

# INTELLECTUAL PROPERTY RIGHTS: THE PURPOSES AND EFFECTS OF ARTICLES 28 TO 30

## 1. THE PURPOSES OF ARTICLES 28 TO 30

It is not only under the terms of Articles 81 and 82 that intellectual property rights fall to be considered. Articles 28 and 30 of the Treaty contain basic rules protecting the free movement of goods: Article 28 provides the central principle, and Article 30 sets out the limited exceptions. The wording of Article 28 is concise: 'Quantitative restrictions on imports and all measures having equivalent effect shall, without prejudice to the following provisions, be prohibited between Member States'. Article 29 sets out similar provisions applying to exports. Article 30 contains the qualifications to those basic rules, as follows:

The provisions of Articles 28 to 30 shall not preclude prohibitions or restrictions on imports, exports or goods in transit justified on grounds of public morality, public policy or public security; protection of health and life of humans, animals or plants; the protection of national treasures possessing artistic, historic or archaeological value; or the *protection of industrial and commercial property*. Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States.

This chapter considers the relationship between, on one hand, Articles 81 and 82 with their prohibition against agreements and concerted practices between undertakings (the 'competition rules') and, on the other hand, Articles 28 to 30 addressed to Member States, including their legislative, judicial, and administrative authorities responsible for implementation and enforcement of national intellectual property rights (the 'free movement rules').

It is first essential however to understand the place of Articles 28 to 30 within the framework of the Treaty. Within any common market, one of the essential freedoms is the free movement of goods. The removal of internal tariff barriers and of straightforward and quantitative limits, such as quotas, on the import and export of goods between Member States occurred at an early stage in the development of the Common Market. However, non-tariff barriers, including national legislation and administrative practices relating to the regulation of prices, indications of national origin and other labelling requirements, public health, and consumer legislation have presented, and still provide, far greater difficulties, notwithstanding the near completion of the Single Market legislation programme in the early 1990s. As a result, the expression 'all measures having equivalent effect' in Article 28 has been considered in many cases since 1974 by the European Court of Justice. The vast majority of these cases were references by national Courts to the European Court of Justice for preliminary rulings under Article 234 or Article 226 enforcement proceedings. A considerable body of case law has built up on the interpretation of Articles 28 and 30 since the landmark decisions of *Dassonville* and *Cassis de Dijon* and much of this has had an important influence on the competition law relating to intellectual property.<sup>1</sup> In many of these cases provisions of national law containing either directly discriminatory provisions against imported goods or other provisions which indirectly discriminated in this way have been struck down. In a later line of cases, however, beginning with the 'Sunday Trading' cases and *Keck*,<sup>2</sup> the European Court also made it clear that it will not normally interfere in national marketing rules which simply lay down non-discriminatory selling arrangements applicable to all goods.

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1 See L. Gormley, *Prohibiting Restrictions on Trade within the EEC* (North-Holland, 1985), *passim*: *Procureur du Roi v. B & G Dassonville* Case 8/74 [1974] ECR 837; 2 CMLR 436; *Rewe-Zentral v. Bundesmonopolverwaltung für Branntwein* Case 120/78 [1979] ECR 649; 3 CMLR 494 (the *Cassis de Dijon* case).

2 See, e.g. *Stoke on Trent BC v. B&Q* Case C169/91 [1992] ECR 6635; [1993] 1 CMLR 426; 2 CMLR 509. *Keck and Mithouard* Cases C-267 and 268/91 [1993] ECR I-6097; [1995] 1 CMLR 101. See also J. Steiner, L. Woods and C. Twigg-Flesner, *EU Law*, 9th edn. (Oxford University Press, 2006), Ch. 18, pp.383-88. See also C. Barnard, *The Substantive Law of the EU* (2<sup>nd</sup> ed.), (Oxford University Press), 2007.

## 2. HARMONIZATION OF MEMBER STATE LAW BY COMMUNITY MEASURES

### 2.1 PATENT LAW

The national laws of Member States protecting intellectual property rights vary substantially from each other in their classification and substantive content. This diversity has caused major problems for the development of Community principles to cover both free movement of goods and market integration. With hindsight the founders of the Community should perhaps have laid down, at the outset, at least some basic principles to govern the harmonization of such laws.

While Article 30 includes the 'protection of industrial and commercial property' as one of the exceptions to the basic principle of free movement of goods, there is no doubt that the attainment of a fully integrated market will remain difficult, if not impossible, so long as such diversity remains. The harmonization, therefore, of the law relating to intellectual property within the Community, and in particular to patents and trade marks, as well as the gradual harmonization of the classification and definition of all the other various intellectual property rights found to exist within Member States, and covering rights as varied as copyright, registered and unregistered designs, and the protection of computer software and databases, remains an objective of great importance.

Progress has been especially slow towards the provision of uniform rules for the Community in the case of patents. The 1973 European Patent Convention (often referred to as the 'Munich Convention') has for some time enabled applicants to the European Patent Office in Munich to obtain a set of patents in respect of each of those States which have so far ratified the Convention, currently the twenty-seven Member States and Switzerland, Liechtenstein, Monaco, Cyprus, and Turkey. The Luxembourg Patent Convention by contrast, though signed as long ago as 1975, and providing for the grant of a Community patent has never actually entered into force because of insufficient ratification. In recent years both the Commission and Presidents of the Council have tried hard to secure agreement between Member States on the terms of a new Convention that would create a Community patent, emphasizing its importance to the scientific and technological development of Europe. But a number of issues proved difficult to resolve. These included the number of languages into which the patent application had to be translated by the European Patent Office, the nature and jurisdiction of any Community Patent Court and its relationship with national patent courts, and the future involvement of such national courts as well as of national patent offices (some of which raise considerable revenue for Member States).

### 2.2 OTHER CATEGORIES OF INTELLECTUAL PROPERTY

Better progress has been made towards the harmonization of other intellectual property rules. As a result of the enactment of the Trade Mark Regulation 40/94 and its supporting procedural Regulation 2868/95, it became possible from the beginning of 1996 to file an application for registration of a Community Trade Mark (CTM) with the Office for Harmonization in the Internal Market (OHIM) in Alicante, Spain. Unlike the European Patent Office, the Community Trade Mark Office is already able to issue a Community trade mark, which is defined in Article 1(2) of Regulation 40/94 as having 'a unitary character. It shall have equal effect throughout the Community; it shall not be registered, transferred or surrendered, or be the subject of a decision revoking the rights of the proprietor or declaring it invalid, nor shall its use be prohibited, save in respect of the whole Community'. The definition of such a Community mark is therefore very similar to that of trade marks in the United Kingdom under the 1994 Trade Marks Act. However, a number of important differences remain between rules governing the alteration of Community trade marks and national rules in Member States. Failure to put the mark to genuine use within the Community for a continuous period of five years will lead to its revocation in the absence of proper reasons for non-use. The success of the OHIM office in attracting applications has already led to great delays in dealing with the applications for the Community mark, but this emphasizes the need for the Community approach towards harmonization of such rights.

The Trade Mark Directive (89/104) setting out the basic rules for trade marks throughout the Community has led to substantial harmonization of Member State law.<sup>3</sup> It incorporates a number of rules and principles laid down in the case law of the European Court, as discussed in this chapter, including the important principle of exhaustion of rights. The 1994 UK Trade Marks Act incorporates the provisions of the Directive. A number of other Directives have been adopted to cover other forms of intellectual property and neighbouring rights. These have included: Directive 91/250 on the legal protection of computer programs; the coordination of rules on satellite and cable re-transmission (Directive 93/83); the Database Directive (96/9) which provides protection from copying for commercial databases; the Digital Copyright Directive (2001/29) applying certain copyright principles to the on-line content in electronic commerce; and most recently Directives 2006/115 and 2006/116 which respectively codify earlier directives on rental and lending rights, and the term of protection of copyright, currently life and seventy years. Moreover, the Designs Directive (98/71) and the subsequent Community Design Regulation (2002/6) have brought about the creation of two categories of design rights protected by Community law. The registered design right applies to new designs with an aesthetic element, capable of industrial application for which the OHIM office may provide a five-year period of protection renewable up to a total period of twenty-five years. Also protected are design rights that are not registered if they comprise an original design for a three-dimensional item. Protection in such cases is obtained for fifteen years from the date of creation or ten years from the date from which the design was placed on the market.

