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INTELLECTUAL PROPERTY, THE FREE MOVEMENT OF GOODS AND TRADE RESTRAINT IN THE EUROPEAN UNION

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ABSTRACT

The European Union ("EU") is the most significant trade partner of the United States. Trading in goods protected by intellectual property rights remains a challenge for American business entities as they are forced to sift through a myriad of law consisting of the federal intellectual property law of the EU and the intellectual property law of the member states. The European Court of Justice ("ECJ" or "the Court") has been faced with dozens of complex cases arising out of conflicts between the national law of the member states and the Articles of the Treaty on the Functioning of the European Union ("TFEU" or "the Treaty") that mandate the free movement of goods across national lines as one of the TFEU's fundamental purposes. This work presents the pertinent issues that arise in conflicts between the two bodies of law, and provides a thorough explanation and analysis of the case law of the ECJ on the issue of intellectual property rights and the free movement of goods.

I. INTRODUCTION

A. The Importance of Understanding European Union Law and International Trade Law

The incentive for Americans or those interested in the area of international trade to study EU law lies, at the very least, in the fact that the EU is the largest trading partner of the United States.[1] Individually, Germany, France, and the United Kingdom are within the top ten trading partners of the United States.[2] Professor Daniel C.K. Chow has commented that anyone interested in the area of international trade cannot ignore the EU.[3] Chow has also remarked that the EU is at the forefront of many emerging international trade issues involving intellectual property rights.[4] Unfortunately, fewer law schools are offering courses on EU law in their curriculums.[5]

Globally, the theory of comparative advantage has found its way into international law, and has helped develop a body of trade law suggesting that sovereign governments integrate their economies. It can also be argued that the EU serves as the best example of this type of integration in the modern era.[6] There are several benefits that economic integration and international trade law bring to the world. The advantages of free trade include a refined division of labor, higher real incomes, and greater cross-cultural understanding, all of which in turn bring greater prospects for peace.[7] As international trade law develops to create rules for economic integration, people, firms, and countries that are party to agreements creating integration are able to make decisions in a more predictable manner.[8]

Despite the well-known benefits of economic integration, international trade law is required in order to force cooperation between countries since cooperation will not exist if countries are left to their specific interests.[9] Indeed, the incentive for a country to block imports if they pose real or perceived threats to domestic industries is significant, and without international trade law forcing rule recognition by countries seeking to join their economies, economic integration will never become a reality.[10] However, international trade law is an evolving body of law, inside and outside the EU, and one of the most compelling issues within international trade law is the balance between the assertion of intellectual property rights, on the one hand, and undistorted competition and the free movement of goods, on the other hand.[11]

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[1] Daniela Caruso, *EU Law in U.S. Legal Academia*, 20 TUL. J. INT'L & COMP. L. 175, 176–77 (2011).

[2] PAUL KRUGMAN & MAURICE OBSTFELD, INTERNATIONAL ECONOMICS: THEORY AND PRACTICE 13 (8th ed. 2009).

[3] DANIEL C.K. CHOW & THOMAS J. SCHOENBAUM, INTERNATIONAL TRADE LAW: PROBLEMS, CASES, AND MATERIALS 124 (2008).

[4] *Id.*

[5] PAUL D'ANIERI, INTERNATIONAL POLITICS: POWER AND PURPOSE IN GLOBAL AFFAIRS 178 (1st ed. 2010).

[6] *Id.* at 249.

[7] CHOW & SCHOENBAUM, *supra* note 3, at 32, 35.

[8] KRUGMAN & OBSTFELD, *supra* note 2, at 575.

[9] CHOW & SCHOENBAUM, *supra* note 3, at 6.

[10] *Id.*

[11] Mauro Squitieri, *Refusals to License Under European Union Competition Law After Microsoft*, 11 J. INT'L BUS. & L. 65, 65 (2012).

B. The European Union

The EU possesses 455 million people, accounts for 28% of global gross domestic product, and 20% of global trade.[12] Professor Malcolm N. Shaw has labeled the EU as the most important European organization.[13] The EU also represents all of its member states at the World Trade Organization.[14]

The EU's creation was supported by a goal of keeping the continent out of war, and a belief that the best way to achieve that goal was to force member state countries to integrate their economies.[15] This level of economic integration included removing internal trade barriers and allowing for the free movement of goods, services, capital, and labor to complete the dream of a common market.[16] However, the framers of the EU also believed that a common market could allow European member states to compete at a higher level economically in a postwar economy.[17]

A common market, by definition, requires the free flow of goods, services, capital, and labor and, in the case of the EU, has also led to the harmonization of standards in education, health, safety, social security, and intellectual property rights.[18] For the common market to be successful, each new member state, and even the existing member states, must make changes to its domestic laws, such as laws governing intellectual property rights, competition, and the free movement of goods, so that trade barriers cease to exist unless explicitly allowed by the Treaty.[19] This attempt at harmonization has been difficult, especially in regard to merging the former Soviet bloc countries—where intellectual property rights were viewed quite differently—into the EU.[20] Each revision of the Treaty that governs the operations of the EU, beginning with the Treaty of Rome in 1957, has required greater integration and more powers moved from the national governments to the EU.[21] Despite the current financial crisis and the aforementioned challenges, the EU is still the most successful common market in the world.[22]

There are four principal areas of EU law including the Treaty, Regulations, Directives, and Decision; the Treaty, Regulations, and Decisions have a direct

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[12] CHOW & SCHOENBAUM, *supra* note 3, at 124.

[13] MALCOLM N. SHAW, INTERNATIONAL LAW 1172 (5th ed. 2003).

[14] CHOW & SCHOENBAUM, *supra* note 3, at 124.

[15] D'ANIERI, *supra* note 5, at 129.

[16] SHAW, *supra* note 13, at 1173.

[17] Emily Bolton, *Defining Genuine Use Requirements of Community Trade Marks in Light of an Expanding European Union*, 27 CONN. J. INT'L L. 371, 373 (2012).

[18] THEODORE H. COHN, GLOBAL POLITICAL ECONOMY: THEORY AND PRACTICE 210 (5th ed. 2010).

[19] Guido Ricci, *Copyright Protection in Poland, Czech and Slovak Republics and in Hungary*, 1994 INT'L BUS. L.J. 81, 81.

[20] *Id.*

[21] Julien Chaisse, *Promises and Pitfalls of the European Union Policy on Foreign Investment—How Will the New EU Competence on FDI Affect the Emerging Global Regime*, 15 J. INT'L ECON. L. 51, 52 (2012).

[22] David A. Gantz, *World Trade Law After Doha: Multilateral, Regional, and National Approaches*, 40 DENV. J. INT'L L. & POL'Y 321, 344 (2012).

effect, and thus, member states need not write legislation to implement those forms of law.[23] Directives do not have a direct effect, and thus, member states have some leeway to implement those requirements.[24] Specific to the subject matter of this work, the purposes of the Directives have been to prevent the conflict in national laws in the areas of intellectual property use, registration, licensing, and exhaustion, so that the free movement of goods is not impaired.[25] In turn, the European Commission has a mission to govern for the benefit of all twenty-seven member states and this includes the duty of hearing complaints that have been infringed by member state legislation or action and issuing decisions to remediate infringements.[26] Additional Directives have been crafted when the Treaty, decisions from the Commission, and decisions from the ECJ have not been enough.[27]

The ECJ is the judicial organ of the EU. Decisions by the ECJ are directly applicable to the member states, courts of the member states, and parties operating inside the EU.[28] The ECJ has been characterized as similar in function to the United States Supreme Court, in regard to the latter's relationship to state courts, as the ECJ is the final arbiter of disputes on the subject of EU law.[29] Most importantly, the ECJ has held that all EU law is superior to national law, even domestic constitutional law, and this decision has remarkably been adhered to by the member states in the same fashion that the United States Supreme Court decisions have been adhered to by American states.[30]

C. Influence of the European Union on International Trade

The successful economic integration of the EU since its creation in 1957 cannot be underestimated. Today, the European Economic Area ("EEA"), which comprises the twenty-seven member states of the EU and an additional three countries,[31] rivals the United States as an economic power.[32] In 1975, the EU's Lome Convention provided special trade relations between the EU member states and sixty-eight former colonies.[33] Furthermore, the EU continues to show a desire

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[23] SHAW, *supra* note 13, at 162.

[24] *Id.*

[25] Daniel R. Bereskin, *Anti-Dilution/Anti-Free-Riding Laws in the United States, Canada, and the EU: Bridges Too Far?*, 101 TRADEMARK REP. 1710, 1743–44 (2011).

[26] D'ANIERI, *supra* note 5, 349–50.

[27] Bolton, *supra* note 17, at 375.

[28] SHAW, *supra* note 13, at 142.

[29] D'ANIERI, *supra* note 5, at 350.

[30] *See, e.g.*, Case 6/64 Costa v. Ente Nazional per L'Energia Elettrica, 1964 E.C.R. 585. The ECJ held in this landmark decision that European Union law cannot be overridden by domestic legal procedures.

[31] DOMINICK SALVATORE, INTERNATIONAL ECONOMICS 334 (8th ed. 2004). The additional three countries include Norway, Iceland, and Lichtenstien. *Id.* Switzerland is the only country that is part of the European Free Trade Area but is not a member of the EEA. *Id.*

[32] JOAN E. SPERO & JEFFREY A. HART, THE POLITICS OF INTERNATIONAL ECONOMIC RELATIONS 4 (7th ed. 2010).

[33] MORDECHAI E. KREININ, INTERNATIONAL ECONOMICS: A POLICY APPROACH 138 (10th ed. 2006).

to develop additional trade agreements with Central and Eastern European countries and allow for the eventual entry of those countries into the EU.[34] Indeed, the possibility of entry into the EU has forced many non-member states in Europe to follow EU law, thus, further extending the reach of this body of law.[35] Additionally, the EU, as recently as 2011, discussed opening its common market to Canada and other countries that at one time were colonies of the EU member states and were not part of the Lome Convention.[36] There has also been some discussion of a free trade agreement between the EU and the United States.[37]

The success of the European common market has pushed other major powers into trade agreements with countries that have less powerful profiles.[38] There is evidence that the partnership between the countries making up the North American Free Trade Agreement was birthed due to the concern over, and lust for, the EU's success.[39] The same concerns have led to discussions among countries in the Western Hemisphere to create a Free Trade Area of the Americas ("FTAA").[40] The development of a FTAA, in conjunction with the EEA, could lead to the world experiencing three large trading blocs, including a large Asian trade group.[41]

Not all attempts at economic integration around the globe have been successful. Mercosur, a regional trade bloc including Argentina, Brazil, Paraguay, and Uruguay, has not been successful in moving from a customs union to a common market largely due to protectionist infighting and the failure to create the necessary inter-governmental institutions.[42] There is also some comment that the EU may not be able to sufficiently adopt additional member states.[43]

D. Differences between the European Union and the United States

Both the EU and the United States have an understanding that a country's level of competitiveness is based on its ability to innovate.[44] Despite the agreement between the two trade partners on the need to push for innovation, there are differences between them as to how to regulate the balance between intellectual property rights and the free movement of goods. Firms operating in the EU and the United States must carefully calculate their behavior in each market due to the stark differences in the law governing the exercise of intellectual property rights in the face of competition law.[45] Bluntly, there is a greater risk of being charged with

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[34] SPERO & HART, *supra* note 32, at 100.
[35] *Id.* at 44.
[36] Gantz, *supra* note 22, at 352.
[37] *Id.* at 357.
[38] SPERO & HART, *supra* note 32, at 112.
[39] THOMAS OATLEY, INTERNATIONAL POLITICAL ECONOMY 43 (4th ed. 2010).
[40] SPERO & HART, *supra* note 32, at 112.
[41] OATLEY, *supra* note 39, at 43.
[42] Gantz, *supra* note 22, at 346–47.
[43] KRUGMAN & OBSTFELD, *supra* note 2, at 589.
[44] CHOW & SCHOENBAUM, *supra* note 3, at 200.
[45] Renata B. Hesse, *Counseling Clients on Refusal to Supply Issues in the Wake of the EC Microsoft Case*, 22 ANTITRUST, Spring 2008, at 32, 35.

anti-competitive behavior in the EU.[46] This risk could lead to a lessening of intellectual property rights.[47]

Furthermore, within the specific scope of intellectual property rights, there are differences between the EU and the United States. For example, in the area of trademark law, rights to a trademark are registration-based in the EU whereas in the United States, trademark rights are use-based.[48] In total, the difference in the law between the two trade partners has created an appreciable effect on market prices in many areas of commerce, such as the pharmaceutical industry.[49] In the EU individual countries set pharmaceutical prices and have enacted laws that allow governments to curb intellectual property rights to make such purchases easier.[50] In contrast, stronger intellectual property rights are found in the United States, which also allows its private sector health care system to set the prices of pharmaceuticals.[51]

The EU has struggled to find a uniform, federal-style law that harmonizes the balance between intellectual property rights and the free movement of goods and competition law that is necessary to integrate the economies of twenty-seven member states.[52] One can only imagine the problems presented in trying to bridge the legal gap between the entire EU and the United States on this issue. There was an attempt by the two trade partners to resolve extraterritorial conflicts in the area of trade law in 1991, but the ECJ struck down the agreement as an ultra vires act by the European Commission.[53] Regardless of the legal gap that remains, the two trade partners are likely to keep significant trade relations due to geography, culture, language, and political interests.[54]

E. The Purpose of This Work

The purpose of this thesis is to explore the balance the EU has crafted between the protection of intellectual property rights, on one hand, and the Treaty-based preference for the free movement of goods and undistorted competition, on the other hand. This work will begin by briefly exploring the applicable provisions of the Treaty involved in this balance, followed by a discussion of the exhaustion of rights doctrine. Most of this work will be dedicated to the case law from the ECJ that provides the reader with a detailed sense of the balance based on the pertinent facts of each case and the associated holdings of the ECJ.

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[46] *Id.*

[47] *Id.*

[48] Bolton, *supra* note 17, at 384.

[49] Silvio Cappellari, *Reverse Payment Settlements in the EU—Finding the Right Dosage*, 7 COMPETITION L. INT'L, no. 2, 2011, at 27, 31.

[50] *Id.* at 27.

[51] *Id.* at 28.

[52] Squitieri, *supra* note 11, at 77.

[53] SHAW, *supra* note 13, at 618.

[54] KRUGMAN & OBSTFELD, *supra* note 2, at 16.

II. APPLICABLE PROVISIONS OF THE TREATY ON EUROPEAN UNION

Advocate General Federico Mancini of the ECJ commenting on the debate between the free movement of goods and the recognition of intellectual property rights, stated in *Pharmon BV v. Hoechst AG*:

> The questions formulated . . . provide the Court with another opportunity to consider one of the most interesting and complex issues of Community law. Essentially the Court is asked to balance the requirements of the free movement of goods against the need to protect the industrial property rights and commercial guarantees provided for in the legal orders of the Member States.[55]

The Treaty placed member states in a position whereby they forfeited their individual power to act as autonomous actors in the sphere of trade as early as 1952 with the ratification of the Treaty creating the European Coal and Steel Community.[56] Any discussion of the legal framework of the EU's common market should begin with Article 18's prohibition on discrimination based on nationality.[57] Article 18's general prohibition applies to goods, services, capital, and labor and is often cited by firms and member states claiming that another member state has written protectionist legislation.[58] Article 18 also gives the European government the power to write regulations and directives that are more specific in nature in an attempt to combat nationality discrimination.[59] In matters involving intellectual property rights, Article 18 is often cited by those arguing discrimination based on the country of origin of the goods.[60]

The drafters of the Amsterdam Treaty made sure to maintain the balance between the uninterrupted free trade of goods and services and the protection of intellectual property rights. Article 34 states that there can be no restrictions on imports by member states.[61] Likewise, Article 35 prohibits the same restrictions on exports, although this Article is rarely invoked in this debate.[62] The free movement of goods is further protected by Article 101, which prohibits trade agreements between business associations or member states that fix prices, limit

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[55] Case 19/84, Pharmon BV v. Hoechst AG, 1985 E.C.R. 2281, 2282.

[56] Sophie Meunier & Kalypso Nicolaidis, *Who Speaks for Europe? The Delegation of Trade Authority in the EU*, 37 J. COMMON MARKET STUD. 477, 479 n.1 (1999).

[57] Article 18 of the Treaty states: "Within the scope of application of the Treaties, and without prejudice to any special provisions contained therein, any discrimination on grounds of nationality shall be prohibited. The European Parliament and the Council, acting in accordance with the ordinary legislative procedure, may adopt rules designed to prohibit such discrimination." Consolidated Version of the Treaty on the Functioning of the European Union, art. 34, March 30, 2010, 2010 O.J. (C 53) 1.61 [hereinafter TFEU].

[58] *Id.*

[59] *Id.*

[60] *See, e.g.*, Case 15/81, Gaston Schul Douane Expediteur BV v. Inspecteur der Invoerrechten en Accijnzen, 1982 E.C.R. 1409, 1418, 1428–29 (referring to EEC Treaty Article 12 [now TFEU Article 18]).

[61] Article 34 states: "Quantitative restrictions on imports and all measures having equivalent effect shall be prohibited between Member States." TFEU art. 34.

