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trade mark infringement proceedings subject to the free movement
of goods**

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his economic freedom. Any obligation to restrict each price comparison to the average prices of the products offered by the advertiser and those of rival products would be contrary to the objectives of the Community legislature.

82. In the words of the second recital in the preamble to Directive 97/55, comparative advertising must help demonstrate objectively the merits of the various comparable products. Such objectivity implies that the persons to whom the advertising is addressed are capable of knowing the actual price differences between the products compared and not merely the average difference between the advertiser's prices and those of its competitors.

83. As for the second part of the question, concerning the reproduction in the advertising message of the competitor's logo and a picture of its shop front, it is important to note that, according to the 15th recital in the preamble to Directive 97/55, use

of another's trade mark, trade name or other distinguishing marks does not breach that exclusive right in cases where it complies with the conditions laid down by the directive.

84. Having regard to the above considerations, the answer to the fourth question must be, first, that a price comparison does not entail the discrediting of a competitor, within the meaning of Article 3a(1)(e) of Directive 84/450 either on the grounds that the difference in price between the products compared is greater than the average price difference or by reason of the number of comparisons made. Secondly, Article 3a(1)(e) of Directive 84/450 does not prevent comparative advertising, in addition to citing the competitor's name, from reproducing its logo and a picture of its shop front, if that advertising complies with the conditions for lawfulness laid down by Community law. (...)"

EUROPEAN INTELLECTUAL PROPERTY LAW

Distribution of the burden of proof for the exhaustion defence in trade mark infringement proceedings subject to the free movement of goods

Comment on the ECJ decision of 8 April 2003 in *Van Doren*

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I. Introduction

The ECJ's decision in *Van Doren*¹ comments on the question of how the burden of proof for the exhaustion objection in trade mark infringement proceedings is to be distributed with regard to the impact of Community law. The national rules on the burden of proof are measured both against Articles 5 and 7 of the Trade Mark Directive² and the provisions on the free movement of goods contained in Articles 28 and 30 EC. The ECJ has no doubts as to the compatibility of the national rules with the directive.³ However, specific national rules of evidence may have to be adapted in view of the principle of the free movement of goods.⁴ This article concerns itself with the significance of this statement.

The ECJ's decision goes back to the referral of the German Bundesgerichtshof (Federal Court of Justice, "BGH") in the *Stüssy* case.⁵ The same problem had just cropped up before Austria's Oberster Gerichtshof (Supreme Court, "OGH"), which had deliberated whether it should request a preliminary

ruling from the Court of Justice on the question of the concrete allocation of the burden of proof for the exhaustion objection in a trade mark infringement proceeding. However, the OGH merely determined that the rule on the burden of proof was not the subject matter regulated by the Trade Marks Directive. There was consequently no basis for a referral to the ECJ.⁶ A possible conflict with the free movement of goods was not even considered.

It is in fact surprising that the BGH sees itself as occasioned to call into question the compatibility of national rules on the burden of proof for exhaustion objections with Articles 28 and 30 EC and therefore ask the ECJ for a preliminary ruling. However, the actual allocation of the burden of proof can indeed run into conflict with the free movement of goods. This allocation has an impact on the relationship between trade mark law and free trade. The mechanics only become clear upon a second look. Before evaluating the Court's decision, the ways in which the application of the rules on the burden of proof can affect the relationship between trade mark law and free trade must first be taken into account.

II. Trade mark law and free trade

1. The trade-off

Trade mark law grants trade mark proprietors the right to

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¹ ECJ 8 April 2003 – C-244/00 – *Van Doren + Q. v Lifestyle sports + sportswear, Michael Orth*, reprinted in this issue at p. 147 – 150.

² First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks as amended by the Agreement on the European Economic Area of 2 May 1992 ("Trade Mark Directive").

³ *Van Doren* (*supra* note 1), paras 32-36.

⁴ *Van Doren* (*supra* note 1), para. 37 et seq.

⁵ BGH (D) 11 May 2000 – *Stüssy*, extracted in [2000/01] EuLF (E) 28 et seq. = [2000] GRUR 879-882.

⁶ OGH (A) 15 February 2000 – *BOSS Eyewear*, extracted in [2000/01] EuLF (E) 33 et seq.

prevent the use of the mark or a similar sign for identical or confusingly similar products.⁷ The farther this right goes, the more it can hinder free trade; the weaker it is, the less restricted free trade can develop. Trade mark rights – just like any other intellectual property protection – are thus in a tense relationship with the free movement of goods enshrined in Article 28 EC. It is an important task in terms of legal politics to undertake a careful balancing of these opposing interests.

2. Exhaustion and free movement of goods

Article 28 EC prohibits under the category of “measures having equivalent effect” those national laws that entitle the holder of the protective right the possibility of obstructing goods traffic among the EU Member States. The trade mark right cannot thus carry on unfettered; otherwise the owner of the right could control every movement of a product distributed under the trade mark. The marketability of branded goods is first established through the principle of exhaustion: Once goods have been placed on the market within the EEA under the trade mark by the proprietor or with the proprietor’s consent, the right to prevent third parties from using the mark for these goods is exhausted.⁸

3. Implications of the rules on the burden of proof

If the alleged infringer raises the objection of exhaustion during the proceedings, it must be determined whether the goods were placed on the market within the EEA by the trade mark owner or with the owner’s consent. The BGH views exhaustion as an objection⁹ – and not a negative definitional element,¹⁰ so that under German law the defendant in the infringement proceedings must prove the conditions of the existence of exhaustion. The defendant can only prove exhaustion by disclosing the source from which he obtained the goods. This is not unproblematic, however: If the goods have already been sold numerous times, he will hardly be able to name other individuals in the distribution chain for lack of contractual relations and consequently fail with the exhaustion objection. Furthermore, revealing his suppliers – if this is at all possible – could lead to the trade mark owner exploiting this information to his own benefit by integrating these suppliers into his own distribution system. The defendant finds himself in a dilemma: By not identifying his suppliers, he loses the lawsuit; by divulging his suppliers, he loses them to the trade

mark proprietor. The proprietor can then proceed concertedly against disloyal distributors and fill in gaps in his distribution system – enabling him to control markets and partition them from one another.¹¹ It becomes clear that although this rule on the burden of proof may strengthen the trade mark right, it has detrimental effects for free trade.