The European Court has in a number of cases given attention both to the core content of individual property rights under national law, in order to ascertain their boundaries, and to the criteria by which the exercise of those rights are to be judged. These rights and criteria are usually referred to respectively as the 'specific subject matter' and the 'essential function' of particular forms of intellectual property under national laws. In principle the excessive use even of a right falling within the specific subject matter can be restricted under Community law, if it would lead to an artificial discrimination or disguised restriction on trade between Member States, or would in exceptional circumstances enable abuse of a dominant position.

In spite of its progress in this direction, however, the European Court has been notably cautious in its treatment of national law provisions which give extended or unusually generous scope to individual property rights. Thus we find, for example in the *Renault* case, unwillingness to interfere in the extent of protection given by design copyrights under Italian law following the Court's earlier decision in *Keurkoop v. Nancy Kean*.<sup>4</sup> Even more extreme, perhaps, was the refusal of the Court in the *Thetford v. Fiamma*<sup>5</sup> to interfere with the UK patent rule that patents could be issued for inventions which had not been exploited for more than fifty years. Such a patent had been granted in Britain for a form of portable toilet and was used to oppose the import of toilets of a similar type manufactured in Italy. The Court said it was satisfied that the rule did not give rise to arbitrary discrimination or disguised restriction on trade, and therefore refused to rule that the unusual provision of UK law should be disregarded.

Finally, the *Magill*<sup>6</sup> case showed that a form of copyright in schedules for radio and television under Irish law, which under national law was classified as copyright although it arose not as a result of creative endeavour but ancillary to the provision of programmes, was nevertheless entitled to acceptance under Article 30. This despite the fact that in most other Member States, apart from the United Kingdom and Ireland, such programme information would not have been protected by copyright. The Court was clearly influenced in its approach to the application of Article 82 in *Magill* by its belief that this form of copyright was questionable. Its decision, however, did not actually refuse the benefit of Article 30 to Irish law's broad definition of copyright. The unwillingness of the European Court to seek to harmonize even such doubtful elements of intellectual property law through its cases underlines the importance of harmonization through legislative means by the issue of directives and regulations, processes given further urgency by the very rapid technological advances in computing, telecommunications, biotechnology, and other scientific fields.<sup>7</sup>

### 3. THE DEVELOPMENT OF ARTICLES 28 TO 30 BY CASE LAW: THE 'EXHAUSTION OF RIGHTS' PRINCIPLE

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<sup>3</sup> It has also had the result of increasing substantially the number of trade mark cases referred to the ECJ under Art. 234.

<sup>4</sup> *Keurkoop* Case 144/81 [1982] ECR 2853; [1983] 2 CMLR 47; *Renault* Case 53/87 [1988] ECR 6211; [1990] 4 CMLR 265.

<sup>5</sup> Case 35/87 [1988] ECR 3585; [1988] 3 CMLR 549.

<sup>6</sup> *Magill/RTE* Case C-241/91P [1995] ECR I-797; 4 CMLR 718.

<sup>7</sup> W.R. Cornish and D. Llewelyn, *Intellectual Property*, 6th edn. (Sweet & Maxwell, 2007), Ch. 1, pp.34-5.

### 3.1 EARLY CASES

The primary issue for the Court has been whether to give a narrow or a broad interpretation of the words of qualification in Article 30. If the interpretation given had been broad, the effect might have been that individual national intellectual property rights could be asserted, even where they might have the effect or purpose of preventing free movement of goods, so long as they did not conflict with the express prohibition in that Article of being either ‘a means of arbitrary discrimination’ or ‘a disguised restriction on trade’ between Member States.

Fortunately, from the viewpoint of those concerned with the effectiveness of competition law (and in particular the officials of DG Comp), the choice of the Court has been, with very few exceptions, to confine claims based on Article 30 under the reference to ‘the protection of industrial and commercial property’ to a narrow range; in striking a balance between the requirements of Community law and national legislation, the needs of the Community have been given priority. The often repeated (and criticized) distinction which the Court has made between the ‘existence’ and ‘exercise’ of such rights is no more than the necessary application of the express provisions of the Treaty.<sup>8</sup> The ‘existence’ of the rights is apparently protected by Article 295 (‘The Treaty shall in no way prejudice the rules in Member States governing the system of property ownership’),<sup>9</sup> but any existing rights, to have any commercial value, must also be capable of being exercised. The issue that has concerned the Court primarily is how far that exercise can be allowed, while preserving the freedom of movement of goods between Member States, including the freedom of parallel imports. Whilst debate about how the Court may have chosen to interpret the effect of national legislation in any particular case is essential, to criticize (as some commentators have done) the Court’s distinction between ‘existence’ and ‘exercise’ is to miss the point that this distinction is part of the framework of the Treaty itself. The distinction is not simply a ‘gloss’ read into the Treaty by the Court. More crucial, however, than that distinction is the issue of how the Court would define those special rights regarded as so essential to and inherent in the existence of a national intellectual property right that they had to be protected under the terms of Article 30, even where their effect on trade between Member States could be measured.

The term ‘industrial and commercial property’ is not necessarily the exact equivalent to ‘intellectual property rights’ or ‘industrial property rights’. From the Court’s case law, there is certainly a wide area of overlap between the two concepts; industrial and commercial property cover patents, registered designs, trade marks, copyrights, and plant breeders’ rights. The Court tends in borderline cases to look for an analogy between special types of intellectual property for which protection is claimed and the well established categories, by seeing if there are common features, for example rights of exclusivity following registration or prior use, and also by examining the provisions of relevant international conventions to see which definition they accord in the particular area. On the wrong side of the borderline have fallen a number of cases such as *Prantl Bocksbeutel*<sup>10</sup> where the Court refused the protection requested by the German government to the producers of wine from Franconia for a bottle of distinctive shape against imports of a different variety of wine in similar bottles from Italy. The decision was, however, taken not on the basis that legislation conferring rights relating to certificates of national origin could never constitute industrial and commercial property, but because the Court felt that the particular German legislation was too general in its application to qualify under such a heading, since it protected descriptions even of a very general or generic nature. The honest concurrent use of similar bottles by Italian producers could be permitted without damage to consumer interests, simply by requiring adequate labelling indicating national origin.

The prohibition of Article 28 applies to a wide range of actions. It goes far beyond coverage of formal governmental action or legislative acts, and applies to government agencies, nationalized bodies, and any public bodies wholly or partially financed by government or as a result of charges levied under legislative authority, whether direct or by way of secondary legislation, as well as to acts of regional or local government by way of administrative action or bylaws<sup>11</sup>, and to judicial decisions. The acts involved may be formal or informal, including practices and customs as well as legal rules or administrative systems having

<sup>8</sup> See *Hag (No. 2)* Case C-10/89 [1990] ECR I 3711; 3 CMLR 571, especially Jacobs A-G at pp.581–2, though the Court in its judgment appeared to lay less stress on the existence/exercise dichotomy.

<sup>9</sup> It is often claimed that it is wrong to attach too much importance in this context to the general words of this Article, which does little more than preserve the right of Member States to nationalize or denationalize individual sectors.

<sup>10</sup> Case 16/83 [1984] ECR 1299; [1985] 2 CMLR 238.

<sup>11</sup> See for example, Case 45/87 *Commission v. Ireland (Dundalk water)* [1988] ECR 4929.

the required effect on trade. Even if the effect on trade is slight, Article 28 will apply: the principle of *de minimis* established by *Völk v. Vervaecke*<sup>12</sup> has no application.

