Current Intelligence

Had the National Court Worn *Silhouette* Glasses, It Could Have Caught Sight of the Response

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ECJ Case C-449/09 *Canon v IPN Bulgaria*

A trade mark owner can block the importation of original goods placed on the market outside the European Economic Area (EEA)—but it remains difficult to determine when the goods claimed in external transit are considered as 'put on the market'.

Legal context

The relationship between competition law and intellectual property have long been analysed. In the case discussed here, the ECJ was asked to further determine the scope of the rule of exhaustion developed within intellectual property (IP) to find a compromise between the territoriality principle of IP and the freedom of goods imposed by the Treaty on the Functioning of the EU (TFEU). When an IP right is exhausted, the IP owner can no longer prohibit parallel trade. However, the use of IP rights to restrict parallel imports can also raise competition issues, in particular under Articles 101 and 102 TFEU. The *Premier League* case (C-403/08 and C-429/08), now pending before the ECJ, and the seminal case *Consten and Grundig* (C-56/64 and 54/64) show that some forms of IP-based partitioning of the internal market have IP, freedom of goods/services and competition law aspects.

Facts

The case referred to by a Bulgarian court (the Sofia Tribunal) involves a question on which the Court of Justice had already ruled, and this explains why the Court, on 28 October 2010, issued a simple order (pursuant to Art. 104(3) of its Rules of Procedure (2010/C 177/01)). The question was whether Article 5 of 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, p. 1; now codified by Directive 2008/95/EC; hereafter the TMD) allows the trade mark owner to 'prohibit use of the trade mark without his consent through the importation of original goods, provided that the trade mark proprietor's rights under Article 7 of the directive are not exhausted' (Art. 7 provides that '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 [the EEA] under that trade mark by the proprietor or with his consent'). The answer was obvious, and the Court of Justice reiterated that 'the trade mark proprietor may oppose the first placing into circulation in the course of trade in the European Economic Area, without his consent, of original goods bearing that mark'.

Analysis

This response could easily be deduced from the leading case involving external parallel trade of *Silhouette* glasses (ECJ, 16 July 1998, C-355/96). In that case, the issue was whether Silhouette International Schmied could prevent a distributor (Hartlauer) from marketing glasses bearing the Silhouette trade mark in Austria, when those same glasses had been put on the Bulgarian market (at that time outside the Community territory) with the consent of the trade mark owner. The Court clearly ruled that the TMD does not allow 'Member States to provide in their domestic law for exhaustion of the rights conferred by a trade mark in respect of products put on the market in non-member countries' (§26). Thus, the Community-wide or European Economic Area-wide exhaustion rule is not a minimal rule allowing Member States to go beyond by providing for international exhaustion, as a complete harmonisation of trade mark law has been achieved on this issue.

In *Canon v IPN Bulgaria*, the Bulgarian customs authorities had retained a shipment of ink cartridges bearing the trade mark CANON. Those ink cartridges were original goods manufactured with the consent of Canon; they were imported from Hong Kong and apparently destined for IPN Bulgaria. Canon first obtained a court order allowing the seizure of those original goods. In a subsequent infringement procedure involving the same parties, the Bulgarian Supreme

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Court, giving an interpretation on a point of law, ruled that the importation of the original goods bearing the trade mark did not constitute a trade mark infringement. Not convinced, the Sofia Tribunal (to which the case was remanded) asked the Court of Justice to confirm whether the Supreme Court ruling was compatible with EU law. The answer could have been deduced from the previous ECJ case law, but one can understand the hesitation of the Sofia Tribunal following the (incorrect) interpretation proposed by the Supreme Court.

Issue left open: when does the 'putting on the EU/EEA market' take place?

The case leaves open a more delicate issue : when are goods 'put on the market' or, to use synonymous terms, 'marketed' or 'put into circulation' in the EEA? The concept of goods being 'put on the market' raises factual issues when the marketed goods are claimed to be in external transit, which is precisely what IPN Bulgaria claimed. According to IPN Bulgaria, the ink cartridges coming from Hong Kong had been ordered by a client established in Serbia, and were thus destined for marketing outside the EEA. On this, the Court of Justice refered to its earlier decision in *Class International* (C-405/03, §44): the mere physical introduction of the goods into the territory of the Community is not 'importing' within the meaning of Article 5(3)(c) of the TMD (and the corresponding Article 9(2)(c) of the Community Trade Mark Regulation) and does not entail 'using [the mark] in the course of trade' within the meaning of Article 5(1) TMD (and Article 9(1) CTM Regulation respectively). However, with regard to original goods materially within the EEA territory but not yet released for free circulation, the court decided that a trade mark owner could assert its right to prohibit their distribution if the offering or the sale of those goods to another trader 'necessarily entails putting goods bearing the mark on the market' in the EEA. It will thus be for the Sofia Tribunal to check whether IPN Bulgaria is ready to put the goods on the EEA market or sells or offers for sale 'to another trader who is bound to put them on the market' in the EEA (§60 of *Class International*).

Burden of proof and goods in transit

An additional issue regarding the burden of proof is raised by the court's order. Though no reference to this issue appears in the *Canon v IPN Bulgaria* order, the principles defined previously in *Class International* (§71–74) are likely to apply: the onus of proving interference, consisting either of the release for free circulation of the goods or an offering or sale of those goods which necessarily entails putting them on the market in the EEA, must lie with the trade mark proprietor who alleges it. If that is proven, it is then for the opposing party to prove that the proprietor consented to the marketing of the goods in the EEA,[1] unless there is 'a real risk of partitioning of national markets if he himself bears the burden' of proof (C-244/00, *Van Doren*, §42). The onus for the trade mark owner of proving an offering or sale of the goods which necessarily entails putting them on the market in the EEA might, however, be difficult to meet in practice. The standard for proving this interference must remain reasonable for the trade mark owner.

