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Ideal Standard v. IHT: In the European Union, Must a Company Surrender its National Trademark Rights when it Assigns its Trademark?

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Gregory W. Hotelling

Abstract

This Comment argues that, given the consumer dependence on trademarks to distinguish between goods of varying quality, the ECJ made the correct holding in *Ideal Standard*. This Comment also argues, however, that the Court should have expressly limited its holding to trademarks, distinguishing them from other forms of intellectual property. Part I presents the historical background that underlies the conflict between national trademark rights and the Free Movement of Goods principle within the European Union. Part II discusses the ECJ's doctrines before *Ideal Standard*, which attempted to reconcile this conflict, and examines the *Ideal Standard* modification of the consent doctrine based on control. Part III argues that, although the Court's principle of control is a thoughtful and practical way to delineate national trademark rights, it should have distinguished between the unique nature of trademarks from other intellectual properties. This Comment concludes that, while the ECJ impliedly recognized the distinct nature of trademarks in *Ideal Standard*, it should expressly state this distinction in order to provide clear guidance for companies and legal practitioners.

COMMENTS

IDEAL STANDARD v. IHT: IN THE EUROPEAN UNION, MUST A COMPANY SURRENDER ITS NATIONAL TRADEMARK RIGHTS WHEN IT ASSIGNS ITS TRADEMARK?

*Gregory W. Hotaling**

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INTRODUCTION

The modern commercialization and international use¹ of corporate trademarks² has recently triggered increased recognition of national trademark rights in the European Union ("EU").³ Traditionally, the European Union has been reluctant

1. See Melvin Simensky, *The New Role of Intellectual Property in Commercial Transactions*, 10 SPG ENT. & SPORTS LAW 5, 5 (1992). The increasing pace of new trade agreements is resulting in the increased internationalization of trademarks. *Id.* As goods and services bearing trademarks flow more freely between nations, trademarks assume a global role. *Id.* Approximately half of the trademark applications filed in the Member States of the European Union are from foreign companies. Robert Rice, *How to Make Your Mark in a Single Market*, FIN. TIMES, Oct. 11, 1995, at 2.

Moreover, the EU Member States are responsible for almost half of the world's national registered trademarks. See *id.* (noting that more than 3 million trademarks are registered in European Union, with various Member State trademark offices receiving almost 400,000 new applications each year); Frances Williams, *New Trademark Treaty Agreed*, FIN. TIMES, Oct. 29, 1994, at 1 (citing estimate of 7 million total trademarks registered worldwide with national trademark authorities).

2. See JANE C. GINSBURG ET AL., TRADEMARK AND UNFAIR COMPETITION LAW 27 (1991). The authors define a trademark as "a word, design, or a combination of them, used by a manufacturer or merchant to identify his goods and distinguish them from others." *Id.* Trademarks have also been characterized as "legal monopolies for the exploitation of words or symbols in conjunction with specified products or services, usually in perpetuity." GEORGE A. BERMAN ET AL., EUROPEAN COMMUNITY LAW 396 (1993). The Council of Ministers, the European Union's chief legislative body, has also put forth a definition:

A trade mark may consist of 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.

Council Directive No. 89/104/EEC, art. 2, O.J. L 40/1, at 2 (1988).

3. See Treaty Establishing the European Community, Feb. 7 1992, [1992] 1 C.M.L.R. 573 [hereinafter EC Treaty], incorporating changes made by Treaty on European Union, Feb. 7, 1992, O.J. C 224/1 (1992), [1992] 1 C.M.L.R. 719, 31 I.L.M. 247 [hereinafter TEU]. The TEU, *supra*, amended the Treaty Establishing the European Economic Community, Mar. 25, 1957, 298 U.N.T.S. 11, 1973 Gr. Brit. T.S. No. 1 (Cmd. 5179-II) [hereinafter EEC Treaty], as amended by Single European Act, O.J. L 169/1 (1987), [1987] 2 C.M.L.R. 741 [hereinafter SEA], in TREATIES ESTABLISHING THE EUROPEAN COMMUNITIES (EC Off'l Pub. Off. 1987). Until 1995, the twelve EU Member States were Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain and the United Kingdom. TEU, *supra*, pmbl. On January 1, 1995, Austria, Finland and Sweden became Member States of the European Union. See Hugh Carney, *Sweden Gives Clear Yes to EU: Vote in Favour of Membership Keeps Enlargement Timetable on Course*, FIN. TIMES, Nov. 14, 1995, at 1 (discussing accession of new states). The enlarged Union does not include Norway, which rejected membership in the Union in November 1994. John Darton, *Vote in Norway Blocks Joining Europe's Union*, N.Y. TIMES, Nov. 29, 1994, at A1.

