

## IPR - FREE MOVEMENT OF GOODS

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The idea behind the IPR protection is to give the inventor/creator/author a right to capitalize on her efforts before any third party can reap the benefits. The rights holder will be the first to put the protected product on the market and thereby be financially compensated. During the time the protection lasts the owner holds a monopoly on this right. The length of this priority position is dependent on the type of right involved – from limited periods for inventions (patents – 20 years, design models - periods of 5 years) to substantial periods for intellectual property rights and basically unlimited periods for trademarks. She can use it herself, assign it or grant limited rights in the form of a license.

Even if most intellectual property rights<sup>1</sup> have been harmonised based on international conventions,<sup>2</sup> enforcement of the rights largely remains national and independent. They follow the principle of territoriality, which means that the rights can only be relied on in the territory where they are granted and are not affected by the fact that parallel rights may exist in other countries. As a consequence, markets are fragmented and isolated. However, once a product has lawfully been put into commercial circulation in one country, the rights holder cannot prevent further sale of that product in the same country ("national consumption/exhaustion of industrial property rights").

A market-dividing effect is contrary to the very idea of creating a unified single market like the European Union. The Rome Treaty instituted a system, which is intended to lead to the abolition of all pecuniary charges for cross border transactions and measures with effect equivalent to quantitative restrictions. From this perspective, national rules which are based on a territoriality principle should give way to the common rule. Through its case law, the ECJ has established that in cases of conflict, the Community rule must take precedence.<sup>3</sup>

Article 295 EC\* stipulates that the Treaty shall "in no way prejudice the rules in the Member States governing the system of property ownership." National industrial property rights are covered by this stipulation, but function like a quantitative restriction prohibited by Article 28 EC. Article

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<sup>1</sup> The notion "Industrial and commercial property rights" includes patent, trade-mark, designs, utility models, breeders right etc. Intellectual property is used in a wider sense also covering copyright. Know-how is not included in any of these notions as the protection of know-how is not based on statutory law but rather dependent on private agreements. Still, know-how is often treated as an industrial property right for antitrust purposes. The notions are used as synonyms in this work.

<sup>2</sup> International conventions exist for all intellectual property rights. Much efforts have been put into giving these rights a European dimension, but the EU activities have been less successful: EPC, the European Patent Convention of 1 June 1978 is not the result of a Community effort. The Community Patent Convention of 15 December 1989, OJ 1989 L401/1 and the European Trademark Convention, OJ 1984 C230/1 have not entered into force. The First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks, OJ 1989 L 40/1 and Council Regulation (EC) No 40/94 of 20 December 1993 on the Community trade mark, OJ 1994 L 11/1, do not supersede national legislation in the field, but they are already having a substantial impact on trade mark development. See Commission Regulation (EC) No 2868/95 of 13 December 1995 implementing Council Regulation 40/94 on the Community Trademarks, OJ 1995 L 303/1.

<sup>3</sup> ECJ, Case 6/64, *Costa v. ENEL*, 6 April 1964, [1964] ECR 585, [1964] CMLR 425.

30 EC derogates from this latter prohibition thereby recognizing the national law. Such legislation should not, however, be used in a discriminatory way or as a disguised restriction on trade.

The interpretation of these concepts has been the subject of protracted development in the case law. The ECJ has striven for a balance between its wish to uphold a single market and its appreciation of the need to support national laws compensating the creative inventor or developer in the absence of true EU-wide parallel protection.<sup>4</sup>

## **Do rules on competition, free movement or IPR apply?**

There are indeed good reasons for supporting and encouraging the dissemination of new ideas in a developed society. Lacking protection new inventions would unfairly be copied without reward to the inventor or creator. But protection of intellectual development is not a question of fairness only. Without this protection, inventors would either not disclose new discoveries or only do it under an elaborate scheme of secrecy and confidentiality undertakings. Products would reach the market at a slower pace – if at all - and new development could not build on earlier discussions. Therefore, protection for intellectual efforts is granted both in the interests of the inventor and society at large.

This protection is not wholly uncontroversial. During recent years it has often been underlined that IPR and competition law serve the same goal – to create a dynamic environment. Yet IPR grants monopoly rights which are to some extent in conflict with a free competitive environment. There is always the question of what is a reasonable remuneration in terms of time

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<sup>4</sup> Principal cases relating to intellectual property: Cases 56 & 58/64, *Consten and Grundig v. Commission*, 6 April 1964: [1966] ECR 299, [1966] CMLR 418; ECJ, Case 24/67, *Parke Davis & Company v. Probel and others*, 29 February 1968: [1968] ECR 55, [1968] CMLR 47; Case 40/70, *Sirena v. Eda*, 18 February 1971: [1971] ECR 69, [1971] CMLR 260; Case 78/70, *Deutsche Grammophon v. Metro*, 8 June 1971: [1971] ECR 487, [1971] CMLR 631; Case 192/73, *Van Zuylen v. Hag ("Kafé Hag I")*, 3 July 1974: [1974] ECR 731, [1974] 2 CMLR 127; *Centrafarm BV et Adriaan de Peijper v Sterling Drug Inc.*, 31 October 1974. [1974] ECR 1147, [1974] 2 CMLR 480; Case 16/74, *Centrafarm v. Wintrop*, 31 October 1974: [1974] ECR 1183, [1974] 2 CMLR 480; Case 102/77, *Hoffmann-La Roche & Co. AG v. Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mbH*, 23 May 1978: [1978] ECR 1139, [1978] 3 CMLR 217; Case 3/78, *Centrafarm BV v American Home Products Corp.*, 10 October 1978: [1978] ECR 1823, [1979] 1 CMLR 326; Case 187/80, *Merck v. Stephar*, 14 July 1981: [1981] ECR 2063, [1981] 3 CMLR 463; Case 262/81, *Coditel v. Ciné Vog Films (No. 2)*, 6 October 1982: [1982] ECR 3361, [1983] 1 CMLR 49; [1982] ECR 3381, [1983] 1 CMLR 49; Case C-10/89, *SA CNL-Sucal v. Hag GF*, 17 October 1990: [1990] I ECR 3711, [1990] 3 CMLR 571; Case 9/93, *IHT Internationale Heiztechnik GmbH v. Ideal-Standard GmbH (Ideal Standard)*, 22 June 1994: [1994] I ECR 857, [1994] 3 CMLR 857; Case C-427/93, C-429/93 & C-436/93 *Bristol Mayer Squibb, Boeringer Ingelheim and Bayer AG v Paranova A/S*, 11 July 1996: [1996] ECR I-3457, [1997] 1 CMLR 1151; Case C-267/95 & C-268/95, *Merck & Co. Inc. v Primecrown Ltd and Beecham Group plc v Europharm of Worthing Ltd*, 5 December 1996, [1996] I-6285, [1997] 1 CMLR 83; Case C-337/95, *Parfums Christian Dior SA and Parfums Christian Dior BV v Evora BV*, 4 November 1997, [1998] ECR I-6013, CMLR ...\*; Case C-355/96, *Silhouette International Schmied GmbH & Co. KG v Hartlauer Handelsgesellschaft mbH*, 16 July 1998, ....\*ECR...\*CMLR.

and content. From a competition perspective, the grant of a monopoly conflicts with the fundamental desire for open, fair and competitive market conditions. A monopoly based on intellectual property rights will lead to monopoly pricing – which has its evident draw-backs. Cartelization is also likely to emerge when the rights-holder, rather than exploiting the right himself, grants licenses to third parties to operate the monopoly. Generally, it could be expected that such grants would lead to exclusionary practices and the rights-holder is often seeking benefits over and above the statutory rights.

Based on such considerations, antitrust authorities in both Europe and the USA have reviewed intellectual property protection with some suspicion. Should the holder of the right be entitled to divide and arrange in his own discretion or should the practices be monitored? Seen over a longer period, society at certain times is oriented towards increasing competitiveness to the detriment of industrial property, while at others it underlines the need for technological development partly disregarding the competitive environment.

### **The initial reliance on competition rules**

The first occasion when the Court was confronted with the effects of intellectual property rights was in *Consten/Grundig*<sup>5</sup> where Grundig had granted Consten an exclusive distribution right and agreed to bar parallel trade in its products. In order to reinforce the territorial exclusivity, Grundig also granted Consten an exclusive right to the GRUNDIG trademark for the French territory and in addition assigned its trademark GINT for France to Consten.

Consten invoked its trademark right against parallel imports from abroad. The ECJ found that the exclusive sales arrangement as such did not infringe Article 81, but, as it was reinforced by absolute territorial protection, acceptable limits were exceeded.

The Court underlined that Articles 36, 295 and 307 EC\* "do not oppose every impact of Community Law on the exercise of national industrial property rights. Article 30 EC, which limits the scope of the rules on the liberalization of trade contained in Title I, Chapter 2. of the Treaty, cannot limit the field of application of Art 85\*." The conflict between national rules on industrial property and the common rules on competition was resolved in favour of the Community rules.<sup>6</sup>

In *Parke Davis*<sup>7</sup> the parallel importer Probel bought in Italy a generic version of a pharmaceutical product which was patented in Holland. The question referred to the ECJ was whether Parke Davis was infringing Article 81(1) by preventing parallel importation from Italy by relying on its Dutch

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<sup>5</sup> Joined Cases 56 & 58/64, *Consten & Grundig v. EC Commission*, footnote 3. The case is primarily dealt with in Chapter 5.

<sup>6</sup> "Such a system, by reason of the above mentioned character and its function, does not allow the abusive use of rights deriving from one or another national trade mark law in order to defeat the effectiveness of the Community law on restrictive practices."

<sup>7</sup> ECJ, Case 24/67, *Parke Davis & Company v. Probel and others*, 29 February 1968: [1968] ECR 55, [1968] CMLR 47.

patent.

The ECJ held that a patent, taken by itself and independently of any agreement of which it may be the subject, results from a legal status granted by a State to products meeting certain criteria, and thus avoids the elements of contract or concert mentioned by Article 81(1). Nor was Article 82 EC considered applicable. Even if a patent confers special protection, it does not follow that the exercise of the right so conferred implies the existence of the three elements mentioned in Article 82. It could only do so if the utilization of the patent could degenerate into an improper exploitation of the protection.

The Court concluded that since the existence of the patent right depends on national laws, only the use of it could fall within the ambit of Community law. Nor did a higher price on a patented product compared to a non-patented product necessarily constitute an abuse.

In 1937 *Sirena*<sup>8</sup> the American company, Mark Allen, assigned the trademark PREP to Sirena for the Italian market. Sirena subsequently registered OREP in its own name for its own behalf. Mark Allen had also given rights to a third party for the German market, who eventually started to export trade-marked products to Italy. Sirena filed an infringement action to prevent the parallel exportation and the matter was referred to the ECJ. Was such an action, albeit based on national trade-mark law, contrary to the competition rules of Treaty?

The ECJ concluded that Article 81 is silent with respect to the relationship between competition law and national property law. As national laws had not been harmonized, the national nature of this protection could create obstacles to the free movement of goods and for the competition system.

The Court referred to Article 30 EC, not as an independent source of law, but rather as support for the interpretation of the competition rules. In its characteristic manner the Court stated that trademark rights<sup>9</sup> are not agreements per se, but the exercise of them may come within the prohibition of Article 81 EC. "Article 81<sup>#</sup> therefore applies where, by virtue of trade mark rights, imports of products originating in other Member States, bearing the same trade mark because their owners have acquired the trade mark itself or the right to use it through agreements with one other or with third parties, are prevented."<sup>10</sup> The Court added: "If the agreements have been concluded before the entry into force of the Treaty it is necessary and sufficient that effects continue after this date."

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<sup>8</sup> ECJ, Case 40/70, *Sirena v. Eda*, 18 February 1971: [1971] ECR 69, [1971] CMLR 260.

<sup>9</sup> According to ECJ trademark rights were less worthy of protection than other industrial property rights - which now 25 years later - is a questionable conclusion in view of the high economic value assigned to a good trademark. Compare the view of the advocate general expressed in *Magill TV Guide* that TV-listings should be less worthy of copyright protection than other intellectual property activities. ECJ, Case C-241/91 & C-242/91, *Radio Telefís Eireann & Independent Television Publication Ltd v EC Commission*, 6 April 1995: (1995) ECR I-743, (1995) 4 CMLR 718.

<sup>10</sup> Case 40/70, *Sirena v. Eda*, footnote 8 at paragraph [11].

## A fictitious theory

The initial case law established that the *existence* of monopoly rights as such did not infringe European competition law. Such rights could, however, be *exercised* in a way that the rules could be infringed.

In terms of the exploitation of the rights-holder herself, the three conditions in Article 82 – dominant position, impact on trade between Member States and abuse – had to be fulfilled for it to apply. Ordinary advantages deriving from the statutory monopoly did not equal an abuse. In certain situations – not identified by the Court – the exploitation could be abusive.

It is more likely that Article 81 could be applicable when the rights-holder initiates collaboration with others regarding her monopoly right. *Consten/Grundig* cleared an exclusive arrangement where a supplier was allotting territories to her different exclusive distributors. When the contractual arrangement was reinforced by reliance on national monopoly provisions, the conflict with the competition rules became apparent. Other central Treaty stipulations had to give way to secure free movement of the products between Member States. The fact that the Court addresses absolute territorial protection is hardly objectionable. More debatable is how it was done and the subsequent restrictive interpretation of the precedent.

The *Sirena* judgment is even more questionable in its reliance on an old assignment of a trademark preceeding any European collaboration. The Court went far in its efforts to create some form of current legal relation on which Article 81 would apply. *Sirena* attracted criticism for being based on an unclear and fictitious theory, which was not capable of handling many situations involving intellectual property conflicts. It was obvious that *Sirena* was not the last word.

## The rules on free movement take precedence.

The real problem encountered by the Community in the 60s was connected to the fact that prices in Europe were gradually becoming more transparent and parallel trade resulted from the national discrepancies. To foster such trade was not primarily a competition matter, but rather in line with the drive to open up borders to free movement of products.

## Exhaustion of rights

If the point of departure was infringement of the antitrust rules of the Treaty, it soon became obvious that these rules would not apply where there was no agreement. In *Deutsche Grammophon*<sup>11</sup> the Court altered its reasoning and developed a more logical approach

Deutsche Grammophon GmbH (DG) produces gramophone records and distributes them through subsidiaries in the Member States. In Germany the price at the time of the legal action was DM 12.33 and the controlled retail selling price was DM 19 (RPM was not considered as unlawful at the time).

