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The concept of exhaustion of trade mark rights — origins and challenges in the context of e-commerce

*Instytucja wyczerpania prawa do znaku towarowego
— rodowód i wyzwania w kontekście handlu elektronicznego*

Artykuł przedstawia rodowód i ewolucję tzw. zasady wyczerpania prawa do znaku towarowego. Dzięki wyczerpaniu prawa do znaku towarowego, dystrybutorzy mogą podejmować działania dotyczące towarów producentów (np. dalsza sprzedaż, szeroko rozumiane działania reklamowe) na danym terytorium. Z kolei przyjęte w prawie unijnym ograniczenie terytorialne tej zasady pozwala producentom różnicować parametry produktów oferowanych pod tym samym znakiem towarowym na różnych terytoriach (np. EOG i poza nim). W artykule wskazano, że egzekwowanie przestrzegania ograniczonej terytorialnie zasady wyczerpania prawa do znaku towarowego staje się utrudnione w związku z rozwojem platform handlu elektronicznego, takich jak np. serwis aukcyjny eBay. Serwisy tego typu niwelując znaczenie odległości, umożliwiają nabywcom dotarcie do partii towarów przeznaczonych na odległe rynki. Towary te, choć oferowane pod tą samą marką, co na rynku rodzimym internauty, mogą charakteryzować się odmiennymi parametrami i spełniać inne funkcje marketingowe niż na rynku rodzimym internauty. W konsekwencji dostępność tych partii produktów może wpływać na postrzeganie marki na rynku rodzimym internauty. Jak wynika z orzecznictwa wskazanego w artykule, ten stan rzeczy może mieć istotny wpływ na skuteczność realizacji strategii marek oferowanych na rynkach międzynarodowych.

Słowa kluczowe:

znaki towarowe, wyczerpanie, handel elektroniczny.

It can be therefore concluded from this paper that the right of protection for a trade mark has no absolute range. If it were not for the principle of exhaustion of trade mark rights, dating back to the beginning of the 20th century, it would be impossible for any other entrepreneur, who does not own rights to the trade mark, to use it without the consent of the proprietor.

In line with mandatory regulations, trade mark rights within the EEA area are not exhausted, if a given batch of goods has not been put on the market by the proprietor, or if it has been put on the market beyond the EEA. Presented in this article, the dispute between L'Oréal and eBay may prove to become a precedent with regard to the application of the exhaustion concept in e-commerce. The dispute has exposed that the Internet undermines the effectiveness of territorial limitations on which the whole legal construct of the exhaustion principle is based. As a result of enabling purchasers to gain access to batches of goods targeted for remote markets, the Internet may also call into question the effectiveness of marketing strategies based on the geographical differentiation of product brands and products under the same brands.

The case of L'Oréal vs eBay also indicates that whether there are factors on the basis of which it may be concluded that an offer for sale or advertisement, displayed on an online marketplace accessible from the territory covered by the trade mark, is targeted at consumers in that territory, should be assessed individually for each case. Undoubtedly, the need to carry out case-law assessments, as compared to the huge scale of transactions carried out online, may subject trade mark proprietors to huge costs related to monitoring the observation of the exhaustion principle on a global scale and to the heightened risk of legal disputes.

Key words:

trade mark, exhaustion, marketing strategies, e-commerce.

Introduction

The goal of this paper is to present the origins and evolution of the principle of exhaustion of trade mark rights. Thanks to the exhaustion of trade mark rights distributors may lawfully take up actions with regard to goods of producers (such as the resale, broadly interpreted advertising practices) within a legally defined territory (e.g. the EEA). This allows manufacturers to diversify the quality and other parameters of products offered by distributors under the same trade mark within a legally defined territory and beyond it.

The matter of establishing whether or not a good has been marketed compliant to the exhaustion doctrine has become extremely important due to the development of sale over e-commerce platforms, such as online auction website eBay. These websites may limit the effectiveness of the principle of exhaustion, as, by rendering the distance factor void, they enable purchasers to acquire goods destined for far-off markets. Though they are offered under the same brand as on the domestic market, these commodities may feature different parameters and serve dissimilar marketing purposes when sold on remote market. As a result, the development of e-commerce may have a significant impact on the implementation of strategies of brands of goods offered on international markets.

