

JUDGMENT OF THE COURT (First Chamber)

23 April 2009\*

In Case C-59/08,

REFERENCE for a preliminary ruling under Article 234 EC from the Cour de cassation (France), made by decision of 12 February 2008, received at the Court on 15 February 2008, in the proceedings

**Copad SA**

v

**Christian Dior couture SA,**

**Vincent Gladel**, as liquidator of **Société industrielle lingerie (SIL),**

**Société industrielle lingerie (SIL),**

\* Language of the case: French.

THE COURT (First Chamber),

composed of P. Jann, President of Chamber, M. Ilešič, A. Tizzano (Rapporteur), A. Borg Barthet and J.-J. Kasel, Judges,

Advocate General: J. Kokott,  
Registrar: M.-A. Gaudissart, Head of Unit,

having regard to the written procedure and further to the hearing on 19 November 2008,

after considering the observations submitted on behalf of:

— Copad SA, by H. Farge, avocat,

— Christian Dior couture SA, by J.-M. Bruguière, P. Deprez and E. Bouttier, avocats,

— the French Government, by B. Beaupère-Manokha, G. de Bergues and J.-C. Niollet, acting as Agents,

— the Commission of the European Communities, by H. Krämer, acting as Agent,

after hearing the Opinion of the Advocate General at the sitting on 3 December 2008,

gives the following

### **Judgment**

- <sup>1</sup> This reference for a preliminary ruling concerns the interpretation of Article 7 and Article 8(2) of First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks (OJ 1989 L 40, p. 1), as amended by the Agreement on the European Economic Area of 2 May 1992 (OJ 1994 L 1, p. 3, 'the Directive').
- <sup>2</sup> The reference was made in proceedings brought by Copad SA ('Copad') against Christian Dior couture SA ('Dior'), Société industrielle lingerie ('SIL') and Mr Gladel, in his capacity as liquidator of SIL, in respect of the sale, by SIL to Copad, of goods bearing the Christian Dior trade mark, in contravention of a licence agreement between SIL and Dior.

## Legal context

### *Community law*

3 Article 5(1) to (3) of the Directive provides:

‘1. The registered trade mark shall confer on the proprietor exclusive rights therein. The proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade:

- (a) any sign which is identical with the trade mark in relation to goods or services which are identical with those for which the trade mark is registered;
  
- (b) any sign where, because of its identity with, or similarity to, the trade mark and the identity or similarity of the goods or services covered by the trade mark and the sign, there exists a likelihood of confusion on the part of the public, which includes the likelihood of association between the sign and the trade mark.

2. Any Member State may also provide that the proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade any sign which is identical with, or similar to, the trade mark in relation to goods or services which are not similar to those for which the trade mark is registered, where the latter has a reputation in the Member State and where use of that sign without due cause takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trade mark.

3. The following, inter alia, may be prohibited under paragraphs 1 and 2:

(a) affixing the sign to the goods or to the packaging thereof;

(b) offering the goods, or putting them on the market or stocking them for these purposes under that sign, or offering or supplying services thereunder;

(c) importing or exporting the goods under the sign;

(d) using the sign on business papers and in advertising.’

4 Article 7 of the Directive, in its original version, provided:

‘1. The trade mark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that trade mark by the proprietor or with his consent.

2. Paragraph 1 shall not apply 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.’

5 Pursuant to Article 65(2) of the Agreement on the European Economic Area ('the EEA'), in conjunction with Point 4 of Annex XVII, the original version of Article 7(1) of the Directive was amended for the purposes of the EEA Agreement and the expression 'in the Community' was replaced by the words 'in a Contracting Party'.

6 Article 8 of the Directive provides:

'1. A trade mark may be licensed for some or all of the goods or services for which it is registered and for the whole or part of the Member State concerned. A license may be exclusive or non-exclusive.