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<sup>11</sup> ECJ, Case 78/70, *Deutsche Grammophon v. Metro*, 8 June 1971: [1971] ECR 487, [1971] CMLR 631.

In other Member States subsidiaries were free to sell in accordance with commercial usage in their respective countries. The French affiliate Polydor SA supplied products to the German undertaking Metro-SB-Grossmärkte GmbH & Co. KG (Metro), which was able to resell them at a price of DM 13.50. The relation between Polydor and Metro terminated due to Metro's refusal to enter into a pricing agreement with DG group, but Metro still managed to obtain records from third parties established outside Germany and selling them at a discount price.

DG considered that Metro's sales activities were an infringement of the German Urheberrechtsgesetz (copyright law). It obtained an injunction against Metro as DG's rights in Germany (under German law) had not been exhausted by the sales in other countries. The injunction was appealed to the Hanseatische Oberlandsgericht, which referred to the ECJ certain questions on the interpretation of the second paragraph of Article 12 EC, Article 81(1) EC and Article 82 EC.

This time the Court held that if the exercise of the right did not exhibit those elements of contract or concerted practice referred to in Article 81(1), it was necessary to consider whether the practice was compatible with provisions relating to the free movement of goods.

**The Court summarised:**

(11) Amongst the prohibitions or restrictions on the free movement of goods which it concedes Article 36 (*now 30#*) refers to industrial and commercial property. On the assumption that those provisions may be relevant to a right related to copyright, it is nevertheless clear from that Article that, although the Treaty does not affect the existence of rights recognized by the legislation of a Member State with regard to industrial and commercial property, the exercise of such rights may nevertheless fall within the prohibitions laid down by the Treaty. Although it permits prohibitions or restrictions on the free movement of products, which are justified for the purpose of protecting industrial and commercial property, Article 36 (*now 30#*) only admits derogations from that freedom to the extent to which they are justified for the purpose of safeguarding rights which constitute the specific subject-matter of such property.

(12) If a right related to copyright is relied upon to prevent the marketing in a Member State of products distributed by the holder of the right or with his consent on the territory of another Member State on the sole ground that such distribution did not take place on the national territory, such a prohibition, which would legitimize the isolation of national markets, would be repugnant to the essential purpose of the Treaty, which is to unite national markets into a single market. That purpose could not be attained if, under the various legal systems of the Member States, nationals of those states were able to partition the market and bring about arbitrary discrimination or disguised restrictions on trade between Member States.

(13) Consequently, it would be in conflict with the provisions prescribing the free movement of products within the common market for a manufacturer of sound recordings to exercise the exclusive right to distribute the protected articles, conferred upon him by the legislation of a Member State, in such a way as to prohibit the sale in that state of products placed on the market by him or with his consent in another Member State solely because such distribution did not occur within the territory of the first Member State.

Deutsche Grammophon is a first important step away from the earlier reliance on the competition rules to resolve all matters relating to industrial

property rights – whether it was suitable or not. The Court only allows protection of rights, which could be regarded as falling under the "specific subject-matter" of the right – a notion, which it has subsequently developed in respect of different property rights. The ruling also predicts the further case-law development under the principle of "regional (EU) exhaustion" of rights.

### General application

*Deutsche Grammophon* dealt with copyright protection. The question was if the holding was limited to this specific intellectual property right or should equally extend to other industrial property rights.

In *Winthrop* and *Sterling Drug*<sup>12</sup> the companies, which were part of the same economic group, owned patents and trade-marks respectively relating to pharmaceutical specialities. The drugs were marketed by the rights holders or their licensees and subsequently parallel imported by an unconnected third party. In two judgments issued on 31 October 1974, the ECJ demonstrated that patents and trade-marks were to be treated alike in relation to their exhaustion after first commercial sales in Europe.

In *Sterling Drug* the ECJ held

(11). Whereas an obstacle to the free movement of goods of this kind may be justified on the ground of protection of industrial property where such protection is invoked against a product coming from a Member State where it is not patentable and has been manufactured by third parties without the consent of the patentee and in cases where there exist patents, the original proprietors of which are legally and economically independent, a derogation from the principle of the free movement of goods is not, however, justified where the product has been put onto the market in a legal manner, by the patentee himself or with his consent, in the Member State from which it has been imported, in particular in the case of a proprietor of parallel patents.

(12). In fact, if a patentee could prevent the import of protected products marketed by him or with his consent in another Member State, he would be able to partition off national markets and thereby restrict trade between Member States, in a situation where no such restriction was necessary to guarantee the essence of the exclusive rights flowing from the parallel patents.

*Sterling Drug* confirmed that the principle of "regional (EU) exhaustion" of rights equally applies to patents. The parallel case *Winthrop* dealt with trademarks in similar wording and the Court did not make a substantial distinction between different industrial rights – at least not patents, trade-

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<sup>12</sup> ECJ, Case 16/74, *Centrafarm v. Winthrop*, 31 October 1974: [1974] ECR 1183, [1974] 2 CMLR 480 and Case 15/74, *Centrafarm BV et Adriaan de Peijper v Sterling Drug Inc.*, 31 October 1974. [1974] ECR 1147, [1974] 2 CMLR 480. By interim decision of 1 March 1974, the Hoge Raad referred certain questions by virtue of Article 234 EC#) of the EEC Treaty, on patent rights in relation to the rules of the EEC Treaty on the free movement of goods, in conjunction with Article 42 of the act annexed to the Treaty concerning the accession of the new Member States to the Economic Community, and on the interpretation of Article 81 EC, in relation to patent rights.

marks and copyright - in relation to the free movement of physical goods. The determining factor was if the product had been put on the market with the consent of the rights-holder or not.

### Restrictive interpretation

In July 1981, the ECJ in the *Merck* judgment<sup>13</sup> took another important step in protecting parallel trade over industrial property. Merck marketed and sold its own proprietary medicine throughout Europe. Due to the unavailability of patent protection in Italy, the price achieved by Merck on the Italian market was lower than in other European countries. Through parallel traders the product was brought from Italy to Holland where Merck promptly filed an infringement action based on its Dutch patent.

In spite of the fact that Merck had never been able to capitalize on its patent protection and achieve premium prices in Italy, the ECJ held that parallel trade in the product could not be hindered. The proprietor of a patent had to decide under what conditions he will market his product, including the possibility of marketing it in a Member State where the law does not provide patent protection for the product in question.

If he decides to do so, he must then accept consequences of his choice as regards the free movement of the product within the Common Market, which is a fundamental principle forming part of the legal and economic circumstances which must be taken into account by the proprietor of the patent in determining the manner in which his exclusive right will be exercised.<sup>14</sup>

Accordingly, if a rights-holder in one country sees an opportunity to sell products in a country where no protection exists, he had better carefully consider such a move as a low price easily sets the standard in countries where protection does exist, thereby eliminating its benefits everywhere.

### Repackaging and other activities

A third situation where the Court has taken a restrictive approach to practices which may prevent free trade relates to differences in the packaging and naming of products. Hofmann La Roche marketed VALIUM in different pack-sizes in various European countries.<sup>15</sup> As the pack-size was defined in the national marketing approvals, which pharmaceutical products had to obtain, it could not be sold in a "foreign" pack in the country of importation. This effectively prevented sales from one country to another. In a parallel case, American Home Products sold its product under different trade-marks in different countries. Again the product had to be sold in any country under its registered name, which led to a market division.

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<sup>13</sup> ECJ, Case 187/80, *Merck v. Stephar*, 14 July 1981: [1981] ECR 2063, [1981] 3 CMLR 463.

<sup>14</sup> ECJ, Case 187/80, *Merck v. Stephar*, footnote 13 at paragraph [11]. A similar situation was in 1997 again before the Court in Case C-267/95 & C-268/95, *Merck & Co. Inc. v Primecrown Ltd and Beecham Group plc v Europharm of Worthing Ltd*, footnote 51 below.

<sup>15</sup> ECJ, Case 102/77, *Hoffmann-La Roche & Co. AG v. Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mbH*, 23 May 1978: [1978] ECR 1139, [1978] 3 CMLR 217.

When parallel importers repacked and/or remarked the products to conform with the registration requirements in the country of importation, the rights-holders claimed infringement of their respective rights. Under the exhaustion doctrine they should be the first to market the product and that was not the case when it had been repacked or remarked.

The Court held such parallel importation could be an infringement of the specific subject-matter and essential function of the trade mark, but it would still be unacceptable to prevent parallel trade if the applied system amounted to a disguised restriction on trade. In the *American Home* case the Court added a "test of intent to artificially divide the market" on the part of the rights-holder as a sign of a disguised restriction on trade.<sup>16</sup> If the intent was demonstrated and if the repackaging was done under conditions where the original product would not be affected, if prior notice was given to the rights-holder, and if the repacked product was properly marked, no objection could be made to the parallel trade.

### The ECJ reviews its position

The combined consequence of the development in the 70s was the emphasising of the principle of free movement of products within Europe over industrial property rights. The rights lost substance and industry encountered difficulties in designing reasonable strategies for protection of values created.

The ECJ had solidly established that the *existence* of national property rights were not called into question, but the *exercise* of these rights could well be. The position was sometimes so restrictive that the distinction appeared flawed. What good is a right if it cannot be exercised? Parties exercising their property rights were excluded from opposing importation of a product put on the market by themselves or with their *consent* in common market under the *principle of exhaustion of rights*. Little did it matter if the first sale had occurred in a protected country or not. The Court went so far as to conclude that objections could not be made to marketing of a product which could establish a *common origin*, even if no actual relations existed.

Industry objected. Patent protection did not lead to reasonable compensation. Trademarks risked losing their essential function by not being reliable identifications of the origin of a product. Defence of the monopoly was limited to situations of outright piracy where the infringer clearly was free-riding on a value created by the rights-holder. The development favoured free-riding parallel traders over research-based operations, disregarding investments made and the commercial values of industrial property rights. There was a need for an adjustment.

The attitude was, however, not viable and the ECJ first revised its position to first compulsory transfers in the *Kafé Hag II* judgment,<sup>17</sup> and

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<sup>16</sup> ECJ, Case 3/78, *Centrafarm BV v American Home Products Corp.*, 10 October 1978: [1978] ECR 1823, [1979] 1 CMLR 326 at paragraphs [18-22].

<sup>17</sup> ECJ Case C-10/89, *SA CNL-Sucal v. Hag GF*, 17 October 1990: [1990] I ECR 3711, [1990] 3 CMLR 571.

then voluntary transfers in *Ideal Standard*.<sup>18</sup>

The "*specific subject matter*" of a trademark is to guarantee the proprietor of a trademark the right to put it on the market in the EU for the first time. The "*essential function*" of the trademark was to guarantee the identity of the origin of the marketed product to the consumer who is thereby able to distinguish the products from those of other origin. A trademark proprietor who has not consented to the sale of the product abroad should be able to prevent its importation. The determinant factor is the absence of any consent on the part of the proprietor.

There is a clear connection between the reasoning of the Court regarding a forced assignment in relation to sequestration and the more common situation with compulsory licensing. If a rights holder has been obligated to grant a license under a compulsory licensing procedure in one country it does not mean that he has thereby consented to having his products distributed all over the Common Market.<sup>19</sup> He should therefore be able to prevent parallel trade in such products.

The result of the judgments in *Thetford*, *Kafé Hag II* and *Ideal Standard* is a more forceful recognition of industrial property rights. National rights can be upheld if they are not based on discriminatory practices and provided further that there is no existing commercial connections between the rights holder and the imported product. Industrial property legislation thereby regained much of its importance on the European market.

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Judgment of the  
COURT OF JUSTICE OF THE EUROPEAN COMMUNITIES

**“Dior”**

Case C-337/95, Parfums Christian Dior v Evora BV  
4 November 1997(1)

**Background**

Parfums Christian Dior SA, a company incorporated under French law established in Paris (hereinafter 'Dior France') develops and produces perfumes and other cosmetic products which are sold at premium prices and which are considered to belong to the market for luxury cosmetic products. For the sale of its products outside France Dior

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<sup>18</sup> ECJ Case 9/93, *IHT Internationale Heiztechnik GmbH v. Ideal-Standard GmbH (Ideal Standard)*, 22 June 1994: [1994] I ECR 857, [1994] 3 CMLR 857. By order of 15 December 1992, received at the Court on 12 January 1993, the Oberlandesgericht Duesseldorf referred to the Court for a preliminary ruling under Article 177 (now 234#) of the EEC Treaty a question on the interpretation of Articles 30 and 36 (now 28 and 30#).

<sup>19</sup> ECJ, Case 434/85, *Allen & Hanburys Ltd v Generics (UK) Ltd*, 3 March 1988: (1988) ECR 1245, (1988) 1 CMLR 701 and Case 19/84 *Pharmon v. Hoechst*, 19 July 1985: [1985] ECR 2281, [1985] 3 CMLR 775.

France has appointed exclusive representatives, including Parfums Christian Dior BV, (hereinafter 'Dior Netherlands') in the Netherlands. Like other exclusive representatives of Dior France in Europe, Dior Netherlands uses a selective distribution system to distribute Dior products in the Netherlands, which means that Dior products are sold only to selected retailers who are under an obligation to sell Dior products only to ultimate consumers and never to resell to other retailers unless they are also selected to sell Dior products. In the Benelux, Dior France has exclusive rights to the Eau Sauvage, Poison, Fahrenheit and Dune picture trade marks, for inter alia perfumes. Those marks consist of illustrations of the packaging in which the bottles containing the perfumes bearing those names are sold. In addition, Dior France has copyright in both that packaging and those bottles and in the packaging and bottles of products marketed under the name of Svelte.

Evora BV, a company incorporated under Netherlands law established at Renswoude (hereinafter 'Evora'), operates a chain of chemists' shops under the name of its subsidiary Kruidvat. Although they have not been appointed as distributors by Dior Netherlands, the Kruidvat shops sell Dior products which Evora has obtained by means of parallel imports. The legality of retailing those products has not been challenged in the main proceedings. In a Christmas promotion in 1993, Kruidvat advertised for sale the Dior products Eau Sauvage, Poison, Fahrenheit, Dune and Svelte and during the promotion it depicted in advertising leaflets the packaging and bottles of some of those products. According to the judgment making the reference, each depiction of the packaging and bottles related clearly and directly to the goods offered for sale and the advertising was carried out in a manner customary to retailers in this market sector.

