certain circumstances, the court may depart from the general rule of evidence especially if placing a burden of proof on the defendant may lead to the partitioning of the internal market contrary to the provisions of Articles 34 and 36 of TFEU. In the *Van Doren* case[858] the ECJ appreciated the need to qualify the above general rule of evidence in order to avoid a conflict with the principle of free movement of goods.

One would wonder as under which circumstances could a rule requiring a defendant to prove that the trade mark proprietor's rights are exhausted interfere with the free movement of goods. Manufacturers have unhampered powers to establish own exclusive marketing or distribution systems. Under most exclusive distribution systems, manufacturers supply their products only to distributors who are faithful to the distribution scheme. The manufacturers ensure that only members of the exclusive distribution systems get the supplies. In so doing, the manufacturer is able to partition the internal market. A third party's commercial interests in maintaining future supplies require him not to disclose a distributor (belonging to the exclusive distribution system) who sells the goods to him, since if disclosed, the manufacturer would stop supplying his products to this unfaithful distributor.

A defendant who raises a reasonable doubt that "there is a real risk of partitioning of national markets if he himself bears the burden of proving that the goods were placed on the market in the EEA by the proprietor of the trade mark or with his consent",[859] is discharged from that burden. Instead, the burden shifts to the trade mark proprietor by being required to adduce evidence showing that he had never sold the goods in the EU, and the goods in respect of which a third party claims exhaustion were marketed by the proprietor of the trade mark outside the EEA. The burden shifts again to the defendant to prove that even if the goods were marketed outside the EEA, they were thereafter marketed in the EEA with the consent of the trade mark proprietor.[860]

IV. Factors vitiating exhaustion

The principle of exhaustion provided in 13(1) above can be derogated from on the basis of Article 13(2) of CTMR.[861] According to the Article, CTM rights are

858 ECJ, Case C-244/00, *Van Doren + Q. GmbH*, *ibid.*, para. 37.
859 ECJ, Case C-244/00, *Van Doren + Q. GmbH*, *ibid.*, para. 41.
860 ECJ, Case C-244/00, *Van Doren + Q. GmbH*, *ibid.*, para. 41.
861 *Cf.* BAINBRIDGE, D. I., "Intellectual Property" (6th ed.) 782 (Longman, London 2007).

not exhausted "where there exist legitimate reasons for the proprietor to oppose further commercialisation of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market". A central question in relation to Article 13(2) of CTMR hinges on the interpretation of the term "legitimate reasons" and "change or impairment of the condition of the goods".

The term "legitimate reason" is too general to be ascribed to a single notion. The term is capable of encompassing several scenarios in which a trade mark proprietor may prohibit further commercialisation of his branded products notwithstanding his consent to the first sale of the products in issue. Reasons can always be considered legitimate if they are supported by the law. In the context of trade mark rights, legitimate reasons entitle the CTM proprietor to enforce against third parties his legitimate expectations in relation to his trade mark. The trade mark proprietor has a legitimate expectation to maintain goodwill of his CTM by marketing quality goods. This constitutes a legitimate reason for him to prohibit further marketing of products, by recalling them, if it appears that the products under his CTM have contaminated some obnoxious elements and their continued sale would negatively impact on his legitimate expectations of maintaining a high-quality brand.

Legitimate reasons exist as well if for whatever reasons imported products "contravened local ingredient-labelling regulations or their packaging infringed intellectual property rights which were owned locally by third parties".[862] Under these circumstances, the trade mark proprietor will have legitimate reasons to prohibit resale of those products, as he will be supported by the law.

Article 13(2) hints as to what might inclusively constitute legitimate reason on which the trade mark proprietor may base to prohibit resale of the products. The Article specifies, without giving tangible examples that the defendant's act of changing or impairing the original condition of the goods is against the trade mark proprietor's legitimate interests. It follows that the proprietor will have a justified cause to control the after-market goods by opposing resale of his products, which had been stored inappropriately, especially if the quality of these goods has been affected to an appreciable degree.

The subject under Article 13(2) may better be explored based on repackaging cases.

