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Case No: CH 1998 L No 5439  
CH 1998 T No 5667

**IN THE HIGH COURT OF JUSTICE  
CHANCERY DIVISION**

CH 1998 L 5360  
CH 1998 L 5562  
HC 199901870  
CH 1998 T No 5667  
Royal Courts of Justice  
Strand, London, WC2A 2LL  
31 July 2002

**B e f o r e :**

**THE HONOURABLE MR JUSTICE PUMFREY**

**Between:**

**(1) LEVI STRAUSS & CO  
(2) LEVI STRAUSS (UK) LTD** **Claimants**

**- and -**

**(1) TESCO STORES LIMITED  
(2) TESCO STORES PLC  
(2) COSTCO WHOLESALE UK LIMITED** **Defendants**

**Geoffrey Hobbs QC and Philip Roberts (instructed by Klegal for the Tesco defendants and by Nabarro Nathanson for the Costco defendant) for the Defendants in both actions**

**Henry Carr QC, David Anderson QC and Hugo Cuddigan (instructed by Baker & Mckenzie) for the Claimants**

**Hearing dates : 21,22 May 2002**

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**Mr Justice Pumfrey:**

**Introduction**

1. This is a further stage in the legal battle that has been joined between the manufacturers of trade marked goods and those who import those goods from outside the EEA and sell them in competition with resellers of similar or identical goods in the EEA who obtain their supplies from the manufacturer. Official importers and distributors charge a higher price than that at which the same goods are available outside the EEA, and the defendants wish to make a profit and sell the goods at lower prices than the 'official' distribution channels permit.
2. The legal basis for the attack on this trade is the law relating to registered trade marks, whether registered in the individual countries of the European Union under their domestic legal provisions or in the Union as a whole under the provisions of Council Regulation (EC) No 40/94 of 20 December 1993 on the Community Trade Mark (hereafter 'the Regulation'). The substantive law of domestic registered

trade marks is now harmonised by First Council Directive 89/104/EEC of 21 December 1988 to approximate laws of the Member States relating to trade marks ('the Directive'). I say that the latter is a harmonising provision as it has been clear since the judgment of the Court of Justice in Case C-355/96 *Silhouette International Schmied* [1998] ECR I-4799 that the Directive effects a complete harmonisation of the rules relating to the rights conferred by a trade mark.

3. Whether the proprietor of a trade mark registered in a Member State or in the Union should be entitled to rely upon that trade mark to prevent importation of *his own goods* from countries outside the EEA ('third countries'), particularly when the imported goods are indistinguishable from those placed on the market in the EEA, has given rise to a considerable controversy and a fair amount of spilt ink. The European Court of Justice has given three rulings under Art 234 EC (ex Art 177) on the question, in Case C-173/98 *Sebago and Maison Dubois* [1999] ECR I-4103, the *Silhouette* case (above) and the present case. I made the reference in the present case shortly after Laddie J made a reference in a case raising similar issues called *Zino Davidoff SA v A&G Imports Limited* [1999] RPC 631. As I shall explain in more detail below, the Court of Justice of the Communities (to which I shall refer as 'the ECJ' or 'the Court') has now delivered its opinion on the questions referred by Laddie J and by me.
4. The claimants, who were successful in the ECJ in the sense that the ruling of the Court favoured them, now seek summary judgment. The defendants contend that this is not a case which is appropriate for summary judgment on a number of grounds that can be described as conventional. Much more startling is their contention that the result of the rulings of the Court in this case and the other cases that I have mentioned is that both the Directive and the Regulation are, to the extent to which they entitle the proprietor of a registered trade mark in the Union to prevent importation of goods marked by him or with his consent from third countries invalid, because they infringe basic principles of Community law.

#### **The provisions of the Directive**

5. The proceedings in this case are trade mark infringement proceedings alleging infringement of certain United Kingdom registered trade marks and a Community trade mark. The allegations are made under the Trade Marks Act 1994 and the Regulation. The 1994 Act, which I discuss in detail below, is intended to implement the provisions of the Directive, and since the relevant provisions of the Directive and the Regulation are substantially identical in wording it is convenient to deal with the Directive.
6. Article 5 sets out the rights conferred by a trade mark on its proprietor:

'1. The registered trade mark shall confer on the proprietor exclusive rights therein. The proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade:

(a) any sign which is identical with the trade mark in relation to goods or services which are identical with those for which the trade mark is registered;

(b) any sign where, because of its identity with, or similarity to, the trade mark and the identity or similarity of the goods or services covered by the trade mark and the sign, there exists a likelihood of confusion on the part of the public, which includes the likelihood of association between the sign and the trade mark.

2. Any Member State may also provide that the proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade any sign which is identical with, or similar to, the trade mark in relation to goods or services which are not similar to those for which the trade mark is registered, where the latter has a reputation in the Member State and where use of that sign without due cause takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark.

3. The following, *inter alia*, may be prohibited under paragraphs 1 and 2:

(a) affixing the sign to the goods or to the packaging thereof;

(b) offering the goods, or putting them on the market or stocking them for these purposes under that sign, or offering or supplying services thereunder;

(c) importing or exporting the goods under the sign;

(d) using the sign on business papers and in advertising.

4. Where, under the law of the Member State, the use of a sign under the conditions referred to in 1 (b) or 2 could not be prohibited before the date on which the provisions necessary to comply with this Directive entered into force in the Member State concerned, the rights conferred by the trade mark may not be relied on to prevent the continued use of the sign.

5. Paragraphs 1 to 4 shall not affect provisions in any Member State relating to the protection against the use of a sign other than for the purposes of distinguishing goods or services, where use of that sign without due cause takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark.'

7. Article 6 deals with the limitation of the effects of the trade mark. It provides the substantive defences to an allegation of infringement:

'1. The trade mark shall not entitle the proprietor to prohibit a third party from using, in the course of trade,

(a) his own name or address;

(b) indications concerning the kind, quality, quantity, intended purpose, value, geographical origin, the time of production of goods or of rendering of the service, or other characteristics of goods or services;

(c) the trade mark where it is necessary to indicate the intended purpose of a product or service, in particular as accessories or spare parts;

provided he uses them in accordance with honest practices in industrial or commercial matters.

2. The trade mark shall not entitle the proprietor to prohibit a third party from using, in the course of trade, an earlier right which only applies in a particular locality if that right is recognized by the laws of the Member State in question and within the limits of the territory in which it is recognized.'

8. Finally, Article 7 deals with 'Exhaustion of the rights conferred by the Trade Mark'.

'1. 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.

