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Trademark Law and Parallel Imports in a Globalized World—Recent Developments in Europe with Special Regard to the Legal Situation in the United States

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Trademark Law and Parallel Imports in a Globalized World—Recent Developments in Europe with Special Regard to the Legal Situation in the United States

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Abstract

This Article discusses the historic course of recent events insofar as it first describes the *Maglite* decision of the European Free Trade Association Court. Second, it summarizes the opinion of the Advocate General and the judgment of the Court of Justice of the European Communities in the *Silhouette* case. Part III focuses on the development of the law in the European Union ("EU") and European Economic Area ("EEA") Member States, as well as in the EU and in the EEA before *Silhouette* and *Maglite*. In Part IV, comments are made with regard to the reasons given in *Maglite* and *Silhouette*. Finally, some conclusions are drawn concerning the consequences of the new case law on international trade and possible further developments in European Community ("EC" or "Community") law.

ARTICLES

TRADEMARK LAW AND PARALLEL IMPORTS IN A GLOBALIZED WORLD—RECENT DEVELOPMENTS IN EUROPE WITH SPECIAL REGARD TO THE LEGAL SITUATION IN THE UNITED STATES

Carl Baudenbacher*

INTRODUCTION

On July 16, 1998, the Court of Justice of the European Communities ("ECJ") delivered its preliminary ruling in *Silhouette International Schmied Gesellschaft mbH & Co. KG v. Hartlauer Handelsgesellschaft mbH*.¹ The ECJ held that national rules providing for the international exhaustion of trademark rights are incompatible with Article 7(1) of the Trade Mark Directive.² The provision of the Directive reads as follows: "The trademark 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 trademark by the proprietor or with his consent." In accordance with Article 65(2), in conjunction with Annex XVII, point 4, of the Agreement on the European Economic Area of 2 May 1992 ("EEA Agreement"), Article 7(1) was amended for the purposes of the EEA Agreement so that the expression "in the Community" has been replaced by "in a Contracting Party." Article 7 of the Trade Mark Directive was transposed into Austrian law by Paragraph 10(a) of the *Markenschutzgesetz* (Law on the Protection of Trademarks), the first subparagraph of which provides: "The right conferred by the trademark shall not entitle

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1. *Silhouette International Schmied Gesellschaft mbH & Co. KG v. Hartlauer Handelsgesellschaft mbH*, Case C-355/96, [1998] E.C.R. I-4799, [1998] 2 C.M.L.R. 953.

2. First Council Directive No. 89/104/EEC, O.J. L 40/1 (1989) (discussing approximating laws of Member States relating to trade marks) [hereinafter Trade Mark Directive], as amended by Agreement on the European Economic Area of 2 May 1992, O.J. L 1/3 (1994) [hereinafter EEA Agreement].

the proprietor to prohibit a third party from using it in relation to goods which have been put on the market in the European Economic Area under that trademark by the proprietor or with his consent." The ECJ judgment hardly came as a surprise.³ On January 29, 1998, Advocate General Francis Jacobs had urged the ECJ to adopt the position that it did.⁴

Silhouette is, at first glance, contrary to what the European Free Trade Association Court ("EFTA Court") held in its *Maglite* decision of December 3, 1997.⁵ In fact, the EFTA Court said that it is for the EFTA States being Contracting Parties to the EEA Agreement (i.e., the legislators and courts of EFTA States) to decide whether they want to introduce or to maintain the principle of international exhaustion of rights conferred by a trademark with regard to goods originating outside the European Economic Area ("EEA").

The ECJ's *Silhouette* judgment not only will affect consumers and producers in the European Union (or "EU"), but also will have effects on other parts of the world. This Article discusses the historic course of recent events insofar as it will first describe the *Maglite* decision of the EFTA Court. Second, it summarizes the opinion of the Advocate General and the judgment of the ECJ in the *Silhouette* case. Part III focuses on the development of the law in the EU and EEA Member States, as well as in the European Union and in the EEA before *Silhouette* and *Maglite*. In Part IV, comments will be made with regard to the reasons given in *Maglite* and *Silhouette*. Finally, some conclusions will be drawn concerning the consequences of the new case law on international trade and possible further developments in European Community ("EC" or "Community") law.

3. See Frederick M. Abbott & D.W. Feer Verkade, *The Silhouette Trojan Horse: Reflections on the Advocate General Jacobs' Opinion in Silhouette v. Hartlauer*, *BIJBLAD BIJ DE INDUSTRIËLE EIGENDOM*, Apr. 1998, at 111; William R. Cornish, *Trade Marks: Portcullis for the EEA?*, *EUR. INTELL. PROP. REV.*, May 1998, at 172; Barbara E. Cookson, *Europe Awaits Controversial Ruling on Trademark Exhaustion: ECJ's decision in Silhouette seems likely to anger consumers and non-EU countries*, *INTELL. PROP. WORLDWIDE*, July/Aug. 1998, at 1.

4. Opinion of Advocate General Jacobs, *Silhouette International Schmied & Co. KG v. Hartlauer Handelsgesellschaft mbH*, Case C-355/96, [1998] E.C.R. I-4799, __, [1998] 2 C.M.L.R. 953, 956.

5. *MAG Instrument Inc. v. California Trading Co. Norway*, Ulsteen, Case E-2/97, 1997 Rep. EFTA Ct. 127, [1998] 1 C.M.L.R. 331 [hereinafter *Maglite*].

I. *EFTA COURT'S POSITION IN MAGLITE: INTERNATIONAL EXHAUSTION OF TRADEMARK RIGHTS IS GOOD FOR CONSUMERS, COMPETITION, AND FREE TRADE*

A. *Preliminary Remarks Concerning the Legal Position of the EFTA Court in the European Economic Area*

1. Relationship of the EFTA Court to National Courts in Preliminary Ruling Proceedings

According to Article 34 of the Agreement Between the EFTA States on the Establishment of a Surveillance Authority and a Court of Justice ("SCA"), the EFTA Court is competent to give "advisory opinions on the interpretation of the EEA Agreement."⁶ If such an interpretational question arises before any court or tribunal of an EFTA State, then the court may request the EFTA Court to give an opinion if it regards the opinion as necessary for it to be able to render judgment. The term "EEA Agreement" refers to both "the main part of the EEA Agreement, its Protocols and Annexes as well as the acts referred to therein."⁷ The procedure is largely analogous to the ECJ's preliminary reference procedure under Article 177 of the Treaty establishing the European Community ("EC Treaty").⁸

Unlike the case of the ECJ, a preliminary ruling of the EFTA Court is not legally binding upon the national court that has re-

6. Agreement Between the EFTA States on the Establishment of a Surveillance Authority and a Court of Justice, art. 34, O.J. L 344/1, at 5 (1994), *modified by agreement of December 29, 1994, reprinted in* 1992 FORDHAM CORP. L. INST. 464 (Barry Hawk ed., 1993) [hereinafter SCA]; see Thinn Jakob, *EEA and Eastern European Agreements with the European Community*, 1992 FORDHAM CORP. L. INST. 403 (Barry Hawk ed., 1993) (concerning EEA Agreement); Sven Norberg, *The EEA Agreement: Institutional Solutions for a Dynamic and Homogeneous EEA in the Area of Competition*, 1992 FORDHAM CORP. L. INST. 437 (Barry Hawk ed., 1993); SVEN NORBERG ET AL., *THE EUROPEAN ECONOMIC AREA: EEA LAW: A COMMENTARY ON THE EEA AGREEMENT* (1993). The EEA Agreement is reprinted in 1992 FORDHAM CORP. L. INST. 480 (Barry Hawk ed., 1993).

7. SCA, *supra* note 6, art. 1(a), O.J. L 344/1, at 1 (1994).

8. Treaty establishing the European Community, Feb. 7, 1992, art. 177, O.J. C 224/1, at 63 (1992), [1992] 1 C.M.L.R. 573, 689 [hereinafter EC Treaty], *incorporating changes made by Treaty on European Union*, Feb. 7, 1992, O.J. C 224/1 (1992), [1992] 1 C.M.L.R. 719 [hereinafter TEU]. The Treaty on European Union ("TEU") amended the Treaty establishing the European Economic Community, Mar. 25, 1957, 298 U.N.T.S. 11 [hereinafter EEC Treaty], *as amended by Single European Act*, O.J. L 169/1 (1987), [1987] 2 C.M.L.R. 741 [hereinafter SEA]. For details, see Olivier Jacot-Guilarmod, *La Procédure d'avis consultatif devant la future Cour AELE*, in *MÉLANGES EN L'HONNEUR DE JACQUES-MICHEL GROSSEN* 411 (1992); Carl Baudenbacher, *Between Homogeneity and Independence: The Legal Position of the EFTA Court in the European Economic Area*, 3 COLUM. J. EUR. L. 169, 185 (1997).

quested it, the reason being that some EFTA States feared constitutional problems if the EC system was adopted in its entirety. It has been said that EFTA Court decisions are of persuasive authority.⁹ Yet this point needs some elaboration. The concept of persuasive authority is originally a common law concept that is part of the doctrine of precedent. A decision of a court is precedent only within the jurisdiction of that court. Judgments of courts outside the jurisdiction of the court that has to give a ruling are not binding, but may be of persuasive authority.¹⁰ The court in question is, however, free to decide whether it finds such a judgment persuasive.¹¹ The difference in degree of influence between a local precedent and an out-of-state decision has been compared to the difference "between the *holding* of a case and a *dictum* in a judicial opinion, the 'holding' being fully authoritative and generally binding and the 'dictum' only, again, persuasive authority."¹²

The obligation of a national court of an EEA/EFTA State that has referred a question to the EFTA Court to follow the EFTA Court's ruling clearly goes further than that. The EEA Agreement itself is based on the assumption that the national court will follow the EFTA Court's decision. There is no other explanation for the EEA Agreement's concern with a homogeneous development of the case law of the EFTA Court on the one side and of the ECJ on the other.¹³ At least indirectly, preliminary rulings of the EFTA Court are to be considered legally bind-

9. See Baudenbacher, *supra* note 8, at 189.

10. See JANE C. GINSBURG, *LEGAL METHODS* 6 (1996).

11. For example, U.S. appellate courts exhibit a marked degree of comity, mutual respect, for one another's decisions. Some decisions will have greater influence than others on the thinking of judges in other states. The prestige of the court that rendered the decision, or the prestige of the particular judge who wrote the opinion of the court, may also affect the persuasiveness of the decision to the courts of other jurisdictions. *Id.*

12. *Id.*

13. See EEA Agreement, *supra* note 2, art. 105, O.J. L 1/3, at 26 (1994). Article 105 enjoins the EEA Joint Committee to "preserve the homogeneous interpretation of the Agreement." *Id.* For this purpose, the Committee is obliged to "keep under constant review the development of the case law of the Court of Justice of the European Communities and the EFTA Court. To this end, the judgments of these Courts shall be transmitted to the EEA Joint Committee which shall act so as to preserve the homogeneous interpretation of the Agreement." *Id.* The Agreement does not, however, denominate the means available to the Committee to fulfill this function. Article 105(1) only states that the Committee "shall act," with the objective of attaining as uniform an interpretation of the agreement as possible. For details, see Baudenbacher, *supra* note 8, at 219.

ing; if the national court does not react to rulings that find parts of an EFTA State's law incompatible with EEA law, then this would amount to a violation of the EEA Agreement by the EFTA State concerned. The same holds true with regard to the national legislator.¹⁴ With regard to the results, there is hardly a difference between the EC and the EEA system.¹⁵

2. Relationship of the EFTA Court to the ECJ

The basic idea of the EEA Agreement consists in the Community granting the EFTA States free access to the European internal market and the EFTA States taking on essential parts of the EC economic law. The EEA law and the EC law are therefore to a large extent identical. In order to safeguard a homogeneous development of the case law, the EFTA Court is, as a matter of principle, bound to follow ECJ precedent. These homogeneity rules are based on the assumption that a new legal question is decided by the ECJ first. According to Article 6 of the EEA Agreement, the EFTA Court shall follow ECJ case law from the time before the signing of the Agreement on May 2, 1992, provided that the rulings were based on EC law provisions that are identical in substance to the EEA provisions being interpreted in a given case. For the subsequent period, Article 3(2) of the Surveillance and Court Agreement stipulates that the EFTA Court shall pay due account to the ECJ case law. Practical experience shows, however, that the EFTA Court is in almost every case confronted with issues with which the ECJ has not yet dealt.

B. Facts and Procedure

This going-first constellation was also present in *Maglite*. There was, as the EFTA Court explicitly noted, no relevant ECJ precedent that could have been binding.¹⁶

14. In the case of the legislator, the EFTA Surveillance Authority ("ESA") would bring an action for violation of the Agreement in the EFTA Court under Article 31 of the Agreement Between the EFTA States on the Establishment of a Surveillance Authority and a Court of Justice ("SCA"). SCA, *supra* note 6, art. 31, O.J. L 344/1, at 5 (1994). The provision corresponds to Article 169 of the EC Treaty. EC Treaty, *supra* note 8, art. 169, O.J. C 224/1, at 61 (1992), [1992] 1 C.M.L.R. at 686.

15. The President of the Norwegian Supreme Court, Carsten Smith, has rightly stated that "when a national court has requested an opinion, that court would certainly be rather reluctant to disregard that opinion." Carsten Smith, *Case Law Harmonization*, in FESTSKRIFT TILL STIG STRÖMHOLM 795, 798 (1997).

16. See *MAG Instrument Inc. v. California Trading Co. Norway*, Ulsteen, Case E-2/

The request for a preliminary ruling concerned the question of whether Article 7(1) of the Trade Mark Directive requires the EFTA States that are parties to the EEA Agreement to observe the principle of EEA-wide exhaustion, or whether the states in question retain the power to apply the principle of international exhaustion in their national trademark laws. The plaintiff in the proceedings before the Fredrikstad City Court (*Fredrikstad Byrett*), Mag Instrument, Inc., was a U.S. company that produces and sells the so-called Maglite lights. In Norway, Viking International Products A/S, Oslo, was the authorized sole importer and sole distributor for those products. The trademark was registered in Norway in the plaintiff's name. The defendant, California Trading Company Norway, Ulsteen, had imported Maglite lights directly from the United States into Norway for sale in Norway, without the consent of the plaintiff. The plaintiff brought proceedings against the defendant before the national court, arguing that the imports infringed its exclusive trademark rights.

