

# Intellectual Asset Management



## Overlap between parallel imports and the protection of IP rights

### Korper & Partneri - Croatia

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The Competition Council often receives queries on the regulation prescribing the protection of free market competition, in particular, whether the regulation allows the parallel import of products by way of passive sales in a geographical area where an exclusive distributor of the same kind of product is active. The council's response is as follows:

"The Croatian legislation regulating the protection of market competition poses no obstacles to the parallel import of products by way of passive sale in the market where an exclusive distributor of the same products is already active."

An exclusive distribution agreement is a vertical agreement between entrepreneurs which are not operating at the same level of production by which the producer or supplier agrees to deliver goods exclusively to the buyer or distributor for the purpose of further sale in a specified territory.

### National legislation

Article 9(1) of the Market Competition Protection Act generally prescribes that agreements which prevent, limit or disrupt market competition on a relevant market are forbidden.

However, Article 10 of the act provides a block exemption from Article 9(1) for agreements which:

- contribute to the promotion of production or distribution of goods and/or services;
- contribute to the promotion of technological or economic development; or
- provide the consumer with proportional benefits.

Such agreements must not impose on entrepreneurs limits that go beyond what is necessary to achieve the stated purposes - that is, entrepreneurs must not be allowed to exclude the majority of the competition from the market for the goods and/or services specified in the agreement.

Article 11 of the act expressly provides that the block exemption applies to vertical agreements.

The Directive on Block Exemptions for Vertical Agreements (NN51/04) provides more detail on the act's provisions, including:

- the conditions for the block exemption of vertical agreements;
- provisions that such agreements must contain;
- provisions that such agreements must not contain; and
- other conditions which must be met for a block exemption of the agreement from the act's provisions.

Article 3 of the directive sets out the vertical agreements to which the directive relates, including agreements which allow for the use of IP rights, on the condition that such provisions do not constitute the primary objective of such agreements and that they are directly linked to the use, sale and/or resale of agreed products by the buyers.

Article 9 of the directive defines the limitations that vertical agreements must not contain (eg, severe limitations of market competition) and exemptions from these limitations.

Article 9(4) of the directive sets out four types of limitation which are not deemed to be severe limitations of market

competition and which are therefore allowed. For example, the supplier is allowed to limit or forbid the distributor from actively selling in an exclusively assigned area or to an exclusive group of buyers reserved to the supplier, provided that such limitations do not prevent further sales by that distributor.

However, in this case a ban on passive selling is not allowed – this would be considered a severe limitation of market competition because it would achieve absolute territorial protection of individual distributors. Absolute territorial protection enables a distributor to obtain a monopoly in the market, fixing prices above competitive price and realising extra profit.

In this context, “active sale” includes:

- actively seeking and approaching buyers or a specific group of buyers which are located in the exclusive territory of another distributor;
- making individual contracts;
- undertaking measures to offer products to such buyers; and
- establishing affiliates or organising a distribution network and advertising in the exclusive territory of another distributor.

The term “active approach” also covers:

- visiting buyers;
- sending mail, including email, to buyers; and
- advertising via the media and other public information services targeted exclusively at buyers or a group of buyers in the exclusive territory of another distributor.

“Passive sale” includes a distributor’s responses to the demands of individual buyers who are located in an area which the supplier has assigned to another distributor, including the delivery of products to such buyers. Such responses must not result from active sales.

The term “passive sale” also includes general advertising in the media or online which emanates from beyond an exclusive territory or certain group of buyers as a result of advances or ease of access. This is thus considered a reasonable way to approach these buyers or groups.

Since the supplier, in accordance with Article 9(4) of the directive, must not forbid its exclusive distributors to carry out passive sales, as this would be a severe limitation of market competition, the parallel import of products by way of passive sale is allowed, regardless of whether an exclusive distributor is already active in the same geographical area for the same kind of product.

## **EU position**

Article 9(4) is identical to the relevant EU provision, which was adopted into Croatian legislation.

The courts in other EU member states have also considered the issue of conflict between national legislation relating to trademark protection and the implementation of EU regulations protecting competition. The resolution of this conflict is vital due to the EU principle of the free movement of goods and services (ie, free trade between EU member states).

In resolving such issues, the European Court of Justice (ECJ) generally favours the implementation of regulations on the protection of competition, as it has stated that the protection of trademarks under national law should not limit or exclude the parallel import of the same products from another EU member state. The ECJ often assumes such a viewpoint in cases when the prices of trademark-protected products are considerably higher in one EU member state than another. In this way, the implementation of national trademark regulations puts the citizens of that EU member state in a worse position than those of other EU member states. However, for the ECJ to assume this standpoint, the trademark regulations in question must exert a significant influence on trade between EU member states.

The Market Competition Protection Agency has surveyed ECJ practice, as well as the provisions of EU law that make up the *acquis communautaire*, which were adopted into Croatian law through the Stabilization and Accession Agreement between Croatia and the European Union.

The ECJ based its opinion on two opposing provisions of the EC Treaty. Article 28 of the treaty prescribes that limits on amounts relating to import and any measures with an identical effect are forbidden between member states. Article 30 of

the treaty limits the application of Article 28, providing that Article 28 does not exclude:

*“bans or limitations on the import, export or transport of goods which are justified by public moral, public order or public safety... or protection of industrial and commercial ownership.”*

Thus, it can be deduced that, in the case of vertical agreements, the protection given to trademarks under national law cannot be a means of arbitrary discrimination or concealed limitation of trade between EU member states, (ie, within the EU common market - in particular the national legislation cannot limit or exclude the parallel import of products from other EU member states.

### **Comment**

Although Croatia has achieved a high degree of harmonisation of its competition and IP rights legislation through the *acquis communautaire*, Croatia is not an EU member state and is not part of the EU common market.

At present the agency is unable to answer questions on the future practice of the Croatian courts – for example, whether the Croatian courts will fully conform with ECJ practice.

### **For further information please contact:**

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