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ESSAYS

Pharmaceuticals: Test Bed for European Themes on Trademarks and the Free Movement of Goods

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INTRODUCTION

The European Court of Justice is attempting to reconcile the national rights of trademark holders with the interests of traders and others in unconstrained commerce between member states of the European Union. But the effects of that effort remain ambiguous. Classical trademark rights have been eroded in Europe to assist pharmaceutical traders, but it is not clear whether the new rules will be confined to the pharmaceuticals industry or whether they will affect other trademarked products.

The pharmaceuticals industry presents a convenient test bed for such issues because a number of factors make the industry uniquely susceptible to trademark litigation. Trademark disputes before national courts usually involve such issues as allegations of confusing similarity between marks or assertions that marks have lapsed. But the trademark issues before the European Court of Justice usually differ markedly from such inquiries. For example,

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one common question is whether a trademark holder may prevent the sale of genuine merchandise bearing a trademark affixed without the holder's consent because the product has been manipulated by a commercial rival. The European Court of Justice has adopted an approach that tolerates more interference with the rightholder's products than would be permitted under classical trademark doctrine. A short summary of cases involving this radical approach reveals how a legal doctrine driven by good intentions may lead to unexpected and even unfortunate results.

In a few cases, the European Court of Justice has considered the differences among substantive trademark laws of the European Union member states ("member states") regarding what might constitute infringement *per se*. Generally, however, the European Court of Justice has declined to interfere with a member state's definition of trademark law concepts, such as "confusing similarity."¹

Prior to the revolution in European trademark law in the 1970s, a trademark holder was permitted to challenge the sale of goods bearing its mark, even if the holder or an affiliate of the holder had legitimately affixed the mark in another country. Thus, cross-border commerce of trademarked goods was difficult without the approval of the local trademark holder. As a result, a trademark holder was able to prevent unwelcome competition from another country.

Pharmaceuticals were particularly prone to such obstacles. They were, and are still, sold at prices that effectively are set by the health care authorities and which vary greatly even between contiguous member states. For most products, it was virtually impossible for the trademark holder to take effective action against

1. See Case 119/75, *Terrapin (Overseas), Ltd. v. Terranova Industrie C.A. Kapferer & Co.*, 1976 E.C.R. 1039, [1976] 2 C.M.L.R. 482 (1976); Case C-317/91, *Deutsche Renault, AG v. Audi, AG*, 1993 E.C.R. I-6227, [1995] 1 C.M.L.R. 461 (1993); see also Case C-10/89, *SA CNL-Sucal NV v. HAG GF, AG ("HAG II")*, 1990 E.C.R. I-3711, [1990] 3 C.M.L.R. 571 (1990) (commenting on lack of confusing similarity which existed between some marks). According to the Advocate-General in *HAG II*, "the Bundespatentgericht held that the mark 'Lucky Whip' was liable to be confused with the mark 'Schöller-Nucki', a decision that seems to postulate a body of consumers afflicted with an acute form of dyslexia." *HAG II*, 1990 E.C.R. I-3740, [1990] 3 C.M.L.R. 592.

every trader who might sell or import his goods. In practice, market forces would gradually lead to some similarity of pricing for most products subject to cross-border trading. Nevertheless, because pharmaceuticals were distributed within a legally closed system, the use of intellectual property rights could be an effective mechanism to prevent such trade. For the same reason, cross-border price competition had limited relevance.

In its revolutionary series of judgments in the 1970s, involving the Dutch pharmaceutical trader Centrafarm, the European Court of Justice changed the law and precluded a business entity from using national trademarks and patents to block the unwelcome importation and sale of genuine goods in one member state, when that business entity had placed the goods on the market in another member state.² It would indeed have seemed absurd if, for example, perfectly genuine Valium sold in the United Kingdom by “Roche United Kingdom” could be seized if offered for sale to pharmacists in the Netherlands because “Roche Netherlands” held the right to the Roche or Valium trademarks in the Netherlands.³ So the earliest judgments were widely applauded despite some traces of over-exuberance.

The European Court of Justice chose to favor the free movement of goods between member states at the expense of intellectual property rights. This legal theory was creative. The court recognized that some core rights could not be taken away from the intellectual property holder. These core rights, called the “specific subject matter” or “essential function” of the rights, included the right to prevent piracy and unauthorized copying.⁴ Protection of these rights survived the scrutiny of articles 30 and 36 of the Treaty Establishing the European Community (“EC Treaty”).⁵

2. See Case 15/74, *Centrafarm, BV v. Sterling Drug, Inc.*, 1974 E.C.R. 1147, [1974] 2 C.M.L.R. 480 (1974); Case 16/74, *Centrafarm, BV v. Winthrop, BV*, 1974 E.C.R. 1183, [1974] 2 C.M.L.R. 480 (1974).

3. See Case C-102/77, *Hoffmann-La Roche & Co. v. Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse, GmbH*, 1978 E.C.R. 1139, [1978] 3 C.M.L.R. 217 (1978).

4. Joined Cases C-427, C-429 & C-436/93, *Bristol-Myers Squibb v. Paranova*, 1996 E.C.R. I-3457, [1997] 1 C.M.L.R. 1151 (1996); see also *HAG II*, 1990 E.C.R. I-3733-34, [1990] 3 C.M.L.R. 585-86; *Sterling Drug*, 1974 E.C.R. 1162, [1974] 2 C.M.L.R. 503.

5. TREATY ESTABLISHING THE EUROPEAN COMMUNITY, Feb. 7, 1992, O.J. (C 224) 1

These same articles, however, precluded the right to prevent cross-border trade of trademarked products that had been marketed elsewhere in the Common Market by a member of the local right holders' group.

The concepts of specific subject matter, essential function, and other ideas were the subject of much debate and analysis. In truth, they are a good example of adroit judge-made law that provided theoretical underpinnings for a result deemed desirable by economic and political concerns. In a common market committed to the elimination of national economic frontiers, a manufacturer could not be allowed to use trademarks to prevent free trade in genuine goods among member states.

