

# INTABulletin

The Voice of the International Trademark Association

November 1, 2017

Vol. 72 No. 19

[Back to Bulletin Main Page](#)

## Survey on Decoding Conducted by Subcommittee of the Parallel Imports Committee

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Parallel Imports Committee

The removal of product identification codes is a phenomenon and topic which trademark owners in certain branches have been dealing with for decades. In many cases, these codes not only allow the identification or tracing of the product for product safety reasons (product recalls), but may also serve the purpose of identifying the authorized reseller to whom a product was initially delivered by the brand owner. In particular, perfumes, cosmetics, and alcoholic beverages are frequently “decoded” by gray market traders in order to hide the source of the product—i.e., the authorized reseller that sold the product to the gray market, often in breach of its contractual obligations. Decoded products have been subject to various court decisions, inter alia the well-known Court of Justice of the European Union (CJEU) decisions in cases C-349/95 (*Loendersloot v. Ballantine*) and C-379/14 (*TOP Logistics BV, Van Caem International BV v. Bacardi & Company Ltd, Bacardi International Ltd*).

### The Question

The European Subcommittee of INTA's Parallel Imports Committee conducted a survey on the question whether decoding of trademarked products is considered illegal in the national jurisdictions of the EU and select neighboring countries. The findings of the survey, that was conducted for 31 countries (Albania, Austria, Belgium, Bosnia and Herzegovina, Bulgaria, Croatia, the Czech Republic, Denmark, Finland, France, Germany, Israel, Ireland, Italy, Luxembourg, Malta, Macedonia, Montenegro, the Netherlands, Norway, Poland, Romania, Russia, Serbia, Slovakia, Slovenia, Spain, Switzerland, Turkey, Ukraine, and the UK) in 2016 and 2017, are summarized below.

### Inconsistent Standards

While the survey has shown that in 13 of the countries no case law in relation to decoding seems to exist (mostly non-EU countries), it also confirmed that in particular, the courts in Belgium, France, Germany, the Netherlands, Spain, Switzerland, Turkey, and the UK have established a rather high number of precedents, not only with respect to parallel imports, but also in relation to decoded products.

None of the surveyed countries has specific laws which deal with the question whether decoding of products (i.e., the removal of trademarks, lot codes, serial numbers, etc., and the subsequent distribution of such products) is per se legal or illegal. However, in almost all jurisdictions, decoding and/or the distribution of decoded products can be illegal under the trademark laws, unfair competition laws, specific laws in relation to certain products (e.g., medication, cosmetics, and beverages), or general product safety laws, depending

however on the specific circumstances.

The INTA Parallel Imports EU Subcommittee has noted that the criteria under which decoding is regarded to be illegal under the respective laws seem to vary to a certain extent among the countries. Some jurisdictions (apparently consistent with the general attitude in such jurisdiction towards parallel imports) apply rather strict requirements under which decoding will be regarded as infringing, whereas other jurisdictions take a more rights owner–friendly approach by treating decoding as infringing in many cases.

More specifically, not only the EU member states, but also non-EU countries such as Macedonia, Montenegro, Russia, Switzerland, Turkey, and Ukraine, recognize that the alteration or impairment of a product may stipulate legitimate reasons for the trademark owner to oppose the further distribution of exhausted goods based on national trademark laws. The requirements under which decoding would be considered to reach the threshold of a significant alteration or impairment entitling the trademark owner to oppose, however, are inconsistent. Whereas, for instance, in France, Turkey, and Italy, the removal of serial numbers, lot codes, or hangtags with the rights holder's trademark may already be sufficient to reach such threshold (even if lot codes or serial numbers merely serve the purpose of tracking distribution channels), the Swiss courts would usually not consider decoding to constitute a significant change to the specific properties and characteristics of a product.

The offering and distribution of products with removed serial numbers, lot codes, or other identifiers which serve product safety, consumer, and public health purposes in most jurisdictions (in particular in the EU where the laws on traceability requirements are widely harmonized) will be regarded to constitute a violation of the respective national or EU medication, foodstuff, cosmetic, or other product and health safety laws, and may result in administrative or criminal sanctions. Also, warranties for the decoded products (especially for machinery and electronics products) could be invalidated if the producer as a result of the decoding is unable to trace the defective product in its own system for warranty purposes, thereby causing problems for consumers. In addition, such violations in some countries (e.g., Germany and Spain) will constitute a significant alteration or impairment of the product, which in turn will prevent exhaustion and provide the trademark owner with a legitimate reason to oppose the further distribution of the products based on trademark law.

Finally, most jurisdictions seem to acknowledge that offering and selling decoded products under specific circumstances may constitute unfair competition, in particular, where the decoding (or repackaging) misleads consumers in relation to the quality or origin of the product. Nevertheless, there is only very little case law to be noted (e.g., in Finland) and it seems that the majority of cases are subject to review under trademark law rather than unfair competition aspects.

### **Toward Harmonization**

Overall, the INTA Parallel Imports EU Subcommittee concludes that the national laws and the interpretation of such laws and EU law by the national courts in relation to decoding is currently inconsistent. In its next term, the subcommittee will further review and assess adequate options to respond to the situation to the benefit of trademark owners, including a review whether INTA should call upon the EU lawmaking bodies to harmonize the law and to stipulate that the removal of product codes serving product safety purposes or the protection of a selective distribution system constitutes a trademark infringement or unfair competition.

Although every effort has been made to verify the accuracy of items in the *INTA Bulletin*, readers are urged to check independently on matters of specific concern or interest.

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