Norway follows EU line on parallel trade

A recent decision of the EFTA Court confirms that regional exhaustion of trademark rights applies in EFTA countries, including Norway. This strengthens brand confidence by affording the same guarantees to consumers across the region

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Parallel trade occurs when products are purchased in a country where they are cheaper and transported for resale in other countries where they are more expensive. Parallel trade refers to trade in genuine products outside authorised channels of distribution; it should not be confused with trade in counterfeit goods, which refers to trade in products that infringe IP rights. When unrestricted, parallel trading activities generally take two forms. The most common are passive parallel imports, whereby arbitrageurs buy goods in a foreign country and sell them on their domestic market. Active parallel imports occur when a foreign licensee (or distributor) of the rights holder enters the domestic market to compete with the rights holder or its official domestic licensee. Regardless of the form that parallel imports take, they are subject to the same border measures as regular imports, including tariffs, quantitative restrictions and technical standards.

Exhaustion of trademark rights – a prerequisite

The exhaustion of trademark rights is a legal prerequisite for parallel trade. The exhaustion provisions relating to the protection of IP rights define the territorial rights of rights owners after the first sale of the protected product. Under a system of national exhaustion, a title holder can prevent parallel importation of its product from a foreign country where it is sold either by the rights owner or by an authorised dealer. In contrast, under a system of international exhaustion, the title holder loses its exclusive privilege after the first distribution of the product, thus allowing parallel imports from abroad. A hybrid between national and international exhaustion is regional exhaustion, whereby parallel trading is allowed within a particular group of countries, but parallel imports from countries outside the region are barred.

Historically, there has been considerable debate in Norway, as in the European Union, over whether global or regional exhaustion of trademark rights should apply – and thus over the extent to which parallel imports should be allowed.

The European Free Trade Association (EFTA) Court recently clarified this question in the joined cases *L'Oréal Norge AS v Per Aarskog AS* and *L'Oréal SA v Smart Club AS* (Cases E-9/07 and E-10/07, hereinafter *Redken*). Before looking at the court's decision, however, it is useful to examine the development of this issue within the EU and EEA.

Motives behind parallel trade and exhaustion

The principle of exhaustion of trademark rights was developed in Community law on the basis of the rules on the free movement of goods (Articles 28 and 36 of the EC Treaty). Were it not for these rules, trademark proprietors would be in a position to prevent parallel imports from other countries in the European Union, which would obstruct free trade and could

result in undesired market segmentation. Hence, the rules on exhaustion are based on the prevailing objective of free movement of goods.

Parallel trade is often of economic advantage to the importer. By purchasing the goods in countries where prices are low and then reselling them in markets where prices are considerably higher, the parallel importer benefits from the price difference. Thus, parallel trade is especially beneficial where considerable price disparities exist between different countries. Further, parallel trade allows the parallel importer to save on marketing costs, as it can exploit the existing marketing efforts of the proprietor.

From a consumer perspective, parallel trade is beneficial, as it allows consumers to access the same products at a lower price. Moreover, a natural consequence of this effect is that the authorised distributor is forced to lower its prices. Thus, the motives behind competition - especially consumer considerations - weigh in favour of parallel trade.

Advocates of global exhaustion claim that European prices are too high compared to world prices for the same goods. Therefore, if parallel imports were allowed, consumers would benefit. However, the starting point for competition between global markets is not the same and it would be unwise to introduce global exhaustion on the assumption that it were. Goods may be available elsewhere in the world at cheaper prices due to lower costs - for example, wage costs, raw material costs and taxes may all be lower, and subsidies may be higher. Low prices may also have a high social cost when compared to European standards. In essence, the role played by cost in competition within the global market is not uniform.

