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THE SILHOUETTE OF A TROJAN HORSE: REFLECTIONS ON ADVOCATE GENERAL JACOBS' OPINION IN *SILHOUETTE v. HARTLAUER*

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The Silhouette of a Trojan Horse: Reflections on Advocate General Jacobs' Opinion in *Silhouette v. Hartlauer**

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The European Court of Justice (ECJ) has been asked to decide whether its own seminal jurisprudence on the prerequisites of the completed internal market may be extended into the international arena of trade, or should instead be mandatorily restricted to the European Union (E.U.) market itself.

The ECJ perceived in the 1960s that completion of the internal market as promised by the Treaty of Rome would be threatened if trade mark holders and other holders of intellectual property rights (IPRs) might use those rights to partition the internal market when tariffs and quotas were eliminated within the Community. From that early date the Court has been addressed by attacks against its intra-Union exhaustion doctrine from many sides.

The Court now is asked to define E.U. policy on the subject of the international or worldwide exhaustion of IPRs under the guise of a seemingly minor question of interpretation—namely whether Article 7 of the Trade Marks Directive of 1989 should be understood to have limited the power of the Member States to adopt their own rules regarding international exhaustion in respect of trade marks. Yet underlying this seemingly minor question lies years of intensive lobbying of the Member State governments and the Commission by industry groups concerned to assure that the E.U. does not adopt a policy of international exhaustion, not only in the field of trade marks, but also in the fields of copyright, patent and related rights.

A series of Directives has been set up, each with similar text on the question of exhaustion—each with text that fails to address the international exhaustion issue. Now the Trojan Horse has been wheeled into Luxembourg and the Court is asked

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to construe the text of the Trade Marks Directive. Is the ECJ prepared to foreclose an open world market in IPRs protected goods on the basis of this record? Is the ECJ prepared to open the door in the side of this Trojan Horse?

The factual background

Silhouette v. Hartlauer comes before the ECJ by referral from the Austrian Supreme Court (*Oberster Gerichtshof*).[1] Silhouette is an Austrian producer of fashion eyeglass frames with its trade mark registered in Austria. It sold and exported a quantity of outdated frames at a price below its ordinary wholesale price (for current model frames) to a buyer which took delivery in Sofia, Bulgaria. The buyer in Bulgaria resold the frames to an Austrian discount retailer, Hartlauer, which brought them back into Austria. Hartlauer offered these frames to the public under the Silhouette trade mark, while indicating in its advertisements that Silhouette had not supplied them. Silhouette filed an action seeking to enjoin Hartlauer from marketing the frames under Silhouette's trade mark in Austria.

At the time of the aforesaid transactions, Austria had not yet completed its accession to the E.U. (which took effect on January 1, 1995), and it was then a Contracting State of the European Economic Area (EEA). As a Contracting State of the EEA, Austria was obligated to follow jurisprudence on the subject of the intra-Union exhaustion of trade mark rights. The Austrian Government had adopted the relevant provisions of the Trade Marks Directive,[2] including Article 7 which deals expressly with the subject matter of exhaustion, into its national law (in equivalent language). At the time of the transaction relevant to this case, Hartlauer technically sought to import into a Contracting State of the EEA goods that had been sold outside the territory of the EEA with the consent of the EEA trade mark holder, Silhouette. For all intents and purposes relevant to this case, however, the question is the same as if Austria had then been a Member State of the E.U., and A. G. Jacobs treats this case as such—as hereafter do the authors of this reflection.

Prior to joining the EEA, Austria followed a rule of international exhaustion with respect to trade marks. Once goods bearing an Austrian trade mark had been placed on the market outside the territory of Austria with the consent of the Austrian trade mark holder, that trade mark holder could not use its Austrian trade mark to oppose importation of those goods into Austria. In adopting Article 7 of the Trade Marks Directive into national law, it is said that the Government intended that the question of international exhaustion be "settled by legal

[1] *Silhouette International Schmied GmbH & Co. KG v. Hartlauer Handelsgesellschaft mbH*. These facts are derived from the Opinion of Advocate General Jacobs in this case, delivered January 29, 1998.

[2] First Directive to approximate the laws of Member States relating to Trade Marks (89/104).

practice".[3] The Austrian court of first instance (*Landgericht Steyer*) and intermediate appellate court (*Oberlandesgericht Linz*) ruled in favour of the importer, Hartlauer. The Austrian Supreme Court then put to the ECJ the question whether Article 7(1) of the Trade Marks Directive must be interpreted so as to preclude Austria from continuing to allow international exhaustion in respect to trade marks.

The legal framework

Article 7 of the Trade Marks Directive of 1989 provides:

> "(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 commercialisation of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market."

For purposes of the present case there is no indication of a reason to restrict commercialisation under Article 7(2).[4]

Advocate General Jacobs ultimately concludes that the language and context of Article 7(1) of the Trade Marks Directive require the Member States to adopt a uniform attitude toward international exhaustion in the field of trade marks, and to preclude it. In other words, a Member State may not provide that when goods have been placed on a market outside the E.U. (and EEA) with the consent of the

[3] Opinion of Advocate General Jacobs, delivered January 29, 1998 in *Silhouette*, *ibid.* at para. 22.

[4] Several provisions of the Trade Marks Directive may be relevant to the question of international exhaustion. Article 7 should be considered in relation to the basic rights conferred by the trade mark which are enumerated in Article 5, which provides:

> "1. The registered trade mark shall confer on the proprietor exclusive rights therein. The proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade:
>
> (a) any sign which is identical with the trade mark in relation to goods or services which are identical with those for which the trade mark is registered;
>
> (b) any sign where, because of its identity with, or similarity to, the trade mark and the identity or similarity of the goods or services covered by the trade mark and the sign, there exists a likelihood of confusion on the part of the public, which includes the likelihood of association between the sign and the trade mark.
>
> [...]
>
> 3. The following, *inter alia*, may be prohibited under paragraphs 1 and 2:
>
> (a) affixing the sign to the goods or the packaging thereof;
>
> (b) offering the goods, or putting them on the market or stocking them for these purposes under that sign, or offering or supplying services thereunder;
>
> (c) importing or exporting the goods under the sign;
>
> (d) using the sign on business papers and in advertising.

trade mark holder, then that trade mark holder may not oppose importation of those goods into that Member State.

