

License agreements containing sales restrictions

Exhaustion of TM rights

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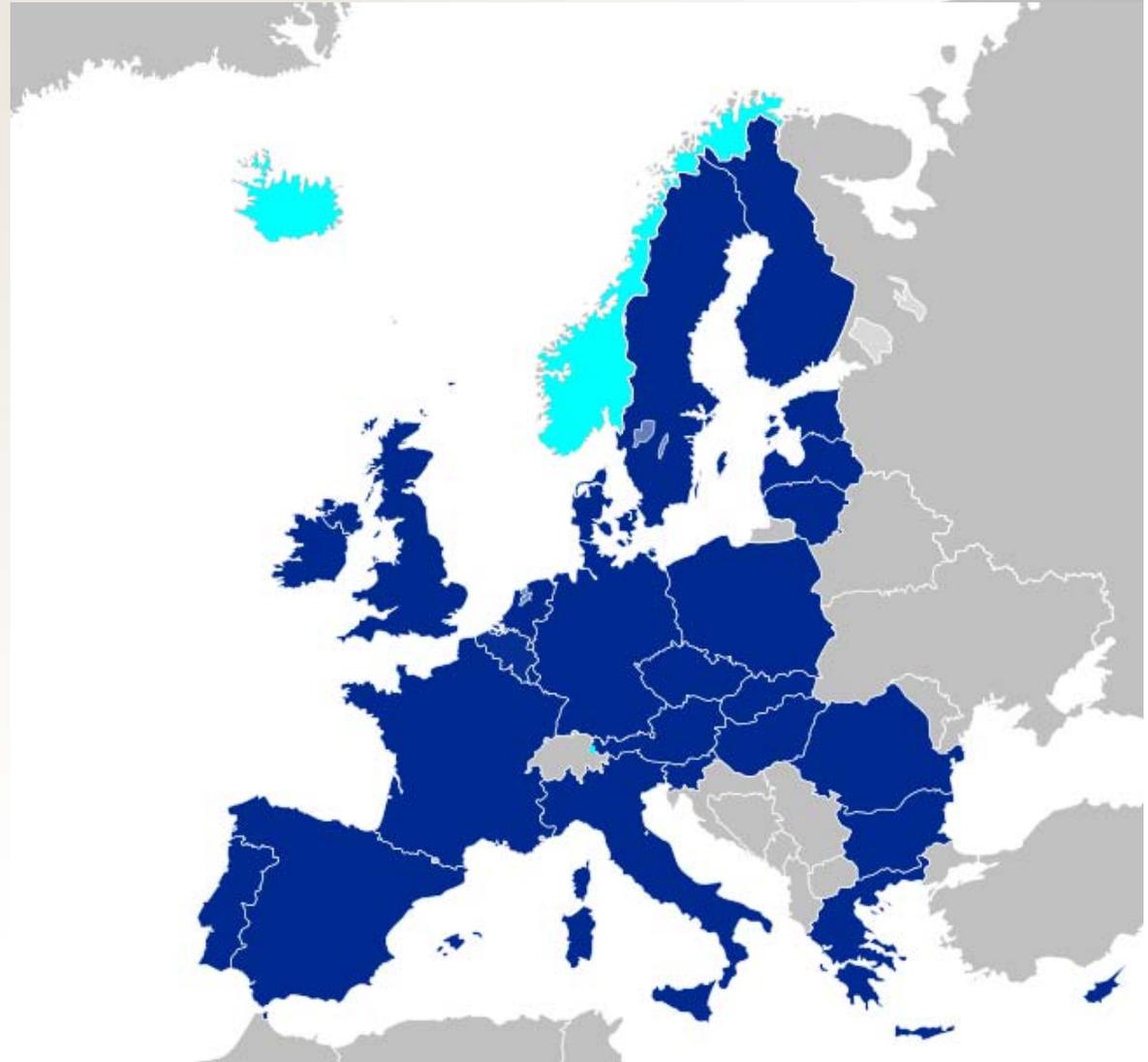
apram marques
droit modèles

Legal framework

- Exhaustion
 - Principle of Community-wide exhaustion
Art. 7(1) Directive; Art. 13(1) CTMR
 - Exceptions for legitimate reasons
Art. 7(2) Directive; Art. 13(2) CTMR
- Trade mark rights against the licensee
Art. 8(2) Directive; Art. 22(2) CTMR

