BORISLAV BOYANOV & CO.
ATTORNEYS AT LAW

24, PATRIARCH EVTIMII BLVD.
SOFIA 1000

MAIL@BOYANOV.COM
WWW.BOYANOV.COM

TELEPHONE: (+ 359 2) 981 30 07
FAX: (+ 359 2) 981 77 33

PARALLEL IMPORT

EU AND SOUTH EAST EUROPE

DAMIAN SIMEONOV

BALKAN LEGAL FORUM 2006

BUCHAREST, ROMANIA

1. WHAT IS "PARALLEL IMPORT"?

"Parallel import" is not a legally defined term. This legal jargon has evolved in correlation with the concept of exhaustion of intellectual property rights ("IPRs"). Most parallel import cases involve trade marks rights, but they can also involve other IPRs.

We are all familiar with the types of IPRs and their increasing role in today's globalizing world, so these issues will not be discussed herein. Instead, below is a brief description of the existing exhaustion regimes, as it is impossible to understand the essence of the phenomenon "parallel import" without being aware of these principles.

1.1. Principle of Exhaustion

Each holder of an IPR has the exclusive right to use the respective IPR. This exclusive right means that nobody else has the right to use the same, unless the IPR holder gives his consent with such use.

The rights conferred on the IPR holders to use their protected IPRs are limited by the principle of exhaustion. This principle means that once the IPR holder has sold the product bearing respective IPR, he cannot prohibit the subsequent resale of such product, i.e. his rights in respect of this individual product are deemed "exhausted" by the act of selling it.

The issue of "parallel import" arises namely in connection with the exhaustion of the rights conferred on the IPR holder and, in particular, the geographic area with respect to which the rights are deemed to have been exhausted with the first sale.

There are two alternative approaches worldwide to the geographic area to which the exhaustion applies:

(A) under the first approach the exhaustion applies with respect to any geographic area in the world, i.e. once the IPR holder has sold a product on any market anywhere in the world it is deemed that he has exhausted his right to prohibit a further resale of this individual product and therefore such product can be resold by the purchaser on any market in the world without the right of the IPR holder to lawfully oppose to such resale, or

(B) under the second approach the exhaustion applies only with respect to a certain geographic area where the IPR holder has sold the product, i.e. the IPR holder cannot oppose to further commercialisation of the product within that particular geographic area, however he can lawfully oppose to any resale outside that geographic area.

The first approach is known in the legal theory as "**international exhaustion**" and the second one as "**national exhaustion**" of IPRs. The term "national exhaustion" does not necessarily mean that exhaustion is limited to the territory of a certain country. In the case of federal states national exhaustion may be limited only to the territory of one state within the federation or, on the opposite, it may apply to a wider geographic area covering more than one country (e.g. the Members States of the EU or the European Economic Area ("EEA")).

1.2. Definition

Where a certain jurisdiction has adopted the national exhaustion approach no one can lawfully import in that jurisdiction a product bearing IPR unless he has obtained the consent of the IPR holder. Thus, **the term "parallel import" is used to describe the importation of goods bearing protected IPR in a territory applying the national exhaustion regime without the IPR holder's consent.**

Parallel import may cover both goods manufactured in the jurisdiction applying the national exhaustion regime, which have been sold first by the IPR holder outside that jurisdiction and subsequently imported therein (i.e. parallel re-import) or goods manufactured outside that jurisdiction and imported in that country.

1.3 Economic Reasons for Parallel Import

The main reason why parallel import exists is the price differences for a single product between different markets. Thus, for example a product can be sold in one country (Country A) at a lower price than the price at which the same product is being sold in another country (Country B). A trader (a "**parallel importer**") may decide to take advantage of such a price difference by purchasing the product in Country A and reselling it in Country B, provided of course the transportation and other costs of moving the product from Country A into Country B, added to the price of acquisition, are lower than the price in Country B.

There may be many reasons for the existence of such price differences between different markets. Sometimes this may be due to relatively transient phenomena such as exchange rate movements, where parallel traders are able to react more quickly in trading that trade mark holders or distributors can in altering selling prices. A more fundamental cause however is likely to be that the IPR holder wishes, as a matter of commercial policy, to sell goods at different prices in different markets. This does not necessarily mean something bad. The reason why the IPR holder may choose to maintain such price differences could be justifiable, for example they could reflect:

- differences in production or distribution costs;
- differences in the ability or willingness of consumers to pay for the product, because of differences in wealth or taste (e.g. many trade mark owners choose to sell their goods in the so called "emerging markets" at lower prices than they sell the same products in the developed countries in order to create a market for their products;
- differences in investments necessary for "branding" for the local market, i.e. differences in the costs of advertising and promoting the product into a new market, etc.

