MINISTRY FOR
FOREIGN AFFAIRS

TO THE PRESIDENT AND MEMBERS OF THE EFTA COURT

WRITTEN OBSERVATIONS

Submitted pursuant to Article 20 of the Statute and Article 97 of the Rules of Procedure of the EFTA Court, by the

GOVERNMENT OF ICELAND

Represented by Ms. Sesselja Sigurðardóttir, First Secretary and Legal Officer, Ministry for Foreign Affairs acting as Agent, in

Joined cases E-9/07 and 10/07

L'Oréal Norge AS

v

Per Aarskog AS and Others

and

Smart Club Norge AS

in which Follo Tingrett and Oslo Tingrett, Norway, have requested the EFTA Court to give an advisory opinion pursuant to Article 34 of the Agreement between the EFTA States on the Establishment of a Surveillance Authority and a Court of Justice (hereinafter, the SCA), concerning whether Article 7(1) of Council Directive 89/104/EEC is to be understood to the effect that a trade mark proprietor has the right to prevent imports from third countries outside the EEA when such imports take place without the consent of the trade mark proprietor, as well as, whether that Article is to be understood to the effect that international exhaustion is permitted.

The Government of Iceland has the honour to submit the following written observations:

I. INTRODUCTION

1. In applications dated 24 October and 26 November 2007 two Norwegian Courts, Follo Tingrett and Oslo Tingrett, have requested the EFTA Court to give an advisory opinion pursuant to Article 34 of the SCA in cases concerning the exhaustion of trade mark rights. In a letter dated 10 December 2007 the Registrar informed the Government of Iceland that the two cases had been joined and invited the government to lodge written observations by 4 February 2008.

2. The questions lodged to the Court are the following:

   (i) Is Article 7(1) of Council Directive 89/104/EEC to be understood to the effect that a trade mark proprietor has the right to prevent imports from third countries outside the EEA when such imports take place without the consent of the trade mark proprietor?

   (ii) Is Article 7(1) of Concil Diretive 89/104/EEC to be understood to the effect that international exhaustion is permitted?

3. In the view of the Government of Iceland the two questions essentially concern the issue whether the regional exhaustion of trade mark rights within the European Union is an obligation or a minimum requirement in the EEA context. The Icelandic government argues the latter approach and respectfully submits that the answer to the questions should be that it is up to the EFTA States themselves to decide whether they wish to introduce or maintain the principle of international exhaustion of rights conferred by a trade mark. The Government will in its arguments address the legal situation before and after the EFTA Court gave its advisory opinion in the Maglite case and conclude with reference to the different nature of the EEA free trade area and the European Union with regards to third state relations.

II. THE LEGAL SITUATION UP TO THE MAGLITE CASE

4. The exhaustion of rights conferred by a trade mark within the Community was first dealt with by the European Court of Justice in the Deutsche Grammophon Case. The Court decided that national exhaustion was not permitted and made the following remark:

> *"Consequently, it would be in conflict with the provisions prescribing the free movement of products within the common market for a manufacturer of sound recordings to exercise the exclusive right to distribute the protected articles, conferred upon him by the legislation of a Member State, in such a way as to prohibit the sale in that state of products placed on the market by him or with his consent in another Member State solely because such distribution did not occur within the territory of the first Member State."*[1]

5. This conclusion was further stated by the ECJ in the Centrafarm Case:

> *"An obstacle to the free movement of goods may arise out of the existence, within a national legislation concerning industrial and commercial property, of provisions laying down that a trade mark owner's right is not exhausted when the product protected by the trade mark is marketed in another Member State, with the result that the trade mark owner can prevent importation of the product into his own Member State when it has been marketed in another Member State. [...]*
>
> *In fact, if a trade mark owner could prevent the import of protected products marketed by him or with his consent in another Member State, he would be able to partition off national markets and thereby restrict trade between Member States, in a situation where no such restriction was necessary to guarantee the essence of the exclusive right flowing from the trade mark.*
>
> *The questions referred should therefore be answered to the effect that the exercise, by the owner of a trade mark, of the right which he enjoys under the legislation of a Member State to prohibit the sale, in that state, of a product which has been marketed under the trade mark in another Member State by the trade mark owner or with his consent is incompatible with the rules of the EEC Treaty concerning the free movement of goods within the common market."*[2]

6. The paragraphs cited above show clearly the purpose and reasoning for the conclusion that national exhaustion would not be acceptable for realizing the internal market. The purpose of a Community wide exhaustion was in essence to hinder the making of barriers between the Member States under the auspice of the protection of trade mark rights. Under a Community regional exhaustion trade mark holder keeps the exclusive right to be the first one to put the protected product on the Community market, but once he has exercised this right the exhaustion applies and he cannot prevent the protected product moving freely within the EC.

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[1] Case 78/70, Deutsche Grammophon Gesellschaft mbH v Metro-SB-Großmärkte GmbH & Co. KG, para 13.