*Consten and Grundig v. Commission* provided early evidence of the approach that the Court would adopt to the potential conflict between Article 30 and Article 81. After confirming that Article 30 cannot limit the field of application of Article 81, the Court continued:

Article [295] confines itself to stating that ‘the Treaty shall in no way prejudice the rules in Member States governing the system of property ownership’. The injunction in . . . the contested decision to refrain from using rights under national trade-mark law in order to set an obstacle in the way of parallel imports, does not affect the grant of those rights, but only limits their exercise to the extent necessary to give effect to the prohibition under Article [81(1)]. The power of the Commission to issue an injunction, for which provision is made in Article 3 of Regulation 17 . . . is in harmony with the nature of the Community rules on competition, which have immediate effect and are directly binding on individuals. Such a body of rules . . . does not allow the improper use of rights under any national trade-mark law in order to frustrate the Community’s law on cartels.<sup>13</sup>

Two years later the Court confirmed that similar principles apply to patents. In *Parke, Davis v. Probel*<sup>14</sup> the Court held that normal use of a patent cannot be treated as abuse of a dominant position under Article 82, whereas its use for some other purpose could constitute such an abuse, for example if used like the ‘GINT’ trade mark in the *Grundig* case. The Court here ruled that a patent holder, the owner of a Dutch patent for an antibiotic process, was entitled to prevent the marketing of this product in Holland by the defendant, who obtained it from a third party who had manufactured it in Italy, where patent protection was at that time totally unavailable for drugs. The Court held that the use of the Dutch patent to prevent importation of the unpatented Italian product was a normal use of the right of exclusivity under the patent, since the patent holder had not itself placed the product on the Italian market, nor indeed could it have had its own product patented in that country. This principle applied whether or not the price charged in Holland exceeded that payable for the drug as imported by Centrafarm.

This case was, of course, not concerned with parallel imports from Member States where the products had originally been placed on the market either by the plaintiff or by its own licensee; it therefore revolved around the interpretation of Article 82 rather than Articles 28 to 30. The terms of the judgment, however, gave a clear indication that once a case was referred to the Court involving an alleged abuse of an intellectual property right in order to prevent parallel imports, the Court was likely to look sympathetically on a defendant who relied on the argument that marketing of the patented product acquired in the normal course of business from the plaintiff would be protected by Article 28. In the early 1970s, cases were referred to the Court dealing with copyright, patents, and trade marks raising this very point, and decisions followed lines predictable from earlier case law. The first case was *Deutsche Grammophon v. Metro*,<sup>15</sup> a reference from a German court under Article 234, also significant in relation to the development of law on resale price maintenance. The Court, affirming Advocate General Roemer, also held that the right of the holder of exclusive rights, namely copyrights, in sound recordings to prohibit the import into its own country of records which have been marketed by its owner in another country is not any part of the ‘industrial and commercial property’ for which protection is available under Article 30. The owners of the right to the copyright are limited to protection afforded to enable the first sale to be made either in its own country or in a foreign country. Once the goods have been placed on the market, however, it is a ‘measure having equivalent effect’ for the court of the country where the original copyright was granted to seek to prevent the import by a purchaser in the normal course of trade from seeking to market the goods, as parallel imports, in Germany.

### 3.2 THE CENTRAFARM CASES

The Court applied the same principles to patent and trade mark cases in the well-known *Centrafarm* cases of 1974 which involved the Sterling-Winthrop group, a drug manufacturer in the United Kingdom, and Centrafarm, whose business involved the reselling of drugs purchased in the United Kingdom and Germany in The Netherlands, where for a variety of reasons a higher price level prevailed. In the first case,

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12 Case 5/69 [1969] ECR 295: CMLR 273. See Ch. 7, p.103.

13 Cases 56 and 58/64 [1966] ECR 299, 345: CMLR 418.

14 Case 24/67 [1968] ECR 55: CMLR 47.

15 Case 78/70 [1971] ECR 487: CMLR 631.

*Centrafarm v. Sterling Drug Inc.*,<sup>16</sup> Centrafarm had bought various drugs from subsidiaries of Sterling-Winthrop under the trade name of 'Negram' in both the United Kingdom and Germany for resale in Holland. Sterling tried to prevent Centrafarm from selling the drugs at a profit in Holland, claiming exclusivity under Dutch patent law. The same basic facts applied in the second case, *Centrafarm v. Winthrop BV*,<sup>17</sup> when Centrafarm marketed in Holland under the trade mark Negram drugs previously purchased in the United Kingdom. Winthrop relied on the fact that it was the proprietary owner in Holland of the trade mark, Negram, covering this particular drug, to stop Centrafarm from selling in the Dutch market. The Court was able to apply precisely the same principles in both cases. It held that the effect of Article 30 is to permit exceptions to the principle of free movement of goods only when the restrictions can be justified for the purpose of safeguarding rights constituting the specific object of the intellectual property right. This phrase had been used by the European Court in the *Metro* case; but now it is defined in its application to patents and trade marks. Dealing with patents, the Court identified the characteristics specific to them: first, the right to exploit an invention for the purpose of making and then selling a product and, second, the corresponding right to prevent an 'infringement' by a third party seeking either to make or to sell the product without the patent owner's consent. What the phrase did not include was any right to prevent imported products from coming into its territory, which had been marketed in another Member State by it or by a third party with its consent, merely because it thereby sustained economic loss, possibly because of Member State intervention in pricing levels. Applying the same criteria to trade marks, the Court suggested that the 'specific object' covered the protection of the owner against competitors by the exclusive use of the mark for the purpose of first putting the product into circulation, but did not extend as far as preventing the import of goods bearing the mark which have been legitimately marketed into or in another Member State.

The limitation thus placed on the holders of both patents and trade marks was necessary because of the express words of Articles 28 to 30, which were incompatible with any wider view of their rights, regardless of the differences in prices between the respective countries. Sterling-Winthrop was therefore unable to prevent Centrafarm from marketing drugs purchased in a conventional manner on the United Kingdom market and reselling them in Holland. By reason of the first sale in the United Kingdom, the rights of the holder of the intellectual property were 'exhausted', and thereafter the purchaser of the products which are the subject of the intellectual property rights was free to market them as it saw fit.

Some four years later, Centrafarm was involved in a further pair of cases involving similar facts except that the product, a tranquillizer, was not resold exactly as originally purchased in the United Kingdom but in a repackaged form. The issue presented under Article 234 to the European Court in the case of *Hoffmann-La Roche v. Centrafarm*<sup>18</sup> was whether this slight change of circumstances gave the owner of the relevant trade mark the right to prevent the sale, unless the goods had been purchased from the original patent holder, as in the earlier cases. The Court ruled once again that Centrafarm was free to sell the product, even after repackaging, provided that certain simple conditions were satisfied. Thus, the repackaging itself must not adversely affect the original condition of the product, and prior notice had to be given to the owners of the trade mark of the proposed marketing of the repackaged product; the repackaging must state by whom it had been carried out. The final requirement was that it must be shown that enforcement of the trade mark rights against the proposed repackager would contribute to the artificial partitioning of the Common Market. The national court must be satisfied that each of these conditions has been met before it can conclude that the enforcement of the trade mark right amounts to a disguised restriction on trade within the meaning of the second sentence of Article 30.

In the second case *Centrafarm v. American Home Products* there was a further difference in the factual situation, namely that the products were sold under different brand names in the United Kingdom and The Netherlands. This meant that the mark fixed by the parallel importers into The Netherlands was different from that fixed in the United Kingdom by the original suppliers. The court ruled that the importer could be sued for infringement in The Netherlands unless the owner of the mark could be shown to have adapted the dual marks with the express object of artificially partitioning the Common Market, a test essentially subjective.

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<sup>16</sup> Case 15/74 [1974] ECR 1147: 2 CMLR 480.

<sup>17</sup> Case 16/74 [1974] ECR 1183: 2 CMLR 480. Other characteristics of the 'specific object' of intellectual property rights are considered in *Parke, Davis v. Probel* and *Hag (No. 2)*. Whilst the French word used in this context is '*objet*', a more exact English equivalent may be 'subject matter'.

<sup>18</sup> Case 102/77 [1978] ECR 1139: 3 CMLR 217.

A similar approach to the *Hoffman* case was adopted by the Court in *Pfizer v. Eurim-Pharm*<sup>19</sup>. Here an antibiotic 'Vibramycin' had been purchased by the defendants in the United Kingdom and repackaged for resale in Germany. The original blister strips containing the capsules had been removed from Pfizer's original external packaging and placed in a new box designed by Eurim-Pharm, but without altering either the strip or its contents. On the front of the new box there was an opening covered with transparent material through which the original trade mark appeared on a sheet incorporated with the blister strips. The back of the box contained a statement that the goods had been manufactured by Pfizer in the United Kingdom, but imported and repackaged by Eurim-Pharm; a leaflet in German, containing the required information about the product, prepared by Eurim-Pharm, was included. The Court refused to allow Pfizer to prevent the marketing of the antibiotics repackaged in this way, because the product had not been interfered with in any prejudicial manner and the consumer would not be confused by the packaging or instructions about the fact that they had been repackaged before sale in Germany.