There could be other reasons for parallel import. Thus, for example IPR holder may, as a matter of commercial policy, refuse to sell its goods to a particular retailer, for example because the IPR holder believes that the sale of its goods to end consumers by such a retailer would be disadvantageous to the image of its products. The retailer however may decide to acquire the products in another country and import them despite of the lack of consent of the IPR proprietor.

2. THE EU APPROACH

2.1. Legislation

a) First Directive

Before 1988 the different Member States of the EU have applied different exhaustion regimes. Thus, some European countries (e.g. the UK, Austria and Sweden) applied the international exhaustion rule, while others applied the national exhaustion rule. In 1988 the Council of the European Community set about harmonizing trade mark laws in its Member States by means of the First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks (the "First Directive").

Article 7(1) of the First Directive reads: *"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****." (emphasis added)*

The above provision of the First Directive uses the legal technique known as *argumentum per contrario* to define the point at which the exclusive rights of the trade mark holder are deemed to have exhausted. A legal analysis of the provisions shows that the following cumulative pre-conditions must have been fulfilled in order for the exclusive rights of the trade mark proprietor to have been exhausted:

- the goods identified by the trade mark must have been put on the market **within the Community**. This provision namely contains the "national exhaustion" rule applied by the Member States of the EU. "National" in the context of the First Directive is of course to be understood as the territories of all Member States, i.e., "national" should be understood here as "Community exhaustion". Based on this provision the exclusive rights of the trade mark proprietor are not exhausted by putting the goods on any market other that a market within the EU. Thus, if the proprietor has sold the goods first outside the EU he can lawfully prohibit anyone importing the same goods within the EU. On the opposite, once the proprietor has sold the goods on any market within the EU he cannot lawfully oppose to their further resale within any other market within the EU.

- the goods must have been put on the market within the Community by the trade mark holder himself or by a third party with the consent of the trade mark holder. The manner in which the consent must be obtained by the third party will be discussed below.

b) The CTM Regulation

The First Directive was aimed at harmonizing the national laws of the EU Member States. It applies to trade marks registered either in a Member State of the EU or internationally with protection extending over the territory of one or more Member States, i.e. "national trade marks" *(Article 1).*

On December 20, 1993, as part of the European drive towards harmonisation of economic activities in the internal market of the EU, the Council of the European Union adopted the CTM Regulation. The Regulation provides for trade marks which have equal effect throughout the entire territory of the Community, known as "**community trade marks**" or "**CTMs**". A CTM is obtained by registration with a special registration authority established pursuant to the CTM Regulation - the Office for Harmonisation in the Internal Market (trade marks and designs).

The CTM Regulation contains provisions relevant to the rights conferred on the holder of a CTM and exhaustion of such rights which are substantially identical to those of the First Directive. Article 13(1) of the CTM Regulation is substantially identical to Article 7(1) of the First Directive:

"Article 13 Exhaustion of the rights conferred by a Community trade mark

*"A Community trade mark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market **in the Community** under that trade **mark by the proprietor or with his consent**." (emphasis added).*

Essentially, the rights conferred on the proprietor of a CTM are the same as those which are conferred on the proprietor of a national trade mark in accordance with the First Directive, which was transposed into the national laws of the Members States.

c) Directive 2001/29/EC on the Harmonization of Certain Aspects of Copyright and Related Rights in the Information Society

Directive 2001/29/EC contain similar exhaustion provisions with respect to copyrights and related rights. Article 28 thereof reads:

*"Copyright protection under this Directive includes the exclusive right to control distribution of work incorporated in a tangible article. The first sale **in the Community** of the original of a work or copies thereof by the rightholder or with his consent exhausts the right to control resale of that object in the Community. This right should not be exhausted in respect of the original or of copies thereof sold by the rightholder or with his consent **outside the Community…**" (emphasis added).*

Article 4 (c) of Council Directive of May 14, 1991 on the Legal Protection of Computer Programs (91/250/EEC) restates this provision with respect to the rights on computer programs: "*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, with the exception of the right to control further rental of the program or a copy thereof.*"

d) Directive 98/71/EC of the European Parliament and Council of October 13, 1998 on the Legal Protection of Designs and Council Regulation (EC) No 6/2002 of 12 December 2001 on Community designs

Article 15 ("Exhaustion of rights") of Directive 98/71/EC of the European Parliament and Council of October 13, 1998 on the Legal Protection of Designs reads as follows: "*The rights conferred by a design right upon registration shall not extend to acts relating to a product in which a design included within the scope of protection of the* *design right is incorporated or to which it is applied, when the product has been put on the market* ***in the Community*** *by the holder of the design right or with his consent.*"

Article 21 of Council Regulation (EC) No 6/2002 of 12 December 2001 on Community designs repeats this provision with respect to Community Designs.

e) <u>Exhaustion</u> within the European Economic Area ("EEA")

On May 2, 1992 the EEA Agreement was concluded. It came into effect on January 1, 1994. Pursuant to Article 65(2) EEA and Annex XVII, point 4 (c), Article 7(1) of the First Directive shall, in the EEA context be replaced by the following:

"*The trademark shall not entitle the proprietor to prohibit its use in relation to goods, which have been put* ***on the market in a Contracting Party*** *under that trade mark by the proprietor or with his consent*."