Taking the view that this advertising did not correspond to the luxurious and prestigious image of the Dior marks, Dior France and Dior Netherlands (hereinafter 'Dior') brought proceedings before the Rechtbank te Haarlem (District Court, Haarlem) for infringement of those marks and for an order requiring Evora to desist and to continue to desist from making use of Dior picture trade marks and from any publication or reproduction of its products in catalogues, brochures, advertisements or otherwise. Dior claimed in particular that the use made by Evora of its trade marks was contrary to the provisions of the Uniform Benelux Law on Trade Marks in force at that time and was liable to damage their luxurious and prestigious image. Dior also claimed that the advertising carried out by Evora infringed its copyright.

The President of the Rechtbank granted Dior's application and Evora was ordered with immediate effect to desist from making use of Dior's picture trade marks and from any publication or reproduction of the Dior products at issue in catalogues, brochures, advertisements or otherwise, in a manner not conforming to Dior's customary manner of advertising. Evora appealed against that order to the Gerechtshof (Regional Court of Appeal), Amsterdam.

That court set aside the lower court's order and refused the measures applied for. In particular, it rejected Dior's argument that Dior could oppose the further commercialization of the goods under Article 7(2) of the Directive, which provides that the proprietor of a trade mark may oppose its use in relation to goods which have been put on the market in the Community under that trade mark by the proprietor where there are legitimate reasons, especially where the condition of the goods is changed or impaired after they have been put on the market. The Gerechtshof considered that this provision envisaged only harm caused to the reputation of a trade mark by some alteration of the physical condition of the goods to which the mark applies.

Dior appealed in cassation against that judgment to the Hoge Raad. It argued in particular that the expression 'condition of the goods' used in Article 7(2) of the Directive also covers the 'mental' condition of the goods, by which it means the allure, prestigious image and aura of luxury surrounding the goods, resulting from the manner in which the trade mark owner has chosen to present and advertise the goods using his trade mark rights.

Evora argued that its advertising — carried out in the manner customary to retailers in this market sector — did not infringe Dior's exclusive rights and that the provisions of the Directive and Articles 30 and 36 of the Treaty precluded Dior from relying on its trade mark rights and copyright to prohibit it from advertising the Dior products which it markets.

In those circumstances, the Hoge Raad decided that questions on the interpretation of the Uniform Benelux Law on Trade Marks should be referred to the Benelux Court of Justice ('the Benelux Court') and questions on Community law should be referred to the Court of Justice of the European Communities. In this context, the Hoge Raad has also raised the question whether in this instance it or the Benelux Court is to be regarded as the court or tribunal against whose decisions there is no judicial remedy under national law and which court is therefore obliged under the third paragraph of Article 177 of the Treaty to make a reference to the Court of Justice.

The Hoge Raad also points out that, although at the time when it submitted its reference, the Benelux States had still not adapted their legislation to the Directive, despite the expiry of the period laid down for that purpose, the interpretation of the Directive is not without relevance, given the case-law of the Court to the effect that, where an individual relies on a directive which has not been transposed in the national legal system within the period laid down, the national rules are to be interpreted, as far as possible, in the light of the wording and purpose of the directive.<sup>20</sup> In the event that it is not possible to interpret the relevant national rules in accordance with the Directive, a question as to the interpretation of Articles 30 and 36 of the Treaty also arises. The Hoge Raad has therefore decided to stay proceedings and to refer a series of questions to the Court for a preliminary ruling.

## Quotations from the legal grounds

### **The second question**

(32) By its second question, the Hoge Raad asks in substance whether, on a proper interpretation of Articles 5 to 7 of the Directive, when trade-marked goods have been put on the Community market by or with the consent of the proprietor of the trade mark, a reseller, besides being free to resell those goods, is also free to make use of the trade mark to bring to the public's attention the further commercialization of those goods.

(33) In order to answer that question, it is necessary first of all to consider the relevant provisions of the Directive to which the Hoge Raad refers.

(34) On the one hand, Article 5 of the Directive, which determines the rights conferred by a trade mark, provides, in paragraph (1), that the proprietor is to be entitled to prevent all third parties from using his trade mark in the course of trade and, in paragraph (3)(d), that he may prohibit all third parties from using the trade mark in advertising.

(35) On the other hand, Article 7(1) of the Directive, which concerns the exhaustion of the rights conferred by a trade mark, provides that a trade mark is not to entitle its proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that trade mark by its proprietor or with his consent.

(36) If the right to prohibit the use of his trade mark in relation to goods, conferred on the proprietor of a trade mark under Article 5 of the Directive, is exhausted once the goods have been put on the market by himself or with his consent, the same applies as regards the right to use the trade mark for the purpose of bringing to the public's attention the further commercialization of those goods.

(37) It follows from the case-law of the Court that Article 7 of the Directive is to be interpreted in the light of the rules of the Treaty relating to the

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<sup>20</sup> Case C-91/92 Faccini Dori v Recreb [1994] ECR I-3325.

free movement of goods, in particular Article 36<sup>21</sup> and that the purpose of the 'exhaustion of rights' rule is to prevent owners of trade marks from being allowed to partition national markets and thus facilitate the maintenance of price differences which may exist between Member States.<sup>22</sup> Even if the right to make use of a trade mark in order to attract attention to further commercialization were not exhausted in the same way as the right of resale, the latter would be made considerably more difficult and the purpose of the 'exhaustion of rights' rule laid down in Article 7 would thus be undermined.

(38) It follows that the answer to be given to the second question must be that, on a proper interpretation of Articles 5 and 7 of the Directive, when trade-marked goods have been put on the Community market by the proprietor of the trade mark or with his consent, a reseller, besides being free to resell those goods, is also free to make use of the trade mark in order to bring to the public's attention the further commercialization of those goods.

### **The third, fourth and fifth questions**

(39) By its third, fourth and fifth questions, which must be examined together, the Hoge Raad asks in substance whether the rule ensuing from the answer to the second question allows exceptions, in particular where the advertising function of the trade mark is endangered by the fact that, as a result of the manner in which the reseller uses the trade mark in order to attract public attention, he damages the luxurious and prestigious image of the trade mark, and where, as a result of the way in which the reseller advertises the goods, their 'mental' condition, that is to say the allure, prestigious image and aura of luxury which they have as a result of the manner in which the trade mark owner has chosen to present and advertise the goods using his trade mark rights, is changed or impaired.

(40) According to Article 7(2) of the Directive, the 'exhaustion of rights' rule laid down in paragraph (1) is not applicable where there are legitimate reasons for the proprietor to oppose further commercialization of trade-marked goods, especially where the condition of the goods is changed or impaired after they have been put on the market.

(41) The question therefore is whether the situations envisaged by the Hoge Raad constitute legitimate reasons, within the meaning of Article 7(2) of the Directive, allowing the proprietor of a trade mark to oppose use of his trade mark by a reseller to bring to the public's attention the further commercialization of goods bearing that trade mark.

(42) According to the case-law of the Court, Article 7 of the Directive comprehensively regulates the question of the exhaustion of trade mark rights in relation to goods put on the market in the Community and the use of the word 'especially' in paragraph (2) indicates that alteration or impairment of the condition of trade-marked goods is given only as an example of what may constitute legitimate reasons.<sup>23</sup> Moreover, that provision is intended to reconcile the fundamental interest in the protection of trade mark rights with the fundamental interest in the free movement of goods within the common market.<sup>24</sup>

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<sup>21</sup> Joined Cases C-427/93, C-429/93 and C-436/93 *Bristol-Myers Squibb and Others v Paranova* [1996] ECR I-3457, paragraph 27.

<sup>22</sup> See *Bristol-Myers Squibb*, cited above, paragraph 46.

<sup>23</sup> See *Bristol-Myers Squibb*, cited above, paragraphs 26 and 39.

<sup>24</sup> *Bristol-Myers Squibb*, cited above, paragraph 40.

(43) The damage done to the reputation of a trade mark may, in principle, be a legitimate reason, within the meaning of Article 7(2) of the Directive, allowing the proprietor to oppose further commercialization of goods which have been put on the market in the Community by him or with his consent. According to the case-law of the Court concerning the repackaging of trade-marked goods, the owner of a trade mark has a legitimate interest, related to the specific subject-matter of the trade mark right, in being able to oppose the commercialization of those goods if the presentation of the repackaged goods is liable to damage the reputation of the trade mark.<sup>25</sup>

(44) It follows that, where a reseller makes use of a trade mark in order to bring the public's attention to further commercialization of trade-marked goods, a balance must be struck between the legitimate interest of the trade mark owner in being protected against resellers using his trade mark for advertising in a manner which could damage the reputation of the trade mark and the reseller's legitimate interest in being able to resell the goods in question by using advertising methods which are customary in his sector of trade.

(45) As regards the instant case, which concerns prestigious, luxury goods, the reseller must not act unfairly in relation to the legitimate interests of the trade mark owner. He must therefore endeavour to prevent his advertising from affecting the value of the trade mark by detracting from the allure and prestigious image of the goods in question and from their aura of luxury.

(46) However, the fact that a reseller, who habitually markets articles of the same kind but not necessarily of the same quality, uses for trade-marked goods the modes of advertising which are customary in his trade sector, even if they are not the same as those used by the trade mark owner himself or by his approved retailers, does not constitute a legitimate reason, within the meaning of Article 7(2) of the Directive, allowing the owner to oppose that advertising, unless it is established that, given the specific circumstances of the case, the use of the trade mark in the reseller's advertising seriously damages the reputation of the trade mark.

(47) For example, such damage could occur if, in an advertising leaflet distributed by him, the reseller did not take care to avoid putting the trade mark in a context which might seriously detract from the image which the trade mark owner has succeeded in creating around his trade mark.

(48) In view of the foregoing, the answer to be given to the third, fourth and fifth questions must be that the proprietor of a trade mark may not rely on Article 7(2) of the Directive to oppose the use of the trade mark, by a reseller who habitually markets articles of the same kind, but not necessarily of the same quality, as the trade-marked goods, in ways customary in the reseller's sector of trade, for the purpose of bringing to the public's attention the further commercialization of those goods, unless it is established that, given the specific circumstances of the case, the use of the trade mark for this purpose seriously damages the reputation of the trade mark.

### **The sixth question**

(49) By its sixth question the Hoge Raad asks in substance whether Articles 30 and 36 of the Treaty preclude the owner of a trade mark or holder of copyright relating to the bottles and packaging which he uses for his goods from preventing a reseller, by invoking the trade mark right or copyright, from

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<sup>25</sup> Bristol-Myers Squibb, cited above, paragraph 75.

advertising the further commercialization of those goods in a manner customary to retail traders in the relevant sector. It asks, further, whether this is also the case where the reseller, as a result of the manner in which he uses the trade mark in his advertising material, damages the luxurious and prestigious image of the trade mark, or where the publication or reproduction of the trade mark takes place in circumstances liable to cause damage to the person entitled to the copyright.

(50) Those questions are based on the following premises:

that, under the relevant domestic law, in the situations envisaged, the trade mark owner or holder of copyright may legitimately prohibit a reseller from advertising the further commercialization of the goods, and

that such a prohibition would constitute an obstacle to the free movement of goods prohibited by Article 30 of the Treaty, unless it could be justified on one of the grounds set forth in Article 36 of that Treaty.

(51) Contrary to Dior's contention, the national court is quite right in considering that a prohibition such as that envisaged in the main proceedings may constitute a measure having an effect equivalent to a quantitative restriction, in principle prohibited by Article 30. In this regard, it is enough that, according to the judgment referring the questions for a preliminary ruling, the main proceedings concern goods which the reseller has procured through parallel imports and that a prohibition of advertising such as that sought in the main proceedings would render commercialization, and consequently access to the market for those goods, appreciably more difficult.

(52) The question therefore is whether a prohibition such as that sought in the main proceedings may be allowed under Article 36 of the Treaty, according to which the provisions of Articles 30 to 34 are not to preclude prohibitions or restrictions on imports justified on grounds of the protection of industrial and commercial property, provided that they do not constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States.

(53) As regards the question relating to trade mark rights, it is to be remembered that, according to the case-law of the Court, Article 36 of the Treaty and Article 7 of the Directive are to be interpreted in the same way.<sup>26</sup>

(54) Consequently, having regard to the answers given to the second, third, fourth and fifth questions, the answer to be given to this part of the sixth question must be that, on a proper interpretation of Articles 30 and 36 of the Treaty, the proprietor of a trade mark may not oppose the use of the trade mark, by a reseller who habitually markets articles of the same kind, but not necessarily of the same quality, as the trade-marked goods, in ways customary in the reseller's sector of trade, for the purpose of bringing the further commercialization of those goods to the public's attention, unless it is established that, given the specific circumstances of the case, the use of the trade mark for this purpose seriously damages the reputation of the trade mark.

(55) As regards the part of the sixth question relating to copyright, it is to be remembered that, according to the case-law of the Court, the grounds of protection of industrial and commercial property referred to in Article 36 include the protection conferred by copyright.<sup>27</sup>

(56) Literary and artistic works may be the subject of commercial exploitation, whether by way of public performance or by way of the reproduction

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<sup>26</sup> *Bristol-Myers Squibb*, cited above, paragraph 40.

<sup>27</sup> Joined Cases 55/80 and 57/80 *Musik-Vertrieb Membran and K-tel International v GEMA* [1981] ECR 147, paragraph 9.

and marketing of the recordings made of them, and the two essential rights of the author, namely the exclusive right of performance and the exclusive right of reproduction, are not called in question by the rules of the Treaty.<sup>28</sup>

(57) It is also clear from the case-law that, while the commercial exploitation of copyright is a source of remuneration for the copyright owner, it also constitutes a form of control on marketing exercisable by the owner and that, from this point of view, commercial exploitation of copyright raises the same issues as that of any other industrial or commercial property.<sup>29</sup> The Court has thus held that the exclusive right of exploitation conferred by copyright cannot be relied on by its owner to prevent or restrict the importation of sound recordings of protected works which have been lawfully marketed in another Member State by the owner himself or with his consent.<sup>30</sup>

(58) Having regard to that case-law — there being no need to consider the question whether copyright and trade mark rights may be relied on simultaneously in respect of the same product —, it is sufficient to hold that, in circumstances such as those in point in the main proceedings, the protection conferred by copyright as regards the reproduction of protected works in a reseller's advertising may not, in any event, be broader than that which is conferred on a trade mark owner in the same circumstances.