C. Ruling

The EFTA Court held the oral hearing on November 11, 1997, and handed down its preliminary ruling on December 3, 1997.¹⁷ The court ruled that Article 7(1) of the Trade Mark Directive did not curtail the right of the EFTA States that are signatories to the EEA Agreement to apply the principle of international exhaustion of trademark rights. It relied *principally* on the argument that:

[T]he principle of international exhaustion is in the interest

97, [1998] 1 C.M.L.R. 331, 337, ¶ 18. According to Article 65(2) of the EEA Agreement, the provisions and arrangements concerning intellectual, industrial, and commercial property contained in Protocol 28 and Annex XVII shall, unless otherwise specified, apply to all products and services. EEA Agreement, *supra* note 2, art. 65(2), O.J. L 1/3, at 18 (1994). Protocol 28 deals, *inter alia*, with the issue of exhaustion of rights. Paragraph 1 of Article 2 states:

To the extent that exhaustion is dealt with in Community measures or jurisprudence, the Contracting Parties shall provide for such exhaustion of intellectual property rights as laid down in Community law. Without prejudice to future developments of case law, this provision shall be interpreted in accordance with the meaning established in the relevant rulings of the Court of Justice of the European Communities given prior to the signature of the Agreement.

Id., Protocol 28 on intellectual property, art. 2(1), O.J. L 1/3, at 194 (1994).

17. *Maglite*, [1998] 1 C.M.L.R. 331.

of free trade and competition and thus in the interest of consumers. Parallel imports from countries outside the European Economic Area lead to a greater supply of goods bearing a trademark on the market. As a result of this situation, price levels of products will be lower than in a market where only importers authorized by the trademark holder distribute their products.¹⁸

The court held, furthermore, that "the principle of international exhaustion is in line with the main function of a trademark, which is to allow the consumer to identify with certainty the origin of the products."¹⁹ Although the court, like the ECJ in its judgment delivered a short time previously in *Dior*,²⁰ acknowledged the importance of protecting the goodwill of a trademark, it ruled that the protection of goodwill was not of such importance as to require a ban on parallel imports.²¹

The court was, however, aware of the fact that the parallel *Silhouette* case was pending before the ECJ at that time. It also knew that except for Sweden, all the EC Member States that had intervened and the European Commission had urged the ECJ to rule against international exhaustion. The EFTA Court's second line of argument is to be seen in this light. The EFTA Court stressed the difference in purpose and scope between the EC Treaty and the EEA Agreement.²² In contrast with the EC Member States, the EFTA States that are signatories to the EEA Agreement have not transferred their autonomy in matters of foreign trade to any supranational organ and unlike the EC Treaty, the EEA Agreement does not establish a customs union. The EFTA Court concluded from this observation that it is for the EFTA States to decide whether to introduce or to maintain the principle of international exhaustion. The EFTA Court rejected the argument put forward by the European Commission and the governments of France, Germany, and the United Kingdom participating in the proceedings before it, that if individual EFTA States belonging to the EEA were to allow international exhaustion, then a situation could develop in which the same products

18. *Id.* at 337, ¶ 19.

19. *Id.* at 337, ¶ 20.

20. *Parfums Christian SA and Parfums Christian Dior BV v. Evora BV*, Case C-337/95, [1997] E.C.R. I-6013, [1998] 1 C.M.L.R. 737.

21. *Maglite*, [1998] 1 C.M.L.R. at 337, ¶ 20.

22. *Id.* at 338-39, ¶ 25.

might be subject to parallel imports into one state, but not into another. It held that, according to Article 8 of the EEA Agreement, the principle of the free movement of goods applies only to goods originating in the EEA.²³ Consequently, the U.S. Maglite lights in issue were not subject to the rules on the free movement of goods. The court finally pointed out that its interpretation of Article 7(1) of the Trade Mark Directive is also in line with the Agreement on Trade Related Aspects of Intellectual Property Rights²⁴ ("TRIPs" Agreement) in which it is left open for the Member States to regulate the issue.²⁵ With this ruling, the EFTA Court followed essentially the line proposed by the Liechtenstein Government, the Norwegian Government, and the EFTA Surveillance Authority.

II. *ECJ'S POSITION IN SILHOUETTE: INTERNATIONAL EXHAUSTION OF TRADEMARK RIGHTS IS INCOMPATIBLE WITH THE FUNCTIONING OF THE INTERNAL MARKET*

A. *Facts and Procedure*

On October 15, 1996, the Supreme Court (*Oberste Gerichtshof*) of the Republic of Austria referred, *inter alia*, the following question to the ECJ:

Is Article 7(1) of the First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trademarks (OJ 1989 L 40, p. 1) to be interpreted as meaning that the trademark entitles its proprietor to prohibit a third party from using the mark for goods which have been put on the market under that mark in a State which is not a Contracting State?²⁶

The plaintiff in the proceedings before the national court, Silhouette International Schmied Gesellschaft mbH & Co. KG, pro-

23. *Id.* at 339, ¶ 26.

24. Agreement on Trade-Related Aspects of Intellectual Property Rights, 33 I.L.M. 1197, in General Agreement on Tariffs and Trade: Multilateral Trade Negotiations Final Act Embodying the Results of the Uruguay Round of Trade Negotiations, Apr. 15, 1994, 33 I.L.M. 1125, Annex 1C [hereinafter TRIPs].

25. *Maglite*, [1998] 1 C.M.L.R. at 339, ¶ 29.

26. Opinion of Advocate General Jacobs, *Silhouette International Schmied & Co. KG v. Hartlauer Handelsgesellschaft mbH*, Case C-355/96, [1998] E.C.R. I-4799, ¶ 24, [1998] 2 C.M.L.R. 953, 961. For the sake of completeness, it may be added that the Austrian Supreme Court referred a second question to the European Court of Justice ("ECJ") that is, however, not of interest in the given context.

duced spectacles in the higher price ranges in Austria and sold them through authorized dealers. The plaintiff did not supply goods to the defendant, Hartlauer Handelsgesellschaft mbH, because it did not accord with the Silhouette image. In October 1995, the plaintiff sold spectacles of an outdated model to a company in Bulgaria. The goods were intended for sale in the states of the former Soviet Union. The defendant managed to acquire the entire shipment from the plaintiff's customer in Sofia and placed the goods on the market in Austria. It announced in a press campaign that, although it had not been supplied by the plaintiff, it had succeeded in purchasing 21,000 out-of-fashion Silhouette frames from abroad. Silhouette had directed its representative to instruct the purchasers to sell the frames in Bulgaria or the states of the former Soviet Union only, and not to export them to other countries. In its action for an injunction, the plaintiff pleaded infringement of its trademark rights. It maintained that, following the entry into force of Article 7 of the Trade Mark Directive, worldwide exhaustion no longer applies. The oral hearing was held on October 14, 1997.

B. *Opinion of the Advocate General*

In his opinion of January 29, 1998, Advocate General Francis Jacobs dealt in detail with the issues involved, such as the text, the scheme, and the history of the Trade Mark Directive, the functioning of the single market, competition and consumer protection inside the European Union, free trade, and the doctrine of functions of trademarks.

In particular, the Advocate General stated that it was to be inferred from the wording of the Trade Mark Directive, and from the principle that derogations are to be construed narrowly, that Article 7(1) was to be interpreted as precluding international exhaustion.²⁷ The language of the provision, however, was not conclusive. Those who favored international exhaustion pointed to the limited nature of the harmonization attempted by the Trade Mark Directive and argued that the intention of Article 7 was simply to codify the relevant case law of the ECJ. He went on to say that they contended that the ECJ itself had ruled that Article 7 was to be interpreted in the same way as the ECJ's case law on Articles 30 and 36 of the EC Treaty. Consequently, it

27. *Id.* at __, ¶¶ 30-34, [1998] 2 C.M.L.R. at 962-63.

was argued, the Member States kept the right to decide in favor of international exhaustion. On the other hand, the opponents of international exhaustion, relying on the wording of the third recital in the preamble to the Trade Mark Directive,²⁸ argued that international exhaustion would most directly affect the functioning of the internal market, and that this principle was the type of issue that the Trade Mark Directive sought to harmonize. Moreover, despite its limited scope, the purpose of the Trade Mark Directive was to ensure that trademarks enjoy the same protection under the legal systems of all the Member States.

The Advocate General reasoned that, while it was true that in an internal European Community context, the ECJ treated Article 7 of the Trade Mark Directive as codifying its previous case law on Articles 30 and 36 of the EC Treaty, it could not be assumed that that was the sole function of Article 7.²⁹ If the Trade Mark Directive was seen as establishing the essential terms and effects of trademark protection, then it would be difficult to argue that it left Member States free to opt for international exhaustion. The scope of the exhaustion principle was after all central to the content of trademark rights.

But even if one took a narrower view of the character of the Trade Mark Directive, the Advocate General continued, it would seem clear that the international exhaustion was one of the matters that would most directly affect the functioning of the internal market, and therefore become the matter that the Trade Mark Directive would seek to harmonize. If some Member States practiced international exhaustion while others did not, then there would be *barriers to trade within the internal market*, which was precisely the object of the Trade Mark Directive to remove.³⁰ The Advocate General stressed that it was, above all, on that ground that the Austrian, French, German, Italian, and United Kingdom Governments and the European Commission

28. The third recital in the preamble to the Trade Mark Directive reads as follows: "Whereas it does not appear to be necessary at present to undertake full-scale approximation of the trademark laws of the Member States and it will be sufficient if approximation is limited to those national provisions of law which most directly affect the functioning of the internal market." First Council Directive No. 89/104/EEC, *supra* note 2, pmbl., O.J. L 40/1, at 1 (1989).

29. Opinion of Advocate General Jacobs, *Silhouette*, [1998] E.C.R. at __, ¶ 39, [1998] 2 C.M.L.R. at 964.

30. *Id.* at __, ¶ 41, [1998] 2 C.M.L.R. at 964-65 (emphasis added).

based their submission. He then referred to the fact that a similar argument had been advanced by France, Germany, and the United Kingdom before the EFTA Court in *Maglite*. It was rejected by the EFTA Court with regard to the EFTA States, with reference to the provisions of the EEA Agreement on the free movement of goods.³¹ The Advocate General concluded, however, that the EFTA Court had not considered the question of goods originating within the EEA, thereby distinguishing *Silhouette* from *Maglite* on the facts as well as on the law.

The Advocate General went on to state that the Swedish Government alone expressed the view that the Trade Mark Directive left it up to the Member States to regulate the question of international exhaustion. According to the Swedish position, it is no part of the function of a trademark to enable the owner to divide up the market and to exploit price differentials. The adoption of international exhaustion would bring substantial advantages to consumers and would promote price competition. The Advocate General argued, however, that the ECJ's case law on the function of trademarks was developed in the context of the Community, not world market. Such compelling considerations did not apply to imports from third countries. On the contrary, to allow Member States to opt for international exhaustion would itself result in barriers between Member States.³²

The Advocate General conceded that, to some commentators, the exclusion of international exhaustion would appear protectionist and therefore harmful. But he expressed concern about the possible *lack of reciprocity* if the Community were unilaterally to provide for international exhaustion. In any event, it was no part of the ECJ's function to seek to evaluate such policy considerations.³³ As regards price competition and the benefit to consumers, such advantages were, in the view of the Advocate General, to be set against the threat to the integrity of the internal market. That integrity would be severely prejudiced if one Member State provided for international exhaustion while another did not—only consumers in the first state would benefit from the lower prices of imports from third countries.³⁴

31. *Id.* at __, ¶ 43, [1998] 2 C.M.L.R. at 966.

32. *Id.* at __, ¶ 50, [1998] 2 C.M.L.R. at 967.

33. *Id.* at __, ¶ 51, [1998] 2 C.M.L.R. at 967.

34. *Id.* at __, ¶ 52, [1998] 2 C.M.L.R. at 967.

Finally, the Advocate General stated that it was impossible to contend that the Trademark Regulation conferred a discretion on the Member States with regard to exhaustion.³⁵ The question then was whether identical provisions could be construed differently. In view of the fact that in the case at hand the context was exactly the same, the Advocate General concluded that the regulation provided at least some further support for the view that the Trade Mark Directive precluded international exhaustion.

C. Ruling

The ECJ held in its plenary judgment of July 16, 1998, that national rules providing for exhaustion of trademark rights in respect to products put on the market outside the EEA under that mark by the owner or with its consent were contrary to Article 7(1) of the Trade Mark Directive. The court relied on the classical canons of interpretation with the exception of the legislative history, i.e., the wording of Article 7 and the scheme and the purpose of the provisions concerning the rights that a trademark confers on its owner.³⁶ In doing so, the ECJ pointed out that it was following the position taken by the Austrian, French, German, Italian, and United Kingdom Governments and the European Commission.³⁷ The court first referred to Article 5(1) of the Trade Mark Directive, according to which the registered trademark confers on the proprietor exclusive rights therein.³⁸ It then stated that according to the text of Article 7 itself, "exhaustion occurs only where the products have been put on the market in the Community (in the EEA since the EEA Agreement entered into force)."³⁹ The ECJ reasoned that the Trade Mark Directive provided harmonization of "the rules concerning those provisions of national law which most directly affect the functioning of the internal market," and that the harmonization re-

35. Article 13(1) of Council Regulation (EC) No 40/94 of 20 December 1993 on the Community trademark states: "A Community 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." Council Regulation No. 40/94, O.J. L 11/1, at 6 (1991).

36. *Silhouette International Schmied & Co. KG v. Hartlauer Handelsgesellschaft mbH*, Case C-355/96, [1998] E.C.R. I-4799, __, ¶ 22, [1998] 2 C.M.L.R. at 976.

37. *Id.*

38. *Id.* at __, ¶ 17, [1998] 2 C.M.L.R. at 975.