In its Advisory Opinion issued on December 3, 1997 on Case E-2/97 (Mag Instrument Inc. and California Trading Company Norway, Ulsteen, also known as the "Maglite Case") the EFTA Court[1] considered the principle of trademark exhaustion adopted in the First Directive and in the EEA Agreement. In its opinion the EFTA Court held that the meaning of Article 7 of the First Directive was different in the territories of the EEA Member States than within the EU. It pointed out that the EEA is a different type of international organisation than the EU (i.e. it does not establish a customs union but a free trade area). Thus, the EFTA Court held that when applying the principle of exhaustion, it is for the EEA Member States to decide whether they wish to introduce or maintain the principle of <u>**international exhaustion**</u> of rights conferred by a trademark, however only <u>**with regard to goods originating from outside the EEA**</u>.

<u>2.2. Case Law in the EU</u>

The principle of Community exhaustion of trade marks has been continuously upheld by the European Court of Justice (the "**ECJ**") in several decisions:

(A) The Silhouette case – does the First Directive leave it open to Members States in the EU to retain the international exhaustion rule in their domestic legislation?

The first important decision on the matter of exhaustion of trade marks was the decision of the ECJ on the Silhouette case[2] (1998).

This case was referred to the ECJ by the Supreme Court of Austria (Oberster Gerichtshof) for interpretation of Article 7(1) of the First Directive.

The case involved a dispute between two Austrian companies in relation to goods manufactured by one of them and sold on a market outside the EEA and subsequently re-imported into (Austria) by the second company. The first company - Silhouette International Schmied GmbH & Co. KG ("**Silhouette**"), produced and marketed

---

[1] The EFTA Court applies the principles of the EEA Agreement to those members of the EEA that are not EU Member States – Norway, Iceland and Liechtenstein.

[2] Judgement dated 16 July 1998 in Case C-355/96 *Silhouette International Schmied v Hartlauer* [1998] ECR I-4799

sunglasses under the trade mark "Silhouette" in Austria and most countries of the world through a selective distribution network. In Austria, Silhouette itself supplied spectacles to opticians; in other States it had subsidiary companies or distributors.

The second Austrian company (Hartlauer Handelsgesellschaft mbH or "**Hartlauer**") was selling *inter alia* sunglasses through its numerous subsidiaries in Austria, and its low prices were its chief selling point. Silhouette refused to supply Hartlauer with its trademarked sunglasses because Silhouette considered that distribution of its products by Hartlauer would be harmful to its image as a manufacturer of top-quality fashion spectacles.

Hartlauer however succeeded to buy some genuine Silhouette sunglasses which were sold by Silhouette to a Bulgarian company (Union Trading) and re-imported them into Austria. In a press campaign Hartlauer announced that, despite not being supplied by Silhouette, it had managed to acquire 21,000 Silhouette frames abroad.

Silhouette brought an action for interim relief before the Austrian courts, seeking an injunction restraining Hartlauer from offering sunglasses or spectacle frames for sale in Austria under its trade mark, where they had not been put on the market in the EEA by Silhouette itself or by third parties with its consent, i.e. where Silhouette has not exhausted its trade mark rights since the sunglasses have not been put by Silhouette on the market in the EEA.

The Silhouette action reached to the Austrian Supreme Court, which decided to stop the proceedings and refer to the ECJ for responses to two preliminary questions regarding the interpretation of Article 7(1) of the First Directive. By its first question the Austrian Supreme Court substantially asked the ECJ whether national rules in the Member States of the EU can retain the international exhaustion rule regardless of Article 7(1) of the First Directive.

The ECJ responded that the First Directive was aimed to harmonise the national rules in the Members States relating to *inter alia* the exhaustion of trade mark rights and therefore the Members States were not free to decide to retain the international exhaustion rule in their domestic laws, but were obliged to implement in those laws the Community exhaustion regime.

Accordingly, the ECJ held that, since Hartlauer bought the sunglasses under the trade mark Silhouette from Bulgaria which fell outside the EEA, Silhouette has not exhausted its rights conferred on it by the trade mark and therefore was able to lawfully prevent Hartlauer from re-importing and selling the sunglasses in Austria.

(B) The Sebago case – is the consent of the trade mark owner required in respect of each individual item of the product?

The second issue which the ECJ has reviewed is whether the consent referred to in Article 7(1) of the First Directive must be given with respect to each individual item of the product or once the trade mark proprietor has put similar products on the market in the EEA it is deemed that he has consented generally to the sale of this type of product in the EEA by anyone.

