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European Parallel Trade Review 2011

We report on the latest developments in parallel trade as at winter 2010. The last year or so has seen a great focus at European level on general issues of exhaustion of rights concerning consumer brands. As always, there are many aspects of particular interest for the pharmaceutical and plant protection industries, and we also cover developments relevant to competition law, customs procedures and regulatory issues, with updates from a variety of countries.

CMS has an experienced team of lawyers across the European Union and further afield which is able to advise on all aspects of parallel trade. If you would like further information, please contact a lawyer in the relevant office using the contact details at the back of this publication.

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Exhaustion of Rights within Europe

The "exhaustion of rights" concept means that a rights owner may not use his intellectual property rights to prevent importation of goods into a country of the EEA if those goods have been put on the EEA market by the same rights owner or by that rights owner's licensee or otherwise with his consent.

Article 7(1) of Trade Marks Directive 2008/95 states:

"the trade mark shall not entitle the proprietor to prohibit its use in relation to goods which have been *put on the market* in the Community under that trade mark by the proprietor or with his *consent*".

There is an equivalent provision in Article 13(1) of Regulation 2007/2009 concerning Community trade marks.

Article 7(1) is subject to Article 7(2), which states that Article 7(1) shall not apply where there exist "legitimate reasons" for the proprietor to oppose dealings in goods, especially where the condition of goods has been changed or impaired. In recent months a number of cases at ECJ level have considered further the concepts of consent, placement on the market and "legitimate reasons", including the nature of damage to a mark, both in the context of repackaging and onward selling of branded goods by third parties.

Makro Zelfbedieningsgroothandel CV and others -v- Diesel SpA, Case C-324/08, 15 October 2009

Recent decisions concerning the meaning of consent have involved movement of non EEA goods into the EEA. These cases have followed a similar pattern following repeated application of the ECJ's judgment in *Davidoff/Levi Strauss,* Cases C-414 to 416/99, which requires the trade mark owner's consent to sell in the EEA market to be clearly demonstrated. The *Makro* case examined whether the same test applies in relation to goods that are first placed on the market within the EEA, and concludes that it should.

Background

Diesel owned a trade mark in the Benelux countries for the work mark DIESEL. Flexi Casual SA was granted exclusive selling rights by Diesel's official distributor in Spain, Portugal and Andorra for shoes and other goods bearing the DIESEL mark and was permitted to conduct "market tests" on the shoes. Flexi Casual then granted Cosmos World SL a licence to manufacture and sell shoes, bags and belts bearing the DIESEL mark, without the express approval of Diesel or its official distributor. Makro subsequently sold shoes bearing the DIESEL mark which had been bought from Cosmos.

Diesel brought a claim in the Dutch court against Makro on the basis of copyright and trade mark infringement. The Dutch court referred questions to the ECJ regarding the criteria to be applied when deciding whether a proprietor's implied consent has been given to the marketing of goods bearing their brand in the EEA.

Decision

In considering the notion of implied consent the ECJ examined the *Davidoff/Levi Strauss* case. It noted that consent constitutes the decisive factor in the exhaustion of the proprietor's rights and therefore an intention to renounce those rights must be "unequivocally demonstrated". Such an intention would usually be gathered from an express statement of that consent. However, there are situations where this may not be the case, such as where goods are put on to the market by a party with economic links to the trade mark proprietor, such as a licensee.

The ECJ went on to state that it was established in *Davidoff/Levi Strauss* that even in situations where the goods are placed on the market in the EEA by a person with no economic link to the trade mark owner and without his express consent, there may still be implied consent which can be inferred by adopting the criteria set out in *Davidoff/Levi Strauss*. It concluded that consent of the proprietor of a trade mark to the marketing of goods carrying its mark in the EEA by a third party that has no economic link to the proprietor may be implied "in so far as such consent is to be inferred from the facts and circumstances prior to, simultaneous with or subsequent to the placing of the goods on the market in that area which, in the view of the national court, unequivocally demonstrate that the proprietor has renounced his exclusive rights."

There was no reason why the test for implied consent in *Davidoff/Levi Strauss* should not be of general application and apply equally to situations where the goods were first marketed in the EEA. It was essential that the proprietor of a trade mark could control the first placing of his goods on the market in the EEA and therefore, it was irrelevant whether the goods had first been marketed within the EEA or outside it.

Comment

This case sensibly applies the same criteria for determining whether consent to the sale of goods in the EEA has been given, whether first marketed inside or outside of the EEA, and reaffirms the principle that a trade mark owner's consent to selling goods in the EEA needs to be unequivocally demonstrated. Unusually, there was no Advocate General's Opinion, the ECJ presumably being of the view that this was a straightforward issue.

Coty Prestige Lancaster Group GmbH -v- Simex Trading AG, Case C-127/09, 3 June 2010

The ECJ considered the concept of "putting on the market" in the context of perfume testers which were created for demonstration purposes and marked "not for sale". On the facts, the testers remained in the ownership of the brand owner and there was no transfer of property to distributors. The ECJ found that in the absence of evidence to the contrary, the brand owner could not be said to have impliedly consented to the putting of the testers on to the market.

Background

Coty manufactured perfumes under various trade marks, including DAVIDOFF, which it distributed via a selective distribution network. Under the contracts with distributors, Coty provided marketing and advertising materials free of charge, which remained the property of Coty and could not be distributed to consumers. In particular it was stated that any commercial use of such materials by dealers, expressly the sale of samples or tester products, was prohibited.

Simex (not within Coty's network) provided to a retail outlet in Germany two testers of DAVIDOFF perfume, which contained genuine product but were unsealed. The product packaging was different from the usual original goods as the boxes were black and white, not colour, and the words "Demonstration" and "Not for sale" were used on the box.

Coty identified the testers as having been originally supplied to a network dealer in Singapore. On this basis they sued Simex in Germany for trade mark infringement claiming that the testers had been put on the market in the EEA without their consent. The German court at first instance found for Simex, on the basis that Coty had passed the testers to dealers with permission to use the perfume which they contained. The German appeal court did not agree and referred the case to the ECJ, asking a question concerning the meaning of placement on the market with the proprietor's consent under Article 7 of the Directive and Article 13 of the Regulation in connection with the facts of this case.

Decision

The first placement on the EEA market of these goods was by Simex in Germany. Exhaustion of the trade mark rights could only have occurred if Coty has expressly or impliedly agreed to this placement. Consent could be inferred from facts and circumstances but only if they demonstrate unequivocally the renouncement of the trade mark owner of his right to place first on the EEA market, as made clear in the *Davidoff/Levi Strauss* case.

The national court should assess the issue of consent. However, in this case, the factors pointed away from consent. The "demonstration" and "not for sale" markings alone constituted a decisive factor which precluded a finding of consent in the absence of contrary evidence. Further, supply by Coty of the testers to its dealers within the EEA would not be "putting on the market" in any event because of the "not for sale" statement. Also, there was no transfer of ownership, the distributors were contractually bound not to sell the testers, the testers could be recalled to Coty at any time, and the presentation of the testers was different from the product normally sold, all of which were factors consistent with this conclusion.

Comment

Although the test for consent is stringent, in that it cannot be implied merely from a failure to mark goods or enter into contractual restrictions, brand owners are recommended to take these steps in any event so as to make their position very clear.

L'Oreal -v- eBay,
Case C-324/09, 12 August 2009

There is a pending reference before the ECJ which also includes questions concerning whether samples of cosmetics "not for sale" are put on the market, which are likely to be answered in a similar way. Interestingly this reference highlights the interplay between intellectual property law and regulatory requirements, which may be breached if aspects of original packaging are removed. The questions are as follows:

1. Where perfume and cosmetic testers (i.e. samples for use in demonstrating products to consumers in retail outlets) and dramming bottles (i.e. containers from which small aliquots can be taken for supply to consumers as free samples) which are not intended for sale to consumers (and are often marked "not for sale" or "not for individual sale") are supplied without charge to the trade mark proprietor's authorised distributors, are such goods "put on the market" within the meaning of Article 7(1) of the Trade Marks Directive and Article 13(1) of the CTM Regulation?

