

KU LEUVEN

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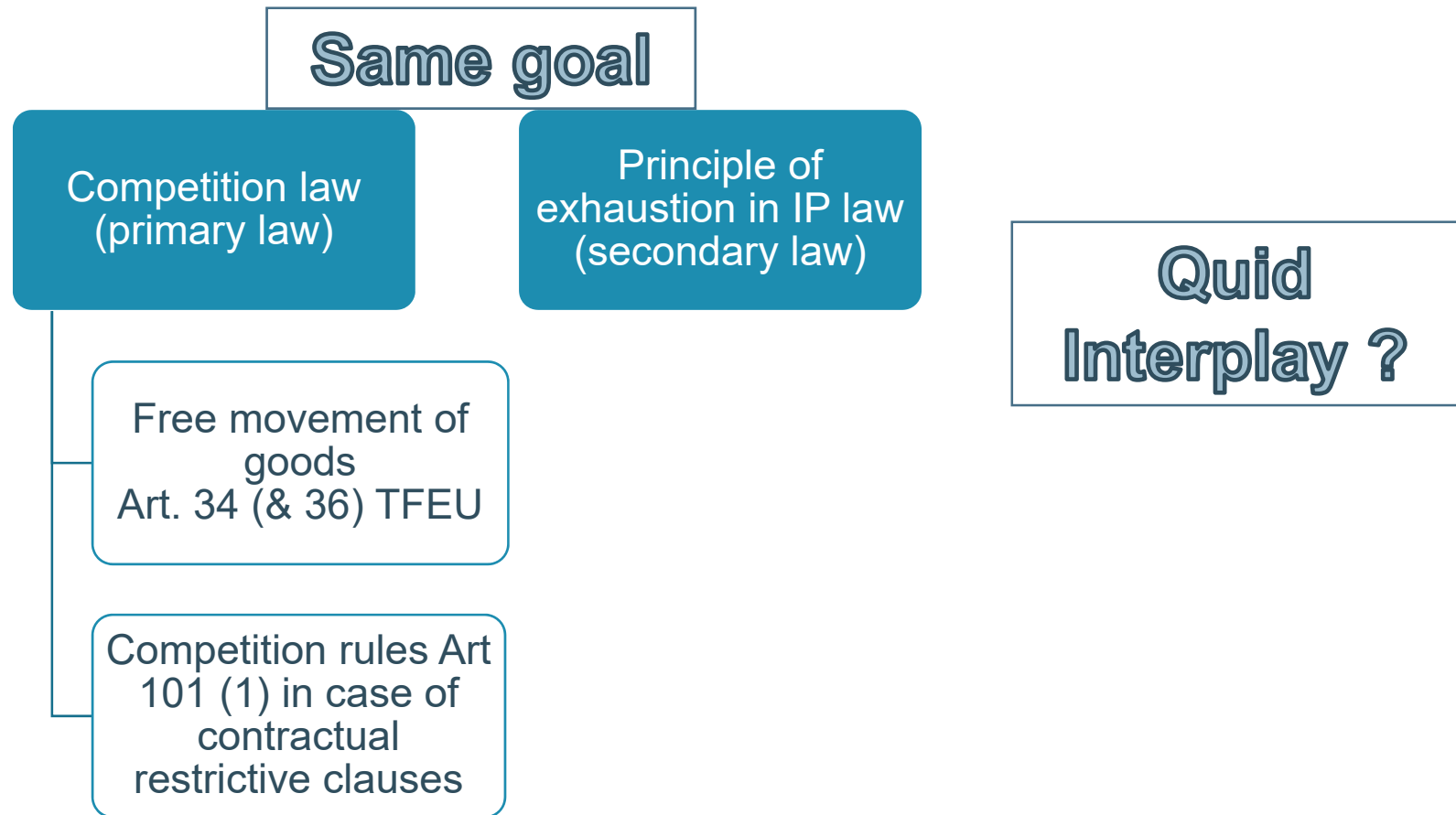
CENTRE FOR IT AND IP LAW

EU Trade mark law: unity, territoriality & the issue of exhaustion: the case of selective distribution agreements

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Trade Mark Law Institute – Groningen - 2019

Tools to avoid unlawful partitioning/fragmentation of the market



Relationship competition law & trademark law

Cumulative approach

The (non) compliance with competition law (e.g. anticompetitive agreement) has no consequences for question as regards exhaustion of trademark right (cf. CJEU *Nungesser* 1982)