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.'

9. The core of the issues before the ECJ in the present case was the question of so-called international exhaustion. The ECJ had already decided that the proprietor of a trade mark was entitled to prohibit its use in relation to goods which had been placed on the market outside the Community and imported without his consent. The questions referred to the Court were directed to identifying the circumstances in which it could be said that the proprietor had, in placing the goods on the market outside the Community, expressly or impliedly consented to their being placed on the market in the Community. In order properly to understand the questions, and the answers, it is helpful to examine the interpretation placed on Article 7 of the Directive, and hence of section 12 of the 1994 Act, before the present case.

#### **The Community law relating to exhaustion before the present case**

10. In the *Silhouette* case (above) the Oberster Gerichtshof referred the following questions for a preliminary ruling:

'1. Is Article 7(1)... to be interpreted as meaning that the trade mark entitles its proprietor to prohibit a third party from using the mark for goods which have been put on the market under that mark in a State which is not a Contracting State?

2. May the proprietor of the trade mark on the basis of Article 7(1)... alone seek an order that the third party cease using the trade mark for goods which have been put on the market under that mark in a State which is not a Contracting State?'

The answers given by the Court were as follows:

'1, National rules providing for exhaustion of trade-mark rights in respect of products put on the market outside the EEA under that mark by the proprietor or with its consent are contrary to Article 7(1)...

2. Article 7(1)... cannot be interpreted as meaning that the proprietor of a trade mark is entitled, on the basis of that provision alone, to obtain an order restraining a third party from using his trade mark for products which have been put on the market outside the European Economic Area under that mark by the proprietor or with his consent.'

11. The second answer is explained by the judgment paragraphs 34–37, where it is explained that the proprietor's rights to prevent importation derive from the requirement that Member States implement provisions according to Article 5 of the Directive rather than the qualification to that right contained in Article 7.
12. The basis of the judgment may be summarised in the following propositions. (1) Articles 5 to 7 of the Directive must be construed as embodying a complete harmonisation of the rules relating to the rights conferred by a trade mark. (2) The Directive is not concerned only with intra-Community provisions relating to the establishment and functioning of the internal market, but also affects relations between Member States and third countries; (3) in any event, the Directive establishes the rights of trade mark owners throughout the Community; and (4) it is not competent to Member States to provide for a wider rule of exhaustion than that to be found in Article 7.
13. The second case, *Sebago* (above), was concerned with the question of the nature of the proprietor's consent referred to in Article 7(1) of the Directive. In his opinion (paragraphs 20–30) Advocate General Jacobs summarises the relevant principles in a passage which, if I may say so with respect, deserves close study. Having observed that the doctrine of exhaustion as articulated in Article 7(1) relates to individual goods or batches of goods, he sets out the argument of the defendant, GB-Unic (a supermarket chain) that the proprietor's consent to the marketing of all batches of a particular product is to be implied from his consent to the marketing of one batch. The basic reason advanced was that the trade mark did not tell a lie. He summarises this argument as attractive, and continues in paragraph 28:

'28. To say that once a trade-mark proprietor has consented to the marketing of one particular batch of products within the EEA he must be deemed to have consented to the marketing of other identical (or similar) batches would accordingly deprive the Court's limitation of the exhaustion principle to EEA-wide exhaustion of much of its practical effect. It would for most practical purposes effectively impose a rule of international exhaustion since, in the absence of a legitimate reason, all parallel imports would necessarily have to be admitted into the EEA.

29. Such a limitation upon the effect of the Directive as interpreted in the court's judgment in *Silhouette* may seem desirable and would no doubt be welcomed in many circles. However, as the Court observed in *Silhouette*, no argument has been presented to the Court that the Directive could be interpreted as *imposing* a rule of international exhaustion. The dispute centred only on whether the Directive left the matter to the discretion of the Member States. The imposition of international exhaustion in the way suggested by GB-Unic does not follow easily from the wording of Article 7(1). Nor does it appear to have been the intention of the Community legislature.'

14. The ECJ substantially followed this reasoning, concluding in paragraph 31 of the judgment that the Community legislature has made it clear that putting goods on the market outside the EEA does not exhaust the proprietor's right to oppose the importation of those goods without his consent and thereby

to control the initial marketing in the EEA of goods bearing the mark.

### The questions referred in the present case

15. The present case was concerned with the nature of the consent which was required to be given by the proprietor of the mark before the importer could take advantage of the exception to Article 7(1). I referred the following questions to the Court for a preliminary ruling under Art 234 EC (ex Art 177):

(1) Where goods bearing a registered trade mark have been placed on the market in a non-EEA country by the trade mark proprietor or with his consent and those goods have been imported into or sold in the EEA by a third party, is the effect of Directive 89/104/EEC (the Directive) that the trade mark proprietor is entitled to prohibit such importation or sale unless he has expressly and explicitly consented to it, or may such consent be implied?

(2) If the answer to Question 1 is that consent may be implied, is consent to be implied from the fact that the goods have been sold by the proprietor or on his behalf without contractual restrictions prohibiting resale within the EEA binding the first and all subsequent purchasers?

(3) Where goods bearing a registered trade mark have been placed on the market in a non-EEA country by the trade mark proprietor:

(a) to what extent is it relevant to or determinative of the issue whether or not there was consent by the proprietor to the placing of those goods on the market within the EEA, within the meaning of the Directive, that:

(i) the person placing the goods on the market (not being an authorised retailer) does so with the knowledge that he is the lawful owner of the goods and the goods bear no indication that they may not be placed on the market in the EEA; and/or

(ii) the person placing the goods on the market (not being an authorised retailer) does so with knowledge that the trade mark proprietor objects to those goods being placed on the market within the EEA; and/or

(iii) the person placing the goods on the market (not being an authorised retailer) does so with the knowledge that the trade mark proprietor objects to them being placed on the market by anyone otherwise than an authorised retailer; and/or

(iv) the goods have been purchased from authorised retailers in a non-EEA country who have been informed by the proprietor that the proprietor objects to the sale of the goods by them for the purposes of resale, but who have not imposed upon purchasers from them any contractual restrictions on the manner in which the goods may be disposed of; and/or

(v) the goods have been purchased from authorised wholesalers in a non-EEA country who have been informed by the proprietor that the goods were to be sold to retailers in that non-EEA country and were not to be sold for export, but who have not imposed upon purchasers from them any contractual restrictions on the manner in which the goods may be disposed of; and/or

(vi) there has or has not been communication by the proprietor to all subsequent purchasers of its goods (i.e. those between the first purchaser from the proprietor and the person placing the goods on the market in the EEA) of its objection to the sale of the goods for the purposes of resale; and/or

(vii) a contractual restriction has or has not been imposed by the proprietor and made legally binding upon the first purchaser prohibiting sale for the purposes of resale to anyone other than the ultimate consumer?

