Market Integration and "First Sale" Rule in North American and European Trademark Law

Irene Calboli
Marquette University Law School

Purpose of this Study

- Review the “First Sale” Rule in Trademark Law and its relationship with international free trade
- Examine the different approaches to “First Sale” rules adopted in NAFTA and the EU (EEA)
- Compare these approaches and their relationship with market integration in regional free trade areas
- Draw some preliminary conclusions as to the effectiveness of exclusively “First Sale” rules in achieving free movement of goods in free trade areas
- Suggest that effective integration can be achieved only by cumulating “First Sale” rules with regional harmonization of technical standards or mutual recognition of genuine products’ quality

What is NOT in this Study

- An exhaustive analysis of Antitrust issues with respect to trademark "First Sale" rules and their relationship with international trade
- An exhaustive economic analysis of the pros and cons of the various types of "first sale" rules
- An exhaustive analysis of the various national laws involved and their respective national implementation by national courts
- An exhaustive analysis of the issue of changes/repackaging of goods by third parties in parallel importations (usually forbidden)
- An overall suggestion for a transition to a mandatory regime of international "First Sale" under TRIPs (which may be desirable for free trade areas and members of TRIPs)

Trademarks and International Trade

Trademark "First Sale" Defined

- Trademark "exclusive rights" are qualified by the "first sale" rule:
  - "the right of a producer to control distribution of its trademarked products does not extend beyond the first sale of the product", and "resale by the first purchaser of the original article under the producer's trademark is neither infringement nor unfair competition"
- These limits are set in the interest of free movement of goods and are based on the assumption that trademark rights cannot serve to fraction the market by allowing control beyond the first "sale" of the marked products
- Competing interests at issue: trademark owners' control of products and purchasers right to freely disposed of the legally acquired products (previous discussion; Joseph Koeler: two different "property interests")

Territoriality of "First Sale" Rules

- Although worldwide applied, "First Sale" rules remain national rules and are subjected to the principle of territoriality of trademark law (sovereignty)
- Article 6 of TRIPs excludes the harmonization of the geographical extent of "First Sale" rules
  - "for the purpose of dispute settlement under this agreement, subject to the provisions of Article 3 [national treatment] and 4 [most favored nation treatment], nothing in this agreement shall be used to address the issue of the exhaustion of intellectual property rights"
- National practices have been characterized by the following approaches:
  - *National "First Sale"*
  - *International "First Sale"*
  - *Regional "First Sale"*

