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ENJOINING THE USE OF NATIONAL TRADEMARK RIGHTS TO PARTITION THE EEC: APPLICATION OF ARTICLES 36 AND 85

I. Introduction

It is generally held that the primary function of a trademark is to identify the origin of a product and distinguish it from other products of the same type.¹

Trademarks have their origin in the tort of passing-off or unfair competition, that is, in the fundamental rule that no man has the right to put his goods up for sale as the goods of another person.²

In distinguishing the origin of goods, the trademark serves to protect the owner's goodwill from the deceptive acts of competing parties.

Yet deception is to be avoided not only in the interest of the trademark owner, but also in the interest of the consumer.³ As Rudolph Callmann stated, the trademark "assures the public that goods bearing the same mark are similar in nature, quality or characteristics."⁴ Thus the consumer relates the trademark to what he likes or dislikes.⁵ When he enters the market place he uses trademarks to identify and distinguish the products he wishes to purchase, being reasonably assured that his purchase under a particular mark is the genuine item that has proved satisfactory to him in the past.⁶

The dual function of the trademark appears both simple and straightforward. It also appears, initially, that the trademark's function can well be served by existing national laws which provide for actions of infringement or unfair competition against those who seek to market imitations of trademarked goods. However, when viewed against the realities of international commerce, the traditional methods of implementing and protecting the trademark function are quickly thrown open to question.

Since trademark rights have invariably been creatures of state or national legislation, there has been a tendency for businesses to rely on national trademark rights to artificially control the flow of goods between countries. Thus, a trademark owner who holds rights to the same mark in several countries will assert his rights in one such country to oppose imports marketed in another country by

1 See 2 S. LADAS, PATENTS, TRADEMARKS AND RELATED RIGHTS § 732, at 1341 (1975) [hereinafter cited as LADAS].

2 *Id.*

3 1 M. HANDLER, TWENTY-FIVE YEARS OF ANTITRUST 646-47 (1973); Note, *Trademarks—Likelihood of Confusion and the Public Interest*, 20 WAYNE L. REV. 1205 (1974).

4 1 R. CALLMANN, THE LAW OF UNFAIR COMPETITION, TRADEMARKS AND MONOPOLIES § 19(1) (d), at 640 (3d ed. 1967). See *Mendez v. Holt*, 128 U.S. 514, 520 (1888) where it was said that a trademark affords assurance that the product is genuine and possesses a certain degree of excellence. See also 15 U.S.C. § 1127 (1970). For the effect of this section on reassurance of the consuming public as to the quality of goods produced by a "related company" under the particular mark, see LADAS § 747, at 1390.

5 See Hanak, *The Quality Assurance Function of Trademarks*, 43 FORDHAM L. REV. 363, 364 (1974).

6 See Mak, *Trademarks and the European Common Market*, 6 INTERNATIONAL REVIEW OF INDUSTRIAL PROPERTY AND COPYRIGHT LAW [I.I.C.] 29, 32 (1975). Mr. Mak does, however, imply that the guarantee function of the trademark is subsidiary to the function of indicating origin. *Id.* at 32-36. See LADAS § 747, at 1388.

the owner himself or by those using the mark under his authorization.⁷ In this way, the owner will attempt to use the national compartmentalization of his trademark rights to create a division of markets for his branded goods.

Those nations which have perhaps been most affected by this manipulation of trademark laws are the vigorous trading countries of Western Europe. Nine of these countries now form the European Economic Community (EEC). The goal of the EEC is to break down the political and economic barriers between Member States and promote the integration of a European common market.⁸ To further this goal the European Court (EEC Court) and Commission have expanded their interpretation of Community law in an attempt to prevent the enforcement of national trademark rights from inhibiting the free movement of goods and free competition within the Community.

Unfortunately, however, these EEC institutions have been suffering from territorial myopia. In their attempts to thwart the competitively undesirable exercise of trademark rights, they have sometimes exaggerated trivial links between foreign companies⁹ and ignored variations in product quality and composition.¹⁰ There is some indication that the EEC is moving away from this trend,¹¹ but as several cases demonstrate, the Court of Justice and the Commission have often ignored the trademark's important function of indicating origin and ensuring quality.

The EEC's unique and limited application of the trademark right has made it increasingly important for lawyers representing multinational enterprises to be familiar with Community case law on this matter. The fact that two of the EEC's most recent trademark cases¹² have involved foreign subsidiaries of American corporations further serves to emphasize the importance to the American bar of an analysis of this area of foreign law. This note will seek to provide an understanding of the EEC's trademark doctrine as it has evolved under Articles 85 and 36¹³ of the Treaty of Rome, the governing law of the Common Market.

In examining this area the discussion will necessarily begin with the requisite elements of an Article 85 violation. Next will be an exploration of the EEC's application of Article 85 in its attempts to deny unwarranted assertion of national trademark rights. Following this examination, and a comment on the inadequacy of Article 85 to eliminate certain instances of trademark protection, the EEC's

7 These actions are justified by trademark owners under the so-called principle of territoriality. According to this theory, "the protection of a trademark in a certain country depends exclusively on the law of that country, and . . . the effects of a trademark ownership by use or registration in a country do not reach beyond the borders of that country." LADAS § 732, at 1340.

8 See, e.g., J. CUNNINGHAM, *THE COMPETITION LAW OF THE E.E.C.* 39-41 (1973), and note 15 *infra*.

9 See *Van Zuylen Freres v. Hag A. G.*, [1974 Transfer Binder] COMM. MKT. REP. (CCH) ¶ 8230 [hereinafter cited as *Hag*].

10 See *Sirena S.r.l. v. Eda GmbH*, [1971-1973 Transfer Binder] COMM. MKT. REP. (CCH) ¶ 8101 [hereinafter cited as *Sirena*].

11 See *Centrafarm B.V. v. Winthrop B.V.*, [1974 Transfer Binder] COMM. MKT. REP. (CCH) ¶ 8247 [hereinafter cited as *Centrafarm*]. For a critical analysis of this case see V. KORAH, *COMPETITION LAW OF BRITAIN AND THE COMMON MARKET* 225-26 (1975).

12 *EMI Records Ltd. v. CBS United Kingdom Ltd.*, COMM. MKT. REP. (CCH) ¶ 8350 (1976); *Centrafarm*, [1974 Transfer Binder] COMM. MKT. REP. (CCH) ¶ 8247.

13 Mar. 25, 1957, 298 U.N.T.S. 11, 29, 47-48. Articles of the EEC Treaty will be cited without further reference. The provisions of the Treaty and implementing regulations may be found in the CCH COMMON MARKET REPORTER [hereinafter cited as CCH].

subsequent shift to reliance on Article 36 and the principle of free movement to thwart such undesirable protection will be outlined. Finally, comment will be offered on the EEC's interpretation of these two articles of the Treaty of Rome in light of the dual function which trademarks have traditionally been thought to fulfill.

Prior to analyzing the EEC's approach toward international trademark problems, it is important to have a general understanding of the Community's goals and operations. The EEC was formed in 1957 by the Treaty of Rome.¹⁴ This agreement sought to achieve economic growth and stability within Western Europe by establishing a common market and harmonizing the economic policies of the Member States.¹⁵ Such tasks were entrusted to several institutions,¹⁶ two of which have figured prominently in the development of Community trademark law: the European Court of Justice (EEC Court) and the EEC Commission. The EEC Court has automatic jurisdiction over questions of Treaty interpretation which arise in the final courts of appeal in the Member States.¹⁷ Consequently, when an Article 85 or Article 36 question is involved in any final national decision, the proceedings in the national court are stayed while the Treaty issues are referred to the EEC Court. In addition, the lower courts of Member States may, if they so desire, submit questions concerning Treaty interpretation directly to the EEC Court.¹⁸

The Commission, on the other hand, is primarily an executive organ of the Community.¹⁹ It does, however, have limited jurisdiction to determine whether the trade competition provisions of the Treaty contained in Article 85 are being violated.²⁰ Thus, if national trademark rights are being used by their holders to partition the Common Market in violation of these Treaty provisions, the Commission may order the individuals to end such activities.²¹ In essence, the Commission will require a local trademark holder to withdraw an infringement or unfair competition suit against one who imports similarly marked competing goods. The Commission's decisions, however, are normally appealable to the EEC Court on issues of law.²²

II. Article 85's Prohibition Against The Exercise of National Trademark Rights

The EEC's trademark decisions have focused primarily on two articles of the Treaty of Rome: Article 85, which provides for free competition, and Article 36, which deals with the free movement of goods within the Community. In addition to being more familiar to members of the American bar,²³ the antitrust

14 Article 1. The original Member States were Belgium, France, Germany, Italy, Luxembourg and the Netherlands. In 1973, Denmark, Ireland and Great Britain also joined the EEC.

15 Article 2.

16 Article 4.

17 Article 177.

18 *Id.*

19 J. CUNNINGHAM, *THE COMPETITION LAW OF THE E.E.C.* 40 (1973).

20 Article 89.

21 *See id.*; CCH ¶ 2422.01 (1971).

22 Article 173. A brief explanation of this article is found in CCH ¶ 4636.04 (1971).

23 *See generally* 3 R. CALLMANN, *THE LAW OF UNFAIR COMPETITION, TRADEMARKS AND MONOPOLIES* § 101.2 (3d ed. 1967); LADAS §§ 742-45.

principles embodied in Article 85 were the first to be used by the Community in striking down unwarranted instances of national trademark protection.²⁴ Consequently, the EEC's application of these laws on free competition will form the initial focus of this discussion.