If, in contrast, the trade mark owner bears the onus of proving that his rights are not exhausted, he must either document that the goods held by his rival do originate from his own distribution system at all – which in effect boils down to verifying the system’s imperviousness – or demonstrate that the re-imported goods were only destined for markets outside the EEA. He is disadvantaged in both cases: Bringing legal actions becomes more cumbersome as the proprietor of the trade mark will have to introduce control systems to identify his products. He would also be obliged to disclose his own business structures – virtually an invitation for fishing expeditions. This rule on the burden of proof thus leads to a weakening of trade mark rights in support of free trade.

III. The ECJ’s compromise

In *Van Doren*, the ECJ arrived at a compromise between the two previously mentioned possibilities for allocating the burden of proof. As a basic principle, the ECJ considers a national evidentiary rule to be consistent with Community law even when the prerequisites for the exhaustion must be established by defendant infringer. Articles 28 and 30 EC may however require that this rule of evidence be qualified in the interest of the free movement of goods. This qualification should not result in a complete reversal of the burden of proof. This burden is incumbent on the trade mark proprietor only as to one element of exhaustion – namely that the products were placed on the market by himself or with his consent *outside the EEA*. Should he succeed in proving this, the defendant then bears the burden for the second element of exhaustion – namely that the proprietor *consented* to the distribution of the products in the EEA.¹²

The ECJ notes that such a modification becomes *particularly* necessary when the trade mark owner places his products on the market in the EEA using an exclusive distribution system. However, the defendant must first demonstrate that there is a real risk of partitioning of national markets should he assume the burden of proof.

With this evidentiary rule the ECJ partly incorporates the requirements put forward by the Advocate General concerning the rule on the burden of proof in the interest of the free movement of goods. The Advocate General maintained that it was first necessary to ensure that the distribution of the burden of proof did not give the trade mark proprietor an opportunity to partition national markets and consequently per-

⁷ Article 5(1) of the Trade Mark Directive (*supra* note 2); § 14(2) MarkenG; cf. Sections 9 and 10 of the Trade Marks Act (UK) 1994.

⁸ Article 7(1) of the Trade Mark Directive (*supra* note 2); § 24(1) MarkenG; cf. Section 12(1) of the Trade Marks Act (UK) 1994.

⁹ BGH (D) (*supra* note 5), [2000] GRUR 879, 880 et seq.; see also *Fezer*, Markenrecht, 3rd ed., Munich (D), 2001; § 24 MarkenG, para. 58 a and b.

¹⁰ This is not uncontroversial in Germany. The lower court accepted with regard to exhaustion that the defendant must prove consent. Exhaustion is thereby qualified as a negative factual element. To this effect, also OLG Hamburg (D), [1998] NJW-RR 402; *Ingerl/Rohnke*, Markengesetz, Munich (D), 1998, § 24, para. 15; *Mulch*, Der Tatbestand der markenrechtlichen Erschöpfung, Cologne (D), 2001, at 129 et seq.; the OGH (A) (*supra* note 6) also makes this assumption. In the *Stüssy* decision in which the reference was made, the BGH decided for the first time on the controversial relationship between Article 14(2) MarkenG (corresponding with Article 5 of the Trade Mark Directive) and Article 24 MarkenG (Article 7 of the Trade Mark Directive).

¹¹ To the misgiving of the BGH (D) (*supra* note 5), [2000/01] EuLF (E) 28; [2000] GRUR 879, 881.

¹² The ECJ only recently put forward an evidentiary rule for the “consent” element of exhaustion in its *Davidoff* judgment; see ECJ 20 November 2001 – C-414/99 to C-416/99 – *Zino Davidoff v A & G Imports, Levi Strauss & Co. v Tesco Stores and Levi Strauss & Co. v Costco Wholesale*, para. 54.

petuate price differences among the Member States. Secondly, the giving of evidence by the defendant should not be made impossible or so difficult that he is able to prove exhaustion only under unreasonable conditions, in particular by revealing his supply sources with the consequent risk of having them cut off.¹³

The ECJ fulfilled only the first of these two recommendations. With its choice of the word “particularly”, the ECJ signals that modifications are necessary not only where there is an exclusive distribution system, but also in comparable constellations presenting a real risk of market partitioning. In contrast, the second goal was not adopted by the ECJ. Unlike the Advocate General, the ECJ deems it not sufficient in itself that economic or actual harms exist for the defendant as a consequence of the burden of proof. According to the ECJ’s decision, the fact that the proof is impossible – such as when other individuals in the distribution chain are not known – is taken as being just as irrelevant as the risk that the source of supplies will dry up when the proof of exhaustion necessitates revealing them to the proprietor of the trade mark.