(b) Does the issue of whether or not there was consent by the proprietor to the placing of those goods on the market within the EEA, within the meaning of the Directive, depend on some further or other factor or factors and, if so, which?'

16. The purpose of formulating the questions in this way was to cover as many as possible of the factual issues which appeared to arise in the case. The reference and the parallel reference by Laddie J became Joined Cases C-414/99, C-415/99 and C-416/99 *Zino Davidoff* and the answer provided by the ECJ was as follows.

'1. On a proper construction of Article 7(1) of 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, 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 national court, unequivocally demonstrate that the proprietor has renounced his right to oppose placing of the goods on the market within the European Economic Area.

2. Implied consent cannot be inferred:

—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 European Economic Area his opposition to marketing within the European Economic Area;

—from the fact that the goods carry no warning of a prohibition of their being placed on the market within the European Economic Area;

—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, 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 European Economic Area.

3. With regard to exhaustion of the trade mark proprietor's exclusive right, it is not relevant:

—that the importer of goods bearing the trade mark is not aware that the proprietor objects to their being placed on the market in the European Economic Area or sold there by traders other than authorised retailers, or

—that the authorised retailers and 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. '

17. It seems to me that the clear thrust is that only express consent to subsequent marketing within the EEA will suffice. This is confirmed (if confirmation were needed) by paragraphs 53 to 58 of the judgment of the Court:

'53. It follows from the answer to the first question referred in the three cases C-414/99 to C-416/99 that consent must be expressed positively and that the factors taken into consideration in finding implied consent must unequivocally demonstrate that the trade mark proprietor has renounced any intention to enforce his exclusive rights.

54. It follows that it is for the trader alleging consent to prove it and not for the trade mark proprietor to demonstrate its absence.

55. Consequently, implied consent to the marketing within the EEA of goods put on the market outside that area cannot be inferred from the mere silence of the trade mark proprietor.

56. Likewise, 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 place them on the market within the EEA.

57. Finally, such consent cannot be inferred from the fact that the trade mark proprietor transferred ownership of the goods bearing the mark without imposing contractual reservations or from the fact that, according to the law governing the contract, 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.

58. A rule of national law which proceeded upon the mere silence of the trade mark proprietor would not recognise implied consent but rather deemed consent. This would not meet the need for consent positively expressed required by Community law.'

18. Obviously this outcome is highly unsatisfactory to parallel importers from outside the Community. Tesco and Costco have imported Levi Strauss jeans from the United States, Canada and Mexico. These jeans, which are admitted to be in all material respects identical to the goods supplied by Levi Strauss to the European Market, can in this way be made available at prices substantially lower than would be the case if they obtained their supplies from Levi Strauss' authorised distribution network.

#### **The defendants' complaints about the judgment of the ECJ**

19. The defendants complain that the effect of the judgment of the ECJ is
- to create a presumption of infringement (see paragraph 54 of the judgment above);
  - to require that the presumption be rebutted by evidence that in the majority of cases the defendant will not be able to provide, that is, evidence of unambiguous consent (paragraph 53 of the judgment); and
  - to condemn genuine goods of the proprietor to the status of counterfeit goods (see paragraph 57 of the judgment).
20. These are the necessary consequences of giving the proprietor a second bite of the cherry when he has placed the goods on the market for the first time outside the Community. They are certainly striking but they are inevitable. Nonetheless, the contention advanced by the defendants is that if the interpretation of Article 7 by the ECJ is correct, then the action for infringement is not maintainable in the United Kingdom. The argument is in part based on domestic English law, and in part on the consequences in EU law of the interpretation placed on Article 7 by the ECJ. I shall summarise the arguments.

#### **English law**

21. The action for infringement is an action under English domestic law, and is governed by sections 9–12 of the Trade Marks Act 1994. A defence to trade mark infringement under English law is provided by section 10(6) of the 1994 Act, and this case falls within section 10(6).
22. Additionally and alternatively, section 3 of the Human Rights Act 1998 ('the HRA') requires sections 9–12 of the 1994 Act to be read so as to be compatible with the 'Convention rights' of the defendants, which by virtue of section 1(1) HRA include (*inter alia*) the right to own and dispose of property (Article 1 of the First Protocol to the Convention for the Protection of Human Rights and Fundamental Freedoms ('the ECHR')) and the right to Freedom of Expression (Article 10 of the ECHR). On a proper reading of the ECHR the activities of the defendants complained of in the action for infringement are

manifestations of these Convention rights, and unless section 10(6) is read so as fully to protect those rights, there is a failure to comply with section 3 of the HRA.

### Community law

23. The first argument has similarities to the argument which is advanced in respect of the effect of the HRA in domestic law. In outline, it is said that the Directive must be interpreted so as to respect the fundamental rights of the defendants in Community law. These rights include rights in all respects identical to the rights enjoyed under the ECHR, and in particular the rights enjoyed by the defendants under Article 10 and the first Protocol of the ECHR. To the extent to which the interpretation of Article 7 and the remainder of the Directive adopted by the ECJ fails to respect the defendants' fundamental rights Article 7 of the Directive is unlawful. The unlawfulness is cured by assimilating goods first placed on the market with the proprietor's consent outside the EEA to goods placed on the market with the proprietor's consent within the EEA.
24. The second argument is quite distinct. It is said that if Article 7 of the Directive is interpreted so as to enable the trade mark proprietor to prohibit free circulation of goods bearing his trade mark and imported by others into the EEA and placed on the market there, then Article 7 of the Directive is inconsistent with the basic provisions of the Treaty relating to free movement of goods, and in particular Articles 28–30 EC (ex Articles 30–36).
25. These being the contentions advanced by the defendants, I shall deal with them in the order in which I have summarised them above. Before considering the questions of domestic United Kingdom law, it is necessary to consider the interrelationship of the domestic law of trade marks and Community law.

### The relationship of the domestic law of trade marks to Community law

26. The long title of the 1994 Act is

'An Act to make new provision for registered trade marks, implementing Council Directive No. 89/104/EEC of 21st December 1988 to approximate the laws of the Member States relating to trade marks; to make provision in connection with Council Regulation (EC) No. 40/94 of 20th December 1993 on the Community Trade Mark; to give effect to the Madrid Protocol Relating to the International Registration of Marks of 27 June 1989, and to certain provisions of the Paris Convention for the Protection of Industrial Property of 20th March 1883, as revised and amended; and for connected purposes.'

