

THE UNRESOLVED TENSION BETWEEN TRADEMARK PROTECTION AND FREE MOVEMENT OF GOODS IN THE EUROPEAN COMMUNITY

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I. INTRODUCTION

The nature of trademarks appears to put them in conflict with the goals of the European Community (EC) to dismantle territorial boundaries and to promote the free movement of goods. This is because trademark rights are defined by territorial boundaries. Specifically, trademark rights depend on the jurisdiction of a particular territory for their protection and on recognition by consumers of particular nationalities in performing their functions. The EC has not chosen to resolve this conflict by establishing a community-wide trademark. Rather, the newly adopted EC Trademark Directive assumes the continued coexistence of trademark rights under the laws of the various member states.

Similarly, in treating territorial trademark rights under the free movement of goods rules of the Treaty of Rome (EEC Treaty), the Court of Justice of the European Communities (ECJ) has fostered two erroneous assumptions. First, the ECJ has assumed that trademark rights are of relatively little importance when compared with patent rights. Second, the ECJ has assumed that trademark rights are inconsistent with the goals of the EC because of the territorial nature of the rights. Proceeding from these assumptions, the ECJ has substantially restricted trademark rights in the EC.

This article first reviews the economic function of trademarks. Comparing this function to that of patents, this article concludes that trademarks perform a useful function in promoting the efficient allocation of resources. To the extent that the free movement of

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goods rules in the EC are intended to achieve the efficient allocation of resources, trademark rights are consistent with the goals of the EC.

This article then examines the line of cases through which the ECJ has restricted trademark rights. This examination indicates that some of the doctrines established in these decisions are of dubious legal origin and are contrary to the economic function of trademarks. Finally, a reformulation of the doctrines propounded by the ECJ is presented in order to reconcile the function of trademarks with the EC goal of free movement of goods.

II. THE FUNCTIONS OF TRADEMARKS

The ECJ has recently suggested that trademarks serve two functions: to protect the goodwill of the trademark owner and to prevent confusion on the part of consumers who purchase trademarked goods. In the terminology of the ECJ, the goodwill function is the "specific subject-matter" of trademark rights, and the prevention of consumer confusion is their "essential function."¹ The ECJ describes the specific subject matter of trademarks as "the right [of the trademark owner] to use that trade mark for the purpose of putting a product into circulation for the first time and therefore to protect him against competitors wishing to take advantage of the status and reputation of the trade mark by selling products illegally bearing that mark."² The ECJ characterized the essential function of trademarks as the guarantee of "the identity of the origin of the marked product to the consumer or ultimate user by enabling him without any possibility of confusion to distinguish that product from products which have another origin"³

In referring to the "status and reputation of the trade mark," the ECJ contemplated the goodwill associated with the mark, which includes the status and reputation of the particular products which bear that mark.⁴ As Professor Landes and Judge Posner have argued, trademark law does not reward the creation of the mark itself.⁵ Unlike patent law or copyright law, which reward creative effort, trademark law does not reward the creation of a new word or logo,

1. Case C-10/89, SA CNL-Sucal NV v. HAG GF AG, 1990 E.C.R. 3711, 3758, 3 C.M.L.R. 571, 608 (1990) [hereinafter *Hag II*].

2. *Id.*

3. *Id.*

4. *Id.*

5. William M. Landes & Richard A. Posner, *The Economics of Trademark Law*, 78 TRADEMARK REP. 267, 271 (1988).

but rather the investment of the trademark owner in the reputation of its products.⁶

Trademarks may thus be distinguished from other types of industrial property,⁷ such as patents and copyrights. The economic function of patent law is to provide incentives for inventors to discover novel technologies which may benefit society.⁸ Similarly, copyright law provides incentives to create works of art and literature for the benefit of society.⁹ Trademark law, on the other hand, does not exist to reward the invention of the trademark or its artistic creation. Immediately after the creation of a trademark it is probably of no benefit to society.¹⁰

If one were to compare a trademark, in isolation from the product it designates and the goodwill it signifies, with a major patentable invention or a copyrightable work of art, one might doubt that the law should accord to the former the same level of protection as the latter.¹¹ As Advocate General¹² Dutheillet de Lamothe observed: "From the human point of view, the debt which society owes to the inventor of the name Prep Good Morning is certainly not of the same

6. *Id.*; see also *Hag II*, 1990 E.C.R. at 3751, 3 C.M.L.R. at 604 (discussing the protection of high quality goods as the fundamental justification for trademark protection).

7. This article will use the term "industrial property" to refer to patent, copyright, trademark, and similar property rights. Such rights are probably more often referred to in the United States as "intellectual property." The term "industrial property" has become the term of art used to refer to such rights in the English version of EC legislation and case reports. See, e.g., Case 40/70, *Sirena S.r.l. v. Eda S.r.l.*, 1971 E.C.R. 69, 82, 1971 C.M.L.R. 260, 273 [hereinafter *Sirena v. Eda*].

8. See, e.g., W.R. CORNISH, *INTELLECTUAL PROPERTY: PATENTS, COPYRIGHT, TRADEMARKS AND ALLIED RIGHTS* 78-80 (1989).

9. See Landes & Posner, *supra* note 5, at 275.

10. Landes and Posner explore the economics of languages and of linguistic identifiers to indicate that the invention of new words for new products provides a recognizable social benefit. *Id.* at 272-73. Thus, words such as aspirin, cellophane, thermos, kleenex, and xerox (all words invented to designate new products) provide useful methods to refer briefly to the articles that they identify, without having to describe their physical or chemical characteristics, products, or uses. *Id.* at 273. Landes and Posner conclude, however, that "[t]hese benefits . . . are small," and alone would probably not explain the existence of trademark law. *Id.*

11. See, e.g., *Sirena v. Eda*, 1971 E.C.R. at 82, 87, 1971 C.M.L.R. at 264-65, 273 (discussing the degrees of protection afforded by trademarks and by copyrights).

12. The Advocates General of the Court of Justice are not judges, but their opinions provide guidance to the ECJ in reaching its decision and are published with the ECJ's decision. See TREATY ESTABLISHING THE EUROPEAN ECONOMIC COMMUNITY [EEC TREATY] art. 166. For an example of a typical Advocate General submission, see *Sirena v. Eda*, 1971 E.C.R. at 85, 1971 C.M.L.R. at 261. The role of the Advocates General has been likened to that of an *amicus curiae*, instructive to the ECJ, but not binding upon it. See Richard S. Alembik, *Recent Developments*, 19 GA. J. INT'L & COMP. L. 613, 623 n.47 (1989).

nature . . . as that which humanity owes to the discoverer of penicillin."¹³

Such a comparison is, however, misleading. It is not the invention of the trademark which the law protects, but the investment over time which its owner makes in the goodwill associated with the product to which the trademark is affixed. The trademark becomes the symbol that easily identifies both the product and its source. Assuming that the owner of the mark makes repeat sales of the product, the mark also becomes a guarantee of quality and consistency.¹⁴ It is thus the ability of the trademark to identify products, guarantee product quality, and reduce consumer confusion that constitutes the primary value of the trademark to society. Consumers who have enjoyed a trademarked product can locate and buy that product again without expending significant time and effort to ensure that the second purchase is the same as the first.¹⁵ The maker of the product also has a continuing interest in maintaining the quality and consistency of the trademarked product to build consumer loyalty.¹⁶

While there is no guarantee that a trademark owner will not change the products which it markets under a particular trademark, the trademark owner has little incentive to market an inferior product or a product which does not respond to consumer preferences, because such a change will damage the goodwill associated with the mark. This would result in a loss of the trademark owner's investment in the creation of the mark and the associated goodwill. Eventually, the trademark owner might alter the marked product, but it is likely that any such alteration would be intended as an improvement. Moreover,

13. *Sirena v. Eda*, 1971 E.C.R. at 87, 1971 C.M.L.R. at 264-65. For the Commission's early view of trademark rights (which is as unsympathetic as that of Advocate General Dutheillet de Lamothé), see COMMISSION OF THE EUROPEAN COMMUNITIES, FIRST REPORT ON COMPETITION POLICY 67 (1971) ("the partitioning of the Common Market by means of trade mark rights is fundamentally contrary to the Community system of competition and is therefore inadmissible").

14. See *Hag II*, 1990 E.C.R. at 3751, 3 C.M.L.R. at 604. For a review of court approaches to this theory in the United Kingdom and in the United States, see Lee Akazaki, *Source Theory and Guarantee Theory in Anglo-American Trademark Policy: A Critical Legal Study*, 72 J. PAT. & TRADEMARK OFF. SOC'Y 255, 268-76 (1990).

15. Landes & Posner, *supra* note 5, at 270-72. For an excellent treatment of the function of trademark in reducing "consumer search costs," see 1 J. THOMAS MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION § 3.1 (2d ed. 1986).