Article 85(1) prohibits

all agreements between undertakings, decisions by associations of undertakings, and concerted practices which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the Common Market, and in particular those which:

- (a) directly or indirectly fix purchase or selling prices or any other trading conditions;
- (b) limit or control production, markets, technical development, or investment. . . .²⁵

Subparagraphs (a) and (b) of the article clearly indicate the antitrust nature of its provisions. If an agreement is found to violate those provisions, it is automatically void under Article 85(2).²⁶

A. Effect on Trade Between Member States: A Jurisdictional Requirement

As provided in the Treaty, three elements must exist before an alleged Article 85 violation can be sustained. First, there must be some form of agreement or concerted action between undertakings; second, the agreement must have the potential of affecting trade between Member States; and third, the agreement must have the object or effect of inhibiting competition within the Community. Despite this particular ordering of elements within the text of the article, it is clearly the second requirement that is the initial concern of the Court or Commission in any Article 85 case. In order to violate the competition article, a trademark agreement involving the licensing or assignment of a mark must have the potential of affecting trade between Member States. This is a jurisdictional hurdle which must be met before Community antitrust law is applicable.²⁷ Generally, there must be a showing that it is possible for the particular agreement to affect the flow of imports and exports between EEC countries.²⁸

In the trademark area this required effect refers to an influence on imports and exports marketed under a particular brand name. Thus, if a manufacturer in one Member State seeks to ensure exclusive national territories for his distributors in other Member States through the use of separate trademark assignments, these agreements will have a potential effect on trade between the States.²⁹ This effect arises because each assignee may have the right, under the national

²⁴ Hunnings, *Patents, Trade Marks, Copyright*, 1974 J. Bus. L. 321. See *Grundig & Consten v. EEC Comm'n.*, 5 COMM. MKT. L.R. 418 (1966).

²⁵ See note 13 *supra*.

²⁶ *Id.*

²⁷ See, e.g., *Grundig & Consten v. EEC Comm'n.*, 5 COMM. MKT. L.R. 418, 472 (1966); *General Motors Continental N.V. v. Comm'n.*, [1975 Transfer Binder] CCH ¶ 8320, at 7741 (opinion of the Advocate General).

²⁸ See *Grundig & Consten v. EEC Comm'n.*, 5 COMM. MKT. L.R. 418, 472 (1966).

²⁹ 5 COMM. MKT. L.R. 418 (1966).

trademark law of his particular state, to restrain "infringing" imports of identically branded goods marketed abroad by the assignor or other assignees. Similarly, the local assignee may be prevented from freely exporting to another assignee's country, because the latter individual would be in a position to maintain an infringement action against him. Of course, a potential effect on trade may also exist when both the assignor and the assignee of a mark are manufacturers.³⁰ In such a situation as well, enforcement of one party's local trademark rights will affect importation and exportation of identically branded goods produced in various other countries.

Of particular importance is that the requisite effect on trade need not be prejudicial in all respects in order to bring the agreement within the scope of Article 85.³¹ In *Grundig & Consten v. EEC Commission*,³² for example, a German manufacturer had granted exclusive trademark rights to its French distributor. In the course of its discussion on Article 85, the EEC Court intimated that the flow of the manufacturer's products into France might well be increased by the exclusive assignment.³³ This, in turn, could help to stimulate imports of competing brands into France from other Member States, thus promoting *interbrand* competition. However, the Court held that if, as a consequence of the exclusive assignment, the French distributor was restrained from reselling his imported goods abroad and foreign distributors were prohibited from bringing the same German product onto the French market, then, obviously, an effect on *intra-brand* trade between States existed.³⁴ Such a restrictive effect on purely *intra-brand* competition is sufficient to meet the first condition of Article 85. Even in these situations, freedom of trade is impaired in such a way as to endanger the achievement of a single European market.

Analogous to the typical American federal jurisdictional requirement of "interstate commerce," Article 85 requires that the trade which is affected be *between* Member States.³⁵ Consequently, only trademark agreements which have inter-member effects will come under EEC scrutiny. An agreement between a manufacturer and distributor in the same Member State, whereby the former assigns to the latter all of his trademark rights for that state, would not in itself have the necessary effect on trade.³⁶ Though it might affect or distort *intra-brand* trade within a single national market, it would not have the potential of affecting imports and exports within the EEC. In such a situation, then, the agreement would not meet the jurisdictional requirements for application of Article 85.

Similarly, it has been argued that trade between Member States is not affected if trademark agreements are used by two parties to split a world market into a European and a non-European territory.³⁷ In this situation, all EEC

30 See *Sirena*, [1971-1973 Transfer Binder] CCH ¶ 8101.

31 See *Grundig & Consten v. EEC Comm'n.*, 5 COMM. MKT. L.R. 418, 472 (1966).

32 5 COMM. MKT. L.R. 418 (1966).

33 *Id.* at 472.

34 *Id.* at 472-73.

35 See text accompanying note 25 *supra*.

36 Cf. *Photo—Radio—Club v. Nicolas & Societe Brandt*, CCH ¶ 8011 (1963) (Court of Amiens, France), *aff'd*, CCH ¶ 8026 (1964) (Cass. crim.) [exclusive distribution agreement between local wholesaler and retailers, having no extra-territorial effects, does not fall under Article 85].

37 *EMI Records Ltd. v. CBS United Kingdom Ltd.*, CCH ¶ 8350, at 7350-55 (1976) (written observations submitted by the Danish, French, Irish and British governments).

trademark rights would still be under the control of one party to the agreement. That party's use of those rights to exclude similarly branded goods originating from the non-European party, together with the latter's reciprocal actions, would only affect trade between the Community and third countries. The EEC Court has noted, however, that if the party with the non-European trademark rights also operates sales subsidiaries within various EEC nations, the requisite effect on trade might then be present.³⁸ This conclusion is premised on the notion that nonexercise of the European party's rights, pursuant to its ownership of the common mark, would result in the importation and marketing in the EEC of such goods by the outsider, through its EEC based subsidiaries. The subsidiaries, in turn, could import and export these goods between their respective Member States. If, however, subsequent to the division of the world rights to the mark, the European party chooses to exercise his rights, the outsider's European subsidiaries can be restrained from marketing the goods under the same brand as their European competitor. Thus, the inter-member trade which the subsidiaries might have carried on under the common mark is obviously precluded. In this case, then, the restrictive world trademark agreement would meet the jurisdictional requirements of Article 85 by having a potential effect on trade between Member States.³⁹

B. *The Object or Effect of Restricting Competition*

The second prerequisite for a violation of Article 85 is that the particular agreement or concerted practice have as its "object or effect the prevention, restriction or distortion of competition within the Common Market. . . ."⁴⁰ As a preliminary matter, it should be noted that in the trademark area it is intra-brand competition on which the EEC has focused.⁴¹ When a foreign manufacturer grants exclusive national trademark rights to independent manufacturers or distributors in each of the Member States, its assignees are not thereby absolutely protected from competition. They must still compete with manufacturers or distributors of other brands.⁴² Yet such competing brands may not always be identical, and, in some instances, when the differences are technical, it may be difficult for consumers to assess the relative value of different brands.⁴³ Thus "purchasers cannot rely generally on a comparison of the offers and especially of the prices of their suppliers, except for articles of the same mark."⁴⁴ Intra-brand competition is therefore seen as instrumental in giving the consumer a true choice.

Pursuant to Article 85, if an agreement has either the "object or the effect" of restricting such competition, it will be prohibited. If this provision is interpreted literally, the requirements of "object or effect" can be read in the dis-

38 *Id.* at 7363.

39 *Id.*

40 *See* text accompanying note 25 *supra*.

41 *See*, The Agreement of Grundig VERKAUFS—GmbH, 3 COMM. MKT. L. R. 489 (1964) [hereinafter cited as Grundig I], *aff'd in part sub nom.* Grundig & Consten v. EEC Comm'n., 5 COMM. MKT. L.R. 418 (1966) [hereinafter cited as Grundig II]. These cases are well summarized and critiqued in KORAH, *supra* note 11, at 178-82.

42 *See generally* Grundig I, 3 COMM. MKT. L.R. 489, 495-96 (1964).

43 *Id.* at 496.

44 *Id.*

junctive; only one element need be established to find a violation. Recognizing this disjunctive interpretation, the European Court of Justice originally applied Article 85 with an emphasis on the object or intent element.

In *Grundig & Consten v. EEC Commission*⁴⁵ this literal application of the antitrust law seemed quite appropriate. Grundig, a German manufacturer of electronic equipment, had granted an exclusive dealership in France to Consten. To ensure this exclusivity, the two parties entered into an additional agreement authorizing Consten to obtain French registration for the mark GINT.⁴⁶ Consten had been authorized previously to use the name and symbol of GRUNDIG, the primary trademark. Under the later agreement, however, Consten became the registered owner of the secondary GINT mark, which accompanied all Grundig products. Consten therefore had the ability to assert its national trademark rights to prohibit genuine imports brought into France by third parties.⁴⁷

When Consten later brought suit against a parallel importer for unfair competition and trademark infringement, the defendant argued that the distributorship agreement and the trademark arrangement were void under Article 85. The case went to the Commission and ultimately to the Court of Justice. In deciding for the defendant, the Court noted that vertical agreements tending to restrict intrabrand competition among distributors are prohibited by Article 85.⁴⁸ Without fully analyzing the anticompetitive effects of the instant agreements, the Court concluded that it "is superfluous to take account of the concrete effects of an agreement once it appears that it has the *object* of restricting . . . competition."⁴⁹ The object of the agreements, the insulation of the French market from any intrabrand competition on the wholesale level, was easily discerned from the exclusive nature of the distributorship contract and the protection offered by the ancillary trademark agreement.⁵⁰ Consequently, the two agreements were held to violate Article 85 and the French distributor was enjoined from opposing parallel imports through the use of its French trademark rights.

Thus, under the EEC Court's original interpretation of Article 85, trademark agreements were violative merely because their object, regardless of their effect, was anticompetitive. This emphasis on the object or intent of the parties to an agreement is particularly appropriate for analyzing international trademark arrangements, since the mere ownership of the same trademark in different countries by different proprietors automatically creates a division of markets.⁵¹ While such diverse ownership may exist for any number of justifiable reasons, it may also, of course, be intentionally designed to eliminate competition. As in the United States,⁵² then, an examination of the object of such an agreement should be important for establishing an antitrust case. In light of the parties' obvious

45 5 COMM. MKT. L.R. 418 (1966).

46 "Grundig International."

47 See *Grundig I*, 3 COMM. MKT. L.R. 489, 494-95 (1964).

48 *Grundig II*, 5 COMM. MKT. L.R. 418, 469-70 (1966).

49 *Id.* at 473 (emphasis added).

50 *Id.* at 473-74.