[62] Article 35 states: "Quantitative restrictions on exports, and all measures having equivalent effect, shall be prohibited between Member States." TFEU art. 35.

production, and restrict sources of supply and many other commercial activities.[63] Additionally, Article 102 prohibits a business entity from abusing a "dominant position" in the marketplace, and enumerates conditions that constitute the abuse of a dominant position.[64] Article 102 provides for powerful remedies that force a member state or a firm to change its business practices.[65] Article 102 has been

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[63] Article 101 states:

> 1. The following shall be prohibited as incompatible with the common market: all agreements between undertakings, decisions by associations of undertakings and concerted practices which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the common market, and in particular those which:
>
> > (a) directly or indirectly fix purchase or selling prices or any other trading conditions;
> >
> > (b) limit or control production, markets, technical development, or investment;
> >
> > (c) share markets or sources of supply;
> >
> > (d) apply dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
> >
> > (e) make the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.
>
> 2. Any agreements or decisions prohibited pursuant to this Article shall be automatically void.
>
> 3. The provisions of paragraph 1 may, however, be declared inapplicable in the case of:
>
> > —any agreement or category of agreements between undertakings;
> >
> > —any decision or category of decisions by associations of undertakings;
> >
> > —any concerted practice or category of concerted practices,
> >
> > which contributes to improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit, and which does not:
> >
> > (a) impose on the undertakings concerned restrictions which are not indispensable to the attainment of these objectives;
> >
> > (b) afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products in question.

TFEU art. 101.

[64] Article 102 states:

> Any abuse by one or more undertakings of a dominant position within the [common] market or in a substantial part of it shall be prohibited as incompatible with the [common] market insofar as it may affect trade between Member States.
>
> Such abuse may, in particular, consist in:
>
> > (a) directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions;
> >
> > (b) limiting production, markets or technical development to the prejudice of consumers;
> >
> > (c) applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
> >
> > (d) making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.

TFEU art. 102.

[65] Ian S. Forrester, *Article 82: Remedies in Search of Theories?*, 28 FORDHAM INT'L L.J. 919, 948

labeled by at least one academic as having a strong sense of morality attached to it and being distinctively European in application.[66] As stated above, the free movement of services is protected by Article 56, which prohibits restrictions by member states on the nationals of the member states who perform such services.[67] Article 56 goes as far as allowing the European Council and the Commission to extend this principle to nationals of non-member states.[68] Furthermore, Article 56 provides rights and limitations to both broadcasters and recipients of broadcasted materials.[69]

The above articles of the TFEU are balanced by Article 36, which allows exceptions to Articles 34 and 35, including the ability of member states to protect intellectual property.[70] Therefore, if one were to keep a scorecard of sorts, Articles 34, 35, 56, 101, and 102 are cited by parties believing that intellectual property rights asserted by right holders infringe upon the EU Treaty policy of unrestricted free movement of goods and services and undistorted competition (together, "trade restraint"). In contrast, Article 36 is cited by rights holders and member states arguing that an intellectual property right granted by one state must be recognized by another state.[71]

(2005).

[66] *Id.* at 919.

[67] Article 56 states:

> Within the framework of the provisions set out below, restrictions on freedom to provide services within the [Community] shall be prohibited in respect of nationals of Member States who are established in a Member State other than that of the person for whom the services are intended.
>
> The European Parliament and the Council acting in accordance with ordinary legislative procedure, may extend the provisions of the Chapter to nationals of a third country who provide services and who are established within the [Community].

TFEU art. 56.

[68] *Id.*

[69] Astrid Janssen, *Copyright Licensing Revisited*, 13 GERMAN L.J. 124, 126 (2012).

[70] Article 36 of the Treaty states:

> The provisions of Articles 34 and 35 shall not preclude prohibitions or restrictions on imports, exports or goods in transit justified on grounds of public morality, public policy or public security; the 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.

TFEU art. 36. Interestingly enough, the United States Patent Act does not allow for morality to play a role in the decision of patentability. *See generally* Cynthia M. Ho, *Splicing Morality and Patent Law: Issues Arising from Mixing Mice and Men*, 2 WASH. U. J.L. & POL'Y 247, 256 (2000).

[71] Joined Cases C-321–324/94, Pistre, Barthes, Milhau, and Oberti, 1997 E.C.R. I-2360, I-2377.

III. INTELLECTUAL PROPERTY RIGHTS AND THE EXHAUSTION OF RIGHTS DOCTRINE

A. The Exhaustion of Rights Doctrine, Generally

Much of the debate on the balance between the protection of intellectual property and the free movement of goods and undistorted competition is centered on whether intellectual property rights should exist in all circumstances or whether there should be limitations on an intellectual property owner's assertion of rights. However, the debate also centers on how far the intellectual property rights extend outside of the member state granting those rights. This is the exhaustion of rights doctrine.[72]

At a basic level, the exhaustion of rights doctrine, also known as the "first sale doctrine," prohibits an intellectual property right holder from exercising rights over a good or service once it is sold.[73] The exhaustion of rights doctrine operates much like a physical border.[74] The doctrine, as practiced by the ECJ, allows an intellectual property right holder to restrict the use, manufacture and sale of the protected product within the state that granted that right.[75] However, once the right holder agrees in some manner to the sale of the protected product in another state, the right holder cannot assert his intellectual property right to block the movement of the product throughout the other member states or back into the state that granted the intellectual property protection (a parallel import).[76] Therefore, the intellectual property right is "exhausted" at the border once the right holder has acquiesced to the sale of the protected product abroad.[77] Therefore, the right holder must choose between maintaining complete control of the protected product domestically or reaping the potential financial rewards of placing the product in the markets of other states. The doctrine, at least in theory, applies to patents, trademarks, and copyrights.[78] However, there is evidence in the case law that the exhaustion of rights doctrine does not apply to goods outside of the EU or EEA, although the point remains debatable.[79]

Relatedly, it could be argued that under Article 101, any agreement between two business associations—such as an intellectual property right holder and a distributor—that limits the movement of a good violates the TFEU as an agreement in restraint of trade. Additionally, if the intellectual property right holder is successful enough, the right holder may be attacked as abusing a dominant position if the right holder attempts to assert his intellectual property

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[72] Darren E. Donnelly, *Parallel Trade and International Harmonization of the Exhaustion of Rights Doctrine*, 13 SANTA CLARA COMPUTER & HIGH TECH. L.J. 445, 447 (1997).

[73] Irene Calboli, *Trademark Exhaustion in the European Union: Community-Wide or International? The Saga Continues*, 6 MARQ. INTELL. PROP. L. REV. 47, 47–48 (2002).

[74] STEPHEN WEATHERILL & P.R. BEAUMONT, EU LAW 978 (3d ed. 1999).

[75] *Id.* at 981.

[76] *Id.* at 980.

[77] *Id.*

[78] *Id.* at 980, 983, 990.

[79] Susan Singleton, *Matters of Import*, 4 SUPPLY MGMT. 45, 45 (1999).

right to block the free movement of goods. Generally, a violation of Article 102 requires that the intellectual property right holder establish a dominant position in the market and that there is an intentional abuse of the dominant market position.[80] In summation, as it has been argued by academics, "EU competition law views all licenses as 'guilty until proven innocent.'"[81]

Intellectual property rights are limited to the territoriality principle unless an international treaty extends those rights across national borders.[82] The territoriality principle in an important component of the concept of a common market requiring the free movement of goods in that an intellectual property owner can only assert rights within the member state that grants the rights, but not beyond that member state's borders.[83] Although all member states have accepted the notion of national exhaustion of intellectual property rights, the new battleground seems to be whether member states should recognize the international exhaustion of intellectual property rights.[84] The doctrine of international exhaustion, if adopted, will allow for the exhaustion of intellectual property rights when the right holder has voluntarily placed the protected goods anywhere in the world and the set of rights held will be unenforceable in all countries regardless of whether the countries involved in the dispute recognized those rights.[85] Today, there is evidence that member states are pushing for rules allowing for greater international exhaustion of intellectual property rights.[86] Recently, however, the European Parliament rejected the Anti-Counterfeiting Trade Agreement ("ACTA") despite the fact that all twenty-seven member states had approved the pact.[87] The ACTA would make it a criminal offense to engage in trademark and copyright infringement.[88]

Although international exhaustion is not the dominant theory, it seems as if the ECJ and the European Commission have gone as far as adopting a form of "regional exhaustion" or "Community-based exhaustion" that allows for the exhaustion of intellectual property rights once the protected good or service is voluntarily placed anywhere in the EU.[89] However, there are limitations to the free movement of goods, such as in cases whereby the protected goods have been stolen and moved across international borders.[90] In fact, at the time of this writing,

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[80] WEATHERILL & BEAUMONT, *supra* note 74, at 974.

[81] Sara M. Biggers et al., *Intellectual Property and Anti-Trust: A Comparison of Evolution in the European Union and United States*, 22 HASTINGS INT'L & COMP. L. REV. 209, 228 (1999).

[82] CHOW & SCHOENBAUM, *supra* note 3, at 200.

[83] Guido Westkamp, *Intellectual Property, Competition Rules, and the Emerging Internal Market: Some Thoughts on the European Exhaustion Doctrine*, 11 MARQ. INTELL. PROP. L. REV. 291, 292–93 (2007).

[84] Calboli, *supra* note 73, at 49.

[85] *Id.*

[86] *Id.* at 50.

[87] James Fontanella-Khan, *EU Rejects Anti-Piracy Pact*, FIN. TIMES (July 5, 2012, 10:19 AM), http://www.ft.com/intl/cms/s/0/211a64e0-c5e0-11e1-a5d5-00144feabdc0.html#axzz2G7DCnG4A.

[88] Stanley Pignal, *Latest Pact on Internet Piracy Set to be Derailed*, FIN. TIMES (Feb. 9, 2012, 8:31 PM), http://www.ft.com/intl/cms/s/2/a52f57ec-533d-11e1-aafd-00144feabdc0.html#axzz2AksbYBDV.

[89] Calboli, *supra* note 73, at 49.

[90] Rebecca Eisner, Lei Shen, & Marina G. Aronchik, *Clear Skies or Stormy Weather for Cloud*

the European Commission is considering adopting criminal penalties for violations of intellectual property rights.[91]

The ECJ and European Commission have been challenged to harmonize this body of law, which requires substantive, nationally-granted intellectual property rights to fit into the mold of Treaty Articles 34, 36, 56, 101, and 102.[92] This challenge is even more intense in regard to technology transfer across borders.[93] However, the theory of "Community-wide" exhaustion of intellectual property rights has become the standard for most international trade agreements that address these rights.[94] But because intellectual property rights are so sensitive, most international agreements, if they address intellectual property rights, are silent on issue of exhaustion.[95] Article 6 of the Trade-Related Aspects of Intellectual Property Rights specifically states that Articles 3 and 4, which pertain to the all-important concepts of "national treatment" and "Most-Favored-Nation Treatment," are not to include the concept of exhaustion of intellectual property rights.[96] The ACTA does not address exhaustion and plainly states that members to that agreement need not create special rights or obligations beyond the scope of its domestic law.[97] The EEA Agreement specifically stated that all member states to that agreement must adjust their domestic laws to provide for "regional exhaustion."[98] Therefore, "Community-wide" exhaustion principles apply to all thirty member states that make up the EEA.[99]

B. The Exhaustion of Rights Doctrine in Case Law

The EU was just over two decades old when the ECJ rendered a far-reaching opinion in *Donckerwolcke v. Procureur* that solidified the concepts of both non-discrimination and the free movement of goods.[100] In a case with ramifications for all intellectual property rights, but with a particular focus on trademark requirements, the ECJ held that importing member states cannot require a country of origin indication beyond the member state country that serves as the exporting state.[101]

Computing? Critical Privacy and Security Contracting Issues for Customers of Cloud Computing, 1060 PLI/PAT 393, 414 (2011).

[91] Chaisse, *supra* note 21, at 60–61.

[92] CHOW & SCHOENBAUM, *supra* note 3, at 200.

[93] *Id.* at 201.

[94] Alexander B. Pope, *A Second Look at First Sale: An International Look at U.S. Copyright Exhaustion*, 19 J. INTELL. PROP. L. 201, 216 (2011).

[95] *Id.* at 230.

[96] Agreement on Trade-Related Aspects of Intellectual Property Rights, Annex 1C, Apr. 15, 1994, 1869 U.N.T.S. 299 (1994).

[97] *Fact Sheet: Anti-Counterfeiting Trade Agreement*, OFF. U.S. TRADE REPRESENTATIVE (2007), http://www.ustr.gov/sites/default/files/asset_upload_file122_13414.pdf. *See generally* Aaron Shaw, *The Problem with the Anti-Counterfeiting Trade Agreement (and What to Do About It)*, 2 KNOWLEDGE ECOLOGY STUDY 1 (2008).

[98] Pope, *supra* note 94, at 216.

[99] Calboli, *supra* note 73, at 509.

[100] Case 41/76, Donckerwolcke v. Procureur de le Republique, 1976 E.C.R. 1921, 1941.

[101] *Id.* ¶ 19, at 1935.

In *Donckerwolcke*, Belgian merchants had obtained synthetic cloth that was originally derived from Syria and Lebanon and then imported the goods into France with only a country of origin indication of Belgium.[102] The French government prohibited the merchants' attempt at importation since the import certificate did not state Syria or Lebanon.[103] The merchants were charged criminally under French law.[104] The case was referred to the ECJ by the French court hearing the appeal.

According to the ECJ, the French requirement that the "originating" country of origin be indicated on the imported goods violated Article 34's prohibition on the domestic laws that restrict trade between member states.[105] The ECJ flatly stated that the only possible obligation that can be imposed on an importer of goods that have been freely placed within the EU is to identify the member state that serves as the exporting country and that a member state cannot set requirements on an importer to declare an origin other that what it knows or should know.[106]

In addition to a violation of Article 34, the ECJ also found that the French law violated Article 28, which prohibits member states from adopting rules intending to create different rules for products with regard to their country of origin and depending upon whether the goods originated from a member state or a non-member state.[107] The Court reasoned that the assimilation of goods freely placed in the EU are to be designated as in "free circulation" and must be subject to the same rules in regard to the TFEU regardless of whether they were manufactured or garnered originally inside or outside the EU.[108]

However, counterfeited goods originating from an external country are not afforded the same protections. Article 207 of the TFEU was the source of Regulation 3295/94, a predecessor to Regulation 1383/2003, which prohibits the release for "free circulation" of goods that are counterfeit or pirated.[109] In *Polo/Ralph Lauren v. Dwidua*, the ECJ made several important statements about the enforcement power of a member state's customs authority under Regulation 3295/94.[110]

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102 *Id.* ¶ 2.

103 *Id.*

104 *Id.*

105 *Id.* ¶¶ 41, 42.

106 *Id.*

107 *Id.* ¶ 21. Article 28 states:

> 1. The Union shall comprise a customs union which shall cover all trade in goods and which shall involve the prohibition between Member States of customs duties on imports and exports and of all charges having equivalent effect, and the adoption of a common customs tariff in their relations with third countries.
>
> 2. The provisions of Article 30 and of Chapter 2 of this Title shall apply to products originating in Member States and to products coming from third countries which are in free circulation in Member States.

TFEU art. 28.

108 *Donckerwolcke*, 1976 E.C.R. at 1935–36.

109 TFEU art. 207.

110 Case C-383/98, Polo/Lauren, L.P. v. PT. Dwidua Langgeng Pratama Int'l Freight Forwarders,

In *Polo/Ralph Lauren*, Dwidua, an Indonesian-based clothing manufacturer was accused by Polo/Ralph Lauren of importing into Austria, and then Poland, clothing items that violated both verbal and pictorial trademarks owned by the latter.[111] After a favorable decision by the Austrian court, Polo/Ralph Lauren requested that the clothing items be seized by the Austrian authorities and then later destroyed at Dwidua's expense.[112] However, the Austrian court was unsure as to whether it has jurisdiction to apply Regulation 3295/94 because the counterfeit goods were moving from a non-member state to a member state, and then on to another non-member state and thus the Austrian government only had "temporary custody" of the goods.[113]

According to the ECJ, Regulation 3295/94 allows an owner of intellectual property rights to file a complaint with the customs authority of the member state that comes into contact with the pirated or counterfeit goods when the right holder suspects that the goods are pirated or counterfeit, and requires that the right holder provide the member state's customs authority with all pertinent knowledge about both the intellectual property rights and the actions of the infringing party.[114] The member state's customs authority has the power to seize the goods accused of infringement on its own initiative or can seize the goods upon receipt of the right holder's written complaint.[115] However, the determination of whether the goods are infringing-upon the intellectual property rights of the right holder are based on the domestic law on the member state that has effectively seized the goods.[116]

Three key statements about the power of the EU and its member states to combat infringement of intellectual property rights were made by the European Court of Justice in the *Polo/Ralph Lauren* case. First, the ECJ stated that Regulation 3295/94 was designed to prevent the transit of infringing goods even if their journey began in a non-member state, continued through a member state, and were subject to a final destination in another member state.[117] Second, the Court stated that the domicile of the right holder was irrelevant in regard to Regulation 3295/94, and thus, irrelevant to a member state's enforcement power.[118] Third, and related to the first statement, a member state's customs authority does not face a limitation in power if the goods passing through the EU are not subject to import duties or other charges.[119] It also bears mention that the ECJ also took into account the duty of member states to combat intellectual property infringement under the Trade-Related Aspects of Intellectual Property Rights ("TRIPS")

2000 E.C.R. I-2519, I-2522.

[111] *Id.* ¶ 16, at I-2526.

[112] *Id.* ¶ 18.

[113] *Id.* ¶ 20. At the time the case was heard by the ECJ, Poland was not a member of the European Union. Poland entered in 2004.

