

Article

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Opinion

BATCH CODES USED IN DAVIDOFF – THE BRAND OWNERS' VIEW

In May 1999 Judgment was given in Zino Davidoff SA v A & G Imports Limited (1999 RPC 631 Laddie J). As many readers will be aware this case concerned the parallel importation into the UK of Davidoff perfume and aftershave – Davidoff Cool Water. This case has been widely reported and discussed in relation to its principal issue: whether a parallel imported product can be said to have been put on the market in the EEA with the implied consent of the registered proprietor of a trade mark in situations where no restriction on resale binds subsequent purchasers of the branded product. This article addresses another issue in the Judgment: the extent to which proprietors have legitimate reasons to object to further dealings in goods pursuant to Article 7(2) of Directive 89/104/EEC (the Trade Mark Directive) in particular where lot or batch identifying codes have been removed.

Article 7(2) of the Trade Mark Directive provides that Article 7(1) [Community exhaustion of rights for products put on the market by the proprietor with his consent] shall not apply where there exists legitimate reasons for the proprietor to oppose further commercialisation of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market (emphasis added). This provision is repeated in Section 12(2) of the UK Trade Marks Act 1994 where “especially” is replaced with the words “in particular”. In both cases it is clear that the impairment of goods is only one of the potentially legitimate reasons a proprietor may have to oppose further dealings.

The impairment argument was raised unsuccessfully by the Plaintiffs in Davidoff. Arguments relating to physical impairment of the goods could not succeed because the batch codes had been removed from the packaging rather than the goods themselves. Clearly clumsy code removal can impair the “mental” condition of the goods as discussed in Bristol Myers Squibb v Paranova (1996 ECR I 3457) but each instance of code removal has to be judged on its facts. In Davidoff it was held that the codes had been removed in such a way as not to impair the mental condition of the goods.

However code removal should be a legitimate reason for trade mark owners to oppose further dealings, whether or not removal results in impairment of the physical or “mental” condition of the goods themselves. In addition to facilitating distribution by the manufacturer, batch codes perform an important consumer safety function. Applying batch codes to food stuffs and cosmetics is mandatory under the Public Health Directives 89/396/EEC and 76/768/EEC respectively. Article 6 of Directive 76/768/EEC states “Member States shall take all measures necessary to ensure that cosmetic products may be marketed only if their packaging, containers or labels bear ... the batch number of manufacture”.

Batch codes are sophisticated tracking devices. Frequently they consist of 15 or more alphanumeric symbols which enable a manufacturer not only to trace a specific batch of goods but also to monitor their distribution so that, in the event of manufacturing error, faulty – in some cases unsafe – goods, can be recalled with the maximum efficiency and the minimum damage to the reputation of the goods and the trade mark they bear. Product recall arguments were advanced in *Davidoff* but were not accepted. Laddie J did not accept these arguments stating that batch good removal would not impair consumer safety because “even without the full code it would be possible to recall products” even though “a much larger consignment of goods” would have to be recalled. He concluded “the reputation of the mark ... can be secured by a wider recall if defective goods are placed on the market”.

Whenever a manufacturer is faced with a product recall situation the issues which arise are dictated by consumer safety and product quality considerations. If the goods are believed to be unsafe then the goods which are unsafe must be recalled. If the unsafe batch can be identified by manufacture and distribution then recall can be limited to specific wholesale and/or retail outlets with virtually no damage to the reputation of the mark. If not, a total recall must be undertaken. A total recall situation requires advertisement in the national press addressed to every reader, whether or not they have received potentially unsafe products. Every actual and potential consumer sees the advert which gives the message that these products are potentially unsafe. Such a total recall has the potential to destroy the brand. At a minimum it will do untold damage.

In the commercial world there is a vast difference between a total product recall and local product recall. The Court in *Davidoff* was right in stating that total product recall could protect consumers. What it did not appear to consider was the difference between the potential damage to the mark caused by a localised recall which some consumers may hear about and a total recall addressed to the general public which seriously damages the reputation of the brand.

Some commentators argue that batch codes have nothing to do with trade marks and the essential function of a trade mark is a guarantee of origin. In fact, the two are closely interrelated. The reason the consumer is interested in the origin of a product is because he associates it with a certain level of quality. Quality, of course, includes safety. In the real world a typical consumer may have no idea of the identity of the registered proprietor, but will associate the product as being from a certain source (albeit unknown) and a certain quality. Batch codes are key to the maintenance of quality and the correction of manufacturing error.

Even if batch codes were not so closely linked with the “essential subject matter” of trade marks there are cogent legal and commercial reasons why their removal should amount to a legitimate reason to oppose further dealings. The wording of Article 7(2) and Section 12(2) is general. Nowhere is there wording to suggest that the legitimate reasons to oppose further dealings in any way depend upon confusion as to origin. Quality systems (which include product recall mechanisms) are a cost of product borne by the manufacturing brand owner. Full scale product recall is extremely expensive as well as damaging to the brand. Why should brand owners (on whom the product recall burden will fall) have to bear this potential extra cost?

Brand owners also view with concern the way in which the Court appears to take into account the exemplary safety record of the manufacturer of Davidoff products noting that in the light of such a

good record on product faults, a recall for safety reasons was a minor issue. This approach, taken to its logical conclusion, would result in manufacturers with poor safety records having legitimate reasons to propose further dealings whilst those with goods records would not. The worse your safety record, the broader are your rights. The fundamental point, however, is that past production is not a guarantee of future quality and brand owners should be allowed to ensure product safety and quality at an economic cost whatever their previous production history.

Batch codes are not solely related to product quality and safety. They also enable manufacturers to control and monitor distribution. The *Davidoff* case seeks to draw a distinction between exhaustion and consent and goes on to imply consent in the absence of a binding restriction. The reality in the vast majority of parallel trade cases is that the brand owner/manufacturer has not consented and has imposed a restriction on resale in its contract with the first purchaser. Typically such contracts require similar restrictions to be imposed further down the distribution chain. Somewhere down the distribution chain the product is sold without restriction, with the result (if *Davidoff* is correct) that the parallel trader obtains the goods free of any resale restriction. In short, there is usually a breach of contract somewhere in the distribution chain.

The reason traders remove batch codes is to prevent the brand owner from tracing the distribution of the product and remedying a breach of contract in the distribution chain either by enforcing its contractual rights or by declining to supply in future. Brand owners are thus placed in an invidious position. On the one hand consent is implied (or lack of consent cannot be proved) and on the other hand they are denied the means necessary to prove lack of consent or to negative implied consent to future sales. In the Judgment Laddie J stated that English Law “explicitly reserve to the proprietor the right to take sufficient and effective steps to impose restrictions on future distribution of his goods”. However, if you cannot trace the goods, for practical purposes this has the same effect as international exhaustion. It was accepted in *Davidoff*, following authority in *Silhouette (1999 FSR 729)* that Member States may not adopt the principle of international exhaustion. If a brand owner's rights are not exhausted then a brand owner should not be deprived of the means of enforcing those rights. It should therefore be legitimate for brand owners to oppose further dealings in their products which have had batch codes removed. It is wrong in principle to acknowledge the existence of a right but deny brand owners the practical means of enforcing such rights.

In summary batch codes play an important role in product safety and quality. Product safety and quality are perhaps the most important elements of the goodwill associated with the mark. Brand owners should be allowed to object to dealings in their products which do not have these important safeguards. If consent is to be implied in situations in which in the real world it is clear that no consent has been given, brand owners should not be denied the opportunity to enforce their contractual rights and negative implied consent.

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