51 LADAS § 741, at 1364.

52 See *Timken Roller Bearing Co. v. United States*, 341 U.S. 593, 598-99 (1951), *aff'g and modifying* 83 F. Supp. 284 (N.D. Ohio 1950). See generally 1 R. CALLMANN, *THE LAW OF UNFAIR COMPETITION, TRADEMARKS AND MONOPOLIES* § 15.5 (3d ed. 1967).

intent, in *Grundig*, to misuse the mark for an illegal purpose, the Court's decision met with widespread approval.⁵³

The Court's subsequent handling of an international trademark assignment, however, was not nearly so well accepted.⁵⁴ In *Sirena S.r.l. v. Eda GmbH*,⁵⁵ the Court emphasized the effect rather than the object of a simple trademark assignment in determining that Article 85 had been infringed. There the plaintiff and defendant were, respectively, the Italian and German assignees of trademark rights owned by an American company. When the German defendant exported its branded goods into Italy, the plaintiff sued in the Italian courts for infringement of its national trademark rights. The defendant responded by alleging that the Italian competitor was using the mark in violation of the antitrust provisions of the Treaty of Rome.⁵⁶

In dealing with this case the European Court of Justice recognized that "[t]he trademark right, as a statutory right, does not in itself carry the elements of contract or concert required by Article 85. . . ."⁵⁷ The exercise of the right, however, could violate the antitrust provision if such use was the object, means, or result of an agreement. Since the Italian plaintiff in *Sirena* had originally gained its rights through an assignment, the required element of "agreement" was present.⁵⁸

Thus, the remaining and primary inquiry was whether or not the trademark assignment had an anticompetitive object *or* effect. Once this question had been posed in such terms, however, the failure of the plaintiff's action was a foregone conclusion. As noted earlier, the ownership of the same mark in different countries by different individuals may automatically partition the international market.⁵⁹ Thus, a trademark assignment to an enterprise in one Member State has the inevitable result of enabling the assignee to exclude imports from other Member States. Given this particular effect, the *Sirena* Court broadly stated that:

Article 85 . . . applies if the importation of products coming from different Member States and carrying the same trademark is prevented by invoking the trademark right, where the owners of the trademark acquired this mark or the right to use it under agreements between them or agreements with third parties.⁶⁰

In short, the Court's unqualified language⁶¹ held that the simple anticompetitive effect of a trademark assignment, regardless of its object, would constitute an

53 LADAS § 741, at 1367.

54 See generally *id.* § 741A; KORAH, *supra* note 11, at 217-18.

55 [1971-1973 Transfer Binder] CCH ¶ 8101.

56 The defendant alleged violations of both Articles 85 and 86. The Article 85 discussion was the focal point of the Court's ruling and the cause of much controversy. With regard to Article 86, the provision outlawing the abuse of a "dominant market position," the Court simply stated that the article does not imply that a trademark owner automatically has a dominant position by virtue of his ability to exclude identically marked imports. Since the *Sirena* case, there has been little discussion of Article 86 in relation to trademark abuses.

57 [1971-1973 Transfer Binder] CCH ¶ 8101, at 7112.

58 *Id.*

59 See text accompanying note 51 *supra*.

60 [1971-1973 Transfer Binder] CCH ¶ 8101, at 7112.

61 See generally LADAS § 741A.

Article 85 violation. Such would be the result despite the fact, noted above, that national trademark assignments to separate holders in separate countries are inherently anticompetitive, in the sense that they can always result in a de facto division of national markets.

The Court's narrow emphasis on these anticompetitive effects of a trademark assignment had been opposed by several groups in their earlier recommendations on the case. Prior to the final decision, the Commission had urged the Court not to apply Article 85, since there was no showing of an anticompetitive purpose in the agreement.⁶² The Commission also implied that the primary effect of the trademark assignment in *Sirena*, the mere transfer of ownership in a mark, was not a prohibited effect under the Community's competition doctrine. While trademark rights could be employed in violation of Article 85, such infringements occurred only when the rights were exercised in an abusive manner, i.e., if the mark were used for purposes not within the assignment or if used "to produce a result similar to that of the prohibited cartels."⁶³ In urging a decision different from that reached in *Grundig*, the two cases were sharply distinguished by the Commission. In the *Grundig* case the basic agreement, an exclusive distributorship contract, was simply augmented by a trademark agreement. The sole purpose of both arrangements was the guarantee of territorial protection from competition. In *Sirena*, however, the trademark agreement merely involved a transfer of an intangible asset with no apparently abusive elements surrounding it.

The Court of Justice, however, rendered its controversial decision despite these arguments. In doing so, it seemed to rely most heavily on the specific wording of Article 85: the prohibition of agreements having the "object or effect" of restricting competition. The assignment of the national trademark rights in *Sirena* constituted the necessary agreement. One of the effects of that agreement was the plaintiff-assignee's ability to assert its trademark rights to prohibit identically marked imports marketed by foreign assignees or by the foreign assignor itself. This prohibitive effect would restrict intrabrand competition,⁶⁴ so to that extent Article 85 could be said to apply.

The language in the *Sirena* opinion suggested that it might no longer be of any importance to the Court that an assignment agreement did not have the object of restricting competition.⁶⁵ "[I]t is enough for it to have had this effect, for it to have this consequence, for it to create a legal situation of a kind tending to obstruct parallel imports."⁶⁶ Since many unqualified assignments of national trademark rights to individuals throughout the Community could have this inherent effect, the scope of Article 85's application seemed incredibly vast.

Fortunately for European trademark assignees, though, it appears that the European Court did not intend the sweeping attack against international trademark assignments which *Sirena* seemed to indicate. In a subsequent Article 85 assault against another trademark assignment,⁶⁷ the Advocate General, an in-

62 [1971-1973 Transfer Binder] CCH ¶ 8101, at 7109-10.

63 *Id.* at 7110.

64 See text accompanying note 51 *supra*.

65 See LADAS § 741A, at 1370.

66 Hag, [1974 Transfer Binder] CCH ¶ 8230, at 9129 (opinion of the Advocate General).

67 Hag, [1974 Transfer Binder] CCH ¶ 8230.

fluent member of the Court who summarizes the issues for the other judges,⁶⁸ urged that the unqualified language in the *Sirena* decision had stretched the application of the article too far. In his view, *Sirena* clearly should not be read as allowing Article 85 to apply to every international assignment agreement within the EEC. By its very nature such an assignment agreement confers on the transferee the prerogatives held by the transferor,⁶⁹ including the right to bar infringing goods. Thus it is entirely proper that the ordinary assignee be allowed to assert national trademark rights against items bearing identical trademarks, even if such marks are acquired from a common assignor.

Consequently, the Advocate General argued that the broad language of the *Sirena* decision should be tempered by some of the facts which allegedly surrounded the case,⁷⁰ although the Court itself did not address those elements. In *Sirena* the defendant had apparently presented evidence of anticompetitive intent on the part of the Italian assignee and the American assignor. A letter between the two parties indicated that the Italian assignee may have been relying on the existence of parallel assignment contracts throughout the EEC to ensure protection of its own market.⁷¹ Thus, it seems that the *Sirena* decision may have been based on more than the effects of the agreement embodied in the simple assignment contract, and, therefore, did not constitute the break with prior Article 85 interpretations which it initially appeared to be.⁷² As in *Grundig*, there was evidence of an anticompetitive object or intent manifested in other agreements or concerted practices involving the assignor and the assignees.

The European Court of Justice, however, has yet to qualify its opinion and, thus, the question as to the breadth of Article 85's application remains unanswered today. It cannot be said whether that provision will continue to apply to simple national trademark assignments which have an inherently restrictive effect on intrabrand competition but are unaccompanied by evidence of any illicit intent. However, as later analysis will show, even if the Court's interpretation of Article 85 proves to be more conservative than *Sirena* would indicate, the Court's more recent application of Article 36 may well obviate the necessity for any broad powers under the antitrust provisions of the Treaty.⁷³

C. Implementation of Article 85 Through Injunctive Relief

Whether Article 85 applies to a particular trademark agreement depends on a successful showing of the necessary elements that have been outlined above.

68 KORAH, *supra* note 11, at 172. The Advocate General renders his view on the issues before the Court delivers its decision. Usually his expressions are more encompassing than those of the Court. As Korah notes, *id.*, the Advocate General

should consider all the issues, even if one would dispose of the case, since he may not be followed on that point. Moreover, his opinion may influence the Court and does not bind it later, so it is the practice to give fuller reasons, and cite the earlier cases. He performs some of the functions of a judge of first instance, providing a reasoned opinion, on which the final court can base its decision, even if it does not follow it.

69 [1974 Transfer Binder] CCH ¶ 8230, at 9129 (opinion of the Advocate General).

70 *Id.*

71 *Id.* This letter and its contents are referred to in *Sirena* only by the Advocate General. [1971-1973 Transfer Binder] CCH ¶ 8101, at 7117.

72 See LADAS § 741A.

73 See text accompanying notes 145-50 *infra*.

How the article actually functions to end a trademark abuse, however, presents a different question, the answer to which is not immediately apparent in all factual situations. The second section of Article 85 perfunctorily states that agreements prohibited therein are null and void. Yet it must be noted that the nullification of an anticompetitive agreement authorizing the registration or assignment of a trademark may not, in fact, impair the trademark owner's national rights. The registration itself may still be valid under national law, as in *Grundig*,⁷⁴ or the trademark rights, originally gained through assignment, may now be founded on elements of law or fact other than the initial agreement, i.e., later registration of the mark or continuous use thereof.⁷⁵ Thus, it remains to be shown how Article 85 is actually implemented by the Community in order to achieve its desired goals.

In its earliest cases the Court recognized the futility of prohibiting anti-competitive trademark agreements if the parties were still allowed to benefit from the undesirable results of these agreements, that is, if they could still use the mark to partition markets.⁷⁶ Thus, Article 85 required a broader interpretation in this respect. It was necessary to prohibit the results of the agreements as well as the agreements themselves. In *Grundig* the registered user's trademark rights were still valid under French law, despite the EEC's voiding of the agreement. Therefore, the trademark owner was selectively enjoined under Article 85 from enforcing those rights against parallel imports.⁷⁷ In *Sirena* the remedy was identical. The Italian plaintiff was not allowed to assert its trademark rights against imports marketed by the assignor or other assignees; however, these rights were valid against third-party infringers.