(59) The answer to be given to the sixth question must therefore be that, on a proper interpretation of Articles 30 and 36 of the Treaty, the proprietor of a trade mark or holder of copyright may not oppose their use by a reseller who habitually markets articles of the same kind, but not necessarily of the same quality, as the protected goods, in ways customary in the reseller's sector of trade, for the purpose of bringing to the public's attention the further commercialization of those goods, unless it is established that, having regard to the specific circumstances of the case, the use of those goods for that purpose seriously damages their reputation.

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## Global or regional consumption?

One additional question, which had to be resolved was whether the principle of exhaustion only extended to the common market or if it could be interpreted as a global principle. The Member States in their national legislation had taken different views on the problem and existing Community legislation did not prevent differing interpretations.

### Regional consumption favouring rights holders

In favour of a narrow view was the fact that only exhaustion of national rights within the Community had been an issue under Community law and several Member States had not accepted a more far-reaching interpretation. Against it spoke a more international approach. The matter was resolved

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<sup>28</sup> Case 158/86 *Warner Brothers and Metronome Video v Christiansen* [1988] ECR 2605, paragraph 13.

<sup>29</sup> *Musik-Vertrieb Membran and K-tel International*, cited above, paragraph 13.

<sup>30</sup> *Musik-Vertrieb Membran and K-tel International*, cited above, paragraph 15.

with the *Silhouette*<sup>31</sup> judgment in 1998.

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JUDGMENT OF THE COURT OF JUSTICE  
OF THE EUROPEAN COMMUNITIES  
Case C-355/96,<sup>32</sup>

*Silhouette*

Silhouette International Schmied GmbH & Co. KG v Hartlauer  
Handelsgesellschaft mbH,  
16 July 1998 (1)

Background

Silhouette International Schmied GmbH & Co. KG ('Silhouette') produces spectacles in the higher price ranges. It markets them worldwide under the trade mark 'Silhouette', registered in Austria and most countries of the world. In Austria, Silhouette itself supplies spectacles to opticians; in other States it has subsidiary companies or distributors.

Hartlauer Handelsgesellschaft mbH ('Hartlauer') sells inter alia spectacles through its numerous subsidiaries in Austria, and its low prices are its chief selling point. It is not supplied by Silhouette because that company considers that distribution of its products by Hartlauer would be harmful to its image as a manufacturer of top-quality fashion spectacles.

In October 1995 Silhouette sold 21 000 out-of-fashion spectacle frames to a Bulgarian company, Union Trading, for the sum of USD 261 450. It had directed its representative to instruct the purchasers to sell the spectacle frames in Bulgaria or the states of the former USSR only, and not to export them to other countries. The representative assured Silhouette that it had so instructed the purchaser. However, the Oberster Gerichtshof noted that it had not proved possible to ascertain whether that had actually been done.

In November 1995 Silhouette delivered the frames in question to Union Trading in Sofia. Hartlauer bought those goods — it has not, according to the Oberster Gerichtshof, been possible to find out from whom — and offered them for sale in Austria from December 1995. In a press campaign Hartlauer announced that, despite not being supplied by Silhouette, it had managed to acquire 21 000 Silhouette frames abroad.

Silhouette brought an action for interim relief before the Landesgericht Steyr, seeking an injunction restraining Hartlauer from offering spectacles or spectacle frames for sale in Austria under its trade mark, where they had not been put on the market in the European Economic Area ('EEA') by Silhouette itself or by third parties with its consent. It claims that it has not exhausted its trade mark rights, since, in terms of the Directive, trade-mark rights are exhausted only when the products have been put on the market in the EEA by the

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<sup>31</sup> ECJ, Case C-355/96, *Silhouette International Schmied GmbH & Co. KG v Hartlauer Handelsgesellschaft mbH*, 16 July 1998, ...\*ECR...\*CMLR

<sup>32</sup> REFERENCE to the Court under Article 177 of the EC Treaty by the Oberster Gerichtshof (Austria) for a preliminary ruling in the proceedings pending before that court on the interpretation of First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks (OJ1989 L 40, p. 1), as amended by the Agreement on the European Economic Area of 2 May 1992 (OJ 1994 L 1, p. 3). Directive 89/104/EEC — Exhaustion of trade mark — Goods put on the market in the Community or in a non-member country.

proprietor or with his consent. It based its claim on Paragraph 10a of the Markenschutzgesetz and on Paragraphs 1 and 9 of the Gesetz gegen den Unlauteren Wettbewerb (Law against Unfair Competition) and Paragraph 43 of the Allgemeines Bürgerliches Gesetzbuch (General Civil Code, 'the ABGB').

Hartlauer contended that the action should be dismissed since Silhouette had not sold the frames subject to any prohibition of reimportation into the Community. In its view Paragraph 43 of the ABGB was not applicable. Moreover, it observed that the Markenschutzgesetz does not grant a right to seek prohibitory injunctions and that, given that the legal position was unclear, its conduct was not contrary to established customs.

Silhouette's action was dismissed by the Landesgericht Steyr and, on appeal, by the Oberlandesgericht Linz. Silhouette appealed to the Oberster Gerichtshof on a point of law.

The Gerichtshof noted, first, that the case before it concerned the reimportation of goods originally produced by the proprietor of the trade mark and put on the market by the proprietor in a non-member country. It went on to point out that before Paragraph 10a of the Markenschutzgesetz entered into force Austrian courts applied the principle of international exhaustion of the right conferred by a trade mark (the principle that the proprietor's rights are exhausted once the trade-marked product has been put on the market, no matter where that takes place). Finally, the Oberster Gerichtshof stated that the explanatory memorandum to the Austrian law implementing Article 7 of the Directive of the First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks ('the Directive'),<sup>33</sup> indicated that it was intended to leave the resolution of the question of the validity of the principle of international exhaustion to judicial decision

Article 7 of the Directive, concerning exhaustion of the rights conferred by a trade mark, provides:

'(1) The trade mark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that trade mark by the proprietor or with his consent.

(2) Paragraph 1 shall not apply where there exist legitimate reasons for the proprietor to oppose further commercialisation of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market.'

Article 7 of the Directive was transposed into Austrian law by Paragraph 10a of the Markenschutzgesetz (Law on the Protection of Trade Marks), the first subparagraph of which provides: 'The right conferred by the trade mark shall not entitle the proprietor to prohibit a third party from using it in relation to goods which have been put on the market in the European Economic Area under that trade mark by the proprietor or with his consent.'

Accordingly, the Oberster Gerichtshof decided to stay proceedings and refer the following questions to the Court for a preliminary ruling:

'(1) Is Article 7(1) of the First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks (OJ 1989 L 40, p. 1) to be interpreted as meaning that the trade mark entitles its proprietor to prohibit a third party from using the mark for goods which have been put on the market under that mark in a State which is not a Contracting State?

(2) May the proprietor of the trade mark on the basis of Article 7(1) of the Trade Marks Directive alone seek an order that the third

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<sup>33</sup> The First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks ('the Directive'). OJ 1989 L 40, p. 1, as amended by the Agreement on the European Economic Area of 2 May 1992 (OJ 1994 L 1, p. 3, 'the EEA Agreement').

party cease using the trade mark for goods which have been put on the market under that mark in a State which is not a Contracting State?'

## LEGAL GROUNDS

### Question 1

15. By its first question the Oberster Gerichtshof is in substance asking whether national rules providing for exhaustion of trade-mark rights in respect of products put on the market outside the EEA under that mark by the proprietor or with his consent are contrary to Article 7(1) of the Directive.

16. It is to be noted at the outset that Article 5 of the Directive defines the 'rights conferred by a trade mark' and Article 7 contains the rule concerning 'exhaustion of the rights conferred by a trade mark'.

17. According to Article 5(1) of the Directive, the registered trade mark confers on the proprietor exclusive rights therein. In addition, Article 5(1)(a) provides that those exclusive rights entitle the proprietor to prevent all third parties not having his consent from use in the course of trade of, inter alia, any sign identical with the trade mark in relation to goods or services which are identical to those for which the trade mark is registered. Article 5(3) sets out a non-exhaustive list of the kinds of practice which the proprietor is entitled to prohibit under paragraph 1, including, in particular, importing or exporting goods under the trade mark concerned.

18. Like the rules laid down in Article 6 of the Directive, which set certain limits to the effects of a trade mark, Article 7 states that, in the circumstances which it specifies, the exclusive rights conferred by the trade mark are exhausted, with the result that the proprietor is no longer entitled to prohibit use of the mark. Exhaustion is subject first of all to the condition that the goods have been put on the market by the proprietor or with his consent. According to the text of the Directive itself, exhaustion occurs only where the products have been put on the market in the Community (in the EEA since the EEA Agreement entered into force).

19. No argument has been presented to the Court that the Directive could be interpreted as providing for the exhaustion of the rights conferred by a trade mark in respect of goods put on the market by the proprietor or with his consent irrespective of where they were put on the market.

20. On the contrary, Hartlauer and the Swedish Government have maintained that the Directive left the Member States free to provide in their national law for exhaustion, not only in respect of products put on the market in the EEA but also of those put on the market in non-member countries.

21. The interpretation of the Directive proposed by Hartlauer and the Swedish Government assumes, having regard to the wording of Article 7, that the Directive, like the Court's case-law concerning Articles 30 and 36 of the EC Treaty, is limited to requiring the Member States to provide for exhaustion within the Community, but that Article 7 does not comprehensively resolve the question of exhaustion of rights conferred by the trade mark, thus leaving it open to the Member States to adopt rules on exhaustion going further than those explicitly laid down in Article 7 of the Directive.

22. As Silhouette, the Austrian, French, German, Italian and United Kingdom Governments and the Commission have all argued, such an interpretation is

contrary to the wording of Article 7 and to the scheme and purpose of the rules of the Directive concerning the rights which a trade mark confers on its proprietor.

23. In that respect, although the third recital in the preamble to the Directive states that 'it does not appear to be necessary at present to undertake full-scale approximation of the trade mark laws of the Member States', the Directive none the less provides for harmonisation in relation to substantive rules of central importance in this sphere, that is to say, according to that same recital, the rules concerning those provisions of national law which most directly affect the functioning of the internal market, and that that recital does not preclude the harmonisation relating to those rules from being complete.

24. The first recital in the preamble to the Directive notes that the trade mark laws applicable in the Member States contain disparities which may impede the free movement of goods and freedom to provide services and may distort competition within the common market, so that it is necessary, in view of the establishment and functioning of the internal market, to approximate the laws of Member States. The ninth recital emphasises that it is fundamental, in order to facilitate the free movement of goods and services, to ensure that registered trade marks enjoy the same protection under the legal systems of all the Member States, but that this should not prevent Member States from granting at their option extensive protection to those trade marks which have a reputation.

25. In the light of those recitals, Articles 5 to 7 of the Directive must be construed as embodying a complete harmonisation of the rules relating to the rights conferred by a trade mark. That interpretation, it may be added, is borne out by the fact that Article 5 expressly leaves it open to the Member States to maintain or introduce certain rules specifically defined by the Community legislature. Thus, in accordance with Article 5(2), to which the ninth recital refers, the Member States have the option to grant more extensive protection to trade marks with a reputation.

26. Accordingly, the Directive cannot be interpreted as leaving it open to the Member States to provide in their domestic law for exhaustion of the rights conferred by a trade mark in respect of products put on the market in non-member countries.

27. This, moreover, is the only interpretation which is fully capable of ensuring that the purpose of the Directive is achieved, namely to safeguard the functioning of the internal market. A situation in which some Member States could provide for international exhaustion while others provided for Community exhaustion only would inevitably give rise to barriers to the free movement of goods and the freedom to provide services.

28. Contrary to the arguments of the Swedish Government, it is no objection to that interpretation that since the Directive was adopted on the basis of Article 100a of the EC Treaty, which governs the approximation of the laws of the Member States concerning the functioning of the internal market, it cannot regulate relations between the Member States and non-member countries, with the result that Article 7 is to be interpreted as meaning that the Directive applies only to intra-Community relations.

29. Even if Article 100a of the Treaty were to be construed in the sense argued for by the Swedish Government, the fact remains that Article 7, as has been pointed out in this judgment, is not intended to regulate relations between Member States and non-member countries but to define the rights of proprietors of trade marks in the Community.

30. Finally, the Community authorities could always extend the exhaustion provided for by Article 7 to products put on the market in non-member countries

by entering into international agreements in that sphere, as was done in the context of the EEA Agreement.

31. In the light of the foregoing, the answer to be given to the first question must be that national rules providing for exhaustion of trade-mark rights in respect of products put on the market outside the EEA under that mark by the proprietor or with his consent are contrary to Article 7(1) of the Directive, as amended by the EEA Agreement.

### *Question 2*

32. By its second question the Oberster Gerichtshof is in substance asking whether Article 7(1) of the Directive can be construed as meaning that the proprietor of a trade mark is entitled, on the basis of that provision alone, to obtain an order restraining a third party from using its mark for products which have been put on the market outside the EEA under that mark by the proprietor or with his consent.

33. In its order for reference, as clarified subsequently by letter, the Oberster Gerichtshof has pointed out:

— that the second question was put because the Markenschutzgesetz does not provide for any right to obtain a prohibitory injunction, nor does it contain any provision corresponding to Article 5(1)(a) of the Directive. A prohibitory injunction may be sought in respect of a trade mark infringement only if there is at the same time a breach of Paragraph 9 of the UWG, the application of which presupposes the risk of confusion, which is not the case where the original products of the trade-mark proprietor are concerned;

— in Austrian law, at least according to current academic legal writing, the proprietor of a trade mark has no right to obtain a prohibitory injunction against a person who makes parallel imports or reimports of trade-marked goods, unless the right to a prohibitory injunction is already available under Paragraph 10a(1) of the Markenschutzgesetz. The question thus arises, under Austrian law, whether Article 7(1) of the Trade Marks Directive, which has the same content as Paragraph 10a(1) of the Markenschutzgesetz, provides for such a right to apply for a prohibitory injunction and whether the proprietor of the trade mark can therefore seek, solely on the basis of that provision, an order that a third party cease using the trade mark for goods which have been put on the market under that mark outside the EEA.

34. Under the scheme of the Directive the rights conferred by a trade mark are defined by Article 5, while Article 7 contains an important qualification with respect to that definition, in that it provides that the rights conferred by Article 5 do not entitle the proprietor to prohibit the use of the trade mark where the conditions laid down in that provision are satisfied.