Types of "First Sale" Rules

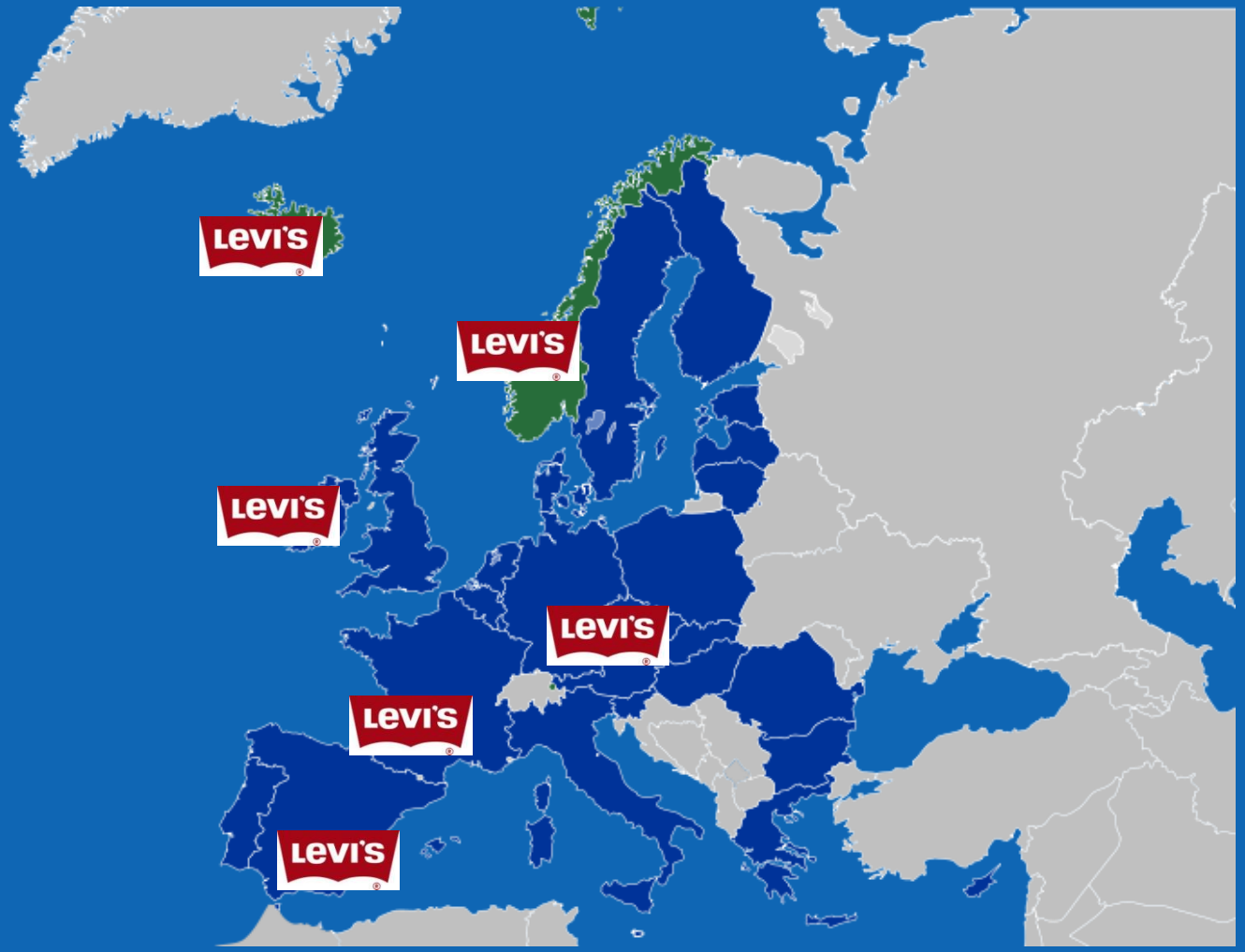
- *National "First Sale" Rule:*
  - Once the products are put into the market by trademark owners, or with their consent, their rights should be considered exhausted *only* in the domestic territory where the products have been distributed
  - Owners are free to oppose to the imports of *genuine* goods bearing their marks that have been put into the market outside the domestic territory
- *International "First Sale" Rule:*
  - Once the products are put into the market by trademark owners, or with their consent, in *any of the additional* countries where they enjoy protection, this first sale will exhaust their rights also with respect to the national jurisdiction at issue
  - Owners will not be free to prevent imports of *genuine* products bearing their marks that have been put into the market outside the domestic territory

National and International "First Sale"

