ECJ rules on trademark exhaustion in tonic case

February 15, 2018

The European Court of Justice recently issued an important ruling regarding the interpretation of the exhaustion principle under EU trademark law. This principle entails that a trademark holder cannot oppose the use of its trademark by third parties for goods that were put on the EU market either by the trademark holder or its consent. In Red Paralela and others v. Orangina Schweppes Holding BV and others, the ECJ for the first time further clarified this principle in situations where national trademark rights for the same brand are owned by different parties within the EU, by providing two criteria for national court to assess. The ruling is of particular interest for these kind of companies, and also for traders of goods within the European Economic Area (EEA).

Schweppes tonic: originating from Schweppes or Coca-Cola?
The CJEU answered a question raised by the Spanish Commercial Court of Barcelona in a dispute between Schweppes, known for its SCHWEPPES branded bottles of tonic water, and Red Paralela, an importer of SCHWEPPES tonic originating from the UK into Spain. Schweppes owned the national Spanish SCHWEPPES trademark rights, but had assigned the same trademark rights for UK territory (and some other EEA territories) to Coca-Cola/Atlantic Industries in 1999.

While Red Paralela considered that Schweppes’ Spanish trademark rights were exhausted for the tonic that Red Paralela had purchased in the UK, Schweppes argued that its rights were not exhausted because Coca-Cola and not Schweppes had put the products on the market, and because Coca-Cola has no link to the Schweppes group.

The ECJ’s ruling
According to the ECJ, Schweppes cannot oppose the import by Red Paralela from the UK in two situations: (i) if Schweppes has itself given the impression that the trademark is a single global trademark, or (ii) if Schweppes has economic links with the third party which now holds the trademark rights in the UK (being Coca-Cola). It is up to the national court to assess whether one, or both, of these criteria apply, taking into account all the relevant circumstances of the specific case.

Reasoning behind the ECJ’s ruling
The Court confirmed that the essential function of a trademark is to guarantee the identity of the origin of the branded product to the end user by enabling him, without any possibility of confusion, to distinguish that product from goods having another origin. Consequently, the trademark owner should be able to oppose the import of identical or similar branded goods, which have been manufactured and put into circulation in another member state by a third party having no economic link with that owner.

According to the ECJ, this analysis does not change simply by an ownership split resulting in different parties owning parallel trademarks (in this case, the UK and Spanish SCHWEPPES trademarks). This is conditional, however, on the requirement that each of the parallel trademarks has independently fulfilled its function within its own territory.

In the ECJ’s view, this is not the case when the owner has actively and deliberately continued to promote a single global trademark to the extent that it has generated or increased confusion as to the origin of goods.

If the national court determines that the national parallel trademark has independently fulfilled its function, whether the trademark owner is economically linked to the third party holding the trademark rights in the originating country should still be examined. An economic link exists where the trademark owner has the possibility to control the quality of the products. This includes situations where the goods have been put into circulation by a licensee, an affiliated company or an exclusive distributor. But it also includes situations where trademark owners coordinate their commercial policies or reach an agreement in order to exercise joint control over the use of those marks.

Looking further than arrangements on paper
With this decision, the ECJ has further clarified the concept of trademark exhaustion within the EEA in situations where trademarks rights for the same brand are held by different owners who do not belong to the same group of companies.

By introducing the additional criterion of independent fulfilment of the trademark’s function, the Court seems to be aiming at avoiding the possibility of partitioning the relevant product market by partitioning the relevant parallel trademarks. The Court also seems to be aiming at providing more legal certainty for third parties. Where the behaviour of owners of parallel trademarks results in a single brand perception on the market, and confusion about the commercial origin of their products, they should then not be allowed to assert their relevant national trademarks against parallel traders, according to the ECJ.

The ECJ drafted the criteria by looking at the effects which the acts and strategies of owners of parallel trademarks may have on market perception, and not necessarily or solely from the perspective of the trademark owners themselves. The approach makes sense in light of both the essential EU goal of free movement of goods, and the essential origin function of a trademark. For owners of parallel national trademark rights, this preliminary ruling means that they will have to reassess their current and future coexistence situation and strategies.

Presenting themselves as one front quickly leads to the situation where the owners should allow importation by third parties across the EEA. If companies want to be able to oppose such importation, they will need to render their branding strategy wholly independent from each other, and likely use and present their brand in a different manner. This may be difficult to achieve, especially with regard to figurative marks, as a different use of the brand raises the issue of the extent to which they will then be able to successfully claim trademark infringement. It might also raise trademark dilution concerns.

Overall, owners of parallel trademarks will have to weigh the
possibility of invoking their national trademark rights against importation of the other owner’s products on the one hand, against the synergies that can be obtained by conducting a global brand strategy – of course within the limits provided by competition law – on the other.