IV. Assessment

The ECJ did not use the case as an occasion to clarify the relationship between Articles 5 and 7 of the Trade Mark Directive, which could have resulted in uniform standards for rules on the burden of proof at the national level. In fact, the BGH did not refer a question on the connection between these two provisions.¹⁴ Rather, it gave its own interpretation of the phrase “ohne seine Zustimmung” (“without his consent”) in § 14(2) of the German law on trade marks (MarkenG) (corresponding to Article 5(1) of the Directive) as a negatively formulated definitional element, whereas exhaustion under § 24 MarkenG (Article 7 of the Directive) is considered to be an objection.¹⁵ The ECJ consequently limits itself to the sole issue of determining whether a national rule imposing the burden of proof for the conditions of exhaustion on the defendant is compatible with the directive. This section will discuss the evidentiary rule drawn up by the ECJ with an eye to the free movement of goods, taking into account the effects of the rule and its significance in the tug-of-war between the free movement of goods and the protection of intellectual property.

1. Modification in the event of a real risk of market partitioning

Restrictions on the free movement of goods find justification under the first clause of Article 30 EC on grounds of the protection of industrial and commercial property, which also includes trade mark rights. According to the ECJ’s established case law, the only national restrictions that are permissible are

those which are justified for the purpose of safeguarding rights which constitute the specific subject matter of the intellectual property right involved.¹⁶ In such cases it must be determined whether the exception to the exception contained in the second clause of Article 30 EC applies. This provision sets limits for those admissible restrictions (rules protecting the specific object of the relevant intellectual property right): Cases of arbitrary discrimination or a disguised restriction on trade between Member States are not permitted.

There remain for the ECJ two legal solutions for modifying the national rule on the burden of proof in instances of abuse. The Court may either classify the rule as not pertinent to the specific subject matter of the protected right or it affirms the exception to the exception in the second clause of Article 30 EC. The Court does not explicitly raise either of these solutions, instead offering the general observation that “the requirements deriving from the protection of the free movement of goods enshrined, *inter alia*, in Articles 28 EC and 30 EC may mean that that rule of evidence needs to be qualified.”¹⁷ With respect to detriments which may possibly arise for the free movement of goods and the defendant infringer, the ECJ concludes without any further systematic references that “it is for the proprietor of the trade mark to establish that the products were initially placed on the market outside the EEA by him or with his consent.”¹⁸ The dogmatic approach for the construction of the shift in the burden of proof is thereby not easily comprehended. To this extent, the concerns of *Fezer* still point towards classifying procedural law generally under the Community law reservation on the free movement of goods.¹⁹ Freed from any concrete dogmatic reference, the ECJ’s statement shows no reliable self-restraint in this regard. However, the Court’s evidentiary rule is in its result not to be objected to insofar as a real risk of market partitioning exists. Each of the possible solutions will therefore be presented in the following section.

Its existence alone was counted by the ECJ for a long time as the specific subject matter of a protected right, but not, however, provisions over its exercise.²⁰ This delimitation proved itself impracticable and thus has long since been abandoned by the ECJ.²¹ In the ECJ’s formulation, the specific subject matter of the trade mark right is rather “the guarantee that the owner of the trade mark has the exclusive right to use that trade mark, for the purpose of putting products protected by the trade mark into circulation for the first time, and is therefore intended to protect him against competitors wishing to take advantage of the status and reputation of the trade mark by

¹³ Opinion of the Advocate General *Stix-Hackl* of 18 June 2002 in Case C-244/00.

¹⁴ For criticism of the BGH on this point, see Opinion of the Advocate General (*supra* note 13), para. 45.

¹⁵ BGH (D) (*supra* note 5); on the controversial relationship between the provisions in Germany, see *supra* note 10.

¹⁶ ECJ 8 June 1971 – 78/70 – *Deutsche Grammophon v Metro*; ECJ 23 May 1978 – 102/77 – *Hoffmann-La Roche v Centrafarm*; ECJ 11 November 1997 – C-349/95 – *Loendersloot v Ballantine*; ECJ 16 July 1998 – C-355/96 – *Silhouette International Schmied v Hartlauer*; for an in-depth discussion, see *Fezer* (*supra* note 9), § 24 MarkenG, para. 75 et seq. and *Sack*, Die Erschöpfung von gewerblichen Schutzrechten und Urheberrechten nach europäischem Recht, [1999] GRUR 193, particularly fn. 4.

¹⁷ *Van Doren* (*supra* note 1), para. 37.

¹⁸ *Van Doren* (*supra* note 1), para. 41.

¹⁹ *Fezer* (*supra* note 9), § 24 MarkenG, para. 58 e.

²⁰ ECJ 8 June 1971 – 78/70 – *Deutsche Grammophon v Metro*; ECJ 31 October 1974 – 15/74 – *Centrafarm v Sterling Drug*.

²¹ Since ECJ 17 October 1990 – C-10/89 – *Hag II*.

selling products illegally bearing that trade mark.”²² Thereunder falls only the right to first market the product; rules that provide for an exclusive right after the product has been placed on the market in a Member State with the owner’s permission do not belong to the specific subject matter. The free movement of goods demands then an exhaustion of these rights.²³ The rule on the burden of proof at issue in the instant case strengthens the trade mark right on the occasion of the initial distribution. It is therefore possible to understand it as a provision in the area of the specific subject matter of the protected right. The rule on the burden of proof can thereby be accorded priority over the requirements of the free movement of goods. However, if the rule on the burden of proof provides no exception for cases of abuse and increases the danger that the trade mark right will be instrumentalised to achieve an artificial fragmentation of the market, the interest of the trade mark proprietor in a strong protection is no longer justified. Potential abuses can therefore be seen as not being pertinent to the specific subject matter of the protective right.