See IHT Internazionale Heiztechnik GmbH v. Ideal Standard GmbH, Case 9/93, [1994] E.C.R. I-2789, [1994] 3 C.M.L.R. 857 [hereinafter *Ideal Standard*] (recognizing

to recognize national trademark rights because national trademark laws, as well as laws dealing with other forms of intellectual property,⁴ may conflict with the European Union's economic priority of maintaining the free movement of goods ("Free Movement of Goods")⁵ between EU Member States.⁶ This conflict exists because enforcing trademark rights may entail blocking the importation of goods that carry an infringing trademark.⁷ During the past three decades, the European Court of

importance of national trademark rights in holding that trademark proprietor does not relinquish rights by assigning trademark).

4. See ARTHUR W. WEIL, *AMERICAN COPYRIGHT LAW* 5 (1917). The author defines intellectual property as "those property rights which result from the physical manifestation of original thought." *Id.* It has also been defined as "a general name for property (such as patents, trademarks, and copyright material) which is the product of invention or creativity, and which does not exist in a tangible, physical form." XIV. *NEW OXFORD ENGLISH DICTIONARY* 1068 (2d ed. 1989) [hereinafter *OXFORD*].

5. See EC Treaty, *supra* note 3, art. 3, [1992] 1 C.M.L.R. at 588. The Treaty provides that:

For the purposes set out in Article 2, the activities of the Community shall include, as provided in this Treaty and in accordance with the timetable set out therein:

....
(c) an internal market characterized by the abolition, as between Member States, of obstacles to the free movement of goods, persons, services and capital;

Id.; see also BERMANN, *supra* note 2, at 317. The authors express the importance of the Free Movement of Goods principle as follows:

Within the "four freedoms" [the free movement of goods, persons, services, and capital], the free movement of goods is undoubtedly the key concept. Not only is the free flow of commercial and industrial products throughout the Community the most tangible illustration of an integrated market, but the principles that have been elaborated in this field have significantly shaped those applicable to the free movement of persons, services and capital.

Id.

6. See EC Treaty, *supra* note 3, Title 1, arts. 9-37, [1992] 1 C.M.L.R. at 594-606 (detailing rules of Free Movement of Goods). The European Court of Justice has decided that maintaining free trade between Member States, through enforcement of the Free Movement of Goods principle, may justify limiting national intellectual property rights. See, e.g., *Deutsche Grammophon Gesellschaft v. Metro-SB-Grossmarktee GmbH & Co.*, Case 78/70, [1971] II E.C.R. 487, [1971] C.M.L.R. 631 (stating that Free Movement of Goods principle may limit national copyrights); *Centrafarm BV and Adriaan DePeijper v. Sterling Drug Inc.*, Case 15/74, [1974] E.C.R. 1147, [1974] C.M.L.R. 480 (applying Free Movement of Goods rules to limit national patent rights); *Van Zuylen Freres v. Hag A.G.*, Case 192/73, [1974] E.C.R. 731, [1974] 2 C.M.L.R. 127 [hereinafter *Hag I*] (holding that national trademark rights are subject to limitation due to Free Movement of Goods).