2. The proprietor of a trade mark may invoke the rights conferred by that trade mark against a licensee who contravenes any provision in his licensing contract with regard to its duration, the form covered by the registration in which the trade mark may be used, the scope of the goods or services for which the licence is granted, the territory in which the trade mark may be affixed, or the quality of the goods manufactured or of the services provided by the licensee.'

### **The dispute in the main proceedings and the questions referred for a preliminary ruling**

7 On 17 May 2000, Dior concluded a trade mark licence agreement with SIL in respect of the manufacture and distribution of luxury corsetry goods bearing the Christian Dior trade mark, which is owned by Dior.

- 8 Paragraph 5 of Clause 8.2 of that agreement states that ‘in order to maintain the repute and prestige of the trade mark the licensee agrees not to sell to wholesalers, buyers’ collectives, discount stores, mail order companies, door-to-door sales companies or companies selling within private houses without prior written agreement from the licensor, and must make all necessary provision to ensure that that rule is complied with by its distributors or retailers’.
- 9 Since it was faced with economic difficulties, SIL asked Dior for permission to market goods sold under the Christian Dior trade mark outside its selective distribution network. By letter of 17 June 2002, Dior refused to grant that request.
- 10 However, despite that refusal and in breach of its contractual obligations, SIL sold to Copad, a company operating a discount store business, goods bearing the Christian Dior trade mark.
- 11 Therefore, Dior brought an action against SIL and Copad for infringement of a trade mark before the Tribunal de grande instance de Bobigny (Regional Court, Bobigny), which held that SIL’s contravention of the licence agreement did not constitute infringement and that it merely gave rise to contractual liability on the part of SIL.
- 12 The Cour d’appel de Paris (Court of Appeal, Paris), dismissed the appeal brought by Dior against that judgment. In particular, it held that sales by SIL did not constitute infringement on the ground that compliance with the provision in the licence agreement concluded between SIL and Dior relating to conditions governing distribution did not fall within the scope of the national provisions on trade mark law that transposed Article 8(2) of the Directive. The Cour d’appel de Paris, considered, nevertheless, that those sales did not imply exhaustion of Dior’s trade mark rights, for the purposes of the national legislation transposing Article 7(1) of the Directive.

13 Copad brought an appeal before the Cour de cassation (Court of Cassation) against the judgment of the Cour d'appel de Paris, on the grounds, *inter alia*, that the rights over the Dior trade mark were exhausted as a result of SIL having put the goods at issue on the market. For its part, Dior brought a cross-appeal, alleging that the Cour d'appel de Paris was wrong to have ruled out any act of infringement by SIL and Copad.

14 Accordingly, and given that it had doubts as to the interpretation of the relevant Community law, the Cour de cassation decided to stay proceedings and to refer the following questions to the Court of Justice for a preliminary ruling:

- ‘1. Must Article 8(2) of [the Directive] be interpreted as meaning that the proprietor of a trade mark can invoke the rights conferred by that trade mark against a licensee who contravenes a provision in the licence agreement prohibiting, on grounds of the trade mark’s prestige, sale to discount stores?
  
2. Must Article 7(1) of that directive be interpreted as meaning that a licensee who puts goods bearing a trade mark on the market in the [EEA] in disregard of a provision of the licence agreement prohibiting, on grounds of the trade mark’s prestige, sale to discount stores, does so without the consent of the trade mark proprietor?
  
3. If not, can the proprietor invoke such a provision to oppose further commercialisation of the goods, on the basis of Article 7(2) of [the Directive]?’



