

## 17. INTRODUCTION OF THE REGIME OF NATIONAL EXHAUSTION OF TRADEMARK RIGHTS IN SERBIA: EMERGING COMPETITION POLICY CONCERN

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### ABSTRACT

This paper analyses the transition from the regime of international to national exhaustion of trademark rights in Serbia. The analysis is divided into three parts. First, the paper provides some remarks about the history of the rule of exhaustion of trademark rights in Serbia. Next, the paper analyses more thoroughly the introduction of this regime, as well as issues concerning its application. Two main findings appear from this analysis. The first finding is that the reasoning for the introduction of the regime of national exhaustion in Serbia was unclear and not well thought out by Serbian legislators. The second finding is that the application of the rule of national exhaustion has resulted in a serious competition policy concern. The rule of national exhaustion of trademark rights represents a barrier to entry for genuine products into Serbia at lower prices, which has the potential to generate a significant negative influence on competition and free movement of goods in the Serbian market. In particular, the regime of national exhaustion of trademark rights seems unsuitable for a small import-based economy, like Serbia. Bearing in mind the previously mentioned, the paper proposes how to approach this competition policy concern in Serbia. Three options are suggested. First, returning to the regime of international exhaustion. Second, the national competition authority could try to mitigate negative effects of the rule of national exhaustion of trademark rights by conducting on a large scale the proactive actions against targeted trademark holders. Third, switching to the regime of regional exhaustion (for the region of

Western Balkans or European Economic Area) or controlled national exhaustion.

**Keywords:** *trademark, exhaustion of intellectual property rights, parallel imports, competition policy, intellectual property policy, Serbia*

### 1. INTRODUCTION

Application of the principle of exhaustion of trademark rights continues throughout time to be a subject of intense debates among intellectual property policymakers, as well as lawmakers and academia around the globe. The end of those debates is not in sight, at least for now. The differences in national approaches to the exhaustion of trademark rights remain contested and are no less important than 30 years ago when the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) was being negotiated. This paper aims to contribute to the ongoing discussions by sharing the Serbian experience of the application of the rule of exhaustion of trademark rights. More precisely, by sharing the recent experience of the introduction of the regime of national exhaustion of trademark rights in Serbia.<sup>1</sup>

The rule of exhaustion represents one of the limitations of trademark rights (as well as of other intellectual property rights). Simply defined, once a product is put on the market under a trademark either by the trademark holder or with his consent, the rights conferred by a trademark shall not extend to further acts relating to that product – they shall be exhausted by the first authored act of market distribution. A trademark holder shall not be entitled to control or to oppose further commercial distribution or resale of such product under his trademark.

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<sup>1</sup> The paper addresses situation in Serbia as it is on 28 October 2019.

In practice, this means that if person A purchases a car labelled with registered mark X owned by person B (trademark holder), he (person A) shall be free to resell that car to person C, and person C shall be free to resell it to person D, etc. Person B as a trademark holder for mark X shall not have authority to oppose these resales of the car labelled with his mark X. From the latter, we can see that the rule of exhaustion of trademark rights is crucial for enabling a free flow of trademarked goods on the market.

This rule limits the rights of the trademark holder only to the act of first commercialization of the product under his trademark on the market. In that way, the trademark holder has the opportunity to set the first price of the product bearing his mark on the level he deems appropriate (to act as a monopolist). However, he cannot influence the further circulation of such product on the market. The further circulation of the product on the market remains free. In other words, the rule of exhaustion of trademark rights stands as a compromise between interests of trademark holders (to solely use their marks), on the one hand, and interests of the society (for the free flow of goods on the market), on the other hand. Furthermore, the doctrine of exhaustion of rights conferred by a trademark is fully compliant with the essential function of a trademark, as an intellectual property right – the origin function (denoting the trade source from which products bearing the mark stem).<sup>2</sup> The origin function of the trademark is fulfilled considering that the product, which is bearing the protected mark, can be first put on the market solely by the trademark holder.

One of the key questions in relation to the exhaustion of trademark rights is the question of territorial scope. The

effects of the exhaustion of trademark rights can be limited only to the territory of the country where the product is put on the market under the trademark for the first time (national exhaustion) or to some other territory larger than one-state territory, i.e. a region where the product is first put on the market (regional exhaustion), or can be territorially unlimited (international exhaustion). These three regimes of the territorial scope of trademark rights exhaustion are the predominant ones at the global level. Considering different parameters, primarily the interests of the economies of their countries, national legislators and policymakers are opting for one of the indicated regimes of territorial scope for the exhaustion of trademark rights.<sup>3</sup> The practical implication of the differences between those regimes of trademark rights exhaustion is the extent to which parallel imports to a certain country shall be allowed, i.e. the imports of products bearing protected marks. Hence, in case of national exhaustion, parallel imports are forbidden (an option considered favourable to trademark holders), while in case of international exhaustion parallel imports are allowed (an option favourable to consumers, at least in a short-term perspective).<sup>4</sup> Here lies the importance of the issue under consideration.

In this paper, the issue of the territorial scope of trademark rights exhaustion shall be analyzed from the perspective of Serbia. Therefore, some facts about Serbia, such as the surroundings for application of this legal instrument, should be indicated first. Serbia is a small European country (area: 88.361 km<sup>2</sup>; population: around 6.9 million) situated on the crossroads of Central and Southeast Europe in the so-called Western Balkans region. In 2018, the Gross Domestic Product

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<sup>2</sup> See James Mellor and others, *Kerly's Law of Trade Marks and Trade Names* (15th edition, Sweet & Maxwell 2011) 7–10, 512–513; William R. Cornish, David Llewelyn, Tanya Aplin, *Intellectual Property: Patents, Copyrights, Trade Marks and Allied Rights* (7th edition, Sweet & Maxwell 2010) 810–811.

<sup>3</sup> See Irene Calboli, 'Market Integration and (the Limits of) the First Sale Rule in North American and European Trademark Law' 2011 51 *Santa Clara Law Review* 1241, 1255–1258; Chung-Lun Shen, 'Intellectual Property Rights and International Free Trade: New

Jurisprudence of International Exhaustion Doctrine under the Traditional Legal System' 2012 7(3) *Journal of International Commercial Law and Technology*, 176.

<sup>4</sup> Samuel Dobrin, Archil Chochia, 'The Concepts of Trademark Exhaustion and Parallel Imports: A Comparative Analysis between the EU and the USA' 2016 6(2) *Baltic Journal of European Studies*, 29 <<https://www.degruyter.com/downloadpdf/j/bjes.2016.6.issue-2/bjes-2016-0011/bjes-2016-0011.pdf>> accessed 20 October 2019.

in Serbia was estimated at 50.51 billion US dollars<sup>5</sup> (it represented 0.08 percent of the world economy)<sup>6</sup>, the value of exports amounted to 19.226,5 million US dollars, while the value of imports amounted to 25.882,5 million US dollars.<sup>7</sup> The major strategic goal of Serbian politics is joining the European Union (EU). Currently, Serbia is an EU candidate country. Negotiations to join the EU commenced in January 2014 and in 2017, the negotiating Chapter 7 – ‘Intellectual Property Law’ was opened. The objective of this negotiating Chapter 7 is that Serbia implements all the *acquis* in relation to the protection of intellectual property rights. Bearing in mind the aforesaid, we can determine two facts about Serbia important for the analysis.<sup>8</sup> Firstly, Serbia is a small import-based economy. Secondly, Serbian intellectual property regulations are highly influenced by the EU *acquis* and EU intellectual property policy.