16. See Landes & Posner, *supra* note 5, at 271; *Hag II*, 1990 E.C.R. at 3751, 3 C.M.L.R. at 604. There is a class of trademarks, trade names (such as Nabisco, Kelloggs, and Gerber), which denote the producer and not the product. 1 MCCARTHY, *supra* note 15, §§ 4.1-4.4. Such marks still provide a guarantee of quality because the mark owner will lose goodwill if products bearing such marks fail to please.

the trademark owner has an incentive to take steps—through advertising, labelling, and store presentations—to educate the consumer of the change. Consider, for example, designations such as “new and improved,” “advanced formula,” and “now containing X.”¹⁷ Even in the absence of any legal requirement that a trademark owner may not confuse consumers by changing the product to which the trademark is affixed, the owner’s economic self-interest will discourage him or her from doing so without taking steps to prevent consumer confusion.

In the case of pirated or counterfeit goods emanating from a producer other than the trademark owner to which goods the trademark has been affixed without the consent of the trademark owner, there is no such inherent protection against consumer confusion. The pirate has significant incentive to promote consumer confusion because he or she hopes that consumers of the genuine trademarked product will buy his or her product instead, thus enabling the pirate to take a free ride on the trademark owner’s investment in the goodwill associated with the genuine trademarked article.¹⁸ If the pirates were permitted to free ride in this way, the trademark would no longer serve its function of guaranteeing quality and preventing consumer confusion. Moreover, if prospective trademark owners knew that pirates would be allowed to free ride on their investment in goodwill, they would be deterred from making the investment.

As is the case with other rights of ownership, the law provides that the owner of a trademark may exclude others from its use. Landes and Posner analyze trademark rights as property rights and provide a useful definition of a property right as “a legally enforceable power to exclude others from using a resource, without need to contract with them.”¹⁹ By granting the trademark owner a property right in the trademark, which is the power to exclude others from using it, society creates both the incentive for the trademark owner to invest in goodwill and a self-policing mechanism²⁰ to prevent consum-

17. The steps taken by Coca-Cola to alter its trademarked product, and the reintroduction of “Classic Coke” in response to consumer outcry, illustrate the steps which a trademark owner will take to preserve its goodwill. See *Hey America, Coke Are It!*, NEWSWEEK, July 22, 1985, at 40, 40–42.

18. See *Hag II*, 1990 E.C.R. at 3758, 3 C.M.L.R. at 608.

19. Landes & Posner, *supra* note 5, at 267.

20. The “self-policing” notion is used to refer to the activity of the trademark owner in enforcing his or her rights against infringers, rather than the “self-enforcing” concept to which Landes and Posner refer. By “self-enforcing,” Landes and Posner mean the incentive of the trademark owner to maintain product quality. *Id.* at 271.

er confusion. The self-policing mechanism arises from the trademark owner's self-interest which gives the owner the incentive to assume the task of saving the consumer from the confusion that would result from the sale of pirated products. To preserve the value of the owner's property interest in the trademark, the trademark owner will take steps to enforce his or her trademark rights against pirates. In exchange for the trademark owner's performance of this policing function, society allows the owner to reap the benefit of exclusive use of the trademark. This is a bargain for society because granting exclusivity to the trademark owner is the primary element necessary to prevent consumer confusion.²¹ While other forms of property rights impose costs on society by restricting the use of property that has an independent value to society, no such costs are imposed by restricting the use of a trademark. Instead, restricting the use of the trademark to its owner actually enhances its value to society by enabling the owner, and hence the public, to use that mark as a product identifier and guarantor of quality.

Moreover, allowing the owner to restrict the use of the trademark to exclude the products of others which bear the same mark serves a useful function not only in the context of products emanating from pirates who are seeking a free ride. Because of the territorial nature of trademarks, the same mark may be attached to different products by owners in different territories. In such a situation, each owner may use his or her own mark in his or her own territory without the intention of pirating or taking a free ride on the trademark in the other territory. Nonetheless, consumer confusion is likely to arise if the marked products intermingle in one or both of the territories. The result may include damage to the goodwill of one of the trademark owners.

In the words of Landes and Posner, "[a] proper trademark is not a public good; it has social value only when used to designate a single brand."²² According to this analysis, it is impossible to separate the specific subject matter of a trademark from its essential function. The

21. Landes and Posner indicate that the costs of legally enforceable trademarks (to society) are "modest" in the case of the truly "fanciful" mark. *Id.* at 275. Applying to trademarks the four economic costs of property rights—the cost of transfer, rent seeking, the cost of protection and enforcement, and the cost of restricting use—Landes and Posner demonstrate that these costs are actually less than the cost of other property rights. *Id.* at 268–70, 275–76.

22. *Id.* at 276. Thus, whereas society may suffer if it is deprived of the use of a patented invention or a copyrighted work, society actually benefits, from restrictions on the use of trademarks.

preservation of goodwill and the prevention of consumer confusion are the same function, seen from two different viewpoints: that of the owner and that of the consumer.

III. THE TERRITORIAL NATURE OF TRADEMARKS

Trademarks are defined geographically in the sense that they are protected by the jurisdiction of a particular territory (de jure territoriality).²³ Also, because trademarks depend on consumer recognition in performing their functions, the scope of a trademark necessarily coincides with the geographic territory in which products bearing the mark have been sold in sufficient volume and for a sufficient time to be recognized by consumers (de facto territoriality).

Due to these territorial characteristics of trademarks, it is possible for the same mark to be recognized, de facto or de jure, for different products in different territories. The development of the same mark in different territories may occur purely by coincidence. For example, the trademark "Persil" for a laundry detergent was developed in England from a combination of the names of two of the chemicals which it contains (perborate and silicate).²⁴ In France, the "Persil" trademark was derived from a sprig of parsley (*persil*) which was represented in the mark.²⁵ Similarly, a circle with a cross inside it was conceived as a trademark by both the Bayer company (the cross being formed by the word "Bayer" written vertically and horizontally, intersecting at the "y") and by Tanabe Seiyaku of Japan (the cross being formed by five small circles derived from a symbol representing five Buddha figures).²⁶ In an example from the EC, two manufacturers of prefabricated construction facades, one in Germany and one in

23. While it is tempting to talk here of countries rather than territories, this would not be accurate because some trademarks are protected by jurisdictions within countries, such as the states of the United States, and some are protected for areas comprising more than one country, such as Benelux (the countries of Belgium, The Netherlands, and Luxembourg). For a review of the American experience with the territoriality of trademarks within the United States, see William Jay Gross, Comment, *The Territorial Scope of Trademark Rights*, 44 U. MIAMI L. REV. 1075 (1990).

24. See COMMISSION OF THE EUROPEAN COMMUNITIES, SEVENTH REPORT ON COMPETITION POLICY 108 (1978).

25. *Id.*

26. See Tanabe Seiyaku Co. v. Bayer AG, (Commission Press Release, 1P78) 241 (1978), reprinted in 2 C.M.L.R. 80, 80-81 (1979).

England, independently conceived the trademarks "Terranova" and "Terrapin," respectively.²⁷

It is also possible for the same mark to be attached to different products. This results from a change in the ownership of a mark in different jurisdictions and changes to those products by the different owners in their respective jurisdictions. For example, the "Columbia" record label, originally the trademark of the Columbia Phonograph Company and registered by it before the First World War in both the United States and the United Kingdom, ultimately became owned by EMI in the United Kingdom and by CBS in the United States.²⁸ Similarly, the "Prep" mark for shaving cream was originally owned by the American manufacturer Mark Allen. It came to designate two different products in Italy and Germany as a result of its use since at least 1944 by an assignee of Mark Allen in Italy, while the original product was sold by Mark Allen through a licensee in Germany.²⁹ In another example, the trademark "Advocaat Zwarte Kip" came to represent different formulations of an egg liqueur in the hands of different manufacturers following the assignment of the mark to a Belgian corporation by its Dutch owner in 1938.³⁰

Alternatively, trademark owners may themselves market different products under the same mark in different territories. This practice arises as a consequence of the de facto territoriality of a trademark, and especially from the fact that consumer preferences vary from place to place. A manufacturer may simply be responding to changing consumer tastes in a particular market by altering the product for that market over time. Also, separate divisions of the same corporate group in various territories may be using the same mark for different products. As was stated earlier, there is no reason to suppose that a trademark owner will not seek to enhance goodwill by altering a trademarked product; the assumption as to the behavior of the trademark owner is only that the owner will not alter the product for the worse.³¹ So the same mark may appear on different products, or on different formulations of the same products which are destined for

27. Case 119/75, *Terrapin (Overseas) Ltd. v. Terranova Industrie C.A. Kopferer & Co.*, 1976 E.C.R. 1039, 1041, 2 C.M.L.R. 482, 484-85 (1976) [hereinafter *Terrapin v. Terranova*].

28. See Case 51/75, *EMI Records Ltd. v. CBS United Kingdom Ltd.*, 1976 E.C.R. 811, 813-15, 2 C.M.L.R. 235, 238-41 (1976) [hereinafter *EMI Records*].