The ECJ has discussed and responded to this question in the Sebago case (1999)[3] which was referred to the ECJ by the Belgian Court of Appeal.

The case involved a dispute between a US company (Sebago Inc.) and its exclusive distributor in Belgium (Maison Dubois et Fils SA or "**Maison**") and GB-Unic SA. Sebago was the proprietor of Benelux trade marks ("Docksides" and "Sebago") registered *inter alia* for shoes. Maison was the exclusive distributor of Sebago in the Benelux. GB-Unic acquired some 2,500 pairs of Sebago shoes manufactured in El Salvador from a Belgian company specialised in parallel import and sold those shoes in Belgium. Sebago and Maison claimed before the Belgian courts that by doing that GB-Unic had infringed their trade mark rights as it sold their trademarked goods within the EEA without their consent.

GB-Unic raised two lines of defense: (1) it claimed that the relevant provisions of the Belgian national law similar to Article 7(1) of the First Directive *(Article 13A(8) of the Uniform Benelux Law on Trade Marks)* were providing for international exhaustion of rights in trade marks and (2) that in order to satisfy the requirement of consent of Article 13A(8) of the Uniform Law it sufficed that similar goods bearing the same trade mark have already been lawfully marketed in the EEA with the consent of Sebago.

In those circumstances the Belgian Court of Appeal decided to stay proceedings and refer several questions to the ECJ for a preliminary ruling on the interpretation of Article 7(1) of the First Directive.

With respect to the first line of defense of GB-Unic (and the first three questions of the Belgian Court of Appeal) the ECJ decided that since it has already responded to substantially the same question in the Silhouette case it is not necessary to respond once again to the same questions. Thus, the ECJ confirmed once again that the marketing of trademarked goods in a country which is outside the EEA does not exhaust the rights of the trade mark proprietor in the EEA.

As regards the second line of defense of GB-Unic and the fourth and the fifth questions of the Belgian Court of Appeal the ECJ stated the following:

"…the national court [the Belgian court – clarification added] *is asking essentially whether there is consent within the meaning of Article 7 of the Directive* [the First Directive – clarification added] *where the trade-mark proprietor has consented to the marketing in the EEA of goods which are identical or similar to those in respect of which exhaustion is claimed or, if, on the other hand, consent must relate to each individual item of the product in respect of which exhaustion is claimed."*

To make it even more simple, the question was whether if the trade mark proprietor has already sold goods with the trade mark in question within the EEA it is deemed that he has consented with the sale of the same type of goods by all other persons or whether the consent of the trade mark owner must be sought with respect to each individual item of the goods, e.g. if Sebago have already sold shoes with the trade mark Sebago in Belgium can it be deemed that by this they have given a general consent to anyone selling goods with the trade mark Sebago in the EEA?

[3] Judgement dated July 1, 1999 in Case C-173/98 *Sebago Inc. and Ancienne Maison Bubois et Fils SA v. GB-Unic SA* [1999] ECR I-4103

In responding to this question the ECJ has stated that:

"The text of Article 7(1) of the Directive does not give a direct answer to that question. Nevertheless, the rights conferred by the trade mark are exhausted only in respect of the individual items of the product which have been put on the market with the proprietor's consent in the territory there defined. The proprietor may continue to prohibit the use of the mark in pursuance of the right conferred on him by the Directive in regard to individual items of that product which have been put on the market in that territory without his consent."

The ECJ has explained that this interpretation reflects the purpose of Article 7(1) of the First Directive, which is to make possible the further marketing of an individual item of a product bearing a trade mark that has been put on the market with the consent of the trade mark proprietor and to prevent him from opposing such marketing. The Court has further stated that this interpretation was supported also by Article 7(2) of the First Directive which, in its reference to "further commercialization" of goods, shows that the principle of exhaustion concerns only specific goods which have first been put on the market with the consent of the trade mark proprietor.

The Court concluded based on the above that for there to be consent within the meaning of Article 7(1) of the First Directive, such **consent must relate to each individual item of the product** in respect of which exhaustion is pleaded. *(emphasis added)*

(C) The Davidoff and Levi Strauss cases – can the consent be tacit or implied?

Article 7(1) of the First Directive does not give a direct answer to the question of whether the consent of the trade mark owner must be express and explicit or whether it could be tacit or implied. This issue arose in *Zino Davidoff v. A & G and Levi Strauss v. Tesco and Costco* cases[4].

This judgment of the ECJ was issued in relation to two totally separate disputes: (i) a dispute between Zino Davidoff SA ("**Davidoff**") and A & G Imports Ltd. ("**A & G**") in relation to cosmetic products bearing the trade marks "Cool Water" and "Davidoff Cool Water" and (ii) a dispute between, on one side, Levi Strauss & Co., Delaware and its UK subsidiary Levi Strauss (UK) Ltd. (jointly referred to as "**Levi's**") and, on the other side, Tesco Stores Ltd. and Tesco plc (together "**Tesco**") and Costco Wholesale UK Ltd. ("**Costco**") on the other side.