The challenge to trademark rights then proceeded further. Centrafarm wanted to do more than merely sell the drugs in their original packaging. Now traders, like Centrafarm, wished to repackage the drugs in new boxes, or to relabel them, or to change the number of pills in the box, so as to adapt the goods to the market in which they sought to sell the product. According to the European Court of Justice, repackaging and relabeling were permissible, but were subject to specific conditions.⁶

Then, the litigations fell quiet for a few years while the industry adapted to the new regime. Under this system, it was legal and common for a pharmaceutical trader to buy ten thousand, 20-dose packages of a drug in Greece, rearrange and sometimes even cut up the blister packs to change the number of pills per package, and print new packaging, which stated the manufacturer's name, the trade name of the drug, and the parallel trader's name, in order to resell 12,500 sixteen-dose packages in Germany.

Consumer choice is irrelevant in the case of prescription drugs because the consumer receives what the pharmacist delivers, whether or not it has been bought from a parallel trader. In addition, parallel trading always has been a hugely favored economic

(1992), [1992] 1 C.M.L.R. 573 (1992) [hereinafter EC TREATY]; see *Bristol-Myers*, 1996 E.C.R. I-3457, [1997] 1 C.M.L.R. 1151; see also *Deutsche Renault, AG*, 1993 E.C.R. I-6251-54, ¶¶ 6-15, [1993] C.M.L.R. 469-73; *HAG II*, 1990 E.C.R. I-3729, ¶ 11, [1990] 3 C.M.L.R. 580.

6. See *Hoffman-La Roche*, 1978 E.C.R. 1167-68, [1978] 3 C.M.L.R. 244.

activity in European law, and pharmaceutical companies are deemed wealthy enough to bear its consequences. Therefore, the rewriting of national trademark rules by the European Court of Justice was interesting, rather than controversial. Trademark lawyers complained, however, that classic trademark law had been rewritten in response to the needs of the pharmaceutical industry. In any case, application of the Court's relabeling doctrines remained industry-specific.

Currently, a new decision threatens to agitate a very different industry.⁷ Frits Loendersloot is a parallel trader whose business involves buying Ballantine's Scotch whisky and relabeling it with identical-looking labels that differ from the originals only in the omission of the manufacturer's codes.⁸ Those codes allow Ballantine to trace how a particular bottle fell into the hands of a parallel trader.⁹ Because parallel trading is no more welcome in the liquor industry than in the pharmaceutical trade, Ballantine is very unhappy. Nevertheless, it appears difficult for the European Court to deny Loendersloot the right to do what is commonplace with pharmaceuticals.¹⁰

This case raises a number of concerns. First, it must be considered whether relabeling the whisky bottles in the local language would have any significant effects on the legal issues. In addition, it is interesting to contemplate whether, assuming that the whisky would not be affected by rebottling, the trader could decant the whisky into smaller bottles suited for resale in a particular market, without risking legal sanctions. This case indicates that when legal principles are stretched or created to achieve a particular outcome, surprising and unwelcome consequences may sometimes result.¹¹

This Essay describes the major swings in the approach by the European Court of Justice and contends that the current situation

7. See *Court Upholds Trademark Rights*, FIN. TIMES, Dec. 9, 1997, at 16 (describing the *Loendersloot* case); see also discussion *infra* Part V (reviewing the *Loendersloot* case).

8. See Case 349/95, *Frits Loendersloot v. George Ballantine & Sons, Ltd.*, (Eur. Ct. J. Feb. 27, 1997) (not yet reported).

9. See *id.*

10. See *id.*

11. See *id.*

leaves rightholders with less protection than they ought to have. Part I describes one of the fundamental principles contained in the EC Treaty—the free movement of goods—and presents an overview of the development of the exhaustion doctrine. Part II discusses cases where parallel traders have repackaged products bearing trademarks without the proper authority. Part III examines the EC Trademark Directive, which was drafted to harmonize the trademark laws that impede the free movement of goods. Part IV explores whether case law developed with respect to parallel trading in the pharmaceutical industry has influenced the legal status of parallel trading in other industries. Part V reviews whether the exhaustion doctrine should apply on a European Community-wide basis or internationally. This Essay concludes that the decisions by the European Court of Justice regarding pharmaceuticals trademarks could have an even greater impact on other trademarked products.

I. FUNDAMENTAL PRINCIPLES: THE FREE MOVEMENT OF GOODS

The free movement of goods is one of the four fundamental principles underpinning the European Union. Article 30 of the EC Treaty,¹² which has been widely interpreted by the European Court of Justice, enshrines this principle. Article 30 of the EC Treaty provides that, “Quantitative restrictions on imports and all measures having equivalent effect shall, without prejudice to the following provisions, be prohibited between member states.”¹³ The European Court of Justice has interpreted article 30 when considering cases that involve a conflict between national intellectual property rights and common market principles.

An inherent conflict exists between the notion of a common market, in which goods are free to circulate across national bor-

12. EC TREATY, *supra* note 5.

13. *Id.* art. 30, [1992] 1 C.M.L.R. 602. A qualified exception to article 30 is found in article 36, which provides that:

The provisions of [a]rticles 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.

Id. art. 36, [1992] 1 C.M.L.R. 605 (emphasis added).

ders, and national intellectual property rights. By its nature, an intellectual property right provides an individual with a monopoly rooted in national law. A bundle of these national monopoly rights can be a means by which to divide territories along national lines. The difficulty for the European Court of Justice has been balancing the interests of rightholders against the European Community's commitment to the free movement of goods.

A. *Development of the Exhaustion Doctrine*

The European Court of Justice has wrestled with the challenge of producing a coherent and predictable rationale by which goods may be allowed to move freely among member states without unacceptable encroachment on the interests of intellectual property right holders. As a result, the European Court of Justice has permitted the use of national intellectual property rights in some circumstances, even where their invocation prevents imports from another member state, and has prohibited their use in some cases where the holder's rights had been infringed.