[2] Case 16/74, Centrafarm BV and Adriaan de Peijper v. Winthrop BV, paras 9-12.

7. The jurisprudence of the ECJ was later codified into Article 7 of Council Directive 89/104/EEC (Trade Mark Directive) which deals with exhaustion of the rights conferred by a trade mark. Its first paragraph reads as follows:

"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."

The Article establishes that exhaustion within the Community shall not be national but apply to the whole Community area.

8. Intellectual property rights are addressed in Article 65 (2) of the EEA Agreement which refers *i.a.* to Protocol 28 to the Agreement. The first paragraph of Article 2 of that Protocol reads as follows:

"To the extent that exhaustion is dealt with in Community measures or jurisprudence, the Contracting Parties shall provide for such exhaustion of intellectual property rights as laid down in Community law. Without prejudice to future developments of case-law, this provision shall be interpreted in accordance with the meaning established in the relevant rulings of the Court of Justice of the European Communities given prior to the signature of the Agreement."

The Government of Iceland maintains that the Protocol should be interpreted as meaning that the Community regional exhaustion is a minimum standard of exhaustion and that international exhaustion is neither precluded by the wording of the Protocol nor Article 7 of the Trade Mark Directive.

9. This was in fact the conclusion of the EFTA Court in the Maglite Case where the Court answered questions identical in substance to the questions in this Case. The EFTA Court's reply was that it should be for the EFTA States themselves to decide whether they wished to introduce or maintain the principle of international exhaustion of rights conferred by a trade mark with regard to goods originating from outside the EEA. This conclusion was mainly based on two principles: a) the nature of the EEA Agreement as being a free trade area and not a customs union as the European Union and b) that the EEA Agreement does not entail a common commercial policy towards third countries. The Court made the following remark:

"Unlike the EC Treaty, the EEA Agreement does not establish a customs union. The purpose and the scope of the EC Treaty and the EEA Agreement are different (see Opinion 1/91 of the ECJ regarding the Draft Agreement between the Community, on the one hand, and the countries of the European Free Trade Association, on the other, relating to the creation of the European Economic Area [1991] ECR I-6079). Thus, the EEA Agreement does not establish a customs union, but a free trade area.

The above-mentioned differences between the Community and the EEA will have to be reflected in the application of the principle of exhaustion of trade mark rights. [...]

Additionally, the EEA Agreement does not entail a common commercial policy towards third countries (see in particular Article 113 EC). The EFTA States have not transferred their respective treaty-making powers to any kind of supranatural organs. They remain free to conclude treaties and agreements with third countries in relation to foreign trade (see Article 5 and 6 of Protocol 28. Requiring Article 7(1) to be interpreted in the EEA context as obliging the EFTA Member States to apply the principle of Community-wide exhaustion would impose restraints on the EFTA States in their third-country trade relations. Such a result would not be in keeping with the aim of the EEA Agreement, which is to create a fundamentally improved free trade area but no customs union with a uniform foreign trade policy.

In light of these considerations, the EFTA Court notes that it is for the EFTA States, i.e. their legislators or courts, to decide whether they wish to introduce or maintain the principle of international exhaustion of rights conferred by a trade mark with regard to goods originating from outside the EEA." [3]

III. THE LEGAL DEVELOPMENT IN THE EUROPEAN UNION AFTER THE MAGLITE CASE

10. Before the EFTA Court gave its opinion in the Maglite Case, the European Court of Justice had not answered questions on whether international exhaustion of rights conferred by a trade mark was permitted within the EU. It had only established, as cited above, that national exhaustion was not permitted.

11. The ECJ was faced with the question of international exhaustion in the Silhouette Case. The case concerned re-importation where an Austrian trade mark proprietor had sold goods to be put on the market in Bulgaria but its competitor bought them there and imported them back into Austria for sale. The questions lodged to the Court were similar to the ones presented in both this case and in the Maglite Case, i.e. whether a proprietor of a trade mark could prohibit the use of a mark for goods which have been put on the market under that mark in a third country but not within the EEA. The Court concluded in the affirmative and stated that international exhaustion of trade mark rights was not permitted within the EU. The Court made the following remark:

[3] Case 2/97, Mag Instrument Inc. and California Trading Company Norway, Ulsteen, paras 25-28.

"[...] 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 [...]."[4]

12. In the Sebago Case, which concerned products manufactured in a third country and imported directly into the Community, the ECJ referred to its conclusion in the Silhouette Case although the facts of the case were not quite comparable. The Court concluded that the rights conferred by the trade mark are exhausted only if the products have been put on the market in the EEA and that Article 7 of the Trade Mark Directive does not leave it open to the Member States to provide in their domestic law for exhaustion of the rights conferred by the trade mark in respect of products put on the market in non-member states.[5]

13. The ECJ has in many later judgments referred to this mandatory principle of regional exhaustion regarding trade mark rights within the EU.