The cases were referred to the ECJ by the High Court of Justice of England and Wales, Chancery Division (Patent Court). These separate cases were joined by the ECJ in one proceeding because substantially the same questions were raised in them.

The underlying facts in the Davidoff case were the following: In 1996 Davidoff entered into an exclusive distributorship agreement with a company in Singapore. The distributor undertook to sell the Davidoff products only outside the EEA and also to impose a restriction on its sub-distributors and retailers not to resell the products outside the stipulated territory. A&G succeeded in buying Davidoff products placed in the market in Singapore, imported those products in the UK and began selling them there.

[4] Judgement of the ECJ dated November 20, 2001 in Joined Cases c-414/99 to C-416/99

Davidoff brought proceedings against A&G in the UK for infringement of Davidoff's trade marks.

The underlying dispute in the Levi Strauss case was essentially similar – Levi's is the owner of the world-known trade marks 'LEVI'S and '501 used, *inter alia,* in respect of jeans. Those trade marks were registered also in the UK. In the UK Levi's were selling those trademarked jeans through its subsidiary Levi Strauss (UK) Ltd.

Tesco is one of the leading supermarket chains in the UK, selling, amongst other things, clothes. Costco is also a supermarket chain in the UK selling a wide range of branded goods, in particular items of clothing.

Levi's have consistently refused to sell Levi's 501 jeans to Tesco and Costco and have not agreed to their becoming authorised distributors of those products. Tesco and Costco obtained Levi's 501 jeans, genuine goods originally sold by Levi's or on its behalf, from traders who imported them from countries outside the EEA. The contracts pursuant to which they acquired those products contained no restrictive covenants to the effect that the goods were, or were not, to be sold in a particular territory. The jeans bought by Tesco and Costco had been manufactured by, or on behalf of, Levi's in the USA, Mexico or Canada. Tesco's and Costco's suppliers had obtained the goods directly or indirectly from authorised retailers in the USA, Mexico or Canada, or from wholesalers who had bought the jeans from "accumulators", that is to say, persons who buy small quantities of jeans from numerous authorised stores, in particular in the United States and Canada.

In 1998 Levi's commenced proceedings before the High Court of Justice of England and Wales, Chancery Division (Patent Court), against Tesco and Costco. They claimed that the import and sale of Levi jeans by the defendants constituted an infringement of their trade mark rights.

In both cases the High Court of Justice of England and Wales decided to stay proceedings and refer several questions to the ECJ for a preliminary ruling.

By its questions, the UK High Court of Justice in essence sought mainly to determine the circumstances in which the proprietor of a trade mark may be regarded as having consented, directly or indirectly, to the importation and marketing of the products bearing his trade mark. In particular, the ECJ specifically considered whether implied consent may be inferred:

(a) from the fact that the proprietor of the trade mark has not communicated to all subsequent purchasers of the goods placed on the market outside the EEA its opposition to their being marketed within the EEA;

(b) from the fact that the goods carry no warning of a prohibition on their being placed on the market within the EEA;

(c) from the fact that the trade mark proprietor has transferred the ownership of the products bearing the trade mark without imposing any contractual reservations and that, according to the law governing the contract, the property right transferred includes, an unlimited right to resell the goods subsequently within the EEA.

The ECJ answered these three questions by saying that consent must be expressed positively and that factors taken into consideration in finding implied consent must unequivocally demonstrate that the trade mark proprietor had renounced any intention to enforce his exclusive rights. As a result, it is for the parallel importer alleging consent to prove it and not for the trade mark proprietor to demonstrate its absence. Consequently, the ECJ decided that implied consent to importing the goods in the EEA cannot be inferred from the mere silence of the trade mark proprietor.

Further, implied consent cannot be inferred from the fact that a trade mark proprietor has not communicated his opposition to marketing within the EEA or from the fact that the goods do not carry any warning that it is prohibited to sell them in the EEA.

Finally, the ECJ stated that the consent cannot be inferred from the fact that the trade mark owner transferred ownership of the goods without imposing any contractual reservations or from the fact that, according to the law governing the contract, the property right includes an unlimited right of resale of the products.

There are also other decisions of the ECJ which are relevant to the matter of exhaustion of trade marks and parallel import. They however confirm the conclusions derived from the above most important case law of the ECJ.

(D) Case T-198/98 Micro Leader v. Commission – Exhaustion of Copyrights

This case concerns the exhaustion of copyrights and in particular rights on software. The judgment of the Court of First Instance (Third Chamber) ("**CFI**") of December 16, 1999 recognizes that the lack of exhaustion is a legitimate reason to restrict parallel imports into the Community of products coming from outside the Community.