7. See, e.g., *Hag I*, [1974] E.C.R. at 744, ¶ 11, [1974] 2 C.M.L.R. at 143. "The exercise of trade mark rights tends to contribute to the partitioning off of the markets

Justice⁸ ("ECJ") has attempted to resolve this conflict by formulating a rule that defines the limits of a trademark owner's rights for the purpose of determining when these rights should be extinguished in favor of free trade between Member States.⁹

The events giving rise to this legal conflict involve the division of trademarks among two or more companies.¹⁰ When a

and thus to affect the free movement of goods between Member States." *Id.* In *Centrafarm v. Winthrop*, the ECJ stated that "[a]n obstacle to the free movement of goods may arise out of . . . national legislation concerning industrial and commercial property" *Centrafarm BV and Adriaan DePeijper v. Winthrop*, Case 16/74, [1974] E.C.R. 1183, 1194, ¶ 9, [1974] 2 C.M.L.R. 480, 508-09. The Court explained that such intellectual property laws "can prevent importation of the product into [the intellectual property owner's] own Member State where it has been marketed in another Member State." *Id.*

8. See EC Treaty, *supra* note 3, art. 164, [1992] 1 C.M.L.R. at 684. The ECJ ensures that the law is observed in the interpretation and application of the EC Treaty. *Id.* In serving this function, the ECJ maintains jurisdiction over Member States and EU institutions. See *id.* arts. 169, 170, [1992] 1 C.M.L.R. at 686-87 (providing for jurisdiction over Member States); *id.* art. 173, [1992] 1 C.M.L.R. at 687-88 (stating that ECJ may review acts of Council and EC Commission).

9. See, e.g., *Etablissements Consten SARL and Grundig-Verkaufs-GmbH v. EEC Commission*, Joined Cases 56 and 58/64, [1966] E.C.R. 299, [1966] C.M.L.R. 418 (applying EC Treaty competition rules, which prohibit certain restraints of trade, to limit exercise but not existence of intellectual property rights); *Deutsche Grammophon*, [1971] II E.C.R. 487, [1971] C.M.L.R. 631 (stating that Treaty protects only "specific subject matter" of national intellectual property rights which conflict with free trade); *Hoffmann-LaRoche & Co. AG v. Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mbH*, Case 102/77, [1978] E.C.R. 1139, [1978] 3 C.M.L.R. 217 (declaring that Free Movement of Goods principle may limit national trademark rights but that courts must consider trademark's "essential function"); *SA CNL-SUCAL NV v. Hag GF AG*, Case C-10/89, [1990] E.C.R. I-3711, [1990] 3 C.M.L.R. 571 [hereinafter *Hag II*] (holding that trademark proprietor's lack of consent to division of trademark permits it to retain national trademark rights despite Free Movement of Goods conflict); *Ideal Standard*, [1994] E.C.R. I-2789, [1994] 3 C.M.L.R. 857 (holding that, because assignment of trademark does not constitute consent within meaning of *Hag II*, Free Movement of Goods principle does not impede assignor's national intellectual property rights).

10. See, e.g., *Hag I*, [1974] E.C.R. 731, [1974] 2 C.M.L.R. 127. In *Hag I*, the ECJ applied Free Movement of Goods rules to address the involuntary division of trademarks resulting from wartime sequestration of a company in an enemy nation. *Id.*

Division of a trademark can also occur when multiple subsidiaries register a trademark in various countries, or when a company licenses or assigns its trademark to one or more independent parties in other territories, thereby creating multiple trademarks. See *Consten and Grundig*, [1966] E.C.R. 299, [1966] C.M.L.R. 418 (considering facts in which German electronics producer had its trademark registered in various EU Member States, thereby dividing the original trademark); *Sirena S.r.l. v. Eda S.r.l. and Others*, Case 40/70, [1971] E.C.R. 69, [1971] C.M.L.R. 260 (addressing U.S. firm's assignment of its trademark to Italian company, and its subsequent licensing of that trademark to German firm). *Centrafarm v. Winthrop*, [1974] E.C.R. 1183, [1974] 2 C.M.L.R. 480 (ruling on trademark rights of company that had voluntarily divided its trademark

trademark divides, a company that owns a registered trademark in one Member State may encounter another company that subsequently acquired use of that trademark in another Member State.¹¹ The latter company, or a parallel importer,¹² may seek to introduce its identically trademarked products back into the original Member State.¹³ This presents unwanted competition for the original proprietor of the trademark.¹⁴ Consequently, the original proprietor may choose to file a national trademark infringement action, based on the trademark laws of its Member State, in an attempt to keep the identically marked products out

among multiple subsidiaries); *Hoffmann-LaRoche*, [1978] E.C.R. 1139, [1978] 3 C.M.L.R. 217 (addressing multiple trademarks created through subsidiaries of one company).