The Analysis of Advocate General (A.G.) Jacobs and our reflections on it

The text of the Trade Marks Directive

A. G. Jacobs begins by noting that Article 7 does not mandate that the Member State adopt a rule of international exhaustion.[5] He observes that no party appears to challenge this proposition, and we do not. In support, A. G. Jacobs briefly recounts the legislative history of the Directive.[6] The Commission initially proposed that a rule of international exhaustion be mandatory for the Member States. The Commission subsequently amended its proposal (under heated opposition from industry, we add) in favour of the present neutral formulation. It is without doubt that the express text of Article 7 does not mandate a rule of international exhaustion.

A. G. Jacobs indicates that the language of Article 7 is unclear on the question whether Member States may adopt differing rules on the subject-matter of international exhaustion. He says that it seems logical that if intra-Union exhaustion is required by the Directive, international exhaustion would "naturally" be precluded (or that such a result can be "reasonably inferred")—while accepting that there are other sides to this argument, which he nevertheless finds unconvincing.[7]

It appears that A. G. Jacobs ignores the most reasonable inference from the evidence he presents. The Commission started by proposing an express rule of international exhaustion. The Commission was not ignorant of the issue—it knew it was important. It faced industry pressure and retreated to neutral ground, codifying the existing mandatory E.U. principle of intra-Union exhaustion in the field of trade marks long demanded by the ECJ.[8] If the Commission and Council wished to mandate a rule opposite to that initially proposed by the Commission, they certainly knew how to draft it! Acting with certain knowledge that the Trade Marks Directive would be looked to as a source of instruction on the question of international exhaustion, a neutral rule was adopted without even a single word on the subject in the preamble. The Court should not infer a result precluding international exhaustion from the wording of Article 7 under these circumstances.

[5] Opinion of A. G. Jacobs, at paras 30–31.
[6] *ibid.* at para. 32.
[7] *ibid.* at para. 33.
[8] The official explanation of the Commission to its revised 1985 draft text of the Trade Marks Directive [1995] O.J. C351/4 states: "*La Commission a renoncé à obliger les Etats membres à introduire dans leur législations nationales respectives le principe de l'épuisement international.*"

In regards to the express text, A. G. Jacobs goes on to say that the now-codified rule of intra-Union exhaustion represents a "derogation" from the rights of the trade mark holder, that permission to the Member States to allow international exhaustion would be a further implied derogation, and that "derogations should not be construed broadly".[9] Leaving aside debate on general principles of interpretation, this argument by A. G. Jacobs starts from a false premise. Article 7(1) codifies the ECJ's jurisprudence on trade marks and the free movement of goods. Trade mark holders in the E.U. did not and do not have the right to partition the market on the basis of their trade mark holdings. Codification of the intra-Union exhaustion rule does not derogate from the rights of trade mark holders. Article 7(1) is not an exception capable of being construed broadly. It is a positive statement of an E.U. rule of law, to be construed as the ECJ would ordinarily construe a positive rule.

The aims and scope of the Trade Marks Directive

A. G. Jacobs accepts that "the terms of the Directive are not conclusive" on the subject of international exhaustion, and he turns to the "aims and scope" of the Directive for interpretative guidance.[10] He acknowledges that the Trade Marks Directive, by its express terms, "does not purport to 'undertake full-scale approximation of the trade-mark laws of the Member States' but aims to approximate 'those national provisions of law which most directly affect the functioning of the common market' ". He adds, "On the other hand, the Directive seeks to ensure, with certain limited exceptions, that trade marks 'enjoy the same protection under the legal systems of all the Member States' ".[11]

Those favouring international exhaustion, according to A. G. Jacobs,[12] suggest that Article 7 was intended only to codify the law of the E.U. on the subject of exhaustion (per Articles 30 and 36 of the E.C. Treaty), and they observe that the ECJ has itself stressed this point. As is well known, Member States followed different approaches to the exhaustion question prior to adoption of the Directive and, absent an express indication to the contrary, this discretion of the Member States should remain intact.

A. G. Jacobs counters this argument by reference to language in the third recital of the Directive's preamble that indicates its purpose to address those aspects of trade marks which "most directly affect the functioning of the internal market". He also quotes another provision (see above) indicating an intention to assure that marks "enjoy the same protection under the legal systems of all the Member States".[13] A. G. Jacobs posits that while the Court may indeed have stressed that

[9] *ibid.* at para. 34.
[10] *ibid.* at para. 35.
[11] *ibid.*
[12] *ibid.* at paras 36–37.
[13] *ibid.* at paras 38–39.

Article 7 is a codification of its jurisprudence on intra-Union exhaustion,[14] that the Court was speaking only to internal market effects. Thus, he says, "it cannot be assumed that that is the sole function of Article 7".

The next steps in analysis are vital to his conclusions, and we feel constrained to quote:

> "40. If the Directive is seen as establishing the essential terms and effects of trade-mark protection, it is difficult to argue that it leaves Member States free to opt for international exhaustion. The scope of the exhaustion principle is after all central to the content of trade-mark rights.
>
> 41. But even if one takes a narrower view of the character of the Directive, it seems clear that international exhaustion is one of the matters which 'most directly affect the functioning of the internal market' and which the Directive therefore seeks to harmonise. If some Member States practise international exhaustion while others do not, there will be barriers to trade within the internal market which it is precisely the object of the Directive to remove."

This is a peculiar position for A. G. Jacobs to take. The Court has stressed that Article 7 codifies its jurisprudence on intra-Union exhaustion. The Court has not addressed the subject of the mandatory exclusion of international exhaustion in the field of trade marks. If we follow A. G. Jacobs' own principles of interpretation (see above), the "derogation" of Article 7 should be construed narrowly, and the Court should "naturally" stop at the border of its own prior jurisprudence; it should not go on to assume that Article 7 was intended to address another concededly important subject matter.

Beyond this contradiction in reasoning is a more important point. A. G. Jacobs says that the subject of the international exhaustion of marks is of the greatest importance to the functioning of the internal market. If this is true, should not the Commission, Council and other Union organs have addressed it? In the context of a Commission and Council debate over the terms of the Directive, and in which there was intensive industry lobbying on the subject of international exhaustion, the Directive is silent. Why should the Court interpret this silence as a decision by the Union organs to deal in just one way with what we are told is a matter of great import to the Union?

