

Client note

# Intellectual property rights and parallel imports of genuine products in the European Economic Area (EEA)

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## FURTHER INFORMATION

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# Parallel imports

## WHAT IS A PARALLEL IMPORT

A parallel import is a product which is put on the market in one country under the authority of an owner of an intellectual property right relating to that product and then exported to another country by a third party. It becomes a parallel import in that second country. Parallel importation is legal under European Law in certain circumstances. In some countries like the UK the term "parallel import" only refers to legally admissible parallel imports whereas the term "grey imports" refers to imports which are not legally admissible.

## WHY IS PARALLEL IMPORTATION AN ISSUE

Market conditions vary from country to country; not only in regard to price but also in terms of a product's features. For this reason manufacturers often wish to adapt their products, packaging and prices to different market conditions. The different pricing levels, in particular, give an incentive to parallel import products from low level price markets to high level price markets. However, manufacturers can use wide ranging intellectual property rights in order to prevent such parallel importation and the Law regarding parallel imports in the EEA is developing rapidly.

# The principle of European wide exhaustion of rights

*Most of the parallel import cases involve trade mark rights, but they can also involve other intellectual property rights. The EU Trade Mark Directive (First Directive 89/104/EEC of the Council of 21 December 1988 on the Approximation of the Laws of the Member States Relating to Trade Marks) introduced the principle of European wide exhaustion of rights into European Trade Mark Law.*

According to Article 7 of the Directive a 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 the proprietor's consent.

As a consequence, the owner (A) of a trade mark which is protected in several EEA countries (for example in the UK and in France) who has put the product on the market in the UK cannot prevent a French company (B), from importing and commercialising these goods bearing his trade mark in France (Diagram 1).

In this case it is irrelevant whether or not A gave his consent to the importation: the principle of free flow of goods within the EEA prevails over the interests of the trade mark owner to control the regional commercialisation of his goods.

However, this so-called principle of "exhaustion of rights" does not apply to goods imported into the EEA from outside the EEA as the principle of free flow of goods within the EEA is not affected. In this case the interests of the trade mark owner in controlling the regional commercialisation of his goods prevails. As a consequence, under European Law the importation into the EEA requires the trade mark owner's consent. Accordingly, the owner of a trade mark (A) is in a position to prevent a UK company (B) from commercialising goods bearing A's trade

mark bought from, for example, A's US licensee in the UK unless A gives his consent (Diagram 2). It is irrelevant whether or not A is selling the same product at the same time.

Exhaustion of rights only occurs with products put on to the market in the Community with A's consent. The existing trade mark rights for these products are exhausted and they can be commercialised freely within the EEA. The rights in all other identical products which have not been put onto the market in the Community by or with the consent of A are not exhausted and they can not be freely commercialised in the EEA.

The same principle applies if the owner (A) of a trade mark which is protected in several EEA countries (for example in the UK and France) has put the product on the market in the USA and given his consent to the importation into the UK. He can not prevent a French company (C) from importing and commercialising these goods bearing his trade mark in France (Diagram 3). Once the product has been put on the market in the EEA with the consent of the trade mark owner the principle of free flow of goods within the EEA prevails. No further consent is required for the commercialisation of the product in other EEA countries.

The principle of "European wide exhaustion" was confirmed by the European Court of Justice (ECJ) in

several judgements (ECJ judgement of 16 July 1998 in the matter "C-355/96 – "Silhouette International Schmied GmbH & Co KG and Hartlauer Handelsgesellschaft mbH" and the judgements of 10 November 2001 in the matters C-414/99, C-416/99 - "Zino Davidhoff SA and A&G Imports Ltd; Levi Strauss & Co., Levi Strauss (UK) Ltd and Tesco Stores Ltd, Tesco plc; Levi Strauss & Co., Levi Strauss (UK) Ltd and Costco Wholesale UK Ltd").

DIAGRAM 1:

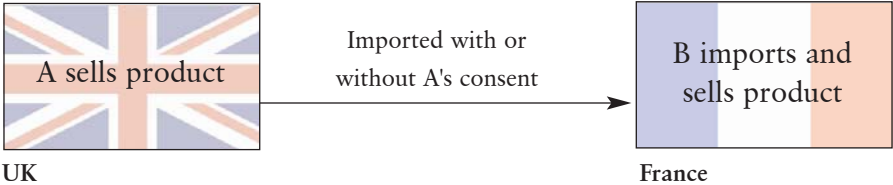


DIAGRAM 2:

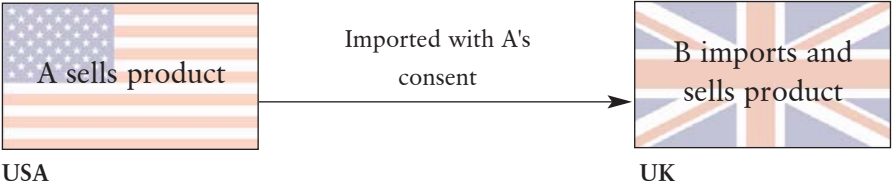


DIAGRAM 3:



# The burden of proof

*With its decision in Davidoff, Levi Strauss the ECJ further strengthened the position of manufacturers. The court held that it is for the trader alleging consent to prove consent and not for the proprietor to demonstrate its absence. That consent must be expressed positively. There are factors that can be taken into consideration in finding implied consent, but these must unequivocally demonstrate that the trade mark proprietor has renounced any intention to enforce his exclusive rights.*

Implied consent cannot be inferred from:

- the mere silence of the trade mark proprietor
  - the fact that he has not communicated his opposition to marketing within the EEA
  - the fact that the goods do not carry any warning that it is prohibited to place them on the market within the EEA
  - the fact that the trade mark proprietor transferred ownership of the goods bearing the trade mark without imposing contractual reservations or
  - the fact that, according to the law governing the contract, the property right transferred includes, in the absence of such reservations, an unlimited right of resale or, at the very least, a right to market the goods subsequently within the EEA.
- the authorized retailers and wholesalers have not imposed on their own purchasers contractual reservations setting out such opposition, even though they have been informed of it by the trade mark proprietor.

In addition, it is not relevant that:

- the importer of goods bearing the trade mark is not aware that the trade mark proprietor objects to the goods being placed on the market in the EEA or sold there by traders other than the trade mark proprietor's authorized retailers or

# Exceptions to the principle of European wide exhaustion of rights

*According to Article 7 paragraph 2 of the EU Trade Mark Directive there is an exception to the principle of the exhaustion. Exhaustion shall not apply where legitimate reasons exist for the trade mark proprietor to oppose further commercialisation of the goods, especially where the condition of the goods has been changed or impaired after they have been put on the market.*

The change of the packaging or the use of a different packaging is accepted as a legitimate reason for the trade mark proprietor to oppose further commercialisation. According to a long standing judgement of the ECJ there are, however, exceptions to this principal. In several cases in which pharmaceuticals were parallel imported within the EEA the ECJ held that the trade mark proprietor has to accept repackaging if:

- otherwise the free flow of goods within the EEA would be affected because there are national regulations which necessitate the change of the packaging or the repackaging
- the repackaging does not affect the original quality of the product
- the original manufacturer as well as the fact that the product has been repackaged is mentioned on the new packaging
- the repackaging does not affect the reputation of the trade mark
- the trade mark proprietor is informed in advance about the parallel import and on demand receives a sample of the repackaged product (ECJ judgement of 11 July 1996 in the matter C-232/94 - "MPA Pharma and Rhône-Poulenc).

It is also accepted that exhaustion shall not apply in cases in which a material condition of the goods is changed or impaired, for example if the use of a trade mark is detrimental to its reputation to a considerable extent (ECJ judgement of 4 November 1997 in the matter C-337/95 – "Parfums Christian Dior SA and Parfums Christian Dior BV and Evora BV").

# The territorial scope of the principle of European wide exhaustion

*The principle of European wide exhaustion is applicable in all EEA member states. This comes from Article 65 paragraph 2 of the Agreement on the European Economic Area (EEA Agreement) in combination with Article 2 of the Protocol 28 on Intellectual Property to the EEA Agreement.*

The EEA consists of all the EU member states and the EFTA member states (except for Switzerland).

These are:

- |                   |                 |
|-------------------|-----------------|
| (a) EU            | (b) EFTA        |
| • Austria         | • Iceland       |
| • Belgium         | • Liechtenstein |
| • France          | • Norway.       |
| • Germany         |                 |
| • Great Britain   |                 |
| • Greece          |                 |
| • Ireland         |                 |
| • Italy           |                 |
| • Luxemburg       |                 |
| • The Netherlands |                 |
| • Portugal        |                 |
| • Spain.          |                 |

# The intellectual property rights covered by the principle of European wide exhaustion

*Although most of the cases relate to trade mark protected products, the principle of European wide exhaustion also applies to other intellectual property rights. It is likely that the ECJ will apply the principles developed in the decisions relating to trade mark cases to other parallel import cases.*

In detail, the legal situation is as follows:

(a) **Community Trade Marks<sup>1</sup>**

According to Article 13 of the Council Regulation (EC) No 40/94 of 20 December 1993 on the Community Trade Mark the principle of European wide exhaustion applies to Community Trade Marks.

(b) **National EEA Trade Marks**

According to Article 7 of the First Directive 89/104/EEC of the Council of 1 December 1988 on the Approximation of the Laws of the Member States Relating to Trade Marks the principle of European wide exhaustion applies to national EEA Trade Marks.