39. *Id.* at __, ¶ 18, [1998] 2 C.M.L.R. at 975-76.

lating to those rules is complete.⁴⁰ In this respect, the court referred to the first and ninth recital in the preamble of the Trade Mark Directive, according to which disparities in the trademark laws of the Member States may impede the free movement of goods and of services and may distort competition within the common market, so that it was necessary, in view of the establishment and functioning of the internal market, to approximate the laws of Member States and that in order to facilitate the free movement of goods and services, it was to be ensured that registered trademarks enjoyed the same protection under the legal systems of all the Member States:⁴¹

In the light of those recitals, Articles 5 to 7 of the Trade Mark Directive must be construed as embodying a complete harmonisation of the rules relating to the rights conferred by a trademark. That interpretation, it may be added, is borne out by the fact that Article 5 expressly leaves it open to the Member States to maintain or introduce certain rules specifically defined by the Community legislator. Thus, in accordance with Article 5(2), to which the ninth recital refers, the Member States have the option to grant more extensive protection to trademarks with a reputation.⁴²

The court then emphasized that this was the sole interpretation that would be fully capable of ensuring that the purpose of the Trade Mark Directive, to safeguard the functioning of the internal market, was achieved: "A situation in which some Member States could provide for international exhaustion while others provided for Community exhaustion only would inevitably give rise to barriers to the free movement of goods and the freedom to provide services."⁴³

The ECJ rejected the argument put forward by the Swedish Government that because the Trade Mark Directive was adopted on the basis of Article 100a of the EC Treaty, which governs the approximation of the laws of the Member States concerning the functioning of the internal market, it could not regulate relations between the Member States and third countries:

Even if Article 100a of the Treaty were to be construed in

40. *Id.* at __, ¶ 23, [1998] 2 C.M.L.R. at 976.

41. *Id.* at __, ¶ 24, [1998] 2 C.M.L.R. at 976-77.

42. *Id.* at __, ¶ 25, [1998] 2 C.M.L.R. at 977.

43. *Id.* at __, ¶ 27, [1998] 2 C.M.L.R. at 977.

the sense argued for by the Swedish Government, the fact remains that Article 7, as has been pointed out in this judgment, is not intended to regulate relations between Member States and non-member countries but to define the rights of proprietors of trademarks in the Community.⁴⁴

In its final statement, the ECJ pointed out that the European Community authorities could always extend the exhaustion provided for by Article 7 to products put on the market in non-member countries by entering into international agreements.⁴⁵

III. A LOOK BACK: THE EVOLUTION OF THE PRINCIPLE OF INTERNATIONAL EXHAUSTION OF TRADEMARK RIGHTS

A. *Recognition of International Exhaustion by the German Supreme Court (Reichsgericht and Bundesgerichtshof)*

The principle of international exhaustion of trademark rights was recognized for the first time in Continental Europe by the German *Reichsgericht* in 1902 in a case involving parallel imports of wine.⁴⁶ A French manufacturer produced wine and put it into circulation under the registered marks "*Vin Mariani*" and "*Mariani Wein*." The producer assigned as its exclusive distributor for Germany was a dealer domiciled in Berlin. The defendant imported original wine bearing the original trademark from France into Germany. The German Supreme Court dismissed the action brought by the trademark owner and held that because the wine was put into circulation in France, the German trademark right had been exhausted. The ruling was based on the *universality doctrine*. According to this doctrine, the trademark right is not limited to a certain territory. The law applicable to the mark is the law of the state where the trademark owner is located. Protection of the right in foreign countries is only an extension of the domestic right.⁴⁷ The *Reichsgericht* stuck to the concept of international exhaustion even when it abandoned the universality doctrine in favor of the territoriality prin-

44. *Id.* at __, ¶ 29, [1998] 2 C.M.L.R. at 977.

45. *Id.* at __, ¶ 30, [1998] 2 C.M.L.R. at 977.

46. ENTSCHEIDUNGEN DES REICHSGERICHTS IN ZIVILSACHEN [RGZ] 50, 229 (F.R.G.).

47. For an analysis concerning the universality doctrine in European literature, see JOSEF KOHLER, DAS RECHT DES MARKENSCHUTZES at 190, 412, 446 (1884), and GERHARD RIELE, MARKENRECHT UND PARALLELIMPORT 19 (1968).

ciple.⁴⁸ The main reason for the German Supreme Court's case law was that international exhaustion is in line with the main function of a trademark, to communicate the origin of the goods without there being a likelihood of confusion. On the other hand, the law in the court's view did not support the assumption that the trademark owner was entitled to restrict further distribution of the goods, particularly by imposing resale price maintenance on dealers.⁴⁹

The roots of international exhaustion are, however, older. U.S. courts have pointed out that the first sale doctrine in trademark law as well as in copyright law and in other areas of intellectual property law "finds its origins in the common law aversion to limiting the alienation of personal property."⁵⁰ In other words, the rule's rationale is that after the first sale the policy favoring an intellectual property monopoly "gives way to policies disfavoring restraints of trade and limitations on the alienation of personal property."⁵¹

After World War II, the *Bundesgerichtshof* not only continued using the international exhaustion doctrine, but also extended it to the furthest extent possible. The main function of a trademark, the German Supreme Court held in *Maja*,⁵² consists in indicating that the goods originate from the business of the trademark owner. The interest of the trademark owner to regulate the distribution channels is, on the other hand, not part of the trademark right. Otherwise, the trademark right would be a vehicle to partition markets along state borders and accordingly, to fix prices and distribution channels.

In *Cinzano*,⁵³ a test case initiated by opponents of international exhaustion, the German Supreme Court ruled that the trademark was exhausted although the parallel imports were materially different from the goods sold by the official distributor.

48. RGZ 118, 76, (80).

49. RGZ 50, 229 (230).

50. *Sebastian Int'l, Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093, 1096 (3d Cir. 1988).

51. *Parfums Givenchy, Inc. v. C. & C Beauty Sales, Inc.*, 832 F. Supp. 1378, 1388 (C.D. Cal. 1993) (concerning copyright case).

52. *ENTSCHEIDUNGEN DES BUNDESGERICHTSHOFES IN ZIVILSACHEN* [BGHZ] 41, 84 (91) (F.R.G.).

53. *Cinzano & Co. GmbH v. Java Kaffeegeschäfte GmbH & Co.*, Judgment of Feb. 2, 1973, Fed. Sup. Ct. (F.R.G.), reprinted in 4 INT'L REV. INDUS. PROP. & COPYRIGHT L. [IIC] 432 (1973).

The German subsidiary of Cinzano Italy had sold Cinzano vermouth under the trademark "Cinzano" in Germany. The vermouth was produced by Cinzano Italy and bottled and sold by Cinzano's German subsidiary. The defendant purchased Cinzano vermouth that was produced and bottled by the Spanish subsidiary and the French licensee of Cinzano Italy. The labels were slightly different from the ones affixed on the Italian bottles. In Spain and France, local wines were used in producing Cinzano, and the product was adapted to local taste. The Spanish and French vermouth therefore contained different ingredients than the Italian product. The court noted that at least a connoisseur would probably be able to recognize the differences in taste. All three distributors involved derived their right to use the Cinzano mark from the Italian parent company. The court concluded that the conduct of the Spanish and French companies was to be assigned to the German company. It denied a risk of confusion, stating that the bands around the bottle necks declared the parallel imports as "Spanish" and "French" vermouth. The court further held that the territoriality principle meant only that foreign trademarks could not be infringed upon by domestic conduct and that domestic trademarks could not be infringed upon by foreign conduct, and no that measures taken abroad should not have an influence on domestic trademarks.

The German Supreme Court confirmed its case law in *Aqua King*.⁵⁴ In this case, swimming pool vacuums manufactured in the United States were imported into Germany from France. The products sold by the official German dealer were of the same origin. They were, however, assembled in Germany and were therefore equipped with a stronger electric motor. The official German dealer was not a subsidiary of the U.S. manufacturer. The court held that it was for the official German dealer to inform the public of the material differences between the U.S. original and the German version of the product.⁵⁵

B. *Other European Supreme Courts Follow the German Example*

1. Swiss Federal Supreme Court

Under the old Swiss Trademark Act of 1891, the case law of

54. BUNDESGERICHTSHOF [BGH] GEWERBLICHER RECHTSSCHUTZ UND URHEBERRECHT [GRUR] 1983, 177.

55. BGH GRUR 1983, 179.

the Swiss Federal Supreme Court was rather inconsistent.⁵⁶ In its 1979 *Omo* judgment,⁵⁷ the court held, however, that a Swiss trademark owner was prevented from banning the import of goods if the goods were manufactured within one and the same concern. Under such circumstances there would be no confusion if Swiss consumers identified the trademark not only with the Swiss subsidiary, but also with any company belonging to the same concern. In its ruling, the court stopped short of recognizing the principle of international exhaustion. The result was basically the same.

The court held, however, that in case of *material differences* that create a likelihood of confusion as to the origin of goods, the trademark owner is entitled to prohibit the import. In the case at hand, the court found such differences in that the Omo detergent sold by the official Swiss distributor, unlike the detergent imported by the unauthorized dealer, contained blue needles, smelled different, and was milder on cloth. The exclusively male court held that Swiss housewives did indeed care about such differences.⁵⁸ Likelihood of confusion was thus deemed to be established, and the Swiss trademark holder was granted the right to block the parallel imports. One will notice that in this respect the Swiss Supreme Court's approach differed significantly from the one taken by its German counterpart in *Cinzano* and *Acqua King*.⁵⁹

2. Austrian Supreme Court

The Austrian Supreme Court (*Oberster Gerichtshof*) originally ruled against international exhaustion.⁶⁰ It changed its practice in 1971 in *AGFA*.⁶¹ The German AGFA Gevaert AG was the proprietor of the trademark AGFA, which had been registered for unexposed films. The sole distributor for Austria was AGFA's Austrian subsidiary, which had been licensed the trademark. A

56. In *Lux*, BUNDESGERICHTS ENTSCHEIDUNGEN [BGE] 78 II 164, the Swiss Federal Supreme Court ruled against international exhaustion, however, in *Philips*, BGE 86 II 270, the court ruled in favor of international exhaustion.

57. BGE 105 II 49.

58. BGE 105 II 56.

59. BGH GRUR 1983, 177.

60. *Nescafé*, 1955 ÖSTERREICHISCHE BLÄTTER FÜR GEWERBLICHEN RECHTSSCHUTZ UND URHEBERRECHT [ÖBL] 67 (Aus.); *Brunswick*, 1957 ÖBL 87; *Seeburg*, 1960 GEWERBLICHER RECHTSSCHUTZ UND URHEBERRECHT INTERNATIONALER TEIL [GRUR INT.] 557 (Aus.).

61. 1974 ÖBL 84, 1971 GRUR INT. 90.

parallel importer purchased original AGFA products bearing the original trademark in Germany and sold them in Austria. The first instance court ruled in favor of the Austrian AGFA licensee, referring to the existing case law of the Austrian Supreme Court. The Austrian Court of Appeals held that the goods in question came from the same concern and were identical to those marketed by the official dealer. Additionally, the Austrian Court of Appeals referred to the *Maja* ruling of the German Federal Supreme Court⁶² and to the *Philips* decision of the Swiss Federal Supreme Court⁶³ and reversed the decision of the first instance court. The Austrian Supreme Court found it necessary once again to examine the question of whether so-called parallel imports amounted to an infringement of domestic trademarks and noted that important industrialized countries together with the German and the Swiss federal supreme courts answered this question in the negative.⁶⁴ Based on considerations similar to those examined by these two courts, the Austrian Supreme Court came to the conclusion that the parallel imports were in line with the function of origin of trademarks and confirmed the judgment of the Court of Appeals.⁶⁵ The Austrian Supreme Court confirmed its judgment in *Lanvin*⁶⁶ and *Spinnrad*.⁶⁷

3. Other European Courts

The principle of international exhaustion was furthermore applied by the Dutch,⁶⁸ the Swedish,⁶⁹ and the Finnish courts⁷⁰ in cases of identical product quality. The courts in the United Kingdom recognized the doctrine in cases of common control,⁷¹ but tended to define the material differences standard relatively narrowly.⁷² Sweden stuck to the exhaustion principle even after its entry into the European Union.⁷³ On the other hand, inter-

62. BGHZ 41, 84 (91).

63. BGE 86 II 270.

64. 1974 ÖBL 84, 1971 GRUR INT. 90.

65. *Id.*

66. 1984 ÖBL 24, 1984 GRUR INT. 369.

67. 1991 ÖBL 257, 1992 GRUR INT. 467.

68. *See Grundig*, 1973 GRUR INT. 562 (Neth.).

69. *See Polycolor*, 1967 NYTT JURIDISKT ARKIV 458 (Swed.).

70. *See Mobil*, 1994 GRUR INT. 432 (Fin.); *Adidas*, 1994 GRUR INT. 433 (Fin.).

71. *See Revlon*, 1980 GRUR INT. 234, 236 (U.K.).

72. *Colgate*, 1989 GRUR INT. 320; *Colgate II*, 1991 GRUR INT. 50 (U.K.).

73. *See Johannes Christian Wichard, Weltweite oder europaweite Erschöpfung von Markenrechten?*, 1997 GRUR INT. 711.

national exhaustion was not recognized by Italian,⁷⁴ French,⁷⁵ and Greek⁷⁶ courts.

C. *Case Law of the ECJ Under Articles 30 and 36 of the EC Treaty: Member States May Opt for International Exhaustion*

In EC law, before the enactment of the Trade Mark Directive, the exhaustion issue had been dealt with under Articles 30 and 36 of the EC Treaty. According to Article 30 of the EC Treaty, measures having equivalent effect to quantitative restrictions on imports are prohibited between the Member States. Article 36 of the EC Treaty states, however, that the provision does not preclude prohibitions or restrictions justified on grounds of, *inter alia*, "the protection of industrial and commercial property." Such a prohibition or restriction shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between the Member States.

According to the case law of the ECJ, the owner of a trademark protected by the legislation of a Member State cannot rely on that legislation to prevent the import or marketing of a product that was put on the market in another Member State by the owner or with its *consent*.⁷⁷ In these circumstances, "the owner's exclusive right to affix a trademark to a product must be regarded as exhausted in order to allow an importer to market under that trademark products which were put on the market in another Member State by the owner or with his consent."⁷⁸ From a current perspective, the ECJ's case law could hardly be considered revolutionary. The ECJ's approach is a logical consequence of the fact that the territory of the Community forms a uniform economic and legal area.⁷⁹

74. *Brauns*, 1965 GRUR INT. 377 (Italy).

75. *Guerlian II*, 1988 GRUR INT. 687 (Fr.).

76. *Roadstar*, 1991 GRUR INT. 739 (Greece).

77. *Centrafarm v. Winthrop*, Case 16/74, [1974] E.C.R. 1183, 1194-95, ¶¶ 7-11, [1974] 2 C.M.L.R. 480, 508-09; *EMI Records v. CBS United Kingdom Limited*, Case 15/75, [1976] E.C.R. 811, 845, ¶ 10, [1976] 2 C.M.L.R. 235, 265; *Polydor Ltd. v. Harlequin Record Shops*, Case 270/80, [1982] E.C.R. 329, [1982] 1 C.M.L.R. 677; *IHT International Heiztechnik v. Ideal Standard*, Case C-9/93, [1994] E.C.R. I-2789, I-2846, ¶ 33, [1994] 3 C.M.L.R. 857, 870.