1. Exhaustion or Consent: The *Centrafarm* Cases

On the same day in 1974, the European Court of Justice issued its judgments in *Centrafarm, BV v. Sterling Drug, Inc.*,¹⁴ and *Centrafarm, BV v. Winthrop, BV*.¹⁵ *Sterling* concerned patent rights and *Winthrop* dealt with trademark rights. In both cases, the European Court of Justice held that if a patented or trademarked product was put on the market in one member state by the manufacturer or with its consent, then the manufacturer could not block import of the product on the basis of its intellectual property rights. In other words, if the owner of an intellectual property right protected by member state *A* had lawfully marketed its product in member state *B*, either directly, by providing his consent, or through an economic or legal dependent, the owner could not rely on the intellectual property protection provided by member state *A* to prevent

14. Case C-15/74, *Centrafarm, BV v. Sterling Drug, Inc.*, 1974 E.C.R. 1147, [1974] 2 C.M.L.R. 480.

15. Case C-16/74, *Centrafarm, BV v. Winthrop, BV*, 1974 E.C.R. 1183, [1974] 2 C.M.L.R. 480.

the importation or marketing of its product into member state *B*.

The European Court of Justice reasoned that the proprietor of parallel patents or trademarks had “exhausted” its right by first putting the product on the market in one member state and obtaining the benefit of the intellectual property protection. The proprietor had thus consented to the sale of the product in another member state and could not prevent its importation. The proprietor had obtained the benefit of his intellectual property right by first placing the product on the market in a particular member state.

This result, whereby Centrafarm could sell in the Netherlands patented and trademarked products first put on the market in the United Kingdom, was attractive from a policy point of view. The need to provide Centrafarm with this result, however, required some unconvincing interpretation of the relevant texts. At the time of the *Centrafarm* cases, the United Kingdom had only recently acceded to the European Community. The Accession Treaty for the United Kingdom, Ireland, and Denmark (“Accession Treaty”)¹⁶ provided that movement of goods provisions could only be invoked with respect to goods originating, *inter alia*, in the United Kingdom as of January 1, 1975. Specifically, paragraph 2 of article 42 of the Accession Treaty provided that “measures having equivalent effect to [quantitative] restrictions shall be abolished by 1 January 1975 at the latest.”¹⁷ Most readers of this article would have concluded, and rightly so, that until January 1, 1975, intellectual property rights or other measures of equivalent effect could be invoked, even where the result was the partitioning of the Common Market.

The European Court of Justice, however, clearly did not want this result. The European Court of Justice thus interpreted article 42(2) to apply only to articles 30 and 32 to 35 of the EC Treaty.¹⁸ As a result, “article 42 of the Act of Accession has no effect upon prohibitions on importation arising from national legislation concerning industrial and commercial property.”¹⁹ Accordingly, arti-

16. Act of Accession, O.J. L 73/14 (1972).

17. *Id.* O.J. L 73/14 at 23.

18. EC Treaty, *supra* note 5.

19. *Winthrop*, [1974] E.C.R. 1197, ¶ 28, [1974] 2 C.M.L.R. 509.

cle 42 of the Accession Treaty cannot be employed to block importation into the Netherlands of goods originally marketed in the United Kingdom under the above conditions by the trademark owner or with its consent, even before January 1, 1975.²⁰

In effect, the European Court of Justice seemed to argue that, because there was no explicit transitional provision in the Accession Treaty²¹ for article 36 of the EC Treaty,²² the exceptions set forth in article 36 could not be invoked, notwithstanding that the provisions concerning measures of equivalent effect were subject to a transitional provision. The European Court of Justice's reasoning with regard to the Accession Treaty was contrived. The credibility of its general approach to problems involving free movement of goods might have been enhanced, but only at the expense of legal certainty with regard to the application of the Accession Treaty. After the *Centrafarm* battles, the stage was set for the astonishing judgment in *HAG I*.²³

2. *HAG I*: Round One—1974

In *Van Zuylen Frères v. HAG, AG* (“*HAG I*”),²⁴ the European Court of Justice needed to apply the exhaustion or consent doctrine in a case where the same trademark was applied to coffee manufactured by two separate companies in circumstances where there was no consent, but where the two marks had a common origin. The HAG group of companies throughout Europe had held the same trademark. The Belgian/Luxembourg mark, however, was expropriated as enemy property during the Second World War and sold to a rival coffee maker. The Luxembourg holder of the trademark tried to use its trademark rights to prevent imports of the product from Germany, which were put on the market by a different manufacturer but under the same trademark. The European Court of Justice, in an obvious effort to promote the free movement of goods, found that because the trademarks had once been

20. *See id.* at 1196, ¶ 30, [1974] 2 C.M.L.R. 510-11.

21. Accession Treaty, *supra* note 16.

22. EC Treaty, *supra* note 5.

23. *Van Zuylen Frères v. HAG, AG* (“*HAG I*”), Case C-192/73, [1974] E.C.R. 731, [1974] 2 C.M.L.R. 127.

24. *Id.*

commonly owned, it was contrary to articles 30 and 36 of the EC Treaty to prevent the German exports into Luxembourg.²⁵

The European Court of Justice did not accept the argument that the purpose of a trademark is to inform the consumer about the origin of the product.²⁶ Also, the European Court of Justice noted that consumers would be harmed if one shop could sell two different goods bearing an identical trademark.²⁷ The court ruled that a trademark, more than any other industrial property right, could result in the partitioning of the Common Market because the right is not subject to time limitations, and thus, deserves less protection than other industrial property rights.²⁸ Its role of informing consumers could be ensured by means that were less likely to affect the free movement of goods. For example, one member of the European Court of Justice suggested sticking flags on the packets of coffee to distinguish the German and Luxembourg brands of coffee.

3. *HAG II*: Round Two—1990

The facts of *SA CNL-Sucal, NV v. HAG GF, AG* (“*HAG II*”)²⁹ were similar to those of *HAG I*, except that in *HAG II*, the German rightholder challenged imports by the Belgian rightholder. The European Court of Justice, influenced by a magisterial opinion from Advocate General Jacobs, reversed its ruling in *HAG I*.³⁰ The court held that the German rightholder could oppose the imports from Belgium because the compulsory division of the trademark had deprived the German rightholder the possibility of consenting to the marketing of similar products under an identical or similar,

25. In *HAG I*, the European Court of Justice held that:

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

Id. at 744, ¶ 15, [1974] 2 C.M.L.R. 144.