The analysis encompasses three parts. First, remarks regarding the history of the rule of exhaustion of trademark rights in Serbia are made. Afterwards, the introduction of the regime of national exhaustion of trademark rights, as well as a more thorough analysis of issues concerning its application (emerging competition policy concern) in Serbia. In the end, certain recommendations for the future are proposed.

## 2. HISTORY OF THE RULE OF EXHAUSTION OF TRADEMARK RIGHTS IN SERBIA

In Serbia, the rule of exhaustion of trademark rights has been explicitly prescribed for the first time by the Law on Trademarks enacted in 2004 (Article 36), according to which:

A trademark does not entitle its holder to prohibit its use in connection with goods marked with such trademark and placed in circulation anywhere in the world by the holder of the trademark or other person authorized by the holder.

Provision of paragraph 1 of this Article shall not apply if the holder of the trademark has a legitimate interest to oppose further placement in the circulation of goods marked with such trademark, especially if a defect or other fundamental change of condition of the goods has occurred after their placement into circulation for the first time.<sup>9</sup>

Nonetheless, the principle of the exhaustion of trademark rights has been applied by courts in Serbia even before it was explicitly prescribed, based on teleological interpretations of other provisions on trademark protection.<sup>10</sup>

One of the main reasons for introducing an explicit rule of exhaustion of trademark rights by the Law on Trademarks from 2004 was a tendency of Serbian legislators<sup>11</sup> and policymakers to align national provisions with EU intellectual property protection standards. At that time, First Council

<sup>5</sup> Statistical Office of the Republic of Serbia, ‘Gross Domestic Product, 2018’ (News, 1 October 2019)

<<http://www.stat.gov.rs/en-us/vesti/20191001-bruto-domaci-proizvod-2018/?s=090201>> accessed 20 October 2019.

<sup>6</sup> ‘Serbia GDP,’ (Trading Economics)

<<https://tradingeconomics.com/serbia/gdp>> accessed 20 October 2019.

<sup>7</sup> ‘External Trade, December 2018’ (Statistical Office of the Republic of Serbia, 31 January 2019) <<http://www.stat.gov.rs/en-US/vesti/20190131-spoljnotrgovinska-robna-razmena-decembar-2018>> accessed 20 October 2019.

<sup>8</sup> ‘Negotiating Position of the Republic of Serbia for the Intergovernmental Conference on Accession of the Republic of Serbia to the European Union for Chapter 7’ (Government of the Republic of Serbia, January 2017)

<[http://www.mei.gov.rs/upload/documents/pristupni\\_pregovori/regovaracke\\_pozicije/Negotiating\\_Chapter\\_7\\_pregovaracka\\_pozicija\\_EN.pdf](http://www.mei.gov.rs/upload/documents/pristupni_pregovori/regovaracke_pozicije/Negotiating_Chapter_7_pregovaracka_pozicija_EN.pdf)> accessed 20 October 2019.

<sup>9</sup> Law on Trademarks No. 61/04 and 7/05 of 2004 (Serbia and Montenegro), art 36.

<sup>10</sup> See Sonja Spasojević, ‘Defect or Altering of Goods Marked with a Trademark Occurring after Its First Entering the Market,’ 2009 Law and Economy 106, 108–109.

<sup>11</sup> The term ‘legislators’ is hereby used to encompass all the bodies of the Republic of Serbia involved in the process of law making in Serbia, particularly the Parliament (the National Assembly of the Republic of Serbia) which enacts the laws in Serbia (as a parliamentary republic) and the Government of Republic of Serbia and its ministries (which usually make the proposals of laws).

Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trademarks ('First Directive') was in force. The First Directive contained the rule of regional exhaustion of trademark rights in Article 7 ('the 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...').<sup>12</sup> If we compare the formulations of the provisions on exhaustion from the Serbian Law on Trademark from 2004 to the First Directive, it is obvious that the words of the provision of Serbian Law are influenced by the EU law provision. In spite of that, considering that Serbia in 2004 was not (and still is not) an EU (then EC) member country, Serbian legislators were not obliged to accept Community-wide exhaustion of trademark rights. Instead, Serbian legislators had opted for the regime of international exhaustion of trademark rights, as we can see from the cited provision (goods 'placed in circulation anywhere in the world' under the trademark). Thus, parallel imports were generally allowed in Serbia, except in situations where there is a legitimate reason for the trademark holder to oppose further commercialization of the goods (e.g. especially if a defect or another fundamental change of condition of the products has occurred after they have been put on the market for the first time).

In the early 2000s, the Serbian regime of international exhaustion of trademark rights seemed like a logical solution for a small country that was facing the first years of transitioning from the socialist period. Parallel imports of goods were not deemed negative, the protection and usage of trademarks were not at their peak, and the influence and lobbying of trademark holders were not so powerful back then. Moreover, a rule of international exhaustion was

considered to be more appropriate for a trademark, as an intellectual property right, and its essential function – the origin function. It was believed that for the fulfillment of this function, it was enough that the trademark holder can control the first act of commercialization of the product under his trademark.<sup>13</sup> Further, control of commercialization of such products by a trademark holder did not appear as needed.

The regime of international exhaustion of trademark rights also outlived the enactment of the new Law on Trademarks in 2009 (Article 40).<sup>14</sup> In the official explanation of the Proposal of that Law, keeping the provisions on international exhaustion of trademark rights unamended was justified as follows:

In essence, it is about preventing the trademark holder from abusing the monopoly right granted to him by extending his monopoly beyond the scope allowed by the classic trademark law. Each trademark holder may, on the basis of a contractual obligation, prevent third parties from reselling the goods marked with his mark, but cannot do so on the basis of intellectual property rights, as a trademark holder. This enables the so-called parallel imports [...]

The only situation where the trademark holder can prohibit the so-called parallel imports is prescribed in paragraph 2 of the proposed article. The condition for such a prohibition is that the trademark holder has a legitimate reason to oppose placing further the goods on the market.<sup>15</sup>

However, even though these words demonstrate that Serbian legislators were undoubtedly in favour of the regime of international exhaustion of trademark rights in Serbia in 2009, four years later, in 2013, this regime was replaced by a regime of national exhaustion under unclear circumstances.

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<sup>12</sup> First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks [1989] OJ L040, art 7.

<sup>13</sup> Slobodan M. Marković, *Intellectual Property Law* (Magistrat, University of Sarajevo Faculty of Law 2007) 158–159; Spasojević (n 10) 106–107; Slobodan M. Marković, Dušan V. Popović, *Intellectual*

*Property Law* (6th ed, University of Belgrade Faculty of Law 2018) 165–166.