35. Accordingly, while it is undeniable that the Directive requires Member States to implement provisions on the basis of which the proprietor of a trade mark, when his rights are infringed, must be able to obtain an order restraining third parties from making use of his mark, that requirement is imposed, not by Article 7, but by Article 5 of the Directive.

36. That being so, it is to be remembered, first, that, according to settled case-law of the Court, a directive cannot of itself impose obligations on an individual and cannot therefore be relied upon as such against an individual. Second, according to the same case-law, when applying domestic law, whether adopted before or after the directive, the national court that has to interpret that law must do

so, as far as possible, in the light of the wording and the purpose of the directive so as to achieve the result it has in view and thereby comply with the third paragraph of Article 189 of the Treaty (see, inter alia, Case C-106/89 *Marleasing v La Comercial Internacional de Alimentación* [1990] ECR I-4135, paragraphs 6 and 8, and Case C-91/92 *Faccini Dori v Recreb* [1994] ECR I-3325, paragraphs 20 and 26).

37. The answer to be given to the second question must therefore be that, subject to the national court's duty to interpret, so far as possible, domestic law in conformity with Community law, Article 7(1) of the Directive cannot be interpreted as meaning that the proprietor of a trade mark is entitled, on the basis of that provision alone, to obtain an order restraining a third party from using his trade mark for products which have been put on the market outside the EEA under that mark by the proprietor or with his consent.

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The *Silhouette* judgment refutes the principle of international exhaustion in cases concerning re-importation of products with EEA origin. It also appears to be in contradiction with the position recently taken to contractual prohibitions on re-importation.<sup>34</sup> In *Sebago* it has established that it is only when the rights-holder has himself put the product on the market that exhaustion applies to those physical products and not other similar or identical products which have been imported in parallel.<sup>35</sup> According to *Davidoff*, the consent has to be expressed in an absolutely clear way, and the English view that an implied license is granted unless expressly denied was not accepted.<sup>36</sup>

### **A balance of interests**

In *Van Doren*, the ECJ has reinstalled a certain balance between the parallel trader and the rights holder:

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## JUDGMENT OF THE COURT

Case C-244/00

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<sup>34</sup> ECJ, Case 306/96, *Javisco International and Javisco AG v Yves Saint Laurent Parfums SA*, 28 April 1998, [1998] ECR I-1983, [1998] 5 CMLR 172.

<sup>35</sup> ECJ, Case 173/98, *Sebago Inc. v G-B Unic*, 1 July 1999, \*.

<sup>36</sup> ECJ, Joined Cases C-414/99, C-415/99 and C-416/99, *Zino Davidoff SA v A&G Imports Ltd Levi Strauss & Co., and Levi Strauss (UK) Ltd v Tesco Stores Ltd, Tesco plc Levi Strauss & Co., Levi Strauss (UK) Ltd v Costco Wholesale UK Ltd.*, 20 November 2001, \*.

## *Van Doren,*

Van Doren + Q.GmbH and Lifestyle sports + sportswear  
Handelsgesellschaft mbH, Michael Orth,  
8 April 2003<sup>37</sup>

### **Facts**

Stussy Inc. is the proprietor of the word and device mark 'Stüssy', which is registered in respect of clothing marketed worldwide. They have no particular characteristic which would enable them to be recognised as having been allocated to a specific sales territory. In each country of the European Economic Area ('EEA') there is only one exclusive distributor and general importer for 'Stüssy' articles, which is contractually bound not to sell the goods to intermediaries for resale outside his contractual territory. Van Doren has exclusive distribution rights in respect of Stussy Inc.'s products in Germany.

Lifestyle markets in Germany 'Stüssy' articles which it has not acquired from Van Doren.

Van Doren brought proceedings against Lifestyle and Michael Orth before the German courts. It sought an injunction prohibiting such marketing, disclosure of information concerning their activities and a declaration of liability for damages. It maintained that the articles distributed by Lifestyle were products which had originally been put on the market in the United States, and that their distribution in the Federal Republic of Germany had not been authorised by the trade mark proprietor.

Lifestyle and Michael Orth contended that those claims should be dismissed, arguing that the rights conferred by the trade mark in respect of the goods in question were exhausted. The defendants claim that they sourced the goods in the EEA where they had been put on the market by the trade mark proprietor or with his consent. The clothing purchased from Lifestyle as a test purchase in October 1996 had been acquired by it in the EEA from an intermediary who, Lifestyle and Michael Orth assumed, had purchased it from an authorised distributor. Lifestyle submitted that it was not required to name the suppliers until such time as Van Doren proved the imperviousness of its distribution system.

On appeal by Lifestyle and Michael Orth most of the claims made by Van Doren were dismissed. The court hearing the appeal held that it had been for Van Doren to plead circumstances which established it as to some extent probable that the goods in question originated from imports which were put on the market in the EEA without the consent of the trade mark proprietor. Van Doren appealed on a point of law to the Bundesgerichtshof.

In its order for reference that court points out that, according to the case-law of the Court of Justice (judgments in Case C-355/96 *Silhouette International Schmied* [1998] ECR I-4799 and Case C-173/98 *Sebago and Maison Dubois* [1999] ECR I-4103), there is exhaustion of the right conferred by a trade mark within the meaning of Article 7(1) of the Directive where the goods have been put on the market in the EEA under that mark by the trade mark proprietor or with his consent, but not where they were first put on the market outside the EEA.

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<sup>37</sup> REFERENCE to the Court under Article 177 of the EC Treaty (now Article 234 EC) by the Bundesgerichtshof (Germany) for a preliminary ruling on the interpretation of Articles 28 EC and 30 EC and of Article 7(2) of First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks (OJ 1989 L 40, p. 1), as amended by the Agreement on the European Economic Area of 2 May 1992 (OJ 1994 L 1, p. 3). Trade marks - Directive 89/104/EEC - Article 7(1) - Exhaustion of the right conferred by the trade mark - Evidence - Place where the goods are first placed on the market by the trade mark proprietor or with his consent - Consent of the trade mark proprietor to placing on the market in the EEA.

It considers that the existence of the conditions for exhaustion of the trade mark right, which is a defence under Paragraph 24(1) of the Markengesetz, must in principle be proved by the defendant, according to the general principle that each party to proceedings must prove the existence of the conditions for application of the rule on which he relies.

According to the Bundesgerichtshof, a reversal, in trade mark law, of the burden of proof pursuant to general principles would be alien to the structure of that system because it would result in an unwarranted departure from the traditional scheme of tort law, according to which the existence of facts constituting an infringement of the protected right is generally evidence of unlawfulness so that it is not for the injured party to show unlawfulness, but, as a rule, for the alleged infringer to show the absence thereof. Furthermore, a reversal of the burden of proof would unduly prejudice the trade mark proprietor's exclusive rights. That would also limit the effect of EEA-wide exhaustion to such an extent as to render it almost redundant, even though the alleged trade mark infringer could easily show the origin of the goods in question.

The referring court points out that under Paragraph 14(2) of the Markengesetz third parties are prohibited from using a trade mark 'without the consent of the trade mark owner'. In its view, although it is for the trade mark proprietor to prove that the conditions are satisfied to show 'use' within the meaning of this provision, it is for the defendant to prove that the trade mark proprietor has granted consent, if he wishes to rely on it.

However, the referring court takes the view that if the burden of proof is imposed on the third party against whom a trade mark proprietor has brought proceedings, there is a risk that a dealer unconnected with the proprietor could be prohibited from marketing products bearing that mark even where the products have been put on the market in the EEA with the consent of the proprietor. In general, a dealer will be readily able to show from whom he has purchased goods but he will not be able to make his suppliers reveal the previous supplier or identify other links in the distribution chain. Moreover, even if he were able to trace the distribution channel back to the trade mark proprietor and to show that the goods were put on the market in the EEA with the consent of that proprietor, his supply source would be liable to dry up immediately.

Under those circumstances there is a risk that the trade mark proprietor will use the trade mark to partition national markets.

The court therefore raises the question whether Article 28 EC requires provision for an exception to the general rule that the full burden of proving the factual conditions for exhaustion of the right conferred by a trade mark lies with the third party. It considers that a possible solution might be to impose that burden on the third party only if the manufacturer has first used such means as can reasonably be expected of him to distinguish, by affixing signs, goods which have been put on the market in the EEA by him or with his consent from goods which have been put on the market outside the EEA. Where it appears that the trade mark proprietor consistently acts in such a way, the third party is required to prove that the conditions for exhaustion are satisfied, if, prima facie, the goods could have been first put on the market only outside the EEA.

As it considers that, against that background, the resolution of the dispute in the main proceedings turns on the interpretation of Articles 28 EC and 30 EC and Article 7(1) of the Directive, the Bundesgerichtshof has stayed proceedings and referred the following question to the Court for a preliminary ruling:

'Are Articles 28 EC and 30 EC to be interpreted as meaning that they permit the application of national legislation under which an infringer against whom proceedings are brought on the basis of a trade mark for marketing original goods, and who claims that the trade mark right has been exhausted within the meaning of Article 7 of Directive 89/104/EEC ... has to plead and, if necessary, prove that the goods marketed by him have already been put on the market in the European Economic Area for the first time by the trade mark owner himself or with his consent?'

### **The question referred for a preliminary ruling**

[25] In Articles 5 and 7 of the Directive the Community legislature laid down the rule of Community exhaustion, that is to say, the rule that the rights conferred by a trade mark do not entitle the proprietor to prohibit use of the mark in relation to goods bearing that mark which have been placed on the market in the EEA by him or with his consent. In adopting those provisions, the Community legislature did not leave it open to the Member States to provide in their domestic law for exhaustion of the rights conferred by a trade mark in respect of products placed on the market in third countries<sup>38</sup>.

[26] The effect of the Directive is therefore to limit exhaustion of the rights conferred on the proprietor of a trade mark to cases where goods have been put on the market in the EEA and to allow the proprietor to market his products outside that area without exhausting his rights within the EEA. By making it clear that the placing of goods on the market outside the EEA does not exhaust the proprietor's right to oppose the importation of those goods without his consent, the Community legislature has allowed the proprietor of the trade mark to control the initial marketing in the EEA of goods bearing the mark (*Sebago and Maison Dubois*, cited above, paragraph 21, and *Zino Davidoff and Levi Strauss*, cited above, paragraph 33).

[27] During the oral procedure, the defendants in the main proceedings, the German and French Governments and the Commission discussed the possible effect on the answer to be given to the question referred for a preliminary ruling in this case of the judgment in *Zino Davidoff and Levi Strauss*, which was delivered after the order for reference.

[28] It must be observed that there are differences between the cases resulting in that judgment and the present case.

[29] In the former cases, in which the Court had to consider the way in which the trade mark proprietor's consent to marketing in the EEA is expressed and proved, it was common ground that the goods at issue had been marketed outside the EEA by the trade mark proprietor or with his consent and then imported and marketed in the EEA by third parties. In paragraphs 46, 54 and 58 of *Zino Davidoff and Levi Strauss* the Court held that, in such circumstances, the consent of a trade mark proprietor to marketing within the EEA cannot be presumed, that it must be express or implied and that it is for the trader who relies on that consent to prove it.

[30] In the present case, the dispute in the main proceedings turns primarily on whether goods were placed on the market for the first time within or outside the EEA. The claimant in the main proceedings submits that the goods were initially placed on the market by the trade mark proprietor outside the EEA, while the defendants in the main proceedings contend that they were first placed on the market within the EEA, so that the exclusive right of the trade mark proprietor is exhausted there, pursuant to Article 7(1) of the Directive.

[31] Such a situation raises the question *inter alia* of the burden of proving where the trade-marked goods were first put on the market in cases of dispute on that point.

[32] Articles 5 to 7 of the Directive embody a complete harmonisation of the rules relating to the rights conferred by a trade mark and accordingly define the rights of proprietors of trade marks in the Community.<sup>39</sup>

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<sup>38</sup> *Silhouette International Schmied*, fn. 38, paragraph 26, and Joined Cases C-414/99 to C-416/99 *Zino Davidoff and Levi Strauss*, fn. 36, paragraph 32.

<sup>39</sup> *Zino Davidoff and Levi Strauss*, paragraph 39.

[33] Article 5 of the Directive confers on the trade mark proprietor exclusive rights entitling him, *inter alia*, to prevent all third parties not having his consent from importing goods bearing the mark. Article 7(1) contains an exception to that rule in that it provides that the trade mark proprietor's rights are exhausted where goods have been put on the market in the EEA by the proprietor or with his consent.<sup>40</sup>

[34] It therefore appears that the extinction of the exclusive right results either from the consent of the proprietor, given either expressly or impliedly, to goods being placed on the market within the EEA, or from their being placed on the market by the proprietor himself. The consent of the proprietor or the placing of goods on the market within the EEA by the proprietor, which are tantamount to renunciation of his exclusive right, each constitute decisive factors in the extinction of that right.<sup>41</sup>

[35] The referring court observes that, under German law, the exhaustion of the trade mark right constitutes a plea in defence for a third party against whom the trade mark proprietor brings an action, so that the conditions for such exhaustion must, as a rule, be proved by the third party who relies on it.

[36] Such a rule of evidence is consistent with Community law and, in particular, with Articles 5 and 7 of the Directive.

[37] However, the requirements deriving from the protection of the free movement of goods enshrined, *inter alia*, in Articles 28 EC and 30 EC may mean that that rule of evidence needs to be qualified.

[38] This must be so where that rule would allow the proprietor of the trade mark to partition national markets and thus assist the maintenance of price differences which may exist between Member States.<sup>42</sup>

[39] As the referring court observes, there is a real risk of partitioning of markets, for example, in situations where, as in the main proceedings, the trade mark proprietor markets his products in the EEA using an exclusive distribution system.

[40] In such situations, if the third party were required to adduce evidence of the place where the goods were first put on the market by the trade mark proprietor or with his consent, the trade mark proprietor could obstruct the marketing of the goods purchased and prevent the third party from obtaining supplies in future from a member of the exclusive distribution network of the proprietor in the EEA, in the event that the third party was able to establish that he had obtained his supplies from that member.

[41] Accordingly, where a third party against whom proceedings have been brought succeeds in establishing that there is a real risk of partitioning of national markets if he himself bears the burden of proving that the goods were placed on the market in the EEA by the proprietor of the trade mark or with his consent, it is for the proprietor of the trade mark to establish that the products were initially placed on the market outside the EEA by him or with his consent. If such evidence is adduced, it is for the third party to prove the consent of the trade mark proprietor to subsequent marketing of the products in the EEA.<sup>43</sup>

[42] The answer to the question referred should therefore be that a rule of evidence according to which exhaustion of the trade mark right constitutes a plea in

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<sup>40</sup> *Zino Davidoff and Levi Strauss*, paragraph 40.

