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Intent or agreement on sale outside EEA does not preclude exhaustion of trademark rights

AKD | **Intellectual Property - Netherlands**

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In a parallel import case, the Dutch Supreme Court rendered an interesting decision on the relevant circumstances for exhaustion of trademark rights.

Background

A rights holder can control the initial marketing in the European Economic Area (EEA) of goods bearing its trademark. Consequently, it can prohibit the use of its trademark in relation to goods bearing that mark which have been placed on the market in the EEA without its consent.

A sale of trademark products in the EEA by the trademark owner enables the trademark owner to realise the economic value of its trademark and therefore exhausts its rights.

Facts

Hennessy seized consignments of spirits from a parallel importer that were branded with trademarks belonging to Hennessy. Alleging that that the specific consignments were not authorised to be sold within the EEA, Hennessy initiated civil action.

In the civil procedure, it was established that the consignment of spirits that had been offered by the parallel importer originated from Hennessy. They had initially been sold by Hennessy under what is known as "T2 status", a customs regime under which import duties for the EEA have been paid – clearing the goods for circulation in the EEA.

Despite the T2 status, Hennessy advocated that the consignments were not authorised for sale in the EEA because:

- the consignments had been sold by Hennessy to parties outside the EEA (ie, parties in Africa);
- the goods were not intended to be sold in the EEA; and
- the specific consignment had been sold by Hennessy for a price that was lower than the price for marketing in the EEA.

As such, Hennessy had not realised the economic value of its trademark. The Court of Appeal of The Hague found that the T2 status was decisive for the exhaustion. Hennessy took the matter to the Supreme Court.

Decision

The Supreme Court rejected Hennessy's arguments.[(1)] Contrary to what Hennessy had advocated, the Court held that it was irrelevant whether the trademark owner had intended to market the products outside the EEA. The intentions of and agreements between the parties with regard to, for example, the destination of the products did not preclude exhaustion. In this regard, the Supreme Court referred to the European Court of Justice (ECJ) case *Peak Holding*.[(2)] It was also irrelevant, according to the Supreme Court, that the buyer was not established in the EEA.

Furthermore, it was immaterial whether the trademark owner had:

- actually realised the economic value of its trademark; and
- negotiated a lower price with a view to further marketing outside the EEA than it would have done for further marketing within the EEA.

What mattered was that the trademark owner had had the opportunity to realise the economic value of its trademark (ie, to have sold its trademarked products in the EEA).

Comment

The Supreme Court could largely rely upon ECJ EU *Peak Holding* in rejecting Hennessy's arguments where it argued that it was its intention that the goods would not be sold in the EEA. The reasoning that a sale of goods with a T2 status to a buyer outside the EEA does not preclude exhaustion is understandable. A buyer established outside the EEA, after all, can still market the goods in the EEA. With the first sale in the EEA, Hennessy had the opportunity to realise the economic value of its trademark. That the price setting was much lower than for marketing in the EEA was irrelevant. The actual sale is leading, regardless of any intentions, agreements and/or (lower) price settings. This line of reasoning aligns with that of the ECJ in *Peak Holding*.

Following this verdict of the Supreme Court, trademark owners must be cautious with regard to the arrangement of their sales construction for non-EEA intended consignments. The lower-priced Hennessey consignments meant for the African market ended up in the EEA and were unintentionally deemed to have been first placed in the market in the EEA since they were sold under a T2 status.

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Endnotes

(1) Dutch Supreme Court, 23 April 2021, ECLI:NL:HR:2021:641 (Hennessy/LB11).

(2) ECJ, 30 November 2004, C-16/03, ECLI:EU:C:2004:759 (Peak Holding).