The development of Article 85's selective injunctions against the enforcement of one's national trademark rights arises out of the European Court's attempt to reconcile various provisions of the Treaty of Rome. In the earliest trademark cases, the holders of nationally registered marks argued that Article 85 should not in any way affect the use of their rights pursuant to such registration. They particularly noted that Article 36 specifically upheld import restrictions which were based on the protection of industrial and commercial property.⁷⁸ That article, however, recognized that such restrictions could not constitute "a means of arbitrary discrimination or a disguised restriction on trade."⁷⁹ Analogizing a "restriction on trade" to a restriction on competition, the Court consequently concluded that the Treaty would not protect trademark rights when they affected competition in violation of Article 85.⁸⁰ It was also urged by trademark proponents that trademark rights could not be tampered with, because the

74 See *Grundig* II, 5 COMM. MKT. L.R. 418, 476 (1966).

75 See *Sirena*, [1971-1973 Transfer Binder] CCH ¶ 8101, at 7105 (preliminary arguments advanced by *Sirena*).

76 *Grundig* II, 5 COMM. MKT. L.R. 418, 476 (1966).

77 *Id.*

78 See note 75 *supra*. See also *Grundig* II, 5 COMM. MKT. L.R. 418, 475-76 (1966).

79 The text of Article 36 provides in part:

The provisions of Articles 30 to 34 shall not preclude prohibitions or restrictions on imports, exports or goods in transit justified on grounds of . . . the protection of industrial and commercial property. Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States.

80 *Sirena*, [1971-1973 Transfer Binder] CCH ¶ 8101, at 7111.

Treaty explicitly stated that the property systems of Member States were not to be prejudiced by EEC law.⁸¹ The Court, however, responded by stating that injunctions against the use of one's national property rights merely limit the *exercise* of those rights and do not affect their *existence*.⁸² This distinction between the exercise and the existence of property rights now forms the cornerstone of all EEC cases limiting the enforcement of national trademark protection.⁸³

III. Article 36: The EEC's Development of A Potent Weapon Against Partition of the Common Market

With the development of the EEC's case law, the European Court discovered that Article 85 was an inadequate tool for handling all the situations in which national trademark protection resulted in the partitioning of the Common Market. Article 85 is directed toward agreements that restrain competition. Sometimes, however, an element of agreement may not be present; or if an agreement does exist, it may not foster a restraint prohibited under Article 85. Under EEC law, for example, competition is often unaffected by agreements between a parent company and its wholly owned subsidiaries or by arrangements between such subsidiaries. This absence of an anticompetitive restraint exists when the subsidiaries have no real autonomy in determining their market conduct and when the agreements merely amount to an internal distribution of tasks within a multinational enterprise.⁸⁴ Here Article 85 is inapplicable because such subsidiaries, while having separate legal personalities, may not have economic autonomy.⁸⁵ Thus, by definition, there can be no true competition between such group members which an agreement might restrict.⁸⁶ Article 85, therefore, cannot be used to strike down trademark agreements between these interdependent members.

This so-called "enterprise entity" doctrine⁸⁷ forced the EEC Court into a position of powerlessness in dealing effectively with national trademark arrangements which divided European markets among present or former members of an international operation. The Court therefore responded by redefining and broadening the trademark issue. According to more recent cases, the essence of the problem with national trademarks is not simply their occasional anticompetitive effect, but rather their general tendency to impair the free movement of goods within the Community.⁸⁸

81 Grundig II, 5 COMM. MKT. L.R. 418, 475-76 (1966). The parties to the agreement made their argument on the basis of Article 222, which states that the Treaty "shall in no way prejudice the rules in Member States governing the system of property ownership."

82 See Grundig II, 5 COMM. MKT. L.R. 418, 476 (1966).

83 See generally KORAH, *supra* note 11, at 181-82.

84 Centrafarm, [1974 Transfer Binder] CCH ¶ 8247, at 9151-68; Imperial Chem. Indus. Ltd. v. Commission, [1971-1973 Transfer Binder] CCH ¶ 8161, at 8031.

85 See Centrafarm, [1974 Transfer Binder] CCH ¶ 8247, at 9151-68; Beguelin Import Co. v. G.L. Import Export S.A., [1971-1973 Transfer Binder] CCH ¶ 8149, at 7703-04.

86 Christiani & Nielsen, O.J. No. L 163, at 12 (1969); Centrafarm, [1974 Transfer Binder] CCH ¶ 8247, at 9151-77 (opinion of the Advocate General).

87 According to this theory, when "the parent holds the majority of the shares in the subsidiary and determines the conduct of the subsidiary, they are regarded as 'one economic unit' and the activities of the subsidiary may be imputed to the parent." J. CUNNINGHAM, *THE COMPETITION LAW OF THE E.E.C.* § 3.18, at 24 (Supp. 1975).

88 See Hag, [1974 Transfer Binder] CCH ¶ 8230, at 9130 (opinion of the Advocate General).

The Court has stated that the concept of "free movement," as expressed in Articles 30 through 36 of the Treaty, is a fundamental principle of the Common Market.⁸⁹ These articles prohibit quantitative restrictions on imports and exports and "all measures having an equivalent effect."⁹⁰ Trademark laws can have such restrictive effects when a trademark owner uses national rights to exclude imports bearing an identical mark. Such exclusion can occur regardless of whether any anticompetitive agreement exists. Consequently, the principle of free movement of goods can be applied to enjoin far more trademark practices than would otherwise be prohibited under Article 85.⁹¹

A. *The Scope of Article 36*

The scope of the provisions relating to the free movement of goods is not unlimited. According to Article 36, these rules "shall not preclude prohibitions or restrictions on imports [or] exports . . . justified on grounds of . . . the protection of industrial and commercial property." The second sentence of the article, however, states that such restrictions shall not "constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States." Therefore, while trademark laws restricting the free flow of goods between Member States will still be allowed generally under the Treaty of Rome, they will not be enforced in every instance.⁹² From this analysis the Court has concluded, as it did in *Grundig* and *Sirena*, that the exercise, but not the existence, of trademark rights may be affected by the Treaty.⁹³

In Article 36 cases, however, a new concept has been introduced by which the Court has attempted to delimit the proper exercise of the trademark right. This new formulation permits a trademark owner to legitimately exclude imports only when such action is necessary to protect those rights which constitute the "specific subject matter"⁹⁴ of the property. The origin of this phrase is unexplained. Moreover, a cogent definition of it is lacking in the Court's Article 36 decisions.⁹⁵ Instead of fully outlining what the specific subject matter of the trademark right is, these decisions only tend to indicate instances in which a trademark owner's exercise of national rights will be prevented. In essence, then, certain rulings merely give a negative definition of this phrase.⁹⁶ However, the recent cases still provide the best insight into the European Court's interpretation of Article 36. Consequently, their rationale will be given careful analysis in this portion of the trademark discussion.

89 *Id.* at 9124.

90 *See, e.g.,* note 79 *supra*.

91 *See* Hag, [1974 Transfer Binder] CCH ¶ 8230, at 9130 (opinion of the Advocate General); Mak, *supra* note 6, at 38.

92 *See* Centrafarm, [1974 Transfer Binder] CCH ¶ 8247; Hag, [1974 Transfer Binder] CCH ¶ 8230.

93 Centrafarm, [1974 Transfer Binder] CCH ¶ 8247, at 9151-66; Hag, [1974 Transfer Binder] CCH ¶ 8230, at 9124. It has been correctly noted, however, that these decisions have never satisfactorily explained the basis for the "exercise-existence" distinction. CUNNINGHAM, *supra* note 87, § 8.102.

94 Centrafarm, [1974 Transfer Binder] CCH ¶ 8247, at 9151-66; Hag, [1974 Transfer Binder] CCH ¶ 8230, at 9124.

95 *See* CUNNINGHAM, *supra* note 87, §§ 8.135-37.

96 *Id.*

B. *Ambiguity Concerning the Scope of Article 36 Application:*
Van Zuylen Freres v. Hag A.G.

In *Van Zuylen Freres v. Hag A.G.*,⁹⁷ a trademark owner was enjoined from enforcing its rights against certain imports because its trademark and the allegedly infringing mark had a common origin. The German defendant had once held the rights for the mark in both Germany and the Benelux countries; subsequently, it assigned the Belgium and Luxembourg rights to a local subsidiary. During World War II the subsidiary was sequestered and the rights were later sold by the Belgian government to a third party. The third party, in turn, had transferred the trademark rights to the plaintiff.

Since the original trademark assignment involved the German parent and its wholly owned subsidiary, under EEC law there was no competition between the parties which might have been unlawfully restricted.⁹⁸ The later separation of the two companies into competing enterprises was insufficient to transform the original assignment into an anticompetitive scheme, because there had been no element of agreement between the plaintiff-successor and the German company.⁹⁹ Article 85, therefore, was inapplicable to the situation.

Article 36, however, proved more amenable to the Court's purposes. Inasmuch as the exercise of industrial and commercial property rights tended to partition the Common Market, the free movement of goods between Member States was directly impaired. The Court concluded that a trademark holder could not

be permitted to rely on the exclusiveness of a trademark right . . . with a view to prohibiting the marketing in a Member State of goods legally produced in another Member State under an identical trademark having the same origin.¹⁰⁰

Consequently, the element of common origin, although remote in this instance, prevented the Belgian concern from enforcing its rights against the German imports.

Little justification for this decision is given,¹⁰¹ and those few principles which the Court does rely upon only indicate possible further emasculation of the trademark right. The Court takes the view, noted earlier, that Article 36 allows protection of those rights which constitute the specific subject matter of the trademark property. Yet the Court never really undertakes to provide a definition of the specific subject matter of a trademark. Instead it perfunctorily states that the prohibition of imports legally bearing a common mark "is incompatible" with the Article 36 provisions for the free movement of goods.¹⁰² From this statement one can only conclude that, whatever the specific subject matter of a trademark

97 [1974 Transfer Binder] CCH ¶ 8230.

98 *Id.* at 9124, 9129-30 (opinions of the EEC Court and the Advocate General).

99 *Id.*

100 *Id.* at 9125.

