IV. Conclusion

As the Act moved swiftly through the Congress, civil liberties groups on the left and conservative political organizations on the right argued that the Act's provisions circumscribed privacy and personal freedoms more than necessary. Congress inserted the sunset provisions in response to these concerns. In four years, Congress will be forced to determine whether it struck the right balance between security and privacy with several parts of the Act. Hopefully Congress at that time will also review the impact of the provisions not subject to the sunset.
Other provisions, such as the amendments to the CFAA, are less controversial. These amendments should eliminate some of the ambiguities which led to abuse of this important statute.

ALAIN STROWEL *

Exhaustion: New Interpretation for Software Distribution?

A European notion of consent could determine the exhaustion of a copyright holder's distribution right

On November 20, 2001, the European Court of Justice (ECJ) issued an important ruling (ECJ, 20th November 2001, CRI 2002, 9 referred to hereinafter as the Davidoff decision) in three joined cases (cases C-414/99 to C-416/99) regarding the exhaustion of trade mark rights granted by the First Council Directive 89/104/EEC of December 21, 1988 to approximate the laws of the Member States relating to trade marks (hereinafter, the »Trademark Directive«). The judgment sheds new light on the issue of consent from which the exhaustion of the distribution right of the trade mark owner can be inferred. This decision, in particular in view of the facts of the case C-414/99 Zino Davidoff SA v. A & G Imports Ltd, could have implications on the issue of software distribution if the same principles were to apply in order to determine the exhaustion of the distribution right granted to the copyright holder under the 1991 Software Directive. More particularly, the Davidoff decision questions the approach adopted by the German Federal Supreme Court (BGH) in the Pitts decision (BGH, 6 July 2000 – I ZR 244/97, CR 2000, 651 with remarks by Witte) that ruled that a software manufacturer cannot enforce claims against a reseller who is not contractually bound to the manufacturer.

I. The Davidoff Case

1. Facts

The defendant, *A & G Imports Ltd* (»A & G«), imported products in the United Kingdom that were manufactured within the European Economic Area (the EEA), but were originally put on the market in Singapore by the plaintiff, *Zino Davidoff SA* (»Davidoff«), or with its consent (by a distributor). The distributor in Singapore first agreed to solely sell Davidoff products within a defined territory outside the EEA to local sub-distributors, sub-agents and retailers and, secondly, to impose in turn on those co-contractors a prohibition of resale outside the stipulated territory. That exclusive distribution contract was subject to German law (the latter aspect is to be stressed because the *Pitts* decision also concerns the interface between a European law issue of distribution/exhaustion and German rules on copyright contract law).
Davidoff sought summary judgment before the English courts against A & G for breach of its trade mark rights (see further § 7 and 9 of the decision). The UK High Court of Justice decided to stay proceedings and to request the Court of Justice to give a preliminary ruling on various questions relating to the circumstances under which consent to marketing could be inferred.

2. Precedents

At Community level, the rule of exhaustion is definitely not new as it was first developed by the ECJ on the basis of the provisions of the Treaty. Since the integration of the exhaustion rule in various sources of secondary Community legislation, among which in Article 7 of the Trademark Directive,[1] the ECJ solved a few remaining issues:

- *Silhouette* case (C-355/96, 1998 ECR I-4799): the main argument of the parallel importer was that Community-wide exhaustion is just a minimum, Member States being allowed to go further and

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1) According to Article 7 of the Trademark Directive, »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 [or, further to the adoption of the EEA Agreement, in a Contracting Party of the European Economic Area] under that trade mark by the proprietor or with his consent.«

apply the rule of international exhaustion; it was rejected by the Court;

- *Sebago* case (C-173/98, 1999 ECR I-4103): the (fairly poor) argument of the importer was that exhaustion applies if consent to market in the EEA has been given for the marketing of a type of products (model of trademarked shoes); the ECJ restated *Silhouette* and held that »consent« had to relate to each individual item of the product in respect of which exhaustion was pleaded.

The *Davidoff* case had to tackle the issue of »implied consent« that was not yet considered and had, first of all, to decide whether the notion of consent is a Community law issue or whether it is governed by national law (for ex. on contracts).