What is the impact on the functioning of the internal market with which A. G. Jacobs and the Austrian, French, German, Italian and United Kingdom governments are so concerned? It is a problem so grave that in 40 plus years of ECJ jurisprudence on the subject of intra-Union exhaustion—and with the Member States maintaining diverse rules on the subject of international exhaustion—it did

[14] A. G. Jacobs is apparently referring to the judgment of the ECJ of July 11, 1996: ECJ Case C–427/93 *Bristol-Myers Squibb v. Paranova A/S*; Case C–429/93 *C. H. Boehringer Sohn, Boehringer Ingelheim KG and Boehringer Ingelheim A/S v. Paranova A/S* and Case C–436/93 *Bayer Aktiengesellschaft and Bayer Danmark A/S v. Paranova A/S*; Joined Cases C–427/93, C–429/93 and C–436/93 Case C–71/94 *Eurim-Pharm Arzneimittel GmbH v. Beiersdorf AG*; Case C–72/94 *Boehringer Ingelheim KG* and Case C–73/94 *Farmitalia Carlo Erba GmbH Pharma GmbH v. Rhone-Poulenc Pharma GmbH.*

not come up before today![15] It is the problem that if the Member States maintain differing rules on international exhaustion, then trade mark holders in some Member States might block parallel imports (as before), while holders in some other Member States might not block parallel imports (as before). This, it is said, may interfere with the functioning of the internal market.

A. G. Jacobs and the above-mentioned governments assume that the Trade Marks Directive will be interpreted to permit those Member States which do not follow a rule of international exhaustion to block imports which have first entered other Member States from outside the Union as parallel imports.[16]

Why is this seen to be such a problem for the proper functioning of the internal market? Irrespective of the rule on international exhaustion that the E.U. ultimately adopts (if it adopts one), the Member States will still need to maintain customs procedures, other administrative procedures and judicial remedies in respect of trade marks and imported goods. On the international side, counterfeiting will continue to pose a potential problem for trade mark holders in the Members States, and mechanisms will be needed to deal with this. In fact, the maintenance of such mechanisms is mandated by the WTO TRIPS Agreement.[17]

[15] The ECJ has ruled in 1976 (ECJ June 15, 1976, 51, 86 96/75; [1976] E.C.R. 811 (*EMI/CBS*)), and 1982 (ECJ February 9, 1982, 270/80; [1982] E.C.R. 707; [1982] C.M.L.R. 677 (*Polydor/Harlequin*), that Member States are permitted to ban extra-Union parallel imports. However, in each case it was decided that the E.C. Treaty does not *mandate* that the Member States do so. The question whether the E.C. Treaty (and whether a Directive based on Article 100a of the Treaty) may require Member States to ban extra-Union imports is a markedly different question which has not been addressed by the Court.

[16] Opinion of A. G. Jacobs, at para. 42. The reasoning behind this interpretation is not set out in the opinion. It is likely to be as follows: Article 7 says that when goods are placed on the market "in the Community" with the consent of the trademark holder, the trademark holder may not oppose the free movement of such goods within the Union. The Court would presumably interpret this to mean that if the law of a particular Member State precludes a trademark holder from opposing the importation of goods bearing its mark that have been placed on the market outside the Union with its consent, then the affected trademark holder has not for purposes of Article 7 *consented* to placement of the goods on the "Community market". In consequence, the goods imported into the Member States following a rule of international exhaustion will not enter into free circulation throughout the Union without the consent of the right holder in the Member State of importation.

The Member State governments which oppose international exhaustion, and A. G. Jacobs, do not accept that Article 7 of the Trade Marks Directive might even be interpreted such that a rule of international exhaustion for one Member State would in effect constitute a rule of international exhaustion for all Member States. Opinion of A. G. Jacobs at para. 42. In other words, if Sweden were to allow parallel imports from non-E.U. countries while France and Germany did not allow such imports, then goods placed on overseas markets with the consent of E.U. trade mark holders would flow into the Union through Sweden, where their entry into the E.U. internal market would assure free movement throughout. Yet if Swedish or Dutch importers had price advantages *vis-à-vis* French importers, and goods that entered the Union through Sweden or the Netherlands were less costly than goods that entered through France, then the European import function might well migrate to Sweden and the Netherlands. If French importers were unhappy to compete with low-price imports from other Member States, they might urge the French Government to adopt a rule of international exhaustion.

[17] See, *e.g.* TRIPS Agreement, arts 42, 44 and 50.

A uniform Union rule on international exhaustion will not eliminate the obligation of the Member States and the Union to provide protection for trade mark holders in international trade.

Furthermore, the intra-Union exhaustion rule by no means eliminates the possibilities for restricting the movement of goods on the basis of trade marks as between the Member States. Trade mark rights remain separate for the Member States, and an identical mark may be held in different Member States by persons with no economic link.[18] In such cases, the holder of the trade mark in one Member State may block importation of goods placed on the market in a second Member State under an identical mark.[19] Moreover, in the context of its intra-Union exhaustion jurisprudence, the ECJ has permitted trade mark holders to block parallel imports under circumstances in which consumer confusion or injury might be foreseen (such as in limited cases involving repackaged pharmaceutical goods),[20] and this jurisprudence is reflected in Article 7(2) of the Trade Marks Directive.[21] It is not the case, therefore, that a single rule barring parallel imports of trade marked goods from outside the Union would eliminate the need for Member States to maintain national regulatory mechanisms in respect to the intra-Union movement of trade marked products, or that an undistorted internal market in trade marked goods would result from such a rule.[22]

The objection that a uniform rule would result in some Member States having price advantages over others in the field of importation runs counter to the view of the single internal market as providing for the most efficient allocation of Union resources. If lower cost parallel imports allow production to take place at lower cost in some Member States, then producers in those Member States will be better able to penetrate global markets. The Union economy as whole will improve. If producers in France find that they are unable to compete with producers in Sweden because the latter have access to lower cost inputs, then French producers may petition their Government to permit parallel imports! If Swedish consumers are able to purchase products at lower prices than French consumers, is this an internal market distortion which should be cured by raising prices in Sweden?

[18] This is the case under the Trade Marks Directive, though a Community Trade Mark (see discussion, *infra*) is not divisible.

[19] *IHT Internationale Heiztechnik v. Ideal Standard* [1994] 3 C.M.L.R. 857.

[20] See, *e.g.* Judgments of July 11, 1996 referred to in n. 14, *supra*. Note that in these decisions the Court has stressed that any exceptions from the principle of intra-E.U. exhaustion must be justified by specific circumstances that may create risk of harm to the consumer.

[21] See para. 8, *supra* for text.

