It should also be pointed out that to treat the time of the offer as being the relevant point would make it impossible to prevent parallel imports from non-member countries where the goods were in the EEA first of all and failed to find a buyer there. In *Silhouette International Schmied v Hartlauer Handelsgesellschaft*, (22) where those facts arose, the Court, as is well known, considered the permissibility of a national rule providing for the international exhaustion of trade mark rights, which in turn logically supposes that the rights conferred by a trade mark were not to be treated as already exhausted when goods are offered in a Member State.

40. If one therefore treats – from an economic point of view – the disposal of the goods bearing the mark as being the time which is relevant to their being put on the market, (23) it must finally be determined from a legal point of view whether a change of ownership is required. The order for reference suggests this, as the first question refers to there being no 'sale' of the goods. The Commission has also argued – particularly at the hearing – in favour of 'sale' as being the relevant factor.

41. It should be pointed out in that regard that a change of ownership also leaves open the question whether the trade mark proprietor can obtain an economic benefit from the mark. In other words, the change of ownership of the marked goods must be irrelevant if the necessary economic approach is to be followed. (24)

42. If a change of ownership is irrelevant, it becomes necessary to treat the transfer of the actual right of disposal of the goods as being the relevant point. Goods are accordingly put on the market when a third party, whose decisions in relation to the sale of the goods cannot be ascribed to the trade mark proprietor, for example because that third party is objectively independent, (25) has acquired the actual right of disposal of the goods.

43. I therefore propose that the answer to the first question should be that goods bearing a trade mark are not put on the market merely by reason of their importation into the EEA and customs clearance, nor by reason of their being offered for sale in shops belong-

ing to the trade mark proprietor or undertakings associated with him. Goods are instead put on the market in the EEA within the meaning of Article 7(1) of Directive 89/104, with the effect that the rights are exhausted, when an independent third party has acquired the right of disposal of the goods bearing the mark.

44. In the light of that proposed answer, it is no longer necessary to consider the second question.

#### **B – The third and fourth questions**

45. The last two questions essentially ask whether and to what extent a contractual expression of will by the trade mark proprietor with regard to the sale of the goods bearing the mark is relevant to the criterion of consent under Article 7(1) of Directive 89/104.

46. Underlying that question is the notion that if a breach of that contractual expression of will can be proved there would be no consent within the meaning of Article 7(1) of the Directive, so that the question whether the marked goods had been put on the market in the EEA would no longer be relevant.

47. It is clear from the order for reference that the trade mark proprietor Peak Holding wished the great majority of the remaining items to be sold in non-member countries. Peak Holding inserted a provision to that effect in the contract with the French company COPAD. The third and fourth questions are clearly inspired by Peak Holding's argument that the breach of that provision imposing a territorial restriction on sales would amount to a failure of consent within the meaning of Article 7(1) of Directive 89/104, thus precluding the exhaustion of the rights in the mark.

48. That approach misunderstands the legal nature of exhaustion as a restriction on the rights conferred by the mark which arises by operation of law, as the Swedish Government rightly submits. Both semantically and from the point of view of its spirit and purpose, the concept of exhaustion requires that a distinction be made between putting on the market by the trade mark proprietor himself and putting on the market by a third party – but with the proprietor's consent. (26) The concept of consent in Article 7(1) of Directive 89/104 represents a criterion of attributability which allows it to be established whether the putting on the market of goods in the EEA by a third party is to be attributed to the trade mark proprietor. (27)

49. Where the goods bearing the mark are put on the market in the EEA by the trade mark proprietor himself, exhaustion of rights arises by operation of law, irrespective of the contract between the proprietor and the purchaser. Breach of any territorial restrictions on sale which the proprietor may have imposed on a purchaser of the goods in relation to their sale in the EEA may give rise to claims under the contract, but is irrelevant in principle under trade mark law.

50. A reference also to the judgment in *Davidoff and Others* (28) alters nothing in that analysis. There, the Court held, *inter alia*, that 'a rule of national law which proceeded upon the mere silence of the trade mark proprietor would not recognise implied consent but rather deemed consent. This would not meet the need for consent positively expressed required by Community law'.