2. Where the boxes (or other outer packaging) have been removed from perfumes and cosmetics without the consent of the trade mark proprietor, does this constitute a "legitimate reason" for the trade mark proprietor to oppose further commercialization of the unboxed products within the meaning of Article 7(2) of the Trade Mark Directive and Article 13(2) of the CTM Regulation?

3. Does it make a difference to the answer to question to 2 above if:

   (a) as a result of the removal of the boxes (or other outer packaging), the unboxed products do not bear the information required by Article 6(1) of the Cosmetics Products Directive, and in particular do not bear a list of ingredients or a 'best before date'?

   (b) as a result of the absence of such information, the offer for sale or sale of the unboxed products constitutes a criminal offence according to the law of the member state of the Community in which they are offered for sale or sold by third parties?

4. Does it make a difference to the answer to question 2 above if the further commercialization damages, or is likely to damage, the image of the goods?

Copad SA -v- Christian Dior couture SA, Case C-59/08, 23 April 2009

The issue of damage to the image of goods was pertinent in this case where the ECJ ruled in favour of Christian Dior in a dispute relating to the sale of Christian Dior branded goods outside a selective distribution network in breach of a trade mark licence. The court determined three questions on the interpretation of the Trade Marks Directive following a reference from the French courts. It considered the interplay between Articles 7 and 8 of the Directive and acknowledged the ability of trade mark owners to invoke their rights under the Directive if breach of a trade mark licence damages the allure and prestige of goods sold under the mark.

Background

In May 2000, Christian Dior couture SA (Dior) entered into a trade mark licence with Société industrielle lingerie (SIL) for the manufacture and distribution of luxury corsetry goods bearing the CHRISTIAN DIOR trade mark. The licence provided that SIL would not sell to wholesalers, buyers' collectives, discount stores, mail order companies, door-to-door sales companies or companies selling within private homes without prior written agreement from Dior. The licence also provided that SIL would make all necessary provision to ensure that its distributors or retailers complied, so as to maintain the repute and prestige of the trade mark.

Faced with economic difficulties, SIL requested Dior's consent to market goods outside its selective distribution network. Despite Dior's refusal to grant SIL the necessary permission, and in breach of its contractual obligations, SIL sold goods bearing Dior's trade mark to Copad SA, a chain of discount stores in France. Dior brought proceedings against SIL and Copad for trade mark infringement in the regional court. The court rejected Dior's claim and held that SIL's actions created contractual liability only.

Dior appealed and the appeal court ruled that sales by SIL did not constitute infringement because compliance with the provision in the licence agreement relating to conditions governing distribution did not fall within the scope of the national provisions on trade mark law that relate to Article 8(2) of the Directive. Article 8(2) allows a trade mark owner to invoke his rights against a licensee who contravenes certain key provisions of his licence. In spite of this, it was found that SIL's sales did not imply exhaustion of Dior's trade mark rights, for the purposes of the national legislation relating to Article 7(1) of the Directive.

Copad appealed to the Court of Cassation and claimed that Dior's rights were exhausted by SIL's sales. Dior cross-appealed and argued that the appeal court should not have ruled out infringement by SIL and Copad. The Court of Cassation stayed proceedings and referred three questions to the ECJ.

Decision

Question 1: Should Article 8(2) of the Directive be interpreted to mean that a trade mark owner could invoke the rights conferred by his trade mark against a licensee who contravened a provision in the licence agreement prohibiting, on grounds of the trade mark's prestige, sale to discount stores?

The court found in favour of Dior, ruling that Article 8(2) is to be interpreted as meaning that the trade mark proprietor can invoke his rights against a licensee who contravenes such a provision in a licence agreement.

However, the ECJ added that the trade mark owner must establish that the contravention damages the "allure and prestigious image which bestows on those goods an aura of luxury". Specifically, the court reasoned that the quality of luxury goods was not only the result of their material characteristics, but also of their high-class image which bestowed on them an aura of luxury. On the basis that this sense of luxury allowed consumers to distinguish Dior's goods from other similar items, an impairment to that "aura" was likely to affect the perception of the quality of those goods.

Whether the licensee's actions in fact damaged the luxurious aura of the goods, and therefore affected the perception of their quality, was for the national court to decide, although the ECJ noted that the objective of the selective distribution agreement in question was to ensure that Dior's goods were displayed in a manner befitting

their luxurious reputation. On this basis it was possible that the sale of luxury goods by the licensee to third parties outside the selective distribution network could affect the quality of those goods. In these circumstances, a contractual provision prohibiting such sale must be considered to fall within the scope of Article 8(2) of the Directive.

The court suggested that the national court should consider a variety of factors when assessing the impact of the licensee's breach of contract, including the nature of the branded luxury goods, the volumes sold and whether the licensee sells the goods to discount stores that are not part of the selective distribution network (and, if so, how often) and the nature of the goods normally marketed by discount stores and the marketing methods normally used in that sector.

Question 2: Should Article 7(1) of the Directive be interpreted to mean that a licensee who puts goods bearing a trade mark on the market in the EEA in disregard of a provision of the licence agreement prohibiting, on grounds of the trade mark's prestige, sale to discount stores, did so without the consent of the trade mark proprietor?

The ECJ held that Article 7(1) is to be interpreted as meaning that a licensee who puts goods bearing a trade mark on the market without taking into account a provision in a licence agreement does so without the consent of the trade mark owner if it can be established that the licence provision in question is included in those listed in Article 8(2) of the Directive.

Question 3: If the answer to the second question is "no", could the proprietor invoke such a provision to oppose further commercialisation of the goods, on the basis of Article 7(2) of the Directive?

The ECJ concluded that where a licensee puts luxury goods on the market in contravention of a provision in a licence agreement and must be considered to have done so with the consent of the trade mark proprietor of the trade mark (eg. it cannot be established that the provision in question is included in those listed in Article 8(2) of the Directive), the proprietor of the trade mark can rely on such a provision to oppose a resale of those goods on the basis of Article 7(2), provided that it can be established that such resale damages the reputation of the trade mark.

Where a licensee sells goods to a discount store, the national court will need to strike a balance between the legitimate interest of the trade mark owner and that of the discount store. If the national court does not find that the sale by the licensee to a third party is likely to undermine the quality of the luxury goods (meaning that they are put on the market with the trade mark owner's consent), the national court will need to assess whether further commercialisation of the goods by the third party, using methods customary in its sector of trade, damages the trade mark's reputation. In reaching its decision, the national court should take into account the parties to whom the goods are resold and the circumstances in which the goods are put on the market.

Comment

This case leaves plenty of room for argument as to proving the relevant type of damage. It is yet to be seen how the ECJ's reference to "the allure and prestigious image which bestows on those goods an aura of luxury" will be interpreted by the national courts. It will also be interesting to see whether this approach will apply only to luxury consumer goods or whether it could affect other brands in niche sectors.

Portakabin Ltd and another -v- Primakabin BV, Case C-558/08, 8 July 2010

In a number of decisions the ECJ has ruled that the use of keywords by brand owners constitutes 'use' for trade mark purposes and that unless the average internet user can, without difficulty, identify the origin of the goods, it is likely that such use will result in trade mark infringement. That principle was endorsed in this case and, of relevance to parallel trade, the ECJ found that the use of a trade mark in which rights have been exhausted is permitted as a keyword for the second hand sale of genuine goods, unless there are legitimate reasons to oppose further commercialisation of those goods, which may in turn be dependent on the way they are being presented and marketed.

Background

Portakabin Ltd manufactured and supplied mobile buildings and owned the Benelux trade mark PORTAKABIN. Primakabin sold and leased second hand mobile buildings including units manufactured by Portakabin.

Under the Google Adwords referencing service, Primakabin bought the keywords 'portakabin', 'portacabin', 'portokabin' and 'portocabin' and a search of these words on Google's site triggered the display of Primakabin's sponsored link.