29. See *Sirena v. Eda*, 1971 E.C.R. at 85, 1971 C.M.L.R. at 262.

30. See Commission Decision of 24 July 1974 Relating to a Proceeding under Article 85 of the EEC Treaty, 1974 O.J. (L 237) 12.

31. See *supra* note 4 and accompanying text.

different markets, even though the products may originate from, and the marks may be owned by, the same corporate group or controlled licensees. Cases illustrating this phenomenon have been reported involving beer,³² *aperitif*,³³ and soap.³⁴

IV. TRADEMARK RIGHTS IN THE EC

In light of the fact that the same mark may come to designate different products in different territories, it would be consistent with the function of trademarks to permit the owner of a trademark in one territory to use his or her trademark rights to exclude a different product bearing the same mark from being imported into the owner's territory.³⁵ Such a use of the trademark would both protect the trademark owner's investment and prevent consumer confusion. This is the case regardless of whether the imported products are counterfeit goods deliberately manufactured and marked by a pirate attempting to free ride on the trademark owner's goodwill, or whether the imported products are genuinely marked products in their original territory.³⁶

EC law permits a trademark owner to exclude counterfeit goods.³⁷ The ECJ, however, has declined to permit a trademark owner to use trademark rights to prevent the movement between member states of his or her own products or products of foreign

32. See, e.g., Romano Subiotto, *Moosehead/Whitbread: Industrial Franchises and No-Challenge Clauses Relating to Licensed Trade Marks under EEC Competition Law*, 12 EUR. INTELL. PROP. REV. 334 (1990) (discussing a Commission decision involving the marketing of Moosehead beer in Canada and England).

33. See, e.g., Case 120/78, *Rewe-Zentral AG v. Bundesmonopolverwaltung für Branntwein*, 1979 E.C.R. 649, 673, 3 C.M.L.R. 494, 504 (1979) (involving a more alcoholic formulation of the "Cassis de Dijon" aperitif produced specifically for the German market due to German government regulations).

34. See, e.g., *Lever Bros. Co. v. United States*, No. 86-3151 (HHG), 1992 U.S. Dist. LEXIS 7876, at *4-*5 (D.D.C. April 15, 1992), *appeal docketed*, No. 92-5185 1992, 1992 U.S. App. LEXIS 23155 (D.C. Cir. 1992) (involving the efforts of Lever Brothers to prevent the importation of "Shield" soap which is marketed by its own affiliate in the United Kingdom on the grounds that the British soap differs from the American version).

35. See *K-Mart Corp. v. Cartier, Inc.*, 486 U.S. 281, 287-88 (1988).

36. A third case is that of parallel imports of marked products produced by manufacturer X, which it sells identically in territories A and B, being imported from territory B to territory A without X's consent. *Id.* at 286-87.

37. Council Regulation 3842/86 of 1 December 1986 Laying Down Measures to Prohibit the Release for Free Circulation of Counterfeit Goods, 1986 O.J. (L 357) 1, 2. For a comparison of American and EC law on counterfeit goods, see Donna L. Tritter, *The EEC's Attempts to Stop the Importation of Counterfeit Goods*, 12 B.C. INT'L & COMP. L. REV. 423 (1989).

affiliates.³⁸ The same rule applies to products of unaffiliated foreign entities whose title to the trademark in question is traceable to a common origin, provided the different current ownerships of the trademarks were obtained with the consent of the original owner.³⁹

A. The EC Principle of Free Movement of Goods

In the absence of clear legislative guidance from either the EEC Treaty or secondary legislation directed at resolving the apparent tension between the territorial nature of trademarks on the one hand and the aim of the EC of achieving a "common market" in goods on the other, the ECJ has attempted to craft a resolution from first principles.⁴⁰ In so doing, the ECJ has adopted a restrictive approach to trademarks in an apparent effort to forward the fundamental aim of the EC to ensure the free movement of goods throughout EC territory.⁴¹

The fundamental principle of the free movement of goods is entrenched in the EEC Treaty.⁴² The EEC Treaty provides that to achieve economic integration, which is the ultimate goal of the EC, the activities of the Community will include: "the elimination, as between Member States, of customs duties and of quantitative restrictions on the import and export of goods, and of all other measures having equivalent effect"⁴³ The EEC Treaty goes on to specify the detailed provisions relating to the free movement of goods as the first of the "foundations of the Community."⁴⁴ For example, Article 9 of the EEC Treaty provides that "[t]he Community shall be based upon a customs union . . . which shall involve the prohibition . . . of customs

38. See *infra* notes 89-93 and accompanying text.

39. See, e.g., *Hag II*, 1990 E.C.R. at 3758, 3 C.M.L.R. at 608; *Sirena v. Eda*, 1971 E.C.R. at 81-83, 1971 C.M.L.R. at 272-74.

40. See David C. Wilkinson, *The Community Trade Mark Regulation and its Role in European Economic Integration*, 80 TRADEMARK REP. 107, 115-20 (1990) (discussing the development of ECJ case law concerning trademark rights).

41. See, e.g., *Hag II*, 1990 E.C.R. at 3757, 3 C.M.L.R. at 606 (emphasizing the ECJ's consistent application of the principle of free movement of goods and restricting exceptions to this principle to the facts of the case).

42. EEC TREATY art. 3(a). For a recent overview of the EC rules on the free movement of goods and relevant recent case law, see David T. Keeling, *The Free Movement of Goods in EEC Law: Basic Principles and Recent Developments in the Case Law of the Court of Justice of the European Communities*, 26 INT'L LAW. 467 (1992).

43. EEC TREATY art. 3(a).

44. *Id.* arts. 9-37.

duties,"⁴⁵ and Article 12 prohibits member states from introducing new customs duties between themselves.⁴⁶ Article 30 prohibits quantitative restrictions (quotas) and "measures having equivalent effect."⁴⁷ While Article 30 does not expressly prohibit all member state laws and practices which could hinder trade in goods (i.e., barriers to trade), the ECJ has so construed it.⁴⁸

Due to the *de jure* territoriality of member state trademark rights, the ECJ has used the language of Article 30 to posit that trademark rights are potentially subject to attack as measures having an equivalent effect to quantitative restrictions.⁴⁹ The EEC Treaty, however, expressly saves member state trademark rights from total extinction.⁵⁰ Trademark rights, as creatures of member state property law, are preserved by the provision in the EEC Treaty that it will "in no way prejudice the rules in member states governing the system of property ownership."⁵¹ Moreover, the right of property ownership in trademarks and other types of industrial policy under member state rules are specifically contemplated by the rules on free movement of goods, which provide that: "[t]he provisions of Article 30 to 34 shall not preclude . . . 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."⁵²

B. Trademark Territoriality and the EC

The territorial nature of trademarks is particularly prominent in the EC due to the historical separation of national markets. This separation has produced different consumer preferences (*de facto* territoriality). In addition, the lack of a community-wide trademark

45. *Id.* art. 9. Article 9 also prohibits "charges having equivalent effect" to customs duties. *Id.*

46. *Id.* art. 12. For the seminal ECJ decision on the application of Article 12, see Case 26/62, *N.V. Algemene Transport—en Expeditie Onderneming van Gend & Loos v. Nederlandse administratie der belastingen*, 1963 E.C.R. 1, 1963 C.M.L.R. 105.

47. EEC TREATY art. 30. Article 34 contains similar provision relating to exports. *Id.* art. 34.

48. See, e.g., Case 8/74, *Procureur du Roi v. Dassonville*, 1974 E.C.R. 837, 2 C.M.L.R. 436 (1974) (requirement of certificate of authenticity not easily obtainable by segment of importers has effect equivalent to quantitative restriction).

49. See, e.g., Case 16/74, *Centrafarm BV and Adriann De Deijper v. Winthrop BV*, 1974 E.C.R. 1183, 2 C.M.L.R. 480 (1974) [hereinafter *Centrafarm BV v. Winthrop BV*].

50. See EEC TREATY art. 36.

51. *Id.* art. 222.

52. *Id.* art. 36.

system has left trademark rights a creature of the national laws of each member state (*de jure territoriality*). Nevertheless, the EEC Treaty does not establish a Community trademark. Since the inception of the Community, the member states and the institutions of the EC have been striving toward the development of a Community trademark, and, having been frustrated in that effort, toward harmonizing the trademark laws of the member states.⁵³

The original member states of the EC began work on a trademark convention, separate from the institutional structure of the EEC Treaty, in the early years of the Community.⁵⁴ A Draft Convention was prepared in 1964, but the drive to adopt a Community trademark lost impetus due to the more fundamental political questions which were raised in the early 1960s as to the future of the Community itself.⁵⁵ The question of a European trademark lay fallow until 1969 when the Commission of the European Communities (Commission) again took up the cause by publishing the 1964 Draft Convention and, later, a Commentary Memorandum.⁵⁶

By the 1970s the position of the Commission was that a Community trademark could be achieved within the institutional framework of the EEC Treaty, rather than by a freestanding Convention, and that in any event the Draft Convention of 1964 was anachronistic in light of subsequent developments in the Community and the case law of the ECJ.⁵⁷ The Commission therefore proposed a Regulation to establish

53. See Amended Commission Proposal for a Council Regulation on the Community Trade Mark, 1984 O.J. (C 230) 1, 1-3. See generally Alexander von Mülhendahl, *The Future Community Trade Mark System*, 20 INT'L REV. INDUS. PROP. & COPYRIGHT L. 583 (1989) (discussing the negotiations regarding a Community trademark and the particularly contentious issues posing obstacles to an agreement).