However, it is preferable to contain the danger of market control in the context of the second clause of Article 30 EC.²⁴ On the one hand it prevents the already disputed extent of the specific subject matter of the protective right from becoming more diffuse. On the other hand the provision is tailored to the scope of the evidentiary rule provided for by the ECJ: The provision covers the abusive exercise of the protective right that contributes to the artificial partitioning of markets between the Member States.²⁵ This is the case when the marketing strategy of the trade mark proprietor is not objectively justified, but rather a measure for arbitrary segmentation of the markets.²⁶

Regardless of the failure to clarify its basic rule for the restriction of the first clause of Article 30, it is to be welcomed that the ECJ does not merely confine itself to a determination of the incompatibility of the disputed evidentiary rule in cases of abuse. Instead, the Court defines explicitly the distribution of the burden of proof and the circumstances under which the rule is to be qualified. As concerns the question of authority, it is debatable whether the ECJ can in fact be the competent body for establishing positive procedural law. As long as harmonisation has not taken place in this area, one must resign oneself to this. Nonetheless, the ECJ did not remove all legal uncertainty as to the application of the new evidentiary rule. Additional case law will have to set the conditions, such as when precisely a real risk of the partitioning of national markets is present or which constellations resemble the placing on the market via an exclusive distribution system. Indeed, the ECJ’s new evidentiary rule creates a need of “satellite litigation”.

2. No modification in the absence of abuse

It is also a welcome fact that the ECJ confined the modification to those cases in which the third party can demonstrate the existence of a real risk of the partitioning of national markets. As just explained, it does not explicitly emanate in the absence of an express reference in the judgment to the second clause of Article 30 EC if the modification should actually come into play only under the requirements of that provision. The requirement that a real risk of the partitioning of national markets must be demonstrated is not congruent with the formulation of Article 30, clause 2 EC or the relevant case law.²⁷ In my opinion, the ECJ’s formulation is more open. The ECJ avoids using concepts that make abusive or arbitrary conduct a requirement. It is therefore sufficient if the risk of market partitioning occurs merely as a reflex of otherwise neutral business conduct. Moreover, it should be noted that only a *real risk* must be present and therefore a certain probability of the causal incidence of a trade restriction will suffice. It is therefore my opinion that the element “real” is hardly capable of restricting the scope, because it does not arrive at a precise statement of the degree of risk required.

The next sections will discuss three factors that militate against questioning the national rule on the burden of proof when an abusive exercise of a protected right is not established.

a) Erosion of the autonomy of national proceedings

The ECJ’s decision encroaches directly upon the rules of national procedural law. It is thereby in contradiction with the principle of national procedural autonomy. This principle means that it is up to the Member States to determine the ways in which the interests of persons are to be protected that derive rights from the direct effect of Community law.²⁸ From this it follows that the countries retain jurisdiction over the selection and design of the procedure as well as the provision of remedies, provided that the national procedural law does not provide for any criteria for application that are discriminatory or practically impossible to fulfil.²⁹ With time, this principle has become increasingly softened by the ECJ itself. In terms of Article 10 EC, national procedural law is subject to the effective implementation of Community law.³⁰

²² ECJ 31 October 1974 – 16/74 – *Centrafarm v Winthrop*; see also ECJ 11 July 1996 – C-427/93, C-429/93, and C-436/93 – *Bristol-Myers Squibb v Paranova*.

²³ *Hag II* (*supra* note 21).

²⁴ See *Fezer* (*supra* note 9), § 24 MarkenG, para. 58 e.

²⁵ *Bristol-Myers Squibb v Paranova*. (*supra* note 22).

²⁶ For a detailed discussion, see *Fezer* (*supra* note 9), § 24 MarkenG, para. 97 (with further references).

²⁷ See *supra* notes 25 and 26. See *Fezer* (*supra* note 9), § 24 MarkenG, para. 97 on the status of the debate on whether Article 30, clause 2 EC requires subjective, purposeful and final market behaviour by the trade mark proprietor, or whether only objective finality is sufficient.

²⁸ This mostly includes rights under the Community trade mark, but also rights under national trade mark laws, which follows from the Directive (see *supra* note 2).

²⁹ ECJ 16 December 1976 – 45/76 – *Comet BV v Produktschap voor Siergewassen*; ECJ 16 December 1976 – 33/76 – *Rewe-Zentralfinanz v Landwirtschaftskammer für das Saarland*; ECJ 12 June 1980 – 130/79 – *Express Dairy Foods*, para. 12; ECJ 7 July 1981 – 158/80 – *Rewe-Handelsgesellschaft Nord v Hauptzollamt Kiel*, para. 44; ECJ 21 September 1983 – 205/82 to 215/82 – *Deutsche Milchkontor v Germany*.

³⁰ ECJ 19 June 1990 – C-213/89 – *Factortame I*, para. 21; ECJ 14 December 1995 – C-430/93 and 431/93 – *Van Schijndel & Van Veen v Stichting Pensioenfonds voor Fysiotherapeuten*, para. 19; ECJ 14 December 1995 – C-312/93 – *Peterbroeck, Van Campenhout & Cie v Belgium*; see also ECJ 19 November 1991 – C-6/90 and C-9/90 – *Francovich and Bonifazi v Italy*; ECJ 5 March 1996 – C-46/93 and C-

In the *Van Doren* decision, the Governments of Germany and France as well as the Commission make reference to the principle of national procedural autonomy.³¹ The Advocate General accepts this as a starting point,³² whilst noting that the division between substantive law and evidentiary and procedural law is fluid.³³ Even when it is taken as a given that the Trade Mark Directive in general – and more particularly in Article 7 – does not concern rules on the burden of proof, the distribution of the burden of proof under national law can still be qualified since procedural provisions must be examined on the basis of primary law, taking into account the substantive legal provisions of the Directive.³⁴ The generalisation of this reasoning does not, however, stem the erosion of national procedural autonomy.