101 *See, e.g.,* CUNNINGHAM, *supra* note 87, §§ 8.54H, 8.133 *et seq.*

102 [1974 Transfer Binder] CCH ¶ 8230, at 9125.

is, it apparently does not require protection which is incompatible with the provisions for free movement.¹⁰³

Yet if this is the case, then the reasoning of the *Hag* Court is tautologous. Its decision is founded exclusively on the principle of free movement of goods. The scope of that principle is limited, or defined, only by concepts, such as the specific subject matter, which are largely "explained" in terms of the principle itself. Thus, the Court does not actually advance or elucidate its position any further than to state its conclusion that the plaintiff's particular actions are in violation of the principle of free movement.¹⁰⁴

This single-minded emphasis on ensuring the free movement of goods is disturbing. Since the Court recognizes that the ordinary exercise of a national trademark right often frustrates such free movement, commentators have begun to fear the possibility of an EEC decision enjoining the enforcement of a national trademark right despite the absence of a common origin for the domestic and foreign marks.¹⁰⁵ This view is further supported by the language of the *Hag* Court in the one instance in which it did attempt to elucidate the specific subject matter of the trademark right: It stated that national trademark law, "at any rate protects the legitimate holder of a trademark against infringement on the part of persons who lack *any* legal title."¹⁰⁶ If, in the Court's view, this is to be the full extent of national trademark protection, then perhaps imports bearing a foreign mark identical to a domestic mark will be permitted to enter a Member State whenever the foreign mark has been lawfully affixed in another Member State.¹⁰⁷ Thus, provided the "infringing" marks are lawfully applied somewhere in the EEC, Article 36 would be applicable without a finding of common origin.

The far reaching views set forth above have been countered by more recent interpretations of the *Hag* decision as an aberration in Community trademark law which will seldom, if ever, again occur.¹⁰⁸ This position is supported by a closer reading of the precedent upon which *Hag* was mistakenly premised and

103 See CUNNINGHAM, *supra* note 87, §§ 8.135-36. It should be noted, however, that in the EEC's most recent case, *Terrapin (Overseas) Ltd. v. Terranova Industrie C.A. Kapferer & Co.*, CCH ¶ 8362, at 7606 (1976), the Court refers to both the "specific subject matter" of the trademark property and the trademark's "basic function" of indicating origin. Thus, while the analysis of this area is still extremely weak, this new case may indicate that the "specific subject matter" of the trademark property will be defined as the right to take actions which will ensure that the "basic function" of the trademark is protected.

104 See CUNNINGHAM, *supra* note 87, §§ 8.135-36. It should be noted that in *Terrapin*, *supra* note 103, the Court has apparently sought to offer a more reasonable explanation for the doctrine of "common origin" espoused in *Hag*. In *Terrapin*, the Court stated that in those cases in which the ownership of a common mark is divided, "the basic function of the trademark of guaranteeing to consumers that the product has the same origin is already undermined by the [voluntary or involuntary] subdivision of the original right." However, if the Court is seriously attempting to preserve the origin-indicating function of trademarks, then once a common mark has come to represent the separate business goodwills of separate owners, the allowance of commonly branded imports would only further dilute that function. See CUNNINGHAM, *supra* note 87, § 8.138-39. *But see* 1 R. CALLMANN, *THE LAW OF UNFAIR COMPETITION, TRADEMARKS AND MONOPOLIES* § 15.5, at 467-75 (3d ed. 1967).

105 See *Ladas, The Court of Justice of the European Community and the "Hag" Case*, 5 I.I.C. 302 (1974); Mann, *Industrial Property and the E.E.C. Treaty*, 24 INT'L. & COMP. L.Q. 31, 40 (1975).

106 [1974] Transfer Binder] CCH ¶ 8230, at 9125 (emphasis added).

107 *Ladas, supra* note 105, at 309-11.

108 See *EMI Records Ltd. v. CBS United Kingdom Ltd.*, [1976] Pat. Cas. 1 (1975). See generally KORAH, *supra* note 11, at 225-26.

by an analysis of *Centrafarm B.V. v. Winthrop B.V.*,¹⁰⁹ which followed shortly after *Hag*. Initially, it is clear from the arguments advanced by the Advocate General in *Hag* that the Court's decision was based on analogies drawn from the EEC's first Article 36 commercial property case, *Deutsche Grammophon Gesellschaft mbh v. Metro—SB—Grössmarkte GmbH*.¹¹⁰ Those analogies, however, were incorrect. In *Deutsche Grammophon* the plaintiff was a German record producer which marketed its goods abroad through various sales subsidiaries. Some of the records distributed by its French subsidiary were eventually shipped back into Germany and sold by the defendant, whereupon the plaintiff brought suit for infringement of its German copyright. On reference, the EEC Court held that the plaintiff's actions did not violate Article 85, since the requisite element of agreement was not present. The plaintiff's exercise of its national industrial property rights involved purely unilateral conduct. Article 36, however, was found to be violated. The owner of a national copyright could not use that right to prohibit the importation of products distributed by the holder or by those acting with its consent.¹¹¹

Relying on these principles, the *Hag* Court asserted that a national trademark owner could not exercise his rights to prohibit importation of goods bearing a trademark of the same origin.¹¹² Unfortunately, though, the Court's reliance was misplaced. The *Deutsche Grammophon* decision was premised on the element of consent by the copyright owner; but, as one German commentator has noted, in *Hag* there was no consent:

[C]onsent cannot be inferred from the mere fact that the marks in the exporting and the importing country [*sic*] have a common origin. In the *Hag* case any suggestion of consent was negatived by the circumstances in which they [the opposing companies] became split.¹¹³

Given this obvious absence of consent, it is no wonder that the Court in *Hag* relied on a theory of "common origin" in order to apply Article 36. Yet the absence of consent is the very reason why the *Deutsche Grammophon* analogy failed. More importantly, because of that absence, the circumstances in *Hag* presented a clear case of unlawful infringement.

C. *Tempering the Hag case*—*Centrafarm B.V. v. Winthrop B.V.*

The question raised following *Hag*, of course, is whether or not the European Court will return to the principles espoused in *Deutsche Grammophon* before granting further injunctions against trademark enforcement. If this earlier precedent is followed, it is unlikely that the Court will enjoin an infringement suit unless the challenged imports bear an identical mark affixed by the local trademark owner or with his consent. If, however, the *Hag* doctrine prevails, then a showing of common origin for the foreign and domestic marks may be

109 [1974 Transfer Binder] CCH ¶ 8247.

110 [1971-1973 Transfer Binder] CCH ¶ 8106.

111 *Id.* at 7193.

112 [1974 Transfer Binder] CCH ¶ 8230, at 9125.

113 Mann, *supra* note 105, at 40.

sufficient to warrant an injunction against the assertion of domestic rights. Moreover, if *Hag's* unmitigated reliance on the principle of free movement is extended to its logical conclusion, then perhaps even the showing of common origin will not be necessary for application of Article 36.¹¹⁴

An ambiguous, but nevertheless encouraging response¹¹⁵ to these various alternatives was provided by the Court in *Centrafarm B.V. v. Winthrop B.V.*¹¹⁶ There the judges returned to the language of *Deutsche Grammophon* in holding that a Dutch company could not assert its domestic trademark rights to oppose imports into Holland which had been sold abroad under an identical mark by the British parent company. The British company itself was controlled by an American corporation; thus, both of the European operations were members of a multinational enterprise.

Since the British, Dutch and other European members of the group held rights to the common mark in their respective countries, it was charged that the existence of these parallel rights among group members was a concerted practice in violation of Article 85. The Court implied, however, that even if this constellation of trademark holdings did constitute a concerted practice there was still no infringement of the EEC's antitrust laws. When the various members of a group lack economic and marketing autonomy, and when their separate national ownership of trademarks results merely from an internal allocation of tasks among members of a group, Article 85 is inapplicable, since the allocation does not, in fact, affect competition.¹¹⁷

The Court did find, however, that the Dutch subsidiary's exclusionary use of its trademark violated Article 36. In so holding, the Court expressly defined for the first time the specific subject matter of the trademark right: It was designed to legally ensure to the holder the exclusive right to use the mark for initial circulation of his goods on the market, thereby protecting the holder against unlawful users.¹¹⁸ The judges in *Centrafarm* noted, though, that a mark could not be used by its holder, or one acting under his authorization, as a tool for partitioning the Common Market. Thus, the Court specifically stated that

[t]he exercise, by the owner of a trademark, of the right he enjoys under the legislation of one Member State to prohibit the sale, in that State, of a product that has been marketed under the trademark in another Member State by the trademark owner or with his consent is incompatible with the rules of the EEC Treaty concerning the free movement of goods within the Common Market.¹¹⁹

Clearly, the nominal trademark holder here was the plaintiff, the Dutch subsidiary. Since this company did not actually consent to the use of its mark abroad by the British parent, it has been argued that the above quoted doctrine should not have prevented the exclusion of the "infringing" British goods.¹²⁰ The Court's

114 See text accompanying notes 100-07 *supra*.

115 See, e.g., *KORAH*, *supra* note 11, at 225-26.

116 [1974 Transfer Binder] CCH ¶ 8247.

117 *Id.* at 9151-68. See text accompanying notes 84-87 *supra*.

118 [1974 Transfer Binder] CCH ¶ 8247, at 9151-66.

119 *Id.* at 9151-68.

120 *CUNNINGHAM*, *supra* note 87, § 8.144.

analysis, however, apparently penetrated the legal fiction of independent corporate entities and viewed the Dutch subsidiary and its English parent as a single entity.¹²¹ Consequently, the same organization that marketed the goods in one Member State was seen to be opposing the entrance of those goods into another Member State where it also controlled the local trademark rights. In short, the British parent, as the ultimate trademark owner, was using its Dutch rights to exclude from Holland drugs which it had already marketed in England.

Thus, the difference between *Centrafarm* and *Deutsche Grammophon* is that in the latter case the Court viewed the German plaintiff as opposing the *reimportation* of goods which had been marketed abroad with its consent. There, of course, the foreign marketing had also been accomplished through a wholly controlled subsidiary. Since such control did exist, the Court could have applied the rationale used in *Centrafarm* by viewing the parent and subsidiary as a single entity for trademark purposes. Thus, the foreign marketing would have constituted circulation by the owner itself, and the incoming goods would, likewise, have been allowed. However, when the marketing is done by more autonomous subsidiaries, or by completely independent third parties, then the only avenue of approach under Article 36 is to demonstrate that such activities are engaged in with the consent of the original trademark owner. Only then will the latter individual be precluded from obstructing the entrance of identically marked imports.