54. DEPARTMENT OF TRADE AND INDUSTRY, PROPOSED EUROPEAN TRADE MARK: UNOFFICIAL TRANSLATION OF A PRELIMINARY DRAFT OF A CONVENTION FOR A EUROPEAN TRADE MARK, reprinted in *Convention for a European Trade Mark*, 3 Common Mkt. Rep. (CCH) ¶ 5873 (1974). For a review of attempts to establish EC patent and trademark protection in the context of other (non-EC) international conventions on the international protection of industrial property, see Martin J. Lutz, *Community Patent and Trademark*, 9 ST. LOUIS U. PUB. L. REV. 101 (1990). For the current status of the Madrid Agreement of 1891 (an international trademark convention with twenty-nine countries as members), see Ian Jay Kaufman, *Madrid Agreement: Will Reform Proposals Attract More Members?*, 11 EUR. INTEL. PROP. REV. 407, 407-10 (1990).

55. For a summary of the provisions of the draft convention and its fate, see *Memorandum on the Creation of an EEC Trade Mark*, BULL. EUR. COMMUNITIES 5, 5-6 (Supp. 8/76) [hereinafter *Commission Memorandum*].

56. *Id.* at 5.

57. *Id.* at 6.

a Community trademark.⁵⁸ Later, as the Regulation became mired in political debate over the location of the EC trademark office, the Commission resigned itself to the continuing application of member state trademark law, but proposed a directive which would at least harmonize the existing national laws of the member states.⁵⁹

The Regulation, which remains a draft, would have established a community-wide trademark, just as the Lanham Act established a federal trademark in the United States.⁶⁰ The Directive, however, permits the individual trademarks of the member states to continue in existence.⁶¹ The Directive is intended to harmonize certain provisions of member state trademark law, such as requirements for registration⁶² and definitions of infringement.⁶³ Even if the Directive, which has been adopted, is fully implemented into the national laws of the member states, it will not address the de jure territoriality of those national laws.⁶⁴ Moreover, not even the establishment of a community-wide trademark law can overcome de facto territoriality and, in particular, the historical fact of conflicting marks and consumer preferences.⁶⁵ As the EC expands, this problem is likely to persist and become aggravated.⁶⁶

58. Amended Commission Proposal for a Council Regulation on the Community Trade Mark, *supra* note 53, at 40. Note that the provisions of Articles 30 and 34 of the EEC Treaty apply to member state laws only and would not therefore apply to a Community trademark. See EEC TREATY arts. 30, 34.

59. See Council Directive 89/104 of 21 December 1988 to Approximate the Laws of the Member States Relating to Trade Marks, 1989 O.J. (L 40) 1 [hereinafter Directive]. The member states were required to implement the Directive's provisions into their national laws by December 28, 1991. *Id.* art. 16(1).

60. Compare Amended Commission Proposal for a Council Regulation on the Community Trade Mark, *supra* note 53, with 15 U.S.C. §§ 1051-127 (1988).

61. For a review of the historical context of the EC proposals, and a comparison with the American experience of coexistence of state and federal trademark law, see Wilkinson, *supra* note 40, at 107.

62. Directive, *supra* note 59, art. 3(1).

63. *Id.* art. 5(1).

64. See *Commission Memorandum*, *supra* note 55, at 12-14. For a comparison of British trademark law with practices elsewhere in the EC, see CORNISH, *supra* note 8, at 482-94.

65. See, e.g., *Burger King of Florida, Inc. v. Hoots*, 403 F.2d 904 (7th Cir. 1968) (discussing the American experience with the "Burger King" mark). Under the Lanham Act, the mark is protected nationwide. 15 U.S.C. §§ 1051-127 (1988). However, the Lanham Act will not be used to eliminate one of the conflicting "Burger King" businesses if consumer confusion is minimal. See *Hoots*, 403 F.2d 908-09.

66. See, e.g., Nicholas/Vitapro, summarized in COMMISSION OF THE EUROPEAN COMMUNITIES, SIXTH REPORT ON COMPETITION POLICY 87 (1976) (assignment of trademarks and patents for "Vitapointe" hairdressing products from a French company to a British company reexamined after British entry into the EC in 1973).

V. THE TRADEMARK DOCTRINE OF THE ECJ

In the series of decisions discussed below, the ECJ has read the provisions of the EEC Treaty restrictively, promoting its view of the free movement of goods at the expense of trademark rights. These decisions are analyzed according to three doctrines that the ECJ has developed. The first is the existence/exercise dichotomy, the second is the exhaustion doctrine, and the third is the doctrine of common origin.

A. Existence/Exercise Dichotomy

The ECJ first addressed the apparent tension between the free movement of goods rules and trademark rights in the *Consten and Grundig* cases.⁶⁷ Grundig, a German manufacturer of consumer electronics, marketed its products under the "GINT" trademark (standing for Grundig International) in Germany.⁶⁸ Grundig's exclusive distributor in France, a company named Consten, had registered the "GINT" mark in France with Grundig's blessing.⁶⁹ A discounter named UNEF purchased Grundig equipment bearing the "GINT" mark in Germany and then sold it to French consumers for less than the prevailing price in France.⁷⁰ Subsequently, Consten instituted proceedings in a French court seeking to use its French trademark rights to prohibit UNEF's imports.⁷¹ UNEF complained to the Commission that such a result would be contrary to the EEC Treaty.⁷²

The Commission took the view that the exclusive distributorship agreement, including Consten's rights in the GINT trademark, violated the competition provisions of the EEC Treaty, specifically Article 85.⁷³ Consten and Grundig challenged the Commission's decision in

67. Joined Cases 56 and 58/64, *Établissements Consten SARL and Grundig-Verkaufs-GmbH v. Commission of the EEC*, 1966 E.C.R. 299, 1966 C.M.L.R. 418 [hereinafter *Consten and Grundig*].

68. *Id.* at 303, 1966 C.M.L.R. at 420.

69. *Id.*

70. *Id.*

71. *Id.* at 303-04, 1966 C.M.L.R. at 420-21.

72. *Id.* at 304, 1966 C.M.L.R. at 421.

73. *Id.* Article 85(1) prohibits agreements and practices "which have as their object or effect the prevention, restriction or distortion of competition within the common market . . ." EEC TREATY art. 85(1). On the application of the EC rules of competition to distributorships generally, see VALENTINE KORAH & WARWICK A. ROTHNIE, *EXCLUSIVE DISTRIBUTION AND THE EEC COMPETITION RULES* (1992). On the application of the competition rules to industrial and intellectual property rights generally, see 2 BARRY E. HAWK, *UNITED STATES, COMMON*

court, arguing that it violated Articles 36 and 222 of the EEC Treaty.⁷⁴ The ECJ side-stepped the Article 36 argument by noting that Article 36 limits the application of Article 30, but does not limit the application of Article 85.⁷⁵ As to the Article 222 argument, the ECJ determined that Article 85, as interpreted by the Commission's decision, leaves the existence of property rights under national law "untouched," but "limits their exercise to the extent necessary to give effect to the prohibition" of Article 85(1).⁷⁶ This has become known as the existence/exercise dichotomy. Although the ECJ concluded that rights which could not be exercised were nonetheless untouched, this proposition seems questionable.⁷⁷

The ECJ extended the distinction between the existence and the exercise of industrial property rights to limit the extent of Article 36 exceptions to the Article 30 prohibition in *Deutsche Grammophon*.⁷⁸ Deutsche Grammophon, a manufacturer of sound recordings, was the owner of industrial property rights akin to copyright in Germany. Deutsche Grammophon records were also sold in France, but at a price lower than the prevailing price in Germany.⁷⁹ Therefore, Metro, a major supermarket chain, purchased Deutsche Grammophon records in France and imported them for sale in Germany. Relying on its German industrial property rights, Deutsche Grammophon instituted an action in the German courts for infringement, seeking exclusion of the imports.⁸⁰ The German court referred the matter to the ECJ for a preliminary ruling on the application of Community law to national industrial property rights.⁸¹

MARKET AND INTERNATIONAL ANTITRUST: A COMPARATIVE GUIDE 575-737 (2d ed. 1990); IVO VAN BAELE & JEAN-FRANÇOIS BELLIS, COMPETITION LAW OF THE EEC 152-81 (2d ed. 1987).

74. *Consten and Grundig*, 1966 E.C.R. at 317, 1966 C.M.L.R. at 475. Consten and Grundig also argued that the Commission's decision violated Article 234, relating to agreements which existed before the entry into force of the EEC Treaty. *Id.*

75. *See id.* at 345, 1966 C.M.L.R. at 476.