[22] Under a Union rule which continues to permit Member States to provide for international exhaustion, the parallel importation of trade marked goods into those Members might still be restricted in circumstances in which consumer injury or confusion is foreseeable. This approach to the question of international exhaustion in the field of trade marks has been recommended. *Cf.* Thomas Cottier, *Das Problem der Parallelimporte im Freihandelsabkommen Schweiz-EG und im Recht der WTO-GATT, Revue Suisse de la Propriété Intellectuelle*, I/1995, discussed in the context of the WTO TRIPS Agreement, *infra*, n. 38.

In short, the governments of Austria, France, Germany, Italy and the United Kingdom, with support of the Commission, argue (and A. G. Jacobs accepts) that Article 7 should preclude the Member States from adopting diverse rules on international exhaustion in the field of trade marks because this would adversely affect them. What neither A. G. Jacobs nor these Member States can truly say is that the Council chose to address these concerns in Article 7 of the Trade Marks Directive. The issue was on the table. A rule precluding the Member States from allowing international exhaustion was not adopted. Perhaps the Council can hereafter be persuaded that such a rule is needed. Perhaps not. The point is that the present Trade Marks Directive does not resolve this matter as some would prefer it resolved.

The issue of Union competence

The Trade Marks Directive was adopted on the basis of Article 100a of the E.C. Treaty, and the Government of Sweden argues that Article 100a may not be used as the basis for regulating the subject of international exhaustion. It reasons that international exhaustion is a question of the common commercial policy and should be addressed under Article 113, and that the ECJ in its opinion on accession of the Communities to the WTO[23] decided that external IPRs matters were within the joint competence of the Communities and the Member States.

A. G. Jacobs accepts that certain aspects of the international exhaustion question are better dealt with as common commercial policy issues, such as negotiations regarding exhaustion policies with third states. He also accepts that international reciprocity issues had an influence on the Commission's decision to abandon a rule of international exhaustion for the Union. However, he observes that a rule on international exhaustion will certainly affect trade among the Member States since it will determine whether goods coming into the Union from the outside will be able to move freely.[24]

The question of international exhaustion is substantially more a question of external policy than an internal market question. An effective internal market policy on certain IPRs questions will of course necessitate addressing an international external component. Matters with a mainly external dimension preferably should be dealt with under the common commercial policy. The ECJ must of course tend to the dividing line between internal and external policy with care.

The underlying function of trade mark protection

The Government of Sweden has argued that the function of the trade mark is to assure the consumer of the origin of goods, and not to provide trade mark

[23] [1994] E.C.R. I–5267.

[24] Opinion of A. G. Jacobs at paras 46–47.

holders with the possibility to "divide up the market and exploit price differentials. The adoption of international exhaustion would bring substantial advantages to consumers, and would promote price competition".[25]

A. G. Jacobs "confess[es] to finding those arguments extremely attractive".[26] He goes on, however, to say that the ECJ's jurisprudence regarding Articles 30 and 36 and the function of trade marks was developed in the context of completing the internal market, and that "[s]uch compelling considerations do not apply to imports from third countries. On the contrary", he says, "to allow Member States to opt for international exhaustion would itself, as has been seen, result in barriers between Member States".[27] A. G. Jacobs goes on to observe that while rules precluding international exhaustion may appear protectionist, harmful and anti-consumer, "[c]ommercial policy considerations may however be more complex than [the supporters of international exhaustion] allow for. I have already alluded to concern about the possible lack of reciprocity if the Community were unilaterally to provide for international exhaustion. In any event", concludes A. G. Jacobs, "it is no part of the Court's function to seek to evaluate such policy considerations".[28]

In the context of this particular case and the line of reasoning of his own opinion, the assertion by A. G. Jacobs that the Court has no role in evaluating policy in this matter is astonishing. A. G. Jacobs has told us that the Trade Marks Directive does not expressly address the subject matter of this case, so that we must examine the "aims and scope" of the Directive. Then he has advised us that the only plausible reason for excluding international exhaustion is an argument from a number of Member States based on their concern—not addressed in the Directive—that the absence of a uniform policy will adversely affect the interests of their trade mark holders (but not their consumers!). Into the vacuum created by the Council and Commission, and in the face of a Member State argument unsupported by the course of Union internal market history or a proper investigation, the Court should step in to address the matter without evaluating policy considerations!

In A. G. Jacobs' view, the Court should accept the assertion of five Member State governments and the Commission that there will be trouble, accept that when the Council adopted the Directive it intended to address this concern despite the fact that the Directive does not appear to do so, and accept that by doing this the Court will have avoided evaluating policy! We suggest that by adopting the position suggested by A. G. Jacobs the Court will have taken a major step in the formulation not only of Union trade policy, but also in the formulation of international trade policy, and that one must close his or her eyes and ears to believe otherwise.

The suggestion by A. G. Jacobs that opting for international exhaustion would be a political decision, and that mandating only E.U. exhaustion would not be, is

[25] Opinion of A. G. Jacobs at para. 48.
[26] *ibid.* at para. 49.
[27] *ibid.* at paras 49–50.
[28] *ibid.* at para. 51.

false. If it is indeed a political matter—as it is and as A. G. Jacobs admits—*the ECJ should leave it as a political matter by leaving to the Member States the freedom to choose*: do they wish to close their borders to extra-E.U. imports or not? *Each Member State should have the freedom to make this choice. The ECJ should not make it for all of them on the very weak record before it.* If a political decision at the E.U. level is considered necessary, and this ultimately leads to a closed E.U. market, the Union bodies should make a clear determination after careful analysis.

The Council has promulgated a series of Directives using a formula on the subject of intra-Union exhaustion comparable to that employed in Article 7 of the Trade Marks Directive. In Directive 91/250 on the (copyright) protection of computer programs, Article 4, section 1(c) reads:

> "The first sale in the Community of a copy of a program by the rightholder or with his consent shall exhaust the distribution right within the Community of that copy."[29]

In 1992, Directive 92/100 on Rental and Lending Rights and on Piracy was promulgated. Article 9, section 2 reads:

> "The distribution right shall not be exhausted within the Community in respect of an object as referred to in paragraph [section] 1, except where the first sale in the Community of that object is made by the rightholder or with his consent."

In the most recent Directive adopted (96/9), on protection of databases, two Articles (5(c) and 7(2)(b)), state:

> "The first sale in the Community of a copy of the database by the rightholder or with his consent shall exhaust the right to control resale within the Community of that copy."[30]

It seems rather likely that the Court's decision in respect to Article 7 of the Trade Marks Directive will be viewed as guidance for interpretation of similar provisions in the subsequent IPRs-related Directives. The language of the similar Directives does not address international exhaustion as such. In each case, the relevant IPRs industry has a stake in limiting the exhaustion principle to the intra-Union context. In each case, an argument would be made to the Court that (a) allowing international exhaustion would lead to distortion of the internal market and (b) that the policies and objectives underlying the E.C. Treaty and the E.U. market differ from those of the international market.