3. Notion of »Implied Consent«

The parallel importer, A & G, maintained that, having regard to the circumstances in which the goods were placed on the market in Singapore, their importation and sale was made, or should be deemed to have been made, with Davidoff's consent.

The ECJ first rules that the concept of »consent« of Article 7(1) is a Community law notion requiring a uniform interpretation by the Court (§ 43). Otherwise, the protection of trade mark owners could vary according to the Member States concerned.

Secondly, the ECJ decides that »*consent must be so expressed that an intention to renounce those rights [the exclusive rights which enable the trade mark owners to control the initial marketing in the EEA] is unequivocally demonstrated*« (§ 45). This demonstration will in principle result from an express statement of consent. However, according to the ECJ »*consent may, in some cases, be inferred from facts and circumstances prior to, simultaneous with or subsequent to the placing of the goods on the market outside the EEA which, in view of the national court, unequivocally demonstrate that the proprietor has renounced his rights*« (§ 46).

More importantly, the ECJ ruled that implied consent cannot be inferred from various facts, among which »*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* [i. e. German law], *the property right transferred includes, in the absence of such reservations, an unlimited right of resale or, at the very least, a right to market the goods subsequently within the EEA.*« (§ 60).

4. Enforceability of Sales Restrictions Against Third Parties

Lastly, the ECJ had to consider in the joined Cases C-415/99 and C-416/99, involving the imports of Levi Strauss jeans by Tesco and Costco, whether it is relevant »*that the authorised retailers or wholesalers have not imposed on their own purchasers contractual reservations setting out such opposition, even though they have been informed of it by the trade mark proprietor.*« (§ 62). This question is especially important regarding distribution because it raises the question whether a restriction imposed on the first purchaser to freely dispose goods, may be relied upon against a third party transferee. The ECJ stresses that if the preservation of the exclusive right cannot depend on the existence of an express prohibition of marketing (see »notion of consent« above), the maintaining of the right to control marketing is, *a fortiori*, not dependent »*on a repetition of that prohibition in one or more of the contracts concluded in the distribution chain*« (§ 64). Consequently, »*the national rules on the enforceability of sales restrictions against third parties are not, therefore, relevant to the resolution of a dispute between the proprietor of a trade mark and a subsequent trader in the distribution chain concerning the preservation or extinction of the rights conferred by the trade mark*« (§ 65).

II. Possible Impact on Software Distribution Cases

The judgment of the ECJ in the *Davidoff* case forces to reconsider the circumstances under which the distribution right of the software producer is exhausted according to Community and national law. In the *Pitts* case, the German Federal Supreme Court decided that a software producer such as Microsoft cannot enforce claims against a reseller who is not contractually bound to the producer if such a reseller sells OEM-software packages to end-customers without a PC – even though these are explicitly labeled only to be sold with a new PC. This conclusion was based on the opinion that the distribution right (»*Verbreitungsrecht*«) of the copyright owner is exhausted by the fact that the copies of the CD-ROMs are placed on the market with the consent of Microsoft by authorized replicators (ARs) and through subsequent transfers to Delivery Service Partners (DSPs), and from DSPs to OEMs.

1. Issue of Community Law

The *Davidoff* decision might have some impact on the interpretation of Article 4(c) of the Council Directive 91/250 of 14 May 1991 on the legal protection of software (hereinafter the »Software Directive«) according to which the exclusive rights of the right holder shall include the right to do or to authorize »*any form of distribution to the public, including the rental, of the original computer program, or of copies thereof. The first sale in the Community of a copy of the program by the right holder 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*«.