76. *Id.*

77. *See infra* notes 131-33 and accompanying text.

78. Case 78/70, *Deutsche Grammophon Gesellschaft mbH v. Metro-SB-Grossmärkte GmbH & Co. KG*, 1971 E.C.R. 487, 512, 1971 C.M.L.R. 631, 654-55 [hereinafter *Deutsche Grammophon*].

79. Deutsche Grammophon apparently maintained resale prices of its records in Germany by entering agreements with retailers pursuant to which the retailers agreed to resell only at prices established by Deutsche Grammophon. Deutsche Grammophon agreed to supply only retailers who signed the agreements. *Id.* at 490, 1971 C.M.L.R. at 633-34.

80. *Id.*, 1971 C.M.L.R. at 634.

81. *Id.* at 490-91, 1971 C.M.L.R. at 636. The procedure for such referrals from the courts of the member states to the ECJ is provided by Article 177 of the EEC Treaty. *See* EEC TREATY art. 177.

Because Deutsche Grammophon's assertion of its industrial property rights against Metro was unilateral, there was no agreement like the distributorship agreement in *Consten and Grundig* which could violate Article 85(1). If Deutsche Grammophon had violated the EEC Treaty, it could only have violated the general provisions on the free movement of goods. The ECJ was therefore forced to address the extent of the Article 36 derogation from the principles of free movement of goods. Again, the ECJ based its analysis on the view that while "the Treaty does not affect the existence of the rights recognized by the legislation of a Member State with regard to industrial and commercial property, the exercise of such rights may nevertheless fall within the prohibitions laid down by the Treaty."⁸² Finding no specific prohibition in the EEC Treaty against the exercise of national industrial property rights to exclude imports, the ECJ found that a prohibition was dictated by "the essential purpose of the Treaty, which is to unite the national markets into a single market."⁸³ The ECJ therefore concluded that Article 36 could not permit the owner of a national industrial property right to exclude products marketed by it, or with its consent, since this would isolate national markets in contravention of the purpose of the EEC Treaty.⁸⁴

B. The Exhaustion Doctrine

In *Deutsche Grammophon*, the ECJ sought to justify its creative reading of the EEC Treaty by considering that Article 36 only permits derogations from the free movement of goods to the extent necessary to safeguard those rights which are the specific subject matter of the industrial property in question.⁸⁵ The ECJ first defined the specific subject matter of a trademark in *Centrafarm v. Winthrop*.⁸⁶ The *Winthrop* case is one of a series of cases involving Centrafarm, a discount drug supplier which identified the market opportunity resulting from disparities in price among the member states for various

82. *Deutsche Grammophon*, 1971 E.C.R. at 499-500, 1971 C.M.L.R. at 657.

83. *Id.* at 500, 1971 C.M.L.R. at 657.

84. *Id.*, 1971 C.M.L.R. at 657-58. For a review of recent ECJ decisions on the existence/exercise dichotomy in the context of industrial property rights other than trademark rights, see Georges Friden, *Recent Developments in EEC Intellectual Property Law: The Distinction between Existence and Exercise Revisited*, 26 COMMON MKT. L. REV. 193 (1989).

85. See *Deutsche Grammophon*, 1971 E.C.R. at 500, 1971 C.M.L.R. at 657.

86. *Centrafarm BV v. Winthrop BV*, 1974 E.C.R. at 1194, 2 C.M.L.R. at 508.

patented and trademarked drugs.⁸⁷ Centrafarm would purchase drugs at a low price in one country and import them into a country where they were being sold at a higher price. Because consumer preferences and historical practice in different countries sometimes called for different presentations of the product, however, Centrafarm would in some instances repackage the drugs.

The first Centrafarm decision, *Centrafarm BV v. Sterling Drug Inc.*, involved a drug known as "Negram," on which Sterling Drug held British and Dutch patents.⁸⁸ Centrafarm purchased Negram in the United Kingdom and imported it into The Netherlands, where the prevailing price was higher. Sterling Drug tried to use its Dutch patent rights to prevent such imports. The ECJ took the opportunity to define the specific subject matter of a patent right as:

the guarantee that the patentee, to reward the creative effort of the inventor, has the exclusive right to use an invention with a view to manufacturing industrial products and putting them into circulation for the first time, either directly or by the grant of licenses to third parties, as well as the right to oppose infringements.⁸⁹

The ECJ held that this right of first use under the national patent law of any member state was exhausted by Sterling Drug's sale of its products anywhere in the Community.⁹⁰ Thus, The Netherlands patent right was exhausted not only by a sale in The Netherlands, but also by a sale in the United Kingdom. Accordingly, Sterling Drug could not use its patent rights in one member state (The Netherlands) to keep out products which it had itself marketed in another member state (the United Kingdom).

The ECJ reached a similar conclusion in the second Centrafarm decision, *Centrafarm BV v. Winthrop BV*.⁹¹ The *Winthrop BV* case

87. See Case 107/77, *Hoffmann-La Roche & Co. AG v. Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mbH*, 1978 E.C.R. 1139, 3 C.M.L.R. 217 (1978) [hereinafter *Hoffman-La Roche*]; Case 15/74, *Centrafarm BV and Adriaan De Deijper v. Sterling Drug Inc.*, 1974 E.C.R. 1147, 2 C.M.L.R. 480 (1974) [hereinafter *Centrafarm BV v. Sterling Drug Inc.*]. For a review of the problems encountered by drug companies in Europe faced with the EC's principle of free movement of goods on the one hand, and regulation of market forces by the member states imposing price restrictions, compulsory licenses, and other regulatory strictures in the market for medicines on the other hand, see Hans-Christian Kersten, "Gray Market" Exports and Imports Under the Competition Law of the European Economic Community, 78 TRADEMARK REP. 479 (1988), and for a review of relevant case law, see Andrew Geddes, *Free Movement of Pharmaceuticals within the Community: The Remaining Barriers*, 16 EUR. L. REV. 295 (1991).

88. *Centrafarm BV v. Sterling Drug Inc.*, 1974 E.C.R. at 1149, 2 C.M.L.R. at 484.

89. *Id.* at 1162, 2 C.M.L.R. at 503.

90. *Id.* at 1162-63, 2 C.M.L.R. at 503-04.

91. *Centrafarm BV v. Winthrop BV*, 1974 E.C.R. at 1195, 2 C.M.L.R. at 509.

also involved the purchase by Centrafarm of Negram in the United Kingdom and its import into The Netherlands. Winthrop owned The Netherlands trademark "Negram," which was the basis for its challenge to Centrafarm's imports. The ECJ defined the specific subject matter of trademark rights as:

the guarantee that the owner of the trade mark has the exclusive right to use that trade mark, for the purpose of putting products protected by the trade mark into circulation for the first time, and is therefore intended to protect him against competitors wishing to take advantage of the status and reputation of the trade mark by selling products illegally bearing that trade mark.⁹²

The ECJ concluded that the owner of a trademark in one member state could not use his or her trademark rights to prohibit the sale in that member state of a product which he or she had itself marketed in another member state, or which had been marketed with his or her consent.⁹³

Presumably emboldened by its success before the ECJ in these two cases, Centrafarm went on to purchase valium marketed by Hoffmann-La Roche under its trademarks "Valium" and "Roche."⁹⁴ Centrafarm purchased the valium in the United Kingdom, repackaged it in The Netherlands, reaffixed the "Valium" and "Roche" marks to the new packages with an annotation that they had been packaged by Centrafarm, and imported the marked product into Germany. Hoffmann-La Roche, in reliance on its German registered trademarks, sought an injunction in a German court against Centrafarm's use of the trademarks.⁹⁵

The ECJ repeated its formulation for the specific subject matter of the trademark as the guarantee to the trademark owner of the exclusive first use of the trademark.⁹⁶ The ECJ recognized that under the first sentence of Article 36 the trademark owner has the right to prevent an importer of repackaged products from affixing the trademark, even to the importer's own products, without the owner's consent.⁹⁷ The ECJ, however, went on to consider whether such a

92. *Id.* at 1194, 2 C.M.L.R. at 508. Note that whereas the ECJ included the right to license within the specific subject matter of a patent, it did not in the case of a trademark. Compare *Centrafarm BV v. Sterling Drug Inc.*, 1974 E.C.R. at 1162, 2 C.M.L.R. at 503, with *Centrafarm BV v. Winthrop BV*, 1974 E.C.R. at 1194, 2 C.M.L.R. at 508.

93. *Centrafarm BV v. Winthrop BV*, 1974 E.C.R. at 1195, 2 C.M.L.R. at 509.

94. See *Hoffmann-La Roche*, 1978 E.C.R. at 1142, 3 C.M.L.R. at 219-20.

95. *Id.*, 3 C.M.L.R. at 220.

96. *Id.* at 1164, 3 C.M.L.R. at 241.