[29] An exception for rental follows.
[30] Text quotation is of Article 5(c). Article 7(2)(b) is phrased nearly identically, reads however: "*The first sale of a copy of a database within the Community by the rightholder. . .*", etc.

We do not seek here to address the potential results of the E.U.'s evaluation of the exhaustion question in each field of IPR's protection.[31] Each IPR is grounded in its own policy basis, and there is no reason that a well-considered policy in respect of international exhaustion could not differ depending on the IPR at issue. The specific objects of the various IPRs vary, and conclusions with respect to trade marks might not necessarily be transposed to patents.[32] However, as far as trade marks are concerned, the specific protected interests are not at all affected by allowing worldwide exhaustion and parallel importation: neither the function of the mark as an indicator of origin, nor its function as a bearer of goodwill (as far as the latter function is seen as specific protected matter) is affected.[33] To infer from the simple act of affixing trademarks a mandatory obligation on the part of the Member States to block imports from third countries would constitute a dramatic expansion of the specific objects of the mark.

A brief detour into international trade law and policy

In the mid-1980s there was a concerted push by industrial groups in the United States, Europe and Japan to strengthen worldwide protection of IPRs in order to combat misappropriation or "piracy" of IPRs, primarily in developing countries.[34] The subject matter of IPRs protection was brought into the GATT and, following nearly a decade of intensive negotiations, the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) was concluded and made a mandatory component for members of the new WTO system. The ECJ has had occasion both to review the TRIPS Agreement negotiations and the results.[35]

[31] Within the E.U., the exhaustion problem has entered, in 1997, a new phase of thorough investigation and deliberation, various Member States thus far having taken diverse positions. It has been reported (by the Dutch Government which at the time held the E.U. Presidency) to the Dutch Parliament (Document TK 25.516/4 of May 2, 1997) that the principle of worldwide exhaustion was favoured by Ireland, The Netherlands, Sweden, Denmark and Germany, the latter two with some reservations as far as patents are concerned. France, Italy, Portugal and Spain favoured the Commission's view on strictly E.U.-wide exhaustion. The other Member States were uncommitted. The undertaking of an E.U. study as to economic effects, primarily directed to the field of trade marks, was the first reported step in this process.

[32] In Japan, the Supreme Court decided last year in a patent case in the direction of international exhaustion (*BBS Kraftfahrzeugtechnik AG & BBS Japan, Inc. v. Lasimex Japan, Inc.*, Supreme Court Heisei 7(o) No. 1988 (July 1, 1997), *J. of S.Ct.*, No. 1198 (July 15, 1997)).

The reasoning by the Court is based on a presumption of consent by patent holders on resale without restriction. International exhaustion may be restricted by proof of an agreement to the contrary between the holder and the purchaser, to be accompanied by a notice of such restriction affixed on the physical products.

[33] See further discussion of functions of the mark: *infra* at para. 39.

[34] See generally Frederick M. Abbott, *Protecting First World Assets in the Third World: Intellectual Property Negotiations in the GATT Multilateral Framework*, 22 *Vand. J. Transnat'l L.* 689 (1989).

[35] *Re The Urugay Round Treaties*, Court of Justice of the European Communities, [1995] 1 C.M.L.R. 205.

The issue of the exhaustion of IPRs and parallel importation surfaced during the course of the TRIPS Agreement negotiations.[36] However, it was manifest that perspectives on the question varied widely among negotiating governments and that attempting to resolve the matter might lead to a substantial confrontation.[37] Negotiating governments put off the matter by adopting a formula in TRIPS Agreement Article 6 that permits each WTO Member to prescribe its own rule on the subject of international exhaustion.[38]

In December 1996 two new treaties with respect to intellectual property rights were adopted at WIPO: the Copyright Treaty and the Performances and

[36] See, *e.g.* Thomas Cottier, "The Prospects for Intellectual Property in GATT" (1991) 28 C.M.L.R. 383 at 4.2.

[37] Proposals for a rule of international exhaustion were submitted by a number of developing country governments. The United States largely sought to preserve its domestic rules on the subject, which in the field of trade marks preclude international exhaustion except in the case of commonly controlled enterprises. See *K Mart Corp. v. Cartier*, 486 U.S. 281 (1987). The E.U. initially tabled a proposal intended to assure that it could preserve its intra-Union exhaustion doctrine regardless of the broader outcome of the negotiations. See Frederick M. Abbott, *GATT and The European Community: A Formula for Peaceful Coexistence* (1990) 12 Mich. J. Int'l L. 1 at 5 n. 9, discussing the E.U. proposal for a TRIPS Agreement which included an MFN waiver for customs unions and free trade area IPRs measures. This perplexing E.U. proposal was subsequently explained (to the author of the referenced article) by its Commission drafter as an attempt to preclude an attack on the intra-E.U. exhaustion rule.

[38] Article 6 (Exhaustion) of the TRIPS Agreement provides that: "For the purposes of dispute settlement under this Agreement, subject to the provisions of Articles 3 and 4 [national and MFN treatment] nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights."

It has been suggested by some industry groups that the TRIPS Agreement, Article 6 only precludes invocation of the WTO Dispute Settlement Understanding (DSU) in respect to the question of exhaustion, but does not expressly relieve WTO Members of whatever obligations they might face on the exhaustion question as a consequence of other terms of the TRIPS Agreement. Thus, the argument runs, WTO Members may in fact be obligated to act in certain ways with respect to parallel imports, even if they cannot be held accountable for their actions or failures to act.

It is frankly hard to understand why the negotiators of the TRIPS Agreement might have purported to formulate exhaustion rules, and then announce that these rules could not be enforced. Nevertheless, assuming *arguendo* that TRIPS, Article 6 was not intended to preclude the application of TRIPS rules on exhaustion to members (a proposition with which we disagree), the TRIPS Agreement would *still* not preclude the adoption of a rule permitting world wide exhaustion based on its express terms.