[114] *Id.* ¶¶ 6–7.

[115] *Id.* ¶ 9.

[116] *Id.*

[117] *Id.* ¶ 27.

[118] *Id.*

[119] *Id.* ¶ 26.

agreement.[120]

The *Donckerwolcke* and *Polo/Ralph Lauren* cases make it clear that goods coming from outside the EU can present unique problems. The ECJ wrestled with another, challenging case involving goods that were believed to be infringing upon trademark rights but originated from outside Europe in *Class International BV v. Colgate-Palmolive Company* ("Beecham").[121] Class International was a Netherlands-based warehousing firm that brought into the EU toothpaste products that it purchased from a South African exporter with the "Aquafresh" trademark, which is owned by Beecham and registered by Beecham at the Benelux Trade Mark Office.[122] Beecham had been informed that the toothpaste products were counterfeit and petitioned the Dutch government to seize and search the products.[123] The Dutch government complied with the request.[124] However, after an examination of the products, the products were deemed to not to be counterfeit and Class International petitioned the Dutch government for both release of the goods and an order against Beecham to pay for costs suffered due to the seizure of the goods and the Dutch government then referred the case to the ECJ.[125]

Again, the Court stated that Article 28 of the Treaty requires that once goods originating from outside the EU are released for "free circulation" they become "Community goods" and Article 29 of the Treaty requires that goods coming from non-EU member states are placed into free circulation once all import formalities have been complied with and all customs duties and taxes have been satisfied.[126] Two additional provisions of EU law were at question as well, including Directive 89/104/EEC and Regulation 40/94. Directive 89/104/EEC provides that registered trademark holders have exclusive rights to their marks that are placed in the course of trade and such holders may prohibit the sale, marketing, or importation of infringing goods.[127] The same Directive, however, does not allow a trademark holder to prohibit the use of its mark when the trademarked goods have been placed on the market in the EU with the holder's consent.[128] Regulation 2913/92 creates the EU's external transit procedure that allows non-EU goods to move through the EU without being subject to import duties and other charges.[129]

Class International's first contention was that the toothpaste products that it

[120] *Id.* ¶ 32.

[121] Case C-405/03, Class Int'l BV v. Colgate-Palmolive Co., 2005 E.C.R. I-8735.

[122] *Id.* ¶¶ 13–14, at I-8767.

[123] *Id.* ¶ 15.

[124] *Id.*

[125] *Id.* ¶¶ 16, 17.

[126] *Id.* ¶ 38. Article 29 states:

> Products coming from a third country shall be considered to be in free circulation in a Member State if the import formalities have been complied with and any customs duties or charges having equivalent effect which are payable have not benefited from a total or partial drawback of such duties or charges.

TFEU, art. 29.

[127] *Class Int'l BV*, 2005 E.C.R. ¶ 3 at I-8763–64.

[128] *Id.* ¶ 5.

[129] *Id.* ¶ 10.

possessed were not being "imported" but were rather "in transit" at the time the goods were brought into the EU and also that, at the time the goods were seized, Class International did not have a purchaser.[130] Class International also suggested that the mere placing of the goods in a warehouse for external transit did not constitute an act of using the trademark in the course of trade to which a trademark holder could prohibit the further movement of the goods.[131]

The ECJ agreed with Class International and held that the mere warehousing of trademarked goods pursuant to the external transit procedure would not allow a trademark holder to prohibit the movement of trademarked goods through the EU by exercising trademark rights under Directive 89/103/EEC.[132] The ECJ also stated that the mere fact that the trademarked goods were warehoused does not mean that they are being "imported," nor are the trademarks being used in the course of trade, so long as the importer has not informed the member state's customs authority that it intends to release the goods into free circulation.[133] According to the Court, it does not matter that there is a mere chance that these trademarked products might later be released for free circulation and thus the trademark holder cannot prohibit Class International from bringing the goods into the EU.[134] The ECJ flatly stated that the only way in which a trademark holder can block goods from further transit and/or importation is if the possessor-importer of the goods has made an express offering for sale of the goods.[135]

One last question needed to be resolved by the ECJ in *Class International*. Class International asserted that the party who claims that the trademarked goods infringed their rights provided in Directive 89/103/EEC bears the burden of proof on this issue.[136] In contrast, Beecham stated that the trademark holder should only have to prove interference with the mark and, once this is established, the burden should shift to the alleged infringing party as to whether infringement of rights under the Directive occurred.[137] The Court held that the burden of proof to establish a violation of rights under the Directive should be placed on the trademark holder and not on the alleged infringing party.[138] The ECJ furthered its remark by indicating the need for a Directive on this particular issue, and for EU law generally, warning against a condition whereby, if there were no Directive, member states could individually apply the burden of proof, leading to much variety in the law.[139]

Switzerland is located in the heart of the European continent, but is not part of the EU or part of the EEA. Instead, it sits alone as the one country in the

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130 *Id.* ¶¶ 17–21.
131 *Id.* ¶ 29.
132 *Id.* ¶¶ 44, 50.
133 *Id.* ¶ 44.
134 *Id.* ¶ 59.
135 *Id.* ¶ 61.
136 *Id.* ¶ 63.
137 *Id.* ¶ 64.
138 *Id.* ¶ 75.
139 *Id.* ¶ 73.

European Free Trade Area not incorporated into either club. In *Kodak AG v. Jumbo Markt AG*, the Swiss Federal Court decided that Swiss law was also not incorporated into the law of either larger club.[140]

Kodak AG ("Kodak") held a Swiss patent on film and began selling that film in the United Kingdom, a country that is also a member state of the EU and the EEA.[141] Jumbo Markt AG had obtained the film and attempted to bring it into Switzerland through a parallel import scheme. Kodak attempted to block the sale of the film in Switzerland through the assertion of its Swiss patent rights.[142] While deciding that Kodak could prohibit the parallel import via Swiss patent rights, the Swiss Federal Court wrote at length discussing the differences among the types of intellectual property rights and the differences among the law in European countries.[143]

What made the *Kodak* decision difficult for the Swiss Federal Court was the reality that Swiss statutory law did not address whether Swiss patent rights were subject to national exhaustion or international exhaustion.[144] After examining the law of its European neighbors, the Swiss Federal Court made several conclusions about the status of intellectual property rights and the exhaustion of those rights. First, the Swiss Federal Court believed that Swiss law was in harmony with the doctrine of national exhaustion which, according to the Court, was the dominant legal theory. On the other hand, international exhaustion was a newer legal theory and thus a separation of legal theory between Switzerland and the EU was possible.[145] Second, the Swiss Federal Court decided that although there is a movement to treat all intellectual property rights similarly in regard to exhaustion, there is reason to treat patent rights on the one hand differently from copyright and trademark rights due to the different functions they serve and the intellectual achievements they recognize.[146] The Swiss Federal Court found that copyright protection served to meet aesthetic concerns of the creator while patent rights served to meet every day needs and trademark rights served only to allow for product identification.[147]

The Swiss Federal Court also summarized what it believed to be the status of ECJ jurisprudence on the exhaustion principle. According to the Swiss Court, the ECJ has always preferred the free movement of goods to national exhaustion rules and has treated all intellectual property rights in similar fashion.[148] However, the Swiss Federal Court believed that, individually, the member states of the EU were of different beliefs in regard to national exhaustion principles and, thus, there was no uniform theory on the continent that all intellectual property rights should be

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[140] Bundesgericht [BGer] [Federal Supreme Court] Dec. 07, 1999, [2001] European National Patent Reports [E.N.P.R.] 11 (Switz.).

[141] *Id.* ¶ 66.

[142] *Id.*

[143] *Id.*

[144] *Id.* ¶ 65.

[145] *Id.* ¶¶ 23, 24.

[146] *Id.* ¶¶ 32–35.

[147] *Id.* ¶ 34.

[148] *Id.* ¶¶ 42, 43.

addressed similarly in regard to exhaustion.[149] The Swiss Court did not believe that uniformity on the subject had been achieved through the TRIPS Agreement.[150]

Seemingly because of this lack of harmony on the European continent, the Swiss Federal Court held that the holder of a Swiss patent should be able to prohibit the introduction of a protected product into Switzerland even if that patent holder had voluntarily placed the product in the international market place.[151] The Swiss Federal Court felt no obligation to hold otherwise since there was no agreement in place between Switzerland and the EU.[152]

C. Analysis of the Exhaustion of Rights Doctrine.

The exhaustion of rights doctrine is designed to limit the ability of member states to enact barriers to the free movement of goods, even in regard to intellectual property rights. The exhaustion of rights doctrine, as interpreted and applied by the ECJ, seems to be an effective check against the ability of a member state to use domestic intellectual property rights to promote domestic sales. However, some risks do exist even given the existing law.

The *Donckerwolcke* case is quite illustrative. The French government certainly had an incentive to require country of origin labels on goods imported from other countries in order to spur consumer sentiment against imports. However, if the goods were directly from Belgium, the anti-import sentiment would not be as nearly significant in comparison from goods from the Middle East. One could only imagine that French consumers might not fret about purchasing goods from their close cousins, the Belgians, but might rebel against purchasing goods from a third world, non-European country if those same goods competed with domestically produced equivalents.

The ruling in *Donckerwolcke* also reveals a risk to those who manufacture goods within the EEA. The ECJ essentially allows goods to "pass through" member states when the goods are originally made in a non-EEA member state and only be subject to a country of origin label designating the EU member state. Thus, consumers would not likely know from what country the goods originated. This, in turn, would allow importers and exporters the ability to get low-cost goods into the EU if a member state with lax import rules will allow entry of the goods.

Although the ECJ has made it clear, in the cases above and below, that substantive intellectual property law is domestic law and suffers from a lack of harmony. The *Polo/Ralph Lauren* case illustrates a potential problem regarding the enforcement of Article 34 in that, since standards for infringement are domestic, member states can have different standards for what constitutes patent, trademark, or copyright infringement. Therefore, according to the *Polo/Ralph Lauren* case, member states collectively may have different standards by which goods may be seized. Thus, member states may have an incentive to craft their

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149 *Id.* ¶ 47.
150 *Id.* ¶ 57.
151 *Id.* ¶ 60.
152 *Id.* ¶ 65.

infringement standards that allow for foreign goods to be seized more often making importation more challenging.

There are only two limitations on this practice. First, any infringement standard must apply equally to goods be they manufactured domestically or in another member state. The second is found in the *Class International* case where the ECJ held that goods seized due to infringement concerns must be placed in "free circulation" inside the member state attempting to seize them and merely moving them through the member state is not placing the goods in "free circulation."

The *Kodak* case poses another threat to the harmonization of "European" free movement of goods. The EU is made up of only twenty-seven of Europe's countries and the EEA is made up of an additional three countries. Therefore, a European country not part of the EU is free to draft and enforce intellectual property law as it wishes. It remains a question as to whether countries not in the EEA will continue to adopt national exhaustion principles that allow for the blocking of imported goods even if they are voluntarily placed in the market. Firms wishing to operate on the European continent must make sure that they secure intellectual property rights in all countries in which they do business. They may also take the *Kodak* case as signifying that they can block parallel imports into non-EEA countries that adhere to national exhaustion principles.

IV. INTELLECTUAL PROPERTY RIGHTS AND BARRIERS TO THE FREE MOVEMENT OF GOODS

A. Free Movement, Competition, and Patents

1. Case Law

a. Parallel Imports

One of the first cases involving the balance between intellectual property rights and trade restraint to reach the ECJ was *Parke, Davis & Co. v. Probel*.[153] The plaintiff, Parke-Davis, was an American company that held patents granted by Dutch law on a chemical and biological process called chloramphenicol, which is used to create antibiotics.[154] Several defendant firms bought, marketed, and resold the products made from the process without the permission of the plaintiff and asserted as a defense Articles 101 and 102.[155] The defendants argued that the exercise of patent rights under Dutch law by the plaintiff was an agreement in violation of Article 101, as an agreement that restricted trade, and a violation of Article 102 in that the plaintiff was abusing a dominant position.[156]

The ECJ made two separate rulings on the issues arising from Articles 101

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[153] Case 24/67, Parke, Davis & Co. v. Probel, 1968 E.C.R. 55, 55.
[154] *Id.* at 56.
[155] *Id.*
[156] *Id.*

and 102, both to the favor of the plaintiff.[157] First, that Articles 101 and 102 are not violated merely because one asserts their rights under patent law.[158] More specifically, the ECJ ruled that a violation of Article 102 requires abuse of the dominant position that is incompatible with the common market.[159] Second, the ECJ stated that Article 36 justifies some restrictions in order to protect intellectual property, subject only to the limitations prescribed in Articles 34 and 35.[160] In the end it was Article 36 that served as the balance against Articles 34, 35, 101 and 102 as the Court held that neither Article 101 nor Article 102 of the TFEU prevents the holder of a patent granted by a member state from claiming on the basis of his patent right an injunction against the import of the protected products from another member state in which the products and their manufacturing process are not patentable.[161]

In *Merck & Co. v. Stephar BV*,[162] the ECJ went as far as calling the free movement of goods within the territory of the member states a "guarantee."[163] In this case, Merck had patented its hypertension drug, Moduretic, in all member states except Luxembourg and Italy.[164] In Italy, it was unable to obtain a patent due to Italian Constitutional restrictions existing from the 1960s.[165] However, Merck still sold its drug in Italy.[166] The defendant, Stephar, purchased the drug in Italy in large quantities and resold them in the Netherlands at a much lower price than Merck's price for the same drug in the same market.[167] Merck asserted its Dutch patent right seeking to block Stephar's importation of Merck's drug for sale into the Netherlands.[168] The ECJ ruled that Merck's effort was incompatible with

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[157] *Id.* at 57–59.

[158] *Id.* at 57.

[159] *Id.* at 58. The ECJ held:

> [I]n other words, the dominant position on the market must be used as a means of obtaining a certain end. One wonders whether that can be the case when the national patent right is exercised, given that the latter is solely determined by the objective legal situation and not by the position which the patentholder [sic] occupies on the market.

Id.

[160] *Id.* at 63.

[161] *Id.* at 64. The ECJ added:

> As regards the provisions relating to the free movement of products, prohibitions and restrictions on imports may be justified under Article 36 on grounds of the protection of industrial property, but subject to the expressly stated reservation that these "shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States." For similar reasons, the exercise of the rights arising under a patent granted in accordance with the legislation of a Member State does not, of itself, constitute an infringement of the rules on competition laid down by the Treaty.

Id. at 71.

[162] Case 187/80, Merck & Co. v. Stephar BV, 1981 E.C.R. 2063.

[163] *Id.* at 2070.

[164] *Id.* at 2065.

[165] *Id.* at 2065–66.

[166] *Id.* at 2066.

[167] *Id.*

[168] *Id.* at 2075.

EU law.[169]

The Court granted Merck little sympathy since it was not able to secure a patent and was already marketing and selling its pharmaceutical in Italy. Throughout the case, the ECJ cited several opinions on the issue concerning a balance between Articles 36 on the one hand and Articles 34 and 35, on the other hand.[170] Advocate General Reischl's lack of sympathy may have rested on its assertion of what a common market requires, including:

> [T]hat it is one of the fundamental principles of a common market that any product which has been lawfully put on the market in a Member State must be allowed to circulate freely within the Community, unless the protection of a right or interest which is recognized in the Community legal order as being of greater value requires [otherwise].[171]

Advocate General Reischl also contended that there is very little link between "patentability and price levels."[172] The ECJ stated that there were several other price factors that play a role in the price of pharmaceuticals.[173]

In *Pharmon BV v. Hoeschst AG*, Advocate General Mancini of the ECJ gave one of its best explanations of the balance between Article 30 (ex 36), that provides protection for intellectual property, and Articles 34, 35, 101, and 102, which ensure the free movement of goods that may be at some level protected by national patent, trademark, or copyright law.[174] Hoeschst, holding a patent for the pharmaceutical "frusemide" in three member states, including the United Kingdom, Germany, and the Netherlands, signed a licensing agreement with a DDSA, a British firm, that allowed DDSA the sole ability to manufacture, import, and sell frusemide in the United Kingdom.[175] Shortly before the patent was to extinguish in the United Kingdom, DDSA violated the agreement by selling the pharmaceutical to Pharmon, a Dutch firm, whereby it was clear that Pharmon desired to penetrate the Netherlands market.[176] Hoeschst immediately moved to assert its patent, under British law, and the associated licensing agreement to block Pharmon's move into the Netherlands with Hoeschst's patented pharmaceutical.[177]

The Advocate General made three general and helpful pronouncements about the balance between intellectual property protection and trade restraint. First, the ECJ defined the principle of territoriality by stating, "That principle

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[169] *Id.* at 2078.

[170] This includes joined Cases 55/80 and 57/80, Musik-Vertrieb Membranmembran GmbH v. Gema 1981 E.C.R. 147; Case 24/67, Parke-Davis v. Probel, 1986 E.C.R. 55; Case 119/75, Terrapin (Overseas) Ltd. v. Terranova Industrie CA Kapferer & Co., 1976 E.C.R. 1039; Case 78/70, Deutsche Gammophon Gesellschaft mbH v. Metro-SB-Grossmarkte GmbH, 1971 E.C.R. 487; Case 187/80 Merck & Co. v. Stephar BV, 1981 E.C.R. 2063.

[171] *Merck & Co.*, 1981 E.C.R. at 2089.

[172] *Id.* at 2091.