862 PHILIPS, J., "Trade Mark Law: A Practical Anatomy" 291 (Oxford University Press, Oxford 2003).

1. Repackaging and re-affixing of a trade mark

Parallel importers have a tendency of buying the branded goods in their original forms and modify their packaging in a way that would enable them market the repackaged goods parallel to the original goods being sold by the trade mark proprietor. As long as the repackaging and/or re-affixing of the trade mark does not contravene the trade mark's essential function and specific subject-matter, a third party cannot be enjoined from competing with the trade mark proprietor. It has to be recalled that the concept "essential function" in relation to trade mark, is associated with the trade mark's perceived ability to guarantee the origins and quality of the goods. In view of this principle, the repackaged goods still originate from the trade mark owner; hence, the proprietor's mark re-affixed on the packaging of the repackaged goods fulfils faithfully the essential function of guaranteeing the origin of the goods. What is questionable, however, is whether the re-affixed trade mark can still faithfully guarantee that the quality of the repackaged goods is the same as that of the original goods. Generally speaking, "so long as the third party has made only objectively necessary modifications to the packaging of the goods, the trade mark proprietor cannot complain, and so such modifications are deemed permissible".[863]

The ECJ has, in a number of cases,[864] clarified some factors that can be relied upon to allow a third party to resale the repackaged goods notwithstanding the trade-mark proprietor's objections. Consequently, the trade-mark proprietor cannot oppose marketing of repackaged products if the third party is able to adduce evidence showing that (1) there is a danger of partitioning the internal market; (2) the repackaging does not affect the condition of the product; (3) a notice to the trade mark proprietor has been given; (4) identity of the person who repackaged the goods is legibly indicated on the packaging; and (5) repackaging does not damage the reputation of a the trade mark concerned. These factors are considered below.

863 EDENBOROUGH, M., "The Free Movement of Trade Marked Goods in the European Community", in: POULTER, A., BROWNLOW, P. & GYNGELL, J. (eds.), "The Community Trade Mark: Regulations, Practice and Procedures" (2nd ed., Release #4) XII.16 (INTA, New York 2005).

864 The first case to deal with repackaging of branded products was ECJ, Case 102/77, *Hoffmann-La Roche & Co. AG v Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mbH* [1978] ECR 01139. The principles set out in this case have been relied upon in various subsequent ECJ's decisions such as the joined cases C-427/93, C-429/93 and 436/93 *Bristol-Myers Squibb v Panarova* [1996] ECR I-3457 (which has become a leading decision on issues regarding repackaging of pharmaceutical products), Case C-276/05 *The Wellcome Foundation Ltd v Paranova Pharmarzeutika Handels GmbH* [2008] ECR I-10479; (also reported in 40(7) IIC 874 *et seq*. (2009).

a) Artificial partitioning of the common market

Member States have different requirements and practices relating to the size of the packets of branded products, pharmaceutical products in particular. In certain instances health insurance companies make reimbursement of medical expenses subject to the "size of the packaging, or a well-established medical prescription practices based, inter alia, on standard sizes recommended by professional groups and sickness insurance institutions".[865] Usually the package of the product bears some description of the product concerned. The description language may differ according to the national market intended for the respective product. This may force a trade-mark proprietor to adapt different packaging standards according to the requirements in force in a particular Member State. Thus, in order to be able to resale in country C2 a product destined for country C1, a third party will be obliged to repackage that product, aiming to conform to the packaging regulations in force in C2.

It would constitute an artificial partitioning of markets if a trade mark owner were to rely on his trade mark rights to prevent changes in the packaging that are necessary in order to market the product in the Member State of importation.[866]

A court confronted with a dispute relating to repackaging of branded goods has to determine the question whether the marketing requirements in the Member States where importation is sought may be complied with without the need for repackaging. The court may particularly find out whether this end could be attained by "affixing to the original external or inner packaging new labels in the language of the Member State of importation, or by adding new user instructions or information in language of the Member State of importation, or by replacing an additional article not capable of gaining approval in Member State of importation with a similar article that has obtained such approval".[867] Affirmative findings on this question will mean that the trade mark proprietor is entitled to oppose repackaging of his products in new external packaging.

865 *Cf.* ECJ, joined cases C-427/93, C-429/93 and 436/93, *Bristol-Myers Squibb v Panarova* [1996] ECR I-3457, para. 53.

866 *Cf.* SCHUMACHER, C., "Use of trade marks on repackaged and relabeled pharmaceutical goods", in: PHILLIPS, J. (ed.), "Trade Marks at the Limit" 74 (Edward Elgar, Cheltenham 2006).