By specifically requiring that imports be marketed by the trademark owner or with its consent before Article 36 could apply, the *Centrafarm* decision offered much needed reassurance to the proponents of national trademark protection.¹²² In its ruling the Court could have easily relied on the doctrine of "common origin," which it had so recently conjured up in the *Hag* opinion. However, that new doctrine played no role in the *Centrafarm* holding. Instead, the Court continually referred to the determinative fact that the imported goods had been marketed "by the trademark holder or with its consent." Admittedly, the presence of such consent necessarily implies some type of common origin for a mark. However, the converse is not always true; as in *Hag*, the presence of a common origin for the trademark does not ensure the existence of consent as to its use by one of the parties.¹²³ Thus, the circumstances in *Hag* should not be analogized to those in *Deutsche Grammophon*; contrastingly, the facts in *Centrafarm* are quite analogous. Perhaps the Court's substitution of "consent" for "common origin" in this case merely resulted from the fact that the existence of consent is an unambiguous manifestation of common origin and, therefore, the use of the former term adds more force and legitimacy to the Court's decision. Clearly, the Court did not claim to overrule *Hag*, so whether it will now require the higher standard of consent before it will apply Article 36 in the future is an open question.¹²⁴ The obvious difference in terminology, however, is encouraging for the proponents of trademark protection.

121 *Id.* § 8.54G.

122 See KORAH, *supra* note 11, at 225-26.

123 See Mann, *supra* note 105, at 40.

124 In the more recent case, *Terrapin (Overseas) Ltd. v. Terranova Industrie C.A. Kapferer & Co.*, CCH ¶ 8362, at 7605 (1976), the EEC Court stated that a trademark holder cannot rely on national legislation to exclude similarly marked imports when

D. Limiting the Scope of the Principle of Free Movement of Goods

Even if it cannot be determined from *Centrafarm* whether the higher standard of consent will be imposed before trademark enforcement is enjoined, some tentative conclusions have been drawn from this case concerning the scope of the earlier *Hag* decision. A prominent British commentator has stated that, in light of *Centrafarm*, the *Hag* decision's great emphasis on the free movement of goods may at least be limited to cases of true "common origin."¹²⁵ Thus, there is less fear that the EEC Court will allow goods to enter a trademark holder's territory simply because they have been lawfully marked in another Member State.¹²⁶ This view is sustained by the fact that in *Centrafarm's* companion case,¹²⁷ concerning a similar abusive use of patents, the Court stated that when two "original [patent] owners are legally and economically independent" of each other the domestic patentee may exclude goods manufactured by the foreign patentee.¹²⁸ Since the *Centrafarm v. Winthrop* case says nothing to the contrary regarding trademarks, it may well be that two independent trademark owners can successfully oppose one another's imports, even though their goods have been lawfully marked in their respective countries.¹²⁹ Consequently, the *Hag* decision would not have the drastic effects which were once anticipated.¹³⁰

In light of the *Centrafarm* decision, a member of the British bench has also suggested that *Hag* be "regarded as a special case limited by its own unusual facts."¹³¹ In *EMI Records Ltd. v. CBS United Kingdom Ltd.*,¹³² Justice Graham acknowledged that the factor of previous common origin and the "paramount importance of free circulation" were decisive in the *Hag* case. Yet he believed that the more recent *Centrafarm* decision might in fact be an expression of a new, stricter approach to the EEC Court's handling of parallel imports. Since *Centrafarm* only allowed such imports when they were placed on the market in another Member State by the trademark owner or with his consent, Justice Graham believed that this later EEC decision might involve an implicit corollary:

[A] person owning a trade mark in a member state "A" and member state "B" can prevent importation of goods bearing the mark into state "A" from state "B" if the goods have not been put on the market in state "B" with the trade mark on them, either by the trade mark owner or with his consent. In that event the doctrines of common origin and exhaustion of rights do not apply and there is no attempt being made to "carve up the market" by means of the trade marks. All the trade mark owner is doing is to exercise in state "A" a right which forms the specific subject matter of his property

the right relied on is the result of the subdivision, either by voluntary act or as a result of public constraint, of a trademark right which originally belonged to one and the same proprietor.

This statement by the Court would seem to indicate that it will continue to apply the lesser standard of common origin when the element of consent is not present. Nevertheless, this statement is only dictum in the *Terrapin* case, so it is still unclear whether the Court will ultimately resolve the matter in favor of the higher standard of consent.

125 KORAH, *supra* note 11, at 225-26.

126 See text accompanying notes 100-07 *supra*.

127 *Centrafarm B.V. v. Sterling Drug Inc.*, [1974 Transfer Binder] CCH ¶ 8246.

128 *Id.* at 9151-56.

129 CUNNINGHAM, *supra* note 87, § 8.56; KORAH, *supra* note 11, at 225-26.

130 *Id.*

131 *EMI Records Ltd. v. CBS United Kingdom Ltd.*, [1976] Pat. Cas. 1, 15 (1975).

132 [1976] Pat. Cas. 1 (1975).

in state "A," namely the trade mark. He is entitled in such circumstances to prevent in state "A" a fraudulent imitation or action which may lead to doubt as to the origin or quality of the goods.¹³³

The Justice concluded that if this was the result which the EEC intended by its *Centrafarm* decision, then *Hag* should be narrowly circumscribed to those relatively infrequent situations involving the previous common ownership or origin of a mark. The case should not be viewed as pointing the "way to a further extension of the doctrine of free circulation of goods."¹³⁴

Unfortunately, though, when the *EMI* case recently came before the EEC Court,¹³⁵ that tribunal failed to deal with the validity of Justice Graham's remarks. The facts of the case did not compel a decision as to whether *Hag* should be limited solely to cases of common origin or broadened to include all inhibitions on the free movement of goods bearing trademarks lawfully affixed in one of the Member States. Because the circumstances indicated that there were no inhibitions at all on the free movement of goods *between* Member States, the question as to the necessity for demonstrating the element of common origin became moot.

In *EMI* the plaintiff was the owner of the COLUMBIA trademark in all the countries of the Common Market. The defendant, on the other hand, was the British subsidiary of an American corporation which held the rights to the COLUMBIA mark in the United States and in many other non-EEC nations. Since all the rights to the mark had once been under common ownership, the British defendant claimed that it was entitled, under the *Hag* doctrine of common ownership, to import goods from the American parent labelled in the United States with the COLUMBIA mark.

The Court stated, however, that Articles 30 through 36 only prohibited restrictions on trade *between* Member States:

Accordingly, the exercise of a trademark right in order to prevent the marketing of products coming from a *third country* [the United States] under an identical mark, even if this constitutes a measure having an effect equivalent to a quantitative restriction, does not affect the free movement of goods *between* Member States and thus does not come under the prohibitions set out in Articles 30 et seq. of the Treaty. In such circumstances the exercise of a trademark right does not jeopardize the unity of the Common Market which Articles 30 et seq. are intended to ensure.¹³⁶

Seemingly, this position should be modified, however, when the Court is faced with certain circumstances outlined earlier in the Article 85 discussion. If a trademark holder in a third country also owns subsidiaries in several EEC countries, then the inability of those subsidiaries to import the owner's goods under the common mark might not only affect trade between Member States for purposes of Article 85,¹³⁷ but it might well tend to hinder the free movement of

133 *Id.* at 15-16.

134 *Id.*

135 *EMI Records Ltd. v. CBS United Kingdom Ltd.*, CCH ¶ 8350 (1976).

136 *Id.* at 7362 (emphasis added).

137 See text accompanying notes 37-39 *supra*.

goods between such states for purposes of Article 36. In *EMI* the Court mentioned the possible "effect on trade" in such circumstances,¹³⁸ but for unknown reasons it neglected to note a possible "free movement" violation as well. If the latter had been present, then it seems logical that the doctrine of common origin should have been applied.

The *EMI* case did demonstrate that when harm to the free movement of goods between Member States *cannot* be shown, then Article 36 is inapplicable and any examination of the common origin of the litigious marks is totally irrelevant.¹³⁹ Consequently, in *EMI* the Court effectively limited the possible application of the doctrine of common origin to those situations involving the prohibition of imports from other Member States.¹⁴⁰

It should be noted, however, that the *EMI* decision did not resolve the question raised in *Hag*, and only impliedly answered in *Centrafarm*, as to whether a showing of common origin will still be necessary for an infringement of Article 36 if the requisite harm to the free movement of goods can, in fact, be demonstrated. As noted earlier, the exercise of the rights of an independent national trademark holder to oppose imports of similarly or identically branded items, marketed by an independent holder in another state, will obviously hinder the free movement of goods between countries. Yet if the parties' marks are without common origin, it would seem that, under a literal interpretation of *Hag*, Article 36 would not apply.

After much debate, this view has been conclusively sustained in the EEC's most recent trademark case, *Terrapin (Overseas) Ltd. v. Terranova Industrie C.A. Kapferer & Co.*¹⁴¹ There the Court specifically held that Article 36 would not preclude the owner of a valid German trademark from opposing similar goods imported under a confusingly similar English mark,

provided that there are no agreements restricting competition and *no legal or economic ties between the undertakings* and that their respective [national trademark] rights have arisen *independently* of one another.¹⁴²

In short, it now appears that at least some demonstration of common origin is an essential element to finding an Article 36 violation. Where trademark owners, like the patent owners hypothesized in *Centrafarm's* companion case against Sterling Drug,¹⁴³ are "legally and economically independent"¹⁴⁴ of one another, this important element cannot be shown. Thus, the fears arising from *Hag's* extreme emphasis on the principle of free movement have been greatly allayed by this new ruling. While it is still uncertain whether the EEC will eventually require the higher standard of "consent," rather than "common origin," it is at least apparent that the exclusionary use of national trademark rights will not be altogether prohibited.

138 CCH ¶ 8350, at 7363 (1976).

139 *Id.* at 7362.

140 *See id.* at 7371 (opinion of the Advocate General).

141 CCH ¶ 8362 (1976).

142 *Id.* at 7606 (emphasis added).

143 *Centrafarm B.V. v. Sterling Drug Inc.*, [1974 Transfer Binder] CCH ¶ 8246.

144 *See id.* at 9151-56.