Portakabin brought an action for an injunction to prevent Primakabin from using the keywords in question, on the grounds of trade mark infringement. The Dutch Court refused to grant the injunction and found that Primakabin's use of the keywords was "legitimate use" under the relevant trade mark legislation, as users were directed to Primakabin's website, which sold Portakabin products. The Dutch Regional Court of Appeal set aside the first-instance decision and prohibited Primakabin from using the words 'used portakabins' and from using the word 'portakabin' in links that led users to parts of its website that did not sell units manufactured by Portakabin. The Regional Court of Appeal also held that use of variants of the trade mark did not constitute "use" within the meaning of the legislation. Portakabin then appealed to the Supreme Court of the Netherlands, who then referred several questions to the ECJ.

Decision

Does use of a keyword identical to a third party mark that leads an internet user to a reference to the advertiser's website, constitute 'use' within the meaning of the relevant trade mark legislation?

In *Google France,* the ECJ drew a distinction between the position of Google as a service provider (which it held does not, in offering its adwords facility, use key words) and advertisers, which did use key words. Here the ECJ confirmed that the use of keywords by advertisers does constitute "use" within the meaning of the Trade Marks Directive.

Again, following *Google France,* this "use" of the trade mark cannot be opposed by the trade mark proprietor unless the use is liable to cause detriment to the ability to identify the origin of the goods or services. Whether the use is liable to cause detriment must be assessed by reference to whether a user can ascertain the origin of the goods or services. The ECJ held that where a user could not determine the origin, or could only do so with difficulty, this it was sufficient for a finding of detrimental use.

Can advertisers rely on a defence under Article 6 of the Directive?

The ECJ held that it may be possible for advertisers to rely on the defence under Article 6 of the Trade Marks Directive, which prevents trade mark owners from prohibiting the use of their trade mark, in the course of trade for indications of the kind, quality, or intended purpose of goods or services (Article 6(1)(b)) or where it is necessary to indicate an intended purpose (Article 6(1)(c)). The ECJ did however state that it was unlikely that Article 6(1)(b) would apply, as keywords do not generally indicate a characteristic of goods or services and that Article 6 could not be generally relied on as a defence.

The ECJ found that it was for the national court to decide whether the use of PORTAKABIN by Primakabin was to inform the public of a practical link between their goods and those of Portakabin so as to bring it within Article 6(1)

(b) and (c). The ECJ stated that if the use did fall within Article 6 then *"it will be required, ultimately, to determine whether the condition that that use be in accordance with honest practices in industrial or commercial matter has been satisfied"*.

In this connection, the ECJ referred to the fact that the advertiser would have purchased the third party trade mark as a keyword on purpose, and if the Court rules that the average internet user cannot easily determine the origin or the goods or services, *"it is unlikely that the advertiser can genuinely claim not to have been aware of the ambiguity thus caused by its ad"*.

Can advertisers rely on a defence that the trade mark rights in the goods have been exhausted under Article 7 of the Directive?

A trade mark proprietor's right to prevent third parties from using the mark is exhausted where goods have been placed on the market in the EEA under that trade mark by the proprietor or with his consent, unless there are legitimate reasons to oppose further commercialisation of the goods. A legitimate reason includes where the use of the trade mark seriously damages the reputation of that mark or when the use of the mark gives the impression that it is linked to the reseller or that there is a special relationship between the proprietor and the reseller. This would include the circumstance described above, where the average internet user cannot easily determine the origin of the goods or services.

In this case, Primakabin had in some instances removed references to "Portakabin" from their goods and replaced it with the word "Primakabin". The ECJ found that where goods are de-branded in such a way that the manufacturer of the goods in question is concealed, the trade mark proprietor is entitled to prevent the reseller from using the mark to advertise (ie. by using it as a key word). In this instance, damage will be caused to the function of the trade mark as the user is prevented from distinguishing between the goods of the trade mark owner and the goods of the reseller.

The ECJ referred to the well-established practice of the sale of second hand goods and stated that the fact that the advertiser uses another person's trade mark with additional wording indicating the goods are being resold, cannot on its own create the impression that the reseller and proprietor are economically linked or that the advertisement is detrimental to its reputation. The ECJ held that a specialist reseller of second hand goods cannot be prohibited from using the trade mark to advertise its resale activities, which include the sale of other second hand goods *"unless the resale of those other goods risks, in the light of their volume, their presentation or their poor quality, seriously damaging the image which the proprietor has succeeded in creating for its mark"*.

The ECJ therefore held that advertisers can rely on the exhaustion defence but it will be for the national courts to determine whether there are any legitimate reasons to prevent them from using the trade mark for further commercialisation of the goods.

Comment

This ruling reiterates the *Google France* ruling: advertisers must ensure that users can without difficulty ascertain the origin of the goods and that no commercial connection between their goods and the trade mark proprietor's goods is made. Furthermore, this decision unusually gives specific guidance to second hand sellers on the internet, permitting a third party trade mark to be used alongside the words "second-hand" or "used" provided that the third party brands are not damaged by association with used goods bearing other brands. This will be a question of fact in each case – a judgment call which may be difficult to make. (Note: Google has recently implemented various changes to its Adwords policy following this and other recent ECJ cases.)

New reference on repackaging: Paranova -v- Merck, Case C-207/10

There have been many ECJ cases concerning repackaging which have led to a series of rules being established concerning Article 7(2), at least concerning the pharmaceutical market. Repackaging is permissible for a variety of reasons, but must comply with certain conditions, as considered most recently in the *Boehringer -v- Swingward* references to the ECJ, Cases C-143/00 and C-348/04, which dealt in particular with the giving of notice, and with the repackaging styles of "de-branding" and "co-branding". There was further consideration of some aspects of repackaging in *Wellcome -v- Paranova,* Case C-276/05. We have reported on both cases extensively in previous editions of this publication.

It had been thought that perhaps the topic had been exhausted at ECJ level. However, there is now a new reference which concerns the situation where the parallel imports marketing authorisation holder subcontracts the repackaging exercise to a third party, which may or may not be a related company. The questions are lengthy and complicated, but it seems unlikely that the approach set out in detail in previous decisions will change.

IP/Competition Interface

In two recent English law cases the interplay between intellectual property rights and competition law has come into sharp focus, with an ECJ reference now likely in the *Sun Microsystems/Oracle America* case and a judgment on the burden of proof in *Honda -v- David Silver,* both of which are considered below.

There has been some debate in the past about the extent to which importers may be able to rely on "Euro" defences in answer to allegations of trade mark infringement, for example, allegations relating to restrictions on trade between member states, abuse of dominant position or anti-competitive agreements or practices. In a previous trade mark infringement case the Court of Appeal refused to give summary judgment where Euro defences had been raised (*Sportswear SpA -v- Stonestyle Ltd)*, but thereafter the case settled before trial.

Sun Microsystems (Oracle America) -v- M-Tech Data Ltd and Stephen Lawrence Lichtenstein, Court of Appeal, 24 August 2010

The Court of Appeal has decided that arguments concerning breach of competition law may be raised in defence of trade mark infringement allegations in a parallel trade case. In this case branded computer hardware was imported from outside the EEA into the EEA. In November 2009 the High Court gave summary judgment to Sun on the basis of trade mark infringement, rejecting the importer's complaints about Sun's alleged anti-competitive behaviour. The Court of Appeal has now found this approach to be overly simplistic and has permitted competition law arguments to be made in defence at trial and has also indicated that the case may call for a reference to the ECJ. The result comes as a blow to brand owners who are now likely to face additional difficulties in preventing parallel trade from outside the EEA, as they are entitled to do.

Background

M-Tech, a dealer in second hand hardware, had bought in the USA disk drives which were branded with Sun Microsystems' trade mark and imported them into the UK for onward sale. Sun alleged trade mark infringement on the grounds that it had not consented to these products being sold on the EEA market and applied for summary judgment. Its evidence demonstrated that the products had first been supplied by Sun to China, Chile and the USA.