27. The 1994 Act represented a completely new departure in the United Kingdom law of trade marks. As appears from the long title, one of its purposes was to implement the Directive, and it did this in a way that has been strongly criticised. The draftsman eschewed the straightforward approach of reproducing the substantive provisions relating to validity and infringement word for word in the statute, but rather redrafted them. It has been observed that to the extent that the substantive provisions correctly implement the Directive, then they mean the same thing, and the Directive can be directly consulted. To the extent that they mean something different they represent a failure correctly to implement the Directive, and this is a conclusion against which the Court will strive, in order to comply with what is sometimes called the *Marleasing* doctrine (Case C-106/89 *Marleasing* [1990] ECR I-4135). In paragraph 8 of its judgment in *Marleasing*, the ECJ said this:

'...it should be observed that, as the Court pointed out in its judgment in Case 14/83 *Von Colson and Kamann v Land Nordrhein–Westfalen* [1984] ECR 1891, paragraph 26, the Member States' obligation arising from a directive to achieve the result envisaged by the directive and their duty under Article 5 of the Treaty [now Article 10 EC] to take all appropriate measures, whether general or particular, to ensure the fulfilment of that obligation, is binding on all the authorities of Member States including, for matters within their jurisdiction, the courts. It follows that, in applying national law, whether the provisions in question were adopted before or after the directive, the national court called upon to interpret it is required to do so, as far as possible, in the light of the wording and the purpose of the directive in order to achieve the result pursued by the latter and thereby comply with the third paragraph of Article 189 of the Treaty [now Article 249 EC].'

28. The supremacy of Community law, and the manner in which it derives its supremacy over domestic law, is stated by Laws LJ in *Thoburn v Sunderland District Council* [2001] EWHC Admin 234 at

paragraph 69 of the judgment:

'In my judgment (as will now be clear) the correct analysis of that relationship [sc. between EU and domestic law] involves and requires these following four propositions. (1) All the specific rights and obligations which EU law creates are by the ECA [European Communities Act] incorporated into our domestic law and rank supreme: that is, anything in our substantive law inconsistent with any of these rights and obligations is abrogated or must be modified to avoid the inconsistency. This is true even where the inconsistent municipal provision is contained in primary legislation. (2) The ECA is a constitutional statute: that is, it cannot be impliedly repealed. (3) The truth of (2) is derived, not from EU law, but purely from the law of England: the common law recognises a category of constitutional statutes. (4) The fundamental legal basis of the United Kingdom's relationship with the EU rests with the domestic, not the European, legal powers. In the event, which no doubt would never happen in the real world, that a European measure was seen to be repugnant to a fundamental or constitutional right guaranteed by the law of England, a question would arise whether the general words of the ECA were sufficient to incorporate the measure and give it overriding effect in domestic law. But that is very far from this case.'

29. An example of the application of the principle of supremacy of Community law, and of fulfilment of the obligation placed on the court to construe domestic legislation so as to achieve the result pursued by the Directive, is to be found in Jacob J's approach to the interpretation of section 9(1) of the 1994 Act in *British Sugar Plc v James Robertson & Sons Ltd* [1996] RPC 281 at 291. Of course a directive may permit the Member States a certain freedom in implementation. But the Directive is exhaustive of the substantive law of infringement of registered trade marks, and it is therefore legitimate to consider Articles 5 to 7 as representing the law which the legislature was bound to adopt in the 1994 Act.
30. The rights conferred on the proprietor of a mark, and the infringement of those rights, are set out in the 1994 Act in sections 9 and 10. Section 9 is, in Jacob J's phrase, no more than a chatty introduction to section 10. Between them, they traverse the same ground as Article 5 of the Directive. I do not need to set them out. I do, however, need to set out the provisions which provide limitations on the scope of the registered mark:

**Section 10(6):**

'Nothing in the preceding provisions of this section shall be construed as preventing the use of a registered trade mark by any person for the purpose of identifying goods or services as those of the proprietor or licensee.

But any such use otherwise than in accordance with honest practices in industrial or commercial matters shall be treated as infringing the registered trade mark if the use without due cause takes unfair advantage of, or is detrimental to, the distinctive character or repute of the trade mark.'

**11 Limits on effect of registered trade mark**

(1) A registered trade mark is not infringed by the use of another registered trade mark in relation to goods or services for which the latter is registered (but see section 47(6) (effect of declaration of invalidity of registration)).

(2) A registered trade mark is not infringed by —

(a) the use by a person of his own name or address,

(b) the use of indications concerning the kind, quality, quantity, intended purpose, value, geographical origin, the time of production of goods or of rendering of services, or other characteristics of goods or services, or

(c) the use of the trade mark where it is necessary to indicate the intended purpose of a product or service (in particular, as accessories or spare parts),

provided the use is in accordance with honest practices in industrial or commercial matters.

(3) A registered trade mark is not infringed by the use in the course of trade in a particular locality of an earlier right which applies only in that locality.

For this purpose an "earlier right" means an unregistered trade mark or other sign continuously used in relation to goods or services by a person or a predecessor in title of his from a date prior to whichever is the earlier of—

(a) the use of the first-mentioned trade mark in relation to those goods or services by the proprietor or a predecessor in title of his, or

(b) the registration of the first-mentioned trade mark in respect to those goods or services in the name of the proprietor or a predecessor in title of his;

and an earlier right shall be regarded as applying in a locality if, or to the extent that, its use in that locality is protected by virtue of any rule of law (in particular, the law of passing off).

## 12 Exhaustion of rights conferred by registered trade mark

(1) A registered trade mark is not infringed by the use of the trade mark in relation to goods which have been put on the market in the European Economic Area under that trade mark by the proprietor or with his consent.

(2) Subsection (1) does not apply where there exist legitimate reasons for the proprietor to oppose further dealings in the goods (in particular, where the condition of the goods has been changed or impaired after they have been put on the market).'

The corresponding provisions of the Directive are to be found in Articles 6 and 7.