[173] *Id.* The Court cited "cost of raw materials and wages, normal profit margins, the cost of packaging, distribution of the medicines, research expenditure and other special factors." *Id.*

[174] Case 19/84, Pharmon BV v. Hoechst AG, 1985 E.C.R. 2281.

[175] *Id.* at 2282–83.

[176] *Id.* at 2283.

[177] *Id.*

means that Community law cannot confer on the holder of a compulsory licence [sic] rights which may also be relied on in the territory of other [s]tates."[178] In other words, it is not the responsibility of the EU to create rights for patent holders outside of the state that grants those rights. Second, the Advocate General, while citing *Centrafarm v. Sterling Drug Inc.*,[179] stated that Article 36 allows for some derogation from the general principle that the law of member states cannot be used to limit the free flow of goods across the borders of member states.[180] Third, the Advocate General described the principle of exhaustion or "extinction" of rights. The Advocate General stated:

> [I]ncorporated into "the body of Community law" the principle that rights and powers deriving from a patent are extinguished, and therefore may no longer be relied upon, when the protected product has been marketed—by the patent proprietor with his consent—in every country in the Community. The reasons which led the Court to adopt that rule (known as the "exhaustion of the exclusive rights") were set out in the judgment in *Merck*.[181]

Having stated those three principles, the ECJ still had to wrestle with the decision at hand. The Court found that Hoeschst could exercise its patent rights to block the introduction of the patented drug by Pharmon into the Netherlands since Hoeschst never gave consent for the product to be introduced into the Netherlands.[182] The key fact relied upon the Court in finding that Article 36 could protect Hoeschst's rights was that the license agreement did not allow DDSA to do anything but operate in the United Kingdom. However, the ECJ left open the possibility that Hoeschst could not assert its rights to block the introduction of the drug if the firm had in some way consented to its marketing in the Netherlands.[183]

b. Compulsory Licensing

Article 34 has also been asserted by the Court to bar the practice of national authorities using their discretion to selectively choose those who might obtain a license for the right to import patented products.[184] In *Generics (UK) Ltd. v. Smith Kline & French Laboratories Ltd.*, the ECJ ruled that the British government could not carve out of Article 36 an exception to Article 34 to allow its Comptroller the power to grant a license of right to import patented products into the United Kingdom from both member and non-member states.[185] Pursuant to the British Patents Act of 1977, the Comptroller could be petitioned to settle conflicts between firms on the issue of licensing for sale patented products when the raw materials

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178 *Id.* at 2286.

179 Case 15/74, Centrafarm v. Sterling Drug Inc., 1974 E.C.R. 1147.

180 *Pharmon BV*, 1985 E.C.R. at 2287–88.

181 *Id.* at 2288.

182 *Id.* at 2289.

183 *Id.*

184 Case C-191/90, Generics (UK) Ltd. v. Smith Kline & French Labs Ltd., 1992 E.C.R. I-5335. Article 34 was formerly Article 28.

185 *Id.* at I-5375, 5370.

required for the patented product were made in other member states.[186] In question here was the right to import the pharmaceutical "Cimetidine" whose raw materials were imported into the United Kingdom, where the product was finalized and then marketed inside the United Kingdom, in other member states, and in non-member states.[187] Generics and Harris, two pharmaceutical firms, could not agree with Smith Kline & French Laboratories on a licensing agreement and petitioned the British Comptroller for a resolution.[188] The Comptroller denied the license, and the British Patents Court upheld the Comptroller's decision.[189]

The ECJ treated the raw material of Cimetidine as if it were a finished product in regard to whether Article 34 applied and in doing so ruled that the Patents Act created the potential for a quantitative restriction for which Article 36 could not save.[190] The Court was firm in that the British Comptroller could not exercise its discretion to limit the importation of the raw material into the United Kingdom from both member and non-member states.

c. EU Law Supplemental to National Law

Article 114(1) allows the European Council to write regulations to harmonize law across the several member states in order to further the operations of the common internal market.[191] In *Spain v. Council of the European Union*, the Spanish government challenged the ability of the EU to write supranational laws, in the form of regulations, in the field of patent law.[192] Here, Spain contested Regulation 1768/92, which created a "supplementary protection certificate" for medical products that were subject to a national law patent right in order to give those medicinal producing firms an extended time period of protection.[193] The European Council, invoking its powers under Article 95(1), promulgated the regulation upon evidence that the bulk of medicinal research was being conducted in the United States and Japan because of the more favorable intellectual property protection afforded by those countries.[194] The problem that medicinal research firms faced was that although the patent for the product could be obtained relatively quickly, the license to market the product took longer and thus the real

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186 *Id.* at I-5369, 5371.

187 *Id.* at I-5357, 5370.

188 *Id*.

189 *Id.* at I-5370–71.

190 *Id.* at I-5370.

191 Article 114(1) (formerly Article 91(1)) of the Treaty states:

> Save where otherwise provided in the Treaties, the following provisions shall apply for the achievement of the objectives set out in Article 26. The European Parliament and the Council shall, acting in accordance with the ordinary legislative procedure and after consulting the Economic and Social Committee, adopt the measures for the approximation of the provisions laid down by law, regulation or administrative action in Member States which have as their object the establishment and functioning of the internal market.

TFEU art. 114(1).

192 Case C-350/92, Spain v. Council of the European Union, 1995 E.C.R. I-1985, I-1988.

193 *Id.* at I-2000.

194 *Id.* Article 95(1) was formerly Article 100(a).

time of the patent was shorter.[195] The EU Council believed that the only way to improve the condition of medical research in the EU member states was to create the supplemental certificate that would attach to the national law-granted patent.[196]

Spain challenged the regulation, arguing that the EU did not have the power to regulate commercial and industrial property pursuant to Article 36, which gives the member states the ability to protect such property.[197] Although Spain cited several cases in support of its position,[198] the Court stated, "The case-law has not excluded the possibility of the Community determining by legislation the conditions and rules regarding the protection conferred by industrial property rights, should such action prove necessary in pursuing its objectives."[199] The ECJ further stated that since the supplementary certificate was in addition to the patent, the latter of which is the sole province of national law, the EU Council was not infringing upon Article 36.[200]

d. Language Requirements

One can only imagine that in a trading bloc with twenty-seven member states, it is likely that differences in languages can inhibit the trade of products possessing intellectual property rights. In *BASF AG v. Prasident des Deutschen Patentamts*, the ECJ upheld a provision requiring that patent applications be filed in the member state's language against a claim by a patent holder that such a rule violated Articles 34 and 36 of the TFEU.[201] Pursuant to the European Patent Convention ("EPC"), if the owner of a patent seeks patent protection in one of the EPC member states, the applicant must file an application in the language of the particular country in which the applicant seeks protection.[202] If the applicant does not submit an application translated into the language of the EPC member state to which the applicant seeks protection within three months of filing with the European Patent Office, the country in which the applicant sought protection can declare the application void *ab initio*.[203] BASF, the owner of a patent for a paint sealer for automobiles, after having been told by the German government that the patent would not be valid in Germany because the firm did not file an application in German, argued that the EPC's language requirement amounted to a restriction that was not compatible with Articles 28 and 30.[204]

Specifically, BASF contended that the costs of translating applications is so high that firms seeking intellectual property protection are forced to choose carefully the member states to which patent protection is realized and thus the

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[195] *Id.*
[196] *Id.* at I-2001–02.
[197] *Id.* at I-2009–11.
[198] *Id.* at I-1990–91.
[199] *Id.* at I-2010.
[200] *Id.* at I-2010–11. Article 36 was formerly Article 30.
[201] Case C-44/98, BASF AG v. Präsident des Deutschen Patentamts, 1999 E.C.R. I-6269, I-6290, I-6292, I-6293, I-6297.
[202] *Id.* ¶ 5, at 6290.
[203] *Id.* ¶ 6.
[204] *Id.* ¶ 11.

patent applicant will unfairly lose protection in some EU member states.[205] BASF also argued that the language requirement forced an intolerable division of the European market in the face of Articles 28 and 30 by way of a property protected zone and a free zone whereby any innovator can copy the patented product.[206] According to BASF, there were two disastrous consequences of the division—that licensees and competitors in the free zone would commit an act of infringement if they exported the patented product from the protected zone into the free zone and that the patent holder would be unable to market the protected goods in the free zone for fear of a parallel import that would threaten the higher prices in the protected zone.[207]

While finding no violation of Articles 34 or 36, the ECJ stated that the expense associated with filing a patent application in the appropriate language is just one of several factors, among many others, that a patent applicant must consider in determining in which countries to establish patent rights.[208] The Court did not find the language requirement, or the consequences of the language requirement, to be a true obstacle to intra-EU trade.[209]

e. Licensing Agreements

In most instances, Articles 34, 36, 101, and 102 work together to promote the free movement of goods protected by intellectual property rights across the EU member states. However, in *Bayer AG v. Heinz Süllhöfer*, the ECJ found a point of contention between Articles 34 and 101.[210]

The facts of the case are compelling. Bayer AG had obtained a patent for a process to manufacture panels and sheeting made up of foam materials and Süllhöfer had obtained a patent for a conveyor-belt system to manufacture foam-based panels.[211] Bayer AG, Süllhöfer, and a third firm, Hennecke, had engaged in a lengthy litigation process that was initially concluded by an agreement involving all three parties.[212] Under the agreement, Süllhöfer granted Bayer AG and Hennecke a non-exclusive, free license to use its patented technology and the ability to sub-license the technology, in addition to rights to other protected property held in other member states.[213] In return, Bayer AG granted a non-exclusive, non-transferable license to its foam panel technology, waived any claims of infringement by either Süllhöfer or Hennecke, and agreed not to challenge the validity of the Süllhöfer patent.[214] The agreement, which had provisions for royalties among the parties, effectively ended the litigation.

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205 *Id.* ¶ 12.
206 *Id.*
207 *Id.* ¶ 13.
208 *Id.* ¶ 18. Article 34 was formerly Article 28.
209 *Id.* ¶ 19.
210 Case 65/86, Bayer AG v. Heinz Süllhöfer, 1988 E.C.R. 5249, 5285.
211 *Id.* ¶ 3, at 5283.
212 *Id.* ¶ 4.
213 *Id.* ¶ 7.
214 *Id.*

However, after Süllhöfer indicated a desire to terminate the agreement, the German courts were asked to determine whether the no-challenge clause in the agreement violated Articles 34 and 101 as an agreement that would limit the free movement of goods within the EU.[215] Although the German court referred the matter to the ECJ on grounds involving both Article 34 and 101, the Court stated the case should be decided on grounds involving Article 101 and not Article 34 since the agreement, a contract among private parties, does not amount to national legislation that has enacted a barrier limiting the free movement of goods.[216]

The Court's jurisprudence did not end with the simple division between Articles 28 and 81 and indeed the ECJ made several important pronouncements about the impact of Article 81. First, the Court stated that an agreement that includes a "no-challenge clause" among parties supported by intent to end litigation does not infringe Article 101 so long as there are no other clauses restricting competition.[217] Second, and related, the ECJ commented that Article 81 does not create distinctions between agreements designed to end litigation and other agreements without such intent.[218] Third, and in contrast, the ECJ stated that if the agreement in any way limited the freedom of action any of the parties, and the same provision restricting freedom also restricted competition, Article 81 would be infringed.[219]

Domestic courts also have had the opportunity to weigh in on the balance between intellectual property rights and the free movement of goods while interpreting the case law of the ECJ. In *Re Patented Bandaging Material*, a German appellate court held that Articles 34 and 36 do not allow the licensee of a patented product to reintroduce the patented product in a member state that granted the patent rights when the patented products were first introduced in that same member state but were moved through another member state that did not grant patent rights.[220]

In the case at bar, an American firm had licensed its bandaging product, which was protected by both American and German patents, to the defendant for sale in Germany.[221] The licensee, however, exported the bandaging products to its subsidiary in Belgium, where patent rights for the bandaging products were not secured by the licensor.[222] The subsidiary then reintroduced the bandaging products into Germany through the licensee's second subsidiary.[223] The German appellate court stated that consent to sell the products in Germany directly did not provide consent to reintroduce the same products through another member state and thus the exhaustion of rights doctrine did not apply since the transactions,

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215 *Id.* ¶¶ 8–9. Article 34 was formerly Article 28. Article 101 was formerly Article 81.

216 *Id.* ¶ 12.

217 *Id.* ¶ 14.

218 *Id.* ¶ 15.

219 *Id.* ¶ 16.

220 Case-C3U 83/87, Patented Bandaging Material, [1988] 2 C.M.L.R. 359, 360, 363 (Provincial Court of Appeal, Hamburg) (Germany).

221 *Id.* at 360.

222 *Id.*

223 *Id.*

either from Germany to Belgium or from Belgium to Germany, were not voluntary.[224] Furthermore, the German appellate court, after examining the jurisprudence from the ECJ, stated that the consent between the licensor and the licensee did not reach the threshold whereby Articles 34 and 36 would require intellectual property rights to be waived in favor of free movement of goods.[225]

2. Analysis.

The ruling in *Parke-Davis* should place intellectual right holders at ease at least in one regard. Specifically, the enforcement of intellectual property rights is not a violation of the competition provisions of Articles 101 and 102. For the ECJ to rule otherwise, intellectual property rights would be worthless. In other words, the very fact that a party holds a patent, trademark, or copyright does not mean it has a dominant position and enforcement is not an abuse. Few would argue that a patent holder should not be able to bar entry of goods made from a protected process without permission.

The ECJ, in *Pharmon,* made it clear that the enforcement of intellectual property rights, especially in cases where the right holder did not consent to market their protected goods, is not a violation of Articles, 34, 36, 101, or 102. It should also be noted that Hoescht, the plaintiff in *Pharmon*, may also have a breach of contract action against their licensee for taking the product into another member state without permission. It is not clear as to whether this is an effective remedy. In this regard, intellectual property right holders should take special note of the outcome in *Re Patented Bandaging Material* which prohibits licensees from claiming protection under Articles 34, 36, 101, and 102 when they breach their licensing agreements and take the licensor's goods to a member state that does not grant protection.

However, the *Merck* decision presents a problem that is once again rooted in the lack of substantive harmony of patent law. Member states are free to write their own substantive law creating intellectual property rights and, thus, it is possible that what is patentable in one member state may not be in another member state. Problematically, if the right holder places their protected goods in the market place of a member state where protection does not exist, there is a significant chance that the price will be substantially lower and parallel importers will discover the opportunity for profit. Essentially, in such a situation, the patent's value is undercut even in countries where the patent holder has protection.

If the EU were to adopt a Community-wide body of substantive patent law (or trademark or copyright law), these problems can be alleviated. With such problems removed, the incentive to develop patent and market patented goods in additional member states might exist. Another possible solution may be found in *Spain v. Council of the European Union*. Since the ECJ upheld the Council of the European Union's ability to draft laws that are supplemental to the domestic intellectual property law of member states, the Council could use this authority to

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[224] *Id.* at 363.

[225] *Id.* Article 34 was formerly Article 28 and Article 36 was formerly Article 30.

create intellectual property rights in member states that will not create them such as in the *Merck* case.

B. Free Movement, Competition, and Trademarks

1. Case Law

a. Parallel Imports

In the famous, precedent setting cases of *Centrafarm BV v. Sterling Drug*[226] and *Centrafarm BV v. Winthrop BV*,[227] the ECJ determined that trademark and patent rights cannot inhibit the resale of a product trademarked and patented back into the country of origin where the rights were held once the right holder had agreed to market the product in a country where the importer (reseller) had lawfully purchased the product in the export country. Sterling Drug and its subsidiary, Winthrop BV, held trademark and patent rights in the United Kingdom for an anti-urinary tract infection drug called Negram and marketed the product in the Netherlands.[228] Centrafarm, the defendant in both cases, bought the drug in large quantities in the Netherlands and resold them in the United Kingdom at a lower price.[229] When the product was resold in the United Kingdom by Centrafarm, it had the Negram trademark and it was the same product.[230]

Sterling Drug and Winthrop tried to assert that their British trademark and patent rights could limit the ability of Centrafarm to resell the Negram product in the United Kingdom.[231] The crux of the case was whether Article 34 would bar the use of these rights as "quantitative restrictions on imports" or if these rights, as asserted, were within the confines of Article 36 thus allowing for the "protection of industrial and commercial property."[232]

Although the ECJ stated that member states can place some limitations on the parallel importer pursuant to Article 36, the Court held that to allow intellectual property rights to completely trump the parallel importer's rights to resell the product in the country of origin would frustrate the Treaty.[233] The Court stated that if the right holder was able to bar the reentry of the products, by asserting either trademark or patent rights, it would essentially be able to "control the outlets of the product in the Community."[234] Additionally, the Court believed that the purpose of intellectual property rights is not to interfere with the "principles of a Community system."[235] The Court likened these circumstances to those in

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226 Joined Cases 15 & 16/74, Centrafram BV v. Winthrop BV, 1974 E.C.R. 1183.
227 *Id.* at 1183.
228 *Id.* at 1185.
229 *Id.*
230 *Id.*
231 *Id.*
232 *Id.* at 1197, 1196. Article 34 was formerly Article 28.
233 *Id.* at 1194–95.
234 *Id.* at 1193 and ¶ 27.
235 *Id.* at 1194.