The worldwide secondary market in computer hardware was very substantial. M-Tech stated this to be worth USD 260 billion per annum of which USD 160 billion was accounted for by dealers independent of authorised manufacturer networks. In the EEA the figures were USD 1.07 billion in 2007 of which USD 0.64 billion

comprised trade outside authorised networks. Trade was substantial as hardware was durable and transport costs cheap compared to the value of the goods. The previous history of a product was often impossible to ascertain and was not usually available from the vendor.

Sun acknowledged this on its website which warned of its trade mark rights and of the dangers of purchasing grey market products, even where they were marked with a EU serial number, because even products manufactured by Sun in Europe were as likely to be first sold outside the EEA as within it. Sun itself was in a position to ascertain the destination of first marketing by reference to its internal databases, but had refused to supply this information to independent traders.

M-Tech argued that Sun's enforcement of trade mark rights was contrary to Articles 34-36 (formerly Articles 28-30) of the EC Treaty as the effect was to prevent the attainment of a single market in hardware which had been marketed by Sun or with its consent in the EEA. M-Tech claimed that Sun wanted to secure the secondary market for itself – hence its aggressive response to requests for information from independent traders and also its vigorous enforcement of trade mark rights. The result of this, it was argued, was to dissuade independent traders from dealing with any Sun product, not only those originating from outside the EEA, for fear of being sued. This had caused artificial partitioning of the legitimate market in Sun branded hardware within the EEA, caused legitimate parallel trade to dwindle and permitted Sun to control the secondary market via its own network, thereby maintaining artificially high prices.

Further, M-Tech alleged that Sun's enforcement of its trade mark rights was contrary to Article 101 (formerly Article 81) as the agreements between Sun and its distributors required distributors to buy Sun equipment within the authorised supply network whenever possible.

High Court decision

The judge, Mr Justice Kitchin, granted summary judgment, despite noting the remark of the Court of Appeal in *Doncaster Pharmaceuticals -v- Bolton Pharmaceuticals* concerning summary judgment: "The relevant law is still in the process of formulation and, rather as this Court has held in *Sportswear SpA v Stonestyle Ltd*…, summary disposition is not appropriate in what is a developing area of law".

He reiterated the law set out by the ECJ in the *Davidoff* cases (C-414 to 416/99) which made clear that the trade mark owner has a right of action to prevent marketing of his product on the EEA market for the first time without his consent. He concluded that "the application of these principles in the context of the present case would seem to lead to the inevitable conclusion that M-Tech has no defence to the claim".

The judge assumed that M-Tech's allegations against Sun were correct. However, he ruled that the answer lay within the Trade Marks Directive and Regulation which set out a complete code relating to registered trade mark rights: the trade mark owner is expressly given the right to first marketing in Europe and there is nothing to suggest that this right must then be considered by reference to competition law. Any remedy concerning Sun's failure to publish its database or assist independent traders must lie in competition law. Under Article 101, the High Court found that there was no nexus between this alleged breach and the enforcement of trade mark rights.

Court of Appeal decision

By the time of the appeal, Sun Microsystems had changed its name to Oracle. Also, at this stage M-Tech introduced a further argument in defence that its trade mark rights were being "abused" and that the law was developing in the area of abuse of rights.

The Court held in a concise judgment that there was a real prospect of establishing at trial that the Trade Marks Directive had to be interpreted by reference to Articles 34 to 36 of the EC Treaty and that on M-Tech's case, a breach of Article 34 would be shown, which would affect Oracle's

right to sue for trade mark infringement. It cited in support the case of *Van Doren* C-244/00, in which the ECJ had applied Articles 34 to 36 to a parallel trade case where a brand owner sought disclosure by an importer of his sources.

Further, the Court commented that Oracle's alleged practices arguably had more to do with restricting imports with the object of preventing price competition within the EEA and thereby protecting Oracle's profit margins, than with the proper exercise of the right to control the first marketing of its products within the EEA. While it may be that these are complaints to be made via competition law channels, the point was arguable.

The Court found that EU law concerning abuse of rights was developing and that the application of the doctrine on the facts, as alleged by M-Tech, was a possibility and therefore could not with certainty be excluded as an argument.

Lastly, the Court held that there was an arguable point on the connection between trade mark rights and competition law arguments. Oracle's arguments did not take account of the allegation that the agreements with distributors formed part of an overall scheme for excluding secondary traders from the market. The ECJ had not previously held that Article 101 could not be used in trade mark cases.

Therefore the Court found that the summary judgment should be set aside and the defences argued in full at trial. Further it was directed that Oracle apply for a case management conference when the judge could consider whether to make an order expediting the trial. The Court further stated that there was a strong case for a referral to the ECJ, after the facts had been considered in further detail, as the issues were not *acte clair* and involved questions of economic policy likely to be of significance to the EU as a whole, commenting "the economic function of parallel imports and the grey market is controversial".

Comment

This is an unwelcome decision for all brand owners, and is highly vulnerable to a reference to the ECJ. This would delay matters considerably and lead to great uncertainty for both brand owners and parallel traders, but may be inevitable. Previous Court of Appeal decisions had refused summary judgment in other trade mark infringement cases. In *Sportswear SpA -v- Stonestyle Ltd* the Court decided that a breach of Article 101 could possibly constitute a defence to trade mark infringement and in *Doncaster Pharmaceuticals -v- Bolton Pharmaceuticals,* which concerned split ownership of trade marks, the Court wanted more details on the historical facts and so refused summary judgment. By contrast, in the current case, the facts were considerably more clearcut. Nevertheless, the relationship between intellectual property claims and competition law considerations has always been controversial and there are undoubtedly real issues for traders in identifying the provenance of goods in which they trade.

Honda Motor Co Ltd -v- David Silver Spares Ltd, High Court, 28 July 2010

In a parallel trade case concerning spare parts for Honda motorbikes, the High Court rejected the defendant's application for the case against him in trade mark infringement to be struck out, or for summary judgment in his favour. Contrary to the defendant's arguments, Honda's case was not merely speculative and it was for the defendant to shoulder the burden of proof concerning his defence of exhaustion of trade mark rights.

Background

The defendant was the leading UK supplier of spare parts for Honda bikes. Honda began trade mark infringement proceedings on the basis that the defendant dealt in parts from outside the EEA which Honda had not consented to being sold on the EEA market. The defendant tried to strike out the case or obtain summary judgment in its favour on the basis that Honda had the burden of proof of showing that its trade mark rights had not been exhausted which it had not demonstrated. The defendant claimed that the case of *Van Doren* applied, so as to reverse the usual burden of proof, and that Honda's claim was speculative and the pleadings lacked sufficient detail.

In *Van Doren*, Case C-44/00 the ECJ has decided that national legislation requiring the defendant to prove that goods were on the EEA market with the consent of trade mark owner was consistent with Community law, but that in some cases the burden of proof may be reversed in the interests of freedom of movement of goods so as to protect traders from being forced to reveal their sources and risk the obstruction of their supplies by the trade mark owner.

Decision

On ordinary principles of evidence the burden of proof lay on the defendant to show that the trade mark rights had been exhausted, ie. that the trade mark owner had consented to the goods being sold on the EEA market. It was clear from case law that consent had to be demonstrated by the trader and so the same requirement should apply also to placement on the market. The *Van Doren* case referred to exclusive distributor arrangements merely as an example of where artificial partitioning of markets might occur, but this may not necessarily be the case. To reverse the burden of proof the defendant must demonstrate such a risk, which had not been done here. Therefore it was not necessary for Honda to show that the parts were first placed on the market outside the EEA; it was for the defendant to show that Honda had consented to marketing within the EEA.

On the issue of particularising their claim, the defendant alleged that Honda's case was speculative and that they had not identified specific infringing acts. They had for example, pleaded "all spare parts listed in David Silver's 2008 Price Guide and on its website." The Court acknowledged that clearly speculative claims had to be struck out, but this case was different and reasonable grounds for the allegations had been shown. There was no rule that infringement had to be shown by specific details of individual acts such as trap purchases (here that was not possible as Honda spares apparently did not bear individual identification numbers). In any event here Honda relied on statements made in the defendant's own publicity materials that he bought spare parts from all over the world and that he could supply spares for Japanese and US grey imports.