<sup>14</sup> Law on Trademarks No. 104/2009 of 2009 (Serbia), art 40.

<sup>15</sup> 'Proposal of the Law on Trademarks 2009 (official explanation of the Article 40)' (Government of the Republic of Serbia, 2009) 11 <<https://www.srbija.gov.rs/prikaz/101854>> accessed 22 October 2019.

### 3. INTRODUCTION OF THE REGIME OF NATIONAL EXHAUSTION OF TRADEMARK RIGHTS IN SERBIA

By amending its Law on Trademarks in 2013 (the version of the Law from 2009), Serbian legislators switched from a regime of international to national exhaustion of trademark rights. The Law on Trademarks (Article 40, Paragraph 1) after the amendments envisages that:

A trademark does not entitle its holder to prohibit its use in connection with goods marked with such trademark and placed in circulation in the territory of the Republic of Serbia by the holder of the trademark or other person authorized by the holder.<sup>16</sup>

In such a way, the effects of the exhaustion of trademark rights are limited only to the territory of Serbia. Trademark holders are now able to oppose the use of their trademarks in connection with products marked with such trademarks and placed into circulation anywhere in the world outside the territory of Serbia, even by trademark holders or other persons authorized by them. To put it simply, trademark holders are enabled to prohibit parallel imports of their products to Serbia.

In an effort to better understand this switch, arguments in favour and against, as well as comparative solutions in the Western Balkans region, are examined. First, the rationale of Serbian legislators (as stated in the Proposal of the Law on Amendments) shall be presented (A) – arguments in favor. Afterwards, the standpoint of Serbian legal theory (B) and an unsuccessful attempt to oppose the new rule by Serbian courts (C) are discussed – arguments against. Last but not

least, a comparison of the regimes of trademark rights exhaustion in other Western Balkans countries is made (D).

#### A. RATIONALE OF THE SERBIAN LEGISLATOR

Serbian legislators, in the official explanation of the Proposal of the Law on Amendments and Addenda to the Law on Trademarks enacted in 2013, indicated two main reasons for introducing national exhaustion of trademark rights and restricting parallel imports. First, it was deemed that the regime of national exhaustion should increase the level of legal certainty for trademark holders. Considering that national exhaustion enables trademark holders to control commercialization of products marked with their trademarks on the Serbian market, the risks associated with distortion of the reputation of goods bearing their trademarks are reduced. Second, by preventing parallel imports, a possible unfair competition that could undermine the interests of exclusive distributors of products marked with the trademarks (in the case of parallel imports) could be prevented as well.<sup>17</sup> The legislators have not provided further explanations on these reasons.<sup>18</sup>

Two observations regarding the presented explanations of the legislators can be pointed out here. Primarily, the provided reasoning is not persuasive enough. There is no doubt that the regime of national exhaustion leads to the ability of trademark holders to restrict parallel imports into Serbia, which some may argue could reduce also the chances for possible unfair competition. Still, this argument is only one side of the coin. The other side are the interests of consumers in Serbia, as well as the general needs of the Serbian domestic market, and the advantage that parallel imports could bring in this respect. In the official explanation for the amendments, legislators did not address the possible effects (positive or

<sup>16</sup> Law on Amendments and Addenda to the Law on Trademarks No. 10/2013 of 2013 (Serbia), art 40 (1).

<sup>17</sup> 'Proposal of the Law on Amendments and Addenda to the Law on Trademarks 2013 (official explanation of the Article 11),' (Government of the Republic of Serbia, 2013) <<https://www.srbija.gov.rs/prikaz/175502>> accessed 22 October 2019.

<sup>18</sup> The (more or less) same reasoning is provided in the official analysis of the effects of the draft Law on Amendments from 2013. See 'Analysis on the Effect of the Law on Amendments and Addenda to the Law on Trademarks' (Republic Secretariat for Public Policies, December 2012) 4 <<http://vs3836.cloudhosting.rs/misljenja/569/ana/Analiza%20efekata%20Nacrta%20zakona%20o%20izmenama%20i%20dopunama%20Zakona%20o%20zgovima.pdf>> accessed 24 October 2019.

negative) of the switch towards a regime of national exhaustion, neither for consumers nor for the needs of the domestic market in Serbia. Serbian legislators should have asked themselves four logical questions here. First, could the introduction of a regime of national exhaustion of trademark rights (and in turn a restriction of competition in the national market) result in negative effects on free competition on the Serbian domestic market? And, if so, to what extent? This question is important since the rule of trademark rights exhaustion (as a legal instrument which directly affects competition on the market) should be a matter of both state intellectual property policy, and state competition policy.<sup>19</sup> Second, what would be the effects of this measure for consumers' welfare in Serbia? And, if these effects are negative, how much would it be? Third, would the effects of this change be positive for trademark holders and to what extent, and did domestic trademark holders have the same amount of interest for a regime of national exhaustion as foreign trademark holders (considering that Serbia is an import-based economy)? Last, would the expected positive effects of introducing a regime of national exhaustion of trademark rights prevail in comparison to the possible negative ones taking into account the different interests of market competition, consumers, and trademark holders? As mentioned, nothing in the legislative history and related debates shows that these questions were taken into account in the process of writing the amendments.

Secondly, if we compare legislators' explanations on the provisions on exhaustion of trademark rights in the laws from 2009 and 2013, we notice a fundamental change in their point of view. In 2009, legislators were of the opinion that parallel imports should generally be allowed and those trademark holders should not use a trademark, as an intellectual

property right, to restrict it. In 2013, the reasoning was completely different, meaning that legislators were categorically against allowing parallel imports. How this happened and what triggered such a drastic change in just a few years remains uncertain for now.<sup>20</sup>

Furthermore, it should be noted that there is a perception among some practitioners and scholars that this change to the national regime of exhaustion of trademark rights is influenced by the process of harmonization with EU laws and their concept of regional exhaustion – the European Economic Area (EEA) wide exhaustion.<sup>21</sup> This perception is debatable, keeping in mind that the EU does not require (at least not officially) candidate countries to align their rules on exhaustion of the trademark rights with the EU rule before the acceptance of EU membership.<sup>22</sup> At most, Serbia could have chosen a middle ground of an EEA-wide exhaustion of trademark rights. That would represent the actual harmonization with the EU laws.

To conclude, it seems that the possible effects of this switch to a regime of national exhaustion on the Serbian domestic market should have been examined more carefully and the findings should have been available to the wider public before the amendment enactments. The former is especially true given that the regime of the international exhaustion of trademark rights had been in force for almost a decade prior to amendments and its application did not have any serious repercussions on the Serbian market (at least not known to the wider public and the author).

## B. PERSPECTIVES FROM SERBIAN LEGAL SCHOLARS

The standpoint of leading Serbian legal scholars over the territorial scope of trademark rights exhaustion, before and

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<sup>19</sup> For parallel imports and its regulation by intellectual property law and competition law from the Serbian and EU perspective, see Dušan Popović, *Exclusive Intellectual Property Rights and Free Competition* (University of Belgrade Faculty of Law 2012) 169–249.

