

World Trademark Review Daily

**Defence of exhaustion of rights rejected in parallel import case
United Kingdom - McDermott Will & Emery UK LLP**

**International
Parallel imports**

February 16 2010

In *Sun Microsystems Inc v M-Tech Data Ltd* ([2009] EWHC 2992 (Pat), November 25 2009), the High Court of England and Wales has held that *Sun Microsystems Inc* was entitled to summary judgment in respect of the parallel import of computer equipment by *M-Tech Data Ltd*, rejecting M-Tech's defence of exhaustion of rights by Sun Microsystems.

Sun Microsystems is a US corporation which makes and sells computer systems and equipment. M-Tech purchased 64 Sun Microsystems disk drives from a US broker, imported them into the United Kingdom and sold them on. Sun Microsystems brought action against M-Tech for trademark infringement, as the disk drives were put on the market in the United Kingdom without its consent. Summary judgment was sought.

M-Tech argued the following three points:

- Sun Microsystems had failed to establish where the drives were first marketed. Since Sun Microsystems was active in the secondary market, it could itself have placed the drives on the market in the European Economic Area (EEA), in which case its rights were exhausted.
- Enforcement of Sun Microsystems' rights was contrary to Articles 28 to 30 of the [EC Treaty](#), as its effect would be to prevent the attainment of a single market in Sun Microsystems' hardware.
- The enforcement by Sun Microsystems of its trademark was connected with agreements which were prohibited by Article 81 of the EC Treaty.

M-Tech submitted that Sun Microsystems' refusal to provide resellers with information from its database about the provenance of Sun Microsystems products and the lack of a serial number tracking system had led to the industry not being able to tell second-hand products from grey imports.

Sun Microsystems provided consumers with its list of authorized resellers and made it clear that no other sellers were authorized to sell its products. Sun Microsystems allegedly takes an aggressive approach to trademark litigation. Traders, unable to distinguish between second-hand products and parallel imports, were afraid to deal in any Sun Microsystems hardware for fear of infringement action.

In M-Tech's view, this had the consequence that:

- the legitimate market in Sun Microsystems hardware in the EEA was artificially partitioned;
- legitimate parallel imports of Sun Microsystems hardware have been reduced to marginal levels; and
- Sun Microsystems has been able to control the secondary market in its hardware via its own authorized network, and to maintain artificially high prices.

M-Tech submitted that this was contrary to Articles 28 to 30 of the EC Treaty.

Further, M-Tech argued that the network of agreements between Sun Microsystems and its authorized resellers contained a term which prevented those resellers from buying Sun Microsystems products from independent distributors, unless those products were unavailable from within the authorized network. This had the effect of restricting or distorting competition in the secondary market for Sun Microsystems hardware, thereby affecting trade between member states in contravention of Article 81 of the EC Treaty. The enforcement by Sun Microsystems of its trademark rights had the effect of reinforcing the offending agreements by preventing traders and consumers from obtaining Sun Microsystems products which had previously been sold in the EEA by Sun Microsystems or with its consent.

Sun Microsystems accepted, for the purpose of this application, that the agreements with its distributors were contrary to Article 81, but submitted that there was no nexus between the alleged breach and the enforcement of its trademark rights to prevent grey imports. Following *Keurkoop BV v Nancy Kean Gifts BV* (Case 144/81), the enforcement of those rights could not be connected with the agreements in breach of Article 81.

The court rejected M-Tech's argument that it was a distinct possibility that Sun Microsystems had placed the drives on the market within the EEA merely because it controlled 40% of the market. It accepted Sun Microsystems' evidence that the drives were first placed on the market in China, Chile and the United States, and noted that M-Tech had not put forward any evidence that they had subsequently been imported into the EEA by Sun Microsystems, or with its consent, prior to their importation by M-Tech.

World Trademark Review *Daily*

Turning to the grounds based on Articles 28 to 30, the court referred to the European Court of Justice's (ECJ) interpretation of Articles 5 to 7 of the [First Trademarks Directive](#) (89/104/EEC) (now the [Trademarks Directive](#) (2008/95/EC)) setting out the scope of the concept of Community exhaustion. The court held that these articles, as interpreted by the ECJ in [Zino Davidoff SA v A & G Imports](#) (Joined Cases C-414 to 416/99), made it clear that the placing of goods bearing a registered trademark on the market outside the EEA did not exhaust the proprietor's right to oppose the importation of those goods without its consent. Moreover, the proprietor retained the right to control the initial marketing of those goods in the EEA. Consent to the marketing of the goods in the EEA could not be inferred from mere silence, or from the fact that the goods carried no warning of a prohibition against importation into, and sale in, the EEA.

The High Court distinguished *Centrafarm v Winthrop BC* (Case 16/74), *Hoffmann-La Roche & Co v Centrafarm* (Case 102/77) and *Keurkoop*, holding that these cases, and the reconciliation that they involved between IP rights on the one hand and the free movement requirements on the other, had no relevance to the question before it, which involved not a national right, but rather a right conferred by the EU legislature.

Finally, the court accepted Sun Microsystems' submissions on Article 81, holding that the disappearance of the independent secondary market in Sun Microsystems hardware was not attributable to the offending network of agreements between it and its authorized distributors, but to the inability of the traders to ascertain the provenance of the Sun Microsystems hardware in which they were dealing. Furthermore, there was no connection between the enforcement by Sun Microsystems of its rights and the requirement to buy hardware from within the network wherever possible. Accordingly, M-Tech's allegation that the exercise by Sun Microsystems of its registered trademark rights was prohibited by Article 81 had no real prospect of success.

Cheng Tan, McDermott Will & Emery UK LLP, London

World Trademark Review (www.worldtrademarkreview.com) is a subscription-based, practitioner-led, bi-monthly publication and daily email service which focuses on the issues that matter to trademark professionals the world over. Each issue of the magazine provides in-depth coverage of emerging national and regional trends, analysis of important markets and interviews with high-profile trademark personalities, as well as columns on trademark management, online issues and counterfeiting.