Comment

This is a good case for trade mark owners seeking to prevent parallel imports of branded goods from outside the EEA. However, there is still uncertainty over the application of the *Van Doren* principle and the role of competition law generally in parallel trade cases, especially following the *Oracle* case reported above. Matters may have been considerably easier in this case if the spare parts had borne identification numbers which then would have clearly demonstrated their origin.

Competition Law

There have been important developments in two of the most longstanding competition law disputes relating to pharmaceutical parallel trade, being the *Glaxo* case on dual pricing in Spain and the *AstraZeneca* case concerning abuse of a dominant position. Both cases confirm that the pharmaceutical sector cannot expect special treatment from the Commission.

GlaxoSmithKline Services -v- Commission, Case C-501/06P and others, 6 October 2009

The ECJ has given judgment in the long running case concerning Glaxo's dual pricing policy in Spain. Appeal against the CFI's decision has been refused (although aspects of the CFI's judgment have been criticised) resulting in confirmation of the Commission's original finding of infringement of Article 101 (then Article 81) by Glaxo. However, this is subject to further consideration of a possible exemption under Article 101(3) by the Commission.

Background

In 1998 Glaxo introduced new conditions for its wholesalers in Spain, which distinguished between prices to be paid for pharmaceuticals, depending on whether they were sold outside Spain. It notified the conditions to the Commission, seeking an exemption under Article 101(3) of the EC Treaty.

Article 101 prohibits all agreements which may affect trade between Member States and which have as their **object or effect** the prevention, restriction or distortion of competition. Article 101(3) states that this prohibition may not apply to an agreement which contributes to improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit, provided that it does not impose on the parties restrictions which are not indispensable to the attainment of these objectives or afford the parties the possibility of eliminating competition in respect of a substantial part of the products in question.

Complaints by trade associations resulted in a Commission decision of 2001 finding a breach of Article 101 and refusing an exemption under Article 101(3).

Glaxo appealed to the General Court (formerly the CFI), which gave judgment in 2006, concluding that the Commission was right to find that the wholesaler conditions had the effect of restricting competition under Article 101, but was wrong also to have found that, further, they had the object of restricting competition. Also the CFI found that the Commission had not conducted a proper examination of Glaxo's arguments to determine whether an exemption under Article 101(3) could be granted, in particular the argument that the dual pricing system might give rise to an economic advantage by contributing to innovation. Glaxo, the Commission and two trade associations appealed.

ECJ decision

The ECJ noted that Article 101 is breached if either of the "object" or "effect" tests are met: the tests are not cumulative. The purpose of the agreement should first be considered: where the object is proved, there is no need to go on to consider effect. Where the object is not found to be anti-competitive, the effect should then be considered.

It was not necessary, as the CFI had said, that in order to find an anti-competitive object it must be shown that consumers are deprived of the advantages of effective competition in terms of supply or price. The CFI had therefore erred in finding that there was no anti-competitive object here. Where agreements aim to limit parallel trade, in principle they do have as their object the prevention of competition contrary to Article 101.

In relation to Article 101(3) the ECJ confirmed that an analysis of the relevant product sector may be necessary. It held that the CFI was correct in concluding that the Commission had failed to consider certain structural aspects of the pharmaceutical sector highlighted by Glaxo and also the impact of efficiency losses caused by parallel trade and the efficiency benefit arising from the dual pricing scheme. Also the ECJ noted that an advantage under Article 101(3) did not necessarily pre-suppose that all additional revenues had to be invested in research and development.

The case confirms that in principle the pharmaceutical sector is subject to the usual rules of competition law notwithstanding its special characteristics and that an agreement which restricts parallel trade is likely to be found to be infringing Article 101 by object, thereby avoiding the need to consider anti-competitive effect. However, there is still no conclusion to this case as the Commission must now re-consider Glaxo's application for an Article 101(3) exemption, taking into account the specific nature of the pharmaceutical market. (The procedure which Glaxo originally used to apply for a clearance is no longer available following subsequent legislation.)

AstraZeneca -v- Commission, Case T-321/05, 1 July 2010

The EU General Court has mostly upheld the fine imposed by the Commission on AstraZeneca for abuse of dominance in relation to its anti-ulcer medicine Losec/omeprazole. These practices related to use of the patent system to delay generic entry and to the use of marketing authorisation procedures to prevent parallel trade and delay generic entry. The fine was reduced from EUR 60m to EUR 52.5m because the Commission had not established that deregistration of marketing authorisations in Norway and Denmark were capable of preventing parallel imports. The decision is likely to embolden the Commission in its follow up to the sector inquiry into the pharmaceutical industry.

The General Court was considering an appeal against a 2005 decision by the Commission concerning an investigation going back to 1999/2000. The Commission had imposed an aggregate fine of EUR 60m on AstraZeneca for two forms of abuse of dominance:

— The first related to misleading representations to patent offices in Germany, Belgium, Denmark, Norway, the Netherlands and the UK in order to obtain supplementary protection certificates for Losec that conferred extended patent protection. The Commission found that AstraZeneca had concealed the date on which it had obtained its first marketing authorisation and this enabled AstraZeneca to obtain protection to which it was not entitled.

— The second related to the deregistration of the Losec capsule marketing authorisations in Denmark, Norway and Sweden in order to delay the marketing of generic medicinal products and to prevent parallel imports of the capsule form of Losec.

In reaching its findings the Commission had considered that AstraZeneca was dominant in the relevant market for proton pump inhibitors (PPIs), a particular form of anti-ulcer medicine.

The General Court substantially upheld the Commission's decision. In particular it found that the Commission was right to have regard to the narrower PPI market rather than to a wider anti-ulcer market comprising other forms of medicinal product in addition to PPIs. Nonetheless the aggregate fine was reduced to EUR 52.5m on the basis that the Commission had not established that the deregistration of the marketing authorisations was capable of preventing parallel imports in Denmark and Norway.

The General Court's judgment should be seen in the context of the Commission's sector inquiry into the pharmaceutical sector and especially into the loss of exclusivity strategies used by the innovative pharmaceutical sector. The General Court's judgment is likely to embolden the Commission to take stricter action in relation to unilateral conduct by the innovative pharmaceutical sector. The decision supports a narrower product market definition than the one which AstraZeneca had been advocating and this may help the Commission in future abuse of dominance cases. Furthermore, the types of conduct which can constitute an abuse have been expanded and are now confirmed to include the provision of misleading information to patent offices.

AUDACE – complaint against Monsanto

In July 2009 AUDACE, the Association of Users and Distributors of AgroChemicals in Europe, lodged an antitrust complaint against Monsanto alleging that the agricultural biotechnology corporation violated laws on restrictive business practices and on illegal unilateral conduct. Specifically, AUDACE allege that Monsanto abused its dominant market position and engaged in anti-competitive activities by preventing distributors from exporting an anti-fungal product from lower to higher priced EU markets. Monsanto's fungicide Latitude, is used to combat a root disease known as 'take-all', caused by the fungus *Gaeumannomyces graminis* var. *tritici.* It is reported that the main European markets for Latitude are Germany where it sells for approximately 85 euros per litre, followed by France where it is priced at approximately 120 euros per litre.

It is claimed that Monsanto imposed contractual clauses on German distributors preventing the exports of anti-fungal seed treatment, from lower priced to higher priced EU markets. The clause stated that the buyer "does not have the right to sell the contractual product" if their client is outside the original country of purchase. Furthermore, the complaint indicates that the buyer was required to provide Monsanto with a list of its delivery addresses. It was also claimed that in order for a buyer to be eligible for certain discounts and bonus incentives, they were required to provide Monsanto with proof that they were neither selling Latitude, nor seeds treated with Latitude, outside the country of purchase.