<sup>20</sup> Compare Proposal of the Law on Trademarks 2009 – official explanation of the Article 40 (n 15) and Proposal of the Law on Amendments and Addenda to the Law on Trademarks 2013 – official explanation of the Article 11 (n 17).

<sup>21</sup> Republic Secretariat for Public Policies (n 18) 4.

<sup>22</sup> 'European Union Common Position Chapter 7: Intellectual Property Law,' Council of the European Union AD 14/17 CONF-RS 10/17  
<[http://www.mei.gov.rs/upload/documents/pristupni\\_pregovori/pregovaracke\\_pozicije/ch\\_7\\_common\\_position.pdf](http://www.mei.gov.rs/upload/documents/pristupni_pregovori/pregovaracke_pozicije/ch_7_common_position.pdf)> accessed 25 October 2019 [hereinafter European Union Common Position Chapter 7: Intellectual Property Law] 4.

after the amendments in 2013, has been more or less unanimous. Legal theory in Serbia supports the regime of international exhaustion of trademark rights as the most appropriate one.<sup>23</sup> It is believed that the trademark (as an intellectual property right) does not essentially aim at providing a monopoly to trademark holders on products marked with their marks. On the contrary, it essentially aims at enabling the marks to denote the origin of products and to differentiate the products on the market. Both of these essential trademark objectives are achieved when the trademark holder, for the first time, places the product, under his mark, on the market anywhere in the world. Hence, there is no need to additionally grant the monopoly to trademark holders to control the first commercialization of products bearing their marks on every single national market.<sup>24</sup>

Having that in mind, from the perspective of Serbian legal theory, the examined switch from an international to the national regime of exhaustion of trademark rights is generally not deemed as reasonable or necessary. In that respect, thoughts of two distinguished Serbian legal scholars are worth mention here. Prof. Dr. Slobodan Marković has noted in his analysis, as follows:

Being unable to access the official rationale of this change, we can only speculate about the reasons that led to it. The “suspicion” first falls on the mantra of harmonization with EU law [...] Regardless of this, we are convinced that no attempt has been made to analyze the effects of parallel

imports on Serbia’s economic interests, which indicates that the exhaustion of IP rights has not been recognized as an instrument of economic policy. The fact is that staying in the regime of international exhaustion of IP rights would lead to a greater degree of integration of the Serbian market with the EU market, meaning that the actual introduction of the national exhaustion of trademark creates an additional barrier to the movement of goods between the EU and Serbia, which is somehow contrary to the spirit of the accession process.<sup>25</sup>

Prof. Dr. Siniša Varga in his paper emphasized:

The geographical scope of the exhaustion of trademark rights cannot be determined one-sidedly only considering the private interests of the right holders. While determining the geographical scope of the exhaustion of rights, it is necessary to take into account: protection of an unimpeded trade in goods and services, protection of consumers and competition, as well as the size of the market, market structure and intensity of competition, and finally whether the country is a predominant importer or exporter of intellectual property. Bearing in mind the mentioned criteria and the absence of a serious economic analysis to prove the contrary, the most suitable for the Republic of Serbia is to have the international, or given the existing normative situation, the controlled national exhaustion of trademark rights (as a modern approach).<sup>26</sup>

<sup>23</sup> Marković, Popović (n 13) 165–166. See similar: Vesna Besarović, *Intellectual Property: Industrial Property and Copyright* (5th ed, University of Belgrade Faculty of Law 2011) 177; Zoran Miladinović, *Intellectual Property Law* (University of Kragujevac Faculty of Law 2009) 93; Vladimir Borovac, ‘Trademark Law – From the Protection of the Informational Function of a Trademark to the Protection of a Trademark as a Value in Itself’ (DPhil, University of Belgrade 2017) 53.

<sup>24</sup> *ibid*; A similar standpoint regarding this issue is present in the legal theory on the world level, as well: Lionel Bently, Brad Sherman, *Intellectual Property Law* (3rd edition, OUP 2009) 943; Irene Calboli, ‘Trademark Exhaustion in the European Union: Community-Wide or International? The Saga Continues’ 2002 6(1) *Marquette Intellectual Property Law Review*, 47–48

<<http://scholarship.law.marquette.edu/cgi/viewcontent.cgi?article=1034&context=iplr>> accessed 22 October 2019.

<sup>25</sup> Slobodan M. Marković, ‘The Exhaustion of Intellectual Property Rights in the Context of International Free Trade Agreements’ in Dušan V. Popović (ed), *Legal Implications of Trade Liberalization Under SAAS and CEFTA* (University of Belgrade Faculty of Law 2018) 154. See additionally Slobodan M. Marković, *Intellectual Property Law and Information Society* (2nd edition, Službeni glasnik 2018) 208–209.

<sup>26</sup> Siniša Varga, ‘The Geographical Scope of Trademark Exhaustion and Parallel Trade in the Republic of Serbia Law’ in Miodrag Mićović (ed), *Services and Protection of Service Users* (University of Kragujevac Faculty of Law 2015) 647.

As seen, leading Serbian legal scholars share an opinion that the shift from an international to national exhaustion of trademark rights in Serbia lacks a solid justification. The Serbian legislators' rationale for the introduction of the regime of national exhaustion (see the previous sub-chapter) does not seem convincing enough to the legal scholars. On the one hand, the national exhaustion of trademark rights differs from the traditional theoretical understanding of the essential function of the trademark in the Serbian legal theory (to denote the origin of products). On the other hand, its introduction could have potential negative economic impacts on the domestic market that, as it appears; the Serbian legislators had not taken into consideration.

### **C. COURT PRACTICE: AN EXAMPLE OF THE UNSUCCESSFUL ATTEMPT TO AVOID THE RULE OF NATIONAL EXHAUSTION<sup>27</sup>**

The introduction of the regime of national exhaustion of trademark rights has not been accepted by all judges in Serbia with ease. Some judges have tried to avoid its application teleological, (mis)interpreting the provisions of the Law on Trademarks. One such case shall be briefly presented here.

The subject dispute has arisen in connection to parallel imports of motor oils bearing international trademarks registered for the territory of Serbia by the plaintiff, a United States based company. The defendant was a Serbian company that had been importing the plaintiff's products (labelled with three protected marks) from the EU to Serbia for more than ten years. In this particular case, the defendant had imported the plaintiff's motor oils from a company situated in Slovenia and distributed the imported products in Serbia. The Slovenian company purchased the products from a Croatian company that was the official distributor of the plaintiff for the territory of EU, but not for the territory of Serbia. The exclusive right of distribution of the plaintiff's product in the territory of Serbia had one Serbian company, whose owner

and director was the owner and director of the Croatian company.