b) Erosion of spatially limited exhaustion

Whether Member States are free under the Trade Mark Directive to connect exhaustion not only to the satisfaction of conditions for exhaustion within the EEA but rather world-wide was a subject of controversy for a long time.³⁵ The ECJ has in the meantime dismissed concerns against an exhaustion limited to the existence of the requirement within the EEA.³⁶ Branded goods that were placed on the market by the trade mark proprietor outside the EEA are therefore still not freely tradable within the EEA.³⁷

In terms of the evidentiary rule put forward in the *Van Doren* decision – provided that it is applicable – exhaustion is invariably to be accepted when the trade mark owner is unable to prove that the goods were placed on the market outside the EEA by him or with his consent. It follows that in many cases concerning the placing of products on the market outside the EEA and for which there has in fact been no exhaustion, an original placing on the market within the EEA is evidenced, with the consequence that exhaustion is to be accepted. Goods reimported from outside the EEA are thus qualified by an assumption of the placing on the market within the EEA, constituting exhaustion, the consequences of which is nothing more than a presumption of world-wide exhaustion.

Misgivings were therefore already expressed before the ECJ

48/93 – *Brasserie du Pêcheur v Germany* and *Factortame III*; ECJ 8 October 1996 – C-178/94, 179/94, and 188-190/94 – *Dillenkofer*.

³¹ See Opinion of the Advocate General (*supra* note 13), paras 34-39.

³² Opinion of the Advocate General (*supra* note 13), para. 40.

³³ Opinion of the Advocate General (*supra* note 13), paras 41, 59 et seq. She refers in this connection to the *Davidoff* judgement (*supra* note 12).

³⁴ Opinion of the Advocate General (*supra* note 13), para. 66.

³⁵ See *Harte-Bavendamm/Scheller*, Die Auswirkungen der Markenrechtsrichtlinie auf die Lehre von der internationalen Erschöpfung, [1994] WRP 571-577; *Sack* (*supra* note 16), [1999] GRUR 193, 200 et seq.; *Fezer* (*supra* note 9), § 24 MarkenG, paras 13-16 d; *Gross*, Trade Mark Exhaustion: The U.K. Perspective, [2001] EIPR 224, 229; *Bentley/Sherman*, Intellectual Property Law, Oxford (GB), 2001, Ch. 40, No. 8.4.

³⁶ ECJ 16 July 1998 – C-355/96 – *Silhouette International Schmied v Hartlauer* and ECJ 1 July 1999 – C-173/98 – *Sebago v G-B Unic SA*; see also *Davidoff* (*supra* note 36), paras 32, 33.

³⁷ The ECJ in *Van Doren* (*supra* note 1), para. 25 et seq. also confirmed the fundamental principle of Community-wide, i.e. EEA-wide exhaustion.

decision: The reversal of the burden of proof could lead to an erosion of the exhaustion limited to the EEA.³⁸ The *Van Doren* decision is thus of fundamental relevance for the occasionally heated discussion concerning the spatial applicability of the principle of exhaustion. The judgment would have accommodated proponents of a world-wide exhaustion, had the ECJ not linked the evidentiary rule with the restrictive requirement of a real risk of market partitioning. For the new evidentiary rule may have a provocative impact on parallel trade: Reimports promote “intra-brand” competition and undermine feared monopolistic pricing strategies by the trade mark proprietor. This thwarts a partitioning of the market,³⁹ which in turn demonstrates the tendency of the decision to strengthen free trade.

Opponents of a world-wide exhaustion might fear competitive disadvantages such as the migration of industry to countries with low wages, the concentration of corporate power in multinational corporations or even the crowding out of medium-sized businesses.⁴⁰ Such concerns find their basis in the tendency of the decision to weaken trade mark rights.

c) Weakening of trade mark rights

In order to assess the strengthening of free trade at the cost of the trade mark right, it is useful to make reference to the function of this right and its special features in relationship to other protective rights.

The function of a trade mark is not limited to a reference to its origin.⁴¹ The interests of the trade mark proprietor also warrant protection. The mark as bearer of an image epitomises the good will of the company and serves its owner above all for advertising purposes. Moreover, the mark offers its proprietor a protection of its capital investment in the manufacture and marketing of its product.⁴² A strong trade mark right is of great significance precisely for small-scale companies and new market participants. Financially strong, established competitors in contrast can sell their products simply by aggressive advertising and in case of need also without trade mark protection. Against this background, the weakening of trade mark rights requires a compelling rationale. Added to this is the fact that trade mark law does not protect anything that at the same time should be available to the general public as common property. In contrast to the technical protective rights, the trade mark right does not endow a monopoly on an

³⁸ See BGH (D) (*supra* note 5), [2000] GRUR 879, 881.

³⁹ On the advantages of world-wide exhaustion, see *Gross* (*supra* note 35), [2001] EIPR 224, 228; *Ebenroth*, Gewerblicher Rechtsschutz und Europäische Warenverkehrsfreiheit, Heidelberg (D), 1992, at 27 et seq., 51 et seq.

⁴⁰ For references to the advantages of a Europe-wide exhaustion, see *Fezer* (*supra* note 9), § 24 MarkenG, para. 15 and *Sack* (*supra* note 16), [1999] GRUR 193, 201 et seq. The BGH was the first national supreme court to implement the principle of Europe-wide exhaustion; BGH (D) 14 December 1995 – *Gefärbte Jeans*, BGHZ 131, at 308, 312 = [1987] GRUR, at 438.