867 *Cf. Bristol-Myers Squibb v Panarova* [1996] ECR I-3457, para. 55.

b) Condition of goods

A lawful repackaging by a third party does not have adverse effects to the condition of the goods inside the packaging. The trade mark proprietor is entitled to oppose repackaging if such repackaging is likely to affect the original condition of the product. There is no hard and fast rule to determine whether repackaging may affect the condition of the goods, as this question depends on the nature of the goods and the method of repackaging.[868] In many cases, it can be presumed that the original condition of the product is not likely to be adversely affected if the products concerned have been marketed in a double-packaging and that only the external (NOT the internal) packaging is affected by the repackaging. This presumption holds true also if the repackaging is subject to inspection by a public authority in charge of ensuring that there is no risk for the condition of the repackaged products to be adversely affected.[869]

Under certain circumstances, the original condition of the product inside the packaging may be affected indirectly and thus entitling the trade mark proprietor to oppose such packaging. Indirect adverse effect to the goods may be exemplified by two instances,[870] namely, where:

- the external or inner packaging of the repackaged product, or a new set of user instructions or information, omits certain important information or gives inaccurate information concerning the nature, composition, effect, use or storage of the product; or
- an extra article inserted into the packaging by the importer and designed for the ingestion and dosage of the product does not comply with the method of use and the doses envisaged by the manufacturer.

The indirect adverse effects to the condition of the goods cannot be confirmed, unless it is revealed, by a comparison between products marketed by the importer and those marketed by the trade mark proprietor that the information added by the importer contradicts the original information by the manufacturer.

c) Notice of repackaging

Repackaging will be opposed, unless the trade mark proprietor is given notice of that fact prior to the sale of the repackaged products. The parallel importer is

868 *Hoffmann-La Roche & Co. AG v Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mbH* [1978] ECR 01139, para. 10.
869 *Cf. Bristol-Myers Squibb v Panarova* [1996] ECR I-3457, para. 60.
870 *Cf. Bristol-Myers Squibb v Panarova* [1996] ECR I-3457, para. 65.

duty-bound "to furnish to the proprietor of the trade mark the information which is necessary and sufficient to enable the latter to determine whether the repackaging of the product under that trade mark is necessary in order to market it in the Member State of importation".[871] In this connection, the trade mark proprietor may require the reseller to furnish him with some samples of the repackaged products in order to satisfy himself that the importer has repackaged the products in a way that does not affect the original condition of the goods. Indeed, this check mechanism will allow the trade mark proprietor an opportunity to discover some counterfeit goods, if any, among the repackaged goods.[872]

Moreover, a trade mark proprietor's interest is to see that consumers understand that products bearing the proprietor's mark are marketed under his control and that the proprietor is responsible for their quality. It is thus natural for the trade mark proprietor to require a prior notice from marketers of repackaged products, on which the proprietor's mark is affixed. The notice gives the proprietor an opportunity to control by ensuring that consumers do not confuse the repackaged goods with the original goods.[873]

d) Identity of a person who repackaged the goods

The importer has to indicate clearly on the external packaging of the repackaged product that he, the importer, is responsible for the repackaging.[874] Where the importer includes additional article in the repackaged product, he has to state that fact so that the consumer knows that the origin of the added article is not the trade mark proprietor but the third party who has repackaged the product.[875] This information should be "in print such that a person with normal eye-sight, exercising a normal degree of attentiveness, would be in a position to understand".[876]

871 *Cf.* ECJ, Case C-276/05, *The Wellcome Foundation Ltd v Paranova Pharmarzeutika Handels GmbH* [2008] ECR I-10479, para. 2 of operative part of the judgment. The case is also reported in 40(7) IIC 874 *et seq*. (2009).
872 *Cf. Bristol-Myers Squibb v Panarova* [1996] ECR I-3457, para. 78.
873 *Hoffmann-La Roche & Co. AG* [1978] ECR 01139, para. 12.
874 *Cf. Bristol-Myers Squibb v Panarova* [1996] ECR I-3457, para. 71.
875 *Cf. Bristol-Myers Squibb v Panarova* [1996] ECR I-3457, para. 73.
876 KITCHIN, D., et al, "Kerly's Law of Trade Marks and Trade names" (4th ed.) 553 (Sweet & Maxwell, London 2005).