## The questions referred for a preliminary ruling

### *The first question*

- 15 By its first question, the referring court asks, in essence, whether a provision in a licence agreement prohibiting the licensee, on grounds of the trade mark's prestige, to sell the goods bearing the trade mark covered by the contract to discount stores, falls within the scope of Article 8(2) of the Directive.
- 16 Copad, the French Government and the Commission of the European Communities submit that the Court should answer that question in the negative, primarily because the provision at issue in the main action is not one of the provisions listed exhaustively in Article 8(2) of the Directive. Dior, on the contrary, defends the opposite view.
- 17 In order to respond to the first question, it must be examined first whether the list of provisions in Article 8(2) of the Directive is exhaustive or merely provides guidance.
- 18 In this respect, it must be noted that that provision contains no adverb, or an expression such as 'especially' or 'in particular', that would allow a finding that the list simply provides guidance.
- 19 Moreover, it must be recalled that it is precisely use of the adverb 'especially' that led the Court to find, by contrast, that the examples given in Article 7(2) of the Directive

provided guidance only (see Joined Cases C-427/93, C-429/93 and C-436/93 *Bristol-Myers Squibb and Others* [1996] ECR I-3457, paragraph 39, and Case C-337/95 *Parfums Christian Dior* [1997] ECR I-6013, paragraph 42).

20 Consequently, and contrary to what Dior claims, the very wording of Article 8(2) of the Directive shows that the list set out in it is exhaustive.

21 It must next be established whether a provision such as the one at issue in the main proceedings is one of the provisions expressly mentioned in Article 8(2).

22 In this respect, as regards provisions in a licence agreement concerning ‘the quality of the goods manufactured ... by the licensee’, which that article mentions, it must be recalled that, according to consistent case-law, the essential function of the mark is to guarantee the identity of origin of marked goods or services to the consumer or end user by enabling him, without any possibility of confusion, to distinguish the goods or services from others which have another origin. For the trade mark to be able to fulfil its essential role in the system of undistorted competition which the Treaty seeks to establish and maintain, it must offer a guarantee that all the goods or services bearing it have been manufactured or supplied under the control of a single undertaking which is responsible for their quality (see, inter alia, Case 102/77 *Hoffmann-La Roche* [1978] ECR 1139, paragraph 7; Case C-299/99 *Philips* [2002] ECR I-5475, paragraph 30; and Case C-228/03 *Gillette Company and Gillette Group Finland* [2005] ECR I-2337, paragraph 26).

23 Therefore, it is precisely where the licensee contravenes provisions in the licence agreement concerning, in particular, the quality of the goods manufactured that Article 8(2) of the Directive enables the proprietor of the trade mark to invoke the rights that the directive grants him.

- 24 As the Advocate General stated in point 31 of her Opinion, the quality of luxury goods such as the ones at issue in the main proceedings is not just the result of their material characteristics, but also of the allure and prestigious image which bestows on them an aura of luxury (see also, to that effect, *Parfums Christian Dior*, paragraph 45).
- 25 Since luxury goods are high-class goods, the aura of luxury emanating from them is essential in that it enables consumers to distinguish them from similar goods.
- 26 Therefore, an impairment to that aura of luxury is likely to affect the actual quality of those goods.
- 27 Given that context, it must next be examined whether, in the case in the main proceedings, the sale by the licensee of luxury goods to discount stores which are not part of the selective distribution network set up under the licence agreement, may constitute such impairment.
- 28 In that respect, the Court has already held, contrary to what Copad and the Commission contend, that the characteristics and conditions of a selective distribution system can, in themselves, preserve the quality and ensure the proper use of such goods (see, to that effect, Case 31/80 *L'Oréal* [1980] ECR 3775, paragraph 16).
- 29 Setting up a selective distribution system such as that at issue in the main proceedings which, according to the terms of the licence agreement between Dior and SIL, seeks to ensure that the goods are displayed in sales outlets in a manner that enhances their value, 'especially as regards the positioning, advertising, packaging as well as business

policy', contributes, as Copad acknowledges, to the reputation of the goods at issue and therefore to sustaining the aura of luxury surrounding them.

30 It follows that it is conceivable that the sale of luxury goods by the licensee to third parties that are not part of the selective distribution network might affect the quality itself of those goods, so that, in such circumstances, a contractual provision prohibiting such sale must be considered to be falling within the scope of Article 8(2) of the Directive.