IV. Summary: The EEC's Application of Articles 85 and 36

Although the EEC Court's most recent Article 36 decisions in the trademark area still leave some questions unanswered, they do provide a useful summary of the EEC's current application of Treaty provisions to the enforcement of national trademark rights. First, it should be clear that Article 36, with its emphasis on ensuring the free movement of goods within the Community, will now be the primary tool used by the EEC in trademark controversies. Unlike Article 85, the elements of agreement and of anticompetitive object or effect need not be shown in order to establish a violation. Consequently, even the unilateral exercise of one's trademark rights can be prevented under this provision.¹⁴⁵ A domestic trademark owner who markets goods abroad under a domestic mark, or one similar thereto, cannot oppose the reimportation of those goods onto the home market. The items have been initially circulated by the trademark owner himself and, therefore, his rights to trademark protection have been fully implemented. Moreover, under the EEC's doctrine of "enterprise entity" the members of an interdependent economic group will be viewed as forming a single unit for trademark purposes.¹⁴⁶ As in *Centrafarm*, when a subsidiary holds the rights to a national mark, such ownership will be attributed to the parent and the other members of the group. Foreign sales of goods under the common mark by any member will be viewed as sales undertaken by the local member himself. Thus, the latter member will be unable to employ his national trademark rights to oppose the resale of these goods on his own market. Additionally, of course, under Article 36 a trademark owner cannot oppose imports of identically branded goods which have been circulated abroad by third parties with the consent of the owner.

The principles cited above are those extracted from *Centrafarm* and *Deutsche Grammophon* and they apply to situations "where the marks in the importing and exporting Member States are both owned by the same person"¹⁴⁷ or multinational entity. Contrastingly, under *Centrafarm* and *Terrapin*, it appears that if two trademark owners in separate Member States are "legally and economically independent" of each other, they can normally oppose one another's imports, though under similar or identical marks.¹⁴⁸ Nonetheless, an important caveat remains. If the identical though independent marks have a common origin, then the principles espoused in *Hag* will apply when both parties own their marks within the Community. In this case, the individuals will be prevented from opposing one another's imports, even if the transfer of rights to one of them was involuntary, as in *Hag*.¹⁴⁹ Under the doctrine of common origin, therefore, *Sirena* and *Grundig* situations may be easily handled without resort to notions of anticompetitive agreement.¹⁵⁰ When rights to the same mark are assigned or otherwise transferred to independent businesses in separate Member

145 CUNNINGHAM, *supra* note 87, § 8.54D. See *Centrafarm*, [1974 Transfer Binder] CCH ¶ 8247; *Hag*, [1974 Transfer Binder] CCH ¶ 8230.

146 See note 87 *supra*.

147 CUNNINGHAM, *supra* note 87, § 8.56, at 149.

148 See *id.* and text accompanying notes 125-29 141-44 *supra*.

149 See CUNNINGHAM, *supra* note 87, § 8.56, at 149; note 104 *supra*.

150 See CUNNINGHAM, *supra* note 87, § 8.56, at 149.

States, those enterprises will be prevented from exercising their national trademark rights in contravention of the principle of free movement of goods between Member States.

From this analysis it appears that the exercise of national trademark rights within the EEC can be prevented solely by relying on Article 36. As *EMI* pointed out, however, this will not be the case when, despite the presence of a common origin in the marks, one party is located outside the Community.¹⁵¹ In those circumstances there is no restriction on the free movement of goods between Member States, but only between the Community and third-party nations. It is possible, though, that these circumstances will present an Article 85 violation. In *EMI* the Court stated that

[a] restrictive agreement between traders within the Common Market and competitors in third countries that would bring about an isolation of the Common Market as a whole which, in the territory of the Community, would reduce the supply of products originating in third countries which are similar to those protected by a mark within the Community, might be of such a nature as to affect adversely the conditions of competition within the Common Market.¹⁵²

A further reason explaining continued reliance on Article 85 is that by granting the Commission automatic jurisdiction over competition violations, the anti-trust provisions of the Treaty help to ensure prompt action against alleged trademark abuses. Requests for injunctions against identically marked goods may violate either Article 36 or Article 85, or both. Such requests will usually be made in the lower courts of a Member State. If they are improperly granted in violation of Article 36, it is possible that the EEC, through its Court of Justice, may not deal with the trademark questions until the case reaches the highest court in the member nation.¹⁵³ Obviously, this process can be very time consuming.

If, on the other hand, an Article 85 violation appears to exist, the EEC Commission has jurisdiction to deal with the matter immediately. Unlike the Court, it can investigate and issue a form of "cease and desist" order on the request of the aggrieved individual or on its own initiative.¹⁵⁴ Thus, when violations of Article 85 are discovered, improper injunctions or other illicit actions against the importation of identically marked goods may sometimes be ended more readily than if EEC Court rulings are sought under an Article 36 violation. For these reasons it is suggested that the EEC will continue to employ Article 85, in addition to using Article 36, to strike down national trademark protection.

V. The Conflict Between the EEC's Trademark Decisions and the Traditional Theory of the Trademark Function

The preceding discussion has sought to explain and interpret the EEC's

151 See text accompanying notes 136-40 *supra*.

152 *EMI Records Ltd. v. CBS United Kingdom Ltd.*, CCH ¶ 8350, at 7363 (1976).

153 See text accompanying notes 17-18 *supra*, for a discussion of the Court's jurisdiction. See generally KORAH, *supra* note 11, at 224.

154 See Article 89. For an example of the Commission's most recent case in this area, see *Advocaat Zwarte Kip, Soenen-Bouckaert v. Cinoco SA and Van Olfen VB*, 13(II) COMM. MKT. L.R. D79 (1974).

recent trademark decisions and to predict, to some extent, the lines along which EEC trademark law will continue to develop. No study of this body of law would be complete, however, without analyzing the Community decisions in light of the role which trademarks have traditionally played in commerce. For this reason, those cases already noted will be viewed again, under a different and perhaps more critical eye. It will become readily apparent that after the EEC's initial decision in *Grundig*, the Court soon began to disregard the importance of trademarks for both businessmen and consumers.

According to traditional theory a trademark has a dual function which must be fulfilled. The primary purpose of a trademark is to indicate the origin of a product and distinguish it from other products of the same type. In this sense a trademark represents the business goodwill of its owner. Additionally, a trademark serves as a guarantee of quality to the consumer.¹⁵⁵ In order to effectuate this dual function, the laws of all countries recognize "the exclusive right of the proprietor to use his trademark and to exclude others from such use. . . . This is the recognition of a property right in the trademark."¹⁵⁶ That right, in turn, can be transferred, with the effect that an assignee will gain exclusive use of the mark and the ability to prevent others from using that mark or a similar infringing one.¹⁵⁷ In certain cases this exclusivity of a mark will be denied, due to antitrust violations arising from the actual function which a particular trademark performs.¹⁵⁸ Thus, even under traditional theory, if a trademark is being used as a vehicle for anticompetitive practices, the mark will be denied protection. In most other cases, however, the exclusivity of a mark will be respected so that its dual function can be carried out.

Given this emphasis on inquiring into the actual use of a mark, it can at least be said that the EEC's first trademark case, *Grundig*, was properly decided under traditional theory. The transfer of the secondary trademark GINT was not designed to indicate a new origin or quality guarantee resting with the French distributor. There was no legitimate assignment of the owner's goodwill.¹⁵⁹ The primary mark GRUNDIG continued to indicate that the origin and quality guarantee of the imported products lay with the German manufacturer.¹⁶⁰ Thus, the assignment of the secondary mark was merely intended to partition the Common Market by giving the French distributor control over the entry of Grundig products into France.¹⁶¹ Realizing this anticompetitive perversion of the trademark's legitimate function, the EEC Court correctly denied protection to the GINT mark.¹⁶²

In later cases, however, it has been the Court, and not the parties holding the trademark rights, that has ignored the proper function of a trademark. As a result, trademark protection which would clearly have been granted under traditional theory has been refused. In *Sirena*, for example, the Court enjoined the

155 See text accompanying notes 1-6 *supra*.

156 LADAS § 741, at 1364.

157 *Id.*

158 See *id.* §§ 732, 741.

159 See *id.* at 1367.

160 See *Grundig* I, 3 COMM. MKT. L.R. 489, 495 (1964); LADAS § 743, at 1378.

161 *Id.*

162 LADAS § 741, at 1367.

Italian assignee's infringement action against identically marked imports of different origin and composition, without demonstrating or even referring to anti-competitive intent among the parties to the trademark assignment.¹⁶³ Consequently, after thirty-four years of certainty, Italian consumers could no longer rely on the indication of origin and quality represented by the plaintiff's mark.¹⁶⁴ Moreover, the goodwill of the plaintiff was jeopardized, since foreign assignees could now freely take advantage of the Italian producer's reputation in their own marketing and advertising activities.¹⁶⁵

The rationale for the Court's action was that Article 85 should be governed by the same principles as Article 36, to the extent that industrial property rights should not be protected when used as a means of "arbitrary discrimination or as a disguised restriction on trade." In *Grundig* the use of the GINT mark was, in fact, a disguised restriction on trade.¹⁶⁶ In *Sirena*, however, the plaintiff's trademark appeared to have a very legitimate purpose. If the Court did give weight to evidence of the plaintiff's anticompetitive intentions, then surely the decision should have noted this fact.¹⁶⁷ If, on the other hand, the Court intended that all trademark assignments involving more than one Member State be prohibited as producing inherently anticompetitive effects, then the decision ignored a fundamental principle of trademark theory. Trademarks, by their very nature, are designed to be exclusive.¹⁶⁸ This exclusivity prevents competitors from using the mark, but it does not prevent them from selling competing goods under a different mark.¹⁶⁹ Thus, if the function of the trademark in *Sirena* was as legitimate as it appeared to be, the plaintiff-assignee's right of exclusivity should have been protected.

The failure of the European Court to implement common notions of trademark law is more fully demonstrated by its decision in *Hag*. In this case imports of potentially different composition, produced by an independent foreign enterprise, were freely allowed to circulate on the plaintiff's market under identical trademarks. In its decision the Court itself admitted that trademarks carry out an important function of indicating product origin.¹⁷⁰ Nevertheless, the judges argued that consumers could be informed by supplementary labelling which, presumably, would indicate both the producer and country of origin.¹⁷¹

Suspect, though, is whether the Court's expectation that consumers will carefully read labels is not pure naivete. As one British authority remarked,

[t]he Court of Justice would appear to have been possessed by a romantic vision of the perfect Common Market shopper, who notes the sources of all his purchases and studies the contents of every label.¹⁷²

163 See text accompanying notes 62-66 *supra*.

164 Mak, *supra* note 6, at 37.

165 See *id.*

166 LADAS § 741A, at 1369.

167 *Id.* at 1372.