97. *Id.*

use of the trademark might not violate the second sentence of Article 36, thereby depriving the trademark owner of the Article 36 exemption and, under Article 30, depriving him or her of the right to prevent the parallel import.⁹⁸ The ECJ deferred to the national trial court to consider the nature of the product and the method of repackaging involved.⁹⁹ For some products, repackaging would affect the condition of the products and therefore could be prohibited under Article 36.¹⁰⁰ For others, however, which could be repackaged without affecting their condition and on which a statement could be placed to notify consumers as to who was responsible for the repackaging, the ECJ held that the essential function of the trademark (to identify the origin of the product and to guarantee its condition) would be adequately served, and Article 36 would not allow the prohibition of the parallel import.¹⁰¹

In the last of the Centrafarm cases, *Centrafarm BV v. American Home Products*, the ECJ extended its reasoning in *Hoffmann-La Roche* to a situation in which, rather than reaffixing the original manufacturer's trademark to a product, Centrafarm affixed the mark for the first time.¹⁰² American Home Products (AHP) marketed a tranquilizer under different trademarks in different countries.¹⁰³ The product was sold as "Serenid D" in the United Kingdom and as "Seresta" in The Netherlands.¹⁰⁴ Centrafarm purchased Serenid D in the United Kingdom, labelled it "Seresta" (AHP's trademark) with an annotation of its own name and address, and imported it into The Netherlands for sale there.¹⁰⁵ The ECJ directed the national court to determine whether the practice of using different marks for the same product was "for the purpose of partitioning markets."¹⁰⁶ If it was, national trademark rights could not be used to exclude imports,

98. *Id.*, 3 C.M.L.R. at 241-42.

99. *Id.* at 1164-65, 3 C.M.L.R. at 242.

100. *Id.* at 1164, 3 C.M.L.R. at 242.

101. *Id.* at 1165, 3 C.M.L.R. at 242; see also Case 1/81, *Pfizer Inc. v. Eurim-Pharm GmbH*, 1981 E.C.R. 2913, 2928, 1 C.M.L.R. 406, 422 (1982) (importer repackaged product with original trademark still visible and clearly indicated that the product was manufactured by a subsidiary of the proprietor and repackaged by the importer).

102. Case 3/78, *Centrafarm BV v. American Home Prods. Corp.*, 1978 E.C.R. 1823, 1843, 1 C.M.L.R. 326, 344 (1979) [hereinafter *American Home Products Corp.*].

103. *Id.* at 1824-25, 1 C.M.L.R. at 328.

104. *Id.*

105. *Id.* at 1825, 1 C.M.L.R. at 328.

106. *Id.* at 1842, 1 C.M.L.R. at 343.

even if labelled by Centrafarm with AHP's trademark without AHP's consent.¹⁰⁷

In *Winthrop*, the ECJ sacrificed the rights of the trademark holder, and therefore the incentive aspect of trademark protection, to the free movement of goods with little apparent concern for the economic or policy justification for trademarks. The rationale of the ECJ for this sacrifice was the exhaustion of rights doctrine.¹⁰⁸ In *Hoffmann-La Roche* and *American Home Products*, the ECJ reached the same result, but did consider the function of the trademark in denoting the origin of the product.¹⁰⁹ Because the origin of the product, whether marketed directly by Hoffman-La Roche and AHP or indirectly by Centrafarm, was the same, the function of the trademark as a guarantee of origin was served. The ECJ, however, failed to protect adequately the goodwill aspect of trademark rights, without which the trademark owner has no incentive to promote the function of the guarantee of origin. Moreover, in the later *Centrafarm* cases, the ECJ went further because the owner of the trademark rights in those cases had not taken action to exhaust his or her rights where his or her trademark was placed on the products by a third party.¹¹⁰ By allowing and even encouraging Centrafarm to associate its name on the package with the trademarks of Hoffman-La Roche and AHP, the ECJ allowed Centrafarm to take an extra free ride because consumers would begin to associate "Centrafarm" with the goodwill attributable to those other marks.

Pharmon BV v. Hoechst AG, a 1984 decision, may give some hope to trademark owners even though the facts of the case involve patent, not trademark, rights.¹¹¹ Hoechst owned patents in the United Kingdom and The Netherlands on the process for manufacturing a drug known as "frusemide." A British company, DDSA, obtained a compulsory license from the British government for manufacture of the drug for sale within the United Kingdom only. In violation of the terms of the compulsory license, DDSA exported the frusemide which

107. See *id.* at 1842, 1 C.M.L.R. at 343.

108. *Centrafarm BV v. Winthrop BV*, 1974 E.C.R. at 1194, 2 C.M.L.R. at 508-09.

109. See *Hoffmann-La Roche*, 1978 E.C.R. at 1164, 3 C.M.L.R. at 241; *American Home Products Corp.*, 1978 E.C.R. at 1840, 1 C.M.L.R. at 342-43.

110. See *Hoffman-La Roche*, 1978 E.C.R. at 1162, 3 C.M.L.R. at 240; *American Home Products Corp.*, 1978 E.C.R. 1825, 1 C.M.L.R. at 328.

111. Case 19/84, *Pharmon BV v. Hoechst AG*, 1985 E.C.R. 2281, 3 C.M.L.R. 775 (1985) [hereinafter *Pharmon*].

it had manufactured to Pharmon in The Netherlands. Hoechst sought to restrain Pharmon's infringement of its Netherlands patent.

The ECJ repeated its formulation of the substance of a patent right (the exclusive right of first placing the product on the market) and concluded that the actions of DDSA and Pharmon deprived Hoechst of this right.¹¹² Accordingly, the ECJ permitted Hoechst to use its Netherlands patent rights, under Article 36, to exclude the infringing frusemide. In particular, the ECJ focused on Hoechst's lack of consent to the manufacture and sale of frusemide by DDSA in the United Kingdom because DDSA was acting under compulsory license.¹¹³ The decision manifests a more sympathetic attitude to exhaustion of rights in the absence of consent of the owner of trademark rights than the *Centrafarm* cases suggest.

C. The Doctrine of Common Origin

The doctrine of common origin must be viewed in the context of the ECJ theory of exhaustion of rights. That theory maintains that the trademark holder's rights are exhausted when the trademarked product is first placed on the market anywhere in the EC with the trademark owner's consent. By analogy, the ECJ has propounded a doctrine under which a disposal of the trademark—rather than the trademarked product—such as by license or assignment (a “sub-division” of the trademark in the phraseology of the ECJ) also constitutes an exhaustion of the trademark holder's rights.¹¹⁴ As first formulated by the ECJ, the doctrine of common origin would even apply in the absence of consent. This leads to the conclusion that trademarks in different territories that had the same owner at any time in their history and that have come to be owned separately at some point in history, do not permit either owner to prevent the imports of the other.¹¹⁵

The factual situation in which the ECJ conceived this notion is quite exceptional.¹¹⁶ The German company Hag AG developed a

112. See *id.* at 2298, 3 C.M.L.R. at 791.

113. See *id.*

114. See Case 192/73, *Van Zuylen Frères v. Hag AG*, 1974 E.C.R. 731, 745, 2 C.M.L.R. 127, 144–45 (1974) [hereinafter *Van Zuylen Frères v. Hag AG*]. The term “sub-division” was first used by the ECJ in *Terrapin v. Terranova*, 1976 E.C.R. at 1061, 2 C.M.L.R. at 506 (reaffirming the doctrine of common origin). It assumes the existence of a single right which is subdivided. This is misleading because the cases in the EC involve multiple rights under the laws of multiple jurisdictions.

115. See *Van Zuylen Frères v. Hag AG*, 1974 E.C.R. at 743–44, 2 C.M.L.R. at 143–44.

116. The description of the facts is taken from *Hag II*, 1990 E.C.R. 3711, 3712–13, 3 C.M.L.R. 571, 572–73.

process to decaffeinate coffee and registered the "Hag" trademark for that product in Germany in 1907. In 1908 it also registered trademarks in Belgium, which it subsequently assigned to a Belgian subsidiary, Hag S.A.. Following the Second World War, Hag S.A. was seized by the Belgian government as enemy property and sold to the Van Oevelen family. Subsequently, the Belgian "Hag" trademark was assigned by Hag S.A. to Van Zuylen Frères.¹¹⁷ In 1972 Hag AG began to export its German "Hag" decaffeinated coffee from Germany into Luxembourg. Van Zuylen Frères thereupon brought an infringement action in Luxembourg to restrain the practice, relying on its Benelux "Hag" mark.¹¹⁸ The ECJ, sacrificing both the specific subject matter and the essential function of the trademark to the free movement of goods, propounded a doctrine:

To prohibit the marketing in one Member State of a product legally bearing a trade mark in another Member State for the sole reason that an identical trade mark, having the same origin, exists in the first State, is incompatible with the provisions for the free movement of goods within the Common Market.¹¹⁹

This decision, known as *Hag I*, clearly does not serve the interests of the trademark holder, Van Zuylen Frères, which, along with its Belgian predecessors, had been investing time and effort in generating goodwill for the "Hag" mark in the Benelux territory for some 30 years. The German imports could now free ride on that investment. Moreover, confusion of the Belgian and Luxembourg consumers would likely result upon seeing a decaffeinated coffee bearing the "Hag" mark on the store shelves. Consumers would naturally assume that it was the "Hag" they knew and which came from Van Zuylen Frères as it had for years, rather than a different product from the former German parent. The decision was the subject of considerable academic commentary.¹²⁰

It is against this background that the *Hag II* case, which overturned *Hag I*, was greeted with great relief. After *Hag I*, Van Zuylen Frères went through a series of corporate changes and was succeeded

117. By the time of assignment in 1971, the marks were Benelux marks pursuant to the Benelux trademark treaty. Benelux Convention on Trade Marks, Mar. 19, 1962, art. 29, 704 U.N.T.S. 342, 356.