78. *Bristol-Myers Squibb v. Paranova*, Cases C-427, 429, & 436/93, [1996] E.C.R. I-3457, [1997] 1 C.M.L.R. 1151.

79. See Ulrich Loewenheim, *Nationale und internationale Erschöpfung von Schutzrechten im Wandel der Zeiten*, 1996 GRUR INT. 307, 310.

Member States were therefore prevented from using the principle of (only) national exhaustion of trademark rights. Regional exhaustion was the minimal standard. It was, however, common ground that the case law did not require those Member States that had opted for the principle of international exhaustion to give up that principle. In fact, as the EFTA Court pointed out in *Maglite*, "some Member States in the Community and in EFTA either retained international exhaustion or left the question open for interpretation by the national courts."⁸⁰

D. Abandonment of International Exhaustion by the German Federal Supreme Court

The phalanx of those EC Member States that had adopted the principle of international exhaustion was initially broken up by the judgment of the German Federal Supreme Court in *Dyed Jeans (Gefärbte Jeans)*.⁸¹ The German legislature implemented Article 7(1) of the Trade Mark Directive by copying it word for word in Section 24(1) of the 1994 Trademark Act (*Markengesetz*). The German Federal Supreme Court ruled that trademark rights will now be exhausted only if the parallel imports have been put into circulation in the EEA under the trademark by the trademark owner or with its consent, but not if the goods have been put on the market anywhere else in the world by the trademark owner or with its consent. It stated that, indeed, the legislature had abandoned the principle of international exhaustion in Section 24(1) of the Trademark Act corresponding to the binding provision of Article 7 of the Trade Mark Directive. The court noted that it was not its task to consider whether this restricted exhaustion rule was contrary to the promotion of international free trade and that the European Union had the competence to conclude with important trading partners agreements providing for the application of international exhaustion.

Dyed Jeans is a noteworthy judgment for two other reasons. On the one hand, the German Federal Supreme Court decided the case without making reference to the ECJ although it should have done so under Article 177(3) of the EC Treaty.⁸² One will

80. *MAG Instrument Inc. v. California Trading Co.* Norway, Ulsteen, Case E-2/97, 1997 Rep. EFTA Ct. 127, [1998] 1 C.M.L.R. 331, 338, ¶ 23.

81. *Dyed Jeans*, 1996 GRUR Int. 721 (F.R.G.).

82. None of the so-called CILFIT-exceptions applied in the case. The question is not relevant to the outcome of the case, and previous decisions of the ECJ have already

notice that the Austrian Supreme Court asked the ECJ for preliminary rulings when it was confronted with the same question in *Silhouette* and *Wrangler*.⁸³ On the other hand, *Dyed Jeans* was not about imports of original goods bearing the original trademark. The defendant had sold "Levi's 501" jeans that had been produced in the United States by the plaintiff, which owned the German trademark. The jeans had, however, been bleached and dyed before being imported to Germany, with some of them made into shorts, all without the plaintiff's consent. In the defendant's store there was a sign reading, "Used Levi's 501 original USA . . . these second-hand jeans were not dyed by Levi Strauss." It has rightly been said that in view of these facts, *Dyed Jeans* was basically not an exhaustion case, but a simple trademark infringement case.⁸⁴ The German Court of Appeals, which had based its judgment on the theory of international exhaustion, had ruled accordingly.⁸⁵ With its judgment in *Dyed Jeans*, the Federal Supreme Court that so far had been the bulwark against attempts to bring down the principle of international exhaustion had set the ball rolling.

IV. COMMENTS

A. General Remarks

1. Arguments of the ECJ in *Silhouette*

Compared to the previous situation, the ECJ's *Silhouette* ruling has led to a considerable restriction of international *inter-brand trade* in those EC Member States that formerly adhered to the principle of international exhaustion. The judgment is based on two lines of argument: first, the ECJ used classical canons of statutory interpretation, emphasizing in particular that the limitation to regional exhaustion was in line with the text of Article 7(1), the scope of Article 5, and the recitals of the Trade Mark Directive concerning the function of trademark law har-

dealt with the point of law. The correct interpretation is so obvious that there is no scope for any reasonable doubt. See *CILFIT v. Ministry of Health*, Case 283/81, [1982] E.C.R. 3415, [1983] 1 C.M.L.R. 472.

83. *Wrangler Germany GmbH v. Metro Selbstbedienungs-Grosshandel GmbH* Case C-278/97 (pending case). The request in *Wrangler* was withdrawn after the handing down of the *Silhouette* judgment.

84. See Hanns Ullrich, Anmerkung (Comment), 89 MITTEILUNGEN DER DEUTSCHEN PATENTANWÄLTE 190 n.8 (1998).

85. *Dyed Jeans*, 1996 GRUR INT. 721, 726-27.

monization to facilitate the free movement of goods and services; and second, the ECJ relied upon the policy argument that the result found was the only one that was in line with the goal of securing the functioning of the internal market.

2. Other Issues Involved

It may also be noted that in the judgment there is no discussion by the ECJ of the other policy issues involved. The reason that the ECJ, in *Silhouette*, did not address questions such as the impact of its decision on competition and free trade could be that such a discussion would possibly lent support to those who think that trademarks should serve as tools to partition markets along national lines. The approach chosen by the ECJ is, nevertheless, not in line with modern methodology of the law, according to which judges and courts ought to state the value judgments underlying their decisions openly.⁸⁶ One will notice in this context that both the EFTA Court in *Maglite* and the Advocate General in *Silhouette* openly discussed the impacts of a rule favoring or disfavoring parallel imports on competition, consumer interests, and free trade. It has furthermore been noted that the ECJ did not even elaborate on what kind of restriction of free movement of goods and services would have occurred had it opted for a solution that would have left the Member States the right to grant international exhaustion.⁸⁷ One will finally notice that the ECJ has not mentioned at all the question of the compatibility of its ruling with TRIPs and the General Agreement on Tariffs and Trade ("GATT").⁸⁸

It has been regretted in scholarly literature that the ECJ did not take into account the EFTA Court's *Maglite* precedent.⁸⁹ In fact, the ECJ is under no explicit obligation to pay due account to EFTA Court decisions. One may, however, assume that such an incumbency follows from the spirit of the EEA Agreement, in

86. See, e.g., Carl Baudenbacher, *Some Remarks on the Method of Civil Law*, TEX. INT'L L.J. (forthcoming Spring 1999).

87. See Michael Beckmann, *Die Reichweite des Erschöpfungsgrundsatzes nach neuem Markenrecht*, 1998 GRUR INT. 836, 839.

88. The author discusses TRIPs and GATT compatibility in Part IV, Section D of this Article.

89. See Gallus Joller, *Zur territorialen Reichweite des Erschöpfungsgrundsatzes im Markenrecht*, 47 GRUR INT. 751, 759 (1998); see also Udo von Fragstein, *Europaweite Erschöpfung von Markenrechten*, 9 ZEITSCHRIFT FÜR EUROPÄISCHES WIRTSCHAFTS-UND STEUERRECHT 405, 407 (1998).

particular from its overall goal of securing a homogeneous development of the law in the EEA.⁹⁰

3. Consequences for Competition and Consumers

On the merits, the ECJ has been criticized for its *Silhouette* ruling. The main line of argument is that the ECJ has in fact increased the protection of trademark owners' interests at the expense of consumers. Such strengthening of monopolies, the critics contend, amounts to lessening competition and will thereby lead to higher prices. It also leads to reverse discrimination of European consumers compared to consumers in third countries.⁹¹ It is not without a certain undertone of sadness that Advocate General Jacobs admitted in his opinion that he found the arguments related to the consequences on consumers and competition put forward by the Swedish Government "extremely attractive."⁹² The same arguments, among others, have prompted the EFTA Court to conclude that Article 7(1) of the Trade Mark Directive does not prevent EFTA/EEA States from maintaining or introducing international exhaustion of trademark rights.⁹³

One will not overlook in this context that the ECJ itself has, for instance, dealt with some of the issues in question in its earlier case law on normal trademark infringement, i.e., in cases involving goods of another manufacturer. This fact holds true first of all for the case law under Articles 30 and 36 of the EC Treaty. In *Ideal Standard*, the ECJ ruled that the essential function of a trademark is to ensure that consumers are able "to identify for certain the origin of the marked goods and the proprietor of the trademark could be held responsible for the poor quality of goods for which he was in no way accountable."⁹⁴ In

90. See Carl Baudenbacher, *Vier Jahre EFTA-Gerichtshof*, 9 EUROPÄISCHE ZEITSCHRIFT FÜR WIRTSCHAFTSRECHT 391, 397 (1998).

91. See Loewenheim, *supra* note 79, at 190; Cornish, *supra* note 3, at 172; Frederick Abbott, Discussion Paper for Conference on Exhaustion of Intellectual Property Rights and Parallel Importation in World Trade, Geneva, Nov. 6-7, 1998, *passim* [hereinafter Discussion Paper for Conference].

92. Opinion of Advocate General Jacobs, *Silhouette International Schmied Gesellschaft mbH & Co. KG v. Hartlauer Handelsgesellschaft mbH*, Case C-355/96, [1998] E.C.R. I-4799, —, ¶ 49, [1998] 2 C.M.L.R. at 953, 967.

93. *MAG Instrument Inc. v. California Trading Co. Norway*, Ulsteen, Case E-2/97, 1997 Rep. EFTA Ct. 127, [1998] 1 C.M.L.R. 331, 339, ¶¶ 27-28.

94. *IHT International Heiztechnik v. Ideal Standard*, C-9/93, [1994] E.C.R. I-2789,

Bristol-Myers Squibb, the ECJ stated that in a system of undistorted competition:

undertakings must be able to attract and retain customers by the quality of their products or services, which is possible only thanks to the existence of distinctive signs allowing them to be identified. For the trademark to be able to fulfil that function, it must constitute a guarantee that all products which bear it have been manufactured under the control of a single undertaking to which responsibility for their quality may be attributed.⁹⁵

The function of origin has furthermore been the main topic in the case law under the Trade Mark Directive before *Silhouette*,⁹⁶ and the ECJ has continued this line of argument in its first decision involving goods of another producer after *Silhouette*.⁹⁷ It emphasized that under the tenth recital in the preamble to the Trade Mark Directive, "the function of the protection conferred by the mark is primarily to guarantee the indication of origin" and that according to the settled case law of the ECJ, the essential function of the trademark is to guarantee the identity of the origin of the marked product to the consumer or end user by enabling him, without any possibility of confusion, to distinguish the product or service from others that have another origin. For the trademark to be able to fulfill 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 originated under the control of a single undertaking that is responsible for their quality.⁹⁸ Based on these considerations, the court held that there is a correlation between the similarity of the goods in the meaning of Article 4(1)(b) of the Trade Mark Directive, on the one hand, and the

I-2850-51, ¶ 45, [1994] 3 C.M.L.R. 857, 910; see *SA CNL-SOCAL NV v. HAG GF AG*, Case C-10/89, [1990] E.C.R. I-3711, I-3759, ¶ 16, [1990] 3 C.M.L.R. 571, 608 [hereinafter HAG II].

95. *Bristol-Myers Squibb v. Paranova*, Cases C-427, 429, & 436/93, [1996] E.C.R. I-3457, I-3531, ¶ 43, [1997] 1 C.M.L.R. 1151, 1212.

96. See generally *Phytheron Int'l SA v. Jean Bourdon SA*, Case C-352/95, [1997] E.C.R. I-1729, [1997] 3 C.M.L.R. 199; *Sabel BV v. Puma AG, Rudolf Dassler Sport*, Case C-251/95, [1997] E.C.R. I-6191, [1998] 1 C.M.L.R. 445; *Loendersloot v. Ballantine & Son Ltd.*, Case C-349/95, [1997] E.C.R. I-6227, [1998] 1 C.M.L.R. 1015.

97. *Canon Kabushiki Kaisha v. Metro-Goldwyn-Mayer Inc.*, Case C-39/97 (ECJ Sept. 29, 1998) (not yet reported).

98. HAG II, [1990] E.C.R. at I-3730, ¶¶ 13-14, [1990] 3 C.M.L.R. at 581 (speaking of doctrine of common origin).

degree of similarity of the respective signs and the distinctive character of the mark to be protected, on the other.

4. Defining Rights of Trademark Owners vs. Regulating Third Country Relations

The argument that Article 7 of the Trade Mark Directive is meant not to regulate relations between Member States and non-member countries, but to define the rights of trademarks owners in the European Community,⁹⁹ is only half true. In fact, the provision does, in the interpretation given by the ECJ, both—defining the rights of the proprietors *and* regulating relations with third countries.

The ECJ has used a similar argument in its *Javico* judgment of April 28, 1998, on Article 85 of the EC Treaty.¹⁰⁰ In that case, the court held that provisions in an agreement between a French perfume manufacturer (Yves Saint Laurent) and a German dealer (Javico) containing an obligation to export luxury cosmetics to non-member countries (Russia, Ukraine, and Slovenia) and a prohibition of reimporting and marketing those products into the Community did not, by their very nature, have, as their *objective* the prevention, restriction, or distortion of competition within the common market in the meaning of Article 85(1) of the EC Treaty. Stipulations of the type in question had to be construed:

not as being intended to exclude parallel imports and marketing of the contractual product within the Community but as being designed to enable the producer to penetrate a market outside the Community by supplying a sufficient quantity of contractual products to that market. That interpretation is supported by the fact that, in the agreements at issue, the prohibition of selling outside the contractual territory also covers all other non-member countries. It follows that an agreement in which the reseller gives to the producer an undertaking that he will sell the contractual products on a market outside the Community cannot be regarded as having the objective of appreciably restricting competition within the common market or as being capable of affecting, as such, trade between

99. *Id.* at I-3737, ¶ 29, [1990] 3 C.M.L.R. at 589.

100. *Javico Int'l & Javico AG v. Yves Saint Laurent Parfums SA*, Case C-306/96, [1998] E.C.R. I-1983, [1998] 5 C.M.L.R. 172.

Member States.¹⁰¹

A provision, therefore, was prohibited under Article 85(1) of the EC Treaty only if it had the *effect* of preventing, restricting, or distorting competition within the Community and was liable to affect the pattern of trade between Member States.