(29) It can indeed be concluded from that that the consent of the trade mark proprietor within the meaning of Article 7(1) of Directive 89/104, that is to say the consent to the putting of the goods on the market in the EEA by a third party, cannot be inferred merely from the absence of territorial restrictions on sale in the contract between the trade mark proprietor and his purchaser.

51. Whether, conversely, the insertion of a territorial restriction on sales in that contract excludes the consent of the trade mark proprietor within the meaning of Article 7(1) of Directive 89/104 as a matter of principle, however, is only relevant in so far as exhaustion is to be deduced from that consent. That question arises where goods are reimported from non-member countries. (30) Such issues do not arise in the main proceedings, where the question is only at what time the marked goods were put on the market in the EEA by the trade mark proprietor himself.

52. It is not necessary to consider whether the territorial restriction on sales in the contract between Peak Holding and COPAD is compatible with competition law, as that point is of no relevance in answering the third question.

53. As regards the fourth question, suffice it to observe that if the presence of a territorial restriction on sales is of no relevance to the question whether or not exhaustion arises in a case such as that in the main proceedings, (31) the same must apply a fortiori where that provision is used in a particular form.

54. The answer to the third and fourth questions should therefore be that where goods bearing the mark are sold to another undertaking within the EEA, it is irrelevant to the consideration of when exhaustion arises under Article 7(1) of Directive 89/104 whether and to what extent the trade mark proprietor has imposed territorial restrictions on sale on the purchaser.

#### V – Costs

55. The costs incurred by the Swedish Government and by the Commission, which have submitted observations to the Court, are not recoverable. Since these proceedings are, for the parties to the main proceedings, a step in the proceedings pending before the national court, the decision on costs is a matter for that court.

#### VI – Conclusion

56. I therefore propose that the Court should answer the questions referred as follows:

1. Article 7(1) of Directive 89/104/EEC is to be interpreted as meaning that goods bearing a trade mark are not put on the market merely by reason of their importation into the EEA and customs clearance, nor by reason of their being offered for sale in shops belonging to the trade mark proprietor or undertakings associated with him. Goods are instead put on the market in the EEA when an independent third party has acquired the right of disposal of the goods bearing a mark, for example as the result of a sale.

2. Where goods bearing a mark are sold to another undertaking within the EEA, it is irrelevant to the consideration of when exhaustion arises under Article

7(1) of Directive 89/104/EEC whether and to what extent the trade mark proprietor has imposed territorial restrictions on sale on the purchaser.

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1 – Original language: German.

2 – First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks (OJ 1989 L 40, p. 1).

3 – It is not possible to establish with certainty from the order for reference whether the word ‘Europe’ refers only to EEA Contracting States. It is assumed for the purposes of this Opinion that the consignment in question was manufactured outside the EEA.

4 – Is, for example, the exclusive right of the trade mark proprietor to be treated as exhausted where he has disposed of goods bearing the mark to a related company?

5 – Is, for example, the exclusive right of the trade mark proprietor to be treated as exhausted where he has delivered goods bearing the mark to a forwarding agent?

6 – And indeed, because of the principle of EEA-wide exhaustion, even if the goods were first put on the market by the trade mark proprietor outside the EEA – see Fezer, *Markenrecht*, Third edition, Munich, 2001, § 24 *Markengesetz*, point 93. For a critical analysis, see Mr Justice Laddie, reference for a preliminary ruling in Joined Cases C-414/99 to C-416/99 *Davidoff and Others* [2001] ECR I-8691 (extracts of which are published in IIC Vol. 30, No 5/1999, p. 567), paragraph 36: ‘In my view this illustrates how Silhouette has bestowed on a trade mark owner a parasitic right to interfere with the distribution of goods which bears little or no relationship to the proper function of the trade mark right. It is difficult to believe that a properly-informed legislature intended such a result, even if it is the proper construction of Article 7(1) of the Directive.’

7 – With regard to the role of the exhaustion principle in the balancing of interests, see also my Opinion in Joined Cases C-414/99 to C-416/99 *Davidoff and Others* [2001] ECR I-8691, point 80 et seq.

8 – That point was expressly made in the judgment in *Davidoff and Others*, cited in footnote 7, paragraph 33 and the case-law cited there.