Thomas Cottier (*supra* at n. 36), for example, has pointed out in respect to trade marks that TRIPS Agreement Article 16 does not grant to trade mark holders a specific right to prevent importation. Rather, it provides that third parties "not having the owner's consent" may not use identical or similar signs in the course of trade "where such use would result in a likelihood of confusion", and it provides that "[i]n the case of the use of an identical sign for identical goods or services, a likelihood of confusion shall be presumed". Cottier suggests that the presumption of confusion might be rebutted in the case of the trade mark holder's consent to use of the mark. Thomas Cottier, *Das Problem der Parallelimporte im Freihandelsabkommen Schweiz-EG und im Recht der WTO-GATT, Revue Suisse de la Propriété Intellectuelle*, 1/1995, 37, 53–56.

Phonograms Treaty.[39] These two treaties include provisions with respect to the exhaustion of rights that are substantively equivalent to Article 6 of the TRIPs Agreement,[40] and reflect the continuing lack of agreement among governments on a unified approach to the exhaustion question.[41]

In this connection, it is interesting to note that in a copyright case, the United States Supreme Court very recently—on March 9, 1998—decided in favour of exhaustion in a factual context similar to that of the *Silhouette* case.[42] The case involved the importation of copyright-protected materials (labels of shampoos and other hair care products) that were exported from the United States with the consent of the copyright holder (L'anza), and then imported to the United States without its consent by a third party (Quality King Distributors). The Supreme Court unanimously decided that a party which (a) produced copyrighted material in the United States and (b) sold it to a party abroad (regardless where the transaction was deemed consumated), could not use the Copyright Act to block the importation of the product into the United States. By the first sale of the product the holder had exhausted its rights under copyright, section 109(a) of the United States Copyright Act[43] being held applicable also in this international context. It was held that the United States Congress in this section had codified

[39] World Intellectual Property Organization: Copyright Treaty [adopted in Geneva, December 20, 1996] (1997) 36 I.L.M. 65 and World Intellectual Property Organization: Performances and Phonograms Treaty [adopted in Geneva, December 20, 1996] (1997) 36 I.L.M. 76.

[40] Article 6 of the Copyright Treaty provides:

"(1) Authors of literary and artistic works shall enjoy the exclusive right of authorizing the making available to the public of the original and copies of their works through sale or other transfer of ownership.

(2) *Nothing in this Treaty shall affect the freedom of Contracting Parties to determine the conditions, if any, under which the exhaustion of the right in paragraph (1) applies after the first sale or other transfer of ownership of the original or a copy of the work with the authorization of the author.*" [Italics added.]

Article 8 of the Performances and Phonograms Treaty provides:

"(1) Performers shall enjoy the exclusive right of authorizing the making available to the public of the original and copies of their performances fixed in phonograms through sale or other transfer of ownership.

(2) *Nothing in this Treaty shall affect the freedom of Contracting Parties to determine the conditions, if any, under which the exhaustion of the right in paragraph (1) applies after the first sale or other transfer of ownership of the original or a copy of the fixed performance with the authorization of the performer.*" [Italics added.]

[41] The Committee of Experts that prepared proposals for the treaties offered two alternative draft provisions: one that would have excluded international exhaustion, and one that would have permitted each treaty party to adopt an international exhaustion rule. See: Chairman of the Committee of Experts, Basic Proposal for the Substantive Provisions of the Treaty on Certain Questions Concerning the Protection of Literary and Artistic Works to be Considered by the Diplomatic Conference, WIPO Doc. CRNR/DC/4, August 30, 1996, at art. 8.

[42] No. 96–1470, 1998 U.S. Lexis 1606.

[43] Section 109(a) of the U.S. Copyright Act reads: "Notwithstanding the provisions of Section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy [. . .]".

(without limitation) the first sale doctrine of the Supreme Court as laid down in its decision in *Bobbs-Merrill Co. v. Straus*.[44]

The United States Supreme Court considered, but rejected (a.o.) the following arguments made by L'anza and/or the Solicitor General and several "*amici curiae*":

- that Section 602(a) on rights against importation would be applicable here; it is *not*, according to the Supreme Court, where section 109(a) is applicable;
- the fact that the United States Executive Branch had recently entered into at least five international trade agreements apparently intended to protect domestic copyright owners from the unauthorised importation of copyrighted copies of their works: this was held to be *irrelevant* to the proper interpretation of the Act (the agreements entered into after the enactment of the statute and, moreover, not approved by the Senate);
- that L'anza promotes the domestic sales of its products with extensive advertising and by providing special training to authorised retailers, not doing so in foreign markets and therefore able to charge lower (35 to 40 per cent) prices there. In this connection we quote the answer by the Supreme Court:

"The parties and their *amici* have debated at length the wisdom or unwisdom of governmental restraints on what is sometimes described as either the 'gray market' or the practice of 'parallel importation'. In *K mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 100 L. Ed 2d 313, 198 S.Ct. 1811 (1988), we used those terms to refer to the importation of foreign-manufactured goods bearing a valid United States trade mark without the consent of the trade mark holder. *Id.*, at 285–286. We are not at all sure that those terms appropriately describe the consequences of an American manufacturer's decision to limit its promotional efforts to the domestic market and to sell its products abroad at discounted prices that are so low that its foreign distributors can compete in the domestic market.[45] But even if they do, whether or not we think it would be a wise policy to provide statutory protection for such price discrimination is not a matter that is relevant to our duty to interpret the text of the Copyright Act."

At the international level there is an ongoing debate on the subject of the exhaustion of IPRs in the context of trade. There is recognition that the problem confronted by the ECJ in the 1960s in relation to completion of the internal market also confronts WTO members in relation to the international market. With particular focus on the field of trade marks, it is apparent that the principles of free trade embodied in the WTO Agreement could be undermined if trade

[44] 210 U.S. 339, 52 L.Ed. 1086, 28 S.Ct. 722 (1908).

[45] n. 29 by the Supreme Court:

"Presumably L'anza, for example, could have avoided the consequences of that competition either (1) by providing advertising support abroad and charging higher prices, or (2) if it was satisfied to leave the promotion of the product in foreign markets to its foreign distributors, to sell its products abroad under a different name."

mark holders are able to partition the world market on the basis of marks. The case for market partitioning on the basis of trade marks is especially weak. Though trade mark holder groups have asserted that partitioning of markets is necessary to avoid consumer confusion and to allow the development of distribution channels, there is little evidence that consumers or markets suffer when parallel imports of trademarked goods are permitted.[46]

A. G. Jacobs stresses that the ECJ developed its perspective on exhaustion in the field of trade marks in the particular context of completing the internal market, and that the same considerations do not pertain in the international arena. We beg to differ.