e) Reputation of a trade mark

Reputation of a trade mark is a property nurtured by and protected for the benefit of the trade-mark proprietor. The proprietor has, by virtue of the specific subject matter of a trade mark, some legitimate interests to enjoin certain acts by third parties that would damage the reputation of trade mark. Inappropriate presentation of the repacked product may damage a trade mark's reputation notwithstanding a notice that might have been printed on the package indicating that the trade mark owner is not responsible for the packaging of the repackaged product.[877] In examining whether a repackaged product presented in a particular manner is likely to damage reputation of the trade mark, preliminary regard must be directed to the nature of the products and the market for which the products are intended. The approach, based on the nature of the product, is necessary to distinguish between normal products such as those in the clothing industry and sensitive products such as those in the pharmaceutical industry in which only the high quality and integrity of the product concerned (including its packaging) may attract public confidence in relation to the product concerned. The market-based approach must be acknowledged for being decisive as to whether a trade mark's reputation is likely to be damaged through repackaging.

Insofar as sensitive products are concerned, it is always presumable that "defective, poor quality or untidy packaging could damage the trade mark's reputation".[878] Indeed, if it is established that "repackaging of the pharmaceutical product is necessary for further marketing in the Member State of importation, the presentation of the packaging should be assessed only against the condition that it should not be such as to be liable to damage the reputation of the trade mark or that of its proprietor".[879] Where pharmaceutical products, for instance, are destined to be sold to hospitals, packaging of the repackaged products may not damage reputation of the trade mark concerned as the representation of medicines is not relevant to professionals such as medical doctors who are responsible for administering medications to consumers. However, where the products concerned are sold to consumers through pharmacies, packaging of the product is of paramount importance, notwithstanding the duty of care inherent in

877 *Cf.* SCHUMACHER, C., "Use of trade marks on repackaged and relabeled pharmaceutical goods", in: PHILLIPS, J. (ed.), "Trade Marks at the Limit" 78 (Edward Elgar, Cheltenham 2006).

878 *Cf. Bristol-Myers Squibb v Panarova* [1996] ECR I-3457, para. 76.

879 *Cf.* ECJ, Case C-276/05, *The Wellcome Foundation Ltd v Paranova Pharmarzeutika Handels GmbH* [2008] ECR ECR I-10479, para. 1 of the operative part of the judgment. The case is also reported in 40(7) IIC 874 *et seq*. (2009).

patient-doctor relationship that necessitates a conclusion that patients will build up confidence in medical prescriptions.[880]

2. Extension of repackaging principles to other case scenarios

a) Rebranding

A third party may be unable to import a product in a particular Member State if the trade mark affixed on the product contravenes the law of the country of import. This may necessitate rebranding the product, since it is only by substituting the proprietor's trade mark with another mark that meets the legal requirements a further commercialisation of the product will be possible in the country of import.[881] However, rebranding cases do not fall within the precincts of Article 13(1) of CTMR. Where rebranding is in issue, the rights of the parties will be determined on the basis of Articles 34 and 36 of TFEU. Thus, the principles relating to the free movement of goods established in the context of repackaging and relabeling or re-affixing of a trade mark apply to rebranding cases as well.[882]

b) Removal of a stock code

In the light of the principles discussed above in the context of repackaging, it is interesting to inquire whether those principles could be relied upon by an importer who, in order to undertake a further commercialisation of the import products, is forced to remove the product identification code usually used by manufacturer to control distribution and redistribution of their products in the commercialisation chain.

880 *Cf. Bristol-Myers Squibb v Panarova* [1996] ECR I-3457, para. 77.

881 *Cf.* Davis, J., *Intellectual Property Law*, (2nd ed.) 305 (LexisNexis UK, London 2003). *Cf.* also J. Davis, *Intellectual Property Law*, (3rd ed.) 242 (Oxford Univ. Press, Oxford 2008).

882 EDENBOROUGH, M., "The Free Movement of Trade Marked Goods in the European Community", in: POULTER, A., BROWNLOW, P. & GYNGELL, J. (eds.), "The Community Trade Mark: Regulations, Practice and Procedures" (2nd ed., Release #4) XII.17 (INTA, New York 2005).