⁴¹ The first and foremost function of a trade mark that in accordance with traditional doctrine enjoyed legal protection, was the indication of trade origin, see *Fezer*, Was macht ein Zeichen zur Marke?, [2000] WRP 1, 3.

⁴² For a detailed account of the functions of a trade mark, see *Fezer* (*supra* note 41), at 1 et seq.

idea that in and of itself has an irreplaceable interest for all. It is a mere labelling right that is only of value when the marketing strategy behind it and the quality associated with the product convey a special reputation. The fruits of a good reputation belong by right exclusively to the trade mark proprietor. All others have equal possibilities to establish a reputation for their marks. A weakening of the trade mark right is thus more problematic to justify than occasional incursions into technical protective rights.⁴³ Therefore the trade mark right also enjoys an important position – even in relation to the free movement of goods.

d) Evaluation

In view of these considerations, it does not seem imperative that the rule on the burden of proof be made generally and unilaterally dependent on the requirements of the free movement of goods.⁴⁴ It is to the ECJ's credit that it limited the scope of the evidentiary rule to cases in which a real risk of market partitioning is proven. It would have been desirable if the formulation had been more clearly conformed to the requirements under the second clause of Article 30 EC and the related case law so that no doubts may arise with respect to its applicability to distribution systems that, while not abusive, nevertheless have the potential of restricting the free movement of goods.

The decision is also to be welcomed in the extent to which it does not want to change the rule of the burden of proof for general considerations of equity or with respect to a design of national evidentiary law which is potentially disadvantageous for the parties. A tendency in this latter direction can perhaps be gathered from the Advocate General's opinion.⁴⁵

3. Doubt as to the pertinence of Article 28 and 30 EC

Without wanting to relativise the positive aspects of the decision, the following section will put forward some basic points for discussion. It is questionable whether the rule on the burden of proof can lead to an impairment of the free movement of goods of relevance for Community law in the first place. And in the event this would indeed be the case, it is questionable whether it was necessary to take this as an occasion to redesign the distribution of the burden of proof.

As already mentioned, there is the danger that the German rule on the burden of proof will assist the trade mark proprietor in creating an impervious distribution system if the alleged infringer discloses his sources of supply. The trade mark proprietor thereby gains control over the market, with the ability to regulate trade and partition the market against competition. The effect of a Europe-wide exhaustion of trade mark rights is

much less pronounced for market partitioning within the common European market than it is for a partitioning of this market from the market outside the EEA. It is however not the task of Article 28 EC to prevent this. However, the BGH fears a partitioning between the national markets within the common European market as a consequence of the rule on the burden of proof.⁴⁶ Article 28 EC only applies as a result of this assumption.

For a long time the definition of the free movement of goods by the ECJ was marked by an ever more extensive expansion of its scope. Even the definition of what constitutes a *good* and which therefore enjoys protection was kept wide open.⁴⁷ The biggest step towards a broad understanding is the general definition of "measures having equivalent effect" within the meaning of Article 28 EC by the so-called *Dassonville* formula,⁴⁸ pursuant to which a measure having equivalent effect – such as an import restriction – includes "all trading rules enacted by Member States which are capable of hindering, directly or indirectly, actually or potentially, intra-community trade". It is largely on account of this broad definition that the distribution of the burden of proof can be subsumed under Article 28 EC. This is because the feared partitioning between national markets by means of the contractual regulation of distribution channels would only randomly refer to specific national markets as a natural consequence of private contractual autonomy. Such conduct is at best merely to be considered as an indirect and potential side-effect of the national rule on the distribution of evidence. It thus concerns a national regulation which only just falls under the scope of the *Dassonville* formula.

With the decision in *Cassis*, the scope of Article 28 EC was extended to non-discriminatory indistinctly applicable measures.⁴⁹ On the other hand, the *Keck* decision was intended not only to introduce better limiting criteria, but also to narrow the immensely wide scope of Article 28 EC.⁵⁰ Yet the rule on the burden of proof is not thus removed from the scope of Article 28 EC: It is a rule that concerns the exercise of the trade mark right. In line with the *Keck* case law, it is to be classified as a product requirement rule and as such continue to fall under Article 28 EC. This result particularly reveals the marginal restrictive effect of the *Keck* decision, from which a basic turn of the trend could not be derived.⁵¹

This development led much more to the abolition – without

⁴⁶ BGH (D) (*supra* note 5), [2000] GRUR 881.

⁴⁷ See the general definition in ECJ 10 December 1968 – 7/68 – *Commission v Italy*; the clarification in ECJ 9 July 1992 – C-2/90 – *Commission v Belgium* (waste); also the expansion in ECJ 15 July 1964 – 6/64 – *Costa v ENEL* (electricity); ECJ 12 July 1973 – 2/73 – *Geddo v Ente Nazionale Risi* (transit goods).

⁴⁸ In accordance with the decision ECJ in *Dassonville*; see ECJ 11 July 1974 – 8/74 – *Procureur du Roi v Benoît and Gustave Dassonville*.

⁴⁹ ECJ 20 February 1979 – 120/78 – *Rewe-Zentrale v Bundesmonopolverwaltung für Branntwein* ("*Cassis de Dijon*").

⁵⁰ ECJ 24 November 1993 – C-267/91 & C-268/91 – *Criminal proceedings against Keck and Mithouard*.

⁵¹ For further discussion, see *Weatherill*, After *Keck*: Some Thoughts on how to Clarify the Clarification, [1996/33] CMLRev 885; see also *Craig/de Búrca*, *Keck and the Scope of Art. 28: The Continuing Dilemma*, in: EU Law: Text, Cases, and Materials, 2nd ed., Oxford (GB), 1998, at 626 et seq.