In that regard, the court held that it had to be determined “whether the structure of the Community market in the relevant products is oligopolistic, allowing only limited competition within the Community network for the distribution of those products,”¹⁰² and:

whether there is an appreciable difference between the prices of the contractual products charged in the Community and those charged outside the Community. Such a difference is not, however, liable to affect competition if it is eroded by the level of customs duties and transport costs resulting from the export of the product to a non-member country followed by its re-import into the Community.¹⁰³

If that examination were to disclose that the contested provisions had the effect of undermining competition within the meaning of Article 85(1) of the Treaty, it would also be necessary to determine whether they:

entail any risk of an appreciable effect on the pattern of trade between the Member States such as to undermine attainment of the objectives of the common market. In that regard, intra-Community trade cannot be appreciably affected if the products intended for markets outside the Community account for only a very small percentage of the total market for those products in the territory of the common market.¹⁰⁴

Whether these conditions were in fact fulfilled for the agreements to be covered by Article 85(1) of the EC Treaty, the ECJ concluded, was for the national court to determine.¹⁰⁵

Advocate General Giuseppe Tesauro had taken the view that Article 85(1) of the EC Treaty was applicable and that it prohibited the contractual terms at issue. These terms sought to achieve an aim that was manifestly anticompetitive, and they

101. *Id.* at I-2004, ¶¶ 19-20, [1998] 5 C.M.L.R. at 190.

102. *Id.* at I-2005, ¶ 23, [1998] 5 C.M.L.R. at 191.

103. *Id.* at I-2005, ¶ 24, [1998] 5 C.M.L.R. at 191.

104. *Id.* at I-2005, ¶¶ 25-26, [1998] 5 C.M.L.R. at 191.

105. *Id.* at I-2006, ¶ 27, [1998] 5 C.M.L.R. at 191-92.

were fundamentally incompatible with Article 85(1).¹⁰⁶ In view of the low prices prevailing on the markets of the non-member countries, the Advocate General considered, the possibility could not be excluded that goods might be reimported into a Member State and then imported into another Member State. That would, indeed, affect trade between the Member States.

In fact, the agreements between Yves Saint Laurent and Javico were aimed at achieving both goals: to encourage market penetration outside the Community on the one hand and to exclude parallel imports into the Community on the other. In any case, the plaintiff before the national court (the party pleading a restraint of competition or a restraint of free trade in the ECJ's diction) will normally not have the resources to prove the effects of certain clauses in a distribution agreement on competition. The national court will therefore hardly be in a situation to examine and determine those effects. It seems that only the European Commission would be in a position to carry out this task.¹⁰⁷ The same holds true of the ECJ's *Silhouette* judgment—limiting exhaustion to the territory of the EEA facilitates the functioning of the internal market and regulating relations with third countries.

5. Function of Origin vs. Goodwill Function

One of the goals of the European trademark law harmonization is to strengthen the legal position of the trademark proprietor.¹⁰⁸ Under Article 5(2) of the Trade Mark Directive, the Member States have the option to grant more extensive protection to trademarks with a reputation, although they are not under an obligation to do so. Additionally, according to Article 17 of the EC Trademark Regulation, a "Community mark may be transferred separately from any transfer of the undertaking."¹⁰⁹ In the light of this, some have argued that *Silhouette* ex-

106. Opinion of Advocate General Tesauro, *Javico Int'l & Javico AG v. Yves Saint Laurent Parfums SA*, Case C-306/96, [1998] E.C.R. I-1983, I-1986, [1998] 5 C.M.L.R. 172, 177.

107. It is furthermore doubtful as to whether an anti-competitive effect will occur only in case of an oligopoly.

108. See Loewenheim, *supra* note 79, at 314.

109. Council Regulation No. 40/94, O.J. L 11/1, at 7 (1993). For the sake of completeness, one may add that the conclusion of the TRIPs Agreement and Chapter 17 of the North American Free Trade Agreement ("NAFTA") have furthermore contributed to the strengthening of the position of the trademark holder.

presses a new approach with regard to the protection of goodwill embodied in a trademark.¹¹⁰

Some observations in the ECJ's *Dior* judgment¹¹¹ seem indeed to point in that direction. In this case, the court stressed the importance of protecting the goodwill of a trademark without defining the relationship of the goodwill function to the function of origin. In *Silhouette*, however, the ECJ did not mention the goodwill function at all. The same holds true of the first judgment concerning a classical trademark law conflict after *Silhouette* in *Canon*.¹¹² It is in fact questionable to deduce from the strengthening of the goodwill function through the enactment of the Trade Mark Directive and the EC Trademark Regulation, that a policy limiting exhaustion to the national and regional level must be permitted. The opposite view could be taken as well: because the said developments have shifted the balance towards the protection of the trademark holder, there are fewer reasons for the assumption of (only) national and regional exhaustion than before they occurred.

On balance, there is now a split in the case law of the ECJ with regard to the function of origin. As far as conflicts between trademark owners and other economic operators using the same or a similar trademark inside the EEA are concerned, the ECJ follows the traditional doctrine. Its case law is based on the function of origin; it aims at facilitating parallel imports and thereby at securing intrabrand competition. In the end, the interests of consumers play the decisive role. For the sake of completeness, it has to be mentioned that with regard to the situation inside the EEA, the protection of intrabrand competition has also continued to be the dominating issue in patent law and in copyright law.¹¹³ In cases involving parallel imports of original goods bear-

110. von Fragstein, *supra* note 89, at 407 (speaking of rewarding function of mark); Johannes Christian Wichard, *Weltweite oder europaweite Erschöpfung von Markenrechten?*, 99 GRUR INT. 711, 713 (1997); see also Martin Huff, *A victory for intellectual property*, FRANKFURTER ALLGEMEINE ZEITUNG, July 17, 1998, at 34.

111. Parfums Christian Dior SA and Parfums Christian Dior BV v. Evora BV, Case C-337/95, [1997] E.C.R. I-6013, [1998] 1 C.M.L.R. 737.

112. Canon Kabushiki Kaisha v. Metro-Goldwyn-Mayer Inc., Case C-39/97 (ECJ Sept. 29, 1998) (not yet reported).

113. See *Merck v. Primecrown*, Cases C-267-68/95, [1997] E.C.R. I-6285, [1997] 1 C.M.L.R. 83 (concerning patent law) [hereinafter *Merck II*]; *Generics BV v. Smith Kline & French Laboratories Ltd.*, Case C-316/95, [1997] E.C.R. I-3929 (concerning infringement of pharmaceutical patent rights); *Norwegian Government v. Astra Norge AS*, E-1/98, Judgment of Nov. 24, 1998, EFTA Court (not yet reported) (concerning

ing the original trademark from outside of the EEA, the function of origin is on the other hand not referred to. In these circumstances, the dominant function of the trademark is indeed the goodwill function.

B. *Economic Considerations*

Those who advocate the rules of restricting parallel imports argue that *international price discrimination* may enhance global welfare. The theory of international price discrimination contemplates further that the producer in the country or region of protection will be exposed to interbrand competition.¹¹⁴ A similar approach has been advocated by the Chicago School of Antitrust with regard to vertical restraints on competition and in particular to resale price maintenance. Its representatives maintained that all vertical restraints should be lawful.¹¹⁵ They are of the opinion that restrictions of intrabrand competition will enhance the more important interbrand competition.¹¹⁶ In the 1970s and 1980s, the Chicago School sought to convince the U.S. Supreme Court that producers should (in the national context) be allowed to enter freely into dealership agreements containing vertical restraints on competition. These attempts were, however, only partially successful. In *Sylvania*, the U.S. Supreme Court held indeed that territorial restrictions are to be dealt with not under the *per se* rule, but under the rule of reason.¹¹⁷ On the other hand, the court maintained its case law from 1911,¹¹⁸ according to which vertical agreements on resale prices are illegal *per se*.¹¹⁹

An open policy on parallel imports of trademarked goods is based on the *theory of comparative advantage*. According to this

copyright). In the latter case, the EFTA Court held that an official dealer may not rely on a national copyright in a summary of product characteristics for a pharmaceutical in order to restrict parallel imports as this would amount to a disguised restriction on trade between the Contracting Parties. The Court has thereby, for the first time, ruled that there can be situations in which the *subject matter* of an intellectual property right is to be set aside.

114. See von Fragstein, *supra* note 89, at 407.

115. See generally ROBERT BORK, THE ANTITRUST PARADOX 303, 406 (1978).

116. *Id.* at 303; see RICHARD POSNER, ANTITRUST LAW: AN ECONOMIC PERSPECTIVE 171, (1976).

117. Continental T.V. v. GTE Sylvania, 433 U.S. 36 (1977).

118. Dr. Miles Med. Co. v. John D. Park & Sons Co., 220 U.S. 373 (1911).

119. Monsanto Co. v. Spray-Rite Serv. Corp., 465 U.S. 752 (1984).

theory, a liberal approach in international trade results in nations specializing in the production of those goods in which they are comparatively the most efficient. Such specialization is apt to enhance global productivity and to benefit all the participants in the world market.¹²⁰ The theory operates on the basis of price.

Each nation produces goods and services whose domestic price reflects the cost of its various factors of production. If the price of a good in one market is less than the price of the same good in another market, traders will move goods from the lower priced market to the higher priced market. Producers in the lower priced market will shift away from comparatively less efficient areas of production and into more efficient and competitive areas of production, and national and global productivity will increase.¹²¹

Rules restricting parallel imports are apt to frustrate those benefits.

The decisive point seems to be that the assumption that the restriction of intrabrand competition will always lead to increased interbrand competition, so that the interests of the consumers correspond, as a rule, to the interests of the producers, cannot be maintained. It has been rightly said that:

when producers in national and regional markets are insulated from external competition (i.e., insulated from imports), the risks of collusive pricing strategies and the tolerance of economic efficiencies are substantially heightened. There are significant risks that groups of producers who sell in single markets will agree to restrict output and maintain prices above market-efficient prices so as collectively to secure non-market rates of return. By opening national and regional markets to trade, governments substantially reduce the risks posed by imperfect national and regional market structures.¹²²

120. Discussion Paper for Conference, *supra* note 91, at 9.

121. *See id.* (referring to Alan O. Sykes, *Comparative Advantage and the Normative Economics of International Trade Policy*, 1 J. INT'L ECON. L. 49 (1998)).

122. *Id.* at 11.

C. EC Relations with Third Countries

1. Preliminary Remarks

Commentators have pointed out that from the European Commission's perspective, the limitation to only regional exhaustion represents a tool that will allow the European Union to negotiate reciprocity agreements with its major trading partners.¹²³ The Advocate General in *Silhouette* has basically taken the same view,¹²⁴ and the ECJ has (like the German Federal Supreme Court in *Dyed Jeans*¹²⁵) expressly mentioned this possibility.¹²⁶

The question then arises as to how the European Union's major trading partners do in fact deal with the issue of international exhaustion. The following considerations are aimed at examining the present legal situation in the United States and in Japan, the two countries that, together with the European Union, form the so-called triade, and in Switzerland, the European Union's most important trading partner in Europe.

2. United States

a. Copyright Law

As far as the EU-U.S. relationship is concerned, it seems at first sight that the ECJ in *Silhouette* has unilaterally taken back elements of free trade although the U.S. Supreme Court has recently (on March 9, 1998, i.e., between the delivery of the opinion of the Advocate General and the handing down of the judgment in *Silhouette*) signalled its willingness to take a liberal stand on the matter in a *copyright case*.¹²⁷ L'anza, a California manufacturer, sold its hair care products in the United States exclusively to distributors who agreed to resell them within limited geographic areas and only to authorized retailers. After L'anza's U.K. distributor arranged for the sale of several tons of L'anza products, affixed with copyrighted labels, to a distributor in

123. See Karl-Heinz Fezer, *Grundprinzipien und Entwicklungslinien im europäischen und internationalen Markenrecht*, 44 WETTBEWERB IN RECHT UND PRAXIS 1, 10 (1998); Joller, *supra* note 89, at 760.

124. *Silhouette International Schmied Gesellschaft mbH & Co. KG v. Hartlauer Handelsgesellschaft mbH*, Case C-355/96, [1998] E.C.R. I-4799, [1998] 2 C.M.L.R. 953.

125. *Dyed Jeans*, 1996 GRUR INT. 721 (F.R.G.).

126. See *supra* footnote 45.

127. *Quality King Distributors v. L'anza Research Int'l, Inc.*, 118 S. Ct. 1125 (1998).

Malta, that distributor sold the goods to Quality King, which imported them back into the United States without L'anza's permission and then resold them at discounted prices to unauthorized retailers. L'anza filed suit, alleging that the petitioner's actions violated L'anza's exclusive rights under the Copyright Act of 1976¹²⁸ to reproduce and to distribute the copyrighted material in the United States. The U.S. Supreme Court unanimously held that the first sale doctrine was applicable to imported nonpiratical (i.e., lawfully made) copies. The U.S. Supreme Court rested its conclusion on the basis of statutory interpretation of the relevant provisions of the 1976 Copyright Act.¹²⁹ Prior to this decision, copyright was frequently used to prevent parallel imports into the United States. Indeed, in *L'anza Research International, Inc. v. Quality King Distributors*, the Ninth Circuit Court of Appeals ruled that the Copyright Act's first sale doctrine did not apply when the first sale took place abroad. To hold otherwise would undermine the copyright holder's right to control the distribution, including price, and quantity of copies, and therefore deprive the copyright owner of the "full value" for the copies sold to the foreign distributor.¹³⁰

It has been remarked that in its ruling, the U.S. Supreme Court has given a sign in favor of free trade and that it has probably delayed the ECJ's judgment in *Silhouette*.¹³¹ The significance of *L'anza Research International* is, however, not entirely clear for at least three reasons. First, the case was not about trademarks, but about copyright, though it certainly was an atypical copyright case.¹³² It is nevertheless an open question how the U.S. Supreme Court would have construed the first sale doc-

128. 17 U.S.C. §§ 106, 501, 602 (1994).

129. 17 U.S.C. §§ 106, 109(a), 602(a), 602(b).

130. *L'anza Research Int'l, Inc. v. Quality King Distributors*, 98 F.3d 1109, 1116 (1996).

131. Gallus Joller, *U.S. Supreme Court für internationale Erschöpfung des Urheberrechts*, 7 EUR. L. REP. 142, 143 (1998).