11. See, e.g., *Hag I*, [1974] E.C.R. 731, [1974] 2 C.M.L.R. 127. In *Hag I*, the ECJ addressed a situation in which a trademark divided without the voluntary consent of the original trademark owner. *Id.* The involuntary sequestration of German enemy property following World War II resulted in a company's trademark being used in Belgium by one party and in Germany by another. *Id.* Involuntary division can also occur if a national government requires by law that a party license its intellectual property right. See *Pharmon BV v. Hoechst AG*, Case 19/84, [1985] E.C.R. 2281, [1985] 3 C.M.L.R. 775 (stating that compulsory licensing of patent does not constitute voluntary consent to circulation of patent).

Voluntary division of a trademark occurs if a firm distributes its trademark among its international subsidiaries, or distributors, for registration of the trademark in various Member States. See, e.g., *Consten and Grundig*, [1966] E.C.R. 299, [1966] C.M.L.R. 418 (addressing facts in which German manufacturer authorized its distributors in various Member States to register its trademark in their respective countries); *Hoffmann-LaRoche*, [1978] E.C.R. 1139, [1978] 3 C.M.L.R. 217 (addressing voluntary division of trademarks through multiple subsidiaries of one company).

12. See BERMANN, *supra* note 2, at 633. The authors describe parallel imports as a manufacturer's goods distributed in one nation that flow into another nation where they compete with that same manufacturer's goods of another distributor. *Id.*

The Commission has the power to preserve parallel importation because the free flow of goods is a Treaty mandate. EC Treaty, *supra* note 1, art. 3, [1992] 1 C.M.L.R. at 590. The Commission's chief function is to ensure that the provisions of the Treaty are applied. *Id.* art. 155, [1992] 1 C.M.L.R. at 682.

13. See VALENTINE KORAH, AN INTRODUCTORY GUIDE TO EC COMPETITION LAW AND PRACTICE 295 (5th ed. 1994). In her Glossary, Korah defines "parallel trade," which is the practice of parallel importers: "[i]f there are large price differentials between the member states, not accounted for by differences in cost, such as freight, taxes, etc., it may pay someone to buy in the low priced area and sell in the high." *Id.* Korah further characterizes parallel trade as the "mechanism on which the Commission relies to lead towards the equalisation of prices throughout the common market." *Id.*

14. See, e.g., *Hag I*, [1974] E.C.R. 731, [1974] 2 C.M.L.R. 127 (addressing circumstances under which original trademark proprietor objects to newly imported products carrying identical mark); *Hoffmann-LaRoche*, [1978] E.C.R. 1139, [1978] 3 C.M.L.R. 217 (considering importation of marked products into territory of original trademark owner who objects to competition from identically marked goods).

of its state.¹⁵

The ECJ's recent decision in *IHT Internationale Heiztechnik GmbH v. Ideal Standard GmbH*¹⁶ ("*Ideal Standard*") addressed the question of whether a trademark proprietor exhausts its national trademark rights when it assigns¹⁷ its trademark.¹⁸ In deciding earlier cases in which trademarks divided, the ECJ considered the determinative factor to be whether the original proprietor

15. See, e.g., *Hag I*, [1974] E.C.R. 731, [1974] 2 C.M.L.R. 127 (considering issue originally brought as infringement action in Benelux courts); *Hoffmann-LaRoche*, [1978] E.C.R. 1139, [1978] 3 C.M.L.R. 217 (addressing infringement action initially brought before Landgericht Freiberg, German national court).

See EC Treaty, *supra* note 1, art. 177, [1992] 1 C.M.L.R. at 689. According to the reference procedure as set out in Article 177, a national court may refer a question regarding the interpretation of the Treaty to the ECJ if the court considers it necessary to decide the case. *Id.* The national court is obligated to raise such a question if its decision is not appealable to any other national tribunal. *Id.* Art. 177 provides:

The Court of Justice shall have jurisdiction to give preliminary rulings concerning:

- (a) the interpretation of this Treaty;
- (b) the validity and interpretation of acts of the institutions of the Community and of the ECB;
- (c) the interpretation of the statutes of bodies established by an act of the Council, where those statutes so provide.

Where such a question is raised before any court or tribunal of a Member State, that court or tribunal may, if it considers that a decision on the question is necessary to enable it to give judgment, request the Court of Justice to give a ruling thereon.

