



THE CASE

– *Mastercigars Direct v Hunters & Frankau/Corporacion Habanos*

– UK court of Appeal
8 march 2007

Close but no cigar...

🌐 *has Sir Hugh Laddie's medal been won?*



Dr. Brian Whitehead and Richard Kempner of Addleshaw Goddard discuss the *Mastercigars Direct v Hunters & Frankau/Corporacion Habanos* case in relation to *Davidoff*

Current European trademark law permits trademark owners to divide the world market into two blocks: European Economic Area (“EEA”) and non-EEA. Article 7 of the Trade Marks Directive 89/104 provides that a registered trademark “shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that trademark by the proprietor or with his consent”. This is known as the doctrine of “exhaustion of rights”, and it ensures that goods can be moved freely within the EEA. However, the situation in respect of goods placed on the market outside the EEA is different. In *Zino Davidoff v A & G Import*, the ECJ confirmed that there is no doctrine of international exhaustion of rights. A trademark proprietor is entitled to prohibit resale of goods within the EEA of goods that were first sold outside the EEA, unless it can be shown that the proprietor consented to the goods being sold within the EEA.

The *Davidoff* decision is controversial, and a widespread view of the decision is perhaps best illustrated by a comment of Laddie J, reported in the Guardian on 24 June 2005: “If you’ve found a way around *Davidoff*, I will personally give you a medal”. Jacob LJ, in the decision discussed in this article, said by way of introduction to the law:

“I suppose nearly all members of the public would think that you cannot infringe a trademark if you are just selling the genuine goods of the proprietor to which he has applied his trademark. Many (probably most) trademark lawyers think that ought to be the rule... So the public would be surprised to know (and perhaps somewhat resentful of the

fact) that the law of the EEA is such that if genuine goods are available outside Europe much cheaper than they are here, traders cannot buy them and import them for sale here, unless the trademark owner has consented... generally the rule is self-evidently rather anti-competitive and protectionist. Our task is not to consider whether the rule is good or bad from an economic perspective. It is to apply it”.

A chink in the armour of *Davidoff* was provided, in the case itself, by the refusal of the ECJ to hold that only express consent to first marketing within the EEA will suffice to exhaust the trademark owner’s rights. Instead, in *Davidoff* the ECJ opened the possibility of a subsequent reseller of goods relying on implied consent of the trademark owner, albeit with the following caveats:

- The factors taken into consideration in finding implied consent must *unequivocally demonstrate* that the trademark proprietor has renounced any intention to enforce his exclusive rights;
- It is for the trader alleging consent to prove it and not for the trademark proprietor to demonstrate its absence;
- Implied consent cannot be inferred from the mere silence of the trademark proprietor;
- Implied consent cannot be inferred from the fact that the trademark proprietor has not communicated his opposition to marketing within the EEA or from the fact that the goods do not carry any warning that it is prohibited to place them on the market within the EEA.
- Implied consent cannot be inferred from the fact that the trademark proprietor transferred ownership of the goods bearing the mark without imposing

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contractual reservations.

Several attempts have been made in the English courts to establish implied consent, but up until now all have failed. For example, in *Roche Products v Kent Pharmaceuticals*, Roche sold a batch of diagnostic test strips solely for use in trials in the Dominican Republic. The defendant argued that the fact that the strips bore a CE mark and had instructions in various European languages meant that implied consent to resell within the EEA was established. The court disagreed, holding that it did not follow from the fact that the packaging indicated the product complied with a European standard that permission for sale in Europe had been given.

The case

In *Mastercigars Direct v Hunters & Frankau/Corporacion Habanos*, an English court has for the first time found that implied consent has been given by a TM owner. Corporacion Habanos SA (“HSA”) is a Cuban company which owns a number of trademarks in relation to cigars. Mastercigars had imported consignments of Cuban cigars into the UK, with the intention of selling those cigars within the EEA. HM Customs & Excise, at the bequest of Hunters & Frankau (HSA’s UK distributor) seized one such consignment on the grounds that it was counterfeit. Mastercigars sought a declaration that the consignment was neither counterfeit nor infringing.