Parallels have been drawn to an earlier EU antitrust case brought against the Japanese gaming developer Nintendo, who were fined 149 million euros in 2002 for acting with distributors to restrict sales between EU countries with different pricing structures. However, in the Monsanto complaint documentary evidence in the form of correspondence from Monsanto's European Vice President, indicates that distributors were not aware of the tactics being deployed nor the relevant contractual clauses. At the time of writing, there are no further updates available regarding the status of AUDACE's complaint to the Commission.

France: Pierre Fabre Dermo-Cosmétique SAS -v- Président de l'Autorité de la Concurrence and others, Court of Appeal refers question to ECJ on internet sales

On 29 October 2009, before the European Commission adopted its new Block Exemption Regulation on Vertical restraints (Commission Regulation 330/2010 of 20 April 2010) and the ensuing Guidelines on Vertical restraints of May 2010, the Court of Appeal of Paris referred for preliminary ruling to the ECJ the question of whether a general and absolute ban on selling contract goods to end users via the internet, imposed on authorised distributors in the context of a selective distribution network, constitutes a 'hardcore' restriction of competition by object that could only be potentially eligible to an individual exemption under Article 81(3) EC (now Article 101(3)).

The question was raised on the occasion of the appeal against a decision of the French Competition Authority which had ordered the company Pierre Fabre to take out of its selective distribution agreements all references amounting to a prohibition of the sale of its cosmetics and personal care products on the internet. The European Commission intervened in the appeal as amicus curiae, on the basis of EC Regulation 1/2003 on Procedure, as it considered that the case raised important questions of principle and of interpretation of EU law.

In this respect, the answer to the question referred to the ECJ will be important as it will put an end to the debate as to whether a supplier can exclude sales via the Internet by its authorised distributors. Such exclusion is often used as a way of restricting parallel trade in Member States where the market value of the goods is high.

At present, the European Commission in its Guidelines on Vertical restraints of May 2010 indicated that it considers as a hardcore restriction of passive selling, contrary to Article 101(1) on anti-competitive practices:

— a limitation on overall sales made on the internet by an authorised distributor. It is however possible to exclude "pure players" (ie. distributors only reselling the contract goods on the internet) from the distribution network through a requirement that at least a certain amount (in value or volume) of the products be sold offline. It is also possible to demand that the online activity of the distributor remains consistent with the supplier's distribution model;

— the charging of a higher price for products to be resold by the distributor online, which would amount to dual pricing.

It is expected that, in its answer, the ECJ will provide more guidance as to the exceptions to the hardcore restrictions identified by the European Commission.

Customs

Lilly Icos LLC & Others -v- 8pm Chemists & Others, High Court, 31 July 2009

We have previously reported on this case in which the claimants applied for and obtained a preliminary injunction relating to parallel imported goods, which was later discharged when the Court of Appeal decided that the goods did not infringe the claimants' trade marks. As part of the injunction application the claimants were obliged to give a cross undertaking in damages to the defendants to compensate for any loss suffered should the injunction later be overturned. Here the High Court considered how to quantify those damages. It decided that the claimants were jointly liable to compensate the defendants (who had lost their business in Turkey) for loss of profits and rejected the claimants' arguments that ordering payment would be against public policy.

Facts

The defendants supplied branded pharmaceutical drugs bought in Turkey to US based customers who ordered the drugs via websites based in Canada. Goods were shipped from Turkey to the UK in bulk and then split out into individual packages addressed to customers in the US. It therefore appeared to US customs that the goods emanated from the UK. It was originally thought that the goods were counterfeit when they were seized by HMRC at Birmingham Airport, but this was not the case. The claimants then began claims for trade mark infringement in an attempt to prevent release of the goods. An interim injunction was granted in favour of the claimants and the defendants then consented to three further injunctions being granted in favour of other pharmaceutical companies, each of which provided a similar cross undertaking.

The Court of Appeal then decided that there was no trade mark infringement. Although the goods were coming from outside the EU, there was ECJ authority in the case of *Class International,* Case C-405/03 that goods merely entering the UK for customs purposes, for onward transit outside the EU, did not infringe as there was no importation. The injunctions were discharged. The Defendants claimed millions of pounds of losses on the cross undertakings.

Decision

The Court ordered a substantial payment to be made, with joint liability as between the claimants. There is useful commentary on the nature of damages in these circumstances, as contrasted with damages following a breach of contract. The Court said that:

— it had discretion as to whether to grant damages at all;

— damages in these circumstances should be seen as equitable compensation, with the benefit of hindsight (as with a breach of fiduciary duty); the test for damages under a breach of contract was not appropriate, as had been noted by judges in recent years;

— the defendant must show that the damage would not have been suffered "but for" the injunction; however, the defendant could still claim if the injunction was only one of the causes of loss rather than the sole cause; but if the loss was caused as much by the litigation generally rather than the injunction, they could not claim.

On the facts, the claimants had lost their Turkish fulfilment business because after the injunction they lost the business of their three main customers, including CanadaDrugs which accounted for 88% of their business. Although the Birmingham Airport detention had disrupted business initially, customers regained confidence and did not cease business until the injunction. After the reversal by the Court of Appeal two months later it was too late to resurrect the business.

All four injunctions were jointly responsible for the business failure. The Court ordered payment of:

(i) Lost profits for the Turkish business which had now failed. The base figure should be the profit margin for the year ended 23 September 2007, as verified by the Defendant's accounting expert (this being the date which was as representative as possible prior to the Lilly injunction). Then a series of adjustments should be made as follows:

— growth rates of 4% for 2008 to 2012 and 1.9% for subsequent years (not clear how many);

— 15% discount for accelerated receipt;

— risk factor of 10% from November 2007 to judgment date and 20% for future years; (large because the business was so dependent on one customer and was relatively new)

(ii) loss relating to unsold stock of USD 455,159 – due to inability to wind down in an orderly way;

(iii) small redundancy costs of Turkish business of GBP 4,000;

(iv) interest.

On the public policy issue the Court rejected the claimants' argument that the defendants' loss should be irrecoverable on public policy grounds because their actions were illegal in the United States. There was no illegality in the UK and illegality in the US was insufficient to make the business generally unlawful. There is an instructive section of the judgment on the regulatory position in the US, as well as criticism of the length of the US legal experts' evidence.

Comment

The case demonstrates the importance of considering the implications of interim injunction applications. The price for seeking one of the most powerful legal remedies can be very high.

Nokia -v- HMRC

In connection with the legal arguments concerning goods in transit which arose in the Eli Lilly/Icos case there is an important reference currently before the ECJ in the case of *Nokia -v- Her Majesty's Commissioners of Revenue & Customs and the International Trade Mark Association, C-495/09.* The following question has been referred by the Court of Appeal for a preliminary ruling:

Are non-Community goods bearing a Community trade mark which are subject to customs supervision in a Member State and in transit from a non-Member State to another non-Member State capable of constituting "counterfeit goods" within the meaning of Article 2(1)(a) of Regulation 1383/2003/EC if there is no evidence to suggest that those goods will be put on the market in the EC, either in conformity with a customs procedure or by means of an illicit diversion?

Although the *Nokia* case concerns counterfeits, the outcome of this reference could be relevant to the position with parallel imports in transit, as considered in the *Eli Lilly/Icos* case. Further, Regulation 1383/2003/EC concerning counterfeit goods is currently under general review, including its ambit and whether replacement legislation should also cover parallel traded goods which are not currently within scope.

Bacardi -v- Mevi, District Court of Rotterdam, 19 November 2008 and 18 August 2010

This court case follows on from a seizure by Bacardi against Mevi, a storage and forwarding company in Rotterdam, which held original Bacardi products in relation to which bottle codes had been removed or, where the codes were still attached, evidenced that the products had been imported from outside the EEA without permission.

Therefore Bacardi accused Mevi of being actively involved in the unauthorised parallel import of Bacardi products into the EEA and thus infringing its trade marks. Also, Mevi was accused of acting unlawfully towards Bacardi by holding in storage Bacardi products from which the product codes (attached to keep them traceable pursuant to EU regulations, in order to enable recall in case of health or safety issues) had been removed.