31 It is for the national court having jurisdiction in the matter to examine whether, taking into account the particular circumstances of the case before it, contravention by the licensee of a provision such as the one at issue in the main proceedings damages the aura of luxury of the luxury goods, thus affecting their quality.

32 In this respect, it is important to take into consideration, in particular, first, the nature of the luxury goods bearing the trade mark, the volumes sold and whether the licensee sells the goods to discount stores that are not part of the selective distribution network regularly or only occasionally and, secondly, the nature of the goods normally marketed by those discount stores, and the marketing methods normally used in that sector of activity.

33 Moreover, it should be added that the interpretation of Article 8(2) of the Directive set out in the preceding paragraphs of this judgment cannot be called in question by Dior's arguments that a provision in a licence agreement prohibiting sale to discount stores for reasons connected with the prestige of the trade mark may fall within the scope of other provisions than that relating to the 'quality of the goods', provisions, namely those concerning 'the territory in which the trade mark may be affixed' or 'the quality ... of the services provided by the licensee'.

- 34 In this respect, first, it must be held that Article 8(2) of the Directive must be read in conjunction with paragraph 1 of that Article, which refers to '[the territory of] a Member State', so that, for the purpose of those provisions, the concept of 'territory' can only have a geographic scope and cannot, therefore, be interpreted as referring to a group of authorised outlets belonging to a selective distribution network.
- 35 Secondly, as regards the other possibility put forward by Dior, it must be held that it is apparent from the case-law of the Court that even though no overriding reason based on the Directive or on general principles of Community law precludes services provided in the context of the retail trade of goods from being covered by the concept of 'services' within the meaning of the Directive, the trade mark must have been registered for those services (see, to that effect, Case C-418/02 *Praktiker Bau- und Heimwerkermärkte* [2005] ECR I-5873, paragraph 35).
- 36 Nothing in the documents before the Court suggest that, in the case in the main proceedings, the Christian Dior trade mark was registered for any kind of service.
- 37 In the light of those considerations, the answer to the first question is that Article 8(2) of the Directive is to be interpreted as meaning that the proprietor of a trade mark can invoke the rights conferred by that trade mark against a licensee who contravenes a provision in a licence agreement prohibiting, on grounds of the trade mark's prestige, sales to discount stores such as the ones at issue in the main proceedings, provided it has been established that that contravention, by reason of the situation in the main proceedings, damages the allure and prestigious image which bestows on them an aura of luxury.

*The second question*

- 38 By its second question, the referring court essentially asks the Court to specify the circumstances in which a licensee who puts goods bearing a trade mark on the market in contravention of a provision in a licence agreement prohibiting sale of goods bearing that trade mark to discount stores must be considered to have done so without the consent of the proprietor of the trade mark for the purposes of Article 7(1) of the Directive.
- 39 Copad and the Commission submit, in this respect, that the consent of the proprietor can be considered not to have been given only if the contravention occurs in respect of one of the provisions in a licence agreement listed in Article 8(2) of the Directive. Dior and the French Government, for their part, consider that any contravention of the licence agreement by the licensee precludes exhaustion of the rights conferred by a trade mark on its proprietor.
- 40 For the purpose of responding to the present question, it must be recalled that, according to well-established case-law, Articles 5 to 7 of the Directive embody a complete harmonisation of the rules relating to the rights conferred by a trade mark and accordingly define the rights of proprietors of trade marks in the Community (Case C-355/96 *Silhouette International Schmied* [1998] ECR I-4799, paragraphs 25 and 29, and Joined Cases C-414/99 to C-416/99 *Zino Davidoff and Levi Strauss* [2001] ECR I-8691, paragraph 39).
- 41 In particular, Article 5 of the Directive confers on the trade mark proprietor exclusive rights which entitle him inter alia to prevent any third party from importing goods bearing the mark, offering the goods, or putting them on the market or stocking them for these purposes. Article 7(1) of the Directive contains an exception to that rule, in that it provides that the trade mark proprietor's rights are exhausted where the goods have been put on the market in the EEA by him or with his consent (*Zino Davidoff and Levi Strauss*, paragraph 40; Case C-244/00 *Van Doren + Q* [2003] ECR I-3051, paragraph 33; and Case C-16/03 *Peak Holding* [2004] ECR I-11313, paragraph 34).