Where any such question is raised in a case pending before a court or tribunal of a Member State against whose decisions there is no judicial remedy under national law, that court or tribunal shall bring the matter before the Court of Justice.

Id.

16. [1994] E.C.R. I-2789, [1994] 3 C.M.L.R. 857.

17. See BLACK'S LAW DICTIONARY 119 (6th ed. 1990) [hereinafter BLACK'S]. Assignments are defined as follows:

The act of transferring to another all or part of one's property, interests, or rights. A transfer or making over to another of the whole of any property, real or personal, in possession or in action, or of any estate or right therein. It includes transfers of all kinds of property The transfer by a party of all of its rights to some kind of property, usually intangible property

Id.

18. *Id.* at I-2838, [1994] 3 C.M.L.R. at 902. When a company assigns its mark along with the sale of part of its business, it seeks to ensure that its remaining operations will not be threatened by the importation, back into its home territory, of substandard products carrying the assigned mark. See Opinion of Advocate General Gulmann, *IHT Internationale Heiztechnik GmbH v. Ideal Standard GmbH*, Case 9/93, [1994] E.C.R. I-2793, I-2815, ¶ 85, [1994] 3 C.M.L.R. 861, 883 (citing IS GmbH's contention regarding ability of trademark owner to freely assign its mark, without fear of substandard imports carrying mark).

consented to the division of its trademark.¹⁹ In *Ideal Standard*, however, the ECJ ruled that, despite the proprietor's apparent consent to an assignment,²⁰ the proprietor had not exhausted its national trademark rights.²¹ This ruling modified the ECJ's prior stance by adding the requirement of proprietor control for exhaustion of trademark rights,²² thereby granting national trademark owners additional protection.²³

This Comment argues that, given the consumer dependence on trademarks to distinguish between goods of varying quality, the ECJ made the correct holding in *Ideal Standard*. This Comment also argues, however, that the Court should have expressly limited its holding to trademarks, distinguishing them from other forms of intellectual property. Part I presents the historical background that underlies the conflict between national trademark rights and the Free Movement of Goods principle within the European Union. Part II discusses the ECJ's doctrines before *Ideal Standard*, which attempted to reconcile this conflict, and examines the *Ideal Standard* modification of the consent doctrine based on control. Part III argues that, although the Court's principle of control is a thoughtful and

19. See *Hag II*, [1990] E.C.R. I-3711, [1990] 3 C.M.L.R. 571 (emphasizing trademark proprietor's lack of consent to division of mark). Where consent is absent, the trademark owner retains its national trademark rights. *Id.* Where consent does exist, the proprietor should, theoretically, accept responsibility for its trademark having come back into its territory. *Id.* In this case it has exhausted its national trademark rights. See Guy Tritton, *Articles 30 to 36 and Intellectual Property: Is the Jurisprudence of the ECJ now of an Ideal Standard?*, 10 EUR. INTELL. PROP. REV. 422, 424 (1994) (stating that with *Hag II* decision, consent doctrine "must be considered a cast-iron rule of law"). See also *Centrafarm v. Winthrop*, [1974] E.C.R. 1183, [1974] 2 C.M.L.R. 480 (holding that company exhausts national trademark rights once it has consented to placing products into circulation one time).

20. See Opinion of Advocate General Gulmann, *Ideal Standard*, [1994] E.C.R. at I-2793, ¶ 4, [1994] 3 C.M.L.R. at 862 (reciting facts wherein trademark proprietor's subsidiary voluntarily assigned its trademark to independent French company). See also *id.* at I-2820, ¶ 102, [1994] 3 C.M.L.R. at 887-88. Advocate General Gulmann stated that "[a] trademark proprietor who concludes a separate assignment for certain Member States has voluntarily relinquished the right to be the only one to market on Community territory products bearing the mark in question." *Id.*

21. *Ideal Standard*, [1994] E.C.R. at I-2850, ¶ 43, [1994] 3 C.M.L.R. at 909.

22. *Id.*; see *Ideal Standard*, [1994], E.C.R. at I-2850, ¶ 43, [1994] 3 C.M.L.R. at 909 (stating that "power [of controlling quality] is lost if, by assignment, control over the trademark is surrendered to a third party having no economic link with the assignor").

