

JUDGMENT OF THE COURT
16 July 1998 *

In Case C-355/96,

REFERENCE to the Court under Article 177 of the EC Treaty by the Oberster Gerichtshof (Austria) for a preliminary ruling in the proceedings pending before that court between

Silhouette International Schmied GmbH & Co. KG

and

Hartlauer Handelsgesellschaft mbH,

on the interpretation 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 COURT,

composed of: G. C. Rodríguez Iglesias, President, C. Gulmann (Rapporteur), M. Wathelet and R. Schintgen (Presidents of Chambers), G. F. Mancini, J. C. Moitinho de Almeida, J. L. Murray, D. A. O. Edward, P. Jann, L. Sevón and K. M. Ioannou, Judges,

* Language of the case: German.

Advocate General: F. G. Jacobs,
Registrar: H. von Holstein, Deputy Registrar,

after considering the written observations submitted on behalf of:

- Silhouette International Schmied GmbH & Co. KG, by Klaus Haslinger, Rechtsanwalt, Linz,
- Hartlauer Handelsgesellschaft mbH, by Walter Müller, Rechtsanwalt, Linz,
- the Austrian Government, by Wolf Okresek, Ministerialrat in the Chancellor's Office, acting as Agent,
- the German Government, by Alfred Dittrich, Regierungsdirektor in the Federal Ministry of Justice, and Bernd Kloke, Oberregierungsrat in the Federal Ministry of Economic Affairs, acting as Agents,
- the French Government, by Catherine de Salins, Head of Subdirectorate in the Legal Affairs Directorate of the Ministry of Foreign Affairs, and Philippe Martinet, Secretary in the same Directorate, acting as Agents,
- the Italian Government, by Umberto Leanza, Head of the Legal Service in the Ministry of Foreign Affairs, acting as Agent, and Oscar Fiumara, Avvocato dello Stato,
- the Swedish Government, by Erik Brattgård, Departementsråd in the Foreign Trade Department of the Ministry of Foreign Affairs, Tomas Norström, Kans-

liråd in the same Ministry, and Inge Simfors, Hovrättsassessor in the same Ministry, acting as Agents,

- the United Kingdom Government, by Lindsey Nicoll, of the Treasury Solicitor's Department, acting as Agent, and by Michael Silverleaf, Barrister,
- the Commission of the European Communities, by Jürgen Grunwald, Legal Adviser, and Berend Jan Drijber, of its Legal Service, acting as Agents,

having regard to the Report for the Hearing,

after hearing the oral observations of Silhouette International Schmied GmbH & Co. KG, represented by Klaus Haslinger, of Hartlauer Handelsgesellschaft mbH, represented by Walter Müller, of the Italian Government, represented by Oscar Fiumara, and of the Commission represented by Jürgen Grunwald, at the hearing on 14 October 1997,

after hearing the Opinion of the Advocate General at the sitting on 29 January 1998,

gives the following

Judgment

- 1 By order of 15 October 1996, received at the Court on 30 October 1996, the Oberster Gerichtshof referred to the Court for a preliminary ruling under Article 177 of the EC Treaty two questions on the interpretation of Article 7 of the 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, 'the Directive'), as amended by the Agreement on the European Economic Area of 2 May 1992 (OJ 1994 L 1, p. 3, 'the EEA Agreement').

2 Those questions were raised in proceedings between two Austrian companies, Silhouette International Schmied GmbH & Co. KG ('Silhouette') and Hartlauer Handelsgesellschaft mbH ('Hartlauer').

3 Article 7 of the Directive, concerning exhaustion of the rights conferred by a trade mark, provides:

'(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.'

4 In accordance with Article 65(2), in conjunction with Annex XVII, point 4, of the EEA Agreement, Article 7(1) has been amended for the purposes of the Agreement so that the expression 'in the Community' has been replaced by 'in a Contracting Party'.

- 5 Article 7 of the Directive was transposed into Austrian law by Paragraph 10a of the Markenschutzgesetz (Law on the Protection of Trade Marks), the first subparagraph of which provides: 'The right conferred by the trade mark shall not entitle the proprietor to prohibit a third party from using it in relation to goods which have been put on the market in the European Economic Area under that trade mark by the proprietor or with his consent.'

- 6 Silhouette produces spectacles in the higher price ranges. It markets them worldwide under the trade mark 'Silhouette', registered in Austria and most countries of the world. In Austria, Silhouette itself supplies spectacles to opticians; in other States it has subsidiary companies or distributors.