Mevi countered that all codeless products held by it were intended for sale outside the EEA and that the removal of bottle codes would then not be unlawful. As to the coded Bacardi products, Mevi took the position that the transporters/owners of the products did not intend to bring them on to the EEA market place and that the products, as long as they were transferred and stored under special customs status, could not be considered to have been imported into the EEA.

In its interlocutory ruling of 19 November 2008 the Rotterdam Court doubted, and considered it irrelevant, whether the statutory rule to keep bottles traceable by affixing a code to them was limited to the countries of the EEA. As the destination of the bottles in question was not yet determined, the Court found that the laws of the country of destination could not apply as to determine the applicable law. In any event, it would be contrary to generally accepted standards if Bacardi allowed its products to be traded without the possibility of recall. The Court found this unlawful even if it might be determined that the products were destined for a jurisdiction lacking any rule of law prohibiting such trade.

Further, the fact that Bacardi had intercepted Bacardi products sold in Europe without its permission whose bottle codes matched the batches stored with Mevi, led the Court to accept an infringement of Bacardi's rights by Mevi, at least as storage keeper. As a consequence the Court ordered Mevi to provide further information and specifications verified by an independent accountant in order to determine the scope of the infringement, Mevi's involvement and that of any other parties (suppliers or customers).

Following the submitted accountant's report, in its interlocutory judgment of 18 August 2010 the Court found that the Bacardi products stored with Mevi could indeed be considered to have been used in the course of trade. The question remained however whether Mevi could itself be regarded as user of the trade marks, as Mevi has always acted under orders and never itself owned the products. The Court decided to refer this question (of interpretation of Articles 5 and 7 of the Trade Marks Directive) to the ECJ for a preliminary ruling. This case is still pending.

Regulatory

Proposed Directive on falsified medicines

The proposed Directive on falsified medicines contains provisions which impact on parallel trade concerning repackaging and safety features. We reported on the original text of the proposed Directive in our last edition. Since then a number of amendments have been made, in particular to ensure that the new legislation covers internet pharmacies. The text is to be debated by the European Parliament in autumn 2010 with a view to agreeing a final version. On the current version of the text, prescription medicines would carry mandatory safety features such as seals or serial numbers, but this requirement could be waived for generics, subject to future assessment by the Commission. Repackagers would need to replace safety features removed with equivalent features, but the precise way in which this would work is yet to be discussed.

Plant protection – new Regulation to cover parallel trade

EC Regulation 1107/2009 concerning the placing of plant protection products on the market comes into effect in June 2011 and contains express provisions on parallel trade, which the previous legislation, Directive 91/414/EEC had not. Article 52 of the Regulation provides that a plant protection product that is authorised in one Member State may, subject to the granting of a parallel trade permit, be used in another Member State if the latter Member State determines that the product is "identical" to a product already authorised (the "reference" product). Products shall be considered identical if:

(i) they have been manufactured by the same company or by an associated undertaking or under licence in accordance with the same manufacturing process;

(ii) they are identical in specification and content to the active substances, safeners and synergists, and in the type of formulation; and

(iii) they are either the same or equivalent in the co-formulants present and the packaging size, material or form, in terms of the potential adverse impact on the safety of the product with regard to human or animal health or the environment.

In this way the "common origin" principle is retained for plant protection products, following on from the ECJ's judgment in the *Deltamex* case, C-201/06 in February 2008 on which we have previously reported. Here the Court found that France has not breached Treaty provisions on freedom of movement of goods by retaining a common origin principle in its national laws for parallel trade licensing of plant protection products. However, some Member States are not currently adopting a common origin approach for plant protection products and they will now have to change their national laws to meet the test as set out in the Regulation. Article 52 contains further details relating to the procedure for applications for parallel trade permits.

News

Bulgaria – debate on international exhaustion

Recent case law in Bulgaria concerning the exhaustion of trade mark rights appears to be in direct conflict with case law of the European Court of Justice. At issue is the interpretation of Article 7 of Directive 95/2008 and Article 13 of Regulation 207/2009 addressing the exhaustion of trade marks. Until June 2009 some Bulgarian courts applied a rule of international exhaustion, thus allowing the importation and sale of parallel imports, even from outside the Community, whereas others applied the concept of EU-wide exhaustion.

In June 2009 the Bulgarian Supreme Cassation Court considered Bulgarian legislation (amended upon Bulgaria joining the Community) together with the relevant EU law and ruled that the local courts ought to apply international exhaustion. The court stated that the importation of original goods without the consent of the mark owner does not constitute a violation of the right enjoyed by a registered mark in the sense of art. 73, para.1 in connection with art.13, para.2 of the Trademarks and Geographical Denominations Act.

The judgment of the Higher Cassation Court was followed in a case between Samsung Corporation and a Bulgarian entity called IPN OOD. The importation of Samsung toner cartridges by IPN OOD from outside the EEA without Samsung's consent was held not to infringe Samsung's trade mark rights.

In July 1998 in the *Silhouette* case (C-355/96) the ECJ stated that national rules providing for exhaustion of trade mark rights in respect of products put on the market outside the EEA under that mark by the proprietor or with his consent are contrary to Article 7(1) of the Directive, as amended by the EEA Agreement. The law in this area was further developed and confirmed by the ECJ, most notably in the *Sebago* case (C-173/98) and the joined *Davidoff/Levi Strauss* cases (C-414, 415, 416/99). This highlighted discrepancy between Bulgarian law and the ECJ may result in trade mark proprietors being unable properly to enforce their trade mark rights in Bulgaria.

Greece – price cuts

In May 2010 the Greek government introduced new drug price regulations, raising the prospect of increased parallel trade within the sector. The measures, which impose an average 21.5% cut to patented medicines and up to a 27% cut in the price of the most expensive products, are part of the Greek government's efforts to control spending and reduce the country's budget deficit. By autumn 2010 the Greek government had cut the price of over 4,000 drugs and will eventually re-price a total of 12,000 drugs. The government has estimated that the cuts will produce an overall annual saving of 1.2 billion euros.

Parallel trade is estimated to account for up to a tenth of Europe's medicines trade, undermining margins in the more prosperous EU countries. The Hellenic Association of Pharmaceutical Companies, representing local and international manufacturers, has warned that the cuts may lead to a shortage of critical medicines as companies limit supplies in order to prevent stockpiling.

Research from IMS Healthcare suggests that a combination of discounts in other European countries and fluctuating exchange rates may reduce the impetus for parallel trade in the medium term. However, countries within the EU often set their maximum prices in relation to prices in other EU countries. Consequently, the sector's profitability may ultimately be affected as the Greek cuts could drag down reference prices throughout the EU.

Italy – court refuses reboxing

An essential aspect of pharmaceutical parallel trade has been considered by the Italian Courts, being the extent to which repackaging of imported products is to be permitted. Repackaging (in its widest sense), to some degree, is of course necessary for language related reasons.

The Italian Ordinary Court of Milan made two decisions on 21 September and 23 October 2009, stating that outer repackaging could not comprise a complete replacement of the original packaging, but rather solely the affixing of a new label written in the language of the importing country in order to allow consumers to identify the manufacturer and to distinguish it from the importer/distributor.

In one of these cases, the importer repackaged products into new and smaller outer cartons. This was therefore not a simple affixing of a label but a clear and complete change of packaging, with the importer aiming to represent itself as the original manufacturer, in order to achieve a commercial advantage. The Court declared that "the manufacturer can oppose the repackaging of its products if it has been solely carried out by the parallel importer with the only aim to achieve commercial advantages" and also that "in the new packaging, the name of the repackager and the name of the product's manufacturer have to be clearly shown".

The principle which can be inferred is that, in the Italian case law, repackaging is believed lawful and necessary in order to enter the market of the importing country but, at the same time, it cannot be solely justified by the importer's commercial advantages and, in particular, it cannot consist of a complete change of outer packaging, particularly if the names of the manufacturer and repackager are not clearly stated. It is not clear whether the Court would have rejected reboxing in principal if the cartons had been clearly labelled.