### 3.3 LATER REPACKAGING CASES

Some fifteen years later the issue of repackaging again came before the Court in a large group of similar cases<sup>20</sup> involving packets of tablets and pills for the treatment of a wide range of ailments including cancer, high blood pressure, asthma, and mouth infections. In these cases parallel importers had imported products in large quantities to Denmark and Germany, Member States where price levels for a number of reasons were high. The products had been imported from other Member States with lower price levels. National legislation in both Denmark and Germany forced repackaging upon the parallel importer; sometimes only putting the blister strips of pills into new external packaging was required, but in some cases the size of packs had to be reduced, and in other cases parts of the original packaging had to be removed, for example a spray. Moreover, instructions for use had to be included in the language appropriate in the country of final sale to replace the original instructions in other languages.

In its answer to the numerous questions raised under Article 234 the European Court was considerably assisted by the lengthy opinion of Advocate General Jacobs whose views were largely adopted. It accepted that repackaging was not, in principle, an interference with goods which would prevent the principle of 'exhaustion of rights' applying, but imposed nevertheless on the importer of such goods more demanding conditions than in the earlier *Hoffmann v. Centrafarm* case. The requirements set out in that case were repeated but two new conditions were imposed on the importer. First was a substantive general requirement that the presentation of the product after repackaging must not be such as to damage the reputation of the trade mark owner. Thus the packaging must be of good quality and not defective or untidy. The second requirement was procedural: that on demand the proprietor of the trade mark is not only given notice of the repackaging but also supplied with a specimen of the repackaged product to enable him to assess whether the requirements of Community law have been fully observed.

The Court in this case was able to rely not only on principles established in earlier case law, but also on the fact that these had been incorporated in Trade Mark Directive 89/104, which states that:

the trade mark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on to the market in the Community under that trade mark by the proprietor or with his consent; (2) Paragraph 1 shall not apply when there exist legitimate reasons for the proprietor to oppose further commercialization of the goods especially where the condition of the goods is changed or impaired after they have been put on the market.

In a further case shortly afterwards a new issue was raised; were the rights of the importer affected by the fact that it had applied to the goods a different<sup>21</sup> trade mark from those under which they had been sold by the original supplier? In this case, *Pharmacia & Upjohn v. Paranova*,<sup>22</sup> the parallel importer, had brought antibiotics in Greece and France under the trade marks 'Dalacin C' and 'Dalacine' respectively but sought to resell them in Denmark under Upjohn's Danish trade mark 'Dalacin'. The Court departing from the subjective test applied in *Centrafarm v. American Home Products* as to the intentions of the trade mark proprietor now laid down a new test which focused on whether the parallel importer had an objective need to

19 Case 1/81 [1981] ECR 2913; [1982] 1 CMLR 406.

20 Cases C-427, 429, 436/93. *Bristol-Myers Squibb v. Paranova*; Cases C-71-73/94 *Eurim-Pharm v. Beiersdorf*; Case C-232/94 *MPA Pharma v. Rhône-Poulenc* all reported at [1996] ECR I-3457; [1997] 1 CMLR 1151.

21 The importer will be able to use the supplier's own trade mark to promote his sales, unless the supplier can show it will seriously damage the value of his trade mark. *Dior v. Evora* Case C-337/95 [1997] ECR I-6013 [1998]: 1 CMLR 737.

22 Case C-379/97 [1997] ECR I-6927; [2000] 1 CMLR 51, S. Kon and P. Schaeffer, 'Parallel Imports of Pharmaceutical Products' 1997 *ECLR* 123-144.

change the trade mark applied to the goods, for example, because of national laws of the Member State into which they were being imported, prohibiting their sale unless the local trade mark was affixed. If the reason for this change was however simply the commercial advantage of the importer then the rights of the trade mark owner would nevertheless prevail. In other words the European Court had now linked the outcome of such cases to the objective motives of the importer rather than the subjective intention of the trade mark owner in having dual marks in separate countries.

But the European Court had not yet finished with the subject of repackaging and a batch of further cases had to be decided in 2002. In *Merck, Sharp & Dohme v. Paranova*<sup>23</sup> the parallel import of a product used for the treatment of prostate conditions, originally purchased in Spain, was challenged by the Austrian trade mark owner, because it was proposed to give the product on sale in Austria a new outer packaging rather than merely affixing stickers to the outside of the original box in which the Spanish sale had been made. The Court, recognizing the commercial realities of the situation, confirmed the principle already established in the earlier cases, that trade mark owner's opposition to repackaging is unjustified if it blocks effective access of the imported product to the local market.<sup>24</sup> The Court cited as examples local rules relating to the packaging of pharmaceuticals, well established prescription practices based on standard box sizes, and also consumer resistance to the relabelling or 'over-sticking' of such products. It was however in all cases for the national court to decide whether any of these conditions existed so as to justify the repackaging by the importer. Moreover, in a group of cases<sup>25</sup> referred under Article 234 by the Chancery Division of the English High Court further clarification of the repackaging issues was sought by Laddie J, who was clearly concerned that the obligations placed on parallel importers as a condition for importation were too stringent. Nevertheless, the European Court maintained its previous stance, confirming that parallel importers must strictly observe the cumulative requirements which previous case law had laid down. The effect of this decision is that in all cases the parallel importer must comply strictly with the following four conditions if it is to be able successfully to withstand the local trade mark owner's claim for infringement:

First there must be an objective necessity for repackaging without which effective marketing cannot take place, whether this is based on local legal requirements or strong consumer preferences, not merely commercial advantage to the importer.

Second, the repackaging chosen must not have an adverse effect on the original condition of the product nor mislead the purchaser as to its origin.

Thirdly, the quality of the repackaging must not be such as to damage the reputation of the trade mark holder;

And fourth, reasonable prior notice of the importation (to be assessed by the national Court), together with samples, must be given to the manufacturer by the parallel importer prior to proposed commencement of sale.

It is clear that at least some judges in the United Kingdom feel that such rules are unduly restrictive for parallel importers; but given the consistent approach both of Jacobs A-G and other Advocates General and the European Court in the cases referred to, it seems unlikely that these will now be varied, and the most recent cases provide even more precise guidance on the application of these conditions.<sup>26</sup>

## 4. THE EXCEPTIONS TO THE PRINCIPLE OF 'EXHAUSTION OF RIGHTS'

### 4.1 EXHAUSTION OF COMMUNITY RIGHTS

The broad principles behind the Court's interpretation of Article 30 had now been clarified, but later cases were to graft several important exceptions onto them. In the 1976 case of *EMI Records v. CBS United Kingdom*,<sup>27</sup> the issue was whether the principle of exhaustion of rights of trade marks would enable EMI, which owned the relevant mark 'Columbia' throughout the EC, to prevent CBS from manufacturing records

<sup>23</sup> Case C-443/99 [2002] ECR I-3703.

<sup>24</sup> *Loendersloot v. Ballantine* Case C-349/95 [1997] ECR I-6227.

<sup>25</sup> *Boehringer Ingelheim and Others v. Dowelhurst Ltd and Swingward Ltd* Case C-143/00 [2002] ECR I-3759; [2002] 2 CMLR 623.

<sup>26</sup> *Boehringer Ingelheim and Others v. Dowelhurst Ltd and Swingward Ltd* Case C143/00 [2007] ECR I-3391; *The Wellcome Foundation v Paranova* Case C-276/05, 22 December 2008 (not yet reported).

<sup>27</sup> Case 51/75 [1976] ECR 811: 2 CMLR 235.

under that trade mark through subsidiaries established in the various Member States. The original trade mark had been owned solely by US companies. By a series of agreements over a period of thirty years to the end of the Second World War, ownership was divided so that CBS owned the mark in the United States, whilst EMI owned it in other parts of the world, including the whole of the European Community. Although there had been some co-operation between the parties after the end of the Second World War, ownership of the trade-mark rights had been clearly divided for a substantial period. The Court held that the Treaty did not prevent EMI, as proprietor of a trade mark throughout the Community, from exercising its right to prevent the import of similar products carrying the same mark from a third country outside the EC. The rationale of this decision was that the exercise of such rights could not affect trade between Member States, even if it were classifiable as a measure equivalent to a quantitative restriction under Article 28, and thus it could not pose any threat to the integration of trading within the Common Market which that Article was designed to bring about. However, in the light of the decision in *Hag (No. 2)*, discussed below, it is unclear whether EMI would have been in the same fortunate position had CBS owned the trade mark rights in even one of the Member States.