The reasoning of the German Federal Supreme Court was not based on a thorough interpretation of the notion of »consent« (which did not play the same pivotal role as in the *Davidoff* case), but rather on the existence of (initial) marketing in the form of a sale. According to the German Federal Supreme Court, when a sale occurs, the copyright owner definitely relinquishes control over the copy of the work. The definition of »sale« was not further analyzed by the German Federal Supreme Court, and the question of whether this notion of »sale« was to be interpreted under German law or Community law (through Article 4(c) of the Software Directive) was not properly addressed. There are arguments that would lead to the conclusion that the question whether or not a »sale« has taken place should not be determined by copyright law but by relevant contract law of each Member State. However, even if the definition of »sale« remains outside the scope of Community law, the *Davidoff* ruling clearly states that the notion of »consent« to sale/marketing is a European law concept that requires a uniform interpretation throughout the Community. At least that is the ruling regarding Article 7(1) of the Trademark Directive, but the existence of an equivalent provision on exhaustion in the Software Directive should in principle lead to the same conclusion in the field of copyright. In the *Davidoff* case, the Advocate General also defended an autonomous Community interpretation of the concept of consent under Article 7(1) of the Trademark Directive. One of the arguments made by the Advocate General was that the Court previously acknowledged in the *Silhouette* case (case C-173/98, ECR I-4799) that Articles 5 to 7 of the Trademark Directive embody a complete harmonization of the rules regarding the scope of rights, and that if compliance with the conditions for assuming consent is to be determined according to the law governing the contract, the scope of protection afforded to the trade mark would depend on a variety of national legal systems, a situation that would run counter to the harmonization objective pursued by the Trademark Directive.

2. Supranational Limits to Software Distribution Rights

Another argument put forward by the German Federal Supreme Court is that the Software Directive *»does not contain any provision regarding the possibility of limiting the distribution right* in rem *and correspondingly restricting the exhaustive effect.«* (in German: *»Was die Möglichkeit einer dinglichen Beschränkung des Verbreitungsrechts und der entsprechenden Einschränkung der Erschöpfungswirkung angeht, enthält die [Software] Richtlinie jedoch keine Regelung«*).

In the *Davidoff* case, the ECJ first considered that – even if the law applicable to the contract, *in casu* German law, considers that the transfer of ownership of the products (without any contractual reservations) grants an unlimited right to resale and market the products within the EEA (due to the exhaustion rule) – no implied consent might nevertheless be inferred from that situation so that the IP owner might keep the right to control the distribution further down the chain. The existence of consent is the key factor, not the statutory rule of »first sale«. Moreover, the ECJ seems to recognize the possibility to enforce sales restrictions against third parties even if this restriction is not passed on further parties in the distribution chain through contractual provisions. In other words, restrictions of sales can »travel« along with the goods down the channel and be binding on the last party in the chain. Without clearly stating it, the ECJ also considers that the Community notion of distribution/exhaustion/consent allowing for the transfer to third parties of such restrictions should put aside the national rules on the enforceability of sales restrictions against third parties (see § 64 and 65).

In light of the *Davidoff* case, the interpretation of the German Federal Supreme Court that excludes such possible restriction of the exhaustive effect in the field of copyright might therefore be challenged, which could mean that a case similar to the *Pitts* case should in future be decided on the basis of a new interpretation of the German provision corresponding to Article 4(c) of the Software Directive (§69c(3) of the Copyright Act), and not on the basis of other provisions of the German Copyright Act (such as §32 and 17(2) which were applied by the German Federal Supreme Court in the *Pitts* decision).

Case Law

European Court of Justice: Implied Consent to Reimportation of Trade Mark Products by Third Parties

Council Directive 89/104/EEC Art. 5 and 7
Zino Davidoff SA et al. v. A & G Imports Ltd. (C-414/99)
Levi Strauss & Co. et al. v. Tesco Stores Ltd. et al. (C-415/99)
Levi Strauss & Co. et al. v. Costco Wholesale UK Ltd. (C-416/99)
Judgment delivered on November 20th 2001 *by Rodriguez Iglesias*, President judge, *Jann, Colneric, von Bahr, Gulmann, Edward, La Pergola, Puissochet, Sevón, Skouris and Timmermans*, judges

Head Notes

1. On a proper construction of Article 7(1) of First Council Directive 89/104/EEC of 21 December 1988 (»the Directive«) 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, the consent of a trade mark proprietor to the marketing within the European Economic Area of products bearing that mark which have previously been placed on the market outside the European Economic Area by that proprietor or with his consent may be implied, where it follows from facts and circumstances prior to, simultaneous with or subsequent to the placing of the goods on the market outside the European Economic Area which, in the view of the