The ECJ's judgment in *Frits Loendersloot* case[883] whose contentious issue was whether relabeling of the products in order to remove the product identification code placed by the trade mark proprietor was illegal, provides some guidance as to when removal of product identification code can be allowed and vice versa. The decision to endorse the removal of identification code hinges on the effects that the respective codes would have on the internal market. This will always be determined in light of any existing product distribution scheme that the manufacturer might have devised. It is thus, upon the importer to show that, in view of that scheme, the identification codes help the trade mark proprietor to control and identify who sells which products to which importer. Importer's positive evidence will prove that the "identification numbers have been placed on products by producers to enable them to reconstruct the itinerary of their products, with the purpose of preventing their dealers from supplying persons carrying on parallel trade".[884] In the circumstances, the importer's decision to remove the codes would be justified in view of the need to hide the identity of the distributor who supplied the products to him. In this connection, the court observed that:

> ...removal of the identification numbers might nevertheless prove necessary to prevent artificial partitioning of the markets between Member States caused by difficulties for persons involved in parallel trade in obtaining supplies from distributors for fear of sanctions being imposed by the producers in the event of sales to such persons.[885]

It is equally important to note that trade mark proprietors may, sometimes, decide to use product identification numbers with good intentions. For instance, a product coding system would be practically helpful in case the necessity to recall faulty goods arises.[886] Sometimes the trade mark proprietor will use product code numbers in order to fulfil the requirements of the law.[887] Moreover, the provisions of Article 13(1) CTMR entitle a trade mark proprietor to prohibit

883 ECJ, Case C-349/95, *Frits Loendersloot v George Ballantine & Son Ltd and others* [1997] ECR I-06227.

884 Case C-349/95, *Frits Loendersloot v George Ballantine & Son Ltd and others* [1997] ECR I-06227, para. 40.

885 Case C-349/95, *Frits Loendersloot v George Ballantine & Son Ltd and others* [1997] ECR I-06227, para. 40.

886 EDENBOROUGH, M., "The Free Movement of Trade Marked Goods in the European Community", in: POULTER, A., BROWNLOW, P. & GYNGELL, J. (eds.), "The Community Trade Mark: Regulations, Practice and Procedures" (2nd ed., Release #4) XII.4 (INTA, New York 2005).

887 *Cf.* Council Directive 76/768/EEC of 27 July 1976 on the approximation of the laws of the Member States relating to Cosmetic products (OJ 1976 L 262, p. 169), which was implemented in the United Kingdom by the Cosmetic Products (Safety) Regulations 1996 (SI 2925/1996).

marketing of the products in the EU where the proprietor sold the products in issue outside the EU single market.[888] Thus, code numbers would for all practical matters enable the producer to identify importers who infringe the specific subject of his trade mark rights.

c) Reworked products

Article 13(2) of CTMR is relevant in many aspects. The clothing sector is not an exception to the rule stipulated in Article 13(2) of CTMR. The "Dyed Jeans" case[889] clearly reveals that the trade mark owner can legitimately prohibit the sale in the EU of jeans bearing its trade mark but which have been dyed by another party without the proprietor's consent, when they have been put on the market with the proprietor's consent in the EU. However, the court admits that not every incidence of dyeing will infringe the trade mark proprietor's legitimate interests and thus allowing him to interfere with further commercialisation of the goods – a right which would otherwise be considered exhausted but for the dyeing. The dyeing must be conducted in a way that changes the characteristics of the branded goods so that the trade mark owner is entitled to oppose further commercialisation of the goods. In this particular case, the court concluded that the defendant's act of dyeing the jeans in flashy colours interfered with the inherent quality of the jeans in question. The court had to analyse the defendant's motive behind the dyeing and found that the use of flashy colours instead of the original muted ones aimed to meet the interests especially demonstrated by young persons in flashily coloured jeans. In the court's view, the modification made to the jeans was tantamount to creating some new jeans.[890]

D. Concluding summary

The discussion in this chapter has revealed a healthy interplay between intellectual property rights and the single market's principle of free movement of goods achieved in the EU through some necessary concessions. The interplay

888 See the judgment of the Germany's Federal Supreme Court in "*Dyed Jeans*" 28(1) IIC 131 *et seq*. (1997), in which Article 13(1) of the CTMR applied and not Article 13(2), since the products whose original condition was claimed to have been changed were first sold in the US, and thereafter imported into the EU.

889 German Federal Supreme Court, "*Dyed Jeans*" 28(1) IIC 131, 133 (1997).

890 German Federal Supreme Court, "*Dyed Jeans*" 28(1) IIC 131, 133 (1997).