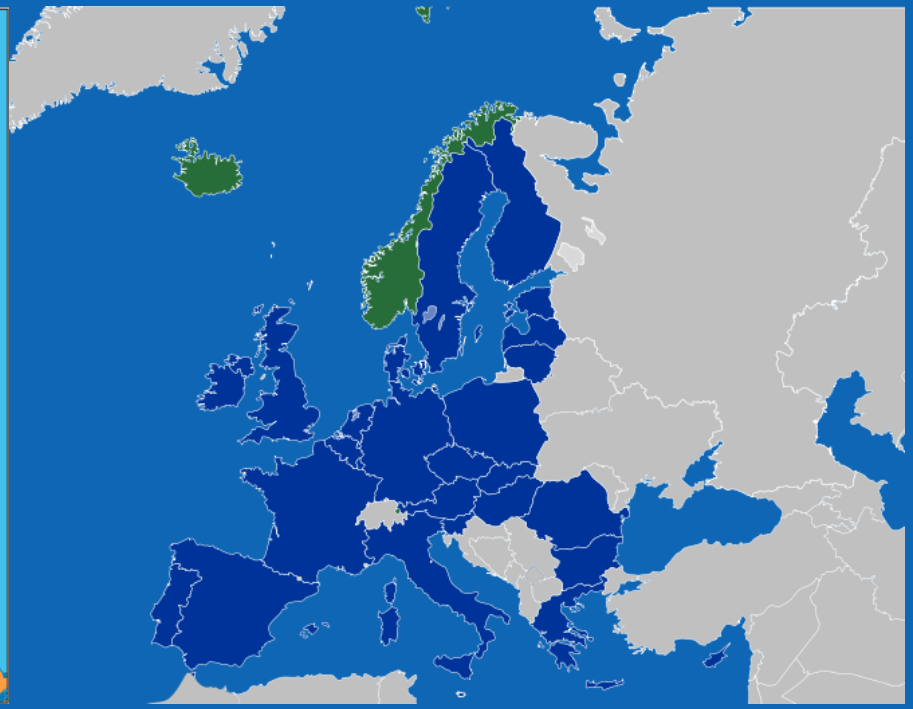
Types of "First Sale" Rules

- *Regional "First Sale" Rule:*
  - Hybrid and Region-wide compromise between international and national "First Sale" rules to foster free trade in limited areas
  - Once a product has been put into he market in a particular regional free trade area, by or with the consent of the legitimate owners, trademark owners cannot longer rely on national rights to prevent the import of the product from that Country into other Countries members of the regional free trade area (example: EU/EEA)
  - Trademark Owners can still oppose the imports of genuine goods that have been put into the market outside the regional free trade area

Regional "First Sale"



Different Approaches? NAFTA & EU



NAFTA and the "First Sale" Rule

- NAFTA aims at facilitating trade and movement of goods across parties' borders while providing adequate protection and enforcement of intellectual property rights
- Art. 1701(1): "Each Party shall provide in its territory to the nationals of another Party adequate and effective protection and enforcement of intellectual property rights, while ensuring that measures to enforce intellectual property rights do not themselves become *barriers to legitimate trade*"

NAFTA and the "First Sale" Rule

- Building a NAFTA market and "First Sale" Rules
  - NAFTA is silent as to the issue of "First Sale" rules among parties
  - Canada, US, and Mexico, all adopt, with different degrees/shades, systems of international exhaustion (thus consider trademark rights exhausted in their territory also if the goods have been put on the market abroad
  - Although NAFTA advocates for no barriers to trade, nothing in the Agreement indicate that parties should admit genuine products with "material" differences also coming from NAFTA countries
  - NAFTA does not create a regional market for NAFTA "originated" products

NAFTA and the "First Sale" Rule

- National approaches of NAFTA countries:
  - Canada
    - System of international trademark exhaustion for products having "common origin." Trademark owners can oppose products materially different (high threshold to oppose)
  - United States
    - System of international trademark exhaustion for products having "common origin." Trademark owners can oppose products materially different (low threshold to oppose), unless prominent disclaimers are affixed to the products
  - Mexico
    - System of international trademark exhaustion for products having "common origin." Unclear about differences in quality