26. *See id.*

27. *See id.*

28. *See id.*

29. Case C-10/89, 1990 E.C.R. I-3711, [1990] 3 C.M.L.R. 571 (1990).

30. *See id.*

and therefore confusing, trademark in Belgium.³¹

The European Court of Justice determined that expropriation did not imply consent.³² Therefore, the intellectual property right in question was not exhausted, and the sale could be blocked. The court, however, went one step further, stating that the essential function of the trademark was to guarantee the identity of the origin of the marked product to the consumer or ultimate user by enabling him, without any possibility of confusion, to distinguish that product from products which have another origin.³³ This statement attributes great weight to consumer perceptions and suggests that, even if the trademark holder has consented to the use of his trademark, he still might prevent the entrance of products bearing that trademark into a member state if consumers will be confused.

In sum, *HAG II* raised, but did not settle, the key issue of whether the holder of a trademark could prevent, in the interest of avoiding consumer or user confusion, a product bearing that trademark from being sold on the market of another member state in a case involving a consensual sale or perhaps even licensing.

B. *The Relationship Between Assignment and Exhaustion of Trademark Rights*

The question raised in *HAG II* was answered in *IHT Internationale Heiztechnik, GmbH v. Ideal-Standard, GmbH*.³⁴ In *Ideal-Standard*, the American Standard group had owned the trademark "Ideal-Standard."³⁵ The German and French subsidiaries of

31. *See id.*

32. *See id.*

33. According to the European Court of Justice:

In such circumstances, the essential function of the trade mark would be jeopardized if the proprietor of the trademark could not exercise the right conferred on him by national legislation to oppose the importation of similar goods bearing a designation liable to be confused with his own trade mark, because, in such a situation, consumers would no longer be able to identify for certain the origin of the marked goods and the proprietor of the trade mark could be held responsible for the poor quality of goods for which he was in no way accountable.

Id. at I-3759, ¶ 16, [1990] 3 C.M.L.R. 608.

34. Case C-9/93, 1994 E.C.R. I-2789, [1994] 3 C.M.L.R. 857 (1994).

35. *See id.*

American Standard held the trademark for sanitary fittings and heating equipment in Germany and France.³⁶ The French subsidiary sold the trademark for heating equipment to Société Générale de Fonderie (“SGF”), an unrelated French company.³⁷

SGF later assigned its trademark rights to another French company called Compagnic Internationale du Chauffage (“CICH”).³⁸ When CICH sought to market its heating equipment in Germany under the “Ideal-Standard” trademark, the German subsidiary of American Standard, Ideal-Standard GmbH, objected and initiated trademark infringement proceedings.³⁹

The European Court of Justice distinguished the *Ideal-Standard* situation from that in *HAG II* because the *Ideal-Standard* dispute involved different products with the same name.⁴⁰ Additionally, the court applying the exhaustion or consent doctrine to the situation in which a trademark right is assigned.⁴¹ The court rejected the Commission’s argument that if a trademark right is voluntarily sold, then consent has been given to the marketing of competing products.⁴² The court stated that an assignment does not constitute “the consent required for application of the doctrine of exhaustion of rights. For that, the owner of the right in the importing State must . . . determine the products to which the trade mark may be affixed in the exporting State and . . . control their quality.”⁴³ The court noted that this power is eliminated when control over the trademark is surrendered to a third party having no

36. *See id.*

37. *See id.*

38. *See id.*

39. *See id.*

40. In *Ideal-Standard*, the European Court of Justice stated that:

The *HAG II* case, whose bearing on the main proceedings is the point of the question put by the national court, related to a situation where it was not just the name that was identical but also the products marketed by the parties to the dispute. This dispute, by contrast, relates to the use of an identical device for different products since Ideal-Standard GmbH is relying on its registration of the trade mark “Ideal Standard” for sanitary fittings in order to oppose the use of that device for heating equipment.

Id. at I-2841-42, ¶ 15, [1994] 3 C.M.L.R. 904.

41. *See id.*

42. *See id.*

43. *Id.* at I-2850, ¶ 43, [1994] 3 C.M.L.R. 909.

economic link with the assignor.⁴⁴

Notwithstanding the factual differences between *Ideal-Standard* and *HAG II*, the European Court of Justice reiterated its reasoning from *HAG II* and determined that a voluntary assignment of a trademark right did not result in exhaustion of the trademark right. Thus, *Ideal-Standard GmbH* could prevent the importation of the French product into Germany.

The reasoning in *HAG II* and *Ideal-Standard* suggests that the possibility of consumer confusion or damage to the reputation of the trademark holder justifies possible partitioning of national markets. In other words, the rights of trademark holders prevail over the free movement of goods. Although this jurisprudence applies when the products bearing the same mark are manufactured by *different* parties, it does not appear to apply to those cases where one party manufactures the product at issue, and the issue is the parallel importation of that product from one member state to another.

II. THE REPACKAGING CASES REVISITED: IN SEARCH OF A RATIONALE

The European Court of Justice has experienced great difficulty in attempting to find a coherent rationale for applying European Community law to trademarks and pharmaceuticals. The issue is complicated by differences in pricing, health care, and reimbursement policies for pharmaceutical products in member states.⁴⁵ Because of price differentials, parallel trade in pharmaceutical products is not just a marginal phenomenon, but a major industry. A pharmaceutical sold in member state *A* may require repackaging before sale in member state *B*. Nevertheless, it is often worthwhile for the parallel importer to repackage and relabel, which often involves re-affixing the trademark.

44. *See id.*

45. The European Commission has recognized this dilemma, stating that, "The differences reported in the pricing of identical pharmaceutical products across the Community are largely the result of the different pricing and refund systems of member state health insurance schemes." Commission, Answer to Written Question E-2181/93, 1994 O.J. (C 46) 45.

A. *The Continuing Battle Between Centrafarm and the Pharmaceutical Companies*

*Hoffmann-La Roche v. Centrafarm*⁴⁶ involved a trademarked pharmaceutical, Valium, that was purchased in the United Kingdom, repackaged in the Netherlands, and sold in Germany.⁴⁷ Specifically, Centrafarm purchased Valium in packets of one hundred and five hundred, and repackaged them into bottles containing one thousand tablets.⁴⁸ The new bottles and the external wrappings had the names “Valium” and “Roche” printed on them, although in slightly different form than the original packaging.⁴⁹ Those bottles were produced for sale to hospitals and pharmacies that dispensed the tablets, so there was no risk of consumer confusion.⁵⁰ In this case, the trademark was clearly re-affixed to the new packaging.