A similar result was achieved in *Polydor Records v. Harlequin Record Shops*,<sup>28</sup> a case referred under Article 234 to the European Court by the English High Court. Polydor owned the copyright in a recording of songs by the Bee Gees pop group. The defendants imported copies of the records from Portugal where they had been manufactured by a licensee of the plaintiff. Both the importation into and sale in the United Kingdom were effected without the consent of the plaintiff. When sued for copyright infringement, the defendants referred to the Free Trade Agreement between the Community and Portugal, which contained clauses equivalent to those set out in Articles 28 and 30 of the Treaty. Although the Court agreed that the language was similar, it declined to allow the defendant the benefit of the principle of exhaustion of rights. Its explanation for this decision was that the Free Trade Area provisions relating to free movement of goods did not have the same purpose as the Treaty of Rome. The Free Trade Area agreement between the Community and a non-Member State did not purport to create a single market reproducing as closely as possible the conditions of a domestic market, because the instruments which the Community had at its disposal to achieve uniform application of Community law and the progressive abolition of legislative disparities had no equivalent in the context of a relationship simply between the EC and Portugal. The principle of strict territoriality for copyright items no longer existed between each of the Member States, but could still exist in the relationship between the Community and non-member countries, even those with whom it had a free trade agreement.

The second important exception to the basic rule of exhaustion of rights is derived from *Parke, Davis v. Probel*.<sup>29</sup> In that early case the Court had held that the exhaustion principle did not apply where goods had originally been placed on the market in a country where no patent protection was available, and without the consent of Parke, Davis who held the patent protection in The Netherlands where the defendants sought to sell the goods. This decision was based on the argument that the principle of exhaustion could not apply because Parke, Davis had not had the opportunity of obtaining a reward for the investment in the invention of the relevant drug, because of the failure of Italian law to provide patent protection. In the more recent case of *Merck v. Stephar*,<sup>30</sup> the facts were similar to *Parke, Davis* except that Merck had themselves marketed the drug known as 'Moduretic' in Italy, even though unable to obtain a patent either for the drug or the manufacturing process. Merck had obtained some return for their investment through their sales in Italy, even though the lack of patent protection possibly reduced the price which they were able to obtain; the Court felt that the goods had been placed in commerce within the Common Market. Merck could not expect, simply by placing the product on the market, to guarantee that the full reward potentially available for patented products would be available for all its non-patented products.

The principle in this case has remained unpopular with the manufacturers of pharmaceutical products which have been the subject of extensive parallel importing. It was challenged again in the European Court by Merck and Beecham in the *Primecrown*<sup>31</sup> cases. Here the products concerned were drugs for treating hypertension and glaucoma and from Spain and Portugal where at the relevant dates (though not now) patent protection could not be obtained. The manufacturers sought in the Chancery Division of the English High Court to prevent these imported drugs from being sold in the United Kingdom on the ground that the

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28 Case 270/80 [1982] ECR 329: 1 CMLR 677. At the relevant date Portugal was not a member of the Community.

29 Case 24/67 [1968] ECR 55: CMLR 47.

30 Case 187/80 [1981] ECR 2063: 3 CMLR 463.

31 Cases C-267 and 268/95. [1996] ECR I-6285: [1997] 1 CMLR 83.

manufacturers had both legal and ethical obligations to sell the drugs in Spain and Portugal without the patent protection and could not damage the interests of their patients in those countries, once marketing had begun, by later withdrawing them from sale. In other words they claimed that their 'consent' to the marketing was conditional rather than absolute. Mr Justice Jacob referred the issues to the European Court under Article 234. However, the European Court, partially overruling Fennelly A-G, distinguished between the situation where plaintiffs had an ethical or moral obligation to supply a drug, and that where they were under a legal obligation; only in the latter case would 'consent' be deemed not to have been given, since the position of the proprietors of a trade mark in those situations would be little different from an owner obliged to give a licence of right. No sufficient legal obligation to market the products could be found under the laws of Spain and Portugal. By contrast, if ethical obligations were to be relied on, these were far harder to measure and to apply to the issue of whether consent had been given in the case of any particular drug. The existence of price controls in the country of first sale was, as in earlier cases, held to be irrelevant.

However, the original placing on the market of a patented process, not by the voluntary act of its proprietor but because a mandatory licence has been granted under the provisions of national patent law, to a licensee, would lack the essential element of the proprietor's consent, and the patentee would be entitled to invoke his patent against parallel imports into a second Member State where its patent protection existed.<sup>32</sup> Similar principles would apply in the case of licences of right also available under the national patent law of certain Member States.

However, the proprietor cannot prevent the actual import of products subject to the licence of right provided that the importer undertakes to pay the licence fee laid down by agreement or, in default of agreement, as determined by the national patent authorities. The importer has to be treated in the same way as the domestic manufacturer of such products under the licence of right. This means that the importer cannot, for example, be required to give security in advance for royalties payable or to delay distribution of the product pending satisfactory health and safety clearance. The fact that the relevant product was a pharmaceutical product imported from a Member State where patenting of such products is not possible again did not affect the principles involved.<sup>33</sup>

## 4.2 INTERNATIONAL EXHAUSTION OF RIGHTS

The most important exception however to the principle is undoubtedly that which applies when the original sale has been made, not within any Member State but elsewhere, and a parallel importer then seeks to bring such products into the Community for resale. The first occasion on which the European Court considered this issue was the 1998 *Silhouette*<sup>34</sup> case. This Austrian company produced fashion spectacles and sunglasses and had disposed of some old stock to a Bulgarian company on condition that the products were resold only in Bulgaria and some other East European countries. The defendant, however, another Austrian company, purchased the products from the Bulgarian company and then sought to market them back in Austria. The European Court found in favour of *Silhouette* upon an Article 234 reference on the basis that Article 7 of the Trade Mark Directive limited the rights of Member States to apply the 'exhaustion of rights' principle to sales made originally in the Community, so that an individual Member State was not entitled to extend the principle to other sales. This approach was also adopted in the subsequent *Sebago v. GB-Unic*<sup>35</sup> where the argument of the parallel importer was that shoes similar to those which it was seeking to import into the Community (from El Salvador) had already been sold by the plaintiff trade mark owner within the Community. The Court, following again the opinion of Jacobs A-G, ruled that exhaustion as a principle applies to individual goods or batches, not to product lines as a whole. Subsequently in June 2000, Commissioner Bolkestein announced, following detailed consultations with Member States and other interested parties, that the Commission would not extend the geographic area in which European registered trade marks were deemed exhausted, by amendment of the Trade Mark Directive. The debate leading up to this decision had been fiercely contested with scope for compromise limited. On the one hand trade mark

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32 This principle was established in *Pharmon v. Hoechst* Case 19/84 [1985] ECR 2281: 3 CMLR 775. In *EMI Electrola v. Patricia* Case 341/87 [1989] ECR 79: [1989] 2 CMLR 413, the same principle was applied in the context of copyright. The owner of a Cliff Richard record, for which copyright in Denmark had expired, was allowed to continue to make use of its copyright in Germany so as to exclude imports from Denmark. It had given no consent to the manufacture of the record in Denmark and therefore, by analogy with *Pharmon v. Hoechst*, Art. 28 had no application.

33 *Allen and Hanburys Ltd. v. Generic (UK) Ltd.* Case 434/85 [1988] ECR 1245: 1 CMLR 701: [1989] 2 CMLR 325.

34 Case C-355/96 [1998] ECR I-4799: 2 CMLR 953.

35 Case C-173/98 [1999] ECR I-4103: 2 CMLR 1317.

owners supported the status quo, on the ground that their ownership of intellectual property rights, including trade marks, entitled them to determine, in respect of non EC sales, the market in which their products could be sold and that it was an unreasonable limitation of their rights to permit parallel importers to seek to exploit price differences between different markets throughout the world. In contrast, parallel importers argued that to introduce 'international exhaustion' permitting parallel imports into Europe wherever the goods had originally been sold, would bring down prices within the Community and reduce the exploitation by trade-mark owners of captive markets within the Community.