### Section 10(6) in the domestic context

31. It may be helpful first to consider section 10(6) as a purely domestic provision divorced from the Directive in order to discover its meaning, scope and effect. Section 10(6) has been considered in the context of a case concerning comparative advertising by Laddie J. The case is *Barclays Bank Plc v RBS Advanta* [1996] RPC 307. He describes the provision in this way:

'Section 10(6) is not derived directly either from the [Directive] or from the Paris Convention, neither of which expressly exempts comparative advertising from infringement. The result is that the first half of section 10(6) is home-grown. However the first half of the proviso can be traced back to Article 10<sup>bis</sup>(2) of the Paris Convention, dealing with unfair competition and from there to Article 6(1) of the Directive. The latter has been adopted, with minor and, for present purposes, irrelevant changes in wording as section 11(2) of the Act...

The language used in the second part of the proviso is to be found in Articles 4(3), 4(4) and 5(2) of the Directive and in section 10(3) of the Act.'

32. Laddie J concludes that the primary objective of section 10(6) is to permit comparative advertising. This contention is supported by a consideration of the Parliamentary debates on the question, if that is legitimate. But is the section capable of bearing a meaning which would generally permit the marketing by a defendant of goods marked by the proprietor and placed on the market elsewhere? This is the interpretation which Mr Hobbs QC wishes to place on the provision, and he says that such an interpretation is obligatory if the defendants' fundamental rights are to be respected.
33. As a matter of domestic law, this would be a surprising result, since it would appear to apply whether or not the proprietor had expressly refused his permission to the marketing of the goods so marked in the

United Kingdom. There is no reference to consent in section 10(6). Take for example the case of a genuine article marked by the proprietor of the United Kingdom mark with a mark identical to the United Kingdom mark. It is sold, by the proprietor, abroad, to a purchaser subject to the condition that it is not for resale in the United Kingdom. The purchaser then places the article on the market in the United Kingdom. Up until the 1994 Act, it is fair to say that English law has been uncertain whether the question of consent express or implied to the marketing of the proprietor's goods in the United Kingdom is determinative: see *Colgate-Palmolive v Markwell* [1988] RPC 283 (Falconer J) and [1989] RPC 497 (Court of Appeal); *Champagne Heidsieck v Buxton* (1930) 47 RPC 28, *Revlon v Cripps & Lee* [1980] FSR 85. In my judgment it is inconceivable that an express prohibition of which notice was given would be disregarded. But the question is one of the function of section 10(6) having regard to section 12. Any construction of section 10(6) which led to the conclusion that 'if the mark was placed by the proprietor on the goods, there is no infringement' would mean that section 12 is redundant, and its limitation to the EEA, and the qualification relating to valid reasons for opposing further marketing of the goods, of no relevance. Section 10(6) would practically be the dominant provision. In my view the presence of section 12 really precludes any interpretation of section 10(6) which is sufficiently wide for Mr Hobbs' purposes.

34. As a matter of domestic law, therefore, I come to the conclusion that if section 10(6) is to be given its obvious meaning and effect, it is to be construed narrowly, and restricted to cases in which the use of the mark is not on the proprietor's own goods, but merely so as to refer to the goods to which the proprietor affixes the mark. With that introduction, I can turn to section 10(6) in its proper legal context, which is provided by the Directive.

#### **Section 10(6) in the context of the Directive**

35. The Directive has been held by the ECJ to effect a complete harmonisation of the substantive law of infringement in the Member States:

'23. In that respect, although the third recital in the preamble to the Directive states that "it does not appear to be necessary at present to undertake full-scale approximation of the trade mark laws of the Member States", the Directive none the less provides for harmonisation in relation to substantive rules of central importance in this sphere, that is to say, according to that same recital, the rules concerning those provisions of national law which most directly affect the functioning of the internal market, and that that recital does not preclude the harmonisation relating to those rules from being complete.

24. The first recital in the preamble to the Directive notes that the trade mark laws applicable in the Member States contain disparities which may impede the free movement of goods and freedom to provide services and may distort competition within the common market, so that it is necessary, in view of the establishment and functioning of the internal market, to approximate the laws of Member States. The ninth recital emphasises that it is fundamental, in order to facilitate the free movement of goods and services, to ensure that registered trade marks enjoy the same protection under the legal systems of all the Member States, but that this should not prevent Member States from granting at their option extensive protection to those trade marks which have a reputation.

25. In the light of those recitals, Articles 5 to 7 of the Directive must be construed as embodying a complete harmonisation of the rules relating to the rights conferred by a trade mark. That interpretation, it may be added, is borne out by the fact that Article 5 expressly leaves it open to the Member States to maintain or introduce certain rules specifically defined by the Community legislature. Thus, in accordance with Article 5(2), to which the ninth recital refers, the Member States have the option to grant more extensive protection to trade marks with a reputation.' (Case C-355/96 *Silhouette Internationale Schmied GmbH & Co KG v Hartlauer Handelsgesellschaft mbH* [1998] ECR I-4799, hereinafter '*Silhouette*')

36. It follows that any domestic provisions that are inconsistent with Articles 5 to 7 of the Directive in that they confer on the trade mark proprietor a less extensive right than that required by the Directive are unlawful in point of Community law. As I read the judgment of the ECJ in *Silhouette*, it is clear that any limitation effected by section 10(6) to the scope of trade mark protection over and above that required by Article 6 is inconsistent with the Directive. I prefer the view that as a matter of interpretation, section 10(6) is to be limited to the comparative advertising context only. Consideration of the Community law context strongly reinforces my view that the domestic provision is to be limited to such a use.

37. In *British Airways v Ryanair* [2001] FSR 32, Jacob J considered that Article 6(1)(b) of the Directive permitted comparative advertising, and he remarked that if it did not 'the whole of section 10(6) would be a non-permitted derogation from the Directive'. I respectfully entirely agree with this conclusion. That, in my judgment, is the proper approach to section 10(6) in domestic law.
38. I turn to the effect on this conclusion of the arguments based on the HRA. Mr Hobbs QC deploys the HRA in two ways. First, he says that section 10(6) must be read so as to protect the defendants' Convention rights under Article 10 and Article 1 of the first Protocol. Second, he says that to the extent to which consideration of the Directive requires that section 10(6) is to be construed in the manner I consider correct, then as a matter of domestic law the Directive must be ignored. It must be ignored because it derives its effect in United Kingdom law from an application of the *Marleasing* principle, which is the applicable principle of Community law. The *Marleasing* principle can have effect in the United Kingdom only to the extent to which it requires the court to construe the statute consistently not only with the purpose of the Directive but also with the defendants' fundamental rights.
39. A corresponding argument was addressed to the ECJ in the argument leading to the present ruling. The submission was that

'The concept of "consent" in Article 7 of the Directive ... should ... be interpreted so as to give full and fair effect to the purchaser's rights of resale and should not be interpreted so as to permit trade mark proprietors to derogate from rights of property which they (or persons whose acts are binding upon them) have lawfully conferred upon purchasers of goods bearing their trade marks.'