The plaintiff filed a claim before the Commercial Court in Belgrade (the court of the first instance) in 2015, after a few unsuccessful warning letters sent to the defendant and after Serbian Customs had seized one delivery of the plaintiff's products ordered from Slovenia by the defendant. The plaintiff, among others, asked the court to determine the trademark infringement and order the defendant to stop parallel imports. The defendant pointed out that he had bought the plaintiff's products from the Slovenian company, which had legally acquired the product from the Croatian company as the official distributor for the EU. Neither the Slovenian company nor the Croatian company had given notice to the existence of the territorial trade limitations for the plaintiff's products. Moreover, the director of the Croatian company, who was the owner and the director of the company that was the exclusive distributor for Serbia, should have been familiar with the practice of the Slovenian company (selling products for imports in Serbia) and should have done something to stop it. The court of the first instance had not accepted the defendant's arguments and ultimately allowed the plaintiff's claim at the end of 2015. In the reasoning of the judgment, the court explicitly noted that after the amendments to the Law on Trademark, the national exhaustion of trademark rights regime applied in Serbia.<sup>28</sup>

The defendant filed an appeal to the Commercial Appellate Court (the appellate court). This court had a different opinion from the court of the first instance and reversed their judgment in 2017. In the judgment's reasoning, the appellate court used the facts of the case to justify the application of the rule of international exhaustion. The court came to the following conclusions. First, considering that the director and founding member of the Serbian company (the plaintiff's exclusive distributor for Serbia) was acting at the same time

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<sup>27</sup> I wish to thank Ms. Natalija Popović Maksimović, Attorney at Law from Belgrade, Serbia for providing me with the court decisions presented in this sub-chapter. Of course, the responsibility for any

of the remaining errors and the presented attitudes lies solely with the author.

<sup>28</sup> Commercial Court in Belgrade, Case No. 9. P. 5042/2015, 13 November 2015.

as a director and founding member of the Croatian company (the plaintiff's official distributor for the EU), it could be concluded that the Serbian company had control over the Croatian company as its subsidiary.<sup>29</sup> The Serbian and Croatian companies are connected. Second, in the Distribution Agreement between the plaintiff and the Serbian company, it was prescribed that the Serbian company may distribute the plaintiff's products through its subsidiaries. Third, having in mind the former and given that the Croatian company is a subsidiary of the Serbian company (the exclusive distributor), it should be deemed that the rights conferred by plaintiff's trademarks had been exhausted for the territory of Serbia the moment the Slovenian company had acquired the plaintiff's product from the Croatian company. Finally, in this case, there is no trademark infringement while the plaintiff's trademark rights had exhausted.<sup>30</sup>

Logically, the plaintiff was not satisfied with the appellate court's judgment and filed an appeal on points of law, as an extraordinary legal remedy, before the Supreme Court of Cassation. The Supreme Court in 2018 decided to reverse the judgment of the appellate court and confirmed the judgment of the court of first instance. Regarding the issue of exhaustion of trademark rights, the Supreme Court noted two reasons supporting this decision. First, the Croatian company cannot be deemed a subsidiary of the Serbian company, as defined in the Distribution Agreement between the plaintiff and the Serbian company. Second, the application of the Agreement is of limited territorial scope, encompassing Serbia and a few neighboring countries, not including Croatia.

<sup>29</sup> In the Distribution Agreement between the plaintiff and the Serbian company, it has been prescribed that every company in which the Serbian company has more than 50% controlling interest shall be deemed as its subsidiary. The appellate court based its argumentation on that provision.

<sup>30</sup> Commercial Appellate Court of the Republic of Serbia, Case No. 11. Pž. 359/2016, 26 June 2017. The reasoning of the Serbian court regarding the connected companies has similarities with the reasoning of the European Court of Justice in the Case 291/16 *Schweppes SA v Red Paralela SL and Red Paralela BCN SL* [2017] ECLI:EU:C:2017:990.

<sup>31</sup> Supreme Court of Cassation of the Republic of Serbia, Case No. Prev. 381/2017, 17 May 2018.

Further, in this case, there is no room for the application of the rule of exhaustion because the Law on Trademarks accepts the regime of national exhaustion and the defendant was the one that had, for the first time, placed the products under the plaintiff's trademark on the Serbian market.<sup>31</sup>

The reasoning of the Supreme Court of Cassation was expected, given the fact the provision of the Law on Trademarks on the national exhaustion is more or less clear. Nevertheless, the reasoning of the appellate court and its attempt to avoid application of the rule of national exhaustion are understandable and show the lack of proper justification for the transition from international to a national regime of exhaustion of trademark rights in Serbia.<sup>32</sup> This attempt of the court to avoid application of the rule of national exhaustion of trademark rights is not alone.<sup>33</sup> It seems that certain judges were cautious towards the implementation of this transition as if they were aware of its inherent pitfalls.

#### **D. REGIMES OF TRADEMARK RIGHTS EXHAUSTION IN OTHER WESTERN BALKANS COUNTRIES: A COMPARISON**

The common trend for all Western Balkans countries is their aspiration to join the EU. Although the stages they have achieved on their path to the EU differs. One of them even became a Member State (Croatia), two are candidates that started accession negotiations (Serbia and Montenegro), two have candidate status and are waiting for negotiations (Albania, North Macedonia) and the last one, Bosnia and Herzegovina, has applied to join but has not received

<sup>32</sup> Still considering the fact case in this dispute, even in situation that the Supreme Court of Cassation had supported the decision of the second instance court, its influence on other dispute about exhaustion would be questionable. Also, we should have in mind that Serbia is a civil law country.

<sup>33</sup> For another case in which the court accepts the international exhaustion of trademark rights even after the amendments, see: Commercial Appellate Court of the Republic of Serbia, Case No. 11. Pž. 5035/2017, 15 September 2017. For opposite see: Commercial Appellate Court of the Republic of Serbia, Case No. Pž. 1905/2017, 6 April 2017.

candidate status yet. As mentioned, EU law explicitly regulates the issue of exhaustion of trademark rights. According to Directive (EU) 2015/2436 of the European Parliament and of the Council of 16 December 2015 to approximate the laws of the Member States relating to trademarks (Article 15) that succeeded the above-mentioned First Directive (Article 7), the regional exhaustion is a mandatory EU standard for the EU member countries.<sup>34</sup> However, the EU does not require that candidate countries accept this regime of the regional exhaustion prior to becoming the members. We can see this from the EU negotiations with Serbia.<sup>35</sup>

Without conditions posted by the EU, the countries in the Western Balkans can choose the regime of the trademark rights exhaustion that is most appropriate for their needs. Their solutions vary and all three regimes of the exhaustion of trademark rights (national, regional and international) are present in the region. Apart from Serbia, Croatia (prior to an EU membership), Montenegro,<sup>36</sup> North Macedonia,<sup>37</sup> and Albania<sup>38</sup> opted for national exhaustion of trademark rights as well. The regime of the regional exhaustion now applies in Croatia, as an EU Member State.<sup>39</sup> Bosnia and Herzegovina

stands alone and explicitly prescribes the application of the rule of international exhaustion.<sup>40</sup>

By comparing the solutions of the Western Balkan countries on the territorial scope of trademark rights exhaustion, we can conclude that there is no commonly accepted regime in the region. Even so, it is obvious that the regime of national exhaustion of trademark rights is predominantly accepted. What stands behind this 'dominance' of the regime of national exhaustion of trademark rights in the region we do not know for sure? Many factors could play a role here, e.g. lobbying of trademark holders, protectionist national economic policies (for any sake), various economic interests, just 'copying' the legal solution from the closest neighbor country or some developed country without proper rethinking (which should not be excluded) or something else. Whether some of those factors and which one(s) played the curtailed role in the dominant adoption of the regime of national exhaustion of trademark rights in the region remains unclear to us.