The issue before the European Court of Justice was whether the repackaging and re-affixing of the trademarks contravened the exclusive rights of the holder to affix trademarks. The European Court of Justice reiterated that the holder of the trademark is permitted to affix that trademark for the purpose of putting a product into circulation for the first time. The proprietor is therefore protected against competitors wishing to take advantage of the status and reputation of the trademark by selling products not legally bearing that mark. In this case, Centrafarm had attached the Valium and Roche names to bottles filled by Centrafarm.⁵¹

Had the European Court of Justice strictly applied the exhaustion or consent doctrine in this case, it would have led to the immediate result that Hoffmann-La Roche had “exhausted” its rights because it had sold the product, thereby implying consent to the resale of the product by Centrafarm. This case, however, involved more than just the reselling of the product; there was also repackaging.⁵²

46. Case C-102/77, [1978] E.C.R. 1139, 1141-42, [1978] 3 C.M.L.R. 217, 219-20.

47. *See id.*

48. *See id.*

49. *See id.*

50. *See id.*

51. *See id.*

52. To deal with the specific issue of repackaging, the Court stated that:
In order to answer the question whether that exclusive right involves the right

The European Court of Justice set forth the general rule that the trademark holder can prevent “a product to which the trademark has lawfully been applied in one of those States from being marketed in the other member state after it has been inserted in new packaging to which the trade-mark has been affixed by a third party.”⁵³ The court, however, ever preoccupied with encouraging legitimate cross-border trade, introduced a balancing test. According to the European Court of Justice, the prevention of marketing by a parallel importer could not be permitted if it in fact constituted a “disguised restriction on trade.”⁵⁴ The repackaging and remarking would be permitted if four factors were met: (1) the use of the trademark right by the proprietor resulted in artificial partitioning of the markets between member states; (2) repackaging did not negatively affect the original condition of the product; (3) the proprietor had received notice prior to the marketing of the repackaged products; and (4) the new packaging indicated who repackaged the product.⁵⁵

Initially, the first factor was assumed to be a difficult one for a parallel importer to overcome, especially where the parallel importer held the burden of demonstrating that the trademark holder’s use of the of the mark artificially partitioned the markets among member states. Some argued, however, that if the other three factors were satisfied, the first factor had to be satisfied as well. The second factor had a health and safety rationale, hence the parallel

to prevent the trade-mark being affixed by a third person after the product has been repackaged, regard must be had to the essential function of the trademark, which is to guarantee the identity of the origin of the trade-marked product to the consumer or ultimate user, by enabling him without any possibility of confusion to distinguish that product from products which have another origin. This guarantee of origin means that the consumer or ultimate user can be certain that a trade-marked product which is sold to him has not been subject at a previous stage of marketing to interference by a third person, without the authorization of the proprietor of the trade-mark, such as to affect the original condition of the product. The right attributed to the proprietor of preventing any use of the trade-mark which is likely to impair the guarantee of origin so understood is therefore part of the specific subject-matter of the trade-mark right.

Id. at 1164, ¶ 7, [1978] 3 C.M.L.R. 241.

53. *Id.* at 1165-66, ¶ 14, [1978] 3 C.M.L.R. 243.

54. *Id.* at 1167, [1978] 3 C.M.L.R. 244.

55. *Id.* at 1167-68, [1978] 3 C.M.L.R. 244.

trader was required to demonstrate that the repackaging did not adversely affect the original condition of the product. The third and fourth factors were relatively easy to satisfy.

B. Artificial Market Partitions by Trademark Owners

In *Centrafarm, BV v. American Home Products Corp.*,⁵⁶ the European Court of Justice needed to determine whether the use of two separate trademarks artificially partitioned the market. The European Court of Justice stated that such partitioning occurred, “if it is established that the proprietor of different marks has followed the practice of using such marks for the purpose of artificially partitioning the markets.”⁵⁷ Again the European Court of Justice suggested that the trademark owner’s intent to artificially partition markets was a required showing.

1. Repackaging Doctrine

The reasoning of *Hoffmann-La Roche*⁵⁸ was applied in *Pfizer, Inc. v. Eurim-Pharm., GmbH*.⁵⁹ The facts of *Pfizer*, however, differed from those of *Hoffmann-La Roche* in that the trademark was not re-affixed to the external packaging.

In *Pfizer*, the European Court of Justice found that the repackaging was merely the replacing of the outer wrapping without touching the internal packaging.⁶⁰ The trademark was not re-affixed; instead, the trademark on the internal packaging was made visible through the new external wrapping.⁶¹ The European Court of Justice held that the repackaging did not expose the product to interferences or influences that would affect its original condition, and that final users of the product were unlikely to be misled regarding the product’s origin.⁶²

This case did not involve the re-affixing of a trademark, but did

56. Case C-3/78, 1978 E.C.R. 1823, [1979] 1 C.M.L.R. 326 (1978).

57. *Id.* at 1823 [1979] 1 C.M.L.R. 344.

58. Case C-102/77, 1978 E.C.R. 1139, [1978] 3 C.M.L.R. 217 (1978).

59. Case C-1/81, 1981 E.C.R. 2913, [1982] 1 C.M.L.R. 406 (1981).

60. *See id.*

61. *See id.*

62. *See id.* at 2926, ¶ 11, [1982] 1 C.M.L.R. 421.

involve repackaging. Apparently, the European Court of Justice was more comfortable permitting repackaging that did not also involve the re-affixing of the trademark.

After this decision, no relabeling cases were referred to the European Court of Justice for approximately ten years. During that time, traders developed the practice of filling original packets with cut-up blisters. The traders expanded the terrain that they had secured in *Centrafarm*⁶³ by repackaging and re-labeling without being called upon to prove artificial partitioning in court. In particular, the issue of whether subjective intent of the rightholder had to be shown was unsettled. The challenge to these practices came quite late.

2. Recent Applications of Repackaging Doctrine

The *Hoffmann-La Roche v. Centrafarm* factors have been applied in seven recent repackaging cases involving parallel traders: Paranova, Eurim-Pharm, and MPA Pharma.⁶⁴ In four of these cases, involving Paranova or MPA Pharma, the pharmaceutical products at issue were repackaged and the trademark re-affixed, thereby presenting the overall style of the parallel importer, rather than mimicking the original package. In the other three cases, involving Eurim-Pharm, the pharmaceutical products were repackaged in an arguably sloppy fashion, with blisters cut and arranged in certain package sizes.