132. In the oral argument, one of the Justices stated in reaction to an assertion of the Deputy Solicitor General who acted as an amicus curiae for the respondent that "the whole point of copyright is to give incentives to create copyrighted works and to protect . . . the ability of the authors to market them: 'We're talking about shampoo here, aren't we?'" Oral Argument on behalf of the United States, as amicus curiae, supporting the Respondent at 32, 37, *L'anza Research Int'l, Inc. v. Quality King Distributors*, 98 F.3d 1109 (9th Cir. 1996) (No. 96-1470).

trine in a trademark case.¹³³ Second, Justice Ginsburg delivered an uncontested concurring opinion stating that the case “involves a ‘round trip’ journey, travel of the copies in question from the United States to places abroad, then back again. I join the Court’s opinion recognizing that we do not today resolve cases in which the allegedly infringing imports were manufactured abroad.” Whether the court would apply the first sale doctrine in a case involving parallel imports of goods produced outside the United States is therefore open.¹³⁴ Third, even the majority stressed that if the U.S. copyright holder divided the copyright by giving the exclusive U.S. distribution rights to the publisher of the U.S. edition and the exclusive British distribution rights to the publisher of the British edition, the first sale doctrine would not provide the British publisher of the British edition, who wanted to sell in the United States, with a defense to an action under Section 602(a) of the Copyright Act. On balance it seems, therefore, that the scope of the decision is narrower than one might assume at first reading. In this context, one must finally not overlook that in the TRIPs Agreement negotiations the United States has consistently argued in favor of only national exhaustion of intellectual property rights in general.¹³⁵

b. Trademark Law

First, in trademark cases, the first important decision on the first sale doctrine was the ruling of the Circuit Court of the Southern District of New York in *Apollinaris Co., Ltd., v. Scherer* of March 16, 1886.¹³⁶ The British company Apollinaris had acquired the exclusive right to sell Hungarian “Hunyadi Janos” mineral water in the United Kingdom and the United States. The defendant purchased the water from a German dealer and

133. Since a trademark, unlike a copyright, may last forever, exhaustion should be assumed in a trademark case *a fortiori*.

134. First, U.S. commentators have concluded that the ability of companies to use Section 602(a) of the Copyright Act in cases of goods manufactured abroad is left intact. See Daniel A. De Vito & Benjamin Marks, *Preventing Gray Marketing Imports After Quality King Distributors, Inc. v. L'anza Research International, Inc.*, 10 No. 5 J. PROPRIETARY RTS. 2, 4 (1998).

135. Recently, New Zealand and Australia have adopted legislation favoring parallel imports. This again has lead to a strong reaction from the United States. See Discussion Paper for Conference *supra* note 91, at 5.

136. *Apollinaris Co., Ltd., v. Scherer*, 27 F. 18 (C.C.S.D.N.Y. 1886); see BENJAMIN PRICE & ARTHUR STEUART, AMERICAN TRADE-MARK CASES 1075 (1887).

imported it into the United States. The court applied the universality principle and held that:

the defendant is selling the genuine water and therefore the trademark is not infringed. There is no exclusive right to the use of a name or symbol . . . except to denote the authenticity of the article with which it has become identified by association. The name has no office except to vouch for the genuineness of the thing which it distinguishes from all counterfeits¹³⁷

In its 1923 landmark decision in *A. Bourjois & Co., Inc. v. Katzel*, however, the U.S. Supreme Court applied the territoriality principle and ruled in favor of the trademark owner.¹³⁸ In that case, the plaintiff, a U.S. corporation, had purchased a French company's face powder business in the United States as well as its registered trademarks used in connection with the face powder. The plaintiff continued to import the French company's face powder and sold it in boxes that bore the mark "Poudre Java" and disclosed the plaintiff's relationship to the French company. The defendant imported the French face powder and marketed it in the original French boxes, which bore the mark "Poudre Riz de Java". The Supreme Court held that the defendant had infringed the plaintiff's trademark rights even though it sold only genuine face powder. Justice Holmes, in writing the opinion of the Court stated:

It is said that the trademark here is that of the French house and truly indicates the origin of the goods. But that is not accurate. It is the trademark of the plaintiff only in the United States and indicates in law, and, it is found, by public understanding, that the goods come from the plaintiff although not made by it. It was sold and could only be sold with the good will of the business that the plaintiff bought.¹³⁹

Bourjois v. Katzel had a second consequence: the Second Circuit Court of Appeals declined to enjoin the parallel importation of the goods in question.¹⁴⁰ In response, Congress passed Section 526 of the Tariff Act of 1930.¹⁴¹ That provision prohibits importing

137. *Apollinaris*, 27 F. at 20.

138. *A. Bourjois & Co., Inc. v. Katzel*, 260 U.S. 689 (1923).

139. *Id.* at 692.

140. *A. Bourjois & Co., Inc. v. Katzel*, 275 F. 539 (2d Cir. 1921).

141. 19 U.S.C. § 1526(a) (1994).

into the United States any merchandise of foreign manufacture if such merchandise . . . bears a trademark owned by a citizen of, or by a competitor or association created or organized within, the United States, and registered in the Patent and Trademark Office by a person domiciled in the United States . . . , unless written consent of the owner of such trademark is produced at the time of making entry.

U.S. trademark owners may therefore use the customs laws to exclude gray market goods. Such goods are subject to seizure.¹⁴²

The Secretary of the Treasury's regulation, however, construed Section 1526(a) of the Tariff Act as allowing parallel imports, *inter alia*, in cases where the foreign and the U.S. trademark are owned by the same person or business entity or the foreign and domestic trademark owners are parent and subsidiary companies or "are otherwise subject to common ownership or control."¹⁴³ In *K Mart Corp. v. Cartier, Inc.*, the Supreme Court held that the common-control exception of this regulation was consistent with the provision in question.¹⁴⁴

Second, the importation of so-called gray-market goods may also be challenged under the Lanham Trademark Act.¹⁴⁵ The relevant provisions are to be found in Sections 32, 42 and 43. Section 42 of the Lanham Act provides, in relevant part:

[N]o article of imported merchandise which shall copy or simulate the name of . . . any domestic manufacture, or manufacturer, or trader, or of any manufacturer or trader located in any foreign country which, by treaty, convention, or law affords similar privileges to citizens of the United States, or which shall copy or simulate a trade-mark [sic] registered in accordance with the provisions of this Act or shall bear a name or mark calculated to induce the public to believe that the article is manufactured in the United States, or that it is

142. See *K Mart Corp. v. Cartier, Inc.*, 486 U.S. 281 (1988). For further discussion of Section 526 of the Tariff Act of 1930, see Jane A. Restani, *An Introduction to the Gray Market Controversy*, 13 BROOK. J. INT'L L. 235, 236 (1987). In *K Mart*, the U.S. Supreme Court evaluated Secretary of the Treasury's regulations enforcing Section 1526. See *K Mart*, 486 U.S. at 292-94.

143. 19 C.F.R. § 133.21(b) (1987).

144. See *K Mart*, 486 U.S. 281. For further commentary on the *K Mart* decision, see Shubha Ghosh, *An Economic Analysis of the Common Control Exception to Gray Market Exclusion*, 15 U. PA. J. INT'L BUS. L. 373 (1994); Donna M. Lach, *The Gray Market and the Customs Regulation—Is the Controversy Really over After K Mart Corp. v. Cartier, Inc.?*, 65 CHI.-KENT L. REV. 221 (1989).

145. 15 U.S.C. §§ 1051-1127 (1994).

manufactured in any foreign country or locality other than the country or locality in which it is in fact manufactured, shall be admitted to entry at any customhouse of the United States.

Section 43(a) of the Lanham Act states:

Any person who, on or in connection with any goods or services, or any container for goods, uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representations of fact, which . . . is *likely to cause confusion*, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person . . . shall be liable in civil action by any person who believes that he or she is or is likely to be damaged by such act.¹⁴⁶

Section 32 protects registered marks from infringement, providing that:

Any person who shall, without the consent of the registrant, use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause consumer confusion or to cause mistake, or to deceive . . . shall be liable in a civil action by the registrant.

Although *Katzel's* influence can still be felt in today's case law, U.S. courts have not understood the decision as excluding the first sale doctrine in trademark law. In the 1980s, courts were generally favorable to parallel imports. Most of the courts of appeals adopted the view that banning gray market goods in all cases would be incompatible with fundamental principles of trademark law as well as with the interest of competition and with those of consumers.¹⁴⁷ The courts reached this conclusion

146. 15 U.S.C. §1125(a) (1994) (emphasis added).

147. See Seth Lipner, *Trademarked Goods and Their Gray Market Equivalents: Should Product Differences Result in the Barring of Unauthorized Goods from the U.S. Markets?*, 18 HOFSTRA L. REV. 1029, 1034 (1990); Arif S. Haq, *Herend Imports, Inc. v. Diamond & Gem Trading USA, Co.: Gray Market Goods; Reason Makes a Run for the Border*, 23 N.C. J. INT'L L. & COM. REG. 381 (1998).

by limiting the holding of *Katzel* to the specific circumstances of the case.

A case in point is the judgment of the Ninth Circuit Court of Appeals in *NEC Electronics v. CAL Circuit Abco* of February 24, 1987.¹⁴⁸ NEC-Japan, a manufacturer of computer chips, assigned its U.S. trademark rights to its wholly-owned California subsidiary, NEC-USA, whose control remained primarily vested in the parent company. The defendant, CAL Circuit Abco, engaged in parallel importation of NEC-Japan's products. The evidence indicated "that some purchasers from Abco mistakenly thought their chips were protected by NEC-USA's servicing and warranties."¹⁴⁹ NEC-USA argued that the case should be controlled by *Katzel*. The Ninth Circuit Court of Appeals disagreed. It narrowed the holding in *Katzel* by first focusing on the fact that in this case the U.S. company that acquired the mark had made an arm's length contract with the manufacturer that was clearly aimed at preventing the manufacturer from selling its goods directly in the United States. The U.S. company had paid a large sum for the trademarks and the goodwill associated with them. The court next stated that because the manufacturer had forgone all its rights to its trademark in the United States, the U.S. owner of that mark now had complete control over and responsibility for the quality of the goods sold under that mark. "Both these rationales presuppose the American owner's real independence from the foreign manufacturer, and courts interpreting *Katzel* have repeatedly emphasized this factor."¹⁵⁰ The court finally referred to a Second Circuit Court of Appeals case that distinguished *Katzel* because the plaintiff was "an independent domestic trademark owner [which had] purchased the U.S. trademark rights."¹⁵¹ The Ninth Circuit Court of Appeals concluded that "this country's trademark law does not offer NEC-Japan a vehicle for establishing a worldwide discriminatory pricing scheme simply through the expedient of setting up an American subsidiary with nominal title to its mark."¹⁵² It pointed out, among other things, that because NEC-Japan and NEC-USA are *commonly controlled*, "there is no danger to the latter in being un-

148. *NEC Elecs. v. CAL Circuit Abco*, 810 F.2d 1506 (9th Cir. 1987).

149. *Id.* at 1508.

150. *Id.* at 1509.

151. *Olympus Corp. v. United States*, 792 F.2d 315, 321 (2d Cir. 1986).

152. *NEC Elecs.*, 810 F.2d at 1511.

able to control the quality of the former's products."¹⁵³

The Third Circuit Court of Appeals followed the Ninth Circuit Court of Appeals' approach in *Weil Ceramics and Glass, Inc. v. Dash* decided on May 25, 1989.¹⁵⁴ Weil was the wholly-owned subsidiary of Lladro Exportadora, S.A., a Spanish firm that was the sister corporation to Lladro, S.A., a Spanish manufacturer of fine porcelain. Dash imported LLADRO porcelain legally obtained in Spain from distributors of Lladro, S.A., and sold it in the United States without Weil's consent. Weil filed suit arguing that Section 526 of the Tariff Act¹⁵⁵ and Section 42 bar the parallel imports in question. The court distinguished the case from *Katzel* along the lines set out by the Ninth Circuit Court of Appeals in *NEC Electronics* and held that the prohibition on parallel imports does not apply to goods purchased by a manufacturer of goods that was the parent corporation of the U.S. trademark holder. The court stated that its conclusion was "consonant with both *K Mart* and *Katzel*, and illustrate[d] the synthesis between those Supreme Court decisions."¹⁵⁶

Third, on the whole, parallel imports may be blocked pursuant to the case law on Section 1526(a) of the Tariff Act and Sections 32, 42, and 43 of the Lanham Act except when the goods are manufactured by an entity under the common control of the domestic trademark owner. But even in the case of common control, the Lanham Act may be relied on to ban the importation of genuine goods bearing the original trademark if there is a *material difference* between the authorized and unauthorized goods.¹⁵⁷ It seems that some appellate courts have extended the notion of material difference in such a way that banning parallel imports has become almost the rule.

The material differences standard was, for instance, adopted by the Second Circuit Court of Appeals in 1987 in *Original Appalachian Artworks, Inc. v. Granada Electronics, Inc.*¹⁵⁸ The court ruled that Cabbage Patch Kids dolls bearing the owner's trademark, but manufactured abroad and intended for a foreign

153. *Id.* at 1510.

154. *Weil Ceramics and Glass, Inc. v. Dash*, 878 F.2d 659 (3d Cir. 1989).

155. 19 U.S.C. § 1526 (1994).

156. *Weil*, 878 F.2d at 669.

157. See Lipner, *supra* note 147, at 1034.

158. *Original Appalachian Artworks, Inc. v. Granada Elecs, Inc.*, 816 F.2d 68 (2d Cir.), *cert. denied*, 484 U.S. 847 (1987).

market, were not to be imported into the United States because the foreign dolls were accompanied by "birth certificates" and "adoption papers" that were not in English, but in Spanish. Unlike purchasers of U.S. dolls, purchasers of imported dolls were unable to have the dolls "adopted" through U.S. fulfillment houses, which would also send a "birthday card" to purchasers of the U.S. dolls on the first anniversary of the "adoption." The court found that the imported dolls were therefore materially different from the U.S. dolls, with these differences creating confusion over the source of the product and resulting in a loss of the trademark owner's goodwill.¹⁵⁹

In its *Societe Des Produits Nestlé, S.A. v. Casa Helvetia, Inc.* judgment of 1992,¹⁶⁰ the First Circuit Court of Appeals also applied the product differences test. The case was about the sale of chocolates bearing the trademark PERUGINA in Puerto Rico. The plaintiff, the Swiss owner of the mark, had authorized its subsidiary, Nestlé Puerto Rico, to market Italian-made chocolates under the mark in Puerto Rico. The defendant, Nestlé's former Puerto Rico distributor, imported chocolates manufactured by a Venezuelan company under license from Nestlé. The Venezuelan products differed from the Italian products in presentation, variety, composition, and price.¹⁶¹ The First Circuit Court of Appeals held that the "use of the same PERUGINA label on chocolates manifesting such differences is presumptively likely to cause confusion" sufficient to support a Lanham Trademark Act claim.¹⁶² Because the product differences in the case at hand could undermine consumer expectations and very well lead to consumer confusion, the court found the differences to be material.¹⁶³ The defendant was unable to show that consumers did not consider these differences relevant or that retailers

159. *Id.* at 73.