Functions of a trade mark

The chief function of a trade mark, also called "brand", is to identify a commodity with a producer, i.e. to indicate a good as coming from a particular company. A brand thus conveys information such as quality, the production method and place, industrial design, the origin of components, the reputation on a market, all of which impact the attachment of a purchaser to a particular good.

On account of that informative function a brand makes it easier for purchasers to grow attached to a particular product or manufacturer, which is used by the enterprise to create demand and to reinforce its market position.

Hence the protection of a trade mark (brand) constitutes a basic right related to the company under so-called industrial property. A trade mark protects both the interests of the entrepreneur entitled to using it, as well as the interests of consumers attracted to the reputation, quality and security which that trade mark embodies.

Trade mark protection is secured by way of registering a product at the competent patent office. The gist of trade mark protection is that it grants the right for exclusive market use of a trade mark (both

for financial or professional gain) which labels particular services or commodities available on a given territory. The basic rights resulting from the registration of trade marks are: the right to place the trade mark on goods or their packaging, the right to offer or put goods on the market, to import or export them, and in relation to services — the right to offer or render services under said trade mark. The rights consist also of using the trade mark for advertising purposes. This list of entitlements is by no means complete, meaning that the law is strong and effective with regard to all market players.

Origins of the institutions of exhaustion of a trade mark right

Nonetheless, the scope of a trade mark right is not absolute, since it would mean that, in fact, another entrepreneur not in possession of the trade mark right would not be able to use it without the approval of the trade mark proprietor. The trade of goods following the so-called exhaustion of a trade mark right is no longer exclusive to the entitled party, i.e. the proprietor of the trade mark. The exhaustion of a trade mark right is a situation where the proprietor of a trade mark cannot prohibit or limit the use thereof in relation to the resale of goods labelled with said trade mark (Tułodziecki and Wysokińska, 2011).

Under the exhaustion doctrine third parties may lawfully take actions with regard to trademarked goods, in particular such as offering these goods for resale, using the trade mark on a website or for advertising purposes.

The principle of exhaustion of a trade mark right exemplifies a legal solution that has evolved as a result of various practical needs. The theory is based on a ruling of the Supreme Court of the German Reich Kölnisch Wasser of 1902 in which the court found that the right to a trade mark is subject to exhaustion if the good bears said trade mark and has been marketed as such by the lawful proprietor of the trade mark, whereas the result of the "exhaustion" is the impossibility for the trade mark proprietor to ban others from using the trade mark in resale (cf. Szczepanowska-Kozłowska, 2002). If, therefore, a producer launched a product under its own brand, he may not deprive that good later on of the brand conferred onto the item, citing his exclusive rights.

This theory highlights the connection between a trade mark (brand) and a commodity; it constitutes a kind of limitation to the principle of exclusive rights to a trade mark. It is justified by the need to protect the informative function of a trade mark which links the origin of a product to a particular

person and which identifies a commodity traded on the market.

The concept of exhaustion of trade mark rights developed over years of court practice was traditionally applied without territorial limitations in chief legal systems of European states, i.e. it was also applied in cases where a good was then traded internationally. It concerned both situations when a commodity was placed on the market under a given brand in any country directly by the trade mark proprietor, and situations when the market launch was carried out by a third party authorized to do so by the trade mark proprietor.

The sole limitation to the application of this exhaustion principle was a situation where the trade mark proprietor was entitled to object to the resale of a good labelled with his trade mark for just reasons, in particular if the state of the good deteriorated right after market launch.

Such a legal solution limited the possibility of a deliberate differentiation of the quality of trademarked goods in the case when these were earmarked for export, due to the risk that products of worse quality directed to other markets might make their way back, by way of parallel import, and thus could undermine the trust of consumers in the brand on the domestic market. Such a risk is accordingly higher in the case of renowned trade marks which represent a strong pull for prospective buyers and which are the source of a, often considerable, fictional value of a good (though reflected in the commodity price).