The details of the case are relatively complex, but the salient facts are as follows:

- Certain retail outlets (“Casas”) in Cuba permit foreign individuals to purchase up to \$25,000 worth of cigars on any one occasion. This limit is set by HSA. The court held that such a quantity is a commercial quantity, well above what would be required for personal use;
- Such purchases are recorded on a customs invoice, which contains instructions written in Spanish, English, French and German. Jacob LJ pointed out apart from the German speaking cantons of Switzerland, he cannot think of any country outside the EEA which is German speaking, and that the author of the invoice must have “expected and intended that a German purchaser will buy and take home for resale”;
- Whilst the Casas and the HSA are separate organisations, the court held that the important issue is what is actually happening in practice i.e. the actual knowledge and actual, practical control or

the right of control by the TM owner. The facts before the court established that HSA has, at the very least, *de facto* control of what is going on in the Casas;

- Documents disclosed by HSA revealed that HSA, the Casas, Cuban Customs and the relevant Cuban Ministry held regular

meetings concerning every aspect of the domestic market, including sales to foreigners who would be taking the goods out of the country. The court held that it was clear that there was a common concern that the domestic market should be a source of hard currency, and that the “clear implication” of the minutes was that it was known that domestic sales would affect the market abroad;

- The HSA received a royalty on sales by the Casas, in addition to the price at which cigars are supplied, giving an incentive for the HSA to consent to the Casas’ sales.

Taking the above into account, the Court of Appeal, overruling the High Court, held that HSA had consented to resale of the cigars in the EEA. Jacob LJ stated:

“It seems to me blindingly obvious that HSA are saying in effect to the Casas “you can sell these small but commercial quantities to foreigners and if you do you must give them the appropriate documentation so they can go through Customs so they can take them home to sell.” And that conclusion leads ineluctably to the conclusion that consent to the use of the trademarks on the purchaser’s home market is given. The “unequivocal” test is passed. Despite having exclusive distributors outside Cuba, HSA were prepared not only to tolerate but to allow small commercial quantities to be purchased by foreigners within Cuba for them to take out and re-sell abroad”.

Whilst the mere turning of a blind eye to parallel trade could not suffice to imply consent, HSA had facilitated the parallel trade in addition to failing to police, which to Jacob LJ “suggests a positive decision to condone (i.e. consent to) the parallel trade”.

Therefore, the consignments in question did not give rise to trademark infringement.

Discussion

Does the *Mastercigars* decision give rise to a principle of general applicability for parties wishing to make parallel imports of trademarked products into the EEA? In the authors’ opinions, the answer to this is, clearly, “no”. Decisions in this area of law are

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heavily dependent upon the precise circumstances in which the goods were originally sold. The Court of Appeal was referred to 9 cases on parallel imports decided by the English courts since *Davidoff*, but Jacob LJ held that these do not “advance the argument one whit. They are decisions that the facts in those cases (which differ markedly from those here) did not establish that consent must be inferred”. Indeed, Jacob LJ declined even to hold that the decision meant that Mastercigars could repeat its purchases and importations, stating that “Whether they can or not will depend on the detailed circumstances as regards each consignment”. It remains the case therefore that a would-be parallel importer must consider whether implied consent can be made out on the facts and circumstances of each batch of goods.

Nonetheless, the decision is important in two respects. First, it demonstrates that the concept of “implied consent” is achievable in practice, given an appropriate set of facts. Certain judges and commentators had suggested that “implied consent” was a purely theoretical concept which could never be achieved in practice. For example, Pumfrey J stated in *Levi Strauss v Tesco* “It seems to me that the clear thrust [of the ECJ’s judgment in *Davidoff*] is that only express consent to subsequent marketing within the EEA will suffice”.

Secondly, and more speculatively, it may signal the beginning of a new, more liberal approach by the English courts to the issue of parallel imports from outside the EEA. Of course, only time will tell whether this is indeed the case, but clearly this decision, following an unbroken line of decisions favouring the trademark owner, may mean that the tide has turned. In any case, it appears that Sir Hugh will now be required to make good on his promise to award a medal! 