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<sup>34</sup> Directive (EU) 2015/2436 of the European Parliament and of the Council of 16 December 2015 to approximate the laws of the Member States relating to trade marks [2015] OJ L336, art 15. For more about the history and issues related to the regional exhaustion of trademark right in the EU see: Calboli (n 24) 47–86; Irene Calboli, 'Reviewing the (shrinking) principle of trademark exhaustion in the European Union (ten years later)' 2012 16(2) *Marquette Intellectual Property Law Review* <<https://scholarship.law.tamu.edu/facscholar/363/>> accessed 22 October 2019 257–281; Mellor, et al (n 2) 528–541.

<sup>35</sup> European Union Common Position Chapter 7: Intellectual Property Law 4; See also Stabilisation and Association Agreement (SAA) between the European Communities and their Member States and the Republic of Serbia 2008 (signed in April 2008, entered into force on 1 September 2013) (2008) – this Agreement sets the transition provisions on circulation of goods between Serbia and the EU, but it does not contain provisions on the exhaustion of intellectual property rights. The same is true with the SAAs concluded between the EU and its member states and other Western Balkan countries. See Marković, 'The Exhaustion of

Intellectual Property Rights in the Context of International Free Trade Agreements' (n 25) 152. Moreover, the practice of the 'newest' EU member states from South East Europe – Slovenia (joined in 2004), Bulgaria, Romania (joined in 2007), and Croatia (joined in 2013) was to implement the regime of EAA-wide exhaustion upon entry in the EU. Damian Simeonov, 'Parallel Import: EU and South East Europe' (Balkan Legal Forum, Romania, 2006) <<https://www.bma-law.com/wp-content/uploads/2011/02/Simeonov-Parallel-Import-Lecture.pdf>> accessed 28 October 2019 13–15; Law on Industrial Property No. 45/01, 96/02, 37/04, 20/06 and 51/06 (Slovenia), art 50.

<sup>36</sup> Law on Trademarks No. 72/2010, 44/2012, 18/2014, 40/2016 and 2/2017 (Montenegro), arts 15, 65a.

<sup>37</sup> Law on Industrial Property No. 21/2009, 24/11 of 2009 (North Macedonia), art 209.

<sup>38</sup> Law on Industrial Property No. 9947, 10/2013, 55/2014, 35/2016 of 2008 (Albania), art 158.

<sup>39</sup> Law on Trademark No. 14/2019 (Croatia), art 17.

<sup>40</sup> Law on Trademark No. 53/10 (Bosnia and Herzegovina), art 51.

#### 4. APPLICATION OF THE NATIONAL EXHAUSTION OF TRADEMARK RIGHTS IN SERBIA

The regime of national exhaustion of trademark rights has been applied for 6 years now in Serbia. Here, first one downside of its application shall be presented – an emergence of the competition policy concern (A). After that, the overview of the reactions of the Commission for Protection of Competition of the Republic of Serbia (Commission), a Serbian national competition authority, associated with that emerging competition policy concern is provided (B).

##### A. THE RESULTING EMERGING COMPETITION POLICY CONCERN

The application of the rule of national exhaustion of trademark rights has exerted a certain negative influence on competition and free movement of goods on the market in Serbia by restricting, to some extent, the price and qualitative competition of genuine products. Namely, the reasons for such negative influence on competition and free movement of goods in the Serbian market are twofold. First, the rule of national exhaustion of trademark rights has been, to a large degree, used for the total prohibition of parallel imports into Serbia, particularly concerning consumer products such as clothing, footwear, technical appliances, certain foods, cars, industrial machinery, etc.<sup>41</sup> From a logical point of view, this was the expected scenario given that the main purpose of the rule of national exhaustion of trademark rights is to enable trademark holders to stop parallel imports. Yet, the authorities in Serbia have anticipated that things here would turn out differently and that the restriction of parallel imports would not occur on such large-scale. They have based their expectations on the fact that a great number of importers (trademark holders) have publicly spoken against the prohibition on parallel imports and committed to use this

right merely in cases of unfair competition.<sup>42</sup> Thus, the focus of the Serbian authorities was on that positive aspect of the regime of national exhaustion of trademark rights (and possibly some others). The worries about the accompanying negative aspects appear to have been set aside in the first instance. However, despite the commitments of importers (trademark holders), when analyzing the state of competition on the market in Serbia, the Commission has noticed a significant degree of protectionism by them, especially regarding those consumer products, 'in respect of which consumers are exhibiting the highest degree of sensitivity and showing the most prominent extent of consumer habits.'<sup>43</sup> An increase in the number of claims filed by trademark holders before the Commercial Court in Belgrade, which were aimed at banning parallel imports, was notable.<sup>44</sup>

Secondly, the main supply source of those consumer products (whose parallel imports stopped after the introduction of the national exhaustion) for the Serbian market is imports. The domestic production of such products is negligible. As noted above, Serbia is a relatively small import-based economy.

Because of the combination of those two factors, trademark holders and/or their exclusive importers are becoming the sole distributors of products bearing the protected marks, who do not have market correction factor, because of the rule of national exhaustion (there is no intra-brand competition). As an outcome, the concept of national exhaustion of trademark rights turns out to be a barrier to entry for genuine products at lower prices. Such a barrier has the potential to generate a significant influence on competition and free movement of goods on the Serbian market by restricting price and qualitative competition on genuine products bearing trademarks.<sup>45</sup> The resulting state of affairs might have severe negative effects on the economy of Serbia in general, where its negative influence is particularly targeting the welfare of

<sup>41</sup> 'Opinion on the Draft Law on Amendments to the Law on Trademarks' (Commission for Protection of Competition of the Republic of Serbia, 7 May 2018) [hereinafter Opinion of the Commission 2018] 2 <<http://www.kzk.gov.rs/kzk/wp-content/uploads/2018/12/OPINION-on-the-Draft-Law-on->

[Amendments-to-the-Law-on-Trademarks.pdf](#)> accessed 24 October 2019.

<sup>42</sup> *ibid.*

<sup>43</sup> *ibid.*

<sup>44</sup> *ibid.*

<sup>45</sup> Opinion of the Commission 2018, 1–3.