Legal framework

- Exhaustion
 - EEA territory



Legal framework

- Exhaustion
 - EEA territory
30 Member States
 - EFTA Court,
08.07.2008
E-9/07
L'Oréal



Legal framework

- Article 8(2) Directive 89/104

“The proprietor of a trade mark may invoke the rights conferred by that trade mark against a licensee who contravenes any provision in his licensing contract with regard to

its duration,

the form covered by the registration in which the trade mark may be used,

the scope of the goods or services for which the licence is granted,

the territory in which the trade mark may be affixed, or the quality of the goods manufactured or of the services provided by the licensee”

Legal framework

- Article 8(2) Directive 2008/95

“The proprietor of a trade mark may invoke the rights conferred by that trade mark against a licensee who contravenes any provision in his licensing contract with regard to:

- (a) its duration;
- (b) the form covered by the registration in which the trade mark may be used;
- (c) the scope of the goods or services for which the licence is granted;
- (d) the territory in which the trade mark may be affixed; or
- (e) the quality of the goods manufactured or of the services provided by the licensee”

Christian Dior / SIL & Copad



Dior

Christian Dior / SIL & Copad

- The facts
 - 2000 : licence agreement for the production and distribution of lingerie products branded Christian Dior

Le contrat de licence liant la SIL à Christian Dior prévoyait expressément que : “Afin de maintenir la notoriété et le prestige de la marque, le Licencié s’engage à ne pas vendre à des grossistes, collectivité, soldeurs, société de vente par correspondances, par le système du porte à porte ou de vente en appartement sauf accord préalable écrit du Concédant, et devra prendre toute disposition pour faire appliquer cette règle par ses distributeurs et détaillants”.

- Licensee gets in financial trouble and sells to Copad (discount trader)
- Products branded “Dior” / debranded (“*dégriffés*”)

Christian Dior / SIL & Copad

- Bobigny Court of first instance, 6 April 2004
 - No exhaustion

“the first placing on the market must take place with the trade mark holder’s consent and not by a licensee acting in breach of his license”
 - No infringement

“[Art. 8(2) Dir.], which must be interpreted strictly, does not refer to subsequent distribution. It does not seem that it could be included in the services referred to in this provision”

Christian Dior / SIL & Copad

- Bobigny Court of first instance, 6 April 2004
 - The violation of the license agreement causes €40,000 damages to Christian Dior (to be paid by the licensee only)
- Christian Dior appeals

Christian Dior / SIL & Copad

- Paris Court of appeal, 7 April 2006
 - No exhaustion
 - “The placing on the market of the litigious DIOR products, which is made only with the licensee’s consent acting outside the framework of his license, cannot constitute exhaustion of the trade mark holder’s exclusive rights”
 - “Dior” branded products: no infringement
 - Debranded products: TM infringement

Christian Dior / SIL & Copad

- Paris Court of appeal, 7 April 2006
 - Violation of license agreement:
Disturbance of Dior's distribution network
€40,000
 - Damages for TM infringement: €130,000
- Both Dior and Copad appeal

Christian Dior / SIL & Copad

- French *Cour de cassation*, 12 Feb. 2008

References to the ECJ (C-59/08)

1. Art. 8(2) - Can the TM holder invoke his TM rights against the licensee who contravenes the licensing contract prohibiting, on grounds of the trade mark's prestige, sale to discount stores?
2. Art. 7(1) - If a licensee puts goods on the EEA market in disregard of this licensing contract, does he do so without the TM holder's consent?
3. Art. 7(2) - If not, can the TM holder invoke such a provision to oppose further commercialisation of the goods?