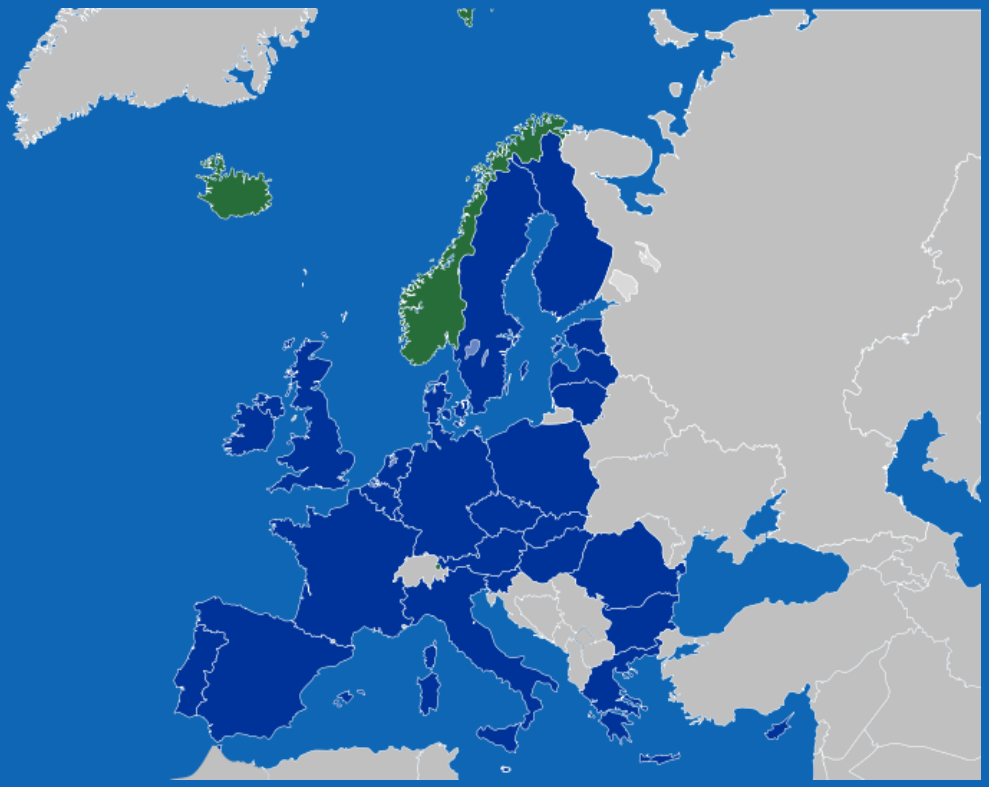
NAFTA and the "First Sale" Rule

- Preliminary conclusions on "First Sale" and NAFTA
  - "Laissez faire" approach of NAFTA on national rules, respect of territoriality, Members retain their domestic "first sale" rules
  - US, Canada, and Mexico follow, to some extent, the principle of international exhaustion (common origin goods can enter the markets)
  - Trademark owners are still likely, however, to prevent the parallel imports of genuine goods of materially different qualities (also on minimal changes)
  - Trademark owners can legitimately prevent the parallel imports of goods whose quality has been altered or repackaged by third parties (to avoid confusion)

NAFTA and the "First Sale" Rule

The "First Sale" Rule in the EU (EEA)

- Role of "First Sale" Rule in the EU:
- The fundamental principle of the EU is the creation of a Common/Internal/Single Market among Member States
- This objective is based on four pillars, one of which is the free movement of goods in the Single Market



The "First Sale" Rule in the EU (EEA)

- Building the European Common/Internal/Single Market
  - The ECJ initially prohibited the exclusive use of industrial property rights through with Antitrust rules (Article 81 and 82)
  - The EJC then relied upon the principle of free movement of goods and Articles 28 and 30 which prohibit quantitative restrictions on imports between Member States, and other measures having "equivalent effect" (exception non common origin of identical/similar marks)
  - This resulted in the creation of the Community-wide trademark exhaustion which was adopted in the TM Directive (Art. 7) and the CTM Trademark Regulation (Art. 13)