(c) **Community Designs<sup>2</sup>**

According to Article 21 of the Council Regulation (EC) no. 6/2002 of 12 December 2001 on Community Designs the principle of European wide exhaustion applies to Community Designs.

(d) **National EEA Designs**

According to Article 15 of the Directive 98/71/EEC of the European Parliament and the Council of 13 October 1998 on the Legal

Protection of Design Rights the principle of European wide exhaustion applies to national EEA Design Rights.

(e) **National EEA Copyrights**

According to Article 9 Section 2 of the Council Directive 92/100/EEC of 19 November 1992 on Rental Right and Lending Right and on Certain Rights related to Copyright in the Field of Intellectual Property, Article 4 (c) Sentence 2 of the Council Directive 91/250/EEC of 14 May 1991 on the Legal Protection of Computer Programs and Directive 96/9/EC of the European Parliament and of the Council of 11 March 1996 on the Legal Protection of Databases the principle of European wide exhaustion applies to national EEA Copyrights regarding computer programs, databases and certain other rights. In some countries, like Germany, the principle applies to all kinds of copy rights.

(f) **National EEA Patents**

According to the ECJ (judgement of 14 July 1981 in the matter C187/80, "Merck & Co., Inc and Stephar B.V.") the principle of European wide exhaustion applies to national EEA Patents.

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1 A Community Trade Mark provides protection in all EU Member States.

2 A Community Design provides protection in all EU Member States.

# Legal actions the intellectual property owner can take to enforce its rights

*Proceedings vary from country to country and action needs to be taken on a country by country basis.*

The following actions may be taken:

(a) **Cease-and-desist letter**

In several European countries the first step to stop parallel imports can be a cease-and-desist letter to every importer, wholesaler or retailer selling legally inadmissible parallel imported products. In a cease-and-desist letter the importers will be informed that they infringe intellectual property rights and that they are therefore obliged to sign a cease-and-desist declaration in which they have to undertake to further refrain from importing, distributing or advertising the parallel imported products which have not been introduced to the European market by or with the consent of the intellectual property right owner. In addition, they have to undertake to provide complete and detailed information about the extent of the intellectual property right infringement by providing information about the names and addresses of the suppliers and the turnover reached with these products. In some countries, like in the UK, such a cease-and-desist letter may be considered to be an unlawful threat and therefore has to be used with great caution.

(b) **Preliminary injunction**

In all countries a preliminary injunction can be applied for. Such an application is to be filed with the competent courts within a reasonable

time of becoming aware of the relevant facts. A preliminary injunction can in some countries be obtained within a few days (e.g. France, Germany and, in certain cases, the UK). In some countries, like Germany, it can be obtained without an oral hearing.

(c) **Civil action**

In all countries civil infringement actions can be brought before the courts. These follow on from the preliminary injunction. Unlike the preliminary proceedings, in the civil action information about the extent of the infringement and the suppliers can be claimed in addition to a claim for compensation for damage. In some jurisdictions like the UK and France any claim for infringement will present an opportunity for the defendant to challenge the validity of the intellectual property right on which the infringement claim is based. In other countries, like Germany, validity claims will not be tried in the same proceeding as the infringement claim.

(d) **Infringement seizures**

In some countries, like France and Italy, the law provides for the possibility of carrying out infringement seizures in intellectual property infringement cases. The owner of trade mark rights who has good reason to believe that his rights are being infringed can often be entitled

to obtain a court order, on an ex-parte basis, allowing him access to the defendant or third party's premises in order to obtain the relevant evidence.

(e) **Criminal action**

In all countries the intellectual property right owner may consider commencing a criminal action before the courts. Nevertheless, it may not be recommended to file a criminal action in all cases because criminal courts are not used to dealing with the exhaustion of intellectual property rights and could be inclined to refuse to consider the import of genuine products as an act of intellectual property right infringement.

(f) **Seizure by the customs authorities**

In some countries, like Germany and Italy, an application for the seizure of legally inadmissible parallel imports by the customs authorities can be filed. In such an application the customs authorities are provided with all relevant information in order to be able to differentiate between legally admissible and inadmissible parallel imports. They can then be asked to seize the inadmissible parallel imports coming into the EEA. The intellectual property right owner will be immediately informed by the customs authorities about any parallel imports seized in order to take all necessary legal steps to keep those products from the market and to bring a legal action against the parallel importer.

# Our experience

*We act for clients in parallel import cases which cover all industrial areas. For example, we have clients in the pharmaceuticals and cosmetics, food and beverages, technical products, clothing and media industries. One of our strengths is the ability to put together an international team of experts covering all relevant markets and to work closely together in order to effectively protect intellectual property rights.*

If you would like further information on parallel imports please contact any of the following or your usual contact at the firm:

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