The supporting arguments were substantially identical to those advanced in the present case. It was said that it is clear from *Marckx v Belgium* (1979) 2 EHRR 330 and from *Sporrong and Lönnroth v Sweden* (1983) 5 EHRR 35 that the right to use and dispose of property is central to the private right of property, and although the right to respect for property may be subject to restrictions in the public or general interest, such restrictions must be proportionate to the public or general interest to be secured. It is, the defendants contend, a disproportionate and intolerable interference, impairing the very substance of the property rights guaranteed, if the claims for infringement of the trade mark were to be upheld in the circumstances of this case.

40. It should be remembered that there are two property interests to be considered here. There is the defendants' interest in the jeans, and there is Levi Strauss' interest in the trade marks. The balance which the Community legislature and the domestic legislature have decided to hold between them has come down against international exhaustion of the trade mark right. It is not clear to me how this decision can be characterised as either disproportionate or intolerable, unless perhaps as a matter of name-calling. The economic interests to be balanced (and the balance is struck for all trade mark owners) are not so obviously in favour of parallel importers from outside the EEA. For example, it is legitimate to ask where the interests of European industry lie when it is confronted by re-importation of its own goods sold in third countries at low prices under the same marks as those used in the EEA. The scope of the discretion conferred on the legislature in such a case is wide, as *Mellacher v Austria* (1990) 12 EHRR 391 (a rent regulation case) makes clear:

'The second paragraph [sc of Article 1 of the First Protocol] reserves to States the right to enact such laws as they deem necessary to control the use of property in accordance with the general interest. Such laws are especially called for and usual in the field of housing, which in our modern societies is a central concern of social and economic policies.

In order to implement such policies, the legislature must have a wide margin of appreciation both with regard to the existence of a problem of public concern warranting measures of control and as to the choice of the detailed rules for the implementation of such measures. The Court will respect the legislature's judgment as to what is in the general interest unless that judgment be manifestly without reasonable foundation.'

No doubt the question of the economic effect of a prohibition on parallel importation from outside the EEA of trade marked goods can arouse strong passions. But it cannot in my judgment be said that such a prohibition is without reasonable foundation.

41. The argument based on Article 10 of the ECHR is in no better position. This right is weak when what is sometimes called 'commercial speech' is concerned, and may be subject to the restrictions envisaged

by Article 10(2), which include 'formalities, conditions, restrictions or penalties as are prescribed by law and are necessary in a democratic society ...for the protection of...the rights of others.' The right asserted by the defendants is the right to tell the purchasing public that these are Levis jeans by the use of the trade mark. The rights of others include, in my judgment, their trade mark rights, as they include their copyrights (see *Ashdown v Telegraph Group* [2001] EWCA Civ 1142, [2001] HRLR 57, [2001] 4 All ER 666). The legislator must hold the balance, therefore, between the right of the owner of the trade mark on the one hand, and the right to convey information about the origin of the goods on the other.

42. In this case, Advocate General Stix-Hackl commented on these contentions in the context of the Directive:

'Finally, the arguments concerning guarantee of title and freedom of expression do not really appear to be cogent. The right to property and the right freely to express one's views do, it is true, feature, as basic rights, among the general principles of Community law. Since these must, according to established case-law, also be viewed in relation to their social function, it cannot be ruled out that their exercise may be restricted, provided that any such restrictions do in fact correspond to Community objectives of general interest and do not constitute in relation to the aim pursued a disproportionate and intolerable interference, impairing the very substance of the rights thus guaranteed. There is nothing to suggest such an infringement of the principle of proportionality by the Directive, which serves to ensure the viability of the internal market.'

The Advocate General referred in this context to the decision of the ECJ in Case C-200/96 *Metronome Musik* [1998] ECR I-1953, which was concerned with the introduction of the rental right in respect of copyright works and its effect on established rental businesses, and the rights of the latter freely to pursue a trade or profession, and their rights of property. This is yet another case that demonstrates the wide discretion enjoyed when the maintenance of the single market and the protection of intellectual property rights are under consideration. I cannot discern any reason for supposing that the Community and domestic legislators have failed properly to hold the balance where international exhaustion of trade mark rights is concerned. I can see no justification for the suggestion that section 3 of the HRA would, all other things being equal, require me to place a construction on section 10(6) which would permit the defendants to sell the Levi's jeans purchased outside the EEA.

43. Since I consider that the arguments based on the ECHR are devoid of any substance, it is not strictly necessary to examine the submissions advanced by Mr Hobbs QC in support of his contention that were they to have substance the HRA would prevail over the terms of the 1994 Act construed in the light of the provisions of the Directive. However, I should express a view on the contention that section 3 of the HRA requires section 2 of the European Communities Act 1972 ('the ECA'), and the fundamental principles of Community law which flow into English law through it, to be applied so as to accord more protection to Convention rights than they would otherwise do.
44. While section 3 HRA introduces a principle of benevolent construction, it does not permit a construction of a statute contrary to its plain meaning. Community law, on the other hand, is supreme, and derives its force from section 2 ECA. The HRA was carefully designed to prevent the courts from overriding the expressed will of Parliament by employing the principles of the ECHR. A declaration of incompatibility may be made, certainly, but the statute, construed in accordance with the principles of section 3 represents the law. It seems to me clear that it follows that the *Marleasing* principle, which derives its force in United Kingdom domestic law from section 2 ECA, cannot be overridden by application of principles derived from the ECHR.

#### **The Community law arguments**

45. Then it is said that by reason of the rejection of the defendants' arguments based on the fundamental principles of the EC Treaty relating to free movement, the Directive is invalid.
46. At first sight, the suggestion is a surprising one. In the arguments addressed to the ECJ the defendants advanced a series of reasons for interpreting Article 7 to the effect that implied consent to importation of trade marked goods would be a defence to an allegation of infringement. On analysis, the arguments were arguments for revisiting the decisions of the ECJ in *Silhouette* and *Sebago* and for holding that sales outside the EEA exhausted the proprietor's rights except where a restriction on onward dealing was expressly imposed. These reasons were advanced with a view to supporting the interpretation urged on the ECJ by the defendants and rejected. The same arguments are now deployed in support

of the argument that the Directive is invalid, although that contention was not explicitly advanced before the ECJ at all.