It was foreseeable that such a controversial question would be brought back to the European Court and this came to pass in two linked cases *Zino Davidoff v. A&G Imports*<sup>36</sup> and *Levi Strauss v. Tesco and Costco*.<sup>37</sup> In the first case Davidoff had sold toiletries under its trade mark 'Cool Water' which was registered in the United Kingdom, and in other jurisdictions. A&G Imports acquired stock originally sold in Singapore by Davidoff and began importing it into the United Kingdom. In the second case, Tesco and Costco both purchased '501 Levi' jeans from Levi Strauss outside the Community and were sued for infringement by Levi. In both cases the product imported into the United Kingdom was made available to the public there by the importers at considerably lower prices than the normal prices charged in the UK by the authorized distributors for Zino Davidoff and Levi Strauss.

The trade mark proprietors therefore brought an action in the United Kingdom to prevent these parallel imports, on the legal basis that they had not given any consent to the importation of these goods nor could their consent be implied from the mere act of placing them on markets *outside* the European Community. The parallel importers, encouraged doubtless by the sympathy with which their arguments had been met by Laddie J.<sup>38</sup> at the original hearing of the claim before the Chancery Division of the High Court, argued that once the trade mark proprietor had obtained a profit from his original sale, it could not then utilize its intellectual property rights to prevent a purchaser of goods from reselling them in any market that it might choose (a right described by Laddie J in the proceedings as 'a parasitic right to interfere with the distribution of goods which bears little or no relationship to the proper function of the trade mark right'); even if the right to import could be excluded by an express contract clause passed down the entire chain of purchasers, no such restriction should be implied. The absence of such express restriction, they argued, meant that the importer could claim implied consent by the trade-mark proprietor.

The judgment of the European Court however, was at all points in favour of the trade mark owners. It stated that importation would only be permitted if the proprietor of the trade mark had given express consent in respect of the particular goods concerned. The burden of proof that consent had been given was on the importer and could not be assumed either from the proprietor's silence nor from the absence of any warning placed on the goods or their packaging nor upon the absence of any communication by the owner to subsequent purchasers of its products, stating objection to their marketing within the Community. The existence of national laws containing restrictions on the enforcement of intellectual property rights against third parties not involved in the original sale was held irrelevant to this issue of consent.

In *Peak Holding*<sup>39</sup> the Court had the opportunity to give more specific guidance as to the precise moment at which exhaustion occurs. Peak Holding, a producer of sportswear, had imported some of its goods into the EEA and had offered them for sale in its shop in Denmark. When the goods remained unsold they were sold on to an independent business in France, on condition that 95% of them not be sold in European countries other than Russia and Slovenia. Despite that condition, some of the goods subsequently appeared on the market in Sweden, and Peak Holding brought proceedings against the Swedish company that was selling them. The Court held that in these circumstances exhaustion did not take place when the goods physically entered the EEA, or even when they were offered for sale in Denmark by the trade mark holder. Thus there had been no exhaustion at the time that the goods were offered to the French company. However, once the French company had bought the goods, such that it obtained the legal right to dispose of them, the rights were exhausted. For these purposes the contractual prohibition on resale within Europe was irrelevant; it might give rise to liability on the basis of breach of contract, but it could not prevent exhaustion of the trade mark rights.

Although these important cases dealt only with trade marks, the underlying reasoning of the Court can be seen as equally applicable to all other intellectual property rights. An important aspect of these cases is the

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<sup>36</sup> Case C-414/99 [2002] 1 CMLR 1.

<sup>37</sup> Cases C-415 and 416/99 [2002] 1 CMLR 1. Subsequent UK proceedings are reported at [2002] 3 CMLR 281.

<sup>38</sup> [1999] 3 All ER 711; 2 CMLR 1317.

<sup>39</sup> Case C-16/03 *Peak Holding AB v Axolin-Elinor AB* [2004] ECR I-11313.

location of the burden of proof; should it be entirely on the importer to show the express consent of the trade mark owner? It may be that in practice this places an impossible task on the importer. Sympathy for this argument is found in the judgment of the ECJ in *Van Doren v. Lifestyle Sports*,<sup>40</sup> which lays down that the burden of proof be shared. Initially it is suggested that the trade-mark owner must prove that there are no 'gaps' in its distribution system within the EEA, that is no source from which the imported goods may originally have come other than from its official distribution channels. If this can be done, then the burden of proving express consent to marketing in the EEA passes fully to the importer. In the meantime Member States remain divided in their approach to international exhaustion, though it is believed that by a small majority they would prefer it to be permitted and the effect of the Court judgments to the contrary overruled by a change in the Trade Mark Directive and Regulation.

### 4.3 THE POSITION OF SERVICES

Another exception to the rule of exhaustion is where the property right concerned relates, not to goods, but to services covered by the provisions of Articles 49 to 55. The Belgian courts made two successive references for preliminary rulings under Article 234 in the *Coditel* cases.<sup>41</sup> In the first case the European Court held that the provisions of Article 59 did not prevent the owner of copyright in a film under national law from invoking its rights against cable TV companies. The facts of *Coditel (No. 1)* were that Cine Vog had acquired the exclusive right to show the film *Le Boucher* in Belgium for a period of seven years, provided that it did not show it on television for a minimum of forty months after the first screening in Belgium. The film was sold by the owners for screening on German television, but when shown the transmission was picked up by Coditel which operated the cable television service in Belgium and then distributed to its own cable subscribers in Belgium. Cine Vog then claimed that Coditel had breached the copyright vested in it under the original seven-year agreement.

In the second reference *Coditel (No. 2)* the issue before the Court was whether an exclusive licence to show a film was subject to the prohibitions of Article 81. In the course of its judgment the Court indicated that the distinction drawn in the earlier cases between the existence and the exercise of industrial property rights under Article 30 could also apply when such rights were exercised in the framework of the provision of services. In both cases it held that cinema films were made available to the public by performances capable of being repeated without limit, so that copyright owners had legitimate interests in calculating the fees due in respect of an authorization to show the film 'on the basis of the actual or probable number of performances and in authorising a television broadcast of the film only after it had been exhibited in cinemas for a certain period of time'. In other words, it treated the nature of copyright in a film as inherently different from that in either a book or gramophone record. It is noteworthy that, in his opinion in the first *Coditel* case, Advocate General Warner indicated that in his view the omission from Articles 49 to 55 of the Treaty dealing with services of any provision for the protection of industrial property was probably the result of oversight rather than deliberate intention. Given the opportunist nature of the action of Coditel, the Court's decision has commanded general support, and especially the finding after appropriate economic analysis that an exclusive copyright licence does not necessarily violate Article 81.

### 4.4 THE 'COMMON ORIGIN' EXCEPTION

For a long time it was believed that the fact that a particular trade mark came from a 'common origin' or 'common source' also protected it from challenge by the proprietor of a related mark. This belief arose from the 1974 case of *Van Zuylen Freres v. Hag (Hag No1)*<sup>42</sup> where identical trade marks had come from a common source. Van Zuylen was the assignee of the Benelux trade mark in 'Hag' coffee, having acquired it by purchase from the Custodian of Enemy Property following the confiscation of the assets of the former Belgian subsidiary of Hag AG of Germany at the end of the Second World War. The trade mark was registered in Benelux, and Van Zuylen sold coffee at the retail level. In the meantime, the original German

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40 Case C-244/00 [2003] ECR I-3051. The issue of whether a distribution system is 'impervious' also arose in *Metro v. Cartier* Case C-376/92 [1994] ECR I-15: 5 CMLR 331, in connection with the question of the enforceability of guarantees for products sold other than by the suppliers' authorized dealers. See Ch. 11, p.234.

41 *Coditel v. Cine Vog Films (No. 1)* Case 62/79 [1980] ECR 881: [1981] 2 CMLR 362. *Coditel v. Cine Vog Films (No. 2)* Case 262/81 [1982] ECR 3381: [1983] 1 CMLR 49.

42 Case 192/73 [1974] ECR 731: 2 CMLR 127.

company, Hag AG of Bremen, had recommenced marketing coffee in the Benelux area under its own identical trade mark, and Van Zuylen tried to stop Hag AG from importing coffee into Luxembourg, claiming it to be an infringement of the mark owned and registered by it. The Court rejected the claim by Van Zuylen, repeating the distinction made in earlier cases between the existence and the exercise of rights. It held that it could not allow the holder of a trade mark effective in one Member State to prohibit the marketing in that Member State of goods legally produced in another Member State under an identical trade mark that had the same origins.

