

# The Cour de Cassation confirms the exception to the concept of exhaustion of a trademark proprietor's rights

In a judgment dated May 24, 2011<sup>[1]</sup>, the *Cour de Cassation* (French Supreme Court) recalled that the proprietor of a trademark can, if it has legitimate reasons, oppose further sale of its products even when products have been previously marketed by it - or with its consent - with the European Union or European Economic Area.

The commented decision provides an example of what is considered as an exception to the concept of exhaustion of a trademark proprietor's rights within the sense of Article L. 713-4 §2 of the French Intellectual Property Code.

## The concept of exhaustion of a trademark proprietor's rights

Pursuant to Article L. 713-4 §1 of the French Intellectual Property Code, the proprietor of a trademark is not entitled to prohibit its use in relation to products that have been put on the market of the European Union or European Economic Area under that trademark by the proprietor itself or with its consent. This is the concept of exhaustion of a trademark proprietor's rights.

## The exception to the concept of exhaustion of a trademark proprietor's rights

Yet, Article L. 713-4 §2 of said Code somewhat qualifies this general rule by stipulating that even if the products have been marked in the conditions set forth in §1 of said Article, the proprietor of the trademark may oppose further sale of the products where there exist **legitimate reasons**, especially if the condition of the products is **changed** or **altered** after they have been put on the market.

## **In the commented decision, the *Cour de Cassation* rejected the concept of exhaustion of the proprietor's rights**

In the commented decision, following the liquidation of an authorized distributor of the proprietor of a perfume and luxury cosmetics brand, a stock of branded products had been auctioned off with the authorization of the liquidator.

The discounter that purchased this stock of products was sued for trademark infringement because of the conditions in which it resold these products. As a defense, the discounter claimed that the trademark proprietor's rights on such products had been exhausted.

To establish whether the discounter was guilty of trademark infringement, the Court of Appeals took into account the following elements:

- The trademark proprietor had clearly informed the liquidator of its objection to the auction,
- The trademark proprietor had offered to buy-back the stock of products,
- The products in question were offered for sale and sold by the discounter in a discount store, in a populous commercial zone, amongst numerous unsorted products, sometimes even in their shipping box,
- And the image of the trademark had been used on a sign as a "bait brand".

The Court of Appeals thus considered that the conditions of display for the sale of the products in question were incompatible with the image of the brand.

Based on these elements the Court of Appeals deduced that the proprietor of the trademark had a legitimate reason to oppose further sale of its products and to claim the absence of exhaustion of the rights to its trademark.

The trial judges also noted that the liquidator's order authorizing the sale of the products by auction had never been notified to the proprietor of the trademark, that the latter had expressed its objection to the auction as soon as it became aware thereof and that it had offered to buy-back the products in the conditions set forth in the selective distribution agreement entered into with its authorized distributor.

Consequently, the Court of Appeals held that the proprietor of the trademark had not consented, even impliedly, to further sale of the products in question.

The discounter was therefore found guilty of trademark infringement.

The *Cour de Cassation* considered that the trial judges had substantiated the existence of legitimate reasons within the meaning of Article L. 713-4 § 2 of the French Intellectual Property Code, upheld the part of the judgment of the Court of Appeals that rejected the exhaustion of the trademark proprietor's rights claimed by the discounter and that found the latter guilty of trademark infringement.

This decision follows another decision rendered last year by the *Cour de Cassation* in a similar case in favor of the same trademark proprietor. In that specific case, the *Cour de Cassation* had judged that the trademark proprietor had a legitimate reason to oppose further sale of these products under its trademark insofar as the sale was performed after the relevant product had been auctioned off, in a manner and in display conditions that affected the value of the brand and tarnished the allure and image of the reputable brand.<sup>[2]</sup>

## **The necessity to substantiate actions for infringement and actions for unfair competition by distinct facts**

On the other hand, in the commented decision, the *Cour de Cassation* overturned the part of the judgment of the Court of Appeals that found the discounter guilty of unfair competition practices.

Indeed, to establish the offense of unfair competition, the trial judges had considered that the discounter, by displaying the relevant products as discount products, discontinued products or products recovered from disasters or bankruptcies, had distributed upscale luxury products bearing a particularly well-known prestigious brand in conditions that necessarily damaged the image and prestige of that brand.

The trial judges had also noted that the discounter wanted to benefit from the reputation of the brand and of the products in question to attract a clientele that it could not longer satisfy.

The *Cour de Cassation* quashed this part of the judgment, considering that the trial judges, to establish the offense of unfair competition, had not put forth facts distinct from those relied upon to justify the absence of exhaustion of the trademark proprietor's rights and the conviction of the discounter for trademark infringement.

In ruling so, the *Cour de Cassation* recalled an established case-law according to which even if a conviction for unfair competition and trademark infringement can be sought in same case, these two offenses must be substantiated by distinct facts.<sup>[3]</sup>

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[1] *Cass. Com.*, 24.05.2011, n°10-18.474, *SAS Chanel c/ Société Capi*

[2] *Cass. Com.*, 23.03.2010, n°09-65.839, *SAS Chanel c/ SARL Caud*

[3] *See Cass. Com.*, 16.12.2008, n°07-17.092 ; *Cass. Com.*, 23.03.2010, n°09-65.839



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