- 42 It therefore appears that consent, which is tantamount to the proprietor's renunciation of his exclusive right within the meaning of Article 5, constitutes the decisive factor in the extinction of that right and must, therefore, be so expressed that an intention to renounce that right is unequivocally demonstrated. Such intention will normally be gathered from an express statement of consent (see, to that effect, *Zino Davidoff and Levi Strauss*, paragraphs 41, 45 and 46).
- 43 However, it is also apparent from the case-law of the Court that, in certain circumstances, exhaustion of that exclusive right occurs when the goods are put on the market by a person with economic links to the proprietor. This is particularly the case where that person is a licensee (see, to that effect, Case C-9/93 *IHT Internationale Heiztechnik and Danzinger* [1994] ECR I-2789, paragraph 34).
- 44 In such a situation, the licensor is able to control the quality of the licensee's goods by including in the licence agreement specific provisions requiring the licensee to comply with his instructions and enabling him to check such compliance.
- 45 According to the Court's case-law, the possibility of control suffices for the trade mark to be able to fulfil its essential function, which, as was recalled in paragraph 22 of this judgment, is to offer a guarantee that all the goods bearing it have been manufactured under the control of a single undertaking which is responsible for their quality (see, to that effect, *IHT Internationale Heiztechnik and Danzinger*, paragraphs 37 and 38).
- 46 Consequently, where a licensee puts goods bearing the mark on the market he must, as a rule, be considered to be doing so with the consent of the proprietor of the trade mark, for the purposes of Article 7(1) of the Directive.

- 47 Even though it follows that, in such circumstances, the proprietor of the trade mark cannot plead that the contract was wrongly implemented in order to invoke, in respect of the licensee, the rights conferred on him by the trade mark, the fact remains that, contrary to Copad's submission, the licence agreement does not constitute the absolute and unconditional consent of the proprietor of the trade mark to the licensee putting the goods bearing the trade mark on the market.
- 48 Article 8(2) of the Directive expressly enables the proprietor of the mark to invoke the rights the trade mark confers on him against a licensee where the latter contravenes certain provisions in the licence agreement.
- 49 In addition, as the response to the first question shows, the list of provisions set out in Article 8(2) of the Directive is exhaustive.
- 50 Consequently, as the Advocate General stated in point 47 of her Opinion, only the licensee's contravention of one of those clauses precludes exhaustion of the rights conferred by the trade mark on its proprietor, for the purposes of Article 7(1) of the Directive.
- 51 In the light of the foregoing, the answer to the second question is that Article 7(1) of the Directive is to be interpreted as meaning that a licensee who puts goods bearing a trade mark on the market in disregard of a provision in a licence agreement does so without the consent of the proprietor of the trade mark where it is established that the provision in question is included in those listed in Article 8(2) of that Directive.



*The third question*

- 52 By its third question, the referring court asks whether, where a licensee who puts luxury goods on the market in contravention of a clause in a licence agreement is deemed to have done so with the consent of the proprietor of the mark, that proprietor can nevertheless rely on that clause to oppose further commercialisation of the goods, on the basis of Article 7(2) of the Directive.
- 53 Dior and the French Government submit that the sale of goods bearing the Christian Dior mark to a discount store outside the exclusive distribution network constitutes damage to the reputation of the mark that justifies the application of Article 7(2) of the Directive. Copad and the Commission, by contrast, submit that the sale of such goods to discount stores does not damage the reputation of the trade mark.
- 54 In this respect, it must first be recalled that, according to the settled case-law of the Court referred to in paragraph 19 of the present judgment, use of the adverb ‘especially’ in paragraph 2 of Article 7 of the Directive indicates that alteration or impairment of the condition of marked goods is given only as an example of what may constitute legitimate reasons (*Bristol-Myers Squibb and Others*, paragraphs 26 and 39, and *Parfums Christian Dior*, paragraph 42).
- 55 Accordingly, the Court has already held that damage done to the reputation of a trade mark may, in principle, be a legitimate reason, within the meaning of Article 7(2) of the Directive, allowing the proprietor of the mark to oppose further commercialisation of luxury goods which have been put on the market in the EEA by him or with his consent (see *Parfums Christian Dior*, paragraph 43, and Case C-63/97 *BMW* [1999] ECR I-905, paragraph 49).