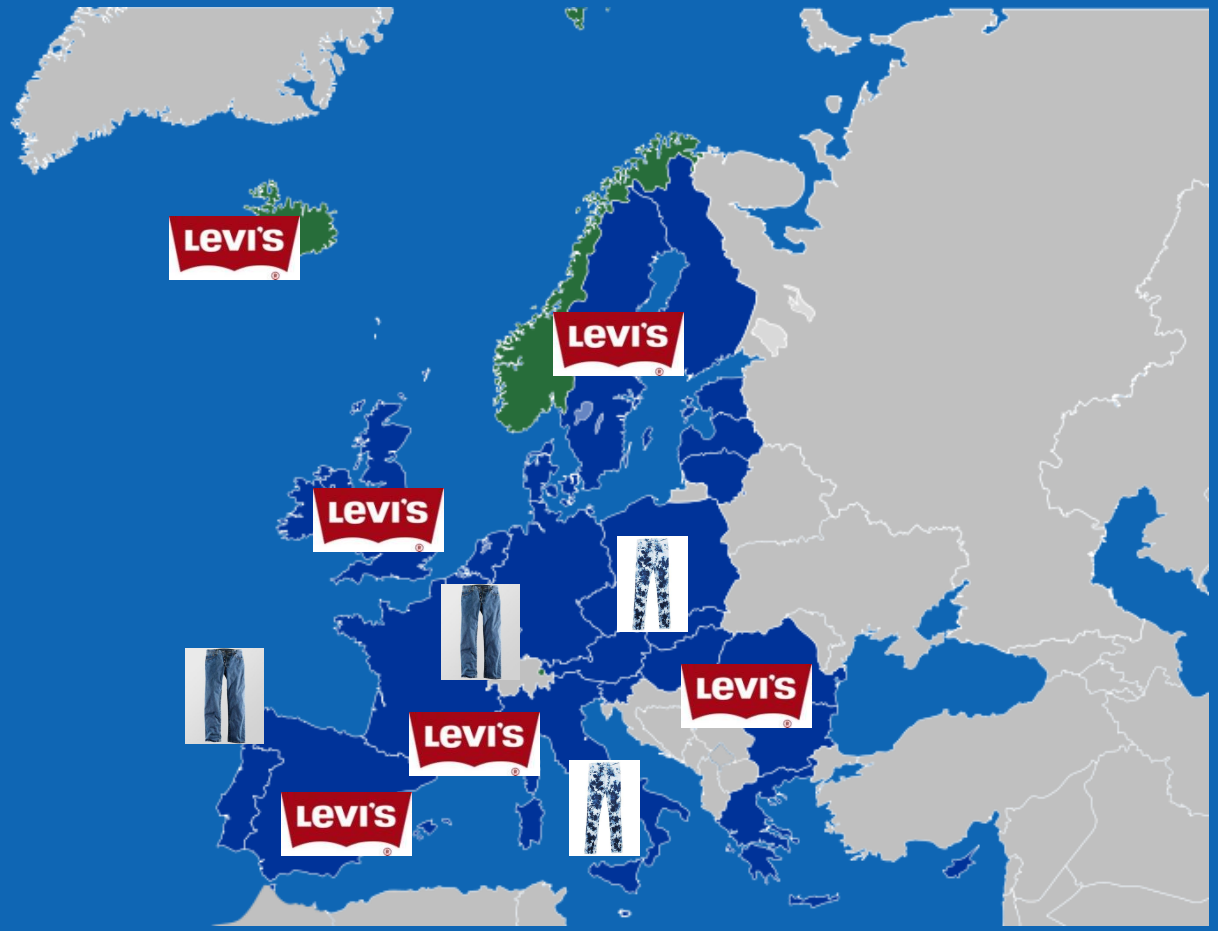
The "First Sale" Rule in the EU (EEA)

- Article 7 of the TM Directive (CTM Regulation uses the same text):
  - (1) "the trademark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Community under the trademark by the proprietor or with his consent"
  - (2) this principle does 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 adoption of the 1992 EEA Agreement extended this principle to the EFTA Countries joining the EEA (Norway, Iceland and Liechtenstein)
- After many cases and much debate (*Silhouette*, *Sebago*, *Davidoff*, etc.) the ECJ clarified that *all EU Countries have to adopt exclusively this principle* of community-wide exhaustion (not national or international) (antitrust issues still pending …)