Deutsche Grammophon, in that the right holder had agreed to market its product in another member state.[236]

The Court of Justice of the European Free Trade Association Court ("EFTA Court") is no stranger to the same issues that have faced the ECJ regarding the exhaustion of intellectual property rights. The EFTA Court is bound by the EU's Directive 89/104/EEC on such matters.[237] However, in *Mag Instrument*, the EFTA Court was faced with the question of whether the exhaustion of intellectual property rights, which was generally applied at a national level, should be applied on an international level when ECJ jurisprudence was silent on the matter.[238]

Mag Instrument, the plaintiff in the case at bar, was an American manufacturer of flashlights which are sold around the world, as well as the owner of a registered trademark in Norway and many other countries for the "Maglite" brand.[239] At the time of the case, Mag Instrument had only authorized one importer for Norway.[240] The defendant had brought the trademarked flashlights into Norway through parallel import for sale.[241] Mag Instrument filed suit against the defendant in a Norwegian court with a request that the defendant be prohibited from selling the Maglite flashlights.[242] The chief argument by the plaintiff was that the defendant's unauthorized act of bringing the flashlights into Norway for sale violated Article 7 of Directive 89/104/EEC.[243] The defendant contended that international exhaustion of trademark rights is a requirement of Directive 89/104/EEC.[244]

After reminding a reader of its opinion that the EEA (and thus the EFTA Court) is bound by Articles 34 and 36 of the TFEU, the EFTA Court stated that, according to ECJ jurisprudence, Article 34 does not prohibit a trademark holder from asserting rights to block entry into the EEA of, nor does it prohibit the marketing of, trademarked products that are coming in from a non-EEA country.[245] Furthermore, the EFTA Court stated that the ECJ has decided that, at a minimum under Article 7 of Directive 89/104/EEC, the exhaustion of rights doctrine applies to the jurisdiction of any member state within the EEA.[246] However, the EFTA Court also stated that the ECJ had not commented on whether Article 7 prohibits member states from writing national laws that allow for international exhaustion of rights.[247] If the EFTA Court were to allow EEA member states to adopt

[236] *Id.* at 1190 (citing Case 78/70, Deutsche Grammophon Gessellschaft GmbH v. Metro SB Grossmarkte GmbH & Co. KG, 1971 E.C.R. 487).

[237] Case E-2/97, Mag Instrument, Inc. v. Cal. Trading Co. Norway, Ulsteen, 1 C.M.L.R. 331, 332 (1998).

[238] *Id.*

[239] *Id.* ¶ 5.

[240] *Id.* ¶ 7.

[241] *Id.*

[242] *Id.*

[243] *Id.*

[244] *Id.*

[245] *Id.* ¶ 15.

[246] *Id.* ¶ 16.

[247] *Id.* ¶ 18.

international exhaustion rules, then Norway could write laws that would allow the defendant to bring into that country any goods that have been sold anywhere in the world. In the end, the EFTA Court held that Article 7 of Directive 89/104/EEC did not require member states to adopt only EEA-wide exhaustion rules and thus did not prohibit EEA member states from adopting such international exhaustion legislation.[248]

Perhaps more important than the holding in *Mag Instrument* was the reasoning behind the decision. According to the EFTA Court, international exhaustion promotes the interest of free trade and competition and, in turn, promotes the interests of consumers since many merchants will be able to bring trademarked goods into an EEA member state and prices for such goods will decrease.[249] The EFTA Court also stated that the functions of a trademark, to allow consumers to identify products and force producers to establish goodwill, are not hampered by the international exhaustion of rights doctrine.[250] Additionally, the EFTA Court stated that its decision was in line with EEA Agreement and the TRIPS Agreement.[251]

A similar issue arose in *Silhouette International v. Hartlauer* whereby the ECJ held that member states cannot write legislation that provides for exhaustion of trademark rights as they attach to products placed outside the EEA even with the consent of the trademark holder, but also stated that Article 7 of Directive 89/104/EC does not provide the trademark holder with a right to bar the reentry of parallel imports into a member state where the same goods are sold.[252]

The fact pattern in *Silhouette International* was similar to that of *Mag Instrument*. The plaintiff, Silhouette International, an Austria-based maker of expensive, high-end glasses and frames sold a consignment of "out-of-fashion" frames to a reseller in Bulgaria with express directions that they be resold in Bulgaria or former USSR republics.[253] Hartlauer, the defendant and a firm successful at selling items at low prices, purchased the glasses and brought them to Austria and advertised their sale.[254] Silhouette sought an injunction in the Austrian courts to prohibit Hartlauer's marketing and sale of the trademarked goods, contending that such an advertising campaign would harm Silhouette's high-end image.[255] Specifically, Silhouette argued that it could assert its registered trademark in Austria to prohibit the parallel importation and sale of its trademarked goods since the consignment sold to the Bulgarian reseller was not a sale in the EEA and that trademark rights are not exhausted unless the goods have been

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[248] *Id.* ¶¶ 27, 28.

[249] *Id.* ¶ 19.

[250] *Id.* ¶ 20.

[251] *Id.* ¶¶ 27, 29.

[252] Case C-355/96, Silhouette Int'l Schmied GmbH & Co. KG v. Hartlauer Handelsgesellschaft mbH, 1998 E.C.R. I-4799, ¶¶ 31, 36, 37.

[253] *Id.* ¶¶ 6, 8. It should be noted that at the time of the case, Bulgaria was not a member of the EEA or EU.

[254] *Id.* ¶ 9.

[255] *Id.* ¶ 10.

placed inside the EEA.[256] After the Austrian trial court applied the doctrine of international exhaustion pursuant to Austrian law and found that Silhouette's rights were exhausted as soon as the goods were on sale, regardless of where the goods are sold, the Austrian appellate court referred the matter to the ECJ for an interpretation of Article 7.[257] Hartlauer did not argue that Directive 89/104/EEC required international exhaustion of trademark rights regardless of where the goods are sold, but only that member states are free to adopt international exhaustion principles.[258]

The Court began its analysis by stating that Article 7's exhaustion clause only applies to goods that are placed in the EEA.[259] Directive 89/104/EEC, the Court said, is designed to safeguard the internal market, and there is a risk of allowing some member states to provide for international exhaustion while others did not.[260] According to the Court, the possibility of differences in domestic law on this point could create distortion in competition among the member states, which is the absolute opposite of the EU's mission.[261]

However, and somewhat puzzling, the ECJ also left plaintiffs like Silhouette without a remedy in regard to the parallel importation reality. When asked by the Austrian courts to determine whether a trademark holder can use Article 7 of Directive 89/104/EEC to gain an injunction against a third party seller from selling (and thus using the trademark) the goods in an EEA member state once the trademark holder voluntarily consented to a sale of those goods outside the EEA, the ECJ answered negatively.[262] According to the Court, Article 7 imposes a limit on member states, not on individual parties.[263]

b. Repackaging

Parallel imports that are repackaged constitute one of the most challenging issues that affect the balance between intellectual property rights and the free movement of goods. In *Pfizer v. Eurim-Pharm GmbH*, the Court stated that a trademark right cannot be asserted to prevent the entry of pharmaceuticals even when the importer purchases the right holder's product and repackages it for resale in another state.[264] The defendant in this case, Eurim-Pharm, purchased the plaintiff's pharmaceutical, "Vibramycin," and repackaged it for resale in Germany.[265] The repackaging activity included a process whereby the "blister strips," as created by Pfizer, were manually altered so that Eurim-Pharm could repackage them into smaller sizes.[266] At no time were the actual "blisters" opened

[256] *Id.*
[257] *Id.* ¶¶ 13, 14.
[258] *Id.* ¶¶ 18, 19.
[259] *Id.* ¶¶ 18, 27.
[260] *Id.*
[261] *Id.* ¶ 24.
[262] *Id.* ¶ 37.
[263] *Id.* ¶ 36.
[264] Case 1/81, Pfizer, Inc. v. Eurim-Pharm GmbH, 1981 E.C.R. 2913, 2927.
[265] *Id.* at 2915.
[266] *Id.*

but, when packaged, the consumer could see the "Vibramycin" name through the clear packaging created by Eurim-Pharm.[267]

Pfizer held a trademark right under British law and was exporting/importing the product to Germany under the Pfizer name through a subsidiary.[268] Therefore, this became a parallel imports issue since Pfizer had previously agreed to the sale of Vibramycin in Germany. After citing the *Centrafarm v. Winthrop* case,[269] the ECJ found that Article 36 did not create an exception to the Article 34 ban on quantitative restrictions, as applied in this case.[270] Perhaps making Eurim-Pharm's case stronger was its ability to show that the repackaging efforts were in line with the practices of German doctors.[271] However, the ECJ did set some limits in its ruling. It required that (1) the repacking be limited to the outer wrapping, (2) the original trade mark still be visible,[272] (3) the new package must state that new packaging had taken place, and (4) the trademark right holder still controls where the product is sold.[273]

However, in a more recent case also involving repackaging activity by Eurim-Pharm,[274] the ECJ ruled that where the repackaging could affect the actual product, remove vital information or damage the reputation of the product manufacturer, a right holder could assert trademark rights to prevent the repackaging and resale of their product.[275] Under such circumstances, Article 36 creates an exception to Article 34.[276] In this case, there was evidence that Eurim-Pharm's repackaging process obliterated the batch numbers printed on the original package, which could endanger consumer health.[277]

The decision by the ECJ in *Boehringer Ingelheim v. Swingward* is perhaps the best articulation of the applicable rules in such cases.[278] In this case, Boehringer Ingelheim brought suit against Swingward for trademark infringement after the latter had purchased several of the former's medicinal products that were sold, under several trademarks, in several member states and then imported them into the United Kingdom after repackaging them.[279] In repackaging the medicinal products, Swingward left the original trademark exposed, with the addition of Swingward's name, repackaging the products in a way that required Swingward to

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[267] *Id.*

[268] *Id.* at 2929.

[269] Case 15/74, Centrafarm BV v. Withrop BV, 1974 E.C.R. 1183, 1184.

[270] *See Pfizer, Inc.*, 1981 E.C.R. at 2935–36.

[271] *Id.*

[272] Obviously to protect both consumers and doctors in Germany.

[273] *Pfizer, Inc.*, 1981 E.C.R. at 934.

[274] Case C-71/94, Eurim-Pharm Arzneimittel GmbH v. Beiersdorf AG, 1996 E.C.R. I-3603, 1 C.M.L.R. 1222 (1997).

[275] *Id.*, 1 C.M.L.R. at 1225, 1240.

[276] The ECJ stated, "Defective, poor quality or untidy packaging could damage the trade mark owner's reputation. *Id.* at 1238.

[277] *Id.* at 1222.

[278] Case C-348/04, Boehringer Ingelheim KG v. Swingward, Ltd., 2007 E.C.R. I-3391.

[279] *Id.* ¶ 6, at I-3437.

reproduce the Boehringer Ingelheim's trademark.[280] In some situations Boehringer Ingelheim's trademark was not visible and only the generic name of the medicinal product was exposed.[281] Boehringer Ingelheim opposed all three categories of repackaging, as well as the altering of the leaflets associated with the medicinal products, claiming that all of Swingward's actions constituted trademark infringement and, thus, the repackaged products could not be parallel imported into the United Kingdom.[282]

The ECJ's decision is not only important for the rules it set forth in regard to repackaging, the free movement of goods, and parallel imports, but also for its articulation of the power and meaning behind a proprietor's trademark. The Court began by stating that the purpose of a trademark is to signify the origin of a product and when a product is repackaged in a parallel import such a guarantee of origin is jeopardized.[283] Because of that threat, the ECJ remarked that what is most important in determining whether trademark infringement exists is whether the repackaging is prejudicial to the trademark and not whether there are actually negative effects realized in the market place.[284] However, the Court also commented that a trademark holder cannot claim there is a threat to origin of source and reputation merely because the trademarked goods have been repackaged, as to do so would create an infringement of Article 34 and Directive 89/104/EEC as a disguised restriction on trade.[285] The trademark holder can assert trademark rights to prohibit the parallel importation of a repackaged good if the original condition of the product is altered.[286]

The ECJ, while still attempting to strike a balance between intellectual property rights and the free movement of goods, articulated a duty on behalf of the parallel importer to give notice to the trademark holder that the repackaged product is being placed on sale in a member state.[287] The parallel importer must also supply the trademark holder with a sample of the repackaging before it goes on sale.[288] According to the Court, this protective measure will allow the trademark holder to determine whether the original product is being harmed or whether the presentation of the packaging could harm the trademark owner's reputation or the reputation of the product.[289] However, the Court did state that if the repackaging is necessary for the parallel importation to be successful and the trademark proprietor's interests are protected, the repacking is likely to be allowed.[290] The burden is on the parallel importer to show that its repackaging does not harm the

280 *Id.* ¶ 7.
281 *Id.*
282 *Id.* ¶¶ 6–8.
283 *Id.* ¶ 14.
284 *Id.* ¶ 15.
285 *Id.* ¶ 16.
286 *Id.* ¶ 19.
287 *Id.* ¶ 20.
288 *Id.*
289 *Id.*
290 *Id.* ¶ 30.

reputation of the trademark holder or its product.[291]

The ECJ was specific as to what could harm the reputation of the trademark holder. The Court stated that the repackaging could harm the trademark owner's reputation if it is "not defective, of poor quality, or untidy" so long as it detracts from the image of the mark.[292] In addition, if the parallel importer does not affix the trademark to the exterior repackaging, or wholly or partially obscures the trademark, or reprints the trademark in capital letters, the parallel importer also threatens the trademark holder's reputation.[294]

c. Trademark Similarity

Trademark infringement cases that arise from conflicts between Articles 34 and 36 are not limited to situations whereby one firm makes the product and another firm buys it and resells it in another state (parallel imports). Indeed, problems can arise when similar trademarks are used for different products. In *Terrapin Overseas Ltd. v. Terranova Industrie CA*,[293] a German, plaster products firm under the name of Terranova[294] tried to assert its trademark right to block the entry of pre-fabricated houses marketed by a British firm, Terrapin, who also held a trademark for their business name in the United Kingdom.[295] In the German trademarks register, the objects of the German right holder were listed as "Manufacture of dry prepared plaster, construction work and trade in building materials."[296]

The ECJ, in *Terrapin*, found that the German right holder could block the entry of the British-named product as long as there are no restrictions on the product entering Germany.[297] The ECJ thus found an exception within Article 30 (ex 36) to Article 28 (ex 30) whereby two similar names in similar industries are trademarked by different states. Advocate General Mayras noted that the Terrapin firm could market its products in Germany under a different name.[298] The Court's main rationale for its opinion focused on protection of the consumer to justify the validity of the Article 36 exception to Article 34.[299]

In a 1990 case, the ECJ further defined border between permissible and impermissible conduct in regard to the assertion of intellectual property rights and the Treaty. In *S.A. Cnl-Sucal NV v. Hag GF AG* (*Sucal*), the Court stated that since the Treaty was not designed to lay down an extensive set of rules governing intellectual property, it was up to the Court, and has been for some time, to outline

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[291] *Id.* ¶¶ 52, 53.

[292] *Id.* ¶ 43.

[294] *Id.* ¶ 45.

[293] Case 119/75, Terrapin (Overseas), Ltd. v. Terranova Industrie CA Kapferer & Co., 1976 E.C.R. 1039.

[294] The German firm also held other trademarks related to the Terranova name that were derivatives of the "Terra" root such as "Terra Fabrikate." *Id.* at 1059.

[295] *Id.* at 1041.

[296] *Id.*

[297] *Id.* at 1062.

[298] *Id.* at 1072.

[299] *Id.* at 1059.

the interests of the TFEU.[300]

In *Sucal*, the Court wrestled with the question of whether the trademark of "HAG," held by the German decaffeinated coffee maker "HAG Bremen," could be asserted against its competitor "HAG Belgium" when the latter entered the German market.[301] HAG Bremen contended that its brand of decaffeinated coffee was superior in quality and processing and that the HAG Belgium label would confuse consumers in Germany into buying a lesser quality product.[302] According to the Advocate General, the legal question was whether the enforcement of HAG Bremen's trademark in Germany would violate Article 34's "prohibitions or restrictions on imports, exports or goods in transit."[303] In contrast, Article 36 allows for the protection of "industrial and commercial property."

The Advocate General returned to the basic premise that "[t]he exclusive right conferred on the owner of intellectual property is exhausted in relation to the products in question when he puts them into circulation anywhere within the common market."[304] Further, the Court added that a right holder cannot rely on the domestic intellectual property grant to block the importation of a product that has been legally marketed in another state.[305]

However, these traditional issues were met by a new twist: the "common origin" principle. The common origin principle is based on the idea that it is possible that two similar or identical marks having common ancestry could be owned by different persons in different states.[306] Under the common origin principle, neither of the right holders may assert protection to keep the other from marketing its product in the other's state.[307]

The Advocate General went to great lengths to describe the value of a trademark[308] in finding that the doctrine of common origin did not apply.[309] In its ruling, the Court believed that the trademarks were too similar and could lead to confusion by the consumer due to both sound and design.[310] The Court stated that

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300 Case C-10/89, Cnl-Sucal NV SA v. Hag GF AG, 1990 E.C.R. I-3711.

301 *Id.* at I-3726.

302 *Id.*

303 *Id.* at I-3728.

304 *Id.* at I-3729.

305 *Id.*

306 *Id.* at I-3730.

307 *Id.*

308 *Id.* at I-3732. The Court stated:

> [T]rade marks reward the manufacturer who consistently produces high-quality goods and they thus stimulate economic progress. Without trade mark protection there would be little incentive for manufacturers to develop new products or to maintain the quality of existing ones. Trade marks are able to achieve that effect because they act as a guarantee, to the consumer, that all goods bearing a particular mark have been produced by, or under the control of, the same manufacturer and are therefore likely to be of similar quality.