Serbian consumers. Here, one more question should be addressed: what about the typical advantages of the regime of national exhaustion of trademark rights? Primarily, one of the main arguments in favour of the regime of national exhaustion of trademark rights is that it protects domestic trademark holders, more precisely their businesses, from unfair competition and free-riding of parallel importers.<sup>46</sup> Besides, it is argued that the parallel importers would unduly exploit the investments in local marketing, promotional campaigns, and pre and post-sale services made by trademark holders, and therefore cut into such incentives to invest locally. The regime of national exhaustion of trademark rights prevents that.<sup>47</sup> These positive effects of the national exhaustion of trademark rights are undeniable, but their scope in Serbia is dubious. Serbia, as an import-based economy, lacks domestic businesses engaged in the production of goods (especially in the field of consumer products),<sup>48</sup> that would be able to perhaps, enjoy the benefits of this regime of national exhaustion of trademark rights. Moreover, the domestic trademark holders usually put their products on the market for the first time in Serbia since they regularly do not have production facilities situated abroad or developed export networks.<sup>49</sup> On the other hand, the foreign commercial entities that own trademarks protected in the territory of Serbia, and their business partners (both predominantly operating as importers) are undoubtedly the beneficiaries of the identified 'positive' effects of the national exhaustion of trademark rights. Still, the question is whether their private interests prevail over the interests of consumers in Serbia.<sup>50</sup>

Nevertheless, one can claim that allowing parallel imports will reduce the incentives for the commercial entities to invest in production and market development in Serbia, which may

manifest negatively on the Serbian market on the long run.<sup>51</sup> This especially applies to the foreign commercial entities whose products are the main target of parallel imports. The problem of such argumentation is that we cannot predict how the foreign commercial entities will use the rule of national exhaustion of trademark rights. Whether they will invest more in the production of goods in Serbia or mainly use that rule to act as sole importers of their goods produced abroad. Additionally, the commercial entities (foreign and domestic) are generally controlling their distribution networks by using contracts and other mechanisms. Thus, to a certain extent, they have the ability to legally limit parallel imports of their goods, regardless of the applicable regime of exhaustion of trademark rights.

To summarize, it appears that foreign commercial entities that own trademarks protected in the territory of Serbia, and their business partners, are currently the only ones that have specific interests in the application of the regime of national exhaustion of trademark rights in Serbia.

Bearing this in mind, the competition policy concern presented has provoked a response from the competent authorities in Serbia (see below).

## **B. ACTIONS CONDUCTED BY THE SERBIAN NATIONAL COMPETITION AUTHORITY**

The Serbian Commission, as the national competition authority and the main competition policymaker in Serbia, has dealt with this emerging competition policy concern related to the introduction of a regime on national exhaustion of trademarks. Two phases of the Commission's actions in addressing this issue can be noted: a passive one and an active one. Before making the remarks on those phases, it should be

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<sup>46</sup> Varga (n 26) 639; Andrea Zappalaglio, 'International Exhaustion of Trade Marks and Parallel Imports in the US and the EU: How To Achieve Symmetry?' 2015 5(1) *Queen Mary Journal of Intellectual Property* 68, 69

<sup>47</sup> Enrico Bonadio, 'Parallel Imports in a Global Market: Should a Generalised International Exhaustion be the Next Step?' 2011 33(1) *European Intellectual Property Review* 153, 157.

<sup>48</sup> Opinion of the Commission 2018, 2; See also Varga (n 26) 644–646.

<sup>49</sup> In that respect see: Vuk Miletić, Slavko Božilović, 'Analysis of Possibilities for Improving Serbian Companies' Business Activity' 2015 12(4) *Facta Universitatis* 259, 263–265.

<sup>50</sup> See Varga (n 26) 644–646.

<sup>51</sup> Bonadio (n 47) 157.

said that we are not informed whether the Commission participated in amending the Law on Trademarks in 2013 that introduced national exhaustion or if they had the opportunity to tackle this issue *a priori*.

During the first phase, the Commission was not conducting any active measures to address problems developing with the application of the rule of national exhaustion of trademark rights. This is, to some degree, understandable taking into account that at the beginning, the real effects of the analyzed legal instrument were not instantaneously noticeable. Even though the Commission was mostly 'quiet' during this phase, upon request in 2013, it issued the 'Opinion on the implementation of competition policy regulations on the institutes of "Exhaustion of rights" and so-called "Parallel imports".' Here, the Commission had to answer the question as to what 'circumstances from the competition policy perspective must be taken into consideration when planning and/or conducting acts and actions based on the trademark regulations concerning the option of the legitimate trademark holder to prevent parallel imports of goods (marked with its trademark) on the territory of the Republic of Serbia.'<sup>52</sup> The core of the Commission's answer was as follows:

[...] It should be noted that regulations governing competition policy are without prejudice to intellectual property rights regulations, but solely concern their implementation. The extension of exclusive rights in terms of enabling prohibition of parallel imports as described in the concrete case and pursuant to the Law on Trademarks can truly have a significant influence on the state of competition and free movement of goods on markets, thus may restrict static competition (price competition occurring due to limitations) and advance dynamic competition, that is innovations. At first glance, it could be concluded that restrictions in implementing these rights could lead toward the improved position of consumers because they may cause reduction of prices, but on the long run and as per

position and practice of the EU, they might dissimulate innovations thus ultimately causing damages for consumers. Implementation of both systems should be balanced so to function in the interest of consumers because as we have previously stated, this interest represents a joint objective for regulations governing intellectual property rights as well as competition policy. Thus, it is necessary to establish effects on a case-by-case basis that might be achieved on the long or short run, i.e. set relevant criteria that would offset interests between competition policy regulations and intellectual property rights policies while observing the aforementioned context of achieving consumer benefits...

The Commission will, on an overall basis, take into consideration principles and criteria incorporated in the EU regulations and practice, and appropriately adjust them to our legal system. The European Justice Court already has [...] taken a stance that intellectual property rights are indisputable, but their usage may be the subject of prohibition and restrictions imposed by the European Commission if concerning infringements from Articles 81 and 82 of the EC Treaty – restrictive agreements and abuse of dominant position (currently Articles 101 and 102 of the Treaty on the Functioning of the European Union).<sup>53</sup>

The language of this opinion seems a bit too 'mild' and leaves the impression that the Commission is not aware of the potential drawbacks of the transition to national exhaustion of trademark rights, or perhaps tries to justify such transition. Regardless, the Commission emphasized that it shall stop any actions of trademark holders that can be qualified as prohibited restrictive agreements or an abuse of dominant position.

In the second phase, the Commission drastically changed the course of its opinion. Therefore, the Commission issued the 'Opinion on the Draft Law on Amendments to the Law on

<sup>52</sup> 'Opinion on implementation of competition policy regulations on the institutes of "Exhaustion of rights" and so-called "Parallel imports"' (Commission for Protection of Competition of the Republic of Serbia, 2013) [hereinafter Opinion of the Commission

2013] para 1 <<http://www.kzk.gov.rs/en/misljenja-u-vezi-primene-propisa-u-oblasti-zastite-konkurencije>> accessed 24 October 2019.

<sup>53</sup> *ibid* para 2.