The goal of the WTO is to lower barriers to trade in goods and services in the international market, and thereby to enhance global economic productivity. The WTO pays special attention to the needs of developing countries, and to sustainable development. There are many parallels between the WTO Agreements, including the GATT 1994, and the E.C. Treaty in so far as eliminating national barriers to trade in goods and services are concerned. For example, Articles 30 and 36 of the E.C. Treaty perform largely the same functions as GATT Articles XI and XX in regulating quantitative restrictions.

The WTO does not envision free movement of persons or capital, it does not at the moment have an express competition policy, it does not pursue an industrial policy in the field of research and development, it does not attempt to harmonise the rights of workers, and so forth. It does not envision the high political goals, nor is a WTO monetary union in the offing. The WTO does not include governmental organs with the power to eliminate trade distortions based upon variations in the social policies of its Members, except in a few limited contexts through the application of negative rules such as the national treatment standard. The TRIPS Agreement was a breakthrough in the WTO structure in that it represents the first effort at positive harmonisation of national legislation within the broad multilateral WTO system.

To the extent that Union organs refer to completion of the internal market as something more than the removal of impediments to trade in goods and services, the WTO does not, for the time being at least, share in the E.U. vision. We could here refer to the very language of the ECJ in the *Polydor* case[47] (*i.e.* that the provisions of a free-trade agreement with Portugal "do not have the same purpose as the EEC Treaty, inasmuch as the latter... seeks to create a single market reproducing as closely as possible the conditions of a domestic market").

The WTO nevertheless strives to open national markets to competition from goods and services produced anywhere in the system. There are high wage

[46] Compare, *e.g.* John C. Hilke, "Free Trading or Free-Riding: An Examination of the Theories and Available Empirical Evidence on Gray Market Imports", (1988) 32 World Comp. 75, discussing empirical studies that fail to support trade mark holder arguments, with J. S. Chard and C. J. Mellor, "Intellectual Property Rights and Parallel Importation", 12 World Econ. 69, which asserts benefits to consumers based on interviews with trade mark holders.

[47] Case 270/80 *Polydor v. Harlequin Record Shops* [1982] E.C.R. 329; [1982] 1 C.M.L.R. 677.

members and low wage members, there are members richly endowed with natural resources and members with few natural resources, there are heavily populated members and sparsely populated members, there are members with elaborate and expensive social welfare schemes and members with minimal social welfare schemes. The WTO takes into account some of these differences by according special and differential treatment to developing countries in certain fairly limited contexts. However, by and large, the goods and services produced by private enterprises within the members of the WTO system are expected to compete in each others' markets on a head-to-head basis, without any adjustment or "handicap" (other than bound tariffs). Internal government policies of the members distort the international "free market" looked at in an absolute sense.

The TRIPS Agreement has sought to assure that private enterprises will be able to obtain a roughly equivalent level of trade mark protection in each of the WTO members where they will do business. There should therefore not be a major distortion in the international market for trademarked goods arising from different government policies with respect to trade marks.

The goal of the World Trade Organisation is to encourage economic growth and expand the production of trade in goods and services in accordance with the objective of sustainable development.[48] This goal is to be accomplished through "arrangements directed to the substantial reduction of tariffs and other barriers to trade and to the elimination of discriminatory treatment in international trade relations".[49] The means (*i.e.* lowering of trade barriers) chosen to accomplish the goal (*i.e.* economic growth) reflects the collective determination of governments that international economic growth is best encouraged through the efficient allocation of productive resources resulting from the exchange of goods on an open market.

The ECJ has long observed that restrictions on parallel imports of trademarked goods are a mechanism allowing producers to enforce price discrimination. Such price discrimination has a pernicious effect in the intra-Union market. It has an equally pernicious effect in the international market. Rules restricting parallel imports in trademarked goods are non-tariff barriers to trade that would distort the internal E.U. market if they were permitted, and they presently distort at least parts of the world market. No persuasive argument or data has been presented for treating the E.U. market and the WTO market differently from the standpoint of evaluating the adverse impact of non-tariff barriers in the field of trademarked goods.

We do not present our view on the most desirable policy regarding international exhaustion in the field of trade marks to sway the Court toward adopting a new E.U. policy in this field. We are neither so bold nor so ignorant of the role of the Court. What we hope to show is that determining the best policy regarding the international exhaustion of trade mark rights deserves a close and reasoned

[48] See Agreement Establishing the World Trade Organization (WTO Agreement), preamble.

[49] *ibid.*

analysis by the responsible Union organs, and not an illogical inference from silence.

The reciprocity issue

A. G. Jacobs alludes to reciprocity concerns as justifying the Trade Mark Directive's implicit adoption of a policy precluding international exhaustion.[50] We take this to refer to a potential imbalance between (a) rights United States trade mark holders would retain to block parallel imports of trademarked goods lawfully placed on the market in the E.U. or elsewhere, as compared with (b) an absence of rights that would accrue to E.U. trade mark holders to block the importation of trademarked goods lawfully placed on the United States market or elsewhere.

The benefits of international exhaustion accrue to consumers in whatever market permits the importation of lawfully trademarked goods. The United States does not in fact prohibit such parallel importation in a significant part of its trade, *i.e.* when sales abroad are undertaken by commonly controlled enterprises. Regardless whether the United States permits its consumers to benefit from parallel imports, E.U. consumers would benefit from open markets. If there were a lack of reciprocity resulting from the E.U.'s adoption of a policy allowing parallel imports, it would only be that the E.U. presented its consumers with an advantage that United States consumers failed to obtain.

Perhaps the "lack of reciprocity" theory is that United States producers would gain an advantage over E.U. producers by operating in a market where higher prices could be charged, leading to higher gross revenues and future advantages in investment and production. A contrary result seems more likely. E.U. producers would benefit from becoming more efficient and price competitive, and would ultimately capture a larger share of the United States market by exporting more efficiently produced goods to the United States market.

The reciprocity argument seems a red herring. The E.U. could certainly afford to take a leadership position on the issue of international exhaustion in the field of trade marks. There is no justification in this area for holding E.U. policy captive to United States policy.

Competition rules as an alternative

Anticipating that the E.U. consumers' interests will be adversely affected by a decision precluding Member States from following a rule of international exhaustion, A. G. Jacobs observes that Articles 85 and 86 might still be applied to agreements between undertakings or unilateral behaviour by a dominant undertaking to divide up markets.[51]

[50] Opinion of A. G. Jacobs, at *e.g.*, para. 51.

