



## **Exhaustion of trade mark rights - amendment of the rules of evidence**

In two recent decisions, 4 Ob 233/23b and 4 Ob 56/24z, the Supreme Court has adapted its case law on the rules of evidence in the case of an objection raised by the trademark proprietor that his trademark right has not been exhausted with regard to the infringing products to the latest case law of the CJEU.

### **Facts of the case**

Both decisions were based on a selective distribution system for cosmetic products, in particular perfumes. The plaintiff in both proceedings is, inter alia, the proprietor of numerous Union word and figurative marks for perfumery goods. The perfumes are produced in Barcelona. Further distribution is carried out by national distribution companies/contractual partners within the framework of a selective distribution system. Authorized distributors based in the EU/EEA are permitted to sell products to other authorized distributors or consumers in the EU/EEA; distribution in third countries is prohibited. Authorized dealers/distributors outside the EU/EEA may only sell products in their own country of domicile. It could not be established that the plaintiff does not in fact permit cross-border deliveries within the EEA. Authorized distributors in EEA countries offer the plaintiff's perfumes in country -online shops with price differences of around 3% to 15%, in some cases up to 28%. It is hardly possible for consumers to purchase perfumes via an online shop in another EU/EEA country.

In the context of a test purchase, the plaintiff purchased original perfumes from the defendants that were labelled with the trade mark and a QR code as a 'tracking code'.

The defendants sell drugstore and perfume products in Austria (in-store and online). They are not authorized dealers. Nevertheless, they sell the plaintiff's products, which they purchase from two suppliers based in the EU and who are also not authorized dealers. They rely on the assurance of their respective suppliers (oral or based on a coding agreement) that they will only supply goods that are marketable in the EEA and that are obtained from authorized distributors. The suppliers do not disclose the supply chain. The defendants' suppliers obtain the goods partly from several parallel traders – who do not belong to the plaintiff's distribution system – and partly from authorized distributors. The plaintiff uses a tracking -system with individual -tracking codes for each individual product in the form of barcodes or QR codes-, which are affixed -to the individual perfume packaging and to the large cartons, in order to be able to distinguish between authorized and unauthorized parallel imports. The destination of the goods cannot be taken from the packaging. Only the plaintiff, if at all, can deduce from the tracking code to whom the goods were delivered. Authorized dealers cannot check or determine where a product they sell was first placed on the market. Final sellers such as the defendants cannot subsequently determine whether a specific product was actually placed on the market by them.

The court was unable to establish that the perfumes were delivered for the first time to a distributor in the United Arab Emirates, as claimed by the plaintiff, nor that they were placed on the market in the EEA for the first time by the plaintiff, as claimed by the defendant.

The court of first instance and the court of appeal upheld the claims; the Supreme Court dismissed the claims with reference to the decisions of the ECJ in C-367/21 - *Hewlett Packard*.



## Decision

The Supreme Court first referred to the previous case law, according to which the exhaustion of trademark rights is only to be examined upon objection by the defendant. The defendant must assert and prove that the goods concerned were placed on the market in the EEA by the trademark proprietor or with its consent or that - for example due to an exclusive distribution system - there is a risk of foreclosure of the markets within the EEA if it had to disclose its sources of supply. In this case, the applicant must claim and prove that the goods concerned were first placed on the market outside the EEA.

Subsequently, the Supreme Court stated that, on the basis of the principles set out by the ECJ in *Hewlett Packard*, the defendant had succeeded in proving market foreclosure because

- the proprietor of the EU trade marks operates a selective distribution network,
- the trademarked goods do not have any distinguishing marks that enable third parties to determine the market on which they are to be sold and no other information can be obtained in this respect,
- the trademark proprietor refuses to disclose this information to third parties and
- the defendants' suppliers are not prepared to disclose their own sources of supply.

With reference to *Hewlett Packard*, the Supreme Court held that if the above-mentioned conditions are met, it is not important to prove actual market foreclosure; the mere existence of the defendant's burden of proof could enable the trademark proprietor to prevent parallel imports, which would restrict the free movement of goods; this would not be justified by the protection of the trade markright.

The Supreme Court also rejected the view that a retailer must make a specific enquiry with regard to each individual product despite a fundamentally negative attitude on the part of the trademark owner. According to the Supreme Court, this could not be inferred from *Hewlett Packard*. Price differences are also irrelevant when assessing the risk of market foreclosure.

As the plaintiff had not proved that it had placed the goods in question on the market outside the EEA, the actions were dismissed.

## Comment

The decisions of the Supreme Court are not surprising in view of the ECJ decision C-367/21 - *Hewlett Packard*. The two decisions also clarify that the requirements for shifting the burden of proof apply not only to exclusive distribution systems, but also to selective distribution systems, which are particularly important in the luxury sector. This had not previously been expressly stated by case law. In future, it will be up to trademark owners to disclose where the infringing products were placed on the market in order to be able to invoke a lack of exhaustion of trade markrights. If they refuse to do so, they must expect their claim to be dismissed if the other requirements are met.