At the same time the 80s and 90s of the 20th century have seen an unparalleled boom of opportunities for expansion on new, emerging markets, or the "markets of the future". These markets had a distinguishing feature: they provided conditions which favoured classic price competition paired with a relatively low level of income of purchasers on one hand, and allowed for a specific "education" of purchasers on the other hand, as they were taught to recognize products in terms of globally renowned trade marks, to attribute a large fictional value to those goods, to be susceptible to advertising and acquired a penchant for emulating "western" consumption styles, while at the same time purchasers lacked experience with regard to real quality-based features of goods of respective brands.

Therefore consumer requirements referred more to superficial features, and the brand of a good in particular, rather than to the quality standards it actually met. As a result sellers were strongly tempted to abuse this conditioning to conquer "markets of the future" using a sales strategy for a brand good involving a combination of lower prices and a concurrently lowered quality standard (selling a "cheaper version").

However, this policy of selling seemingly homogenous goods under the same brand at differing prices fostered the development of parallel import, i.e. of introducing cheaper brand goods to markets with a higher price level.

Exhaustion of trade mark right according to EU law

The exhaustion principle applied in legal systems made it impossible to counteract parallel importation and the unfavourable effects the brand proprietor was faced with as a result: by protecting the function of customers identifying a product with the person who had trademarked the commodity, the principle, actually, clashed with the brand proprietor's interests.

Faced with this matter, legislators adjusted legal regulations to the need of protecting brand proprietor interests. This was expressed for the first time in the First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks (Directive 89/104).

In art. 7 of Directive 89/104, legislators adopted principle of exhaustion of the rights conferred by a trade mark limited in terms of territory that read as follows:

Article 7 (1) 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.

(2) Paragraph 1 shall not apply where there exist legitimate reasons for the proprietor to oppose further commercialization of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market.

The phrasing above was the result of lengthy debates (previous drafts had stipulated a wording that did not stipulate territorial limitation of the exhaustion principle), as a consequence of which practical arguments, indicating the negative effects of traditional solutions of trade policy, prevailed. The interpretation adopted in the end was thus not about a minimalist regulation, but about a change of existing case law significantly affecting economic practice (See Ruling of the Higher Regional Court in Munich (OLG München) of 12.10.1995 in the case "GT — ALL TERRA", GRUR Int. 1996, 730 et seq).

Next the new solution was transposed into the law systems of the member states of the EEC at that time (e.g in German law this applies to article 24 of the Act to reform the Law of Trade Marks of 25.10.1994 (Gesetz zur Reform des Markenrechts und zur Umsetzung der Ersten Richtlinie 89/104/EWG des

Rates vom 21. Dezember 1998 zur Angleichung der Rechtsfortschriften der Mitgliedstaaten über die Marken (Markenrechtsreformgesetz) vom 25. Oktober 1994, BGBl. I, S. 3082, 1995 I S. 156, 1996 I S. 682 [Law to reform the Law of Trade Marks and implement the First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks on Trade of 25 October 1994, BGBl. 1994 I, p. 3082, 1995 I p. 156, 1996 I p. 682].

Thus legislators created a mechanism of counteracting the so-called parallel importation of brand goods from non-member states of the European Community at that time, within the framework of trade mark law in member states of the Community and also within the framework of Community trade mark law itself.

A practical consequence of the above regulation was to enable the sale of famous brand goods beyond the EC, at lower quality and prices. This solution ensured that a cheaper version of such a product would not make its way back on the Community market and thus would not blemish the perception of a brand within the EC.

Based on EC-harmonised legal rules the proprietor of a brand is entitled to demand a discontinuation of the use of his brand both from parties which offer said good for sale, sell or advertise it under the brand in question, as well as from forwarding agents who import said good from a third country. If the party infringing the brand proprietor's rights acted deliberately or negligently, the aggrieved brand proprietor is entitled to compensation.

Directive 89/104 was then replaced by Directive 2008/95/EC of the European Parliament and of the Council of 22 October 2008 to approximate the laws of the Member States relating to trade marks (Directive 2008/95) which came into force on 28 February 2008.