- 7 Hartlauer sells *inter alia* spectacles through its numerous subsidiaries in Austria, and its low prices are its chief selling point. It is not supplied by Silhouette because that company considers that distribution of its products by Hartlauer would be harmful to its image as a manufacturer of top-quality fashion spectacles.

- 8 In October 1995 Silhouette sold 21 000 out-of-fashion spectacle frames to a Bulgarian company, Union Trading, for the sum of USD 261 450. It had directed its representative to instruct the purchasers to sell the spectacle frames in Bulgaria or the states of the former USSR only, and not to export them to other countries. The representative assured Silhouette that it had so instructed the purchaser. However, the Oberster Gerichtshof noted that it had not proved possible to ascertain whether that had actually been done.

- 9 In November 1995 Silhouette delivered the frames in question to Union Trading in Sofia. Hartlauer bought those goods — it has not, according to the Oberster Gerichtshof, been possible to find out from whom — and offered them for sale in Austria from December 1995. In a press campaign Hartlauer announced that, despite not being supplied by Silhouette, it had managed to acquire 21 000 Silhouette frames abroad.

- 10 Silhouette brought an action for interim relief before the Landesgericht Steyr, seeking an injunction restraining Hartlauer from offering spectacles or spectacle frames for sale in Austria under its trade mark, where they had not been put on the market in the European Economic Area ('EEA') by Silhouette itself or by third parties with its consent. It claims that it has not exhausted its trade-mark rights, since, in terms of the Directive, trade-mark rights are exhausted only when the products have been put on the market in the EEA by the proprietor or with his consent. It based its claim on Paragraph 10a of the Markenschutzgesetz and on Paragraphs 1 and 9 of the Gesetz gegen den Unlauteren Wettbewerb (Law against Unfair Competition) and Paragraph 43 of the Allgemeines Bürgerliches Gesetzbuch (General Civil Code, 'the ABGB').
- 11 Hartlauer contended that the action should be dismissed since Silhouette had not sold the frames subject to any prohibition of reimportation into the Community. In its view Paragraph 43 of the ABGB was not applicable. Moreover, it observed that the Markenschutzgesetz does not grant a right to seek prohibitory injunctions and that, given that the legal position was unclear, its conduct was not contrary to established customs.
- 12 Silhouette's action was dismissed by the Landesgericht Steyr and, on appeal, by the Oberlandesgericht Linz. Silhouette appealed to the Oberster Gerichtshof on a point of law.
- 13 The Gerichtshof noted, first, that the case before it concerned the reimportation of goods originally produced by the proprietor of the trade mark and put on the market by the proprietor in a non-member country. It went on to point out that before Paragraph 10a of the Markenschutzgesetz entered into force Austrian courts applied the principle of international exhaustion of the right conferred by a trade mark (the principle that the proprietor's rights are exhausted once the trade-marked product has been put on the market, no matter where that takes place). Finally, the Oberster Gerichtshof stated that the explanatory memorandum to the Austrian law implementing Article 7 of the Directive indicated that it was intended

to leave the resolution of the question of the validity of the principle of international exhaustion to judicial decision.

- 14 Accordingly, the Oberster Gerichtshof decided to stay proceedings and refer the following questions to the Court for a preliminary ruling:

(1) Is Article 7(1) of the 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) to be interpreted as meaning that the trade mark entitles its proprietor to prohibit a third party from using the mark for goods which have been put on the market under that mark in a State which is not a Contracting State?

(2) May the proprietor of the trade mark on the basis of Article 7(1) of the Trade Marks Directive alone seek an order that the third party cease using the trade mark for goods which have been put on the market under that mark in a State which is not a Contracting State?

Question 1

- 15 By its first question the Oberster Gerichtshof is in substance asking whether national rules providing for exhaustion of trade-mark rights in respect of products put on the market outside the EEA under that mark by the proprietor or with his consent are contrary to Article 7(1) of the Directive.