Regarding the burden of proof imposed on the right owner, two important cases (C-446/09, *Philips*, and C-495/09, *Nokia*) involving the interpretation of the customs rules (and in particular Regulation 1383/2003 of 22 July 2003 concerning customs action against goods suspected of infringing certain intellectual property rights and the measures to be taken against goods found to have infringed such rights) might offer some guidance, assuming the 3 February 2011 Advocate General's opinion is confirmed by the Court of Justice. The situation in those two cases is fundamentally different, as goods suspected of infringing some intellectual property rights are involved, not original goods as in the *Canon v IPN Bulgaria* case. But all those cases concern goods in 'external transit'—a legal fiction, since the non-Community goods physically present in the EU are considered as having never entered the territory of a Member State. For the Advocate General, the customs authorities are allowed to seize those goods 'provided that there are sufficient grounds for suspecting that they are counterfeit goods and, in particular, that they are to be put on the market in the European Union, either in conformity with a customs procedure or by means of an illicit diversion'. In a case involving the importation of original goods which are apparently in transit from one non-Member country to another non-Member country, the trade mark owner could oppose their marketing provided that there are sufficient grounds to suspect that they are to be put on the market in the EEA, either in conformity with a customs procedure (release for free circulation) or by means of a diversion (before or after entering the territory of the non-Member country of destination).

Practical significance

Goods in external transit still raise issues for the application of the customs measures or the intellectual

1 See also Joined Cases C-414/99, *Zino Davidoff and Levi Strauss*, §54.

property remedies. This goes well beyond the rather obvious question raised in the *Canon v IPN Bulgaria* case, where the referring Bulgarian Court, had it worn the *Silhouette* glasses, could have caught sight of the Court of Justice's response.

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The Obligation to Recover Unlawful Aid

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ECJ: Case C-507/08, *European Commission v Slovak Republic* [2010] (not yet published) & ECJ: Case C-304/09, *European Commission v Italian Republic* [2010] (not yet published).

A final national judgment cannot justify the non-execution of a recovery decision if national authorities had at their disposal procedural remedies for circumventing the finality of the judgment and so effectively recover the aid.

The suspension of national recovery measures cannot validly justify the absence of recovery, unless the suspension is adopted in compliance with the conditions established by the jurisprudence of the Court of Justice.

Legal context

The recovery of aid is the '*logical consequence*' of the finding that an aid is unlawful (ECJ, Case C-142/87, *Tubemeuse* [1990] ECR I-00959, para. 66). Indeed, under Article 14(1) of the Procedural Regulation (Reg. No. 659/1999, OJ 1999 L 83, pp. 1–9), when a negative decision is adopted in cases of unlawful aid, the Commission '*shall*' order its recovery by the Member State concerned, which '*shall*' take all the measures necessary to this purpose. Article 14(3) sets out the conditions for the recovery: it shall be effected '*without delay*' and '*in accordance with the procedures under the national law of the Member State concerned, provided that they allow the immediate and effective execution of the Commission's decision*'. The Court of Justice (ECJ) has constantly interpreted this provision—itself codifying the previous case law of the Court—as providing Member States with the possibility to freely choose the means of fulfilling the obligation to recover unlawful aid, '*provided that the measures chosen do not adversely affect the scope and effectiveness of European Union law*' (ECJ, Case C-209/00, *Commission v Germany* [2002] ECR I-11605, para. 34; ECJ, Case C-210/09, *Scott* [2010] ECR I-0000, para. 21).

If a Member State fails to comply with the obligation to recover unlawful aid, the European Commission—either under Article 258 TFEU or Article 108(2) TFEU—may bring the matter before the ECJ for a declaration that the Treaty has been infringed by the Member State concerned. Traditionally, the only defence available to Member States in these cases is to claim that it was '*absolutely impossible*' to properly implement the decision (ECJ, Case 52/84, *Commission v Belgium* [1986] ECR 89, para 14). The possibility to invoke this defence is strictly applied. It is not enough to merely inform the Commission of the legal, political, or practical difficulties encountered in implementing the decision, without taking any real step for the recovery and without proposing any suitable amendments to the decision (ECJ, Case 94/87, *Commission v Germany* [1989] ECR 175, paras. 9–10).

Facts

In the two commented cases, the European Commission brought infringement proceedings before the ECJ against the Slovak Republic and the Italian Republic, alleging a failure to comply with Commission's two decisions that required unlawful aid to be recovered. In both cases the Commission was unsatisfied with the national procedures chosen by the two Member States in order to comply with their respective recovery obligations, as, according to the Commission, they did not satisfy the requirements of immediate and effective recovery (i.e. the principle of effectiveness).

In both cases the chosen procedures did not actually allow the recovery of the unlawful aid (in its entirety in the Slovak case, and for a considerable proportion of it in the Italian case) and, surprisingly, the national authorities did not try to plead that the recovery was absolutely impossible in order to defend themselves from the infringement procedures.

In the Slovak case, the Commission categorized as State aid a partial write-off of the debt to a public

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