Levi Strauss / HTDC

- French *Cour de cassation*, 21 Oct. 2008
 - Agreement (“settlement”) between Levi Strauss & Metro:
 - Genuine products coming from the US
 - Restrictive sales conditions: only in METRO shops
 - Metro violates its obligation and sells to HTDC, which sells further to Auchan
 - Paris Court of Appeal, 03.11.2004: “the settlement agreement does not contain the TM holder’s consent to put the goods on the market of the EEA”
 - *Cour de cassation* confirms this ruling

Elements of answer

- ECJ case law



Elements of answer

- TM holder's consent
 - To the placing on the market in the EEA
 - Uniform interpretation in the Community (Davidoff, C-414/99,43)
 - The contractual restriction of the right to dispose freely of the goods is a different question from those concerning the effect of consent (Davidoff, 63)
 - Preservation of the exclusive right cannot depend on the repetition, in one or more contracts concluded in the distribution chain, of the prohibition of marketing within the EEA (Davidoff, 64)

Elements of answer

- Putting on the market

- Peak Holding C-16/03
- Agreement with Copad: sell only in Slovenia and Russia



Elements of answer

- Putting on the market
 - Uniform interpretation in the Community (Peak Holding, 32)
 - Presupposes a sale of the goods in the EEA
 - Art. 7(1) does not make exhaustion of the TM rights subject in addition to the proprietor's consent to further marketing of the goods in the EEA (Peak Holding, 52)
 - Exhaustion occurs solely by virtue of the putting on the market in the EEA by the proprietor (Peak Holding, 53)

Elements of answer

- Putting on the market
 - The contractual stipulation of a prohibition on reselling in the EEA does not mean that there is no putting on the market in the EEA and thus not preclude the exhaustion of the exclusive rights in the event of resale in the EEA in breach of the prohibition (Peak Holding, 56)

Elements of answer

- Peak Holding, Advocate Gen. Stix-Hackl
 - Exhaustion = balancing of interests between the free movement of goods and TM rights (19)
 - The proprietor decides when the goods are put on the market in the EEA for the first time, but is denied any trade mark control over the subsequent distribution of the goods (19)
 - The legal nature of exhaustion which arises *by operation of law* (48)
 - The contractual breach does not amount to a failure of consent (47-48)

Elements of answer

- “Essential” function of a trade mark
 - To guarantee the identity of origin to the consumer
 - To guarantee that all the goods bearing the TM have been manufactured under the control of a single undertaking which is responsible for their quality
(Hag II, C-10/89, 13-14; Canon, 28; Philips, 30; Arsenal, 48; Sieckmann, 35; Björnekulla, 20; Peak Holding, 30; Gillette, 26; Céline, 27)

Elements of answer

- Possibility of control of the quality
 - National trade marks held by the same group
(Phyteron, 20.03.1997, C-352/95)
 - If the persons are economically linked
 - Products put into circulation by:
 - the same undertaking
 - a licensee
 - a parent company
 - a subsidiary of the same group
 - an exclusive distributor
- (Ideal-Standard, 22.06.1994, C-9/93, 34)

Solutions?

- Art. 7(1) Dir.: principle
 - Unlikely
- Art. 7(2) Dir.: legitimate reasons

Solutions?

- *Ratio legis* of exhaustion
 - No impact on the trade between Member States
 - No risk of artificial partitioning of the market

Solutions?

- Condition is changed or impaired
 - If the carton or label of the repackaged product is defective, of poor quality or untidy (Boehringer II, 26.04.2007, C-348/04, 40)
 - Debranded “Dior” products
 - If the repackaging is such as to affect the trade mark’s value by detracting from the image of reliability and quality attaching to such a product and the confidence it is capable of inspiring in the public concerned (Boehringer II, 43)

Solutions?

- Prestigious and luxury goods
 - The reseller must endeavour to prevent his advertising from affecting the value of the trade mark by detracting from:
 - the allure
 - the prestigious image of the goods
 - their aura of luxury
 - If the reseller's modes of advertising are customary in the trade sector, they do not constitute a legitimate reason
unless the reputation of the trade mark is seriously damaged
(Dior / Evora, 04.11.1997, C-337/95 45-46)

Solutions?

- Impression of a commercial connection
 - If the trade mark is used in such a way (advertising) that it may give rise to the impression that there is a commercial connection
 - the reseller's business is affiliated to the trade mark proprietor's distribution network
 - there exist a "special relationship"
(BMW, 23.02.1999, C-63/97, 51 and 64)
 - An aura of quality (honest and fair advertising) does not constitute a legitimate reason (BMW, 53)

Conclusion

- Times are hard...
- License agreements
 - Importance of sanctions
 - Issue of enforceability against third parties
 - Competition restrictions
 - Issue of abuse of dominant position:
GSK (Greek importers), 16.09.2008, C-468/06 to C-478/06

Thank you

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