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ECJ interprets Article 7(1) of Directive 2008/95 in SCHWEPPES case

European Union - Dr Helen G Papaconstantinou and Partners Law Firm

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International
Infringement
Parallel imports
Enforcement

- **ECJ has interpreted Article 7(1) of Directive 2008/95 in a case involving the SCHWEPPES mark**
- **Some national SCHWEPPES marks had been assigned to a third party**
- **Assignor's strategy with that third party could be detrimental to the brand owner's ability to oppose parallel imports**

In *Schweppes SA v Red Paralela SL* (Case C-291/16, December 20 2017), which concerned the exhaustion of the rights conferred by the trademark SCHWEPPES, the Second Chamber of the Court of Justice of the European Union (ECJ), following a request for a preliminary ruling by the Commercial Court No 8 of Barcelona, offered an interpretation of Article 7(1) of Directive 2008/95. In doing so, it highlighted that an assignor's strategy as regards its relationship with the new owner after the assignment of part of its trademarks could prove to be detrimental to the brand owner's ability to oppose parallel imports.

In 2014 Spanish company Schweppes SA, which is a subsidiary of the Orangina Schweppes Group and the owner of the Spanish registered trademark SCHWEPPES, opposed the importation and marketing in Spain by the company Red Paralela of Schweppes tonic water, manufactured in the United Kingdom, where Coca-Cola owns the SCHWEPPES trademark. Schweppes SA claimed that the marketing in Spain of bottles of tonic water under the trademark SCHWEPPES was unlawful because they had not been manufactured by itself or with its consent, but by Coca-Cola, which was not economically or legally connected with the Orangina Schweppes Group. Red Paralela, on the other hand, claimed that there had been an exhaustion of Schweppes' trademark rights, and that Coca-Cola and Schweppes International were undeniably linked, legally and economically, in their joint exploitation of the SCHWEPPES sign as a universal trademark.

The Barcelona Commercial Court considered several actions and strategies of Schweppes International, the owner of the parallel marks in part of the European Economic Area, and of Coca-Cola, the owner of such marks in the other part thereof, which indicated that the first promoted a global image of the SCHWEPPES trademarks and the second contributed to maintaining it. It then turned to the ECJ with several questions, asking it in essence to clarify whether Article 7 of Directive 2008/95, in combination with Article 36 of the Treaty on the Functioning of the European Union (TFEU), permitted Schweppes SA to prevent parallel imports on the basis of Spanish trademark registrations.

The ECJ stressed that the essential function of a trademark is to enable consumers or end users to distinguish the trademarked product from goods having a different origin, thus guaranteeing the identity of the origin of such product. According to the court, the mere fact that the trademark owner's mark and that affixed to the product, whose import the trademark owner seeks to prohibit, belonged to the same proprietor in the first place, does not deprive the trademark owner of the right to oppose the import of an identical or similar product under an identical trademark or one that could lead to confusion, where the product has been produced and circulated in another member state by a third party that is not economically linked with the trademark owner. However, this is not the case when, after having assigned some national parallel trademarks to a third party, the trademark owner actively and deliberately continues to promote the appearance or image of a single global trademark, thus causing or increasing the public's confusion as to the origin of the goods in question. In such a case, according to the court, the trademark owner compromises or distorts the essential function of the trademark and may not oppose parallel imports.

The ECJ stressed, however, that the trademark owner will not to be considered to be compromising or distorting this essential function when it merely evokes the historical geographical origin of the national parallel trademarks.

The court further emphasised that it was the possibility of control over the quality of the goods, and not the actual exercise of the control, that was of decisive importance. It recognised that, although an assignment, by itself, does not provide the assignor with any means of controlling the quality of the goods marketed by the assignee, the 'economic link' criterion is nevertheless fulfilled in cases where, after the division of national parallel trademarks as a result of a territorially limited assignment, the owners of these trademarks coordinate their commercial strategies or enter into agreements in order to exercise joint control over the use of said marks.

In the light of all the above, the ECJ concluded that Article 7(1) of Directive 2008/95, in combination with

Article 36 of the TFEU, has to be interpreted as depriving the owner of a national trademark of the right to oppose parallel imports from another member state in which that mark, which was initially owned by that proprietor, has now been assigned to a third party, when, following that assignment:

- the owner, either alone or in a coordinated trademark strategy with that third party, has actively and deliberately continued promoting the appearance or image of a single global trademark, thus causing or increasing confusion on the part of the public concerned as to the commercial origin of goods sold under that mark; or
- there are economic links between the owner and that third party, inasmuch as they coordinate their commercial policies or enter into an agreement with the purpose of exercising joint control over the use of the trademark, so that they can determine, directly or indirectly, the goods to which the trademark is affixed and to control the quality thereof.

Maria Athanassiadou, Dr Helen G Papaconstantinou and Partners, Athens

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