Concurrently and in connection with national trade mark systems, legislators regulated the new EU territorial industrial property right which was applicable in the Single Market established after 1 January 1993 (under Council Regulation (EC) No 40/94 of 20 December 1993 and Council Regulation (EC) No. 207/2009 of 26 February 2009 on the Community trade mark, replacing the former regulation and coming into effect on 13 April 2009).

The principle of exhaustion of a trade mark right has been introduced in article 13 of Council Regulation No. 40/94 of 20 December 1993 on the Community trade mark (in the codified version of Regulation (EC) 207/2009) in wording identical to that used in the Directive. This article goes as follows:

1. A Community trade mark shall not entitle the proprietor to prohibit its use in relation to goods

which have been put on the market in the Community under that trade mark by the proprietor or with his consent.

2. Paragraph 1 shall not apply where there exist legitimate reasons for the proprietor to oppose further commercialization of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market.

Exhaustion of rights conferred by a trade mark under Polish law

In Polish law the concept of exhaustion of a trade mark right existed for a long time only in doctrine; none of the acts regulating issues of industrial property rights provided for the exhaustion of those rights. The term itself was used only in the context of the Copyright Act (Szczepanowska-Kozłowska 2002).

The principle of exhaustion of rights was first regulated in article 155 of the Act of 30 June 2000 — the Industrial Property Law, as follows:

Art. 155. 1. The right of protection for a trade mark shall not extend to acts in respect of the goods bearing that trade mark consisting, in particular, of offering the goods or further putting on the market the goods bearing that trade mark, where said goods have earlier been put on the market on the territory of the Republic of Poland by the right holder or with his consent.

2. The right of protection for a trade mark shall neither be considered infringed by an act of importation or other acts, referred to in paragraph (1), in respect of the goods bearing that trade mark, if these goods have earlier been put on the market on the territory of the European Economic Area by the right holder or with his consent.

3. Paragraphs (1) and (2) shall not apply, where there are legitimate reasons for the right holder to oppose further commercialization of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market.

The Polish law on the exhaustion of trade mark rights corresponds, by and large, to Community trade mark regulations.

Applying this principle in practice means that it is legal to use somebody else's trade mark, i.e. for instance sell trademarked goods without obtaining the consent of the trade mark proprietor or publish information about a good bearing a certain trade mark on the website of an online shop for informative purposes or in print advertising, provided the "right has been exhausted".

The right of protection for a trade mark is exhausted once a product is marketed by an

authorised person or with his/her consent (cf. art. 155 par. 1–2 of the Industrial Property Act, art. 7 par. 1 of Directive 2008/95). The exhaustion of the trade mark occurs when the proprietor of a trade mark transfers the ownership right to a trademarked good and issues the good (Skubisz, 2012). In practice exhaustion occurs usually by way of sale of a given product, but it can also be prompted by way of a contract for the exchange or donation of said good. However, the exhaustion of the trade mark right does not result from a contract on the hire, rent, lease of a good bearing a trade mark, nor from using said trademarked goods as security. All the more so, theft of trademarked goods does not result in the exhaustion of the trade mark right (Skubisz, 2012).

Importantly, the exhaustion occurs only with regard to tangible goods actually put on the market, but not to a whole batch. That is why a right holder keeps all protection rights for a trade mark with reference to all other type-defined goods, covered by the registration of a trade mark, even though they have not been put on the market as yet (Tułodziecki and Wysokińska, 2011).

Exhaustion of rights conferred by a trade mark on an electronic market

The issue of examining whether a good has been marketed in compliance with the exhaustion principle has become a crucial issue due to the development of sales using online market channels, for instance auction services e-Bay, allegro etc., and the goods offered via those services derived from the "remote foreign markets".

One ought to remember that advertising and offering goods for sale on websites of online sales points, even though the goods (stemming among others from Asia) have not been put on the market in the EEA by the trade mark owner, nor with his consent, constitutes an infringement of the trade mark proprietor rights, if these actions are addressed to consumers within the area for which a trade mark has been reserved (e.g. the European Union).