Exhaustion and parallel trade in the EU and EEA

The main objective of the EEA Agreement is to create a homogeneous European Economic Area (Article 1(1) of the Agreement and the fourth and the fifteenth recitals of the Preamble to the Agreement). The homogeneous interpretation and application of common rules is essential for the effective functioning of the internal market within the EEA. Furthermore, the EFTA Court has an obligation to "pay due account to the principles laid down by the relevant rulings" of the European Court of Justice (ECJ) (Article 3(2) of the Agreement between the EFTA States on the Establishment of a Surveillance Authority and a Court of Justice).

Within the European Union, the concept of exhaustion of rights is integral to the doctrine of free movement of goods under Article 7 of the Trademark Directive (89/104/EEC). In the summer of 1998, the ECJ delivered its ruling in *Silhouette v Hartlauer* (C-355-96), which concerned the exhaustion of trademark rights. The decision clarified the state of law concerning parallel imports from countries outside the European Economic Area and confirmed that global exhaustion is not allowed. However, parallel imports within the EEA/EU remain both permissible and desirable. The existence of parallel trade, which arises from and eventually eliminates price differences between different markets, is considered a precondition of a properly functioning single market.

Silhouette concerned an Austrian discount chain, Hartlauer, which had bought a consignment of Silhouette sunglasses from a company in Bulgaria, which itself had previously bought them from Silhouette International in Austria. Hartlauer was charged in an Austrian court on the grounds that the trademark rights for the sunglasses had not been exhausted by the sale of the consignment to the Bulgarian company, and that Silhouette therefore could prohibit Hartlauer from selling the glasses in Austria. During the case, the question arose as to whether Article 7(1) of the Trademark Directive should be interpreted to mean that a trademark entitles the owner to prohibit any third party from using the trademark for goods which were originally put on the market under that trademark in a state that is not a contracting state to the EEA Agreement.

The Austrian court turned to the ECJ for an opinion on how Article 7(1) of the Trademark Directive was to be interpreted. Like Norway (see below), Austria had previously applied the principle of global exhaustion. The ECJ referred in its judgment to the fact that the directive was introduced in order to facilitate the free movement of goods and services. It is of crucial importance in this respect that registered trademarks are given the same protection in all member states. With this in mind, the ECJ decreed that the directive should be viewed as a complete harmonisation of member states' rules regarding trademarks. It also declared that this is the only interpretation that can ensure that the aim of the directive is achieved: that is, to safeguard the proper functioning of the internal market. The consequence of this line of reasoning is that

all member states are obliged to apply the same principle of regional (EEA-wide) exhaustion of trademark rights.

The ECJ pointed out, in conclusion, that the European Union can always enter into international agreements and thereby extend the scope of regional exhaustion.

Parallel trade in Norway

In Norway, the basic statutory provisions on trademarks are set forth in the Trademark Act of 3rd March 1961 No 4. The Trademark Act contains no rules dealing directly with exhaustion of trademark rights, but has traditionally been construed to entail international exhaustion.

When the Trademark Directive was implemented in Norway in connection with its adherence to the EEA Agreement, the lack of statutory provisions on exhaustion of rights was remarked on in the proposition to Parliament (white paper), *Odelstings proposisjon* No 72 (1991—92) p 55. It was stated that: "[t]he Trade Mark Act contains no explicit rules on exhaustion. However, it is established Norwegian law that international exhaustion applies for trade marks. ... Since international exhaustion is the approach which creates the greatest price competition on the Norwegian market and is, therefore, best for Norwegian consumers, the Ministry is of the view that there should be no aim to switch over to EEA regional exhaustion until the issue is elucidated in more detail in further consultation or by the EFTA Court or the ECJ."

Against this background, the interpretation of Article 7(1) of the Trademark Directive has been debated in legal circles. There are strong arguments in favour of interpreting the provision as prohibiting national exhaustion only, while leaving open the choice between EEA-wide exhaustion and international exhaustion.