9 – See also my Opinion in *Davidoff and Others*, cited in footnote 7, points 78 and 84 and the observations made in footnote 6.

10 – Judgment in *Davidoff and Others*, cited in footnote 7, paragraph 33. See also in that regard the judgment in Case C-173/98 *Sebago and Maison Dubois* [1999] ECR I-4103, paragraph 21.

11 – See also Thomas Hays in *Parallel Importation under European Law*, London, 2004, points 7.55, 10.02 et seq. and 10.11 et seq.

12 – While the German version uses the term ‘Inverkehrbringen’ (putting into trade or circulation), the Dutch (‘in de handel zijn gebracht’), the French (‘mis dans le commerce’), the Italian (‘immessi in commercio’) and the Spanish and the similarly-worded

Portuguese versions ('comercializado' and 'comercializados') refer to sales made in course of trade, whereas the Danish ('markedsfoert'), English ('put on the market') and Swedish ('marknaden') versions refer specifically to the market.

13 – Case 16/74 [1974] ECR 1183, paragraph 10.

14 – See, in that regard, in relation to the German law transposing the Directive, Ingerl and Rohnke, *Markengesetz*, Second edition, Munich 2003, § 24, point 18.

15 – See in relation to the German law transposing the Directive, Fezer, *Markenrecht*, cited in footnote 6, paragraph 7d and Ströbele and Hacker, *Markengesetz*, Seventh edition, Cologne 2003, § 24, point 33 and the case-law cited therein.

16 – See point 19 above.

17 – See point 19 above.

18 – See point 24 et seq. above.

19 – See also, in another context, the Opinion of Advocate General Léger in pending Case C-371/02 *Björnekulla Fruktindustrier* [2004] ECR I-0000, point 40: 'The word "marketplace" implies the interface of supply and demand or an exchange, a transaction ...'.

20 – It should be noted in that context that while, in its judgment in Case C-206/01 *Arsenal Football Club* [2002] ECR I-10273 the Court confirmed the traditional function of the mark as an indicator of the origin of the goods, at the same time, following the line of reasoning of Advocate General Ruiz-Jarabo Colomer (Opinion in Case C-206/01, point 46), it emphasised its growing importance as a vehicle for investment and publicity. Seen from that point of view, the approach of *Axolin-Elinor* appears unduly restrictive.

21 – Cited in footnote 10 (paragraph 19).

22 – Case C-355/96 [1998] ECR I-4799.

23 – Which could also be inferred from, for example, the judgment in Case C-115/02 *Rioglass and Transre-mar* [2003] ECR I-0000, paragraph 28, which states that a transit operation (which consists in transporting goods lawfully manufactured in a Member State to a non-member country by passing through one or more Member States) 'by definition does not constitute a placing on the market [in the sense of putting a product on the market – see also paragraph 25 of that judgment]'.

24 – When goods bearing a trade mark are sold under reservation of title, the transfer of the right of disposal precedes a change in legal ownership. To that extent, the reservation of title has no effect on the exhaustion provided for under trade mark law. Where goods are transferred by way of security, it is doubtful in any event whether an act directed towards the market is involved, as the assignor remains in possession of the goods in question. See to that effect *Mulch, Der Tatbestand der markenrechtlichen Erschöpfung*, Cologne 2001, p. 20.

25 – This does not as a rule apply to transactions between related companies or to transactions within a distribution system.

26 – See also my Opinion cited in footnote 7, point 42.

27 – As long ago as its judgment in Case C-9/93 *IHT Internationale Heiztechnik v Ideal-Standard* [1994]

ECR I-2789, paragraph 43, the Court made it clear that 'the consent implicit in any assignment is not the consent required for application of the doctrine of exhaustion of rights'.

28 – Cited in footnote 7.

29 – *Op. cit.*, paragraph 58.

30 – If the marked goods have not yet been put on the market in the EEA by the proprietor, but have none the less been imported by a third party into the EEA, for example by way of grey reimports, the question that arises in relation to a possible exhaustion of rights conferred by the mark is not whether the goods were put on the market in the EEA by the trade mark proprietor himself, but whether they were put on the market in the EEA by the third party with his consent.

31 – See point 51 above