160. *Societe des Produits Nestlé, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633 (1st Cir. 1992).

161. The district court found the following differences between the competing products: there were different procedures of quality control; the Italian-made version of one variety of chocolates, the so-called BACI, contained five percent more milk fat than the Venezuelan chocolates, and other ingredients differed between the two products; the Italian chocolates came in a greater variety of shapes; the description of the packaging differed; and the price of the products differed substantially.

162. *Id.* at 644.

163. *Id.* at 643.

explained the differences to consumers.¹⁶⁴

The Fifth Circuit Court of Appeals went even further in its 1997 *Herend* judgment.¹⁶⁵ Herendi Porcelangyar ("Herendi"), was a Hungarian corporation that manufactured fine porcelain items such as tableware, figurines, and other pieces. The company assigned Martin's Herend Imports, Inc. ("MHI") as its exclusive U.S. distributor. Herendi manufactured thousands of items, but MHI and Herendi jointly selected only a limited number of them for import and sale in the United States. Diamond & Gem Trading USA, Co. purchased genuine Herendi goods bearing the original mark from various sources, including Herendi company stores in Hungary, and sold them in the United States. Some, but not all, of the goods sold by Diamond were among the goods imported by MHI. Herendi and MHI sued Diamond, alleging, among other things, trademark infringement. The Fifth Circuit Court of Appeals stated that the material differences test was "a sound one, at least when the goods are highly artistic, luxury goods."¹⁶⁶ It considered that marketing such goods is a delicate matter and that the goodwill of the trademark may be easily destroyed. It held that "for Herendi, maintaining the goodwill of its mark may depend on the stores where the goods are sold, advertising, the selection of which of the thousands of Herendi pieces will be offered for sale in this country, and many other factors."¹⁶⁷ The court noted that the differences in shape, patterns, and colors of some of the figurines sold by Diamond were material as a matter of law because "consumer choices for such artistic pieces are necessarily subjective or even fanciful, depending on each consumer's personal artistic tastes."¹⁶⁸ Whether the imports were of the same grade and quality was irrelevant.

The court rejected the defendant's argument that its activities were protected by the first sale doctrine, holding that the doctrine *cannot be the controlling principle* in the context of unauthorized graymarket imports. It noted expressly that, otherwise, all graymarket importers would escape liability because "unau-

164. *Id.* at 644.

165. *Martin's Herend Imports, Inc. v. Diamond & Gem Trading USA, Co.*, 112 F.3d 1296, 1299 (5th Cir. 1997).

166. *Id.* at 1302.

167. *Id.*

168. *Id.*

thorized importers are never the first seller.”¹⁶⁹ The court even stated that no one would argue that a seller of fake goods could escape liability “by showing that he was merely reselling the fakes after purchasing them from the manufacturer of the pirated works.”¹⁷⁰ The court allowed Diamond “to sell all pieces which have ever been sold by plaintiffs in the United States,” stating that “in such circumstances the policies of first sale rule limiting restraints on trade and alienation of personal property outweigh the trademark owner’s right to control its goodwill through an exclusive distributorship arrangement.”¹⁷¹

As has been rightly stated, no consistent rule of law has developed on whether product differences lead to the barring of unauthorized goods from the U.S. market.¹⁷² While the definition of the material difference standard in *Original Appalachian Artworks*¹⁷³ and in *Nestlé* go rather far, but seem to be defensible, this is hardly the case with regard to the *Herend* ruling. It has been said that the Fifth Circuit Court of Appeal’s decision in this case grants U.S. trademark owners “the greatest possible protection against gray market goods”¹⁷⁴ and thereby

undermines the purpose behind the material differences standard itself, which is intended to place reasonable limits on the territoriality of trademark law The American consumer was denied product choice because of an overly broad application of trademark law. This anticompetitive result should caution courts to enforce the material differences standard in a more meaningful way.¹⁷⁵

It is in fact not obvious how consumers in the *Herend* case could be misled about the origin of the goods. As far as the underlying rationale of the first sale doctrine is concerned, the approach taken by the Fifth Circuit Court of Appeals gives the trademark owner the possibility of partitioning markets along national borders in a rather easy way. To reach that goal, it is sufficient to make sure that in every country a different product line is cho-

169. *Id.* at 1303.

170. *Id.*

171. *Id.* at 1304.

172. Lipner, *supra* note 147, at 1034.

173. Arif S. Haq has aptly stated that perhaps Spanish-speaking children in the United States “would have been pleased to find a Cabbage Patch doll which contained Spanish adoption papers and instructions.” See Haq, *supra* note 147, at 400 n.132.

174. *Id.* at 383.

175. *Id.* at 398.

sen and marketed by the official distributor. Whether this approach is compatible with the function of trademarks in a free market economy may be doubted. As Professor Lipner has put it, "If trademark law is used to enjoin gray market sales without proof that the gray market goods are substantially different from the authorized goods, trademark law will have the effect of suppressing competition rather than protecting trademark rights and goodwill."¹⁷⁶

The assumption that alleged material differences create confusion and thereby affect the goodwill of the trademark owner has obviously been inspired by the Chicago School.¹⁷⁷ Whether the interests of consumers and trademark proprietors indeed run parallel in every case is, however, doubtful. On balance, the view taken by the *Herend* court amounts to giving priority to the protection of goodwill over the protection of consumers. Finally, considering price differences between the official and parallel imports as a material difference, the way that the court did in *Nestlé*,¹⁷⁸ amounts to turning things upside down. One purpose of the first sale doctrine is indeed to put competitive pressure on the trademark owner and on the official distributors to bring prices down.

3. Japan

Japan has a longstanding tradition of permitting parallel imports of trademarked goods at least if there is a relationship between the foreign and the domestic trademark holder, and the goods are of similar quality.¹⁷⁹ Since 1971, courts have found solutions that come "close to an adoption of the concept of exhaustion."¹⁸⁰ The Japanese Supreme Court has even ruled that not only trademarks, but also patents are subject to international exhaustion.¹⁸¹

176. Lipner, *supra* note 147, at 1054.

177. See Carl Baudenbacher & Wolfgang Caspers, *Markenrecht als Wirtschaftsrecht*, 45 ÖBL 215, 223 (1996); see also De Vito & Marks, *supra* note 134, at 2 (stating that material differences between officially distributed products and parallel imports "cause consumer confusion and, thus, diminish good-will").

178. *Societe des Produits Nestlé, S.A. v. Casa Helvetia, Inc.*, 982 F.2d 633 (1st Cir. 1992).

179. See the discussion of the case law by Christopher Heath, *From "Parker" to "BBS"—The Treatment of Parallel Imports in Japan*, 1993 IIC 179, 180.

180. *Id.* at 189.

181. Judgment of July 1, 1997, Japanese Supreme Court, 1998 GRUR INT. 168.

4. Switzerland

Switzerland is the only Western European country that is neither a Member State of the European Union nor a Contracting Party to the EEA. It has nevertheless taken over the Trade Mark Directive in the course of its so-called "autonomous implementation of European law program."¹⁸² On April 1, 1993, a new trademark act entered into force with an aim, in particular, to create a legal situation compatible to the one in the European Union and in the EEA.¹⁸³ The new act, however, remained silent on the exhaustion issue. After heated discussions in academic literature and conflicting rulings by cantonal courts, the Swiss Federal Supreme Court held in 1996 in *Chanel* that a trademark right was subject to international exhaustion.¹⁸⁴ The court referred, in particular, to the function of origin and stated that its finding was compatible with Article 16(1) of the TRIPs Agreement. The court thereby for the first time explicitly recognized the principle of international exhaustion. The question of whether the material difference approach that was taken in *Omo*¹⁸⁵ is also overruled was, however, left open. *Chanel* was concerned with French luxury perfumes that had been purchased by an unauthorized dealer in France and imported into Switzerland. The imported goods were absolutely identical to those sold by the official Swiss dealers.

Unlike the United States and Japan, Switzerland has, since 1973, been linked with the European Community through a Free Trade Agreement. Swiss graymarket operators have for years been very active as exporters, in particular to Germany.¹⁸⁶ With the *Dyed Jeans* judgment of the German Federal Supreme Court,¹⁸⁷ the German border was closed for such imports, and the same happened with regard to the whole EC border after the ECJ's ruling in *Silhouette*. It is an open question whether these

182. See Carl Baudenbacher, *Zum Nachvollzug europäischen Rechts in der Schweiz*, 27 EUROPARECHT 309 (1992) (concerning this program).

183. BUNDESGESETZ vom. 28. August ueber den Schutz von Marken und Herkunftsangaben (Markenschutzgesetz, MSchG) SR 232.11.

184. BGE 122 III 469; see Carl Baudenbacher & Gallus Joller, *Bundesgericht erlaubt Parallelimporte*, 1997 SCHWEIZERISCHE ZEITSCHRIFT FÜR WIRTSCHAFTSRECHT/REVUE SUISSE DE DROIT DES AFFAIRES 91 (concerning *Chanel*).

185. BGE 105 II 49.

186. See, for instance, the German Federal Supreme Court's ruling in case *Schweizer Aussenseiter*, 1989 GRUR INT. 832.

187. *Dyed Jeans*, 1996 GRUR INT. 721 (F.R.G.).

changes amount to a violation of the stand still clause in the Free Trade Agreement.

For the sake of completeness, it may be added that the Swiss Federal Supreme Court recently adopted the doctrine of international exhaustion also in copyright law. In its *Nintendo* judgment of July 20, 1998,¹⁸⁸ the court held that Nintendo Co. Ltd., Japan, the owner of the copyright in the video game "Donkey Kong Land," was unable to oppose the sale in Switzerland of parallel imports from the United States. From a contextual perspective, the court explicitly referred to its *Chanel* ruling on international exhaustion of trademark rights and stated that a different treatment of trademarks and copyright would hardly be justified.¹⁸⁹ In essence, the court used a line of argument that is well-known from the ECJ's practice under Articles 30 and 36 of the Treaty establishing the European Economic Community.¹⁹⁰ It stated that with regard to copies put on the market abroad, the copyright owner had its opportunity to make an appropriate return on investment. It was therefore for the owner to examine whether there are sufficient return opportunities and to decide based on this information where it wanted to market the work in that country. In this regard, the Swiss Federal Supreme Court referred indirectly to the U.S. Supreme Court's *Quality King* judgment of March 9, 1998.¹⁹¹

5. Result

The foregoing considerations show that the United States, Japan, and Switzerland, some of the European Union's most important trading partners, have different records when it comes to policing parallel imports. Japanese and Swiss courts have adopted an open approach without asking for any kind of reciprocal treatment. In the United States, the situation is less clear. On the face, most of the federal appellate courts seem to favor a free-trade oriented policy, at least in cases of common control. Some of them are, however, rather protectionist on the merits by using a very narrow material difference standard. One will also notice that the U.S. government has in the past continuously

188. BGE 124 III 321.

189. *Id.* ¶ 2.c.

190. Treaty establishing the European Economic Community, Mar. 25, 1957, arts. 30, 36, 298 U.N.T.S. 11, 26, 29 [hereinafter EEC Treaty].

191. BGE 124 III 321, ¶ 2.i.

taken the position that it considers the adoption of open policies on parallel imports as being contrary to U.S. interests.¹⁹²

D. *Compatibility with WTO/TRIPS*

1. General

Unlike the EFTA Court's *Maglite* ruling, the ECJ's *Silhouette* judgment does not mention the terms of the World Trade Organization ("WTO"). It has, however, been criticized by WTO law scholars. Frederick Abbott has stated that "the Community once again has established a dividing line between completion of the internal market and multilateral trade policy."¹⁹³

From a world trade perspective, the exhaustion of rights question involves the intellectual property rights (or "IPRs") holders' claim "that the value of protecting intellectual property at the national and regional level exceeds the value to the world economic system of open trade among nations and regions."¹⁹⁴ The question of whether present WTO rules restrict the Member States' ability to adopt rules prohibiting parallel imports of trademarked goods is, however, not settled. The WTO Agreement pursues at the same time the objectives of removing barriers to trade and (through the TRIPs Agreement) of protecting intellectual property rights. From an intellectual property-related standpoint one could argue that these two objectives are equivalent. On the other hand, there is an "inherent tension between IPRs-based territorial restrictions and the rules of the GATT 1994 and the GATS promoting the free movement of goods and services."¹⁹⁵ It may therefore be necessary "to give priority to one set of values over the other" and that "the WTO Agreement places a priority on the liberalization of markets," which justifies a presumption in that direction.¹⁹⁶ This conflict is also reflected in scholarly opinions on the significance of Article 6 of the TRIPs Agreement. The provision states that "for the purpose of dispute settlement under this Agreement, . . . nothing . . . shall be used to address the issue of exhaustion of intel-

192. See Discussion Paper for Conference, *supra* note 91, at 8.

193. Frederick Abbott, Co-Rapporteur, First Report (Final) to the Committee on International Trade Law of the International Law Association on the Subject of Parallel Importation 27 (1998); see Cornish, *supra* note 3, at 172.

194. Discussion Paper for Conference, *supra* note 91, at 2.

195. *Id.* at 8.