- 16 It is to be noted at the outset that Article 5 of the Directive defines the 'rights conferred by a trade mark' and Article 7 contains the rule concerning 'exhaustion of the rights conferred by a trade mark'.
- 17 According to Article 5(1) of the Directive, the registered trade mark confers on the proprietor exclusive rights therein. In addition, Article 5(1)(a) provides that those exclusive rights entitle the proprietor to prevent all third parties not having his consent from use in the course of trade of, *inter alia*, any sign identical with the trade mark in relation to goods or services which are identical to those for which the trade mark is registered. Article 5(3) sets out a non-exhaustive list of the kinds of practice which the proprietor is entitled to prohibit under paragraph 1, including, in particular, importing or exporting goods under the trade mark concerned.
- 18 Like the rules laid down in Article 6 of the Directive, which set certain limits to the effects of a trade mark, Article 7 states that, in the circumstances which it specifies, the exclusive rights conferred by the trade mark are exhausted, with the result that the proprietor is no longer entitled to prohibit use of the mark. Exhaustion is subject first of all to the condition that the goods have been put on the market by the proprietor or with his consent. According to the text of the Directive itself, exhaustion occurs only where the products have been put on the market in the Community (in the EEA since the EEA Agreement entered into force).
- 19 No argument has been presented to the Court that the Directive could be interpreted as providing for the exhaustion of the rights conferred by a trade mark in respect of goods put on the market by the proprietor or with his consent irrespective of where they were put on the market.
- 20 On the contrary, Hartlauer and the Swedish Government have maintained that the Directive left the Member States free to provide in their national law for exhaus-

tion, not only in respect of products put on the market in the EEA but also of those put on the market in non-member countries.

- 21 The interpretation of the Directive proposed by Hartlauer and the Swedish Government assumes, having regard to the wording of Article 7, that the Directive, like the Court's case-law concerning Articles 30 and 36 of the EC Treaty, is limited to requiring the Member States to provide for exhaustion within the Community, but that Article 7 does not comprehensively resolve the question of exhaustion of rights conferred by the trade mark, thus leaving it open to the Member States to adopt rules on exhaustion going further than those explicitly laid down in Article 7 of the Directive.
- 22 As *Silhouette*, the Austrian, French, German, Italian and United Kingdom Governments and the Commission have all argued, such an interpretation is contrary to the wording of Article 7 and to the scheme and purpose of the rules of the Directive concerning the rights which a trade mark confers on its proprietor.
- 23 In that respect, although the third recital in the preamble to the Directive states that 'it does not appear to be necessary at present to undertake full-scale approximation of the trade mark laws of the Member States', the Directive none the less provides for harmonisation in relation to substantive rules of central importance in this sphere, that is to say, according to that same recital, the rules concerning those provisions of national law which most directly affect the functioning of the internal market, and that that recital does not preclude the harmonisation relating to those rules from being complete.
- 24 The first recital in the preamble to the Directive notes that the trade mark laws applicable in the Member States contain disparities which may impede the free movement of goods and freedom to provide services and may distort competition within the common market, so that it is necessary, in view of the establishment and functioning of the internal market, to approximate the laws of Member States. The ninth recital emphasises that it is fundamental, in order to facilitate the free move-

ment of goods and services, to ensure that registered trade marks enjoy the same protection under the legal systems of all the Member States, but that this should not prevent Member States from granting at their option extensive protection to those trade marks which have a reputation.

- 25 In the light of those recitals, Articles 5 to 7 of the Directive must be construed as embodying a complete harmonisation of the rules relating to the rights conferred by a trade mark. That interpretation, it may be added, is borne out by the fact that Article 5 expressly leaves it open to the Member States to maintain or introduce certain rules specifically defined by the Community legislature. Thus, in accordance with Article 5(2), to which the ninth recital refers, the Member States have the option to grant more extensive protection to trade marks with a reputation.
- 26 Accordingly, the Directive cannot be interpreted as leaving it open to the Member States to provide in their domestic law for exhaustion of the rights conferred by a trade mark in respect of products put on the market in non-member countries.
- 27 This, moreover, is the only interpretation which is fully capable of ensuring that the purpose of the Directive is achieved, namely to safeguard the functioning of the internal market. A situation in which some Member States could provide for international exhaustion while others provided for Community exhaustion only would inevitably give rise to barriers to the free movement of goods and the freedom to provide services.
- 28 Contrary to the arguments of the Swedish Government, it is no objection to that interpretation that since the Directive was adopted on the basis of Article 100a of the EC Treaty, which governs the approximation of the laws of the Member States concerning the functioning of the internal market, it cannot regulate relations

between the Member States and non-member countries, with the result that Article 7 is to be interpreted as meaning that the Directive applies only to intra-Community relations.

- 29 Even if Article 100a of the Treaty were to be construed in the sense argued for by the Swedish Government, the fact remains that Article 7, as has been pointed out in this judgment, is not intended to regulate relations between Member States and non-member countries but to define the rights of proprietors of trade marks in the Community.
- 30 Finally, the Community authorities could always extend the exhaustion provided for by Article 7 to products put on the market in non-member countries by entering into international agreements in that sphere, as was done in the context of the EEA Agreement.
- 31 In the light of the foregoing, the answer to be given to the first question must be that national rules providing for exhaustion of trade-mark rights in respect of products put on the market outside the EEA under that mark by the proprietor or with his consent are contrary to Article 7(1) of the Directive, as amended by the EEA Agreement.