IV. THE EEA-AGREEMENT DOES NOT PREVENT THE EFTA-STATES FROM APPLYING INTERNATIONAL EXHAUSTION OF TRADEMARK RIGHTS

14. The Government of Iceland claims that despite the fact that the European Court of Justice has decided that international exhaustion of rights conferred by a trade mark is not permitted, the opinion of the EFTA Court in the Maglite Case can still be upheld as a precedent for the EFTA States parties to the EEA Agreement. That view of the Icelandic Government is based on the rationale presented by the EFTA Court in the Maglite Case, namely that the EFTA States are not parties to the EU customs union and that the EFTA States are free to decide on their own policies as regards their relationship with third countries.

15. According to Article 1 of the EEA Agreement, its aim is to promote a continuous and balanced strengthening of trade and economic relations between the Contracting Parties with equal conditions of competition, and the

[4] Case C-355/96, Silhouette International Schmied GmbH & Co. KG v Hartlauer Handelsgesellschaft mbH., para 31.
[5] Case C-173/98, Sebago Inc. and Ancienne Maison Dubois & Fils v G-B Unic SA., para 22.

respect of the same rules, with a view to creating a homogeneous European Economic Area.

16. International exhaustion of trade mark rights is the best way to realize these objectives. Free competition is in the consumer's best interest as it keeps prices lower and quality levels higher. Precluding parallel import into the EEA of products legally put on the market in third countries would be to the detriment of consumers and against the objectives of the EEA Agreement as trade mark owners could e.g. partition markets and thereby limit the choices of consumers. The exhaustion rules should not lead to the protection of the trade mark proprietor but rather to enhanced competition for the benefit of consumers. For these reasons the Government of Iceland strongly supports international exhaustion and notes that this is the approach taken in Icelandic legislation on trade mark rights.

17. The EFTA Court did itself note these arguments in the Maglite Case, where it stated:

> *"The EFTA Court notes that the principle of international exhaustion is in the interest of free trade and competition and thus in the interest of consumers. Parallel imports from countries outside the European Economic Area lead to a greater supply of goods bearing a trade mark on the market. As a result of this situation, price levels of products will be lower than in a market where only importers authorized by the trade mark holder distribute their products."*[6]

18. As of the conclusion that it should be for the EFTA States themselves to decide whether they wished to introduce or maintain the principle of international exhaustion the Court further noted:

> *This interpretation of Article 7(1) of the Trade Mark Directive in the EEA context is also in line with the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), where the issue is left open for the Member States to regulate.*[7]

19. It is of great importance to keep in mind that the EFTA States retain their autonomy with regards to relations with third countries under the EEA Agreement. This is one of the fundamental right of a sovereign State. Mandatory requirements of regional exhaustion would without a doubt have effect on the EFTA States' position when it *i.a.* comes to making free trade agreements with third countries. One of the key points made by the EFTA Court in the Maglite Case touched upon this issue, where the Court stated:

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[6] Maglite Case, para 19.
[7] Maglite Case, para 29.

"[...] Requiring Article 7(1) to be interpreted in the EEA context as obliging the EFTA Member States to apply the principle of Community-wide exhaustion would impose restraints on the EFTA States in their third-country trade relations. Such a result would not be in keeping with the aim of the EEA Agreement, which is to create a fundamentally improved free trade area but no customs union with a uniform foreign trade policy."[8]

20. These principles of the EEA Agreement are still fully valid and have in no way changed since the EFTA Court gave its opinion in the Maglite Case. To apply the Silhouette and Sebago judgments to the EFTA States would impose too wide restraints on their third-country trade relations as concluded by the Court ten years ago. The Court's own principles at that time are still fully valid and should be adhered to in the Case at hand. As part of their third country relations autonomy and overall foreign trade policy it should be left up to the EFTA States themselves to decide whether a trade mark proprietor has the right to prevent imports from third countries outside the EEA or not.

V. CONCLUSION

21. Based on the aforesaid, the Government of Iceland respectfully suggests that the answer to the questions of the referring Courts should be as follows:

Article 7, paragraph 1, of Council Directive 89/104/EEC (Trade Mark Directive) referred to in Annex XVII to the EEA Agreement is, in the EEA context, to be interpreted as leaving it up to the EFTA States to decide whether they wish to introduce or maintain the principle of international exhaustion of rights conferred by a trade mark.

Reykjavík, 4 February 2008

Sesselja Sigurðardóttir

Agent for the Government of Iceland

[8] Maglite Case, para 27.

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06.11.2009 14:45

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Subject Written observations

Sæll Jón Ögmundur, vísa í samtal okkar rétt áðan varðandi mál E-9/07 og E-10/07.

Hjálagt fylgja athugasemdir Íslands sem lagðar voru fram vegna málsins.

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