47. This is a direct attack not only on the decision in the present case, but also on the decisions in *Silhouette* and *Sebago*. It will be apparent from the quotations from those cases which I have set out above that the principle of the free movement of goods *within the Community* underpins the interpretation which was given to Article 7 of the Directive. I accept that it is possible in principle for a particular interpretation placed on a Community instrument to result in invalidity, or for a question of interpretation to be resolved without considering the question of invalidity at all. So much is clear from the judgment of the Court in joined Cases C-393/99 and C-394-99 *Hervein II* (19 March 2002, unrep)

'26. Inasti, the Belgian Government and the Council dispute the admissibility of the questions referred. In essence, they argue that the Court interpreted Article 14c(b) of and Annex VII to the Regulation in its judgment in *Hervein I* and in Case C-340/94 *De Jaeck* [1997] ECR I-461, without declaring them invalid, although the Advocate General had urged it to do so and it could have done so of its own motion. The Court thus accepted the validity of those provisions and, in the absence of any new matters coming to light in the meantime, the questions of the Tribunal du travail, Tournai, amount to calling into question decisions which are *res judicata*.

27. Those arguments must be rejected. If the Court, when dealing with a question referred to it for a preliminary ruling, does not rule on a point of law on which no question has been referred and which, moreover, has not been raised by the parties or other participants in the proceedings before it, that does not mean that it has given a definitive ruling on the point in question. Moreover, nothing prevents the Court, at the request of a national court and in the context of the Court's collaboration with that court pursuant to Article 234 EC, from ruling on the validity of a measure taken by the Community institutions, which it has already had occasion to interpret.'

48. It seems to me that nonetheless it is necessary to approach these submissions advanced on behalf of the defendants with caution. The interpretation of Article 7(1) and the question of extra-Community exhaustion has now been before the ECJ on three occasions. On none of them (including this one) was it suggested to the Court, or suggested by the Advocate General, that the interpretation placed on Article 7(1) resulted in its invalidity. In order to explain the argument, it is necessary to return to the provisions of the EC Treaty itself relating to the internal market, and in particular the free movement of goods within the Community.

*'Article 28 (ex Article 30)*

Quantitative restrictions on imports and all measures having equivalent effect shall be prohibited between Member States.

*Article 29 (ex Article 34)*

Quantitative restrictions on exports, and all measures having equivalent effect, shall be prohibited between Member States.

*Article 30 (ex Article 36)*

The provisions of Articles 28 and 29 shall not preclude prohibitions or restrictions on imports, exports or goods in transit justified on grounds of public morality, public policy or public security; the protection of health and life of humans, animals or plants; the protection of national treasures possessing artistic, historic or archaeological value; or the protection of industrial and commercial property. Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States.'

49. It is well settled that Article 30 EC permits derogations from the fundamental principle of the free movement of goods between Member States only to the extent to which such derogations are justified in order to safeguard the specific subject matter of the industrial property concerned. In the case of a trade mark, the essential function is to guarantee to the purchaser or end user the identity of the trade marked product:

'13 Trade mark rights are, it should be noted, an essential element in the system of undistorted competition which the Treaty seeks to establish and maintain . Under such a system, an undertaking must be in a position to keep its customers by virtue of the quality of its products and services, something which is possible only if there are distinctive marks which enable customers to identify those products and services . For the trade mark to be able to fulfil this role, it must offer a guarantee that all goods bearing it have been produced under the control of a single undertaking which is accountable for their quality .

14 Consequently, as the Court has ruled on numerous occasions, the specific subject-matter of trade marks is in particular to guarantee to the proprietor of the trade mark that he has the right to use that trade mark for the purpose of putting a product into circulation for the first time and therefore to protect him against competitors wishing to take advantage of the status and reputation of the trade mark by selling products illegally bearing that mark . In order to determine the exact scope of this right exclusively conferred on the owner of the trade mark, regard must be had to the essential function of the trade mark, which is to guarantee the identity of the origin of the marked product to the consumer or ultimate user by enabling him without any possibility of confusion to distinguish that product from products which have another origin ( see, in particular, the judgments in Case 102/77 *Hoffmann-La Roche v Centrafarm* [1978] ECR 1139, paragraph 7, and in Case 3/78 *Centrafarm v American Home Products Corporation* [1978] ECR 1823, paragraphs 11 and 12 ).

15 For the purpose of evaluating a situation such as that described by the national court in the light of the foregoing considerations, the determinant factor is the absence of any consent on the part of the proprietor of the trade mark protected by national legislation to the putting into circulation in another Member State of similar products bearing an identical trade mark or one liable to lead to confusion, which are manufactured and marketed by an undertaking which is economically and legally independent of the aforesaid trade mark proprietor.' (Case C-10/89 *CNL-SUCAL v Hag* [1990] ECR I-3711)

50. This principle is repeatedly stated throughout the cases. It may operate to allow the proprietor to prevent intra-Community trade *in his own goods* where objectively unnecessary repackaging has taken place: see Case 143/00: *Boehringer Ingelheim v Swingward* Judgment of 23 April 2002, unreported. Underlying the concept of exhaustion of intellectual property rights in Community law is the concept of consent. It is as simple as that. Mr Hobbs submits that the defendants' goods do not have a different origin from those placed on the market in the Community with the consent of the proprietor. So, he says the ordinary principles of free movement apply. The defendants' jeans have entered free movement within the Community by clearing customs barriers at external frontiers and should thus be free to circulate (Article 24 EC, ex Article 10). He submits that Articles 28–30 EC are 'origin neutral' and apply equally to all goods in free circulation, and therefore the mere fact that goods originate outside the EEA is insufficient for the application of the first sentence of Article 30, at least once the goods have crossed the border of the EEA and duty is paid. At that moment, the goods are assimilated to goods originating within the Community and their free movement cannot be further impeded (see Case 41/76 *Donckerwolke* [1976] ECR 1921). To permit a proprietor in the Community to use a mark to prevent his own goods entering the Community falls foul of the second sentence of Article 30, since it would be '...an arbitrary discrimination or disguised restriction on trade between Member States'.
51. In my judgment, the submission is ill-founded. It is to be noted that the national provision (which is the subject of Articles 28 and 30) does (among other things) prevent importation of goods into the EEA. A *prima facie* unlawful importation no doubt places the goods freely on the market. However, that fact is irrelevant to the exercise of trade mark rights, since Articles 29–30 have nothing to say about third country imports. In Case 51/75 *EMI v CBS* [1976] ECR 811, a most significant early case, the defendants wished to import records bearing the mark COLUMBIA, which belonged to EMI throughout the Community. The question was whether the exercise across the Community of the trade mark right in the hands of a single proprietor could ever fall foul of the prohibition of Article 28 EC (ex Article 30). Under the heading 'With regard to the free movement of goods', the ECJ said this:

'8 Within the framework of the provisions of the Treaty relating to the free movement of goods and in accordance with Article 3(a), Article 30 *et seq.* on the elimination of quantitative restrictions and of measures having equivalent effect expressly provide that such restrictions and measures shall be prohibited "between Member States".