The case was brought on appeal by Micro Leader against the Commission Decision by which it rejected its complaint against Microsoft's policies to stop software produced for Canada from being marketed in France on the grounds of lack of exhaustion. In its Judgment the CFI stated that:

"*Furthermore, as the Commission itself points out at paragraph 11 of the contested decision, even if Microsoft did in fact restrict in that way [*by way of agreement*] the opportunities for Canadian distributors to sell their products outside Canada,* ***Microsoft would merely have been enforcing the copyright it holds over its products under Community law****. Under Article 4(c) of Directive 91/250, the marketing in Canada of copies of Microsoft software does not exhaust Microsoft 's copyright over its products since that right is exhausted* ***only when the products have been put on the market in the Community by the owner of that right or with his consent*** *(see, by analogy, Case C-355/96 Silhouette International Schmied [1998] ECR I-4799 and Case C-173/98 Sebago and Maison Dubois [1999] ECR I-0000). Subject to the application of Article 86 of the Treaty (see the findings of the Court on the second plea below), this was an instance involving the lawful enforcement by Microsoft of its copyright.*"

However the CFI annulled the Commission Decision by which it rejected the complaint by reason of the fact that it had not examined whether the conduct of Microsoft was an abuse of dominance under Art. 82 EC aimed at enforcing excessive prices.

2.3. Summary of the EU Approach

Based on the legal provisions and case law in the EU, the following main conclusions can be summarized with respect to the issue of parallel import, as dealt with in the EU:

1. The exclusive rights of an IPR proprietor to use the IPR are exhausted only if and when he has sold the goods bearing such IPR himself or has consented to a third party selling those goods within any Member State of the EU (respectively, the EEA). Once the goods have been so put on any market within the Community (respectively, the EEA) the IPR holder does not have the right to oppose to their further resale within the Community (respectively, the EEA). **Consequently, it is unlawful for any person to import and/or sell on the EU market** (respectively, the EEA) **genuine goods without the consent of the IPR owner**.

2. As a rule, the consent of the IPR owner must be express and explicit.

3. If a parallel importer claims that there is consent of the IPR owner, it is for the parallel importer to prove that such consent has been given and not for the IPR owner to prove the lack of consent.

4. Consent of the IPR owner is required with respect to each individual item of a product and not generally to the type of product, i.e. if a product is sold in the EU (EEA) by the IPR owner or with his consent this does not mean that he has generally consented to this type of product being imported and sold in the EU (EEA).

2.4. Enforcement Mechanisms. Border Control Measures

Despite the position on IPR exhaustion and "parallel import" in European law and case law, the EU regulations guiding the actions and measures to be undertaken by the customs authorities for the purpose of protection of IPRs exclude the possibility of applying such measures in the cases when IPRs are infringed by "parallel import".

Council Regulation (EC) No. 1383/2003 of 22 July 2003 Concerning Customs Actions against Goods Suspected of Infringing Certain Intellectual Property Rights and the Measures to be Taken against Goods Found to have Infringed such Rights sets out the conditions for action by the customs authorities when goods are suspected of infringing an IPR in the following situations: (i) when goods are entered for release for free circulation, export or re-export within the Community or (b) when they are found during checks on goods entering or leaving the Community customs territory, placed under a suspensive procedure, in the process of being re-exported or placed in a free zone or free warehouse. The measures consist mainly of detention by the customs authorities of goods suspected to infringe IPR for certain period of time, while the right holder undertakes legal actions and applies enforcement mechanisms against the infringer.

Article 3 of Council Regulation (EC) No. 1383/2003 expressly excludes from the scope of application of the said Regulation, *inter alia*: goods bearing a trademark with the consent of the holder of that trademark, goods bearing a protected designation of origin, which are protected by a patent, by a copyright or related right or by a design right and which have been manufactured with the consent of the right holder but are placed in one of the situations referred to in the preceding paragraph without the latter's consent.

The means available for protection of IPRs in the cases of “parallel import” are the measures provided for in Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the Enforcement of Intellectual Property Rights. The instruments provided for in this Directive include, *inter alia*, provisional measures like preservation of evidences in respect of alleged infringement, physical seizure of infringing goods, etc. These measures have to be imposed by a competent judicial authority and must in any event be followed by proceedings leading to a decision on the merits of the case before competent judicial authority. Further, upon establishment of the fact of the infringement, the judicial authorities of the Member States should be also competent to order acts like recalling from the channels of commerce, definitive removal from the channels of commerce or destruction of the infringing goods. Further measures may also include ordering publication of the court decision, ordering the infringer to disclose information about the origin and distribution networks of the goods. Of course, the competent judicial authorities may also order the infringer to pay to the IPR holder damages resulting from the infringement.

It has to be noted, however, that without the involvement and cooperation of the customs authorities in the cases where “original” goods are entering the Community customs territory, the implementation of the measures provided for in Directive 2004/48/EC with respect to “parallel import” would be impeded.