⁴³ This is systematically backed up by the fact that rights accruing under a trade mark – unlike those under a patent, for instance – may be extended without restriction.

⁴⁴ Also expressing substantial reservations, see *Fezer* (*supra* note 9), § 24 MarkenG, para. 58 e.

⁴⁵ Opinion of the Advocate General (*supra* note 13), para. 101: "[I]t is necessary to ensure that such national rules (...) do not make it impossible for the defendant trader to prove exhaustion or so difficult that he is able to prove exhaustion only under unreasonable conditions (...)."

substitution – of various forms of national regulation having some (if only knee-jerk) effect on the free movement of goods within the Community. A shift in favour of free trade and market liberalisation is to be observed. Deregulation, legal uncertainty and disadvantages for consumer protection will result if the inapplicable regulations are not replaced by positive ones conforming with EC law.⁵² It should be noted against this background that with its *Van Doren* decision, the ECJ has at any rate not counteracted the tendency towards the expansion of the areas of influence of EC law. The Court could just as well have classified the interaction between the rule on the burden of proof and the free movement of goods as overly vague and multifaceted and left the national procedural law untouched as immune to EU law with reference to the principle of national procedural autonomy.

4. Inconsistency with the protection of selective distribution systems under antitrust or competition law

The ECJ qualifies the application of the evidentiary rule with the bringing of goods on to the market by means of an exclusive distribution system. This is understood as part of the manufacturer's organisation which facilitates both the qualitative and quantitative control of its product sales through individual contractually bound distributors. Ideally, third parties cannot penetrate this system and go on to distribute the branded goods under their own conditions and quality specifications, thereby circumventing those set by the manufacturer. This is the so-called closed or impervious distribution system.

The strategy followed in the course of such a distribution system may be aimed at the partitioning of distribution markets in order to realise the best possible price within the respective market. This is naturally at odds with the free movement of goods and thus in principle falls under the scope of Article 81 EC.

Nevertheless, for reasons based on competition policy and methodical issues, the fact must be criticised that the ECJ justifies the evidentiary rule with a risk of market partitioning as the consequence of an exclusive distribution system. It is not necessarily undesirable that a trade mark proprietor be able to close the gaps in its distribution chain as a result of the allocation of the burden of proof. Selective distribution systems can actually have numerous advantages for consumers. Practical benefits include improvements in the areas of quality, service and guarantee as well as increased competition between trade marks, i.e. the so-called inter-brand non-price competition. Intangible advantages can be gained through precise marketing. The trade mark proprietor can for instance define and maintain an "aura of luxury", an ambience within which its goods are brought on the market.⁵³

Selective distribution systems are therefore admissible and even worthy of legal protection under certain conditions. In view of the said advantages, the ECJ confirmed in *Metro II* that some limitations of intra-brand price competition are in-

deed offset by enhanced competition in quality and customer services.⁵⁴ Thus, advantageous distribution networks do not necessarily fall under the ambit of Article 81 EC even if they can inhibit trade between Member States.⁵⁵

In practice it often happens that an unauthorised third party enters the network, even in closed distribution systems – for example, by fraudulently inducing an authorised dealer to enter into a contract relationship, by overtly persuading a breach of contract or even by exploiting an existing breach of contract. Protection against unauthorised infiltration by third parties is thus provided for under both trade mark and competition law.⁵⁶

Fezer takes this one step further and advocates the protection of distribution networks as corporate activities provided they are not objectionable under competition rules.⁵⁷ Instead of merely discrediting the said systems as anticompetitive, their intellectual property law character should be recognised as quality rivalry in terms of non-price competition.⁵⁸

Against this background, the basic conflict underlying the order for reference of the BGH can be disputed: Why at all should the party against whom an infringement action has been instituted be granted protection against disclosing his source of supply? This party is an outsider who would not even be able to sell trade marked goods if a member of the exclusive distribution network had not sold him the branded goods either in breach of contractual stipulations or due to a misrepresentation. Moreover, it is understandable that a trade mark proprietor would attempt to close such gaps in his distribution chain, since these are in practice often due to contractual breaches. If one has accepted as a starting point the permissibility of specific distribution systems and the value in protecting them because of their advantages for competition, then the trade mark proprietor's attempts to fill existing gaps cannot be classified as anticompetitive or restricting the free movement of goods in order to justify a redistribution of the burden of proof.

It is also debatable whether the protection of the free movement of goods and competition should be guaranteed by the promotion of third-party competition and the attendant incentives for breach of contract. Competition and anti-trust measures provide the regulatory control needed to avoid the escalation of selective distribution systems and thereby an obstruction of the free movement of goods.⁵⁹ These measures

⁵⁴ ECJ 22 October 1986 – 75/84 – *Metro II*, para. 45; see ECJ 25 October 1977 – 26/76 – *Metro I*, para. 21; at length, *Sack* (*supra* note 53), [2000] WRP 447.

⁵⁵ ECJ 11 December 1980 – 31/80 – *L'Oréal*; *Sack* (*supra* note 53), [2000] WRP 447 et seq. with further references.

⁵⁶ In detail, *Sack* (*supra* note 53), [2000] WRP 447, 448 et seq.

⁵⁷ *Fezer*, Vertriebsbindungssysteme als Unternehmensleistung, [1990] GRUR 551, 565.

⁵⁸ *Fezer*, Wettbewerbsrechtlicher und markenrechtlicher Bestandsschutz funktionsfähiger Distributionssysteme selektiven Vertriebs vor Außen-seiterwettbewerb, [1999] GRUR 99, 102; *Fezer* (*supra* note 57), [1999] GRUR 551, 554.