196. *Id.* at 7.

lectual property rights.”¹⁹⁷ There are those who deduce from the history and the wording of Article 6 that each WTO member has the right to adopt its own rules regarding exhaustion of intellectual property rights. Others have argued that parallel import rules may be challenged under the GATT 1994 and under other parts of the WTO agreements because Article 6 is limited to the terms of the TRIPs Agreement.¹⁹⁸ A middle position contends that rules allowing the blocking of parallel imports are inconsistent with the structure and spirit of the GATT, but that Article 6 of the TRIPs Agreement makes it impossible to successfully attack such rules.¹⁹⁹ In other words, while Article 6 “certainly means that no country can be put in the dock for deciding for or against international exhaustion, it does not necessarily mean that the TRIPs Agreement as such would not favor either one or the other position.”²⁰⁰

2. Consequences of *Silhouette* for Developing Countries

Rules allowing the ban of parallel imports put developing countries at a disadvantage. They are deprived of their competitive opportunities “as their national enterprises are restricted in taking advantage of export opportunities.”²⁰¹ The same holds true for the emerging market economies of Eastern Europe.²⁰²

E. *Consequences for the Functioning of the European Economic Area*

In view of the answers that the EFTA Court and the ECJ have given to basically identical questions, one may ask whether there is a conflict in the sense of Article 105 *et seq.* of the EEA Agreement. Under Article 105(2) of the EEA Agreement, the EEA Joint Committee, a body consisting of representatives of the

197. TRIPs, *supra* note 24, art. 6, 33 I.L.M. at 1200.

198. See Thomas Cottier & Marc Stucki, *Parallelimporte im Patent-, Urheber- und Muster- und Modellrecht aus europarechtlicher und völkerrechtlicher Sicht*, paper presented at a conference of the Association Suisse d'Etude de la Concurrence (“ASEC”), Feb. 23, 1996.

199. Discussion Paper for Conference, *supra* note 91, at 16.

200. Christopher Heath, *Parallel Imports and International Trade*, 1997 IIC, 623, 629; see Cottier, *Das Problem der Parallelimporte im Freihandelsabkommen Schweiz-EG und im Recht der WTO-GATT*, 1995 SCHWEIZERISCHE MITTEILUNGEN ÜBER IMMATERIALGÜTERRECHT 37, 56. Some commentators have furthermore argued that a shift from international to regional exhaustion is in violation of Articles I, XI and XXIV of the General Agreement on Tariffs and Trade (“GATT”). Cottier, *supra*, at 37, 56; Joller, *supra* note 89, at 759.

201. Discussion Paper for Conference, *supra* note 91, at 8, 17.

202. See Ullrich, *supra* note 84.

Contracting Parties, "shall keep under constant review the development of the case law of the Court of Justice of the European Communities and the EFTA Court."²⁰³ According to Article 105(3), the procedures on dispute settlement laid down in Article 111 of the Agreement may be applied if the Committee has not succeeded in preserving the homogeneous interpretation of the Agreement within two months after a difference in the case law of the two courts has been brought before it.

The two courts seem to be following different approaches as far as the function of a trademark in a free market economy is concerned. It has been said that the EFTA Court has defended the spirit of trademark law, according to which trademarks have in the first place the function to indicate the origin of goods and not to serve as a tool for market partitioning and banning of parallel imports and that this free trade-oriented, progressive attitude runs counter to the "protectionist and reactionary decision of the ECJ."²⁰⁴ There is, nevertheless, no judicial conflict in the meaning of Article 105 of the EEA Agreement. Consequently, no proceedings under Article 105(2) and (3) have been opened. The decisive point is insofar that the EEA/EFTA States have, unlike the EC Member States, kept their full sovereignty in foreign trade matters and the EEA Agreement has not established a customs union.²⁰⁵ The fact that graymarket goods may be freely imported into EEA/EFTA States finally does not amount to creating a hole in the EEA market as a whole.

According to Article 8 of the EEA Agreement, the principle of free movement of goods applies only with regard to goods originating in the EEA, while in the Community, a product is in free circulation once it has been lawfully placed on the market in a Member State. In *Maglite*, the parallel imports were manufactured in the United States and imported into Norway and were therefore not subject to the principle of free movement of goods within the EEA.²⁰⁶ The conclusion that *Maglite* implies

203. EEA Agreement, *supra* note 2, art. 105(2), O.J. L 1/3, at 26 (1994).

204. See Thomas Rist, *Fundamentaler Unterschied*, NEUE ZÜRCHER ZEITUNG [NZZ], Aug. 19, 1998, at 5; Thomas Rist, *Unliberaler Entscheid*, NZZ, July 17, 1998, at 19; see also Ullrich, *supra* note 84.

205. See insofar the statement of the Member of the EFTA Surveillance Authority Bernd Hammermann, NZZ, Aug. 19, 1998.

206. *MAG Instrument Inc. v. California Trading Co. Norway*, Ulsteen, Case E-2/97, 1997 Rep. EFTA Ct. 127, [1998] 1 C.M.L.R. 331, 338-39, ¶¶ 24-26. Advocate General Jacobs shared this view in his opinion in *Silhouette* and indeed distinguished *Silhou-*

that its outcome is only appropriate for the EFTA states, but not for the more cohesive European Union,²⁰⁷ overlooks, however, that the first line of argument in *Maglite* is clearly the one focusing on the function of origin, competition, protection of consumers, and free trade.²⁰⁸

CONCLUSIONS

A. *The ECJ's Dilemma in Silhouette*

In *Silhouette*, the ECJ found itself in a dilemma. It could either allow Member States to opt for international exhaustion—thereby accepting some disparities that may impede the free movement of goods and services and may distort competition within the common market—or it could give priority to the functioning of the single market, thereby restricting free inter-brand trade and competition and affecting in a negative way European consumers and trading partners.²⁰⁹ The court decided, not surprisingly, to go the second way. In doing so, the ECJ acted as an executor of the intentions of the vast majority of those Member States that had presented their view in the proceedings and of the European Commission.²¹⁰ One has to remember that since the early 1990s, the ECJ has shown an increasing unwillingness to interfere with the policies of the Member States in other areas of European Community law as well.²¹¹ The Italian judge

ette from *Maglite* based on this consideration. *Silhouette International Schmied Gesellschaft mbH & Co. KG v. Hartlauer Handelsgesellschaft mbH*, Case C-355/96, [1998] E.C.R. I-4799, __, ¶ 43, [1998] 2 C.M.L.R. 953, 965.

207. Cornish, *supra* note 3.

208. *Maglite*, [1998] 1 C.M.L.R. 331. Furthermore, Cookson in early July 1998 also expressed the hope that the EFTA Court's *Maglite* ruling "may give the ECJ pause for thought before rendering its final judgment" in order to avoid "a difference of opinion between two courts interpreting the same piece of European legislation." Cookson, *supra* note 3.

209. What Justice Scalia has said in his famous *Hartford Fire Insurance* dissent, that the broad interpretation of extraterritorial jurisdiction by the majority in this case "will bring the Sherman Act and other laws into sharp and unnecessary conflict with the legitimate interests of other countries, particularly our closest trading partners," has at least some truth for *Silhouette* as far certain (not all) trade partners are concerned. *Hartford Fire Insurance Co. v. California*, 509 U.S. 767, 820 (1993) (Scalia, J., dissenting).

210. See *supra* notes 17-25 and accompanying text.

211. See Criminal proceedings against Bernard Keck and Daniel Mithouard, Cases C-267-68/91, [1993] E.C.R. I-6097, [1995] 1 C.M.L.R. 101 (concerning free movement of goods); Criminal proceedings against Harry Franzé, Case C-189/95, [1997] E.C.R. I-5909, [1998] 1 C.M.L.R. 1231 (concerning compatibility of State monopolies with provi-

of the ECJ has aptly described this attitude as a "minimalist" approach.²¹²

The European legislature has not succeeded in resolving the matter. An early attempt by the European Commission to prescribe international exhaustion of trademark rights for all Member States in the Trade Mark Directive was defeated in the European Parliament. Scholarly literature was split over the issue of whether Article 7(1) of the Trade Mark Directive left it for the Member States to decide whether they wanted to maintain or to introduce international exhaustion.²¹³ The ECJ, in fact, had to make a choice.

B. *Reciprocity as a Decisive Issue*

The most important novelty in *Silhouette* is undoubtedly the fact that the decision has established a link between trademark law and trade and that, in doing so, it has introduced the concept of *reciprocity* into European intellectual property case law. Under this classic strategy for trade cooperation, "good is returned for good, and bad for bad."²¹⁴ In other words, a country need not make a trade concession without receiving something in return.²¹⁵ The United States was the first country to use reciprocity strategically in international intellectual property law. Reference is to be made to the history of the Semiconductor

sions in free movement of goods 1997); Commission v. France, Case C-159/94, [1997] E.C.R. I-5815; Commission v. Italian Republic, Case C-158/94, [1997] E.C.R. I-5789, [1998] 2 C.M.L.R. 373 (concerning compatibility of State monopolies with provisions on free movement of goods and on competition); Commission v. Kingdom of the Netherlands, Case C-157/94, [1997] E.C.R. I-5699, [1988] 2 C.M.L.R. 373; Commission v. Kingdom of Spain, Case C-160/94, [1997] E.C.R. I-5851, [1998] 2 C.M.L.R. 373; Konsumentombudsmannen (KO) v. De Agostini (Svenska) Forlag AB and TV-Shop I Sverige AB, Cases C-34-36/95, [1997] E.C.R. I-3843 (concerning scope of TV Directive (89/552/EEC) and following Forbrukerombudet v. Mattel Scandinavia A/S & Lego Norge A/S, E 8-9/94, 1994/95 Rep. EFTA Ct. 113, [1998] 1 C.M.L.R. 313); see also TV Sverige AB v. Norwegian Government, Case E-8/97, [1998] 3 C.M.L.R. 318.

212. Giuseppe Federico Mancini & David T. Keeling, *Language, Culture and Politics in the Life of the European Court of Justice*, 1 COLUM. J. EUR. L. 397 (1995).

213. See the account of the discussion by Claudius Marx, *Internationale oder regionale Erschöpfung im Markenrecht? Eine Betrachtung im Recht der BRD, der EU und der WTO*, 1 AKTUELLE PROBLEME DES EUROPÄISCHEN UND INTERNATIONALEN WIRTSCHAFTSRECHTS 241, 257 (Carl Baudenbacher ed., 1998).

214. Robert O. Keohane, *Reciprocity in International Relations*, 40 INT'L ORG. 1, 10 (1986).

215. See JOHN JACKSON, *WORLD TRADE AND THE LAW OF GATT* 242 (1969).

Chips Protection Act of 1984.²¹⁶ Congress deliberately declined to amend the Copyright Act, but created a special statute, thereby keeping the United States from being bound by the existing international copyright conventions and allowing it to use the principle of reciprocity.²¹⁷ The step proved successful in a very short time. Japan, Sweden, Australia, Canada, Switzerland, Finland, and the European Union applied for interim protection and were prompted to enact their own statutes.²¹⁸ The reciprocity approach is also a characteristic feature of the use of Section 301 of the U.S. Trade Act.²¹⁹ Here again, the United States has taken unilateral action by linking intellectual property and foreign trade.²²⁰ Furthermore, in the TRIPs Agreement, intellectual property has to a certain extent become a tool to open up foreign markets. It was once more the United States who urged the other parties to the WTO to agree to this approach.

On the whole, one could say that the United States has set the agenda in linking intellectual property law and foreign trade policy, and the Europeans are reacting accordingly.²²¹ At least the position of the European Commission in *Silhouette* and in *Maglite* seems to have been influenced by U.S. foreign trade policy. *Silhouette* is, in other words, an expression of a certain trade policy attitude. The "international economic law revolution" that is expressed in the "'trade and ___' phenomenon"²²² has now reached European trademark law. In this respect, the ECJ's ruling in *Silhouette* is an expression of the *Zeitgeist*.²²³

216. Semiconductor Chip Protection Act of 1984, 17 U.S.C. §§ 901-914 (1994).

217. 17 U.S.C. §§ 901.

218. See Thomas Dreier, *National Treatment, Reciprocity and Retorsion—The Case of Computer Programs and Integrated Circuits*, in GATT OR WIPO? NEW WAYS IN THE INTERNATIONAL PROTECTION OF INTELLECTUAL PROPERTY, SYMPOSIUM AT RINGBERG CASTLE, JULY 13-16, 1988 63, 71 (F.K. Beier & G. Shricke eds., Weinheim-VCH Verlagsgesellschaft 1989).

219. U.S. Trade Act of 1974, as amended, 19 U.S.C. § 2411 (1994).

220. See EUROPEAN COMMISSION, GENERAL REPORT ON UNITED STATES BARRIERS TO TRADE AND INVESTMENT 1998 (1998).

221. See Nicole Telecki, *The Role of Special 301 in the Development of International Protection of Intellectual Property Rights after the Uruguay Round*, 14 B.U. INT'L L.J. 187 (1996) (concerning use of Special 301 after conclusion of TRIPs Agreement).

222. See Joel P. Trachtman, *The International Economic Law Revolution*, 17 U. PA. J. INT'L ECON. L. 33, 36 (1996); Frank J. Garcia, *Trade and Justice: Linking the Trade Linkage Debates*, 19 U. PA. J. INT'L ECON. L. 391 (1998).

223. Garcia, *supra* note 222, at 391.

C. Future Perspectives

If one assumes that the ECJ will not overrule its *Silhouette* judgment in the near future, then the ball is now with the competent political authorities. One possibility consists of amending European trademark legislation along lines that would be positive for consumers. Taking this path substantiates the possibility that the old proposal of the Commission to introduce the principle of international exhaustion²²⁴ into the Trade Mark Directive would finally become reality. If all the Member States were bound by this principle, then there would obviously be no distortions of the free movement of goods and services or of competition inside the internal market. In fact, Member States with a long-standing free trade tradition such as Sweden, Denmark, Finland, the United Kingdom, and the Netherlands (with the exception of the Netherlands, all former EFTA States), expressed their concern about the consequences of *Silhouette* on parallel imports and trademark laws during the Internal Market Council of September 24, 1998. France, Austria, Italy, Ireland, and Germany were on the other hand reticent and concerned about the impact on trademark proprietors. The European Commission is carrying out an inquiry on the consequences of the ruling.²²⁵ It is, however, more likely that the European Union will stick with the reciprocity approach and will try to enter into bilateral talks with its major trading partners. International exhaustion could therefore be an item on the agenda of future trade negotiations. In the meantime, "many consumers and many retailers"²²⁶ will pay the price.

224. Articles 6 Draft Trade Mark Directive and 11 Draft Trademark Regulation, COM (80) 635 Final/2 (1980).

225. See AGENCE EUROPE, Sept. 25, 1998, at 8; Discussion Paper for Conference, *supra* note 91, at 12 n.36 (rightly stating that "as with all similar undertakings, the value of this study will depend upon the methodology used . . . in evaluating the impact of parallel import rules"). Interestingly enough, the United Kingdom had in the proceedings before the ECJ in *Silhouette* as well as before the EFTA Court in *Maglite* taken the view that Article 7(1) of the Trade Mark Directive should be construed so that national rules providing for international exhaustion of trademark rights are unlawful.

226. Cornish, *supra* note 3, at 172.