<sup>41</sup> *Zino Davidoff and Levi Strauss*, paragraph 41.

<sup>42</sup> Case C-349/95 *Loendersloot* [1997] ECR I-6227, paragraph 23.

<sup>43</sup> *Zino Davidoff and Levi Strauss*, paragraph 54.

defence for a third party against whom the trade mark proprietor brings an action, so that the conditions for such exhaustion must, as a rule, be proved by the third party who relies on it, is consistent with Community law and, in particular, with Articles 5 and 7 of the Directive. However, the requirements deriving from the protection of the free movement of goods, enshrined, *inter alia*, in Articles 28 EC and 30 EC may mean that this rule of evidence needs to be qualified. Accordingly, where a third party succeeds in establishing that there is a real risk of partitioning of national markets if he himself bears that burden of proof, particularly where the trade mark proprietor markets his products in the EEA using an exclusive distribution system, it is for the proprietor of the trade mark to establish that the products were initially placed on the market outside the EEA by him or with his consent. If such evidence is adduced, it is for the third party to prove the consent of the trade mark proprietor to subsequent marketing of the products in the EEA.

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## Other considerations

### Disguised obstacles reviewed

The ECJ has allowed rights-holders to defend their rights in cases where their consent to putting the product on the market for the first time is lacking. On the other hand, it has been concerned with potential abuses where individual parties are trying to extend their protection beyond what was envisaged by the national monopoly right. There are clear limitations to the exercise of the property rights.

Firstly, there are limits on how the European industry can manipulate the use of rights by separate packages, separate trademarks and similar measures with a view to extending protection against parallel trade. Secondly, the question whether the earlier position in *Merck/Stephar* on importation from unprotected countries still applies, resurfaced with the accession of Spain and Portugal. Finally it had to be determined whether the right to import also includes a right to use the trade-mark in advertising.

### Repackaging and other activities

The ECJ has repeatedly had to evaluate different methods used primarily by the pharmaceutical industry to prevent parallel trade. The fact that this industry has been particularly sensitive is due to several factors such as sale being controlled on a national basis, pricing monitored and the industry carrying wide-reaching responsibilities for the products they produce.

The Court has, however, consistently held that measures which are designed to prevent parallel importation are unlawful. The earlier judgments against *Hoffmann La Roche* and *American Home* were revisited in three separate judgments in 1996<sup>44</sup>. Parallel importers had repacked pharmaceutical products by using new packages or making alterations in the old packages or adding complementary products, which were not produced

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<sup>44</sup> Case 102/77, *Hoffmann-La Roche v Centrafarm*, footnote 15.

by the original manufacturer.<sup>45</sup>

According to the ECJ, Article 7(2) of the Trademark Directive and/or Article 30 EC permitted the rights-holder to oppose marketing under such conditions, provided that he did not deliberately intend to partition markets. The Court added "that condition does not, however, imply that it must be established that the trade mark owner deliberately sought to partition the markets between Member States." The test is more objective than subjective – which reduced the burden of proof put on the parallel trader. As in earlier cases, the importer had to show that repackaging did not affect the product content, that the repackager was clearly identified on the product and that notice had been given to the rights-holder. The Court also required that "the presentation of the trade mark product is not such as to be liable to damage the reputation of the trade mark and of its owner, thus, the packaging must not be defective, of poor quality, or untidy ...".<sup>46</sup>

In 1999 the ECJ confirmed that its reasoning with respect to repackaging *mutatis mutandis* also applies to re-branding a product in cases where different names are used for the same product in different countries irrespective of the reasons for such difference.<sup>47</sup>

A special situation appears when the holder of a product registration withdraws the product in one country but not the other. Can it still be imported?

In *Paranova v Läkemedelsverket* (2003)<sup>48</sup> the Court addressed a situation where Läkemedelsverket in Sweden had decided, at Hässle's request, to withdraw the marketing authorisation granted to Hässle for Losec enteric capsules. Hässle intended to sell a new variant of that product (Losec MUPS enteric tablets). The two versions of Losec were therapeutic equivalents and the capsules continued to be sold in other Member States. Läkemedelsverket also decided that the parallel import licences granted to Paranova would expire on the same date because the capsules and the tablets had to be considered as two distinct medicinal products. (production methods differed and the active ingredient had been replaced

The Court held that the cessation of the validity of a parallel import licence following the withdrawal of the marketing authorisation of reference constitutes a

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<sup>45</sup> See Case C-427/93, C-429/93 & C-436/93 *Bristol Mayer Squibb, Boeringer Ingelheim and Bayer AG v Paranova A/S*, 11 July 1996: [1996] ECR I-3457, [1997] 1 CMLR 1151 and C-323/94, *MPA Pharma GmbH v Rhone Polenc Pharma GmbH*, 11 July 1996: [1996] I-3671, - and C-71/94, C-72/94 & C-73/94, *Eurim-Pharm Arzneimittel GmbH v Beiersdorf AG, Boeringer Ingelheim and Farmitalia Carlo Erba*, 11 July 1996, [1996] I-3603, -.

<sup>46</sup> See especially C-71/94, C-72/94 & C-73/94, *Eurim-Pharm Arzneimittel GmbH v Beiersdorf AG, Boeringer Ingelheim and Farmitalia Carlo Erba*, footnote 45, where the tidiness of the packaging was disputed.

<sup>47</sup> ECJ, Case C-379/97, *Pharmacia & UpJohn SA, v Paranova A/S*, 12 October 1999, \*. Opinion of Advocate General Jacobs of 19 November 1998.

<sup>48</sup> REFERENCE to the Court under Article 234 EC by the Regeringsträtten (Sweden) for a preliminary ruling in the proceedings pending before that court between on the interpretation of Article 28 EC and Article 30 EC. (Interpretation of Article 28 EC and Article 30 EC - Medicinal products - Withdrawal of parallel import licence in consequence of waiver of the marketing authorisation for the medicinal product of reference by the holder of that authorisation)

restriction on the free movement of goods contrary to Article 28 EC,<sup>49</sup> but might be justified by reasons relating to the protection of public health, in accordance with the provisions of Article 30 EC. The principle of proportionality, which is the basis of the last sentence of Article 30 EC, requires that the power of the Member States to prohibit imports of products from other Member States be restricted to what is necessary in order to achieve the aims concerning the protection of health that are legitimately pursued. Thus, national legislation or practice cannot benefit from the derogation laid down in Article 30 EC when the health and life of humans can be protected equally effectively by measures less restrictive of intra-Community trade.

No such reason had been put before the Court. The quality, efficacy and non-toxicity of the old version had not been called into question and it continued to be lawfully marketed in other Member State. Even if the competent authorities must verify the quality, efficacy and non-toxicity of the old version of the medicinal product they must look for the least restrictive measure. Pharmacovigilance can ordinarily be guaranteed for medicinal products that are the subject of parallel imports through cooperation with the national authorities of the other Member States by means of access to documents and data produced by the manufacturer relating to the old version in the Member States in which that version is still marketed.

The Court observed that there might be reasons relating to the protection of public health which could justify the withdrawal of the parallel import licence. Confusion arising from the coexistence of two versions of the same medicinal product on the market might be such a reason, but the burden of proof was then apparently on the authority.

### Marketing in unprotected territories

Even if the Court had gone some distance in revising its overall position on industrial property rights, it did not use an opportunity to modify its stance on pharmaceutical parallel importation from Member States where the company has not benefited from protection of industrial property rights during sales.<sup>50</sup> This earlier holding was generally felt by industry to be arbitrary and going too far. Companies did not really, as suggested by the ECJ, have an option to market or not market products in countries where no protection existed and prices there were set at a lower level. Industries acted both on the Commission level and in courts in order to extend the protection against parallel importation from Spain and Portugal originally granted by special provisions in the accession treaties. These exceptions had elapsed.

In the judgment *Merck-Primecrown*<sup>51</sup> the ECJ was firm on the principles established earlier in *Merck v Stephar*. Merck considered that it had a right to prevent parallel importation from countries where products had been marketed with their consent, but had not been patentable. *Merck v Stephar* should be reversed either because circumstances had changed; the legal position had been changed; prices were lower due to national intervention; and/or finally that Merck had - if not a legal - at least a moral obligation to continue sales in those countries.

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<sup>49</sup> Case C-172/00 *Ferring* [2002] ECR I-6891, paragraph 33.

<sup>50</sup> Case 187/80, *Merck v. Stephar*, footnote 13 above.

<sup>51</sup> ECJ, Case C-267/95 & C-268/95, *Merck & Co. Inc. v Primecrown Ltd and Beecham Group plc v Europharm of Worthing Ltd*, 5 December 1996, [1996] I-6285, [1997] 1 CMLR 83.

The Court established that Articles 47 and 209 of the Spanish Act of Accession introduced a derogation from the principle of free movement of goods and that it is settled case-law that such derogations are to be interpreted strictly.<sup>52</sup> According to the Court:<sup>53</sup> "There can be no doubt now, any more than at the time when the judgment in *Merck-Stephar* was given, that if a patentee could prohibit the importation of protected products marketed in another Member State by him or with his consent, he would be able to partition national markets and thereby restrict trade between Member States. ..."

The Court also rejected the position that judgments given by the Court after *Merck-Stephar*, in particular those in *Pharmon v. Hoechst* and in *Warner Brothers*,<sup>54</sup> supported a revised view.

The pharmaceutical industry's main objection to parallel importation was that the Member States decided prices for medicines. A low price in one Member State would have repercussions on sales in all the others through parallel importation.

The Advocate General agreed with the industry and thought that the time had come to revise earlier case law. Again the Court did not accept the argument, even if it agreed that the "the imposition of price controls is indeed a factor which may, in certain conditions, distort competition between Member States". This circumstance could not justify a derogation from the principle of free movement of goods. Distortion caused by different price legislation had to be remedied by measures taken by the Community authorities. Accordingly, application of national legislation, was precluded, unless the holder of the patent could prove that he was under a genuine, existing legal obligation to market the product in that Member State.

### Further use of trademarks

Does the principle of exhaustion of rights only relate to the physical import of the trademarked product or does it also entail a right to use the trade-mark in further advertising of the product in the country of importation. The matter was dealt with in *Dior*,<sup>55</sup> where ECJ concluded that parallel importer must have a right to advertise their products. Where a reseller makes use of a trade mark, a balance must be struck between the legitimate interest of the trade mark owner in being protected against resellers using his trade mark for advertising in a manner which could

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<sup>52</sup> See, to this effect ECJ, Case C-191/90, *Generics and Harris Pharmaceuticals v SK&F*, 27 October 1992: [1992] ECR I-5335, [1993] 1 CMLR 89 at paragraph [41].

<sup>53</sup> Case C-267/95 & C-268/95, *Merck & Co. Inc. v Primecrown Ltd.*, footnote 51, at paragraph [36].

<sup>54</sup> Case 19/84 *Pharmon v. Hoechst*, footnote 19 and Case 158/86 *Warner Brothers and Metronome Video v. Christiansen*, 17 May 1988: [1988] ECR 2605, (1990) 3 CMLR 684.

<sup>55</sup> ECJ, Case C-337/95, *Parfums Christian Dior SA and Parfums Christian Dior BV v Evora BV*, 4 November 1997, [1998] ECR I-6013, CMLR ...\*. Reference to the Court under Article 177 (now 234#) of the EC Treaty by the Hoge Raad for a preliminary ruling on the interpretation of Articles 30, 36 and the third paragraph of Article 177 (now 234#) of the EC Treaty and of Articles 5 and 7 of the First Council Directive (89/104/EEC) of 21 December 1988 to approximate the laws of the Member States relating to trade marks, OJ 1989 L 40, p. 1.

damage the reputation of the trade mark and the reseller's legitimate interest in being able to resell the goods in question by using advertising methods which are customary in his sector of trade. The proprietor of a trade mark may not rely on Article 7(2) of the Directive to oppose the use of the trade mark, by a reseller who habitually markets articles of the same kind, but not necessarily of the same quality, as the trade-marked goods, in ways customary in the reseller's sector of trade, for the purpose of bringing to the public's attention the further commercialization of those goods, unless it is established that, given the specific circumstances of the case, the use of the trade mark for this purpose seriously damages the reputation of the trade mark.

## **Parallel trade and the internet**

The development relating to pharmaceuticals is creating its specific problems. Directive 97/7/EC of the European Parliament and of the Council of 20 May 1997 deals with the protection of consumers in respect of distance sales.<sup>56</sup> According to Article 1, its object is to approximate the laws concerning distance contracts between consumers and suppliers. Member States may introduce or maintain more stringent provisions compatible with the Treaty, to ensure a higher level of consumer protection. Such provisions shall, where appropriate, include a ban on the marketing of certain goods or services, particularly medicinal products, within their territory by means of distance contracts.

The directive on electronic commerce ensures free movement of information between the Member States, but it is without prejudice to the protection public health and consumer interests. The coordinated field covers on-line information, on-line advertising, on-line shopping, on-line contracting. It does not concern safety standards, labelling obligations, or liability for goods, or including the distribution of medicinal products.

It is obvious that business on internet will further complicate life for rights-holders in Europe, as is evidenced by a recent judgment from the ECJ:

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JUDGMENT OF THE COURT  
Case C-322/01

***Deutscher Apothekerverband***

11 December 2003<sup>57</sup>

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<sup>56</sup> OJ 1997 L 144/19.

<sup>57</sup> REFERENCE to the Court under Article 234 EC by the Landgericht Frankfurt am Main (Germany) for a preliminary ruling. Articles 28 EC and 30 EC - Directives 92/28/EEC and 2000/31/EC - National legislation restricting internet sales of medicinal products for human use by pharmacies established in another Member State - Doctor's

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This matter deals with three questions concerning the interpretation of Articles 28 EC and 30 EC and of Article 1(3) and (4) and Articles 2 and 3 of Council Directive 92/28/EEC of 31 March 1992 on the advertising of medicinal products for human use (OJ 1992 L 113, p. 13), in conjunction with Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the internal market (the Directive on electronic commerce) (OJ 2000 L 178, p. 1). The questions arose in proceedings between Deutscher Apothekerverband eV (an association whose aim is to protect and promote the economic and social interests of pharmacists) on the one hand and DocMorris (a Dutch selling medicinal products by mail order under a licence issued by Dutch authorities) and Mr Waterval (an authorised pharmacist in the Netherlands and legal representative of DovMorris) on the other concerning internet sales of medicinal products for human use in a Member State other than that in which DocMorris and Mr Waterval are established.