When the recent repackaging cases were referred to the European Court of Justice, many anticipated that the European Court of Justice would clarify the meaning of the term “artificial partitioning of the market.”⁶⁵ Specifically at issue was whether the European Court of Justice would relax the burden of proof placed on the importer, and whether it would alter or amend any of the other

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

64. *Joined Cases C-427, C-429 & C-436/93, Bristol-Myers Squibb v. Paranova*, 1996 E.C.R. I-3457, [1997] 1 C.M.L.R. 1151 (1996); *Joined Cases C-71/94, C-72/94 & C-73/94, Eurim-Pharm Arzneimittel v. Beiersdorf*, 1996 E.C.R. I-3603, [1997] 1 C.M.L.R. 1222 (1996); *Case C-232/94, MPA Pharma, GmbH v. Rhône-Poulenc Pharma, GmbH*, 1996 E.C.R. I-3671 (1996).

65. *Hoffman-La Roche*, 1978 E.C.R. 1166, [1979] 3 C.M.L.R. 244.

three conditions imposed by *Hoffmann-La Roche*.⁶⁶ On July 11, 1996, in *Bristol-Myers Squibb v. Paranova*,⁶⁷ the European Court of Justice ruled that, “[T]he trademark owner may legitimately oppose the further marketing of a pharmaceutical product where the importer has repackaged the product and reaffixed the trademark unless [certain conditions are met].”⁶⁸

The first condition of *Bristol-Myers* parallels the first condition in *Hoffmann-La Roche* and focuses upon the artificial partitioning of the market. The European Court of Justice provided a specific example of when artificial partitioning of the market would occur if cross-border trade is prevented because of the existence of different package sizes for the identical product. The court, however, specifically included the requirement that “the repackaging carried out by the importer is necessary in order to market the product in the member state of importation.”⁶⁹ Query whether any repackag-

66. *Id.* at 1167-68, [1979] 3 C.M.L.R. 244.

67. 1996 E.C.R. I-3457, [1997] 1 C.M.L.R. 1151 (1996).

68. *Id.* *Bristol-Myers* set forth the following conditions:

—[The] establish[ment] that reliance on trademark rights by the owner in order to oppose the marketing of repackaged products under that trade mark would contribute to the artificial partitioning of the markets between member states; such is the case, in particular, where the owner has put an identical pharmaceutical product on the market in several member states in various forms of packaging, and the repackaging carried out by the importer is necessary in order to market the product in the member state of importation, and is carried out in such conditions that the original condition of the product cannot be affected by it; that condition does not, however, imply that it must be established that the trademark owner deliberately sought to partition the markets between member states;

—[The] show[ing] that the repackaging cannot affect the original condition of the product inside the packaging . . . ;

—[T]he new packaging clearly states who repackaged the product and the name of the manufacturer in print such that a person with normal eyesight, exercising a normal degree of attentiveness, would be in a position to understand . . . ;

—[T]he presentation of the repackaged product is not such as to be liable to damage the reputation of the trademark and of its owners; thus, the packaging must not be defective, of poor quality, or untidy; and

—[T]he importer gives notice to the trademark owner before the repackaged product is put on sale, and, on demand, supplies him with a specimen of the repackaged product.

Id.

69. *Id.* (emphasis added).

ing at all or simply repackaging in the style of the parallel importer, such as Paranova, is permitted. The European Court of Justice unfortunately failed to address specifically the issue of Paranova's style and whether the use of this style usurped the owner's trademark. The European Court of Justice also stressed that the original condition of the product may not be called into question, even though this point was specifically addressed by the Court.⁷⁰ Then the court concluded that this particular condition "does not, however, imply that it must be established that the trademark owner deliberately sought to partition the markets between member states."⁷¹ This latter phrase indicates that the burden of proof is no longer on the parallel importer to demonstrate that the trademark owner had used different package sizes to deliberately partition the market.

The second condition is the same one found in the original *Hoffmann-La Roche* judgment,⁷² and the third condition is similar to the fourth condition in the original *Hoffmann-La Roche* judgment. The European Court of Justice, however, has additionally required that the name of the manufacturer appear and the print be such that a person with "normal eyesight, exercising a normal degree of attentiveness" would understand that the product had been repackaged and parallel imported.⁷³

The fourth condition is new and gives the trademark owner additional protection in those cases where the packaging is defective, of poor quality, or untidy. The European Court of Justice, however, stated that the importance of packaging varies depending upon to whom the product is presented.⁷⁴ In addition, the court

70. *See id.*

71. *Id.*

72. 1978 E.C.R. 1167, [1979] 3 C.M.L.R. 218.

73. *Bristol-Meyers*, 1996 E.C.R. I-3457, at ¶ 79, [1997] 1 C.M.L.R. 1219.

74. *Eurim-Pharm Arzneimittel v. Beiersdorf, AG*, 1996 E.C.R. I-3603, [1997] 1 C.M.L.R. 1238. In *Eurim-Pharm*, the court explained that:

[T]he requirements to be met by the presentation of a repackaged pharmaceutical product vary according to whether the product is sold to hospitals or, through pharmacies, to consumers. In the former case, the products are administered to patients by professionals, for whom the presentation of the product is of little importance. In the latter case, the presentation of the product is of greater importance for the consumer, even if the fact that the products in question are subject to prescription by a doctor may in itself give consumers some

stated that it is for the national court to determine whether original external packaging and loose blister packs “constitute . . . an untidy form of packaging liable to damage the reputation of the trade mark.”⁷⁵ In particular, “[a]s for the cutting of blister packs, it is for that court to assess in each particular case whether it has been carried out in such a manner that the reputation of the trademark might suffer.”⁷⁶

The fifth condition is similar to the third condition in the original *Hoffmann-La Roche* judgment. The European Court of Justice, however, added the requirement that the parallel importer must provide, on demand, a specimen of the repackaged product.⁷⁷

C. Trademarks and the Pharmaceutical Industry

The European Court of Justice’s efforts to secure the free movement of goods has particularly affected the pharmaceutical industry. Due to the court’s decision in *Bristol Myers*, a significant number of traders, constituting a small industry, engage in the buying, repackaging, and relabeling of pharmaceuticals to take advantage of price differentials that are the result of member state action.

