

Exhaustion of trademark rights and burden of proof

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Facts

Supreme Court decision

Comment

In a recent decision⁽¹⁾ the Supreme Court gave clear guidelines as to the circumstances in which the burden of proof regarding the exhaustion of trademark rights shifts from the defendant to the trademark owner.

Facts

The plaintiff was a member of a group that manufactured and sold perfumes designated with various union and international word and figurative marks, including INVICTUS, INVICTUS PACO RABANNE, OLYMPÉA, OLYMPÉA PACO RABANNE, 1 MILLION and PACO RABANNE.

The perfumes were sold through a selective distribution system.

The defendant was an Austrian-based retail company which sold drugstore goods and perfume. Despite a respective request, the defendant was not appointed as a selective distributor by the plaintiff. The plaintiff forbade its authorised dealers within the European Economic Area (EEA) to sell to outsiders but allowed them to sell to any other authorised dealer within the EEA. Authorised dealers outside the EEA were prohibited from selling the products to customers outside their territory.

The plaintiff lodged a claim – including a request for interim relief – against the defendant, alleging that the defendant had sold perfumes which were put on the market outside the EEA. The plaintiff requested the court to order the defendant to cease and desist advertising, offering and placing products on the market that were:

- placed on the market outside the EEA; and
- imported into the EEA neither by the plaintiff nor with the plaintiff's consent.

The first-instance court stated that it is generally up to the defendant to prove that the branded products were placed on the market within the EEA either by the trademark proprietor or with their consent. It further held that this burden of proof is to be reversed if the defendant demonstrates that there is a risk of partitioning markets if they are forced to disclose their source. The court concluded that the mere existence of a selective distribution system poses such a risk. Consequently, the first-instance court rejected the claim since the plaintiff had not demonstrated that the products were placed on the market outside the EEA.

The second-instance court overturned the decision and issued an interim cease and desist order. It considered that the concrete selective distribution system did not establish a risk of partitioning markets since the authorised dealers were allowed to sell to customers or other authorised dealers in other EEA states. The burden of proof therefore remained with the defendant.

Supreme Court decision

The Supreme Court rejected the defendant's appeal and clarified once again that the question of

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whether trademark rights are exhausted must be examined only if this issue is raised as a defence whereby the burden of proof generally lies with the defendant.

The burden of proof shifts to the plaintiff only if the defendant can demonstrate that there is a risk of partitioning national markets within the EEA if the defendant must disclose their source (eg, by showing that the plaintiff operates an exclusive distribution system where authorised dealers are prohibited from selling the goods to authorised dealers outside their respective territories or a member state). If the defendant succeeds in proving such a risk of partitioning national markets within the EEA, the plaintiff must allege and prove that the products which are the subject matter of the claim were initially placed on the market outside the EEA. If the plaintiff furnishes such proof, it is again up to the defendant to establish that the plaintiff (ie, the trademark proprietor) consented to putting the products on the market within the EEA.

The Supreme Court stressed that the aim of the burden of proof reversal is to prevent the enforcement of a claim that infringes on the freedom of movement of goods within the EEA. It emphasised that the freedom of movement of goods can be infringed even if antitrust thresholds are not met. Trademark law should not serve the purpose of maintaining price differences in different member states. Selective distribution systems might, in individual cases, cause such a risk; however, the defendant must demonstrate by way of facts that one exists. The mere reference to a selective distribution system is insufficient. Since the defendant had put forward no concrete arguments other than referring to the existence of the selective distribution system, the Supreme Court rejected the appeal.

Comment

The Supreme Court has made clear in this decision that unless the defendant can prove a concrete risk of partitioning markets, it is up to the defendant to prove that the trademark rights relied on by the plaintiff are exhausted. This should be borne in mind when raising this defence.

However, the case law must also be considered by trademark owners operating a selective distribution system. If a selective distribution system forbids authorised dealers to sell to other authorised dealers in other member states, it will be up to the trademark owner to prove that the products in question were put on the market outside the EEA. Trademark owners should therefore create a system (eg, a code imprinted on each product) which allows them to determine where said product was first placed on the market. Due to a recently introduced amendment to the Procedural Act, the plaintiff can seek to avoid disclosing such a tracking system to the defendant by protecting it as a trade secret (while it will have to be disclosed to the court or an expert appointed by the court, the trademark owner can request that the defendant be denied access to information regarding the workings of the code).

For further information on this topic please contact [Claudia Csáky](#) or [Leopold Ferch](#) at [Graf & Pitkowitz Rechtsanwälte GmbH](#) by telephone (+43 1 401 17 0) or email (c.csaky@gpp.at or l.ferch@gpp.at). The [Graf & Pitkowitz Rechtsanwälte GmbH](#) website can be accessed at www.gpp.at.

Endnotes

(1) OGH 19.4.2018, 4Ob154/17a.

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