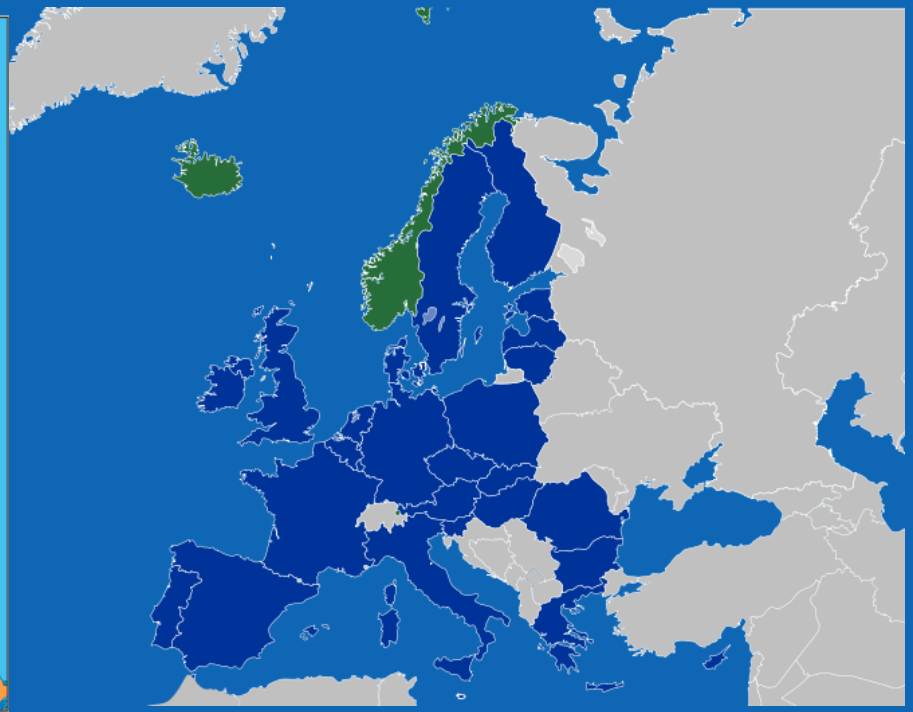
The "First Sale" Rule in the EU (EEA)

- Preliminary conclusions on "First Sale" in the EU/EEA
  - Community-wide exhaustion is the only principle that Members can follow
  - To create an effective single market, all national approached to first sale have to be harmonized
  - No Member could continue to adopt international exhaustion (because it would create a barrier to trade on the EU market or impose exhaustion to Members opposing it)
  - Trademark owners cannot oppose the parallel imports of genuine goods of different quality within the EEA (mutual recognition applies)
  - Trademark owners can still oppose the parallel imports of goods that have been altered within the EEA (to avoid confusion)
  - Trademark owners can still oppose the parallel imports of genuine goods from outside the EEA

The "First Sale" Rule in the EU (EEA)



Comparing NAFTA and the EU (EEA)



Comparing NAFTA and the EU (EEA)

- NAFTA
  - Respect of territoriality, national rules are not harmonized
  - All Members are adopting international exhaustion but qualitative difference can affect the circulation of goods among Members (no mutual recognition)
  - No effective market integration is achieved in terms of free movement of goods in the "NAFTA" market based solely on "First Sale" (likely never intended …)
- EU/EEA
  - National rules had to be harmonized to allow goods to freely move
  - Members cannot adopt international or national exhaustion, but have to opt in the regional exhaustion regime
  - Differences in quality (for marked products of common origin) do not prevent free movement of goods
  - Effective market integration is achieved among Member States

"First Sale" Rules and Market Integration?

- Tentative Conclusions
  - The relationship between trademark "First Sale" and effective free trade is complex
  - The complexity increases when the objective is to secure effective market integration (free movement of the products produced in free trade areas taking advantages of the benefit of free trade for manufacturing)
  - In addition to international or regional exhaustion to products having common origin and are identical, this principles should also apply to genuine products that are materially different
  - To avoid mandatory material differences, (Member) countries should harmonize technical standards, thus increasing the likelihood that products will be the same
  - Material differences (when disclaimed to consumers) should not prevent parallel imports if free trade/movement of goods could be achieved
  - Some argue (and I may agree) that non authorized but disclaimed repackaging should also be allowed to the benefit of competition/consumers …

THANK YOU

I welcome questions and comments!