



From Distributors to Rights Holders: Shifting the Burden of Proof in Trademark Exhaustion Cases

In a recent ruling (4 Ob56/24z), the Austrian Supreme Court addressed a key procedural issue in trademark law: the issue of who bears the burden of proof for the initial placement of goods on the EU/EEA market. Departing from previous national case law, the court held that under certain circumstances the burden of proof does not rest with the distributor, but rather with the trademark owner.

Legal Basis and Facts

The decision regards the principle of exhaustion (Article 15 (1) of the EU Trade Mark Regulation and Section 10b of the Austrian Trademark Protection Act). Under this principle, trademark rights are exhausted once goods are placed on the market in the EU/EEA by the trademark owner or his/her consent. The rationale being that once the goods are legally on the EU/EEA market, the goods are free to float. If however, the goods were first placed on the market outside the EU/EEA and subsequently imported into the EU/EEA by a third party the rights of the trademark owner are infringed.

The present case concerns a French group company holding several international and EU trademarks for perfumery products. Its goods are distributed through a selective distribution system, which allows sales only through authorized distributors who must adhere to specific quality standards. Authorized distributors within the EEA may (re)distribute the products to other authorized distributors within the EEA only. Similarly, third country authorized distributors are only permitted to (re)distribute the products within their own state of incorporation.

The defendant is an Austrian drugstore and perfumery products retailer. It is not an authorized distributor of the claimant, but obtains the applicant's products from two EU-based suppliers — also not authorized distributors. The EU suppliers of the defendant did not disclose their supply chain, but have verbally assured the defendant that (i) the products are intended exclusively for the EEA market, (ii) were obtained from authorized distributors, and (iii) were first placed on the market within the EEA.

During test purchases, the plaintiff's employees acquired two perfumes at the defendant's stores. Relying on an internal barcode system — accessible only within its own organization — the applicant asserted the perfumes were originally placed on the market in the United Arab Emirates for exclusive distribution within that region. The applicant subsequently sought an injunction against the defendant, arguing that the products had not been placed on the EEA market with its consent, for which reason its trademark rights were not exhausted.

The defendant requested dismissal of the action, contending that the plaintiff's barcode system does not offer an objective means for third parties to verify that the products were first marketed in the UAE. It pointed to its long-standing, trustworthy suppliers and their assurances that the goods were sourced lawfully within the EEA.

Lower Courts

The court of first instance upheld the claim. Although the plaintiff was unable to conclusively prove that the products purchased during the test purchases had been placed on the market outside the EEA for exclusive distribution in the UAE, established case law holds that trademark exhaustion is only to be assessed if it is raised as a defense by the defendant. Accordingly, under the rules of procedure the burden of proof was on the defendant to demonstrate that the perfumes in question had been placed on the market within the EEA by the trademark owner or with its consent. Under applicable case law this rule would not apply if the defendant had asserted—and substantiated—that disclosing its sources would risk market foreclosure within the EU/EEA. The court of first instance took the view that the



defendant did not sufficiently demonstrate that there was such a restriction on cross-border trade within the internal market. Therefore, the injunction was granted.

The Court of Appeal rejected the defendant's appeal and affirmed the reasoning and legal assessment of the lower court.

SUPREME COURT

The Austrian Supreme Court upheld the defendant's appeal with regard to the recent case law of the Court of Justice of the European Union (CJEU). In doing so, it referred to the CJEU judgment of January 18, 2024, in C-367/21 (*Hewlett Packard*), which also addressed the question of who bears the burden of proof concerning the initial placing of goods on the market.

As in the present case, that judgment dealt with trademarked goods acquired by a defendant within the EU/EEA after receiving assurances from suppliers that the goods could be lawfully marketed there in accordance with legal requirements. The goods likewise bore no markings enabling third parties to determine the intended market, and the trademark owner refused to disclose this information. The goods were also distributed via a (similarly structured) selective distribution network, in which authorized distributors are only permitted to resell the products to other authorized distributors or to end consumers.

The CJEU found that, under such circumstances, fulfilling the burden of proof regarding the initial placing on the market poses significant challenges for the defendant; it enables trademark owners to obstruct parallel imports thereby posing a restriction on the free movement of goods - in manner not justified by the legitimate protection of the right conferred by the trademark in question.

Accordingly, the CJEU held that the criterion of a risk of market foreclosure within the EU/EEA was satisfied under these conditions. If a defendant was able to demonstrate such a risk, it is for the national courts to modify their national evidentiary rules in such a way that the burden of proof regarding the first placement of the goods on the market outside the EEA falls on the trademark owner.

COMMENT

With the present judgement, the Austrian Supreme Court aligned its jurisprudence with that of the CJEU.

In future it will be up to the trademark owner to keep track of the market where the goods in question are first put onto the market and provide evidence that the products have been put on the market outside the EU/EEA when claiming trademark infringement. If the system with the help of which the trademark owner is able to determine where the products were put on the market constitutes a trade secret procedural rules may allow that the concrete working of the system is not disclosed to the defendant but to a court appointed expert only (Sect 26h Act on Unfair Competition).

According to the judgment of the CJEU and the Supreme Court the new rules on burden of proof apply if the defendant relied on *credible suppliers*; since the defendant however, does not have to disclose his/her "credible" suppliers, it remains to be seen how the credibility of the suppliers will be determined by the courts.