9 Article 36, in particular, after stipulating that Article 30–34 shall not preclude restrictions

on imports, exports or goods in transit justified *inter alia* on grounds of the protection of industrial and commercial property, states that such restrictions shall in no instance constitute a means of arbitrary discrimination or disguised restriction on trade "between Member States".

10 Consequently the exercise of a trade-mark right in order to prevent the marketing of products coming from a third country under an identical mark, even if this constitutes a measure having an effect equivalent to a quantitative restriction, does not affect the free movement of goods between Member States and thus does not come under the prohibitions set out in Article 30 *et seq.* of the Treaty.'

This could hardly be clearer. It has formed, with the principle of exhaustion, the basis for the application of the principles of free movement in the context of trade marks and other intellectual property rights.

52. In *EMI v CBS*, the court then considered precisely the same point as Mr Hobbs has resurrected in this case.

'12 Furthermore, if the same proprietor holds the trade-mark right in respect of the same product in all the Member States there are no grounds for examining whether those marks have a common origin with an identical mark recognised in a third country, since that question is relevant only in relation to considering whether within the Community there are opportunities for partitioning the market.'

This is a reference to the now-disapproved doctrine of common origin. The principle, however is still good, since the Court is here deciding that ownership *throughout the Community* prevents the second sentence from coming into play. Thus, the Court refuses to deal with imports from third countries on the same footing as goods moving between the Member States:

'13 It is impossible to avoid these conclusions by relying on Articles 9 and 10 of the Treaty [now, after amendment, Articles 23 and 24 EC].

14 According to Article 10(1) of the Treaty, products coming from a third country shall be considered to be in free circulation in a Member State if the import formalities have been complied with and any customs duties or charges having equivalent effect which are payable have been levied in the importing Member State.

15 According to Article 9(2) of the Treaty the provisions of Chapter 1, Section 1 and of Chapter 2 of Title I of Part Two shall apply to products coming from third countries which are in free circulation in Member States.

16 Since those provisions only refer to the effects of compliance with customs formalities and paying customs duties and charges having equivalent effect, they cannot be interpreted as meaning that it would be sufficient for products bearing a mark applied in a third country and imported into the Community to comply with the customs formalities in the first Member State where they were imported in order to be able then to be marketed in the common market as a whole in contravention of the rules relating to the protection of the mark.'

53. This is a clear decision, which as far as I am aware has never been doubted, that placing goods into free circulation in the Community does not prevent the subsequent application of measures for the protection of industrial and commercial property. The fact that the goods are in free circulation does not throw any light on whether the measures in question are entitled to the benefit of the first sentence of Article 30 or are caught by the second sentence.
54. *EMI v CBS* is not the only authority on this topic. It was revisited by Jacobs AG in *Silhouette*, in dealing with the observations of the Swedish government:

'48. The Swedish government also relies on the Court's case law on the function of trade marks. That function is essentially to guarantee the consumer the possibility of identifying the origin of the product. It is no part of the function of a trade mark to enable the owner to divide up the market and to exploit price differentials. The adoption of international exhaustion would bring substantial advantages to consumers, and would promote price

competition.

49. I confess to finding those arguments extremely attractive. However it must be remembered that the Court's case-law on the function of trade marks was developed in the context of the Community, not the world market. Indeed in *EMI v CBS* the Court held that its case-law under Articles 30-36 could not be transposed to imports from third countries. Circumscribing the protection of trade-mark rights by defining their essential function was considered necessary *to prevent restrictions on trade between Member States.*' [my emphasis]

55. In my judgment this really disposes of the defendants' argument on this point. *EMI v CBS* and the cases on exhaustion contain the Court's interpretation of the Treaty provisions that provide the context for Article 7 of the Directive. Article 7 is consistent with the interpretation placed by the ECJ on the relevant provisions of the EC Treaty, and I think that it is now hopeless to suggest that Article 7 is invalid in the light of those provisions.
56. I should add that there was a subsidiary point advanced on the basis of the Common Commercial Policy. The argument is that the Anti-Counterfeiting Regulation 3295/94 (replacing 3842/86) was validly adopted by the Council as an instrument of common commercial policy. This regulation, while providing for a general right to stop counterfeit goods bearing a particular trade mark at points of importation, expressly does not apply to goods bearing the trade mark in question with the consent of its proprietor. Thus it is said that such goods can cross the frontier of the Community and enter free circulation. It is suggested that such a provision is inconsistent with Article 7 of the Directive. In my judgment, this is simply irrelevant. The fact that goods originating with the proprietor are not the subject of the Anti-Counterfeiting Regulation can throw no light on the legality of the rejection of international exhaustion of the trade mark right contained by Article 7, since there is no inconsistency. For the reasons which I have already set out the fact that the goods have entered free circulation is not *ipso facto* a reason for not permitting the enforcement of a trade mark right against them. I observe also that these contentions were advanced before the ECJ and disregarded in the present case.

### **The Regulation**

57. The factors affecting the legality of the Regulation are the same as those which I have discussed above, and the answer is the same.

### **The need for a reference**

58. I do not consider that this is a case in which I should make a reference. There is now a substantial body of authority in the ECJ as to the proper interpretation of the provisions of Community law relating to Community-wide and international exhaustion. The arguments ventilated before me in support of the contention of illegality have already been advanced before the ECJ, in support of an argument which was plainly intended to demonstrate that if the defendants' contentions were rejected on construction, then that would have the consequence of inconsistency with fundamental rights and express provisions of Community law. I consider (as the Court and the Advocate General must have considered) that they are without substance. I have a discretion whether to refer, and, as I do not consider a reference necessary in the light of the references already made, I will not do so.

### **Judgment under CPR 24**

59. The legal contentions are without substance. I will accordingly refuse permission to amend the statements of defence to raise them, and I will hear counsel on the remainder of the order. So far as the facts of the case are concerned, I believe that there is one example of a sale not even arguably with the consent of Levis to the defendants. Further issues, as to the scope of enquiries and accounts and the availability of the remedy of injunction, have still to be argued.