Since June 2000 DocMorris and Mr Waterval have been offering for sale, at the internet address 0800 DocMorris, prescription and non-prescription medicines for human use, in languages including German, for end consumers in Germany. They sell only authorised medicines, some of which have been authorised in Germany and others in the Netherlands.

The internet site is divided under the headings Pharmacy, Health Forum, About us, Contact and Help. The individual medicines are divided into product groups, under headings such as Painkillers, Blood-pressure reducers, Cancer therapy, Immuno-stimulants, Cholesterol reduction, Urologics/Potency, Detoxification and others. Each heading first contains an introduction of a few sentences. The medicines are then listed alphabetically under their product name, the contents of the package being described and the price stated in euro. Finally, further information about the product itself may be obtained by clicking on the product name. The order for reference also explains that, where a particular medicinal product is available only on prescription, notice of that is given next to the product description. A given medicine is classified as available only on prescription where it is regarded as such in the Netherlands or in the Member State in which the consumer resides. In that regard, the rules in relation to prescription applied are always those which are the most strict, and may be the rules of the country of origin or those of the country to which the relevant product is being sent. This type of medicine is supplied only on production of the original prescription.

The consumer also has the opportunity, if he clicks on the appropriate icon, to look for a particular product from the range offered by the defendants in the main proceedings and to consult a group of experts on health issues. Generally, the consumer can contact the defendants not only via the internet but also on a free telephone number or by letter.

Delivery can take place in a number of ways. The customer may collect the order in person from the pharmacy at Landgraaf, a town near the border between the Netherlands and Germany. Alternatively he may, at no additional cost, use a courier service recommended by the defendants in the main action to collect the order and bring it to the address given by the recipient. In addition, the customer can use at his own expense another courier service, which is also recommended by the defendants and which collects the order and delivers it to the recipient's address. It is also open to the customer to use another courier service at his own expense.

The Apothekerverband is challenging before the Landgericht Frankfurt am Main the offer of medicines and their delivery by international mail order. It submits that the provisions of the AMG and the HWG do not permit the defendants in the main proceeding to carry on a

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prescription required for supply - Prohibition on advertising the sale of medicinal products by mail order). Interpretation of Articles 28 EC and 30 EC and of Article 1(3) and (4) and Articles 2 and 3 of Council Directive 92/28/EEC of 31 March 1992 on the advertising of medicinal products for human use (OJ 1992 L 113, p. 13), in conjunction with Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the internal market (the Directive on electronic commerce) (OJ 2000 L 178, p. 1).

business of that kind, and that the prohibition imposed by those two laws cannot be challenged on the basis of Articles 28 EC and 30 EC.

The defendants in the main proceedings contend that their business is permitted even under national law and that, in any event, a prohibition on the sale of medicinal products by mail order is incompatible with Community law.

### **Quotations from the Legal Grounds**

#### **The first question**

45. By its first question, the national court is asking essentially whether the principle of the free movement of goods under Articles 28 EC to 30 EC is infringed by national legislation, such as that at issue in the main proceedings, whereby medicinal products for human use the sale of which is restricted to pharmacies in the Member State concerned may not be imported commercially by way of mail order through pharmacies approved in other Member States in response to individual orders placed by consumers over the internet.

46. In the light of the arguments put forward, particularly by the defendants in the main proceedings, it is appropriate to examine this question, first, in relation to medicinal products which have not been authorised in Germany. The question will then be examined in relation to products which are authorised there. The latter category can be further subdivided into non-prescription and prescription-only medicines.

#### **Medicinal products which are not authorised in Germany**

47. Of the national provisions at issue in the main proceedings, Paragraph 73(1) of the AMG prohibits, as a general rule, the importation of medicinal products subject to authorisation or registration within the national territory on the sole ground that they have not been authorised or registered for being placed on the market there. Consequently, the importation of such products into German territory is precluded for the sole reason that they have not been authorised, irrespective of the method of sale.

48. If a provision such as Paragraph 73(1) of the AMG is compatible with Community law, it will not be necessary to consider whether, in respect of this category of medicines, Articles 28 EC to 30 EC preclude national legislation which prohibits the sale by mail order of medicinal products the sale of which is restricted to pharmacies. ....

#### **The Court's reply**

52. As the German and Greek Governments and the Commission rightly observe, the general prohibition imposed by Paragraph 73(1) of the AMG corresponds to the prohibition, at Community level, on placing on the market medicinal products which have not been authorised in the Member State concerned, which was laid down in Article 3 of Directive 65/65, now replaced by Article 6(1) of the Community Code. According to those provisions, medicinal products, even if they are authorised in one Member State, must also, if they are to be placed on the market of another Member State, have been authorised either by the competent authority of that State or under the Community rules referred to in those provisions.

53. Consequently, a national rule such as Paragraph 73(1) of the AMG, whereby a Member State discharges its obligations under Directive 65/65 and the Community Code, cannot be characterised as a measure having equivalent effect to a quantitative restriction on imports within the meaning of Article 28 EC (see, to that effect, in the context of Council Directive 86/469/EEC of 16 September 1986

concerning the examination of animals and fresh meat for the presence of residues (OJ 1986 L 275, p. 36), Case C-246/98 *Berendse-Koenen* [2000] ECR I-1777, paragraph 25). Accordingly, Articles 28 EC to 30 EC cannot be relied on in order to circumvent the system of national authorisation provided for by Directive 65/65 and the Community Code, which is implemented in national law by Paragraph 73(1) of the AMG.

54. It follows from that finding that, as regards medicinal products which are subject to, but which have not obtained, authorisation there is no need to consider whether the national provisions at issue in the main proceedings are precluded by Articles 28 EC to 30 EC.

### **Medicinal products which are authorised in Germany**

55. The first question is more germane as regards medicinal products which have obtained marketing authorisations for the German market. More specifically, this question seeks to ascertain whether the prohibition on the sale by mail order of medicinal products which may be sold only in pharmacies in the Member State concerned, such as the prohibition laid down in Paragraph 43(1) of the AMG, is compatible with the principle of the free movement of goods. That question is divided into three parts, which must be dealt with separately.

#### **1.A Is the national prohibition on mail-order sales a measure having equivalent effect within the meaning of Article 28 EC? (Question 1(a))**

##### **The Court's reply**

63. It must be stated at the outset that the prohibition laid down in Paragraph 43(1) of the AMG falls within the scope of Directive 97/7. Article 14 of the directive allows Member States to introduce or maintain, in the area covered by this Directive, more stringent provisions compatible with the Treaty, to ensure a higher level of consumer protection. Article 14 also states that such provisions shall, where appropriate, include a ban, in the general interest, on the marketing of certain goods or services, particularly medicinal products, within their territory by means of distance contracts, with due regard for the Treaty.

64. A national measure in a sphere which has been the subject of exhaustive harmonisation at Community level must be assessed in the light of the provisions of the harmonising measure and not those of the Treaty.<sup>58</sup> However, the power conferred on Member States by Article 14(1) of Directive 97/7 must be exercised with due regard for the Treaty, as is expressly stated in that provision.

65. Such a provision does not, therefore, obviate the need to ascertain whether the national prohibition at issue in the main proceedings is compatible with Articles 28 EC to 30 EC.

66. In that regard, there is settled case-law to the effect that all measures which are capable of hindering directly or indirectly, actually or potentially, intra-Community trade are to be regarded as measures having equivalent effect to quantitative restrictions and, on that basis, as prohibited by Article 28 EC.<sup>59</sup>

67. Even if a measure is not intended to regulate trade in goods between Member States, the determining factor is its effect, actual or potential, on intra-

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<sup>58</sup> Case C-37/92 *Vanacker and Lesage* [1993] ECR I-4947, paragraph 9, and Case C-324/99 *DaimlerChrysler* [2001] ECR I-9897, paragraph 32.

<sup>59</sup> Case 8/74 *Dassonville* [1974] ECR 837, paragraph 5, and Case C-420/01 *Commission v Italy* [2003] ECR I-0000, paragraph 25).

Community trade. By virtue of that factor, in the absence of harmonisation of legislation, obstacles to the free movement of goods which are the consequence of applying, to goods coming from other Member States where they are lawfully manufactured and marketed, rules that lay down requirements to be met by such goods constitute measures of equivalent effect prohibited by Article 28 EC, even if those rules apply to all products alike, unless their application can be justified by a public-interest objective taking precedence over the requirements of the free movement of goods.<sup>60</sup>

68. Furthermore, as the Court held in *Keck and Mithouard*, even if commercial rules do not relate to the actual characteristics of the products but govern the arrangements for their sale, they may constitute measures of equivalent effect for the purposes of Article 28 EC if they fail to meet two conditions. Those conditions are that such rules must apply to all relevant traders operating in national territory and must affect in the same manner, in law and in fact, the marketing of both domestic products and those from other Member States.<sup>61</sup>

69. As regards the first condition in the preceding paragraph, the prohibition in Paragraph 43(1) of the AMG applies to all the traders concerned, whether German or not, with the result that the first condition is fully met.

70. As to the second condition in paragraph 68 of this judgment, it must be borne in mind that the marketing of a product on a domestic market may entail a number of stages between the time when the product is manufactured and the time when it is ultimately sold to the end consumer.

71. In order to ascertain whether a particular measure affects in the same manner the marketing of both domestic products and those from other Member States, the scope of the restrictive measure concerned must be ascertained. Thus, the Court has found that a prohibition on pharmacists from advertising quasi-pharmaceutical products outside the pharmacy, which they were authorised to offer for sale, did not affect the ability of traders other than pharmacists to advertise those products.<sup>62</sup> Similarly, the prohibition on broadcasting the advertising at issue in *Leclerc-Siplec* was not extensive, since it covered only one particular form of promotion (television advertising) of one particular method of marketing products (distribution).<sup>63</sup>

72. By contrast, the Court has accepted the relevance of the argument that a prohibition on television advertising deprived a trader of the only effective form of promotion which would have enabled it to penetrate a national market.<sup>64</sup> Furthermore, the Court has found that in the case of products such as alcoholic beverages, the consumption of which is linked to traditional social practices and to local habits and customs, prohibiting all advertising directed at consumers in the form of advertisements in the press, on the radio and on television, the direct mailing of unsolicited material or the placing of posters on the public highway is liable to impede access to the market for products from other Member States more than it impedes access for domestic products, with which consumers are instantly more familiar.<sup>65</sup>

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<sup>60</sup> Case 120/78 *Rewe-Zentral (Cassis de Dijon)* [1979] ECR 649, paragraphs 6, 14 and 15; *Keck and Mithouard*, paragraph 15, and *Familiapress*, paragraph 8.

<sup>61</sup> *Keck and Mithouard*, paragraph 15; *Hünernmund*, paragraph 21, and Case C-412/93 *Lerclerc-Siplec* [1995] ECR I-179, paragraph 21.

<sup>62</sup> *Hünernmund*, paragraph 19.

<sup>63</sup> *Leclerc-Siplec*, paragraph 22.

<sup>64</sup> *De Agostini and TV-Shop*, paragraph 43.

<sup>65</sup> Case C-405/98 *Gourmet International Products* [2001] ECR I-1795, paragraphs 21 and 24.

73. As regards a prohibition such as that laid down in Paragraph 43(1) of the AMG, it is not disputed that the provision contains both a requirement that certain medicines be sold only in pharmacies and a prohibition on mail-order sales of medicines. It is true that such a prohibition on mail-order sales may be regarded as merely the consequence of the requirement for sales to be made exclusively in pharmacies. However, the emergence of the internet as a method of cross-border sales means that the scope and, by the same token, the effect of the prohibition must be looked at on a broader scale than that suggested by the Apothekerverband, by the German, French and Austrian Governments and by the Commission.<sup>66</sup>

74. A prohibition such as that at issue in the main proceedings is more of an obstacle to pharmacies outside Germany than to those within it. Although there is little doubt that as a result of the prohibition, pharmacies in Germany cannot use the extra or alternative method of gaining access to the German market consisting of end consumers of medicinal products, they are still able to sell the products in their dispensaries. However, for pharmacies not established in Germany, the internet provides a more significant way to gain direct access to the German market. A prohibition which has a greater impact on pharmacies established outside German territory could impede access to the market for products from other Member States more than it impedes access for domestic products.

75. Accordingly, the prohibition does not affect the sale of domestic medicines in the same way as it affects the sale of those coming from other Member States.

76. The answer to Question 1(a) is therefore that a national prohibition on the sale by mail order of medicinal products the sale of which is restricted to pharmacies in the Member State concerned, such as the prohibition laid down in Paragraph 43(1) of the AMG, is a measure having an effect equivalent to a quantitative restriction for the purposes of Article 28 EC.

### **Whether there is any justification for the prohibition on mail-order sales (Question 1(b))**

77. By its first question, under subparagraph (b), the national court is asking essentially whether the prohibition on the sale by mail order of medicines the sale of which is restricted to pharmacies can be justified under Article 30 EC where, before prescription medicines are supplied, a doctor's original prescription must have been produced to the pharmacy dispatching the medicines. On that point, the national court wonders what requirements should be placed on that pharmacy as regards control of orders, packaging and receipt.

### **The Court's reply**

102. As is maintained by the parties to the main action, the Member States which have submitted observations to the Court and the Commission, Article 30 EC continues to apply in relation to the manufacture and marketing of specialised pharmaceutical products as long as harmonisation of national rules has not been fully achieved in those areas.<sup>67</sup> In that regard, it should be noted that the sale of medicinal products to end consumers has not been subject to full Community harmonisation.

103. It is settled case-law that the health and life of humans rank foremost among the assets or interests protected by Article 30 EC and it is for the Member

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<sup>66</sup> Paragraphs 56 to 59 of this judgment.

<sup>67</sup> *Schumacher*, paragraph 15; *Delattre*, paragraph 48; *Eurim-Pharm*, paragraph 26; *Commission v Germany*, paragraph 10; and *Ortscheit*, paragraph 14.