It would be wrong to suggest that the European Court of Justice’s judgments in cases involving pharmaceutical products have been ill considered or careless. The court has faced many difficult issues. Should a trademark holder in several member states be entitled to prevent cross border trade at will? Plainly not. Might there be circumstances in which the trademarking policy for a product was a disguised means to prevent cross-border trade, in which case European Community considerations should prevail over purely national ones? Plainly yes.

It is unclear, however, whether the current rules on repackaging and relabeling adequately respect the interests of the rightholder. The product is sold in different member states at dif-

degree of confidence in the quality of the product
Id. (emphasis added).

75. *Id.*

76. *Id.*

77. See *Bristol-Meyers*, 1996 E.C.R. I-3457, 87, [1997] 1 C.M.L.R. 1151.

ferent prices due to national rules, but not necessarily the choice of the supplier. Thus, the encroachment upon the trademark holder's rights in the case of repackaging and relabeling may be rather severe.

III. THE EC TRADEMARK DIRECTIVE

In 1988, the Council adopted the First Trademark Directive ("Trademark Directive")⁷⁸ to approximate the member states' laws relating to trademarks. The member states were required to implement the Trademark Directive by December 31, 1992. The Trademark Directive does not aim to harmonize trademark law fully, but only those provisions of national law most likely to impede the free movement of goods in the European Community. Thus, the Trademark Directive does not cover the registration, nullity, and invalidity of trademarks, or the rules governing their transfer or assignment.⁷⁹

The Trademark Directive applies to all registered national marks regarding products and services, whether individual, collective, or guarantee marks. Trademarks are broadly defined as "any sign capable of being represented graphically, particularly words, including personal names, designs, letters, numerals, the shape of goods or of their packaging, provided that such signs are capable of distinguishing the goods or services of one undertaking from those of other undertakings."⁸⁰

The Trademark Directive also provides an exhaustive list of optional or mandatory grounds for refusal or invalidity, divided between absolute grounds for refusal under article 3, and relative grounds under article 4.⁸¹ The Trademark Directive does not list the acts reserved to the trademark holder, but specifies that he has an exclusive right to prevent third parties from using (1) an identical trademark without his consent, in relation to goods or services identical to those for which the trademark is registered; or (2) an identical or similar trademark in relation to similar goods or ser-

78. See Council Directive 89/104, 1988 O.J. (L 40) 1.

79. See *id.*

80. *Id.* art. 2, 1988 O.J. (L 40) 2.

81. See *id.*

vices, where there is a risk of public confusion.⁸²

Under article 7, only the first marketing in the European Union results in exhaustion of trademark rights.⁸³ This means that trademark rightholders may oppose imports into the European Union of trademarked goods first put on the market outside the European Union. In *Bristol-Myers*,⁸⁴ the European Court of Justice made it clear that article 7 of the Trademark Directive, and in particular article 7(2), is to be given the same interpretation as that given by the Court to articles 30 and 36.⁸⁵

IV. FUTURE APPLICATION: THE QUESTION OF TRANSFER OF THE PHARMACEUTICAL INDUSTRY TRADEMARK DOCTRINES

In *Frits Loendersloot v. George Ballantine & Son Ltd.*,⁸⁶ the question of repackaging trademarked goods was raised in the context of alcoholic drinks. Allegedly, a parallel importer of alcoholic drinks removed from the whisky bottles the labels, identification numbers, names of the original importers, and the word "pure."⁸⁷ The parallel importer then re-affixed either an original or copied label and the name of an importer having no contractual relationship with the owner of the mark and exported the bottles to traders in France, Spain, the United Kingdom, the United States, and Japan.⁸⁸

Advocate General Jacobs, in his conclusions, first noted that it is the Court's duty "to develop further, in the context of the relabeling by a parallel importer of alcoholic drinks, the principles laid down in its ruling concerning parallel imports of repackaged phar-

82. *Id.* art. 5, 1988 O.J. (L 40) 2.

83. *Id.* art 7, 1988 O.J. (L 40) 2.

84. 1996 E.C.R. I-3457, [1997] C.M.L.R. 1151

85. *See id.* In *Bristol-Myers* the European Court of Justice stated that:

In accordance with the case law, [a]rticle 7(2) of the directive must therefore be interpreted as meaning that a trade-mark owner may legitimately oppose the further marketing of a pharmaceutical product where the importer has repackaged it and re-affixed the trademark, unless the four conditions set out in the Hoffmann-La Roche judgment . . . have been met.

Id. at ¶ 50.

86. Case C-349/95 (Eur. Ct. J. Feb 27, 1997) (not yet reported).

87. *See id.*

88. *See id.*

pharmaceutical products.”⁸⁹ Specifically at issue was “whether a trademark proprietor may rely on his trademark in order to prevent the relabeling of alcoholic drinks undertaken with a view to removing identification marks allegedly used by the proprietor to monitor parallel imports and detect shortcomings in his sales network.”⁹⁰

Advocate General Jacobs relied on the jurisprudence developed in the pharmaceutical repackaging cases when arriving at the following conclusions. First, a trademark owner cannot use his rights to prevent a parallel importer from repackaging goods bearing the mark and re-affixing the mark to the repackaged goods when the use of the right by the owner will “contribute to the artificial partitioning of the markets between member states; provided that in the course of such repackaging: (i) the guarantee of origin is not impaired; (ii) the original condition of the product is not adversely affected; and (iii) the reputation of the trademark is not damaged.”⁹¹ Second, subject to the same conditions as the first conclusion, a trademark owner cannot exercise his rights to prevent a parallel trader from omitting the term “pure,” which appeared on the original labels, or replacing the importer’s name.⁹² Finally, subject to the same conditions as the other conclusions, a trademark owner cannot exercise his rights to prevent “the removal of identification marks which he has affixed on or underneath the labels.”⁹³

After announcing his decision, Advocate General Jacobs proposed that the European Court of Justice issue a preliminary ruling on its interpretation of article 36 of the Accession Treaty, which concerned restrictions on intra-Community trade.⁹⁴ The European Court of Justice also compared the repackaging of alcohol to prior cases affecting pharmaceuticals.⁹⁵ Additionally, the European

89. *Id.*

90. *Id.*

91. *Id.*

92. *Id.*

93. *Id.*

94. *See Trademark Rights: Court Ruling on Re-Labeling Whiskey Bottles*, EUR. REP., Nov. 22, 1997.