Id.

309 *Id.* at I-3732, I-3749. A strong argument could be made that the ECJ completely abandoned the common origin doctrine.

310 *Id.* at I-3743.

there was a fine line between the prohibitions in Article 34, where a broad view could be dangerous, and the allowances under Article 36, where a narrow view could be likewise as dangerous.[311]

d. Counterfeit Goods

In *Adidas AG*, the ECJ was faced with a decision of whether a national law prohibiting the disclosure of a counterfeiter of goods caught by customs officials at the Swedish border should prevail over a EU regulation to the contrary.[312] The Swedish customs officials had believed that a declarant of goods attempting to bring them into the country was engaged in the counterfeiting of sports apparel, in violation of Adidas' Swedish trademark rights.[313] Adidas demanded the identity of the declarant/owner of the goods so that the former could bring an action against the latter for trademark infringement.[314] The Swedish authorities refused citing a national law prohibiting the conveyance of such information on the grounds that it violated the protections afforded to data protection.[315]

Regulation 3295/94 states that "the decision granting the application by the holder of the right shall be forwarded immediately to the customs offices of the member states which are liable to be with the goods alleged in the application to be counterfeit or pirated."[316] This provision of the Regulation is designed to support the trademark holder's right across the member states. Indeed, Article 1 of the same regulation orders customs officials to take action when goods are suspected of being counterfeit or pirated.[317]

The ECJ's decision could be construed to hold that the Swedish law was in conflict with the regulation.[318] After considering the concerns of the Swedish legislature that a person's identity, even that of a counterfeiter, should be protected, the Advocate General stated that these concerns should yield to the needs of the trademark right holder "when there are already serious suspicions that the goods which are subject to customs control are not genuine . . . . [and, the] competent administrative authorities consider that those goods 'correspond to the description of the counterfeit or pirated goods.'"[319]

e. Private Agreements

Article 101 can be used to prohibit an agreement between two private entities, one of which holds an intellectual property right, if that agreement potentially restricts trade.[320] The ECJ ruled that a private agreement between two

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[311] *Id.* at I-3743–44.
[312] Case C-223/98, Adidas AG, 1999 E.C.R. I-7081.
[313] *Id.*
[314] *Id.*
[315] *Id.*
[316] Commission Regulation 3295/94 art. 5 (1994).
[317] *Id.* at art. 1.
[318] *Adidas AG*, 1999 E.C.R. at I-7097.
[319] *Id.*
[320] Case C35/83, BAT Cigaretten-Fabriken GmbH v. Comm'n of the European Cmtys., 1985 E.C.R. 363.

firms, that includes a no-challenge clause violates Article 101 if, although, designed to remove the possibility of confusion by consumers in a given market, the agreement creates an imbalance of responsibilities between the two parties.[321] The applicant, BAT, at one time held a trademark right in Germany for its sales of "curly cut tobacco," used for pipe smoking, under the name "Dorcet."[322] However, BAT allowed its trademark to expire and even asked the German government to remove it from the trademark registry.[323] Segers, a Dutch firm, attempted to sell its tobacco product, "fine cut tobacco," a close cousin of "curly rolled" and used for hand-rolled cigarettes, in Germany under the name "Toltecs," which in the German language could cause confusion with Dorcet.[324] BAT objected to the use of the Toltecs name and, in order to avoid lengthy and expensive litigation, Segers signed a delimitation agreement that included a no-challenge clause removing the possibility that Segers would later challenge the agreement with BAT to limit its tobacco sales to "curly cut tobacco."[325]

Segers' primary argument was that the private agreement possessed a mistake and desiring to sell fine cut tobacco rather than curly cut tobacco.[326] The European Commission later found for Segers, concluding that the agreement signed by the two parties amounted to a violation of Article 101.[327] The ECJ, in rejecting most of BAT's arguments, found that the agreement created too many restrictions on the ability of Segers to export their tobacco product into Germany and that all BAT had to do to perform the contract was to agree not to challenge Segers' importation of fine cut tobacco.[328] Additionally, the ECJ found evidence that BAT had interfered with the relationship between Segers and the latter's distributors through the agreement.[329] Just as important, however, the ECJ hinted that the agreement might have been acceptable with fewer restrictions and a greater balance of responsibilities.[330]

f. Damage to Reputation

The ECJ returned to its line of thinking found in *Class International* when deciding *Parfum Christian Dior SA v. Evora BV* (hereinafter *Christian Dior*) by stating early in the decision that, in order to assist in the uniform application of EU law, the national courts have a duty to refer cases to the Court, and inclusive within the category of national courts is the Benelux Court, which was designed to serve as a court for Luxemburg, the Netherlands, and Belgium.[331]

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[321] *Id.* at 388.
[322] *Id.* at 364.
[323] *Id.*
[324] *Id.*
[325] *Id.*
[326] *Id.* at 370.
[327] *Id.* Article 101 was formerly Article 85.
[328] *Id*.
[329] *Id.* at 371.
[330] *Id.*
[331] Case C-337/95, Parfums Christian Dior SA v. Evora BV, 1997 E.C.R. I-6013, ¶ 24, at I-6043, ¶ 25, at I-I-6044.

In *Christian Dior*, the ECJ returned to the issue of the rights of a trademark owner under the European trademark Directive (89/104/EEC). Plaintiff Christian Dior, a French firm and the owner of several trademarks and copyrights, developed and produced several lines of perfume products and marketed them through wholly-controlled subsidiaries and allowed for retailing on a selective basis.[332] Defendant Evora was a retailer that resold Christian Dior products retail outlets and used the Christian Dior marks in order to advertise the products.[333] The plaintiff sued Evora BV for trademark infringement in a Dutch court contending that Evora's marketing of the plaintiff's trademarks harmed the marks' "luxurious and prestigious image."[334] Specifically, Christian Dior sought an order to prohibit Evora from using its trademarks in its publications, catalogs, brochures, advertisements, and reproductions.[335]

Article 7 of Directive 89/104/EEC, the chief directive on trademarks within the EU, allows for a trademark holder to prohibit the use of its trademarks, even when the holder has voluntarily placed the product in the member state, when the user of the mark changed the condition of the goods or has impaired the goods after they are placed on the market.[336] Christian Dior argued that Article 7 should include the "mental image" of the goods so far as that when the user of the mark uses the goods in a way that impairs the image and allure of the luxury surrounding the goods, the trademark holder should be able to limit the use of its mark.[337] Evora, in contrast, asserted that Articles 34 and Article 36 curtail the ability of Christian Dior as a trademark owner to limit Evora's use of the mark for the products it sells.[338]

The ECJ stated that the exhaustion of rights, as established by Articles 34, 36, and the Directive, includes the ability to market and advertise trademarked goods once they have been sold into the marketplace and thus the user of the trademark has the right under EU law to garner the attention of the consumer public in order to sell more of the same goods in the future.[339] The Court conceded Evora's argument that without such an extension of the exhaustion of rights doctrine in place, it would be very difficult to commercialize goods that are protected by intellectual property rights.[340]

The ECJ acknowledged, however, the concerns of trademark owners, such as Christian Dior. The Court stated that in situations like the case in point, courts must strike a balance between the interests of the trademark owner who seeks to protect the strength and allure of its mark and the interests of resellers who might use the trademark in a way that damages the reputation of the goods and advertise

[332] *Id.* ¶¶ 2–3.
[333] *Id.* ¶¶ 5–6.
[334] *Id.* ¶ 7.
[335] *Id.*
[336] *Id.* ¶ 9.
[337] *Id.* ¶ 10.
[338] *Id.* ¶ 11.
[339] *Id.* ¶ 38.
[340] *Id.* ¶ 37.

the goods in ways that are customary to that particular industry sector.[341] The ECJ found that even when the reseller obtains the goods by way of a parallel import and markets those trademarked goods along with other items that, although comparable, are not of the same perceived quality as the trademarked goods in question, the trademark owner cannot prohibit the reseller's advertising use of the trademark unless the advertising seriously damages the reputation of the goods.[342] According to the ECJ, this is also true if the advertising scheme is different than that of the trademark owner's approved retailers.[343]

A more difficult question in *Christian Dior* arose in regard to both trademark rights and copyrights associated with the owner's packaging materials and whether the trademark owner can assert rights under Article 36 to limit the use of the packaging material or whether the trademark owner would be prohibited in doing so under Article 34.[344] The ECJ stated that, in principle, the exercise of intellectual property rights in such a case would be a violation of Article 34 as a quantitative restriction, and thus, the only question left was whether the assertion of rights could be excused under Article 36 pursuant to the protection of industrial and commercial property clause.[345] The ECJ held that Article 36 does not allow for an exception to allow a right holder to block the use of packaging material that is protected by both trademark and copyright, as the user who lawfully obtains the goods has a right to further commercialization of the products.[346]

Peak Holding v. Axolin-Elinor AB sheds additional light on the rights of trademark owners under Articles 5 and 7 of Directive 89/104/EEC, which is the directive on trademarks.[347] Peak Holding, the plaintiff, was a Danish firm that owned the "Peak Performance" trademark for clothing and other accessories in Sweden and many other countries.[348] The defendant, Axolin-Elinor, was a Swedish firm that had obtained Peak Performance gear through both parallel import activities and re-import activities.[349] In addition to reselling the Peak Performance garments, the defendant also advertised the clothing items at a fifty percent discount.[350] This led the plaintiff to file suit in a Swedish court requesting that Axolin-Elinor be enjoined from further use of the plaintiff's marks, that Axolin-Elinor pay damages, and that the clothing items held by the defendant be seized and destroyed.[351] There was disagreement between the parties as to the source of the goods.[352] Plaintiff argued that the goods were offered for final sale only in Copenhagen at the plaintiff's shops and the defendant argued that the

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[341] *Id.* ¶ 44.
[342] *Id.* ¶ 46.
[343] *Id.*
[344] *Id.* ¶ 50.
[345] *Id.* ¶¶ 51–52.
[346] *Id.* ¶ 55.
[347] Case C-16/03, Peak Holding AB v. Axolin-Elinor AB, 2004 E.C.R. I-11313, I-11333–34.
[348] *Id.* ¶¶ 6–7, at I-11335.
[349] *Id.*
[350] *Id.* ¶¶ 8, 15.
[351] *Id.*
[352] *Id.* ¶¶ 16, 18.

source of the goods comprised several independent resellers.[353] Similar to the argument made by Christian Dior, Peak Holding argued that the marketing methods chosen by Axolin-Elinor infringed Peak Holding's trademark rights.[354]

In contrast to Evora's more passive approach in *Christian Dior*, Axolin-Elinor made several arguments in opposition to Peak Holding's exercise of trademark rights under Directive 89/104/EEC.[355] First, the defendant argued that the trademarked goods were voluntarily placed in the EEA when the goods cleared customs and the plaintiff intended to sell the goods in the EEA.[356] Second, Axolin-Elinor argued that the goods were placed in the EEA when the goods were offered by independent resellers.[357] Third, the defendant argued that the goods were placed in the EEA when the plaintiff began marketing the goods in the plaintiff's retail stores.[358] And fourth, the goods were placed in the EEA market when the plaintiff sold a consignment of garments to an exclusive reseller with express instructions that the exclusive reseller not be able to resell the goods in countries other than Russia, Slovenia, and a small quantity in France.[359] Although Peak Holdings contended that the exhaustion of rights doctrine did not apply when its trademarked goods were merely offered for sale, it also argued that, even if the exhaustion doctrine did apply, the doctrine was lifted and the trademark rights were restored when the unsold quantities were returned to the plaintiff's warehouse.[360]

While engaged in its analysis, the ECJ stated clearly that Directive 89/104/EEC created a complete harmonization of the rules relating to the rights of trademark holders and that a uniform definition of "put on the market," which is found in Article 7 of the Directive and is also the point in time whereby exhaustion of trademark rights occurs, is necessary.[361] The ECJ held that merely placing the goods in the EEA and offering them for sale does not meet the standard of putting the goods on the market, and thus, does not give non-trademark owners the ability to use the trademarks when selling the goods.[362] Instead, the Court held that goods are placed in the market when a first sales transaction occurs.[363] According to the Court, merely importing the goods is not consistent with the Article 7 definition of placing the goods in the market to trigger the exhaustion doctrine.[364]

The Court was left with the issue of whether the agreement between Peak

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[353] *Id.* ¶¶ 10, 11.

[354] *Id.* ¶ 15.

[355] *Id.* ¶¶ 24, 49.

[356] *Id.* ¶ 17.

[357] *Id.*

[358] *Id.*

[359] *Id.* It should be noted that at the time that the facts arose, Slovenia was not a member of the EEA or European Union. The agreement between Peak Holdings and the exclusive reseller only allowed for five percent of the total consignment to be sold in France. *Id.* ¶ 12.

[360] *Id.* ¶ 18.

[361] *Id.* ¶¶ 30–31.

[362] *Id.*

[363] *Id.* ¶¶ 40, 42.

[364] *Id.* ¶ 43.

Holdings and the exclusive reseller, in conjunction with that agreements' stipulation that the trademarked goods would only be sold in certain countries, met the definition of placing the goods on the market under Article 7 of Directive 89/104/EEC. The ECJ stated that the exhaustion of rights requires some form of consent by the trademark holder, and when the trademark owner consents by agreement to provide a consignment of clothing to an exclusive reseller, the goods are voluntarily placed in the market and the exhaustion of intellectual property rights occurs precluding the trademark owner from interfering with the resale of the goods after they are in the possession of the exclusive reseller.[365] It does not matter that the agreement between the trademark owner and the exclusive reseller limits the territory by which the trademarked goods may be resold.[366]

2. Analysis

Simply stated, if the holder of a trademark voluntarily places its protected products in a member state, a parallel importer may bring the goods back into the originating member state without fear of intellectual property rights serving as a barrier.[367] This is true even if the parallel importer repackages the goods or decides to retail them at a discount rate or through a discount retailer.[368] Free movement principles are also espoused by the European Free Trade Area Court and thus the entirely of the European Economic Area.[369]

One can only imagine the potential damage that can be done to the reputation of a trademark holder if repackaged goods prove to be faulty in some way or are sullied by a discount retailer. Despite those concerns, however, the ECJ still prefers free movement principles. This philosophy does hold true to the promise of the common market that free movement practices will make the European economy more efficient be allowing market participants to find ways to reduce costs while making a profit.[370] Therefore, if a parallel importer believes that goods, be they protected by intellectual property rights or otherwise, can be repackaged and sold at a profit it will be able to do so as long as no damage to the reputation or integrity to the trademark occurs. Such principles may also stimulate different marketing strategies by the right holders in markets where parallel imports can be spawned. In other words, the holder of the trademark rights may repackage the goods for profit in markets where it makes sense to do so. An issue for greater exploration, but beyond the scope of this work, is at what point the repackaging does significant harm to the trademark's reputation and/or at what point the repackaging has damaged the goods subject to the trademark allowing for

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365 *Id.* ¶ 56.

366 *Id.* ¶ 54.

367 Case C-15/74 Centrafarm BV v. Sterling Drug, 1974 E.C.R. 1147; Case C-15/74 Centrafarm BV v. Winthrop, 1974 E.C.R. 1183, 2 C.M.L.R. 480 (1974), at 491–92.

368 Case C1/81, Pfizer, Inc. v. Eurim-Pharm GmbH, 1981 E.C.R. 2913.

369 *See* Case E-2/97, Mag Instrument, Inc. v. Cal. Trading Co. Norway, Ulsteen, 1 C.M.L.R. 331, ¶ 19 (1998).

370 Javier Guillem Carrau, *Lack of Sherpas for a GMO Escape Route to the EU*, 10 GERMAN L.J. 1169 (2009).

an Article 36 barrier to arise to parallel importing.

The potential for damage to the reputation of a trademark is when protected items are sold by, and advertised by, discount retailers. One the one hand, trademark holders may look at the situation from the viewpoint that these goods would not have been sold at all because they are out of vogue and the discount venue is one last chance to make profit. On the other hand, it may be that the discounted, out of vogue goods serve as a rival to newer, in vogue goods that might suffer in sales due to the availability of the discounted items. Trademark holders in this situation may seek to advertise the differences between the in vogue and out of vogue items in order to protect the newly produced items from the older items. The *Christian Dior* and *Peak Holding* cases set a foundation for the discount retailing market within the European Economic Area.[371]

The common ancestry of trademarks is a challenging reality in the EU. On a continent with dozens of languages, trademarks of similar sound and design are likely to arise in ways that are innocent of infringement. In such cases, the ECJ has still maintained its preference for the free movement of goods.[372] At worst, one party may not be able to use its preferred trademark in a particular member state in order to avoid confusion, but that same party cannot be blocked from bringing the goods into the member state if the party is willing to use another trademark.

A limitation on the free movement of goods is the possibility of counterfeit goods. The ECJ does not allow Article 34 to limit attempts by right holders to end the movement of counterfeit goods, but allows for the discovery of the names of those who have engaged in counterfeiting activities.

C. Free Movement, Competition, and Copyright

1. Case Law

a. Parallel Imports

Perhaps the best articulation by the ECJ of the rivalry between intellectual property law and the mission of the TFEU is found in *Deutsche Grammophon Gesellschaft v. Metro-SB-Grossmarkete*.[373] This case not only observed the balance between national intellectual property rights, in this case German copyright law, and the prohibitions on trade restraint, but also the potential for intellectual property rights to create unacceptable trade restraints in violation of Article 101 of the TFEU. The German plaintiff, Deutsche Grammophon ("Deutsche") held copyrights pursuant to German law and distributed records by agreement to retailers through contracts stipulating that the retailers must abide by

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[371] Case C-337/95, Parfums *Christian Dior* SA v. Evora BV, 1997 E.C.R. I-6013, ¶ 46, I-6049–50; Case C-16/03, Peak Holding v. Axolin-Elinor AB, 2004 E.C.R. I-11313, ¶¶ 54, 56, I-11346–47.