States, within the limits imposed by the Treaty, to decide what degree of protection they wish to assure.<sup>68</sup>

104. However, national rules or practices likely to have a restrictive effect, or having such an effect, on the importation of pharmaceutical products are compatible with the Treaty only to the extent that they are necessary for the effective protection of health and life of humans. A national rule or practice cannot benefit from the derogation provided for in Article 30 EC if the health and life of humans may be protected just as effectively by measures which are less restrictive of intra-Community trade.<sup>69</sup>

105. In the case before the national court, no doubt is cast on the fact that the virtual pharmacy is subject to supervision by the Netherlands authorities, with the result that the arguments put forward by the Apothekerverband to assert generally that the supervision to which such a pharmacy is subject is inadequate, in comparison with that to which a traditional pharmacy is subject, cannot be accepted.

106. The only arguments which are capable of providing adequate reasons for prohibiting the mail-order trade in medicinal products are those relating to the need to provide individual advice to the customer and to ensure his protection when he is supplied with medicines and to the need to check that prescriptions are genuine and to guarantee that medicinal products are widely available and sufficient to meet requirements.

107. Looked at generally, most of those reasons are based on the possible dangers posed by medicinal products and, accordingly, on the care which must be taken with all aspects of the marketing of those products, objectives which are also those of the Community legislation in the pharmaceuticals field. Thus, and in any event, consideration of the reasons put forward to justify the prohibition on the sale by mail order of medicinal products must take into account the various provisions of Community law which may affect that issue.

108. First, the Community Code provides, in Title VI, Classification of Medicinal Products, that when the competent authorities of the Member States grant a marketing authorisation for a medicinal product they must specify its classification, namely whether or not it is subject to prescription. Although it is for those authorities to determine the classification of medicinal products, they must none the less take as their basis the criteria set out in Article 71(1) of the Code, namely those concerning the potential dangers connected with use of the relevant product (see paragraphs 5 and 6 of this judgment).

109. Second, the distinction between medicinal products which are subject to prescription and those which are not, which is based on those criteria and which thus concerns the potential danger of the product concerned, is applied in the Community rules concerning advertising for medicinal products. As pointed out in paragraphs 7 to 13 of this judgment, advertising of prescription medicines is prohibited (Article 88(1) of the Community Code), whilst, in general, advertising of medicinal products intended and designed for use without the intervention of a medical practitioner is permitted, provided that certain conditions are complied with (see Article 88(2) of the Community Code).

110. In addition to the distinction mentioned in the preceding paragraph, Article 14 of Directive 97/7, which regulates distance selling for the purpose of consumer protection, allows the Member States to adopt, with due regard for the provisions

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<sup>68</sup> *Schumacher*, paragraph 17; *Eurim-Pharm*, paragraph 26; and *Ortscheit*, paragraph 16.

<sup>69</sup> *Schumacher*, paragraphs 17 and 18; *Delattre*, paragraph 53; *Eurim-Pharm*, paragraph 27; *Commission v Germany*, paragraphs 10 and 11; and *Ortscheit*, paragraph 17.

of the Treaty, measures which prohibit, on grounds of general interest, the marketing of certain goods or services, particularly medicinal products, within their territory by means of distance contracts. That provision indicates that the Community legislature did not intend to prevent Member States from prohibiting the sale by mail order of medicinal products merely because the provisions relating to authorisations to market such products within the Community have been harmonised and merely because of the existence of a system of mutual recognition and of provisions intended to coordinate the rules relating to certain activities in the field of pharmacy and the mutual recognition of diplomas in pharmacy.

111. In the light of the foregoing, the reasons advanced by the Apothekerverband by way of justification must be examined in relation to non-prescription medicines, on the one hand, and prescription medicines, on the other hand.

### **Non-prescription medicines**

112. None of the reasons which the Apothekerverband advances by way of justification can provide a valid basis for the absolute prohibition on the sale by mail order of non-prescription medicines.

113. First, as regards the need to provide the customer with advice and information when a medicinal product is purchased, it is not impossible that adequate advice and information may be provided. Furthermore, as the defendants in the main proceedings point out, internet buying may have certain advantages, such as the ability to place the order from home or the office, without the need to go out, and to have time to think about the questions to ask the pharmacists, and these advantages must be taken into account.

114. As to the argument that virtual pharmacists are less able to react than pharmacists in dispensaries, the disadvantages which have been mentioned in this regard concern, first, the fact that the medicine concerned may be incorrectly used and, second, the possibility that it may be abused. As regards incorrect use of the medicine, the risk thereof can be reduced through an increase in the number of on-line interactive features, which the customer must use before being able to proceed to a purchase. As regards possible abuse, it is not apparent that for persons who wish to acquire non-prescription medicines unlawfully, purchase in a traditional pharmacy is more difficult than an internet purchase.

115. Second, as regards non-prescription medicines, considerations relating to their delivery do not justify an absolute prohibition on their sale by mail order.

116. Third, as regards the reasons based on the need to guarantee that medicinal products are widely available and sufficient to meet requirements, the Court notes that, in the submission of the defendants in the main proceedings (see paragraph 100 of this judgment), the Netherlands virtual pharmacy is subject to public-service obligations such as those mentioned by the Apothekerverband, with the result that it is not, in that respect, in a better position than German pharmacies. Furthermore, the APO, which sets the ultimate selling price of medicinal products, applies solely to prescription-only medicines and thus is not a reason for prohibiting mail-order sales of non-prescription medicines, the prices of which may be set freely by German pharmacies.

### **Prescription medicines**

117. The supply to the general public of prescription medicines needs to be more strictly controlled. Such control could be justified in view of, first, the greater risks which those medicines may present (see Article 71(1) of the Community

Code) and, second, the system of fixed prices which applies to them and which forms part of the German health system.

118. As regards the first consideration, the fact that there might be differences in the way those medicines are classified by the Member States, so that a particular medicinal product may be subject to prescription in one Member State but not in another, does not mean that the first Member State forfeits the right to take more stringent action with regard to that type of medicinal product.

119. Given that there may be risks attaching to the use of these medicinal products, the need to be able to check effectively and responsibly the authenticity of doctors' prescriptions and to ensure that the medicine is handed over either to the customer himself, or to a person to whom its collection has been entrusted by the customer, is such as to justify a prohibition on mail-order sales. As the Irish Government has observed, allowing prescription medicines to be supplied on receipt of a prescription and without any other control could increase the risk of prescriptions being abused or inappropriately used. Furthermore, the real possibility of the labelling of a medicinal product bought in a Member State other than the one in which the buyer resides being in a language other than the buyer's may have more harmful consequences in the case of prescription medicines.

120. The Apothekerverband has also put forward arguments concerning the integrity of the German health system, arguing that, since German pharmacies are obliged by the APO to sell prescription medicines at fixed prices, allowing the cross-border sale of those medicines at uncontrolled prices would jeopardise the existence of those pharmacies and thus the integrity of the German health system.

121. That argument requires an examination of the rationale for the system set up by the APO, which sets the selling price of prescription medicines.

122. Although aims of a purely economic nature cannot justify restricting the fundamental freedom to provide services, it is not impossible that the risk of seriously undermining the financial balance of the social security system may constitute an overriding general-interest reason capable of justifying a restriction of that kind (see *Kohll*, paragraph 41; *Vanbraekel*, paragraph 47; *Smits and Peerbooms*, paragraph 72; and Case C-358/99 *Müller-Fauré and Van Riet* [2003] ECR I-0000, paragraphs 72 and 73). Moreover, a national market for prescription medicines could be characterised by non-commercial factors, with the result that national legislation fixing the prices at which certain medicinal products are sold should, in so far as it forms an integral part of the national health system, be maintained.

123. However, neither the Apothekerverband nor the Member States which have submitted observations to the Court have put forward any arguments as to the necessity of the APO. Therefore, in the absence of any such arguments, the Court cannot find that, as regards prescription medicines, the prohibition on mail-order sales in Germany may be justified on grounds of the financial balance of the social security system or the integrity of the national health system.

124. In the light of the foregoing, the answer to Question 1(b) must be that Article 30 EC may be relied on to justify a national prohibition on the sale by mail order of medicinal products the sale of which is restricted to pharmacies in the Member State concerned in so far as the prohibition covers medicinal products subject to prescription. However, Article 30 EC cannot be relied on to justify an absolute prohibition on the sale by mail order of medicinal products which are not subject to prescription in the Member State concerned.

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### **The second question**

135. By the first part of its second question, the national court is asking essentially whether, in the context of a national prohibition on advertising the sale by mail order of medicinal products, Articles 28 EC and 30 EC preclude a broad interpretation of advertising, whereby a number of features of the internet portal of a pharmacy established in a Member State are classed as prohibited advertising, making cross-border ordering of medicines over the internet appreciably more difficult.

136. The question presupposes the co-existence of a lawful internet sale of medicinal products with a lawful prohibition on the advertising of those products, which might adversely affect the sale. Accordingly, it should be made clear that two distinct questions are being raised: first, whether national prohibitions on advertising the sale by mail order of medicinal products are compatible with Articles 28 EC and 30 EC, and second whether, in so far as those prohibitions (or some of them) are found compatible, a broad interpretation of advertising, which would make internet selling more difficult, would also be compatible with Articles 28 EC and 30 EC.

137. It is only when a prohibition on advertising which is compatible with Community law coincides with an internet sale which is also compatible with Community law that it will be necessary to consider how broadly the concept of advertising should be interpreted, as well as Questions 2(a) and 2(b).

### **Whether the prohibitions on advertising are compatible with Community law**

138. As explained in paragraphs 31 to 33 of this judgment, the German legislation provides for three kinds of prohibition on the advertising of medicinal products. It is necessary to ascertain whether each of those prohibitions complies with Community law. First, as regards Paragraph 3 of the HWG, which in essence lays down a prohibition on advertising medicinal products which require authorisation but have not been authorised, it is sufficient to note that such a prohibition is in conformity with the prohibition referred to in Article 2(1) of Directive 92/28, replaced by Article 87(1) of the Community Code. Thus there is no reason to examine the compatibility of such a prohibition with the Treaty.

139. Second, Paragraph 10(1) of the HWG provides, in general, for a prohibition on advertising prescription medicines. As was stated in connection with Paragraph 3 of the HWG, a prohibition of the kind in Paragraph 10(1) of that law is compatible, as the Commission has observed, with Article 3(1) of Directive 92/28, replaced by Article 88(1) of the Community Code, which lays down a corresponding prohibition at Community level. Accordingly, since a domestic prohibition of that kind constitutes a national measure implementing a Community harmonising measure, its compatibility with the Treaty cannot be called in question either.

140. Third, Paragraph 8(1) of the HWG lays down a prohibition on advertising the sale by mail order of medicinal products which may be supplied exclusively in pharmacies. Paragraph 8(2) also prohibits advertising in connection with the sale of medicinal products by way of individual import as described in Paragraph 73(2), point 6a, and Paragraph 73(3) of the AMG. According to the observations of the German Government, that prohibition, read with Paragraph 73(1) of the AMG, seeks to prevent individual imports of unauthorised medicinal products becoming so extensive, as a result of advertising, as to undermine the system of authorisation,

whereas under the AMG individual imports are possible only in exceptional cases. In any event, as the Advocate General has noted in point 171 of her Opinion, according to the documents provided to the Court by the national court, the latter considers that only the prohibition laid down in Paragraph 8(1) of the HWG applies in relation to the sale by mail order of medicinal products. Thus, the provisions of Paragraph 8(2) of the HWG do not form part of the legal and factual framework of the dispute in the main proceedings.

141. The prohibition in Paragraph 8(1) of the HWG has no precise corollary at Community-law level. Article 88(1) of the Community Code prohibits advertising of prescription medicines, whilst Article 88(2) permits, as a general rule, advertising for medicines intended and designed for use without the intervention of a medical practitioner, but with the advice of the pharmacist, if necessary.

142. The Austrian Government relies on that provision to observe that even if that type of advertising is permissible in principle, and given that Article 88 of the Code does not state to what extent the pharmacist's advice is deemed necessary, it must be assumed that the Member States have some latitude in this sphere. The Austrian Government concludes that a prohibition on internet advertising is also justified for medicinal products which may be sold only in pharmacies and for which a prescription is not required.

143. In that regard, it is appropriate to bear in mind the answer to Question 1(b), in paragraphs 112 to 116 of this judgment, concerning justification for the prohibition on the sale by mail order of non-prescription medicines. In its reply, the Court held that the prohibition cannot be justified, in relation to those medicines, by the alleged need for a pharmacist to be physically present when medicines of that type are purchased.

144. It follows that Article 88(2) of the Community Code, which allows medicinal products not subject to prescription to be advertised to the general public, cannot be interpreted as precluding advertising for the sale by mail order of medicines on the basis of the alleged need for a pharmacist to be physically present. Accordingly, Article 88(1) of the Community Code, which prohibits advertising for prescription medicines, precludes a prohibition such as that laid down in Paragraph 8(1) of the HWG in so far as that prohibition covers non-prescription medicines.

### **Scope of the concept of advertising to the general public under Article 1(3), first indent, and Article 3(1) of Directive 92/28**

145. It is apparent from the foregoing that only prohibitions on advertising such as those in Paragraphs 3a and 10 of the HWG, namely those concerning unauthorised medicinal products and prescription medicines respectively, are compatible with Community law. Accordingly, the Court must consider whether the scope of either of those prohibitions is such as may prevent internet sales of medicinal products, in order to ascertain whether it is necessary to give an interpretation of the term advertising to the general public and, in particular, to state how broadly that term should be interpreted.

146. As regards a prohibition of the kind referred to in Paragraph 3a of the HWG, it suffices to observe that the very placing on the market of medicinal products within the territory of a Member State in which they are subject to authorisation but have not been authorised is prohibited at Community level. Accordingly, it cannot be maintained that a prohibition of that kind prevents the lawful sale of medicines over the internet.

147. Community law does not preclude a prohibition on mail-order selling of prescription medicines, which means that a prohibition on advertising the sale by mail order sale of that class of medicinal products cannot be found to prevent a lawful method of selling medicinal products.

148. In light of the foregoing, the answer to the first part of the second question must be that Article 88(1) of the Community Code precludes a national prohibition on advertising the sale by mail order of medicinal products which may be supplied only in pharmacies in the Member State concerned, such as the prohibition laid down in Paragraph 8(1) of the HWG, in so far as the prohibition covers medicinal products which are not subject to prescription.

149. Consequently, and in light of the answer to Question 1(b), the Court finds that in the main case there is no prohibition on advertising compatible with Community law which is such as may prevent the lawful sale of medicinal products over the internet. Accordingly, there is no need to answer Question 2(a) and (b).

### **The third question**

150. Given the answer to the second question, there is no need to reply to the third question.

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