Holistic approach

(Unitary) trademark law cannot be enforced- and exhaustion cannot be disrupted – in a manner incompatible with competition law

Holistic approach & CJEU

- ❑ Case Consten & Grundig (1966)
 - a trademark right cannot be exercised in a way that may frustrates Community law on cartels according to (now) Article 101 (1) TFEU
- ❑ Case Copad/Dior (2009)
 - “... for the trade mark to be able *to fulfil its essential role in the system of undistorted competition* which the Treaty seeks to establish and maintain, (para 22)
- ❑ Case Interflora/M&S 2011
 - In that regard, although *the trade mark is an essential element in the system of undistorted competition* which European law seeks to establish (reference to Copad case), *its purpose is not, however, to protect its proprietor against practices inherent in competition* (para 57).

Holistic approach & CJEU & Exhaustion

□ Case Viking Gaz (2011)

- *a balance* must be struck between, on the one hand, the legitimate interest on the part of the licensee of the right to the trade mark constituted by the shape of the composite bottle and the proprietor of the marks affixed to that bottle in profiting from the rights attached to those marks and, on the other, the legitimate interests of purchasers of those bottles, in particular the interest in fully enjoying their property rights in those bottles, *and the general interest in maintaining undistorted competition* (para 31)

□ Case Mitsubishi (2018)

- Trade mark rights constitute *an essential element in the system of undistorted competition* which EU law is intended to establish and maintain (para 30)

□ Case Schweppes (2018) – AG

- Exhaustion of the rights conferred by a trade mark must be interpreted in the light of the Treaty rules on the free movement of goods (para 38)

Effects of holistic approach on principle of unitary character

Positive from a policy perspective (consistency)

May be problematical for unitary character

- ❑ Holistic approach may subject the application of the exhaustion principle (in part. 'legitimate reason') to national (territorial) competition law considerations
 - e.g. case of enforcement of selective distribution agreements

Enforcing SD agreements

Distributor

→ Contract law

Any third party

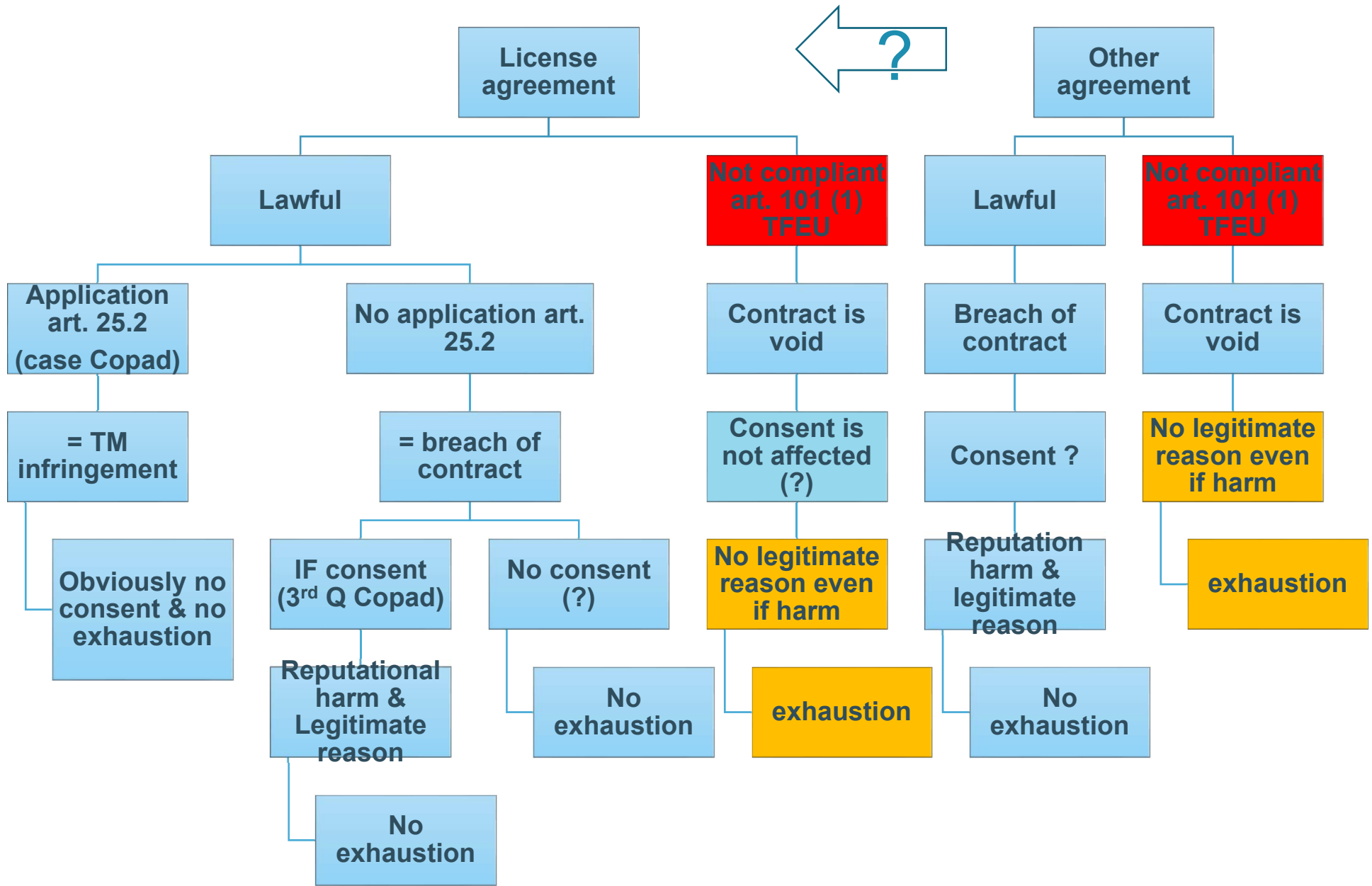
→ if proof of knowledge or active participation breach of contract = difficult)