[51] *ibid.* at para. 53. The suggestion to use competition rules to address problems arising from prohibiting parallel imports was made, *e.g.* in Warwick A. Rothnie, *Parallel Imports* (Sweet & Maxwell, 1993), pp. 592–597

Competition rules are a poor instrument for addressing the likely adverse impact of a decision precluding international exhaustion. For the individual E.U. citizen (or private enterprise) to pursue an action under Article 85 or 86 is a costly and time-consuming endeavour. It would be an extraordinary situation in which an individual citizen, or an E.U. business, would be so adversely affected by the decision of an enterprise to block parallel imports that it would justify the expense or time necessary to pursue such matter under articles 85 or 86.

The effects on the E.U. consumer of restrictions on parallel imports in the field of trade marks will involve a multitude of micro-behaviours by E.U. enterprises, each depriving the consumer of a lower priced product. Whether these actions involve agreements or concerted behaviour is not relevant to the effect on consumers and the internal market as a whole. The Commission may occasionally pursue egregious misconduct in restricting imports employing parallel trade marks, falling foul of Article 85 or 86, but this will not redress the aggregate impact of precluding international exhaustion on consumers.

The community trade mark regulation

A. G. Jacobs turns finally to the Community Trade Mark Regulation.[52] Pursuant to this Regulation, a person may register a trade mark that is valid throughout the Union. The Community trade mark has a "unitary character"—it has the same effect throughout the Member States.[53] It is indivisible.

Article 13 of the Community Trade Mark Regulation employs the same language as Article 7 of the Trade Marks Directive mandating intra-Union exhaustion. As with the Trade Marks Directive, the Commission initially proposed a rule of international exhaustion in respect to the Community mark, then it retreated to neutral ground.[54]

There is, however, a notable difference between the Trade Marks Directive and the Community Trade Mark Regulation. While the Trade Marks Directive is a measure only of partial approximation, Article 14(1) of the Community Trade Mark Regulation provides that "The effects of the Community trade mark shall be governed solely by the provisions of this Regulation," save in respect to infringement actions governed by jurisdictional and procedural rules of Member State law.

A. G. Jacobs says that if the Community Trade Mark Regulation occupies the field of law applicable to the Community Mark, then Article 13 of that Regulation occupies the field in relation to exhaustion, and in consequence Member States are certainly precluded from adopting a rule of international exhaustion in respect to the Community mark. He allows that the ECJ may well choose to construe identical provisions differently in different contexts, and he also allows that the context of the Trade Marks Directive and the Community mark are different. The Trade Marks Directive is a measure of partial approximation and the Community

[52] *ibid.* at paras 54 *et seq.*

[53] Article 1(2) of the Community Trade Mark Regulation.

[54] Opinion of A. G. Jacobs, at paras 56–59.

Trade Mark Regulation is a measure of virtually complete approximation. But, he concludes, "it must be accepted that the Regulation provides at least some further support for the view that the Directive precludes international exhaustion."[55]

A. G. Jacobs would here have the tail wag the dog. The Community trade mark was designed as an indivisible instrument to have effects throughout the E.U. As a consequence of this indivisible character it was necessary that the Regulation prohibit the Member States from attempting to vary substantive law applicable to the mark. It does indeed appear that the rule on intra-Union exhaustion is brought under the umbrella of this unitary substantive character of the Community mark, and that as a consequence the Member States may not be permitted to follow a rule of international exhaustion in respect to that mark. We do not agree that this should have any decisive influence on interpretation of Article 7 of the Trade Marks Directive.

The Member States might have chosen in the Trade Marks Directive to abandon the system of the E.U. in which each of them maintains its own substantive trade mark law. With great deliberation they chose instead to undertake a partial approximation, and to leave themselves discretion in various areas. What will be the approach of the Court in respect to interpreting the Trade Marks Directive and Member State legislation in areas outside the exhaustion question? Will the Court say, "It is true that the Member States preserved areas of discretion under the Trade Marks Directive, but we see that there is a rule in the Community Trade Marks Regulation that addresses this question, and that Regulation has a mandatory character. So, we will apply the mandatory rule of the Regulation and deprive the Member States of their discretion." We find it very doubtful that the Court will follow such an approach, and unless it is willing to cross that bridge as a general matter of construing the Trade Marks Directive, we do not think that it should cross it on the subject of international exhaustion.

Conclusion

The ECJ is asked to make an inference from a positive statement of its own jurisprudence on Articles 30 and 36 of the E.C. Treaty, as set forth in Article 7(1) of the Trade Marks Directive. It is asked to infer that the Council had in mind to address by silence a matter that the Advocate General affirms is of central importance to the E.U. market. The Advocate General says that it is not the role of the Court to consider policy. Yet, in light of the legislative history of the Trade Marks Directive, how could the Court be doing otherwise if it adopts a rule precluding international exhaustion? The Commission was under heavy pressure from industry to bar international exhaustion, and a number of the Member States supported that position. The legislative arm of the E.U. did not act to bar international exhaustion, leaving the matter to the discretion of the Member States.

Perhaps the Council will ultimately be persuaded that a rule barring international exhaustion is right for the E.U. We hope that it does not reach this

[55] *ibid.* at para. 61.

conclusion because we are convinced that such a rule would be contrary to the completion of an efficient internal market and contrary to the interests of E.U. consumers. The Advocate General tries to persuade the Court that such a rule is necessary to the completion of the internal market. The record of integration of the internal market suggests that this is not so.

A decision barring international exhaustion in this case would have repercussions across the spectrum of IPRs interests within the E.U., and it would have important repercussions in the worldwide market. For this reason we believe the Court should demand a thoughtful policy analysis by the Commission and Council and other E.U. organs. Inference based on silence should be avoided.

Editors note

On July 16, 1998, the European Court of Justice published its judgment in this case. The judgment was published after this article had gone to press. The Court agreed with the Advocate General that Article 7 of the Trade Marks Directive was intended to harmonise exhaustion principles, and that it was not open to Member States to legislate for international exhaustion. Accordingly the proprietor of a trade mark was entitled to restrain importation into the EEA of goods marketed only outside the EEA. The Court disagreed with the Advocate General on the subsidiary issue, namely, whether Article 7 could be relied upon by a trade mark owner in order to obtain injunctive relief. The Advocate General held that it was the duty of a national court to provide an appropriate remedy: the Court's contrary view was that the right to injunctive relief rested exclusively on domestic law, and while it was the duty of a national court to construe domestic law consistently with E.U. law, a Directive was not directly effective in a private dispute.