This decision was overruled in *Hag (No. 2)*<sup>43</sup> towards the end of 1990. In his opinion Attorney General Jacobs convincingly argued that the original Hag decision was flawed in that the consent of the owners of the Benelux mark to the use of the similar German trade mark in Benelux had been wrongly presumed, from the mere fact of the original common source. The facts of *Hag (No. 2)* presented the reverse situation from the earlier case, as it was now the German Hag company (which in the first case had successfully defended its right to sell coffee in Benelux under its German trade mark) which sought to prevent the owner of the Benelux trade mark (successor in title to Van Zuylen) from selling its coffee in Germany.

In upholding the right of the German company to prevent the Belgian company from selling its coffee in Germany, Jacobs A-G pointed out that the doctrine of common origin is nowhere referred to in the Treaty and had no rational basis. The earlier judgment had failed to analyse satisfactorily the inherent subject matter of trade marks, and therefore underestimated their importance as property rights. They were necessary to protect the manufacturer who consistently produced high quality goods and should not be regarded as a secondary form of intellectual property rights since they enable existing quality to be recognized in the new markets. To remove the exclusive right to the mark from a manufacturer takes from him the power to influence and capitalize on the goodwill associated with it. The specific subject matter of the trade mark is the guarantee given by its owner that it has the exclusive right to use it in order to put into production and circulation a quality product, which can be protected against competitors who later seek to acquire unfairly the benefit of the original manufacturer's goodwill.

Any doubts that remained after the *Hag (No. 2)* decision as to the breadth of its application were removed by the *Ideal-Standard*<sup>44</sup> case. Until 1984 a US company held the rights to sell both sanitary and heating equipment under the mark 'Ideal-Standard' in France and Germany through its subsidiary companies. The French subsidiary then became insolvent and in realizing its assets so as to meet its obligations to creditors had voluntarily sold its heating installation business (including its goodwill and related trade marks) to SGF, which in turn transferred them to CIC, an independent company. CIC tried after manufacturing the heaters to export them to Germany under the Ideal-Standard trade mark through a German distributor IHT. The German subsidiary of Ideal-Standard claimed that it had the sole right to use the Ideal-Standard mark in Germany even though since 1976 it had not produced heaters or heating installations but only sanitary ware. Under the doctrine of common origin as originally set out in *Hag (No. 1)* the argument by the German subsidiary would have failed because of the original common origin of the marks owned by the French and German subsidiaries of Ideal-Standard.

However, the Court made clear that *Hag (No. 1)* was no longer good law, even in cases where ownership of the trade marks had been separated on a voluntary basis rather than under a compulsory process of sequestration. The Court pointed out that, in the circumstances in which the assignment had occurred, Ideal-Standard had been unable to control the quality of goods that would be produced under its French trade mark; therefore differences in quality between goods produced under the French trade mark 'Ideal-Standard' and under the same mark in other jurisdictions could not be controlled. This was quite different from the situation where Ideal-Standard had deliberately licensed the use of the market in another jurisdiction but failed to maintain adequate quality controls of the kind normal in licensing agreements. If imports under the French trade mark were allowed, consumers would no longer be able to identify with confidence the origin of marked goods, and Ideal-Standard as the proprietor of the original trade marks could be held responsible for any deficiencies in them without any control over their specification. The issue of whether a genuine risk of confusion existed was a matter for national courts; it did not matter whether the goods were identical or merely sufficiently similar, and the European Court could not substitute its own finding on that issue. The mere fact that the German subsidiary had not for a number of years sold heating installations under the Ideal-Standard trade mark did not affect its rights.

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43 Case C-10/89 [1990] ECR I-3711: 3 CMLR 571.

44 Case C-9/93 [1994] ECR I-2789: 3 CMLR 857.

*Hag (No. 2)* seems therefore to apply to any voluntary division of trade marks within the Community. The basis for this principle is the same as that set out by Jacobs A-G in *Hag (No. 2)*, namely the importance for the owner of the mark to be able to exercise control over the quality of goods produced under it in another Member State. If a trade mark owner decides to split ownership between itself and another company in another Member State it has, of course, to accept responsibility for the quality of the goods to be produced by their assignee; it will normally exercise that control by making maintenance of quality standards a primary term of the assignment. In that case the re-import of goods into the territory of the assignor is still one which the assignor can control. However, where the terms of the assignment prevent the national owner of the trade mark from exercising control (as in the rather special circumstances of the *Ideal-Standard* case) the assignor should be entitled to prevent the risk of damage to its own reputation as well as confusion about the source of the goods by relying on its national rights. This will allow it to prevent importation of the goods by the assignees; in other words, to consent to an assignment of the mark without retention of control over its use, in cases where such control is not commercially possible, is not 'consent' for purposes of the exhaustion rule.

#### 4.5 SIMILARITY OF SEPARATE TRADE MARKS

Concern had been expressed as a result of *Hag (No. 1)* that the European Court would also look unfavourably on attempts by trade mark owners in one Member State to prevent the use in that Member State of another trade mark originating from a second Member State which might be considered confusingly identical, even where there was no element of common origin and the parties were at arm's length. This fear, however, was laid to rest by the *Terrapin (Overseas) v. Terranova*<sup>45</sup> case two years later. Terranova was a German company which had manufactured plaster for buildings façades for a considerable period of time, and which was the registered proprietor in Germany of a number of trade marks including the words 'Terra', 'Terranova', and 'Terra-fabrikate' in respect of various building materials. Terrapin was an English company which manufactured prefabricated houses and components under the trade mark 'Terrapin'. The English company operated in Germany directly and through a subsidiary and had applied to register their trade mark there. A number of legal actions arose between the parties because of the similarity of their respective trade marks. The German Supreme Court finally referred the issue to the European Court under Article 234: the issue was whether the registration of the United Kingdom mark in Germany would give rise to confusion with the mark owned by the German company, a legitimate proprietor of its own trade mark in its own country; and if so, whether the German company could then legitimately within the terms of Article 30 oppose use of the name 'Terrapin' to describe the English product in Germany.

Had the Court taken an excessively purist view of intellectual property rights in the Community under the regime of Articles 28 to 30, one might have expected that the doctrine of honest concurrent use which the Court did apply in other cases might have prevailed. Nevertheless, the Court, clearly feeling that the risk of confusion was genuine owing to the similarity of the respective companies' business and trade marks, found that a refusal by German authorities to register 'Terrapin' in Germany would not breach Article 28. The situation was very different from that in the *Hag (No. 1)* case; the trade mark had arisen quite separately under the laws of different Member States and there were no legal or economic links between the companies. The desirability of the free movement of goods and the legitimate interest of the proprietor of the threatened trade mark had to be reconciled in such a way as would both protect legitimate use of trade mark rights and prevent their abuse in a manner enabling segmentation of the territories within the Common Market. The Court concluded, therefore, that the German Court could restrain the use of the imported mark, since otherwise, if the principle of free movement of goods was nevertheless to prevail in such a case, even a specific and important object of the system of industrial and commercial property rights, the differentiation of competing products, would be seriously undermined. However, in such circumstances it was essential that the national Court be satisfied both that there were no links between the respective companies and that the origins of the marks were completely independent. Such questions are now, of course, governed by Community law and the application of the Trade Mark Directive 89/104.<sup>46</sup>

<sup>45</sup> Case 119/75 [1976] ECR 1039: 2 CMLR 482.

<sup>46</sup> See P. Oliver and M. Jarvis, *Free Movement of Goods in the EC*, 4th edn., pp.335–8, which refers to the attempt by Jacobs A-G in *Hag (No. 2)* to prevent an unduly broad view of the concept of confusion being adapted by national Courts; see also *SABEL v. Puma*, Case C-251/95 [1997] ECR I-6191.