95. *See id.*

Court of Justice applied its case law to article 36.⁹⁶ The European Court of Justice concluded that “article 36 of the Treaty has to be interpreted as implying that even if this represents an obstacle to intra-Community trade, the trademark owner may exercise this right to prevent a third party from removing and then putting back or replacing labels displaying the holder’s mark, unless” (1) the trademark owner’s use of the right to prevent re-labeled products from “being marketed under this trademark would contribute to an artificial partitioning of member states’ markets;” (2) the re-labeling does not affect “the original state of the product;” (3) the re-labeled product is not packaged “to harm the reputation of the trademark and that of its owner;” or (4) the person re-labeler of the product “warns the trademark owner of the re-labeling process” before selling the re-labeled products.⁹⁷ The European Court of Justice thus followed the spirit of Advocate General Jacobs’ conclusions.

Under certain circumstances, the European Court of Justice will sanction the removal and re-affixing of trademarks to products. The moral equities appear to have changed somewhat, though it was not easy for the European Court of Justice to justify departing from the jurisprudence established in a long series of cases concerning pharmaceuticals.

In the case of pharmaceuticals, the European Court of Justice has rewritten traditional trademark law to assist in the development of unofficial cross-border trade. Judging by the difficulties encountered by Centrafarm, such development seemed unlikely to proceed without some judicial encouragement. Consumers faced a potential for slight confusion, but essentially were not prejudiced. The ruling by the European Court of Justice significantly affected the pharmaceutical companies who were now obliged, like other product manufacturers, to accept competition from parallel imports. The European Court of Justice created a set of sophisticated rules involving various criteria, balance of proof, and the like. As a response to the industry’s needs, the European Court of Justice was artful, careful, and pragmatic.

96. *See id.*

97. *Id.*

It will be interesting to see whether the decision in *Loendersloot* will completely resolve the issues regarding an operator's right to protect his mark against parallel trading. *Loendersloot's* effect on the rights so laboriously secured by *Centrafarm*, *Eurim-Pharm*, and *Paranova* will be significant as well. The producers of products that can be easily transported from cheap member states to expensive member states, and which depend on advertising and consumer brand recognition for sales, such as alcohol, perfumes, golf balls, batteries, and cigarettes, will likely be very concerned about broadening the rights of their competitors.

The onus could be placed on trademark owners to identify instances of damaging repackaging and to take action on these grounds. It will be left for the national court to determine whether the relabeling and re-affixing of the trademark damages the reputation of the trademark holder.

V. THE SCOPE OF THE EUROPEAN COMMUNITY EXHAUSTION DOCTRINE

Some questions have arisen as to whether the European Community should follow an international, worldwide exhaustion doctrine. The answer is no. The exhaustion doctrine applies only to the European Community. This was recently confirmed in *Phytheron International, SA v. Jean Bourdon, SA*.⁹⁸ The European Court of Justice asked two questions: (1) whether a trader of member state *A* may import a genuine trademarked product, which has not undergone any processing or alteration in packaging, except for changes on the label designed to comply with the legal requirements of member state *A*, from member state *B*, where the product is approved and marketed under the same trademark, and market the product in member state *A*; and (2) whether a prohibition based on the legislation of a member state infringes upon article 30 of the Accession Treaty.⁹⁹

The facts, as referred to by the national court, indicated that a subsidiary of Schering, a company belonging to the German Hoechst group, had manufactured the plant health product at issue

98. Case C-352/95, [1997] 2 C.M.L.R. 199.

99. *See id.*

in Turkey. A Schering affiliate thereafter imported the product into Germany.¹⁰⁰

In essence, the European Court of Justice rejected the notion of international exhaustion and re-affirmed the notion of European Community exhaustion. The European Court of Justice referred to article 7 of the Trademark Directive. Article 7, the Court observed, is worded in general terms and comprehensively regulates the question of the exhaustion of trademark rights for products trade in the European Community. The European Court of Justice held that, under article 7, that member state *A* could not apply a rule that prevents a trademark owner from importing a product protected by the mark when (1) the product is manufactured in a non-Member country; (2) the product is imported into member state *B* "by the owner of the mark or by another company in the same group as the owner of the mark;" (3) the product was lawfully acquired in member state *B* by an independent trader, who exported it to member state *A*; (4) the product was neither processed nor repackaged, apart from any relabeling necessary to comply with the information-labeling legislation of the member state of import; and (5) the same group held the trademark rights in both member states *A* and *B*.¹⁰¹ In other words, if the owner of the mark or an affiliated company of the owner of the mark brings a product into the European Community, then the products are entitled to free circulation. Conversely, if the products do not enter into the European Community due to the efforts or consent of the owner of the mark, the owner may institute infringement proceedings. The European Court of Justice consequently confirmed European Community exhaustion, and thereby rejected the doctrine of international exhaustion of trademarks. Thus, there is some good news for trademark owners.

100. During the proceedings before the court, however, it was stated that the product had been manufactured in Germany and then exported to Turkey. *See id.* The batch at issue was acquired from a Turkish subsidiary of the Hoechst group by an independent trader and then sold to Phytheron. *See id.* The Court stated that in the present case it could answer the national court's application only on the basis of the facts as they appeared from the order of reference. *See id.*

101. *Id.* at 563.

CONCLUSION

Trademarks are meant to avoid consumer confusion and protect the reputation of the trademark owner. Yet they also have been used to prevent the sale of non-spurious goods marketed with the rightholder's consent in another country. Inside the European Community, trademarks carry the potential to hinder parallel imports, thereby impeding a major policy goal: the removal of obstacles to the free movement of goods. Consequently, the rights of the trademark holder have been significantly encroached upon as a necessary price to assist parallel trading. The European Court of Justice has made sound judgments regarding exhaustion within the European Community, but its judgments regarding relabeling and repackaging have substantially compromised classical trademark rights in the pharmaceuticals industry. In the end, those judgments could have an even greater impact on other manufacturers for whom trademarks are more important than they are for the pharmaceuticals industry.