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ECJ rules on trade mark owners' ability to prevent the sale of external transit goods

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In a decision which has narrowed the ability of trade mark owners to prohibit the activities of parallel importers, the ECJ has ruled that trade mark owners cannot prohibit the entry of goods into the Community through the external transit or customs warehousing procedures. Furthermore, trade mark owners cannot prohibit the offering or sale of such goods unless they can prove the existence of buyers in the Community.

The external transit procedure allows goods to move from one point to another within the Customs territory of the Community without being subject to import duties or other charges. Similarly, the customs warehousing procedure allows the storage of goods in a customs warehouse, without such goods being subject to import duties. In both cases, the goods retain their status as non-Community goods.

The case concerned arose when Class International, a Dutch company, brought into the Community at Rotterdam from South Africa a consignment of toothpaste bearing the "AQUAFRESH" trade mark.The defendants, the owners of the AQUAFRESH trade marks, had an attachment carried out in respect of the goods. However, upon examination the goods were found to be genuine and Class brought an action for damages.The defendants counterclaimed for trade mark infringement. Class claimed that the goods in question had not been imported into the Community but were under external transit.The case came before the Regional Court of Appeal at the Hague, which referred certain questions to the ECJ concerning whether a trade mark owner may oppose the mere entry of goods into the Community under the external transit or customs warehousing procedures or the offering for sale or sale of such goods whilst under the external transit/customs warehousing procedure.The ECJ confined its judgement to the EU only rather than the entire EEA, as the Customs Code does not apply outside the EU.

The questions and judgment at issue all refer to goods which have not been placed on the market in the Community by the trade mark owner or with his consent i.e. the trade mark owner has not exhausted his right to object to further dealings in the goods in the Community.

Can a trade mark owner prevent the entry into the Community of goods under the external transit procedure?

The ECJ held that the mere physical introduction of such goods into the territory of the Community is not "importing" under either the Trade Marks Directive or the Community Trade Mark Regulation and a trade mark owner cannot therefore oppose the entry of such goods. Furthermore, a trade mark owner cannot make the entry of such goods conditional on the existence of a final destination already specified in a third country, for example, pursuant to a sale agreement.

In deciding this, the ECJ rejected Beecham's argument that there was a real and permanent risk that the goods placed under the external transit/customs warehousing procedures would be released into free circulation within the Community.

Can a trade mark owner prohibit the offering for sale or the sale of products placed under the external transit procedure or the customs warehousing procedure? If so, in what circumstances can a trade mark proprietor oppose such offering for sale or sale?

The ECJ held that a trade mark owner may oppose the offering for sale or sale of the goods, if it necessarily entails putting the goods on the market in the Community, as the fact of putting the goods on the market in the Community means the trade mark owner's exclusive right to control the initial marketing in the Community of goods bearing the mark has been infringed. In this instance, a trade mark owner can prohibit the offer or sale of goods regardless of the place in which the addressee of the offer or the purchaser is established, and regardless of whether there are any provisions in the contract of sale containing restrictions on resale or dealing with the customs status of the goods.

How can a trade mark owner show that the offering for sale or sale "necessarily entails putting goods on the market in the Community"? The ECJ held that it could not be assumed solely from the fact that the party receiving the offer or the ultimate purchaser engages in parallel trade (and is therefore likely to sell the goods on), that the goods will be put on the market in the Community. Rather, other evidence must prove that the goods are bound for the EU.Therefore, a trade mark owner cannot prohibit the offer or sale of goods to a trader on the sole ground that he is likely to put them on the market in the Community. On the facts of the case it was unclear whether Class had lined up a customer within the EEA.

Unfortunately, the ECJ did not give any guidance on the type of evidence that trade mark owners might put forward in showing that goods are bound for the EU. In making its reference, the national court queried whether various circumstances would have any impact on the trade mark owner's ability to prohibit trade in the goods, including whether a parallel trader is based in the Community, whether the offeree/purchaser of the goods is based in the Community, and whether a place of delivery has been specified. However, unlike the Advocate-General, the ECJ did not deal with this issue separately, and merely stated that these issues were factors which implied or referred to the fact that the owner of the goods under external transit engages in parallel trade, which as seen above, is not sufficient in itself to invoke the trade mark owner's right to prohibit the offer or sale of the goods.

Which party has the burden of proving the facts giving grounds for exercising the right of prohibition?

The ECJ held that it is up to the trade mark owner to prove the facts which would give grounds for exercising his right to prohibit the offering for sale or sale of the goods. If that is proven, it is then for the trader sued to prove the existence of the consent of the proprietor to the marketing of the goods in the Community.

This decision clarifies the relationship between the customs regime within the EU and the exclusive rights afforded to trade mark owners by the Trade Marks Directive and Community Trade Marks Regulation. Had the ECJ reached a different decision and held that trade mark owners may object to the entry and offer for sale or sale of goods under the external transit procedure per se, this would have undermined the whole purpose of the customs procedure.

Nevertheless, this decision undoubtedly places an onerous burden of proof on trade mark owners as it appears as though nothing less than absolute proof that the goods are destined to be put on the market in the Community will suffice to allow a trade mark owner to prohibit the offering for sale or sale of goods under the external transit or customs warehousing procedures. However, it remains to be seen how the national courts will apply this strict requirement in practice.

Case: Class International BV v (1) Colgate Palmolive Company (2) Unilever NV (3) Smithkline Beecham plc (4) Beecham Group plc, Case C-405/03, 18 October 2005