118. *Van Zuylen Frères v. Hag AG*, 1974 E.C.R. at 731, 2 C.M.L.R. at 127.

119. *Id.* at 745, 2 C.M.L.R. at 144.

120. See, e.g., René Joliet, *Trademark Law and the Free Movement of Goods: The Overruling of the Judgment in Hag I*, 22 INT'L REV. INDUS. PROP. & COPYRIGHT L. 303, 304 n.2 (1991); J.A. Kemp, *The Erosion of Trade Mark Rights in Europe*, 11 COMMON MKT. L. REV. 360 (1974).

by CNL-Sucal, a subsidiary of the Swiss Jacobs-Suchard company, which is a major seller of coffee products in Germany. Having suffered at the hands of parallel imports of "Hag" coffee from Germany into Benelux, CNL-Sucal began to export its "Hag" decaffeinated coffee from Belgium into Germany. Hag AG now sought to rely upon its German trademark rights to prohibit these imports into Germany. The German lower court granted Hag AG's claim.¹²¹ On appeal within the German court system, the Oberlandesgericht (the higher regional court) in Hamburg sought to distinguish the present case in which the beneficiary of expropriation sought to violate the trademark rights of the victim of expropriation from the facts of *Hag I* case in which the beneficiary of the expropriation had purchased the "Hag" mark knowing that it was owned in Germany by the original owner.¹²² The Oberlandesgericht also proposed that to allow the CNL-Sucal products to violate the German trademark would be to give extraterritorial effect in Germany to the Belgian expropriation.¹²³ Ultimately, the case came before the Bundesgerichtshof (federal appeals court) which referred the questions of Community law to the ECJ.¹²⁴ Reviewing the case law of the ECJ and stressing the importance of the economic function of trademarks, Advocate General Jacobs proposed that the doctrine of common origin lacked any foundation in the EEC Treaty.¹²⁵ Insofar as the facts of *Hag II* were concerned, the ECJ agreed.¹²⁶

While *Hag II* represents an abandonment by the ECJ of its most extreme formulation of the doctrine of common origin, it does not represent the total abandonment of that doctrine. The ECJ has recognized that the common origin of trademarks in two different territories does not justify restricting the rights of the trademark owners in either of those territories.¹²⁷ Thus far, however, the ECJ has recognized this only where the event which separated one mark from its original owner was government expropriation (or presumably

121. The lower court decision is apparently unreported, but is summarized in Joliet, *supra* note 120, at 305 n.4.

122. Case 3u 133/86, *Re HAG Coffee*, 3 C.M.L.R. 154, 162 (1989) [hereinafter *Re HAG Coffee*]. For a discussion of the Oberlandesgericht decision, see Ann Marie De Die, *Re HAG Coffee—Now the National Courts Decide*, 12 EUR. INTELL. PROP. REV. 145 (1988).

123. *Re HAG Coffee*, 3 C.M.L.R. at 164.

124. *Hag II*, 1990 E.C.R. at 3713, 3 C.M.L.R. at 575.

125. *See id.* at 3730–31, 3 C.M.L.R. at 581–82.

126. *See id.* at 3760–61, 3 C.M.L.R. at 609–10. The ECJ drafted its ruling narrowly to apply only to a situation where a third party acquires a trademark following expropriation. *Id.*

127. *See id.* at 3759, 3 C.M.L.R. at 609.

any other event without the consent of the owner).¹²⁸ Even after *Hag II*, the doctrine of common origin retains its vitality where the separation of trademark rights from the original owner in one territory took place with the consent of the trademark owner. This has come to be known as the doctrine of consensual common origin.¹²⁹

VI. THE DECISIONS OF THE ECJ VERSUS THE FUNCTION OF TRADEMARKS

A trademark serves the function of protecting the investment of the trademark owner in goodwill (to the ECJ, the specific subject matter of the trademark) and providing the consumer with an easy indication of the source and quality of the trademarked products (to the ECJ, the essential function of the trademark). The decisions of the ECJ, however, do not serve either aspect of this function. The existence/exercise dichotomy, the expansive doctrine of exhaustion of rights and its progeny, and the doctrine of consensual common origin all deprive the trademark owner of goodwill and ultimately promote consumer confusion. The result is damage to the utility of trademarks and hence damage to the efficient allocation of resources, which is the ultimate purpose of the policy of free movement of goods.

To understand the likely effect of the attitude of the ECJ towards the function of trademarks, it is necessary first to recall that the specific subject matter of the trademark and its essential function are not ultimately distinct, but are views of function of trademarks from two different angles. In the absence of the reward for goodwill, businesses would lack the incentive to invest in trademark recognition, and trademarks would not serve the function of preventing consumer confusion. Furthermore, the self-policing mechanism of trademark enforcement would cease to operate because the trademark owner would have no incentive to restrain pirates, and consumer confusion would ensue.

128. In this respect *Hag II* is the direct descendant of *Pharmon*, 1985 E.C.R. 2298, 3 C.M.L.R. 791 (holding that a patent owner could prevent the marketing of a patent if it was granted to a third party by compulsory license and therefore without the original owner's consent).

129. For an illustration of this doctrine, see *Sirena v. Eda*, 1971 E.C.R. 69, 71, 1971 C.M.L.R. 260, 262. Note that the doctrine of consensual common origin applies only to restrict the exercise of trademarked rights against imports within the EC, because Article 30 of the EEC Treaty applies only to free movement of goods within the EC. See *EMI Records*, 1976 E.C.R. at 845, 2 C.M.L.R. at 264.

A. The Existence/Exercise Dichotomy

It is misleading to separate the existence of trademark rights from their exercise. Recall the definition of property which Landes and Posner set forth as a legally sanctioned right to exclude others from the use of a resource; that is, the exercise of a property right defines its existence. This is especially clear in the case of intangibles such as industrial property rights. Whereas the owner of land can enjoy the land (i.e., build on it, farm it, and exclude trespassers), and the owner of an automobile can enjoy the automobile (i.e., drive it, behold its beauty, and prevent others from driving it), all that the owner of a trademark has is the right to exclude others from its use. From the perspective of its owner, there is nothing else for which a trademark is of benefit. As René Joliet put it, if the exercise of national trademark rights is reduced, the existence of those rights is called into question.¹³⁰

Joliet also expresses his objection to the existence/exercise dichotomy in more legal terms.¹³¹ He points out that the competition policy objection under Article 85(1), which the ECJ expressed in *Consten and Grundig*, is not an objection to the exercise of industrial property rights, but an objection to an anticompetitive agreement.¹³² This suggests that the proper legal characterization of the attack on agreements that divide markets is to oppose the agreement under the competition rules, not the exercise of trademark rights through infringement actions in the member state courts.¹³³ The existence/exercise dichotomy is therefore unnecessary to promote the free movement of goods because the latter is adequately protected by Article 85(1).

The situation where a trademark is affixed to a product without the trademark owner's consent is analogous to the use of a patent without the patentee's consent in *Pharmon*, and the result should be the same; the trademark owner should be entitled to rely on his or her trademark rights to exclude imports. The ECJ stated in *Pharmon* that "the substance of a patent right lies essentially in according the inventor an exclusive right of first placing the product on the market so as to allow him or her to obtain the reward for his or her creative

130. Joliet, *supra* note 120, at 314.

131. See *id.* at 314-15. Joliet is encouraged by the fact that *Hag II* does not repeat the existence/exercise dichotomy. *Id.*

132. See *id.* at 314.

133. See *id.*

effort.”¹³⁴ Similarly, the substance of a trademark right lies in according its owner an exclusive right of placing the trademarked product on the market to allow him or her the reward of his or her investment in the associated goodwill.¹³⁵

B. Exhaustion Rights and the Doctrine of Common Origin

The doctrine of common origin as espoused by the ECJ in *Hag I* “is not a legitimate creature of Community law,”¹³⁶ and, in the absence of consent, is inconsistent with subsequent case law.¹³⁷ However, even the doctrine of consensual common origin remaining after *Hag II* is not justified by the EEC Treaty or by the function of trademarks. If national property rights are protected under Article 222, then the EEC Treaty should also protect the right of the property owner to reap the maximum reward from those rights.