Trademarks'<sup>54</sup> in 2018 by which it officially proposed a return to the regime of the international exhaustion of trademark rights. The Commission justified this return by referring to two sets of reasons. Firstly, the evident negative influence of the national exhaustion on competition and free movement of goods on the market in Serbia. Secondly, return to parallel imports would bring various positive effects on the market. These expected positive effects include intra-brand competition, a decrease of the present price disparities appeared as a consequence of parallel imports prohibition, increasing the number of potential bidders that procure goods from different sources for public procurement needs, etc. Allowing parallel imports should result in the instigation and development of the well-being of consumers, given that imports from countries offering lower prices of products create pressure on existing merchants in Serbia to reduce prices.<sup>55</sup> In spite of the sound reasoning, the proposal of the Commission was not accepted by Serbian legislators.<sup>56</sup>

Furthermore, it should be noted that regardless of the fact that impediment of competition has been apparent for a long period of time (since 2013-14), the Commission has yet to start systematically conducting procedures against trademark holders who might be misusing the rule of national exhaustion of trademark rights in a way which constitutes a competition law infringement.<sup>57</sup> At least for now, reasons for the absence of such a step are unclear.

To conclude, the actions of the Commission to this point have not successfully addressed the negative effects on competition and free movement of goods on the Serbian market, which are influenced by the introduction of a regime of national exhaustion of trademark rights in 2013. In case Serbia does not give up on this rule of national exhaustion of

trademark rights, the Commission should make more efforts to find a way to effectively cope with this issue in the future.

## 5. CONCLUDING REMARKS

Rules on the exhaustion of trademark rights, as a legal instrument, affect competition on the market as shown in the analysis. Their implementation and application, therefore, should be subject to analysis and planning by not just intellectual property policymakers, but competition policymakers as well. Otherwise, competition and free movement of goods on the market stand jeopardized, as in the case of Serbia.

As this paper has shown, the poorly thought-out introduction of a regime of national exhaustion of trademark rights in a small import-based economy as Serbia, in combination with a lack of action from the national competition authority has had negative effects on the Serbian economy. Precisely, the application of the rule of national exhaustion of trademark rights has restricted price and qualitative competition on genuine products bearing a protected trademark, which had a certain negative influence on competition and free movement of goods on the market in Serbia. Moreover, these negative effects tend to worsen, particularly targeting the welfare of consumers in Serbia. It appears that the regime of national exhaustion in Serbia is mostly in the interest of foreign commercial entities with trademarks registered in the territory of Serbia and their business partners. The question here is: should trademark, as an intellectual property right whose essential function is to denote the origin of goods or services under the protected mark in favour of all participants in the market, be granted and used in such a way? It seems not.

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<sup>54</sup> The Opinion has been issued upon the request of the Ministry of Education, Science and Technological Development in the process of drafting the new amendments to the Law on Trademarks.

<sup>55</sup> Opinion of the Commission 2018, 2–3.

<sup>56</sup> See the Law on Amendments and Addenda to the Law on Trademarks No. 44/2018 (Serbia).

<sup>57</sup> At least following the annual work reports and data publically available on the website of the Commission. Commission for Protection of Competition of the Republic of Serbia, 'Work reports' (2013–2018) <<http://www.kzk.gov.rs/izvestaji?lng=lat>> accessed 24 October 2019.

However, there is a solution to every problem. Three possible ways to approach this competition policy issue will be noted here. The first one and the most radical one is a return to the regime of international exhaustion of trademark rights, as proposed by the Commission. Not only are the upsides of this approach apparent, but it seems the most suitable. The second one represents merely an adaptation to the existing situation, i.e. the national exhaustion. It implies conducting on a large scale the *ex officio* procedures on investigation of competition infringements against targeted trademark holders by the Commission, as a national competition authority. The aim of these Commission's proactive actions would be to prevent and divert the trademark holders from (mis)using the rule of national exhaustion of trademark rights in a way that impedes competition. That should mitigate the negative effects of the rule of national exhaustion of trademark rights on economic welfare. This approach could be implemented immediately based on existing regulations, but it would not solve all the issues. The third one is a moderate approach, which means switch to a regime of regional exhaustion or controlled national exhaustion. The introduction of regional exhaustion would extend the effects of the exhaustion to a wider region and soften the negative influence of national exhaustion. One of the possible settings for the application of a regime of regional exhaustion of trademark rights would be the region of Western Balkans (non-EU members), which encompasses geographically close countries of similar economic development levels that are all members of the Central European Free Trade Agreement.<sup>58</sup> Another option is the territory of the EEA, because of the EU accession process and the fact that a significant amount of imports to Serbia come from the EEA. Controlled national exhaustion means that the national exhaustion would be a general rule. Nevertheless, if a trademark holder uses that

rule in an anti-competitive manner, the international exhaustion may be restored for the sake of protecting public or other legitimate interests.<sup>59</sup>

In July 2019, the official draft of the new Serbian Law on Trademarks was published for public discussion. The drafted Law envisages the acceptance of the regional EEA-wide exhaustion (new Article 53).<sup>60</sup> Serbian legislators have been considering to adopt regional EEA-wide exhaustion for Serbia (the moderate approach), although it is not an official requirement before formal accession to the EU. In the text of the official explanation of the drafted law, competition policy concerns related to national exhaustion are stated as one of the reasons for the proposal of transition to regional exhaustion.<sup>61</sup> The regime of EEA-wide exhaustion of trademark rights may not be the most suitable solution for Serbia, but in comparison to the regime of national exhaustion, it is certainly a step forward. Here, it should be noted that new drafted Law could be changed, so the introduction of regional exhaustion is still in question.

In the end, we can say that, in case Serbia accepts a regime of regional EU exhaustion in the near future, or even returns to international exhaustion, the introduction and application of the regime of national exhaustion of trademark rights for the past six years will remain a 'dark period' in the history of trademark protection in Serbia. Nonetheless, it can serve as a lesson for countries with similar economies that largely rely and depend on imports.

<sup>58</sup> Marković (n 25) 155.

<sup>59</sup> Central European Free Trade Agreement 2006 (adopted 19 December 2006, entered into force for all countries on 22 November 2007) (2006). See Varga (n 26) 646 and WIPO, 'Interface between Exhaustion of Intellectual Property Rights and Competition Law' (CDIP/8/INF/5, 1 September 2011) 8 <[https://www.wipo.int/meetings/en/doc\\_details.jsp?doc\\_id=182864](https://www.wipo.int/meetings/en/doc_details.jsp?doc_id=182864)> accessed 27 October 2019.

<sup>60</sup> Draft of the Law on Trademarks from July 2019 (Serbia), art 53 <[http://www.zis.gov.rs/upload/documents/pdf\\_sr/vesti/Nacrt%20zakona%20o%20C5%BEigovima.pdf](http://www.zis.gov.rs/upload/documents/pdf_sr/vesti/Nacrt%20zakona%20o%20C5%BEigovima.pdf)> accessed 27 October 2019.

<sup>61</sup> Explanation of the Draft of the Law on Trademarks from July 2019 (Serbia), art 53 <[http://www.zis.gov.rs/upload/documents/pdf\\_sr/vesti/Obrazlo%20C5%BEenje.pdf](http://www.zis.gov.rs/upload/documents/pdf_sr/vesti/Obrazlo%20C5%BEenje.pdf)> accessed 27 October 2019.

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