[372] Case 119/75, Terrapin (Overseas), Ltd. v. Terranova Industrie CA Kapferer & Co., 1976 E.C.R. 1039, 1062.

[373] Case C-78/70, Deutsche Grammophon Gesellschaft mbH v. Metro-SB-Grossmarkete GmbH & Co., 1971 E.C.R. 487, 1 C.M.L.R. 631 (1971).

Deutsche's price schedule.[374] The agreements also required that the records, if acquired by a third party, could only be imported from another country with permission from Deutsche Grammophon.[375] The evidence indicated that Deutsche only gave consent if the third party agreed to the price structure.[376] In order to maintain a tight grip on the distribution of their records abroad, Deutsche would only distribute throughout Europe through its subsidiaries.[377]

The French distribution subsidiary owned by Deutsche was Polydor, which was later purchased by Metro-SB-Grossmarkte ("Metro").[378] Metro distributed the records in issue until a disagreement over the price structure dissolved the business relationship.[379] Soon after, Metro began to purchase Deutsche's records through the new French distributor and resold them in the German market at a price below what Deutsche had set through its price structure agreements with other German distributors.[380]

Deutsche sought an injunction against Metro, arguing that the German grant of the copyright was infringed by Metro's activity.[381] Although the Advocate General cited precedent that stated that "rights granted by a Member State to the holder of a patent [would not be] affected by . . . Articles 85(1) and 86 of the [E.E.C.] Treaty,"[382] it nonetheless held that the agreements and assertion of copyright could not withstand Articles 101 and 34 and found the agreement and German law in violation of the TFEU.[383]

The ECJ focused its decision on the potential power of the copyright holder to cordon off the market at virtually all levels and have almost absolute control of interstate marketing through the enforcement of that copyright.[384] The ECJ also stated that the territoriality principle, whereby the copyright holder could theoretically assert his power throughout the member state in which he held his right, cannot conform to the TFEU's prohibition of such power under Article 101.[385] The Advocate General Roemer's own words best state the rivalry between the assertion of territoriality and the TFEU:

> In view of this situation there is in fact much to be said for the view that since the bounds of the territoriality principle are so uncertain it does not form part of the substance of the protection. In any event this applies to the particular problem of the present proceedings, i.e., a situation in which, as the [German Court] has held, a legal person connected with the holder of the rights has marketed the goods in question abroad. Here it should be decisive that the purpose of the industrial

[374] *Id.* at 490.
[375] *Id.* at 503.
[376] *Id.*
[377] *Id.*
[378] *Id.*
[379] *Id.* at 490.
[380] *Id.*
[381] *Id.*
[382] *Id.*, 1 C.M.L.R at 639. Articles 85(1) and 86 are now Articles 101(1) and 102, respectively.
[383] *Id.* at 506, 508. Article 101 was formerly Article 81. Article 34 was formerly Article 28.
[384] *Id.* at 506.
[385] *Id.* Article 101 was formerly Article 81.

> protection rights was fulfilled when the goods were first marketed, since it was possible to use the monopolistic opportunity for gain. On the other hand, it would undoubtedly go beyond the purpose of the protection rights conferred if the holder was permitted to control further marketing, in particular to prohibit re-imports, and free trade in goods was prevented. Thus in view of the proviso in Article 36, the fundamental aims of the Treaty and the principles of the Common Market, and in spite of the guarantee of the subsistence of industrial property rights, in a situation such as that in the present case it may be held that the rights have been extinguished, i.e., the exercise of the distribution rights is precluded.[386]

The Advocate General Roemer's basic premise was that under Articles 36 and 101, the territoriality principle cannot be used to inhibit the free trade of goods.[387] The price agreement was held to constitute an inhibition against free trade under Article 101 and the assertion of German trademark rights would not be permissible under Article 36.[388]

It is often the case that imported and exported goods are covered by more than one source of intellectual property rights. In *Dansk Supermarked v. Imerco*, the ECJ entertained a case that involved the parallel importation of goods that were protected by both copyright and trademark rights.[389] In this case, Imerco, a group of Danish hardware merchants, had commissioned the creation of a commemorative china dish service set that was to be sold to Imerco members only.[390] Imerco and the British manufacturer of the china dish sets additionally agreed that any of the substandard china dish sets could be marketed by the British manufacturer, but only in Britain and not in Denmark or any other Scandinavian country.[391]

The china dish sets were protected by both copyright, in regard to the creative work of the design, and trademark rights, in regard to the Imerco name affixed on the dish sets.[392] Dansk Supermarked, a supermarket chain in Denmark, obtained several china dish sets in the United Kingdom and offered them for sale in Denmark at prices substantially lower than those associated with the shipment that was originally intended for Imerco members.[393] Imerco, upon discovering that Dansk Supermarked was selling the china dish sets, asked the latter to cease the sale of the products; Dansk Supermarked refused and Imerco instituted proceedings against the firm.[394]

At first glance, *Dansk Supermarked* seemed a traditional parallel import case, whereby the proprietor of intellectual property rights has voluntarily allowed the sale of a protected good in a member state (the United Kingdom) and is protesting, through the exercise of those rights, the reintroduction of those goods

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[386] *Id.* at 508.

[387] *Id.* at 498–500. Article 36 was formerly Article 30. Article 101 was formerly Article 81.

[388] *Id.* at 499–500. Article 36 was formerly Article 30. Article 101 was formerly Article 81.

[389] Case 58/80, Dansk Supermarked v. Imerco, 1981 E.C.R. 181.

[390] *Id.* ¶ 2.

[391] *Id.*

[392] *Id.* ¶ 10.

[393] *Id.* ¶ 3.

[394] *Id.* ¶ 4.

into another member state (Denmark), when the proprietor has also consented to their sale.

The ECJ began by stating that the Danish national courts cannot prohibit the parallel importation of the china dish sets since Imerco voluntarily placed them in the EU market pursuant to Articles 34 and 36 of the TFEU.[395] Unique to the case was a Danish law that required firms marketing products to comply with Danish competition rules that required the recognition of intellectual property rights.[396] However, the ECJ held that the Danish competition rules merely reflected a prohibition on the infringement of copyrights and trademark rights, but that the Danish competition rules could not prohibit the parallel importation of the china dish sets.[397]

In *Warner Brothers v. Christiansen*, a more technologically advanced case, the ECJ held that firms who sell video cassettes of movies into the member states can invoke their copyrights to prohibit their remake and resale after the video cassettes have been lawfully sold or rented.[398] Here, Warner Brothers held a copyright, recognized in several member states, for a James Bond film (and several other films) reproduced on video cassette for purchase and rental and marketed them throughout the member states.[399] The defendant, Christiansen, had purchased the James Bond video cassette and advertised copies for sale in Denmark with Danish subtitles.[400]

Although the ECJ found that Warner Brothers had clearly determined which markets to sell its copyrighted product, its rights were not exhausted at the sale of the cassette within the particular market, and therefore, Warner Brothers could assert copyright protection to enjoin the further duplication under Article 36[401] The Court noted that the great majority of use of video cassettes in the EU was through rentals and that the copyright holder should have the ability to limit the exploitation of its investment.[402] Furthermore, in comparison to the *Cinetheque* case,[403] the Court found no difference between a sale of the film and the rental of its reproduction.[404]

b. Royalty Payment

In *Musik-Vertrieb Membran GmbH v. GEMA*, a bizarre set of facts gave rise to a prevailing interest found within Article 36 over the competing interests of Article 34.[405] The ECJ heard two cases together with similar fact patterns whereby

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395 *Id.* ¶ 12.

396 *Id.* ¶ 13.

397 *Id.* ¶¶ 15, 16, 18.

398 Case C-158/86, Warner Bros. Inc. v. Christiansen, 1988 E.C.R. 2605, ¶ 19, at 2625.

399 *Id.* ¶ 3.

400 *Id.* ¶ 5.

401 *Id.* ¶¶ 9, 10.

402 *Id.* ¶ 10.

403 Joined Cases 60 & 61/84, Cinetheque S.A. v. Fed'n Nationale des Cinemas Francais, 1985 E.C.R. 2605, 1.

404 *Warner Bros. Inc.*, 1988 E.C.R. at ¶ 10, at 2628.

405 Joined Cases 55/80 and 57/80, Musik-Vertieb GmbH v. GEMA, 1981 E.C.R. 147, 2 C.M.L.R.

an organization of composers representing those with copyrights to music tried to enforce those copyrights to ensure the standard royalty payment recognized in Germany.[406] GEMA, a German organization was entitled to an 8.0% royalty on each record sold by the plaintiffs in Germany.[407] The plaintiffs, however, received permission to sell the records in Germany by the British counterpart of GEMA, MCPS, with a royalty payment of 6.25%.[408] GEMA argued that it was entitled to the difference between the two royalty payments.[409] The plaintiffs argued that if such an argument were accepted, it would run afoul of Article 34, which bars restrictions on imports.[410]

The ECJ ruled that Article 36 allowed for the use of German law to force the plaintiffs to pay the difference in royalty payments since the composers, not the plaintiffs that manufactured the records being imported from the United Kingdom to Germany, held the copyrights.[411]

Royalties again were the subject matter in *G. Basset v. SACEM*.[412] In *G. Basset*, the ECJ was asked to determine whether a national copyright management organization recognized under French law could require a supplementary mechanical reproduction fee levied on the public performances of copyrighted sound recordings.[413] SACEM, the French organization that controlled the copyrighted works, sued Mr. Basset, an operator of a discotheque, for back payment of the agreed-to supplemental royalty.[414] Basset argued that such a royalty violated Articles 34, 36, 101, and 102 of the TFEU.[415] Basset also contended that SACEM had a de facto monopoly over the sound recordings in regard to contract and that this created a dominant position in the market that was also abused due to the size of the traditional royalty, which amounted to 6.60% of the discotheque's gross revenues, and the supplementary royalty, which amounted to 1.65% of the gross revenues.[416]

According to the ECJ, all sound recordings are products bound by the requirement that goods move freely between member states under Article 34 and any national legislation that would allow a national copyright management society to block the movement of those copyrighted sound recordings would violate Article 28.[417] However, the ECJ also stated that Article 36 allows member states to write legislation to protect industrial and commercial property, including copyrighted works, even if the legislation allows for the enforcement of licensing

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44 (1981).

[406] *Id.* ¶ 2.

[407] *Id.*

[408] *Id.*

[409] *Id.* ¶ 3.

[410] *Id.* ¶ 4.

[411] *Id.* ¶¶ 9–11.

[412] Case 402/85, G. Basset v. SACEM, 1987 E.C.R. 1747, ¶ 1.

[413] *Id.* ¶ 1.

[414] *Id.* ¶¶ 1, 5.

[415] *Id.*

[416] *Id.* ¶ 5.

[417] *Id.* ¶ 11.

provisions.[418] With these black-letter statements behind it, the Court found that the supplementary royalty was not assessed against the acts of importing or marketing the goods from one member state to the next, but instead, was assessed against the public use of the copyrighted work at discotheques, radio stations, or juke-boxes.[419] The Court also found that the royalty was merely compensation to the author for the use of the copyrighted work and was not assessed against the volume of records that were sold.[420]

In the end, the ECJ found that no violation of Articles 34, 36, and 102 were present.[421] Specifically, in regard to Articles 34 and 36 the Court found no violations despite the fact that national law allowed the National Intellectual Property Right Association to institute either royalty even if the member state in which the sound recordings were in public use did not require the same types of royalties.[422] Addressing the claim by Basset that the composite royalty rate was an abuse of a dominant position, thus, a violation of Article 102, the ECJ found that it was up to the national courts to determine whether the required royalty was abusive and since the French court did not believe them to be abusive.[423] The ECJ adhered to the finding but warned, however, that significantly high royalties could constitute the abuse of a dominant position.[424]

c. Domestic Distribution Limit

Articles 34, 36, and 56 were used to challenge a French ban on the distribution of copyrighted movies under copyright in *Cinetheque S.A. v. Federation Nationale des Cinemas Francais.*[425] At issue in this case was a French law that banned the selling or renting of video cassettes of any film which is simultaneously being show or one year from the date of the authorization certificate granted for the film.[426] Within the one-year period, Cinetheque began to reproduce a film that was currently in circulation in France and to sell copies to vendors, who would, in turn, sell them to consumers.[427] The plaintiffs immediately sought an injunction in French courts to stop the duplication and distribution of the film.[428] Cinetheque then brought a suit arguing that the French statute violated the above the TFEU's provisions.[429]

The ECJ found that the French law did not violate Articles 34 and 35 since importers and domestic (French) traders were being treated equally and therefore,

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418 *Id.*
419 *Id.* ¶ 12.
420 *Id.* ¶ 15.
421 *Id.* ¶¶ 16–18.
422 *Id.* ¶ 17.
423 *Id.* ¶ 19.
424 *Id.*
425 Joined Cases 60 & 61/84, Cinetheque S.A. v. Fed'n Nationale des Cinemas Francais, 1985 E.C.R. 2605.
426 *Id.* at 2606.
427 *Id.* at 2607.
428 *Id.*
429 *Id.*

there was no discrimination against imports.[430] Additionally, the French law did not give distributors the ability to take advantage of the differences in legal requirements across the member states even though the Advocate General Slynn found that no similar state law existed.[431]

Advocate General Slynn also found that Article 56's ban on any restrictions on the freedom to provide services within the EU was not violated by the French law since the prohibition on the duplication and distribution for one year did not amount to a "restriction."[432]

d. Broadcasting

Coditel v. Cine-Vog, factually, is a relatively easy case to show the power of a copyright holder when executing a license with another party that allows for distribution of a film only in one member state.[433] Coditel was a collection of Belgian cable companies that had contracted with Cine-Vog to distribute and show copyrighted films controlled by the latter, but only in the Belgian market.[434] Coditel had allowed the broadcasts to be picked up by German viewers, in breach of the agreement with Cine-Vog, and Cine-Vog sued Coditel for back payment of royalties.[435]

Coditel argued that Articles 34, 36, 56, and 101 were violated, and specifically, that the agreement posed an equivalent restriction on the free movement of goods and services, and that the agreement constituted an attempt by Cine-Vog to distort competition.[436] The ECJ made short shrift of the case holding that the mere requirement in a copyright licensing agreement that limits the geographical scope of broadcast rights does not violate Articles 34, 36, 56, or 101 and that Article 36 permits a member state to enforce agreements that allow for the protection of commercial and industrial property as an exception to Article 34.[437] The Court expressed sympathy for the concerns of Cine-Vog in regard to the importance of film distribution in the EU, whereby copyrighted works need to be appropriately subtitled.[438] To address such concern in a license agreement was not an attempt at distortion, and thus, Article 101 was not violated, per se, the Court declared.[439] The ECJ did make it clear, however, that national courts must inquire as to whether the exercise of copyrights found within licensing agreements actually distort competition.[440]

Articles 34, 36, 101, and 102 are not the sole provisions of the TFEU

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[430] *Id.* at 2611–12.

[431] *Id.* at 2606, 2611. The Advocate General found that "in a number of Member States the same result has been achieved by the film industry itself without legislation." *Id.* at 2607.

[432] *Id.* at 2614–15.

[433] Case 262/81, Coditel v. Cine-Vog, 1982 E.C.R. 3381.

[434] *Id.* ¶ 2.

[435] *Id.* ¶¶ 3, 4.

[436] *Id.* ¶¶ 9, 10, 14.

[437] *Id.* ¶¶ 10, 14, 20.

[438] *Id.* ¶16.

[439] *Id.*

[440] *Id.* ¶¶ 17, 19.

involved in the discussion of the balance between intellectual property rights and the free movement of goods. Article 56 of the TFEU provides for the free movement of services.[441] Article 106 of the TFEU requires that any revenue-producing entity created by a member state that is given exclusive rights must adhere to the principles found in Articles 18, and 101-109.[442] In *ERT v. DEP*, the ECJ made several comments about the ability of a member state to create a media crown corporation with monopolistic power over television and radio broadcasts.[443]

The Greek government had created the Hellenic Broadcasting Corporation ("ERT") to maintain exclusive broadcasting over television and radio of virtually all sounds and images broadcasted within Greece for general reception, or by special closed or cable circuit, or any other form of circuit, and the setting up of radio and stations and ERT was given the power to produce and exploit by any means radio and television broadcasts.[444] Despite the exclusive rights granted to ERT, DEP and the mayor of a Greek city launched a television station to broadcast television programs.[445] When challenged by ERT, DEP claimed that the Greek grant of authority for ERT violated Articles 34, 36, 101, and 102 of the TFEU.[446]

The ECJ did not expressly address whether Articles 34, 36, 101, and 102 were violated.[447] Instead, it answered several questions posed to it by the Greek

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[441] Article 56 (formerly 49) of the Treaty states:

> Within the framework of the provisions set out below, restrictions on freedom to provide services within the Community shall be prohibited in respect of nationals of Member States who are established in a State of the Community other than that of the person for whom the services are intended. The Council may, acting by a qualified majority on a proposal from the Commission, extend the provisions of the Chapter to nationals of a third country who provide services and who are established with the Community.