Just as the owner of a house may live in the house, rent it out, live on the upper floor and rent the lower, or sell the property, the owner of a trademark may use it by affixing the trademark to the owner's products, assigning it in whole, or licensing it in part. Under the doctrine of consensual common origin, the trademark owner may suffer a loss to its goodwill if the trademarked goods of another (albeit bearing the trademark with the original owner's consent) can compete with its original owner's marked products. To suggest that such a rule does not affect the existence of the trademark owner's property rights is comparable to suggesting that the owner of the house can rent it out, but the tenants are permitted to burn it down. In either case, the likely result of such a law is to encourage the owner to prohibit the use of his or her property by others. In the case of trademark rights, this means less investment in trademark creation and use, increased consumer search costs, and inefficient allocation of resources.

Moreover, the doctrine of consensual common origin is likely to cause consumer confusion because a licensee or assignee may sell products under a mark different from those sold by the original owner or by another licensee or assignee.¹³⁸ As Advocate General Jacobs stated, “[t]he consumer is not, I think, interested in the genealogy of trademarks; he is interested in knowing who made the goods that he

134. *Pharmon*, 1985 E.C.R. at 2298, 3 C.M.L.R. at 791.

135. *See Hag II*, 1990 E.C.R. at 3758, 3 C.M.L.R. at 608.

136. *Id.* at 3736, 3 C.M.L.R. at 588 (Jacobs, A.G.).

137. *See id.* at 3737-38, 3 C.M.L.R. at 588-90.

138. *See, e.g., Sirena v. Eda*, 1971 E.C.R. at 80-81, 1971 C.M.L.R. at 272.

purchases.”¹³⁹ Joliet argues that assignment of a trademark, that is, the complete divestment by the owner of a trademark in several member states of his or her trademark rights in one member state with no continuing control or influence over the goods to which the mark is attached, should be treated in the same manner as the divestment of the “Hag” trademark in *Hag II*.¹⁴⁰ Under this analysis, both the assignor and the assignee would be permitted to use their national trademark rights to exclude the products of the other.¹⁴¹

Joliet does, however, argue that where there is an element of common control between the owners of trademark rights in different territories, such as may be the case when marks in different territories are owned by different members of the same group,¹⁴² or in the case of trademark licenses in which the licensor continues to dictate product quality,¹⁴³ national trademark rights should not permit the opposition of imports from another territory.¹⁴⁴ The analysis in such a case of common control should be the same as that proposed above in the context of exhaustion of rights. The trial court should consider whether the trademarked goods are the same and whether they are subject to price differentials imposed by the controlling entity. If the answer to either question is no, the trademark owner in one territory should be entitled to exclude imports from another, unless it can be shown that the owner’s behavior violates the competition rules of the EEC Treaty.

The competition rules may not apply in fact situations such as *Deutsche Grammophon*¹⁴⁵ and *Sirena v. Eda*¹⁴⁶ where the exercise of trademark rights is a unilateral act and no agreement exists which

139. *Hag II*, 1990 E.C.R. at 3735, 3 C.M.L.R. at 586 (Jacobs, A.G.). To the same effect, the recitals to the Directive state that the function of the trademark is “as an indication of origin.” Directive, *supra* note 59, at 2.

140. See Joliet, *supra* note 120, at 317.

141. For another argument in favor of expanding *Hag II* to assignments, and thereby overruling *Sirena*, see Gerd F. Kunze, *Waiting for Sirena II—Trademark Assignment in the Case Law of the European Court of Justice*, 22 INT’L REV. INDUS. PROP. & COPYRIGHT L. 319, 326–33 (1991).

142. See Joliet, *supra* note 120, at 317.

143. *Id.* at 313.

144. *Id.* at 314.

145. *Deutsche Grammophon*, 1971 E.C.R. 487, 1971 C.M.L.R. 631, although in that case Deutsche Grammophon’s pricing practices were challenged under the competition rules of Article 86 of the EEC Treaty, which can apply to unilateral acts. See *id.* at 500–01, 1971 C.M.L.R. at 658.

146. See *Sirena v. Eda*, 1971 E.C.R. 69, 1971 C.M.L.R. 260 (*Sirena* unilaterally sought to use its Italian trademark right to exclude imports marked “Prep”). The ECJ actually based its decision on Article 85(1), finding, as the required agreement, a 1937 trademark assignment. See *id.* at 80, 82, 1971 C.M.L.R. at 272–74.

can be challenged under the competition rules. Accordingly, the Joliet approach does not provide a comprehensive manner in which to attack anticompetitive practices without impugning trademark rights. In *Deutsche Grammophon* the ECJ therefore relied on the doctrine of exhaustion of rights, which it extended to trademarks in *Centrafarm BV v. Winthrop BV*.¹⁴⁷

In the scenario involving a trademark holder seeking to exclude his or her own products, the exhaustion doctrine may serve the function of trademark law and restrain anticompetitive practices, subject to two caveats. First, the product must be identical in each territory. Otherwise, consumer confusion will ensue. Where different products are sold under the same mark in different territories, the trademark owner is merely serving the socially useful self-policing function by keeping out different products, even if they are his or her own, and thereby saving consumers from confusion. While there may be a risk that a manufacturer would purposefully develop different products under the same mark in order to use its trademark rights to prevent the free movement of its goods and to preserve price differentials in different territories, there is no basis to assume that this is the only reason why a trademark owner would sell different products under the same mark. Nor is there any basis in the EEC Treaty to deprive the trademark owner of his or her property rights, which are protected by Article 222, absent a showing that this was in fact a practice devised to divide markets rather than a legitimate business practice based on consumer preferences.¹⁴⁸ In *American Home Products*, the ECJ proposed a fact inquiry to determine why AHP marketed the same product under different marks.¹⁴⁹ A similar approach could be taken to determine why a producer markets different products under the same mark.¹⁵⁰

Second, the price differential for the products in different markets, if there is one, must be due to the actions of the trademark owner.¹⁵¹

147. *Centrafarm BV v. Winthrop BV*, 1974 E.C.R. at 1198-99, 2 C.M.L.R. at 507.

148. See *supra* notes 50-52 and accompanying text.

149. See *American Home Products Corp.*, 1978 E.C.R. at 1842, 1 C.M.L.R. at 343.

150. Alternately, the doctrine of exhaustion of rights, in its present form, would presumably give a trademark owner an incentive to abandon the practice, whatever his or her reasons. While some consumer confusion would result during a transitional period, the social costs of such confusion might be less than the social costs of market division and the costs of making the factual enquiry.

151. Cf. *Deutsche Grammophon*, 1971 E.C.R. at 502, 1971 C.M.L.R. at 659 (holding that a price differential by an owner may be an abuse of a dominant position). At least one writer has noted that if a trademark owner adopts a unified pricing structure, the incentive for others to

A contrary rule would provide an incentive to the trademark owner to use trademark rights to divide markets. A clear doctrine of exhaustion of rights in this situation would discourage discriminatory pricing. The corollary is that the exhaustion doctrine should not apply where price differentials exist through no fault of the trademark owner. If it did, the rule would punish the trademark owner for the actions of others with the effect of removing the incentive to invest in the trademark without creating an incentive to equalize prices. This is because the relative prices are beyond the power of the trademark holder.¹⁵²

VII. CONCLUSION

Starting with the *Consten and Grundig* decision in the 1960s and continuing through the *Sirena*, *Hag I*, and *Centrafarm* cases in the 1970s, the ECJ has passed through a period of sacrificing national trademark rights to the principle of free movement of goods. In more recent decisions, such as *Pharmon* and *Hag II*, there has been a shift as the ECJ affords greater recognition to the value of national industrial property rights, despite the fact that this may appear to hinder the free movement of goods. The ECJ has also recognized trademarks as a guarantee of origin and an instrument to prevent consumer confusion.

The ECJ, however, has not yet fully accepted the role of the trademark holder as the private prosecutor of those who would confuse consumers. Nor has the ECJ fully accepted the idea that trademarks, through the performance of their two functions, may actually promote efficient allocation of resources. The ECJ should abandon the existence/exercise dichotomy and the doctrine of common origin. The legal basis for both doctrines is dubious. The apparent tension between trademark rights and the free movement of goods principle should be resolved by a reformulation of the exhaustion of rights doctrine.

divert his or her products will likely go away. See Laurence J. Cohen, *Warding Off the Foe: How Trademarks Can Still Offer Some Protection Against Parallel Imports*, 10 EUR. INTEL. PROP. REV. 369 (1990).

152. Cf. *Pharmon*, 1985 E.C.R. at 2298, 3 C.M.L.R. at 791 (noting that a third party compulsory patent deprives the original owner of right to determine conditions under which patent should be marketed). The ECJ has already proposed an analysis to distinguish proper and improper use of industrial property rights in the case of registered designs, suggesting that if the use violates Article 85, parallel imports must be permitted; otherwise, the proprietor of the design may prevent the import. See Case 144/81, *Keurkoop BV v. Nancy Kean Gifts BV*, 1982 E.C.R. 2853, 2873-74, 2 C.M.L.R. 47, 83 (1983).