## 5. THE RELATIONSHIP OF FREE MOVEMENT RULES TO COMPETITION RULES

### 5.1 DIFFERENCES BETWEEN THE TWO SETS OF RULES

In the previous sections of this chapter we have examined how the Community Courts have in a number of cases sought to establish definite limits on the extent to which the Article 30 exceptions for 'industrial and commercial property' to the free movement rules can be allowed to weaken their effect. The next step is to understand how in these circumstances the relationship between the competition rules and the free movement rules has been handled by the Courts and the Commission. As noted above, the principal differences between the scope of the two groups of rules must be borne in mind. Although their objectives are not necessarily in conflict, there is equally no inherent harmony between them since each group of rules operates in its own way, largely without overlap. Articles 28 and 30, as we have seen, are addressed to Member States and their executive, legislative, and judicial authorities at all levels, to prevent the use of legislation, judicial decision, or administrative practice from maintaining non-tariff barriers, save to the limited extent allowed by the narrow interpretation placed by the European Court of Justice on Article 30. By contrast, Articles 81 and 82 apply only to undertakings, and Article 86 to public undertakings and those to which Member States grant special or exclusive rights. They require either an agreement or a concerted practice between at least two undertakings, or the abuse of a dominant position. A sanction for entering into an agreement in contravention of Article 81 is that an undertaking may incur fines and penalties from the Commission; no such sanction is available if a government or its agency breaches Article 28. On the other hand, Article 81(2) provides that the offending clauses of such an agreement are void and without legal effect. By contrast a court in which an Article 28 defence is raised, by a defendant accused for example of infringing the patent or trade mark rights of a plaintiff seeking to exercise such rights in a situation where the European Court has ruled it would be in breach of Article 28, is required to uphold its defence. It must, moreover, reject the plaintiff's claim so as to ensure that neither civil nor criminal sanctions are imposed upon the defendant.

In general terms, competition and free market rules have similar objectives: the freeing of trade between Member States from restraints imposed by either private or public sources. However, the European Court has made it clear in a number of cases that it will not allow one set of rules to be used to justify freedom from the other. Thus, as far back as the *Grundig*<sup>47</sup> case in 1966, these provisions later being embodied in Regulation 67/67, the European Court laid down that the protection given by Article 30 to industrial and commercial property should not enable those rights to be used in a way which supported a distribution system that sought to exclude the possibility of parallel imports. The same principle underlies the subsequent Court decisions of *Sirena v. Eda*<sup>48</sup> and *DGG v. Metro*<sup>49</sup> referring to copyright, and the several *Centrafarm*<sup>50</sup> cases in the years immediately following. On the other hand, since the free movement rules protect the existence of industrial and commercial property, the mere exercise of rights under national law which do not conflict with the principle of exhaustion of rights would not breach Article 82, a principle established by both the *Probel* and *Terrapin* cases.

### 5.2 RECONCILIATION OF THE TWO SETS OF RULES

A similarity between the two sets of rules is, of course, that Member States are under a duty not to introduce legislation which would cause a breach of them. This obligation is specifically expressed in Articles 28 and 29, and has been stated also to apply to the competition rules: see *Inno v. ATAB*<sup>51</sup>. In that case the Court spelled out the duties of Member States not to enact measures enabling private undertakings to evade the

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47 Cases 56 and 58/64 [1966] ECR 299: CMLR 418. See also Ch. 5, p.53.

48 Case 40/70 [1971] ECR 69: CMLR 260.

49 Case 78/70 [1971] ECR 487: CMLR 631.

50 See fnn. 15 and 16.

51 Case 13/77 [1977] ECR 2115: [1978] 1 CMLR 283. The case involved a Belgian statute requiring all tobacco products sold at retail to have a label affixed showing the maximum price. This was claimed by the Belgian government to have as its purpose the prevention of fraud on the tax authorities, but the Court ruled that it had been introduced mainly to protect a resale price maintenance system. The case is further considered in Ch. 21, p.553.

constraints of the rules against competition even if in practice such measures might well also offend Articles 28 or 29.

Whilst only Articles 81 and 82 have a *de minimis* provision which is inherent from the wording of the Article ('... and which may affect trade between Member States...'), it is arguable that Articles 28 and 29 are to be interpreted as if containing an inherent 'rule of reason'. In *IDG v. Beele*<sup>52</sup>, the Court concluded that, in a straightforward case of 'passing off' involving exact imitations of cable ducts, Article 28 should be interpreted so as not to prevent a rule of national law (applying to domestic and imported products alike) from allowing one trader to obtain an injunction preventing another from continuing to market a product lawfully marketed, but which 'for no compelling reason' was sold in a form almost identical to the first named product, causing needless confusion between the two.

Exceptions to the prohibitions against restrictions of competition contained in or effected by agreements and concerted practices are based on grounds that are mainly economic, namely the two negative and the two positive conditions of Article 81(3), whereas the better view in relation to Article 30 appears to be that arguments of an essentially economic nature cannot be used to justify claims for exemption; on the other hand, the mere fact that governmental measures introduced on other grounds referred to in Article 30, e.g. national security, may also have some economic advantages will not automatically mean that the measure will violate Article 28. However, the precise relief which such measures may be permitted to give to government will be strictly limited to those proportionate to the national security interest required to be protected.<sup>53</sup>

The development by DG Comp of competition policy in respect of patent licences, discussed in Chapter 12, might cause difficulties in the future under Article 28. While case law has made clear that intellectual property rights cannot be used to prevent or restrict parallel imports, i.e. goods imported by persons who have obtained them lawfully, directly or indirectly, from licensees in other Member States, the position is less clear with regard to the exercise of such rights, directly or indirectly, either by the original licensor against his own licensee or by one licensee against another licensee of the same licensor. Under the terms of the technology transfer block exemption contained in Regulation 772/2004, depending on factors such as whether the licensor and licensee are competitors, and whether the agreement is reciprocal, various restrictions on making active and passive sales can be placed on licensees. If, in infringement of such agreements, sales of patented products were made by one licensee into the territory of another, an action to restrain the licensee from doing so might be met by a claim that Article 28 itself prevented courts from approving it. The established precedents of *Centrafarm* could be quoted in support of this view, notwithstanding that the patent licence terms were clearly covered by Article 81 and the block exemption, so that the rights were not being abused so as to avoid Article 81, as in the *Grundig* case.

In other words, while it has long been clear that the application of Article 81(1) to an agreement will not be restricted because the agreement might also involve a breach of Article 28, it is far less clear whether the fact that Article 81(1) will not be held to apply to a particular agreement, e.g. as a result of a block exemption, means that Article 28 cannot then be raised by a defendant against whom the agreement is pleaded.<sup>54</sup>

The European Court of Justice might well seek, as a matter of policy, to limit the application of Article 28 to situations other than those where the Commission itself had, after protracted consultations and negotiations, established a model for technology transfer within the Community which would not in its view restrain competition within the terms of Article 81. The fact that the restriction permitted went beyond the reach of that open exclusive licence permitted in *Maize Seed* (though far from comprising absolute territorial protection of a kind clearly unacceptable under Article 81) should not of itself permit Article 28 to be successfully raised as a defence by a licensee sued in these circumstances.

Both free movement and competition rules have now been developed and defined over a considerable period and by a wealth of case law, allowing their central consistency to become apparent. Identical concepts and expressions have been relied upon both in cases under Sections 28 to 30 and under Articles 81 and 82. Case law does not appear to have raised any inconsistencies between the operation of the two sets of rules; if in future a case did arise which threatened to arrange a clash between them, the Court would be likely to seek

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<sup>52</sup> Case 6/81 [1982] ECR 707: 3 CMLR 102.

<sup>53</sup> This is illustrated by *Campus Oil v. Ministry of Industry and Energy* Case 72/83 [1984] ECR 2727: 3 CMLR 544, where the Irish government had introduced measures obliging various oil companies to acquire a minimum quantity of oil from its only State refinery. The Court ruled that the national Court had the jurisdiction to approve such measures to the extent that they applied only to the minimum supply requirements, without which the State's public security would be affected, or at which the level of production had to be maintained to ensure the refinery's production capacity in the event of a crisis.

<sup>54</sup> For a detailed discussion of this complex question, see Oliver, *op. cit.*, pp.73–84.

a solution which harmonized the approaches of the two sets of rules rather than emphasizing any differences between them.<sup>55</sup>

Further reading

C. Barnard, *The Substantive Law of the EU* (2<sup>nd</sup> ed.), (Oxford University Press 2007)

K. Mortelmans, 'Towards Convergence on the application of the Rules in Free Movement and Competition' [2001] 38 *CMLRev* 613–649

C. Stothers, *Parallel Trade in Europe* (Hart Publishing 2007)

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<sup>55</sup> K. Mortelmans, 'Towards Convergence on the application of the Rules in Free Movement and Competition' [2001] 38 *CMLRev* 613–649.