Id.

[442] Article 86 of the Treaty states:

> 1.In the case of public undertakings and undertakings to which Member States grant special or exclusive rights, Member States shall neither enact nor maintain in force any measure contrary to the rules provided for in Article 12 and Articles 81 to 89.
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> 2. Undertakings entrusted with the operation of services of general economic interest or having the character of a revenue-producing monopoly shall be subject to the rules contained in this Treaty, in particular to the rules on competition, insofar as the application of such rules does not obstruct the performance, in law or in fact, of the particular tasks assigned to them. The development of trade must not be affected to such an extent as would be contrary to the interests of the Community.
>
> 3. The Commission shall ensure the application of the provisions of this Article and shall, where necessary, address appropriate directives or decision to Member States.

Id.

[443] Case C-260/89, ERT v. DEP, 1991 E.C.R. I-2925.

[444] *Id.* ¶ 3.

[445] *Id.* ¶¶ 1, 4.

[446] *Id.* DEP also contended that the Greek grant of authority violated the European Convention on Human Rights. *Id.*

[447] *Id.* ¶ 5.

courts on the subject of monopoly power regarding broadcast rights.[448] According to the ECJ, its previous case law did find that the Treaty prevents member states from removing television and radio broadcasting from the sphere of competition and providing one entity to provide those services, but the way in which the monopoly-empowered entity is organized or exercised can infringe Articles 101 and 102.[449] The Court stated that television broadcasts are covered by the TFEU provisions concerning free movement of services and the materials used in television broadcasting, namely the sound recordings, films, and other products, are subject to the rules on the free movement of goods.[450] The ECJ further stated that if the monopoly is granted exclusive authority to import, rent, or distribute broadcasting material, no violation of Article 34 exists unless the monopoly-empowered entity, either directly or indirectly, engages in discriminatory practices between domestic and imported broadcast materials to the detriment of the imported materials.[451]

In regard to the free movement of services, the ECJ provided a parallel rule to the rule regarding free movement of goods and held that the creation of a monopoly-empowered broadcasting entity itself is not a violation of Article 56 of the TFEU so long as the entity does not discriminate between domestic and foreign-based (yet within the EU) broadcast services, to the detriment of the latter.[452] According to the ECJ, the fear is that without a guarantee that the broadcasting entity would carry broadcasts from other member states, the monopoly-empowered entity would favor its own programs.[453]

On the subject of competition law, the ECJ made it clear that Articles 101 and 102 are applicable to monopoly operations created by member states and that these entities will be treated as a separate undertaking from the member state that birthed it.[454] Continuing, the ECJ stated that it is possible that member state created monopolies can have a dominant power in the market place and can abuse that power under Article 102.[455] The ECJ remarked that member states are not free to force the monopoly-empowered entity to engage in competition rules violations under Articles 101 and 102.[456]

e. Reproduction of Copyrighted Material

In a landmark case, in fact a consolidation of three cases collectively called the "*Magill TV Cases*" that perhaps best explains the remedial powers held by the European Commission, the ECJ upheld the ability of the European Commission to order copyright holders to disseminate their information when their copyright

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448 *Id.*
449 *Id.* ¶¶ 10, 11.
450 *Id.* ¶¶ 13, 14.
451 *Id.* ¶¶ 15, 16.
452 *Id.* ¶¶ 19, 20.
453 *Id.* ¶ 22.
454 *Id.* ¶¶ 27, 28.
455 *Id.* ¶ 82.
456 *Id.* ¶ 35.

amounts to a an abuse of a dominant position under Article 102.[457] In *The Magill TV Cases*, three television broadcasters asserted their copyrights against Magill TV as the latter took the schedules printed by each of the broadcasters and consolidated the schedules into one magazine for consumers to purchase in Ireland and Northern Ireland of the United Kingdom.[458]

Under the two-step process required to find a violation of Article 102, a dominant position and the abuse thereof, the ECJ found that the television broadcasters abused a dominant position.[459] The dominant position was substantiated by the fact that the majority of households in Ireland and as much as forty percent of households in Northern Ireland could receive broadcasts by the three television networks.[460] Furthermore, to allow the networks to assert their copyrights would, in effect, give them "de facto monopoly" over the publication of weekly television listings, placing firms like Magill, that wanted to create a new product, in a state of economic reliance.[461] Article 36 could not save the assertion of the copyrights.[462]

2. Analysis

A common thread exists between copyright cases and patent cases in regard to fees that firms may have to pay to be able to successfully move products from one member state to another. In the *Musik-Vertrieb* and *Basset* cases, the ECJ held that those using copyrighted sound recordings even if the royalty schedules are different for different member states must make royalty payments.[463] The ECJ, however, maintained its free movement principles and stated that once the royalties are paid, the sound recordings can be moved from one member state to when consent exists.[464] The holding in these cases are similar to the holding in *BASF*, above, where the ECJ held that language requirements for patent applications did not violate Article 34.[465] The common thread in these cases seems to be that as long as all parties, and their protected goods, are treated the same, member states are permitted to have unique laws that might create an intellectual property patchwork across the EU. Expenses such as royalty payments and costs associated with preparing patent applications are not barriers since all parties operating in the member states that have these conditions are regulating only within their member states.

The *Cinetheque* case is the only case in this line that is perplexing, but only

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[457] Joined Cases C-241/91 P & C-242/91 P, Radio Telefis Eireann & Indep. Television Publ'n ("*The Magill TV Cases*"), 1995 E.C.R. I-743, I-832–33.

[458] *Id.* at I-806–13.

[459] *Id.* at I-811–12.

[460] *Id.* at I-811.

[461] *Id.* at I-822.

[462] *Id.* at I-816.

[463] Case 57/80, Musik-Vertieb GmbH v. GEMA, 1981 E.C.R. 147; Case 402/85, G. Basset v. SACEM, 1987 E.C.R. 1747.

[464] G. Basset v. SACEM, 1987 E.C.R. 1747, ¶ 11.

[465] Case C-44/98, BASF AG v. Prasident, 1999 E.C.R. 6269, ¶¶ 22, 29.

because of the possible effects. From a pure quantitative restriction viewpoint, the ECJ is allowing for a limitation pursuant to French law where after-market distribution of movies is barred for one year from the premiere date of the film.[466] Theoretically, the law only applies in France but would apply to French films and films produced across the EU but premiered in France. What remains to be seen is whether this harms the after-market film distribution industry if one or a handful of member states truly dominate the film industry. These few countries could enact similar laws and significantly limit the after-market film distributors' chances at profitability.

Similar to the concerns associated with the secondary market for film distribution, the irregular goods industry gained significantly by the ECJ's decision in *Dansk Supermarked*. Although the plaintiffs had a significant interest in protecting their copyright (and trademark) in regard to value, consent to market irregular goods in another member state allows for a parallel import opportunity. Member states that want to allow for protection of copyrights (and trademarks) in regard to their value could require a consumer protection identification mark on the goods that they are "irregular." Such a maneuver could allow for the price of the copyrighted and trademarked goods to remain at traditional levels.

The *Magill TV Cases* are perhaps the best example of consumer protection that stems from Articles 34 and 102. The ability to allow a third party publisher to create a master schedule makes it easier, and thus cheaper, for television viewers in the EU to find their way to the show they desire. The television networks that published the primary schedules certainly have an interest in making sure that the republication of their schedules in the form of a master schedule is accurate. The ECJ, in a sense, created a new industry making television viewing easier for those living in mass markets. The case is, to a certain degree, out of line with traditional notions of copyright protection that would usually allow for an injunction against unauthorized use of copyrighted material, in this case, a primary television schedule.

Intellectual property rights are designed to stoke innovation, creativity and economic development. However, the decision in *ERT v. DEP* seems to allow governments to stifle innovation, creativity, and economic development, and perhaps worse, create conditions for censorship. In *ERT v. DEP*, the ECJ stated that it is not a violation of the TFEU for governments to remove broadcasting from the realm of competition and, thus, allowing for state control of media.[467] It seems ironic that the EU, which is founded on an economic liberalism philosophy, would condone such a possibility, which also prohibits television shows and movies from entering into a member state.

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[466] Joined Cases 60 & 61/84, Cinetheque S.A. v. Fed'n Nationale des Cinemas Francais, 1985 E.C.R. 2605.

[467] Case C-260/89, ERT v. DEP, 1991 E.C.R. I-2925. ¶¶ 19, 20.

D. Free Movement, Competition, and Trade Secrets

1. Case Law

The cell phone industry continues to be an intellectual property frontier. Cell phone technology can involve all forms of intellectual property, including patent, copyright, trademark, and trade secrets. In *T-Mobile NV v. Raad van besuur*, the ECJ ruled that the revelation of trade secrets among competitors that leads to an agreement that restricts competition can lead to an infringement of Article 101.[468]

The *T-Mobile* case, factually, sounds like a traditional European "competition" case or American "antitrust" case. The five operators of cell phone service in the Netherlands met to discuss the reduction of standard dealer remunerations for post-paid cell phone subscriptions and, according to the evidence discovered in the Dutch courts, confidential information was discussed and exchanged and a date for the agreement was adopted.[469] The Dutch courts found that the five parties had engaged in a concerted effort in violation of Dutch law and Article 101 of the TFEU, and all five parties were fined for their action.[470]

The ECJ made several statements about the potential violation of Article 101 pursuant to a willing exchange of corporate information among competitors. According to the ECJ, the purpose of Article 101 is to identify forms of collusion among competitors and collusion is present when there is coordination and cooperation among competitors occurs instead of risk-oriented competition.[471] Article 101, the ECJ declared, prohibits agreements maintaining an anti-competitive object as well as agreements realizing anti-competitive effects.[472] Once the anti-competitive objective is identified, Article 101 is breached and there is no need to explore whether anti-competitive effects have been felt by the market place.[473]

The ECJ also commented on the exchange of information among the competing parties that would constitute an Article 101 violation. The ECJ stated that no business information, either directly or indirectly, should be relayed between and among competitors that would influence the activity of actual or potential competitors, nor should any information be disclosed about the nature of products or services offered by the competitors.[474] Moreover, if the exchange of information between and among competitors removes uncertainty in market operations, Article 101 has been breached.[475]

The ECJ held that national courts must apply a presumption that Article 101 has been infringed, thus shifting the burden of proof to the alleged infringers, when

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[468] Case C-8/08, T-Mobile NV v. Raad van besuur, 2009 E.C.R. I-4529, ¶ 61.

[469] *Id.* ¶ 12. The five meeting participants were the only providers of cell phone service and the Dutch government had not opened a sixth license. *Id.* ¶ 10.

[470] *Id.* ¶¶ 13, 15, 16.

[471] *Id.* ¶¶ 23, 26.

[472] *Id.* ¶ 28.

[473] *Id.* ¶ 29.

[474] *Id.* ¶ 33.

[475] *Id.* ¶ 85.

competitors willingly meet and exchange vital business information and remain active in the market place.[476]

2. *Analysis*

The sharing of business information may be the next significant challenge for member states, consumers, and victimized competitors. Firms holding trade secrets can work together to insulate themselves from the forces of competition and injure consumers and other competitors that are not privy to the same information. Such information can be shared quickly, privately, and easily. The reader of this work would notice that Article 81 does not arise as often as its sister Articles including 34, 36, and 102. However, member state governments, as well as the EU government, will have to become more vigilant against such abuse in the form of private agreements among competing firms.

The most challenging part of this enforcement is likely to be the determination of whether the sharing of information has led to an agreement, and then whether the agreement among the competitors has created anti-competitive effects. The ECJ's ruling in *T-Mobile* does state that the sharing of such information, directly or indirectly, gives rise to an Article 101 violation. Policing this matter will be made easier due to the ECJ's holder that there exists a presumption that Article 101 has been violated upon proof of shared information.

V. ANALYSIS OF FREE MOVEMENT, COMPETITION, AND INTELLECTUAL PROPERTY RIGHTS

An analysis of the jurisprudence of the ECJ on the balance between the protection of intellectual property law on one hand and the free movement of goods and undistorted competition on the other hand seems to favor the free movement of goods and undistorted competition. The ECJ in the above cases seems to err on the side of preventing intellectual property right holders, whether the right is vested in a patent, trademark, or copyright, from asserting their rights under national law to prevent the possibility of trade restraint.

This is not to say that nationally-granted intellectual property rights are worthless. Indeed, the ECJ has stated that the national intellectual property right is unyielding, but only if the right holder manufactures and markets the product within the member state granting the right. However, once the right holder's product leaves the territory, the doctrine of Community-wide exhaustion of rights (i.e., regional exhaustion) prevails in most cases. The ECJ will not uphold a national law inhibiting the free movement of goods once the right holder has acquiesced, whether explicitly or implicitly and however mildly, such as is the case of parallel imports, to the sale of the protected product in another market.

This reality poses a challenging dilemma for firms with substantial intellectual property rights. The European Commission's decisions and the opinions from the ECJ show that firms must think very carefully about placing

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476 *Id.* ¶ 53.

their protected products in other member states, as the threat of parallel import is significant. The Advocate General Reischl's comment in the *Merck v. Stephar* decision—that there is very little relationship between patentability and price—is clearly unfounded as many cases show the real value in parallel importing.[477] The reader of these cases can only imagine the financial resources that an intellectual property right holder will spend in litigation trying to protect these rights against a tide that is clearly against them. Such litigation costs, both within the EU and internationally, help reveal the true value of such rights as assets to be protected. In other words, right holders would not spend these resources if the stakes were low.

Making this dilemma even more challenging is the possibility that international exhaustion becomes the norm. The jurisprudence of the ECJ makes it clear that regional exhaustion is the norm, but the ECJ has not stated that regional exhaustion of rights within the EU is the limit. The EFTA Court has been more direct and, after examining the same ECJ jurisprudence in *Mag Instrument*, held member states are free to adopt international exhaustion rights if they so desire.[478] Firms that are heavily dependent upon their intellectual property rights should begin to plan for the possibility of international exhaustion as the EU becomes more comfortable with regional exhaustion and the member state governments also press for such limitations. However, if international exhaustion were to become the standard in regard to the balance between intellectual property rights and trade restraint, the ECJ and the EFTA Court would have to better coordinate their precedents. Otherwise, this would be a threat to harmonization in the EU and EEA. Given the Swiss Federal Court's decision in *Kodak*, there may be a battle between strict national exhaustion and international exhaustion on the European continent.[479] If Switzerland is able to improve its level of foreign direct investment through its intellectual property laws, other member states may abandon the current trajectory and retreat to national exhaustion, which would certainly be more popular with firms possessing intellectual property rights.

There are exceptions that the ECJ has carved out of the TFEU—such as allowing a right holder to assert rights having the effect of trade restraint—aside from the traditional exhaustion doctrine. The ECJ will allow the assertion of intellectual property rights to block the movement of goods if consumer health is jeopardized (i.e., if repackaging could contaminate the product), or if the products might lead to consumer confusion (i.e., two related products with similar names), or if there will be serious damage to the reputation of the right owner. If, however, a trademark right holder suspects serious interference with its rights in these circumstances, the right holder is wise to exercise its right to demand a sample of the packaging and challenge the method of the parallel import.

The ECJ has stated that royalty payments are due right holders and parties who are tied to such agreements making them responsible for the payment of

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477 Case C-187/80, Merck & Co. v. Stephar B.V., 1981 E.C.R. 2063.

478 Case E-2/97, Mag Instrument, Inc. v. Cal. Trading Co. Norway, Ulsteen, 1 C.M.L.R. 331 (1998), ¶¶ 27, 28.

479 Kodak v. Jumbo Markt, [2001] E.N.P.R. 11, ¶¶ 47, 57.

royalties are not able to invoke Articles 101 or 102 as a barrier to payment. Additionally, when agreements between a right owner-licensor and licensee specify the geographic range of broadcast rights for the licensee, the licensee cannot hide behind any of the Articles and refuse to adhere to those limits. However, these exception cases are rare and those seeking to protect their products and market them in another member state will not often be able to rely on the intellectual property rights. Indeed, in the case where two product names are similar, if the marketer of one of the products is willing to change the name of the product, the opposing right holder may do little to prevent the product's importation into the member state that has granted the rights.

Despite these bright-line rules, the ECJ has still left a void in the area of trademark law and to a lesser degree patent law and copyright law. In the circumstance where two competing firms, each with intellectual property rights from two different member states (e.g., Country A and Country B), and they attempt to enter a third member state (e.g., Country C) with identical trademarks, there is no solution in EU law as to which firm has prevailing rights in the third country (Country C). Instead, if any solution exists, it must be found in the domestic law of that third member state. This is a void that can only be addressed by way of legislation from the European Commission or European Council.

Additionally, a right holder will not be allowed to dominate information and the ECJ will allow for the free flow of information when one or a few parties are able to abuse a dominant position in regard to television media.

VI. CONCLUSION

The EU, and its law, has come a long way in sixty years and a legally united Europe may not be far away.[480] The momentum toward unification and integration seems to be linear.[481] Without question, this body of law will continue to evolve. But the law seems to be evolving consistent with the international trend whereby intellectual property rights are weakened to accommodate the interests of the world's consumers and the ever-increasing number of free trade agreements. The decisions by the ECJ and its sister court, the EFTA Court, could prove to become the playbook by which other judicial organs follow as they are created to deal with conflicts arising from future trade agreements. Given the experiences of the ECJ and EFTA Court, the world's countries should have less fear as to how any trade court would handle disputes and the associated leaders should have greater faith in these tribunals.

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