168 See LADAS § 740, at 1357.

169 1 R. CALLMAN, *THE LAW OF UNFAIR COMPETITION, TRADEMARKS AND MONOPOLIES* § 15.5, at 461 (3d ed. 1967). See KORAH, *supra* note 11, at 218, 220.

170 Hag, [1974 Transfer Binder] CCH ¶ 8230, at 9125.

171 See *id.* at 9125, 9132 (opinions of the Court and the Advocate General).

172 Cornish, *Patents, Trade Marks, Copyright*, 1975 J. BUS. L. 142, 145.

However, if the Court and Commission were really convinced that consumers would carefully read labels "so as to disabuse themselves of false expectations evoked by their 'brand loyalty,'" then these institutions would "doubtless not be so anxious to ensure that similarly marked products should be allowed to appear on the same market."¹⁷³ Similarly, it is ironic that the Advocate General in *Hag* should urge that the German defendant be allowed to use its HAG mark in the Benelux market on the grounds that its export mark DECOFA had made little headway there.¹⁷⁴ In making these arguments he was acknowledging the substantial effects which successful branding by the Benelux plaintiff had produced.¹⁷⁵ The Benelux consumers had apparently developed a strong loyalty for the local HAG brand and could not be persuaded to buy the defendant's DECOFA, regardless of any supplementary information borne on the label. Such facts obviously raise serious doubts about the EEC's vision of the "well read consumer."

Fortunately the Court's recent decision in *Centrafarm* seems to indicate a more realistic concern for avoiding consumer deception. However, instead of adopting the traditional theory of fulfillment of the trademark function, the Court implicitly accepted the so-called exhaustion of rights theory.¹⁷⁶ Under this view the trademark owner's national rights are deemed to be exhausted once items have been initially circulated under the mark by the owner or by those applying the mark with his consent.¹⁷⁷ Thus, if the owner markets brands abroad by himself or through an assignee or licensee, he has exhausted his domestic trademark rights and cannot prevent the resale of those goods on the home market. In some cases the results achieved from the implementation of this approach will coincide with the application of traditional trademark theory. In many situations, however, the function of a particular mark will not be fulfilled under *Centrafarm's* exhaustion principles.

The traditional trademark function is carried out under *Centrafarm* in situations in which the trademark owners in the importing and exporting Member States are legally and economically independent of each other. According to the court's exhaustion theory, it seems that owners of identical marks who do not derive their rights from one another or from assignments by the same person, may legally oppose one another's imports.¹⁷⁸ Under the additional theory of "enterprise entity," however, control of one trademark holder by another can result in attribution of the former's trademark ownership to the latter.¹⁷⁹ Thus, an infringement action by either party may be viewed as unwarranted opposition by the ultimate trademark owner to the importation of its own goods. Therefore, to exclude infringing imports marketed by one another, the trademark owners must not only derive their rights independently, but they must also be legally and economically separate from one another. If these conditions are met

173 Cornish, *Patents, Trade Marks, Copyright*, 1975 J. Bus. L. 50, 55.

174 Hag, [1974 Transfer Binder] CCH ¶ 8230, at 9132.

175 Cornish, *supra* note 173, at 55 n.32.

176 See generally EMI Records Ltd. v. CBS United Kingdom Ltd., [1976] Pat. Cas. 1 (1975); Lowenbrau Munchen v. Grunhalle Lager Int'l Ltd., [1974] Pat. Cas. 492 (1973).

177 See Mak, *supra* note 6, at 35.

178 See text accompanying notes 125-29, 141-44 *supra*.

179 See CUNNINGHAM, *supra* note 87, § 8.54G, at 146.

the Court will allow the parties to bring national infringement proceedings to prevent deception concerning the origin and quality of goods bearing their mark.¹⁸⁰ In this way the traditional function of their trademarks will still be fulfilled under EEC law.

Similarly, the *Centrafarm* doctrine is in accord with the theory of the fulfillment of the trademark function in cases in which the imported goods are genuine. As noted earlier, *Centrafarm* holds that a trademark owner who markets abroad items identical to those sold at home cannot oppose the resale of these items on its domestic market. Under these circumstances products bearing the mark are not deceptive in their origin or quality, for they are the same items as those originally sold at home. They are genuine. Consequently, such importation, sanctioned by the *Centrafarm* decision, does not conflict with traditional trademark theory.¹⁸¹

Under traditional theory, however, there are other patterns of accepted trademark use which would not be allowed under the approach taken in *Centrafarm*. A prominent international trademark authority notes, for example, that

[t]he owner of the trademark, to satisfy local requirements of the public's taste or preferences or the requirements of a country's health law or other legislation, may not put on sale the identical goods in the two separate countries in which he owns the trademark. Indeed, the separate goodwills he has acquired in the two countries may have been built up to symbolize products having two different sets of characteristics. In such case importation of the product of one country into the other may interfere with the very function of the trademark by creating confusion of the public as to the identity of the goods by injuring the separate goodwill that the owner has in the latter country.¹⁸²

Thus, the application of *Centrafarm's* principles may clearly result in the entry of imports which are not manufactured for a local market. This can occur under the circumstances described above, in which the owner of trademarks for two or more Member States sells distinct products in each of the states and thereby develops a separate goodwill for the various markets. Additionally, under *Centrafarm*, identically branded imports may gain entry when the trademark owner in one Member State assigns his trademark and his separate goodwill for a second Member State. Thereafter, the goods of the assignee, though marketed in the second state with the consent of the assignor, may vary in composition from those items sold by the assignor on his home market. In both examples, then, the entry of these distinct, though identically marked imports onto the domestic market may result in consumer deception as to product origin and quality. That, in turn, may lead to a loss of the trademark owner's local goodwill.

Thus, it should be obvious that the principles of exhaustion espoused in *Centrafarm* are still at variance with the traditional theory of fulfillment of the trademark function.¹⁸³ *Centrafarm* clearly represents a step forward from *Sirena*

180 See text accompanying notes 125-29, 141-44 *supra*.

181 See LADAS § 732; CUNNINGHAM, *supra* note 87, §§ 8.48E, 8.144.

182 LADAS, § 732, at 1341.

183 See generally *id.*

and *Hag* in terms of the EEC's respect for national trademark protection, but that step has not been well guided. While the principles of *Centrafarm* inadvertently protect the trademarks' function when the owners of the litigious marks are legally and economically independent of each other or when the imported goods are genuine, those principles have not been developed with the specific intent to preserve the trademark function.¹⁸⁴ Consequently, under EEC law, even when there is no anticompetitive action in violation of the *Grundig* holding, it is still quite possible for a trademark owner to be prevented from acting against those who are damaging the function of his mark. If he cannot properly exclude the importation of identically or similarly branded goods, consumers may be deceived as to the origin and quality of their purchases and a loss of business goodwill may result.

VI. Conclusion

Because the EEC is an international community, its goal of economic integration has been peculiarly inhibited by the presence of national trademark legislation. In response to the disruptive effect which such laws may have on intrabrand competition or on the free movement of goods between Member States, the EEC Court and Commission have taken bold steps under Articles 85 and 36 to enjoin national trademark protection in several situations.

When the exercise of a trademark right has an effect on trade between Member States and results from an agreement whose object or effect is a restriction on competition, then enforcement of the right may be selectively prohibited. Since the Court has interpreted the "object or effect" requirement of Article 85 in the disjunctive, apparently innocent assignment agreements may be outlawed simply because they inherently result in the exclusion of goods branded by a foreign assignor or foreign assignees. This expansive application of the anti-competition articles seems to reject the Court's initial indications that trademark protection would be denied only when a mark was abusively exploited by its owner.

Article 85, however, only deals with restrictions on competition; other areas of EEC case law expressly hold that competition does not exist between wholly controlled, non-autonomous members of a multinational organization. Thus, the ownership of trademark rights by such subsidiaries in different Member States may result in exclusion of one another's imports, but it will not technically result in a restriction on competition. Furthermore, Article 85's requisite element of agreement cannot be demonstrated when a national trademark owner, whether independent or wholly controlled, unilaterally acts to oppose imports originally marketed by the owner itself or with its authority. Consequently, the Court has shifted its reliance to Article 36 and the broader principle of free movement.

In its claimed reliance on this principle, the Court first pronounced the doctrine of common origin in *Hag*. The absence of a logical underpinning for this doctrine aroused fear that perhaps trademark protection would be sacrificed

¹⁸⁴ The EEC's recent *Terrapin* case, CCH ¶ 8362, at 7605 (1976), at least makes mention of protecting the origin-indicating function of a mark. Yet, as emphasized in note 104 *supra*, the Court's methods do not seem properly designed to ensure such protection.

to the principle of free movement in all cases of legally marked imports, regardless of any element of common origin. Such suspicions have been greatly allayed with the *Centrafarm* and *Terrapin* decisions upholding continued protection for legally and economically independent trademark owners and simply indicating that proprietors of a trademark cannot prohibit identically branded imports labelled by the proprietors themselves or under their authority. At present, this doctrine of exhaustion or consent and the doctrine of common origin both seem to be upheld by the Court.¹⁸⁵ It remains to be seen, then, whether the EEC will do away with the doctrine of common origin and rely solely on the principles of exhaustion espoused in *Centrafarm*.

Regardless of that decision, however, it seems that the Court has now departed too greatly from traditional trademark theories to ever return. Though the holding in *Centrafarm* protects the dual function of the trademark in some instances, the decision is not, in fact, designed with the protection of that function in mind. When an individual owns the same mark in two countries and sells distinct goods in each market, or when he assigns one of his trademarks to another individual, cross-importation of dissimilar, though identically branded goods cannot be prevented. Thus, in many cases consumer confusion and loss of goodwill are the inevitable results.

Unfortunately, these disturbing effects have been consistently ignored or denied by the Court. Recent trademark decisions have been cloaked in language and logic that presumes a perfectly informed consumer. Instead of realistically admitting that confusion and damage may occur as a result of the EEC's quest for economic unity and expected price reductions for consumers, the Court continues to rely on obvious fictions. It is submitted, then, that in future cases it would at least be wise for the Court to admit that EEC purchasers can and are being confused by the relaxation of trademark protection and that a balance of interests has indeed been drawn.¹⁸⁶

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185 See note 124 and accompanying text, *supra*.

186 See Cornish, *supra* note 173, at 55-56.