Question 2

- 32 By its second question the Oberster Gerichtshof is in substance asking whether Article 7(1) of the Directive can be construed as meaning that the proprietor of a trade mark is entitled, on the basis of that provision alone, to obtain an order

restraining a third party from using its mark for products which have been put on the market outside the EEA under that mark by the proprietor or with his consent.

33 In its order for reference, as clarified subsequently by letter, the Oberster Gerichtshof has pointed out:

- that the second question was put because the Markenschutzgesetz does not provide for any right to obtain a prohibitory injunction, nor does it contain any provision corresponding to Article 5(1)(a) of the Directive. A prohibitory injunction may be sought in respect of a trade mark infringement only if there is at the same time a breach of Paragraph 9 of the UWG, the application of which presupposes the risk of confusion, which is not the case where the original products of the trade-mark proprietor are concerned;
- in Austrian law, at least according to current academic legal writing, the proprietor of a trade mark has no right to obtain a prohibitory injunction against a person who makes parallel imports or reimports of trade-marked goods, unless the right to a prohibitory injunction is already available under Paragraph 10a(1) of the Markenschutzgesetz. The question thus arises, under Austrian law, whether Article 7(1) of the Trade Marks Directive, which has the same content as Paragraph 10a(1) of the Markenschutzgesetz, provides for such a right to apply for a prohibitory injunction and whether the proprietor of the trade mark can therefore seek, solely on the basis of that provision, an order that a third party cease using the trade mark for goods which have been put on the market under that mark outside the EEA.

34 Under the scheme of the Directive the rights conferred by a trade mark are defined by Article 5, while Article 7 contains an important qualification with respect to that definition, in that it provides that the rights conferred by Article 5 do not

entitle the proprietor to prohibit the use of the trade mark where the conditions laid down in that provision are satisfied.

- 35 Accordingly, while it is undeniable that the Directive requires Member States to implement provisions on the basis of which the proprietor of a trade mark, when his rights are infringed, must be able to obtain an order restraining third parties from making use of his mark, that requirement is imposed, not by Article 7, but by Article 5 of the Directive.
- 36 That being so, it is to be remembered, first, that, according to settled case-law of the Court, a directive cannot of itself impose obligations on an individual and cannot therefore be relied upon as such against an individual. Second, according to the same case-law, when applying domestic law, whether adopted before or after the directive, the national court that has to interpret that law must do so, as far as possible, in the light of the wording and the purpose of the directive so as to achieve the result it has in view and thereby comply with the third paragraph of Article 189 of the Treaty (see, *inter alia*, Case C-106/89 *Marleasing v La Comercial Internacional de Alimentación* [1990] ECR I-4135, paragraphs 6 and 8, and Case C-91/92 *Faccini Dori v Recreb* [1994] ECR I-3325, paragraphs 20 and 26).
- 37 The answer to be given to the second question must therefore be that, subject to the national court's duty to interpret, so far as possible, domestic law in conformity with Community law, Article 7(1) of the Directive cannot be interpreted as meaning that the proprietor of a trade mark is entitled, on the basis of that provision alone, to obtain an order restraining a third party from using his trade mark

for products which have been put on the market outside the EEA under that mark by the proprietor or with his consent.

Costs

- 38 The costs incurred by the Austrian, French, German, Italian, Swedish and United Kingdom Governments and by the Commission of the European Communities, which have submitted observations to the Court, are not recoverable. 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.

On those grounds,

THE COURT,

in answer to the questions referred to it by the Oberster Gerichtshof by order of 15 October 1996, hereby rules:

- 1) **National rules providing for exhaustion of trade-mark rights in respect of products put on the market outside the EEA under that mark by the proprietor or with its consent are contrary to Article 7(1) 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.**

- 2) Article 7(1) of Directive 89/104 cannot be interpreted as meaning that the proprietor of a trade mark is entitled, on the basis of that provision alone, to obtain an order restraining a third party from using his trade mark for products which have been put on the market outside the European Economic Area under that mark by the proprietor or with his consent.

Rodríguez Iglesias

Gulmann

Wathelet

Schintgen

Mancini

Moitinho de Almeida

Murray

Edward

Jann

Sevón

Ioannou

Delivered in open court in Luxembourg on 16 July 1998.

R. Grass

G. C. Rodríguez Iglesias

Registrar

President