Unless application of trademark law
& the case law on 'legitimate reasons'

Validity SD agreements under competition law

□ Three-step test

- Article 101, 1 TFEU applicable?
 - Noticeable unfavorable influence on the internal market? (see de minimis-rule Commission 2014)
 - (Selective distribution agreements normally OK)
 - Specific case law CJEU:
 - case Metro I (1977): three factors
 - case Pierre Fabre (2011 - creating uncertainty): absolute online selling ban on retailers is violation
 - Case Coty (2017): online platform ban in selective distributions systems for luxury goods is no violation
- If yes: does Vertical block exemption Reg apply?
- If not: individual assessment necessary (art. 101,3)



Cont. (Applying trademark law to enforce SD agreements)

- License agreement & breach of ‘quality’ provision
 - Art. 25.2.c Dir./Reg. → = trademark infringement (Case Copad/Dior 2009 para 37)
 - “the characteristics and conditions of a selective distribution system can, in themselves, preserve the quality and ensure the proper use of such goods” (para 28)
 - Obviously: no ‘consent’ that triggers exhaustion (Copad para 51)

- [License agreement & breach of other provision (3rd question in case Copad)
 - Content may be assumed; hence exhaustion
 - Unless ‘legitimate reasons’, e.g. “when further commercialisation of the luxury goods bearing the trade mark by the third party, using methods which are customary in its sector of trade, damages the reputation of that trade mark” (para 57)]

Cont. (Applying trademark law to enforce SD agreements)

- No 'license' agreement & breach of 'quality' provision (cf. case Coty 2017)
 - Application *per analogium*
 - Uncertain (CJEU ?)
 - Alternatively (as regards distributor or any third party) → Art. 15 Dir. (Exhaustion)
 - If consent → Legitimate reasons & no exhaustion
 - In part. “the use of the trade mark seriously damages the reputation of the trade mark” (case Dior/Evora 1997)
 - If no consent = no exhaustion

- Including competition law assessment as regards application exhaustion
 - Anticompetitive selective distribution agreement ?
 - In the affirmative
 - Consent remains unaffected (?)
 - Yet, unlikely that legitimate reason can be invoked
 - ➔ Exhaustion applies

Consequences of a holistic approach for unitary character

- Due to the influence of competition law, **national considerations can creep into the assessment** of parameters of exhaustion ('consent' & 'legitimate reasons')
 - Different concepts '**relevant**' market (v. internal market)
 - In particular in Vertical BER & art. 8 '*de minimis* Communication Commission' 2014
 - Influence **national competition law** (e.g. can a 'legitimate reason' be set aside because of violation national comp law?)
 - Decision is taken by **European and national competition authorities** – what is impact of their decision on later trademark litigation