This became evident in the EFTA case known as *Maglite*. About six months prior to the *Silhouette* ruling, the EFTA Court decided a similar case, but reached a different conclusion. That case involved a Norwegian company that parallel imported Maglite torches from the United States. Maglite's Norwegian general agent sued the importer for an alleged breach of Norwegian trademark law and the Trademark Directive.

The EFTA Court took the view that the EEA Agreement, in contrast to the EC Treaty, involves neither a customs union of any kind nor any common trade policy *vis-à-vis* a third country. EFTA states are therefore free to conclude foreign trade agreements with third countries. Against this background, a regional exhaustion requirement would place too great a restriction on the EFTA states' freedom of trade *vis-à-vis* third countries. The EFTA Court thus concluded that it is up to each EFTA state individually to decide whether it wishes to implement regional or global exhaustion.

Latest developments

After the EFTA Court in *Maglite* opted for an interpretation allowing international exhaustion, the ECJ opted for mandatory EEA-wide exhaustion in *Silhouette* and then upheld that interpretation in *Sebago and Maison Dubois* (1999) (Case C-173/98), which concerned goods originating from outside the EEA.

The EFTA Court had thus decided on global exhaustion, while the ECJ went for regional exhaustion. The main objective of the EEA Agreement is, as mentioned, to create a homogeneous EEA market, which basically demands homogeneity in the state of the law. When two Norwegian district courts recently turned to the EFTA Court for an opinion on how to interpret Article 7(1) of the Trademark Directive, the EFTA Court had the choice of either upholding the *Maglite* decision (ie, global exhaustion) or following the precedent of the ECJ in *Silhouette* and *Sebago*.

The defendants had carried out parallel imports by importing Redken products to Norway from the United States via third parties, and without the consent of the trademark owner. The divergence between *Maglite* on the one hand and *Silhouette* and *Sebago* on the other is limited to the exhaustion of trademark rights in relation to goods originating from outside the EEA. The court stated in Maglite that the EFTA states remain free to conclude treaties and agreements with third countries in relation to foreign trade. The institutional system of the European Economic Area foresees two courts at the international level - the EFTA Court and the ECJ - interpreting the common rules. It is an inherent consequence of such a system that from time to time the two courts may come to different conclusions in their interpretation of the rules.

In this case the EFTA Court held that the differences between the EEA Agreement and the EC Treaty with regard to trade relations with third countries did not constitute compelling grounds for divergent interpretations of Article 7(1) of the Trademark Directive. On this basis, the EFTA Court concluded that Article 7(1) of the Trademark Directive "is to be

interpreted to the effect that it precludes the unilateral introduction or maintenance of international exhaustion of rights conferred by a trade mark regardless of the origin of the goods in question". That is, EEA exhaustion also applies in Norway and the state of law has finally been clarified.

Conclusion

The decision in *Redken* established that regional exhaustion also applies in the EFTA countries, including Norway. It is compatible and supportive of the internal market, and assists manufacturers in best meeting consumer needs in the most appropriate way. Regional exhaustion ensures that consumers obtain the same guarantees and reinforces the bond of trust between brand owner and consumer. It assists fair and level competition, and fair and appropriate free trade.

In the scientific and public debate, a number of arguments are put forward against parallel imports. Some of these concern the fact that the benefits arising from the protection of intellectual property rights may not be fully realised. By opting for EEA-wide exhaustion, parallel trade is now limited while the prevailing objective of free movement of goods within the single market is still preserved.

By extension, the rules on repackaging of parallel imported goods fall into line with Community law (see the Norwegian Supreme Court's judgment in *Merck* (Rt 2004, p 904)). Thus, at the outset, the parallel importer can re-package only to the extent necessary and provided that the presentation of the relabelled product will not damage the reputation of the trademark or its owner. Moreover, the trademark owner may oppose the repackaging if it is due only to the parallel importer's attempt to obtain a commercial advantage. The package must also state who has relabelled the product and the parallel importer must give prior notice of the marketing of the relabelled product to the owner. **iam**

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