56 It follows that where a licensee sells goods to a discount store in contravention of a provision in the licence agreement, such as the one at issue in the main proceedings, a balance must be struck between, on the one hand, the legitimate interest of the proprietor of the trade mark covered by the licence agreement in being protected against a discount store which does not form part of the selective distribution network using that trade mark for commercial purposes in a manner which could damage the reputation of that trade mark and, on the other hand, the discount store's legitimate interest in being able to resell the goods in question by using methods which are customary in its sector of trade (see, by analogy, *Parfums Christian Dior*, paragraph 44).

57 Therefore, should the national court find that sale by the licensee to a third party is unlikely to undermine the quality of the luxury goods bearing the trade mark, so that it must be considered that they were put on the market with the consent of the proprietor of the trade mark, it will be for that court to assess, taking into account the particular circumstances of each case, whether further commercialisation of the luxury goods bearing the trade mark by the third party, using methods which are customary in its sector of trade, damages the reputation of that trade mark.

58 In this respect, it is necessary to take into consideration, in particular, the parties to whom the goods are resold and, as the French Government submits, the specific circumstances in which the luxury goods are put on the market.

59 In the light of the foregoing, the answer to the third question is that, where a licensee puts luxury goods on the market in contravention of a provision in the licence agreement, but must nevertheless be considered to have done so with the consent of the proprietor of the trade mark, the proprietor of the trade mark can rely on such a provision to oppose a resale of those goods on the basis of Article 7(2) of the Directive only if it can be established that, taking into account the particular circumstances of the case, such resale damages the reputation of the trade mark.

## Costs

60 Since these proceedings are, for the parties to the main proceedings, a step in the action pending before the national court, the decision on costs is a matter for that court. Costs incurred in submitting observations to the Court, other than the costs of those parties, are not recoverable.

On those grounds, the Court (First Chamber) hereby rules:

1. **Article 8(2) of First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks, as amended by the Agreement on the European Economic Area of 2 May 1992, is to be interpreted as meaning that the proprietor of a trade mark can invoke the rights conferred by that trade mark against a licensee who contravenes a provision in a licence agreement prohibiting, on grounds of the trade mark's prestige, sales to discount stores of goods such as the ones at issue in the main proceedings, provided it has been established that that contravention, by reason of the situation prevailing in the case in the main proceedings, damages the allure and prestigious image which bestows on those goods an aura of luxury.**
2. **Article 7(1) of Directive 89/104, as amended by the Agreement on the European Economic Area, is to be interpreted as meaning that a licensee who puts goods bearing a trade mark on the market in disregard of a provision in a licence agreement does so without the consent of the proprietor of the trade mark where it is established that the provision in question is included in those listed in Article 8(2) of that Directive.**
3. **Where a licensee puts luxury goods on the market in contravention of a provision in a licence agreement but must nevertheless be considered to have**

**done so with the consent of the proprietor of the trade mark, the proprietor of the trade mark can rely on such a provision to oppose a resale of those goods on the basis of Article 7(2) of Directive 89/104, as amended by the Agreement on the European Economic Area, only if it can be established that, taking into account the particular circumstances of the case, such resale damages the reputation of the trade mark.**

[Signatures]