Poland – end of black and white parallel trade packaging

There are no specific regulations in Poland regarding the packaging of parallel traded medicinal products. However, as with other European Union member states, medicinal products marketed in Poland must be marked in the official language – Polish. There are no legal requirements to remove and replace the original label before marketing the product in Poland. Nevertheless, the relevant Polish authority – the Office for Registration of Medicinal Products, Medical Devices and Biocides – informally recommends the full replacement of the outer packaging. Recently, the authority has also allowed over-stickering without fully replacing the packaging. In the opinion of the authority, the internal packaging of the parallel traded products should not be replaced.

Parallel importers commonly used to place parallel traded products on the market in Poland in plain black-and-white packaging despite the lack of any legal provisions obliging them to do so. Currently, some entities are marketing products in colour packaging, in some cases with their own house-style. Such practice must be considered in the light of ECJ ruling C-348/04 *Boehringer II,* where the court stated that "as the Commission correctly argues in its written observations, the fact that a parallel importer … applies either his own logo or a house-style or design or a design used for a number of different products … is, in principle, liable to damage the trade mark's reputation".

From the legal perspective, it should be stressed that Polish law has not adjusted to such practices and there is no relevant national judicial guidance. As a consequence, there may be potential obstacles in protecting the manufacturer's trade marks where repackagers use their own house-styles. Certainly there must be use of the manufacturer's mark by another entity in order to bring a claim under Polish trade mark law, but in the case of this quasi re-branding it is controversial as to whether there is a relevant use of the trade mark, as the product may be marketed, at least in the design of its outer packaging, without using the manufacturer's trade mark. Nevertheless, according to the general rules of Community Law, in such a case a court should interpret the national law (Polish) in accordance with the laws of the Community that also include rulings of the ECJ (so-called indirect effect of Community Law in member states). Without such interpretation, trade mark protection in Poland in the case of re-branding is limited.

Switzerland – new rules on exhaustion

As of 1 July 2009 Switzerland introduced the general principle of EEA exhaustion of rights for patented goods, with several exceptions as follows:

(i) If the patent is of minor significance to the function of the goods, then international exhaustion will apply.

(ii) International exhaustion will also apply to agricultural means of production and agricultural related equipment.

(iii) National exhaustion will still apply to patented goods if their price is regulated by the state, which will, importantly, include pharmaceuticals. The exception will be particularly important for Switzerland's well established pharmaceutical industry.

The international exhaustion principle had already been previously accepted for trade marks and copyright under Swiss case law.

UK – shortage of medicines

In February 2010 it was revealed that a newly created NHS hospital trust had been trading in the pharmaceutical export market by purchasing drugs at NHS agreed prices and selling them to a wholesaler for export to European member states. Taking advantage of the weak value of sterling in 2009, The Royal Surrey County Hospital Foundation Trust earned GBP 4.6 million in revenue, generating a profit in excess of GBP 300,000.

Although the Trust refused to disclose a list of the drugs which were traded, claiming that the list was commercially sensitive, it was subsequently reported that three of the drugs were cancer medicines on an official 'short supply' list for the NHS, whilst others included HIV medications and contraceptives. According to reports, the foundation ceased the parallel trade of NHS drugs in January 2010, partly in response to public concern, and partly due to currency valuations reducing the opportunity to make a profit.

The NHS Purchasing and Supply Agency had previously warned that the spread of export trading to hospitals was a serious concern due to the relatively small volumes of drugs supplied and the consequent effect that a depletion of this limited stock would have on patients' health. The Agency also warned that if the practice were to continue, pharmaceutical companies might regard onward sales as an abuse of the NHS pricing agreement, thereby jeopardising any future negotiations for NHS discounts.

Commenting at the time, the Department of Health described the practice as 'wholly unacceptable' and 'irresponsible'. During a debate on the supply of prescription drugs in the House of Lords in March 2010, Baroness Thornton commented, "parallel trading is a legitimate activity, but we take a very dim view of any NHS organisations indulging in it. We think that it is unacceptable and contrary to acceptable professional behaviour for any hospital to be taking part in this."

US –
Health Bill on parallel trade pending

In March 2009 a Bill entitled 'Pharmaceutical Market Access and Drug Safety Act 2009' (Official Title: 'A bill to amend the Federal Food, Drug and Cosmetic Act with respect to the importation of prescription drugs, and for other purposes') was introduced and referred to the US Senate Health, Education, Labour and Pensions Committee and later to the House Subcommittee on Energy and Commerce. Making health provision cheaper is at the top of President Obama's health care agenda. The Bill aims to address the current situation under which American consumers are charged some of the world's highest prices for prescription drugs. The Congressional Budget Office (CBO) estimates that the legislation would reduce total drug expenditure by USD 50 billion over 10 years, with USD 10 billion of that amount in savings to the federal government.

The Bill would allow U.S.-licensed pharmacies and wholesalers to import FDA-approved medications from Canada, Europe and elsewhere. The legislation would also allow American consumers to purchase prescription medicines direct from FDA-approved Canadian pharmacies. It would also create a criminal offence for the importation of drugs in 'knowing' violation of a vast array of regulations issued under the Food and Drug Act, including violations of any registrations requirement, falsifications of any record required to be kept or provided to the government, and violations of any other regulatory conditions concerning drug importation. The legislation would include further provisions to prevent pharmaceutical companies from obstructing trade, such as slightly altering formulations to prevent them from being imported, or failing to supply Canadian pharmacies.

It is far from certain whether the Bill will ever be passed by Congress. The pharmaceutical industry remains vehemently opposed, with industry insiders voicing concerns about an increase in drug diversion, an increase in counterfeit drugs entering the supply chain and a fear that importers and distributors would absorb any price differences, rather than passing savings on to the consumer. The Bill is almost identical to a 2007 version that never became law in spite of being passed by the Senate. Although the Bill has cross party support, financial contributions given to Senators in respect of this Bill indicate that the ratio of opposition to support of this Bill by special interest groups is approximately 5:1.

US –
copyright case: Costco -v- Omega

The US Supreme Court is due to hear an extremely important case concerning parallel trade of copyright protected goods, following a dispute between Omega, the watch manufacturer and Costco Wholesale. The outcome will have far reaching ramifications for the parallel trade markets in the United States across a broad range of product sectors.

Omega sued Costco in 2004 for selling genuine Omega watches which had been imported by a third party into the US without its consent and sold at prices lower than Omega's suggested US retail price. Costco won at first instance, arguing successfully that Omega's copyright had been exhausted after a first sale of its goods. On appeal, Omega won in the Court of Appeal for the Ninth Circuit. Costco relied on the previous Supreme Court case of *Quality King Distributors -v- L'Anza Research International* of 1998 in which it was held that copyright owners have no right to control marketing of their genuine goods which have been imported and sold into the United States. However, here the Ninth Circuit decided in 2008 that this rule of exhaustion of rights did not apply to goods which were manufactured and first sold abroad (as opposed to being manufactured in the US, exported and then re-imported on a "round trip"). Costco then appealed to the Supreme Court.

The case has attracted amicus briefs from a variety of interested parties including brand owners and online retailers. The US Department of Justice has expressed the view that the law is already clearly in Omega's favour. If the Supreme Court agrees, the US position will then mirror that of the EEA: a geographic block protecting first the interests of intellectual property rights owners rather than those of the free market and the consumer. There will also be a clear incentive for brand owners to cease manufacture of their goods in the US and to relocate manufacturing facilities elsewhere.

STOP PRESS: the US Supreme Court's decision on 13 December was an inconclusive draw with four judges voting each way and no detailed judgment issued. This even split means that the Court of Appeal's judgment stands unchallenged in the Ninth Circuit (for now), but that there is no binding nationwide ruling across the US.

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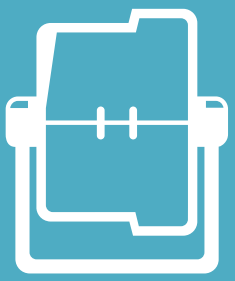

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