3. THE BULGARIAN APPROACH

3.1. The Marks and Geographical Indications Act (for brevity the “Marks Act”)

In Bulgaria, the exhaustion of trade marks is regulated by the Marks Act, which entered into force on December 15, 1999. It follows the provisions of the relevant EU legislation. The Marks Act is further in compliance with the relevant provisions of the TRIPs Agreement.

The Marks Act adopts the national exhaustion regime in line with the Community-wide exhaustion regime adopted by the First Directive. The exhaustion of the rights conferred by the trade mark is regulated by Article 15 of the Marks Act, which is substantially identical to Article 7 of the First Directive:

“Article 15 Exhaustion of the rights conferred by a mark

(1) The proprietor of a mark cannot prohibit its use in relation to goods which have been put on the market ***in the country*** *under that mark by the proprietor or with his consent. (emphasis added)*

(2) Paragraph 1 shall not apply where there exist legitimate reasons for the proprietor to oppose further commercialization of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market.”
As of the date of Bulgaria’s entry in the EU, amendment to the provision of Article 15 shall enter into force, replacing the words “*in the country*” with the words “*in the territory of the EU Member States or, respectively the EEA*”.

The above provisions of the Marks Act show that the latter is completely compatible and in line with the First Directive. In fact the relevant provisions of the Marks Act are identical with the corresponding provisions of the First Directive.

3.2 Other Domestic Laws

Identical provisions and amendments, which shall enter into effect on the date Bulgaria joins the EU, are contained in other pieces of domestic legislation governing IPR, including the Copyright and Related Rights Act (Art. 18a), the Patents Act (Art. 20a) and the Industrial Design Act (Art. 21). Each of said acts provides for the principle of national exhaustion with respect to the relevant IPR before EU accession and, after EU accession - Community exhaustion.

Consequently, a conclusion can be drawn that at present (i.e. before joining the EU on January 1, 2007) it is unlawful in Bulgaria for anyone to import and sell in the territory of Bulgaria goods in respect of which an IPR exists in Bulgaria or internationally with protection covering the territory of Bulgaria without the consent of the proprietor. It is irrelevant from where the goods are imported. It would be equally unlawful to import such goods from the EU/EEA and from any other territory.

As of January 1, 2007, when Bulgaria will join the EU, the relevant market will become the market within the boundaries of the EU/EEA. This would mean that the import of goods which have been lawfully put on the market of any other member state of the EU (EEA) will not require the consent of the IPR holder. The import of goods from countries, which are not member states of the EU (EEA) without the consent of the IPR holder will be still unlawful.

3.3 Enforcement Mechanisms. Border Control Measures

The Bulgarian customs authorities are empowered, upon a written application by the IPR proprietor or on their own initiative, to detain goods which are passing through the state border of Bulgaria and for which there are reasons to believe to be infringing IPRs. At present, the Marks Act does not expressly exclude from the scope of application of the border control measures goods which have been manufactured with the consent of the trademark holder (e.g. “original” goods), as provided for in Article 3 of Council Regulation (EC) No. 1383/2003. Similar provision to the one in Article 3 of the said Regulation was introduced in the Marks Act in 2005, but was repealed with effect of October 6, 2006. The same provision continues to exist in the Regulation on Border Control Measures, which, however, is a lower in ranking normative act. Therefore this provision should be derogated in order to make the Regulation consistent with the Marks Act. In practice the Customs Authorities use to detain goods manufactured by the trademark owners or with their consent, which are imported in the country without the consent of the trademark holder. This is so, since in most of the cases the Customs Authorities are not able to determine, during the inspection of the goods, whether they are manufactured by the trademark owner (respectively by a person authorized by him) or not. Therefore they normally prefer to seek for the trademark proprietor’s confirmation whether the goods are genuine or not.

Apart from the border control measures, the other enforcement mechanisms provided for in the EU law are also available to the holders of IPRs in Bulgaria, including in the cases of parallel importations.

3.4 Case Law

Since 2002 we have been representing a number of clients (including major brand owners) in a number of cases involving claims for infringement of trade marks through parallel import in Bulgaria of branded goods without the consent of the trade mark proprietor.

As of today there are more than a dozen final judgments issued on the merits of the cases. The court practice is still controversial – while most of the judgments confirm that "parallel import" is unlawful and order the destruction of the goods imported by parallel importers, there are some cases where the Supreme Court has rejected the claims of the trademark owners as a result of wrong interpretation of the existing legal provisions and EU case law.

4. SUMMARY OF THE LEGAL POSITION ON "PARALLEL IMPORT" IN SOUTH EAST EUROPE

Albania

The principle of national exhaustion applies with respect to all IPRs, which means that the proprietor of an IPR may oppose against the importation in Albania of goods bearing the respective IPR without his consent. Border control measures are also available.