⁵⁹ Primarily, Regulation No. 17 of the Council of 6 February 1962 (First Regulation implementing Articles 85 and 86 of the Treaty) serves to implement the competition rules laid down in Article 81, 82 EC. In accordance therewith, a third party can apply to the Commission for the termination, i.e. declaration of an infringement. The Commission can thereupon by decision compel the party concerned to put an end to the

⁵² For a detailed discussion, see *Weatherill/Beaumont*, EU Law, 3rd ed., London (GB), 1999, 599–604.

⁵³ See *Sack*, Vertriebsbindungen und Außenseiter, [2000] WRP 447.

serve to prevent fraudulent use, which at the same time restricts the free movement of goods.

5. Doubts as to the ECJ's starting point

In view of the availability of anticompetitive correctives, it is questionable whether the concrete distribution of the burden of proof is indeed a state measure falling under the ambit of Article 28 EC. Rather, any such regime that generally allows the proliferation of selective distribution systems which could interfere in the market requires modification.

The rule on the burden of proof does not explicitly allow an increase of selective distribution systems or their use in a way that hampers the free movement of goods. It merely leaves open the possibility. It follows that there is no direct causality. One cannot restrict all basic conditions for trade or adjudication with the mere argument that there is a real possibility for misuse. This actual and latent risk is already acknowledged by the recognition of protected selective distribution systems. It is not understandable why the risk of misuse becomes relevant in a European law context if an exclusive distribution system can be further defended or extended due to a specific rule on the burden of proof.

V. Conclusion

The ECJ has proposed a nuanced rule of evidence for cases presenting a real risk of market partitioning. Should this rule be applied, the free movement of goods is guaranteed at the cost of trade mark protection. If the scope of application of the evidentiary rule had rather been based expressly on the criteria set in the second clause of Article 30 EC, the solution would have been unequivocal and consistent with the legal scheme. The fact that the ECJ did not allow an application of the rule of evidence on grounds of fairness or equity is to be welcomed. Its application should in any event be restricted to the improper exercise of a protected right. A further limitation of the trade mark proprietor's rights is unnecessary.

Admittedly, the decision is at odds with the requirements for selective distribution systems under antitrust and competition law. Instead of questioning national evidentiary rules, the Court should principally have clarified the relationship between open competition and the movement of goods in terms of protected selective distribution systems. The necessary changes could then have been made at the (alleged) root of all evil: the admissibility of selective distribution systems. This, however, would have revealed the inconsistent appraisal; it would have therefore been unlikely (rightly so) for the ECJ to undercut its existing case law on the admissibility of selective distribution systems.

On the other hand, it could have been a more straightforward solution not to categorise the distribution of the burden of proof as restricting the free movement of goods, but rather

rely on antitrust measures for the prevention of market partitioning. At a European level, the development of procedural law rules should be reserved to the appropriate legislative organs in the long term. Article 65 EC provides for the necessary legislative authority in this area.⁶⁰

⁶⁰ At length, *Leible/Staudinger*, Article 65 of the EC Treaty in the EC System of Competencies, [2000/01] EuLF (E) 225-235; *Heß*, Die Europäisierung durch den Amsterdamer Vertrag – Chancen und Gefahren, [2000] NJW 23-32.

ECJ 8 April 2003 – C-244/00 – Van Doren + Q. GmbH v Lifestyle sports + sportswear Handelsgesellschaft mbH & Michael Orth Directive 89/104/EEC¹ Article 7(1) – Trade marks – Exhaustion of the right conferred by the trade mark – Evidence – Place where the goods are first placed on the market by the trade mark proprietor or with his consent – Consent of the trade mark proprietor to placing on the market in the EEA

A rule of evidence according to which exhaustion of the trade mark right constitutes a plea in defence for a third party against whom the trade mark proprietor brings an action, so that the existence of the conditions for such exhaustion must, as a rule, be proved by the third party who relies on it, is consistent with Community law and, in particular, with Articles 5 and 7 of First Council Directive 89/104/EEC. However, the requirements deriving from the protection of the free movement of goods enshrined, inter alia, in Articles 28 EC and 30 EC may mean that this rule of evidence needs to be qualified. Accordingly, where a third party succeeds in establishing that there is a real risk of partitioning of national markets if he himself bears that burden of proof, particularly where the trade mark proprietor markets his products in the European Economic Area using an exclusive distribution system, it is for the proprietor of the trade mark to establish that the products were initially placed on the market outside the European Economic Area by him or with his consent. If such evidence is adduced, it is for the third party to prove the consent of the trade mark proprietor to subsequent marketing of the products in the European Economic Area.

Facts: Stussy Inc., a company established in the United States, is the proprietor of the word and device mark 'Stüssy', which is registered in respect of clothing. Goods bearing this trade mark are marketed worldwide. They have no particular characteristic which would enable them to be recognised as having been allocated to a specific sales territory. Under a dealership agreement of 1 May 1995, Van Doren has exclusive distribution rights in respect of Stussy's products in Germany. Stussy authorised the claimant to bring legal proceedings in its own name to obtain injunctions against, and claim damages from, third parties for infringement of the trade mark. In each country of the European Economic Area ('EEA') only one exclusive distributor and gen-

infringement. In addition, fines or penalties may be imposed. See, furthermore, the limits set by the ECJ for market-partitioning distribution agreement clauses in its decision of 28 April 1998 – C-306/96 – *Javico v Yves Saint Laurent*. In German antitrust law, see also the prohibition on the abuse of vertical agreements under § 14 GWB.

¹ First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks (OJ 1989 L 40, at 1) as amended by the Agreement on the European Economic Area of 2 May 1992 (OJ 1994 L 1, at 3).