The violation of the exhaustion of a trade mark right by an online retailer can be retraced in a judgment of the Court of Justice of the EU of 12 July 2011, concerning a case between L'Oréal SA and others against eBay International AG and others ("Judgment"). The dispute concerned the auctioning of L'Oréal products reserved for non-EEA markets on eBay by a web user and placing advertising links in search engine Google (sponsored links) for key words referring to trade marks owned by L'Oréal. Searches for search engine Google had been

optimised to yield sponsored links, leading to eBay auctions of said products, when an internet user searched for L'Oréal brand product names via Google. In this way products originally reserved for markets outside of the EEA market became available for purchase to buyers from the EEA (see paragraphs 39–42 of the Judgment).

eBay submitted that the proprietor of a trade mark registered in a Member State or of a Community trade mark cannot properly rely on the exclusive right conferred by that trade mark as long as the goods bearing it and offered for sale on an online marketplace are located in a third State and will not necessarily be forwarded to the territory covered by the trade mark in question (par. 61 of the Judgment).

The Court of Justice accepted the view of L'Oréal, the United Kingdom Government, the Italian, Polish and Portuguese Governments, and the European Commission who contended that the rules of Directive 89/104 and Regulation No 40/94 apply as soon as it is clear that the offer for sale of a trademarked product located in a third State is targeted at consumers in the territory covered by the trade mark (par. 61 of the Judgment).

If it were otherwise, operators which use electronic commerce by offering for sale, on an online market place targeted at consumers within the EU, trade-marked goods located in a third State, which it is possible to view on the screen and to order via that marketplace, would, so far as offers for sale of that type are concerned, have no obligation to comply with the EU intellectual property rules. Such a situation would have an impact on the effectiveness (effet utile) of those rules (par. 62 of the Judgment).

The Court stressed furthermore that the effectiveness of rules under Article 5(3)(b) and (d) of Directive 89/104 and Article 9(2)(b) and (d) of Regulation No 40/94 would be undermined if they were not to apply to the use, in an internet offer for sale or advertisement targeted at consumers within the EU, of a sign identical with or similar to a trade mark registered in the EU merely because the third party behind that offer or advertisement is established in a third State, because the server of the internet site used by the third party is located in such a State or because the product that is the subject of the said offer or advertisement is located in a third State (par. 63 of the Judgment).

However, it has been rightly pointed out that the mere fact that a website is accessible from the territory covered by the trade mark is not a sufficient basis for concluding that the offers for sale displayed there are targeted at consumers in that territory (See, by analogy, a judgment of the Court of 7 December 2010 in Joined Cases C-585/08 and C-144/09 Pammer and Hotel Alpenhof, ECR p. I-12527, par. 69).

Indeed, if the fact that an online marketplace is accessible from said territory were sufficient for the advertisements displayed there to be within the scope of Directive 89/104 and Regulation No 40/94, websites and advertisements which, although obviously targeted solely at consumers in third States, are nevertheless technically accessible from EU territory would wrongly be subject to EU law (par. 64 of the Judgment).

Consequently, it falls to the national courts to assess on a case-by-case basis whether there are any relevant factors on the basis of which it may be concluded that an offer for sale, displayed on an online marketplace accessible from the territory covered by the trade mark, is targeted at consumers in that territory. When the offer for sale is accompanied by details of the geographic areas to which the seller is willing to dispatch the product to, that type of detail is of particular importance in the said assessment (par. 65 of the Judgment).

In the case considered herein the goods advertised and offered for sale on the eBay website have not been put on the market within the EEA by or with the consent of the trade mark proprietor (since they were put on the market in Asia), hence the exception to that rule laid down under article 7 of Directive 89/104 and article 13 of Regulation No 40/94, providing that the trade mark proprietor's rights are exhausted, could not apply. In that regard, the Court has repeatedly held that it is essential that the proprietor of a trade mark registered in a Member State can control the first placing of goods bearing that trade mark on the market in the EEA (see in particular the Judgment of 20 November 2001 in Joined Cases C 414/99 to C 416/99 Zino Davidoff and Levi Strauss, Rec. p. I 8691, par. 33; the above-mentioned judgments: in case Peak Holding, par. 36, 37; as well as in case Makro Zelfbedieningsgroothandel and Others, par. 32)

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