Croatia

Croatian trademark law, effective from October 2003, has introduced the concept of national exhaustion of IPRs. The Croatian Ordinance on the Enforcement of Measures with Regard to the Goods for which there is Doubt that they Infringe Certain Rights which Pertain to the Intellectual Property entered into force only in May this year and provides for possibility of IPR holders to protect their rights with the help of the customs authorities.

Romania

At present, despite the lack of legal provision, which expressly forbids parallel imports, Romanian courts may sanction importation of goods in Romania without the consent of the holder of the respective IPR. Starting January 1, 2007, the Community exhaustion principle will start to apply, as in Bulgaria.

Law No. 344/2005 regarding certain measures to ensure compliance with intellectual property rights during customs clearance expressly establishes that the provisions thereof do not apply to goods that are subject of a protected intellectual property right and that have been manufactured with the consent of the right's holder.

Serbia

The legal provisions concerning IPR exhaustion differ depending on the type of IPR.

Serbia is the only country in the region where the principle of international exhaustion applies with respect to trademarks, meaning that parallel import is allowed. Article 36, paragraph 1 of the Serbian Trademark Law, reads:

"(1) A trademark does not entitle its holder to bar its use in connection with goods marked with such trademark ***and placed in circulation anywhere in the world*** *by the holder of the trademark or other person authorized by the holder."*

With respect to other IPRs - designs, patents and copyrights, the main standard is **national exhaustion**, i.e. Parallel import is not allowed. Border control measures are applicable with respect to goods infringing IPRs.

As to the present moment no court proceedings have been initiated in Serbia with respect to IPR exhaustion and parallel import, since the laws are rather new.

Macedonia

Macedonian Law on Industrial Property implements the national exhaustion regime with respect to all types of IPRs. However, the Law on Customs Measures for Protection of Rights on Intellectual Property does not provide enforcement mechanisms allowing seizure of original goods by the Customs Authorities, when such goods are imported in the Republic of Macedonia without the consent of the trademark owner.

Bosnia and Herzegovina

There are no explicit legal provisions dealing with IPR exhaustion. None of the two approaches could be seen as adopted in this jurisdiction, because IPR are not defined in this aspect. All the issues regarding trade with original goods are of contractual nature. Therefore, in case of parallel import at the local market, the matter would not be an issue for authorities to solve, but an issue to be solved among the IPR holder, the local distributor being damaged, and the distributor that has sold the goods for parallel import. In conclusion, "parallel import" at the moment, represents an internal matter of the IPR holder and its distributors.

As to the present moment no court proceedings have been initiated in Bosnia and Herzegovina with respect to IPR exhaustion and parallel import. There are no enforcement mechanisms allowing seizure of original goods by the Customs Authorities, when such goods are imported without the consent of the IPR holder.

Turkey

The Turkish law also introduces the concept of "national exhaustion" of IPRs, which means that parallel import is, in principle, illegal. However, the interpretation of the exhaustion principle by the Turkish Courts seems to be different than the one in EU. On May 26, 1999, 11th Chamber of the Court of Appeals unanimously resolved that once a product, the trademark of which have been registered in the Republic of Turkey, is placed on the Turkish market by the owner of the trademark or the authorized seller, the parallel importation of such product by third parties cannot be restricted even by the exclusive distributor, unless such third person changes or impairs the product. Obviously, the interpretation of the Turkish court is, opposite to the interpretation of the ECJ, namely that the trademark holder's consent for initial placement on the market of certain category of product is sufficient to authorize any further imports of the same product, even without the trademark holder's consent.

The Customs Law in Turkey expressly excludes goods manufactured with the consent of the applicant (i.e. "original" goods) from the scope of application of any protective measures by the customs authorities.

Greece

As an EU Member state Greece applies the principle of community exhaustion of IPRs, which means that IPR holders may oppose to the importation in Greece of products bearing their IPRs from outside the EU and the EEA without their consent. Respectively, IPR holders cannot prevent import of their products from another Member State of the EU (EEA) if the products have been already placed on this market with the consent of the IPR holder.

The main mechanism for protection of IPRs is through infringement proceedings. Customs authorities are not authorized to apply border control measures with respect to parallel import.

In Greece there have been a number of case law concerning parallel import. The usual remedy provided by the courts is the prohibition of further commercialization of the infringing goods and the seizure and/or the destruction of such products.

Slovenia

Following the EU accession, the situation in Slovenia is similar to the one in Greece. The principle of Community exhaustion applies with respect to any IPR.

- E N D -

Country	Type of adopted IPR Exhaustion	Border Control Measures applicable in respect to Parallel Import
Albania	National	Yes
Croatia	National	Yes
Romania	National (Community following EU Accession)	No
Serbia	Copyright – International; Industrial Property Rights - National	Copyright – No; Industrial Property Rights – Yes.
Macedonia	National	No
Bosnia and Herzegovina	N/A	No
Turkey	National	No
Greece	Community	No
Slovenia	Community	No