23. *Id.*; see *Contributed Article by Linklaters on Trademarks*, REUTER EUR. COMMUNITY REP., July 15, 1994, at 2 (observing that with *Ideal Standard* decision "the ECJ has extended the limits of a trademark owner's rights considerably").

practical way to delineate national trademark rights, it should have distinguished between the unique nature of trademarks from other intellectual properties. This Comment concludes that, while the ECJ impliedly recognized the distinct nature of trademarks in *Ideal Standard*, it should expressly state this distinction in order to provide clear guidance for companies and legal practitioners.

I. INTELLECTUAL PROPERTY RIGHTS IN EUROPE, AND THE EU INSTITUTIONS

The *Ideal Standard* case pits national intellectual property rights against the European Union's Free Movement of Goods requirement,²⁴ two principles with divergent historical backgrounds.²⁵ European nations have enforced intellectual property rights since the Middle Ages.²⁶ The European Union,²⁷ on the other hand, traces its roots to the 1950's.²⁸

24. *Ideal Standard*, [1994] E.C.R. I-2789, [1994] 3 C.M.L.R. 857.

25. Compare Beryle R. Jones, *An Introduction to the European Economic Community and Intellectual Properties*, 18 BROOK. J. INT'L. L. 665 (1992) (noting existence of intellectual property rights in Europe as early as 1235 A.D.) with JOHN SPANIER, *AMERICAN FOREIGN POLICY SINCE WORLD WAR II* 35 (8th ed. 1980) (describing European integration as new means of exerting control over Germany's growing power in 1950's).

26. See BRUCE BUGBEE, *THE GENESIS OF AMERICAN PATENT AND COPYRIGHT LAW* 18-19 (1967) (observing that first intellectual property patent in 1421 gave birth to patent institution of today); W.R. CORNISH, *INTELLECTUAL PROPERTY: PATENTS, COPYRIGHT, TRADE-MARKS AND ALLIED RIGHTS* § 9.001, 9.002 (2nd ed. 1989) (recalling that early publishers' pleas for exclusive rights in printed works in sixteenth century led to establishment of intellectual property copyright law); FRANK I. SCHECHTER, *THE HISTORICAL FOUNDATIONS OF THE LAW RELATING TO TRADE-MARKS* 19-38 (1925) (describing how trademarks originated during Middle Ages as means of identifying source of products).

27. See EC Treaty, *supra* note 3, art. 5, [1992] 1 C.M.L.R. at 591. Article 5 requires Member States to sacrifice some of their autonomy:

Member States shall take all appropriate measures, whether general or particular, to ensure fulfillment of the obligations arising out of the Treaty or resulting from action taken by the institutions of the Community. They shall facilitate achievement of the Community's tasks.

They shall abstain from any measure which could jeopardize the attainment of the objectives of this Treaty.

Id.

28. Treaty Establishing the European Coal and Steel Community, Apr. 18, 1951, 261 U.N.T.S. 140 [hereinafter ECSC Treaty], as amended in TREATIES ESTABLISHING THE EUROPEAN COMMUNITIES (EC Off'l Pub. Off. 1987). See SPANIER, *supra* note 25, at 35-47. The author, after recounting the chaotic conditions sending "Europe on the verge of collapse," observes that:

The failure of the traditional balance-of-power technique, by which an inferior power had always sought to balance a stronger nation, led France to seek a

A. Intellectual Property in Europe

Intellectual property signifies a group of rights deriving from invention, creativity, or some other form of original thought.²⁹ National governments grant to inventors the exclusive right to their creations, sometimes over a fixed period of years.³⁰ Some scholars characterize intellectual property rights as legal monopolies,³¹ because such newly-created works may be

new way of exerting some control over Germany's growing power. French statesmen found an imaginative means in European integration. It was through the creation of a supranatural Community, to which Germany could transfer sovereign rights

. . . .

France made its first move in this direction of a united Europe in May 1950, when Foreign Minister Robert Schuman proposed the plan that has since borne his name: European Coal and Steel Community (ECSC).

. . . .

The EC institutions, then, were the embryo of a united Europe.
Id. at 35, 44-45, 47.

29. WEIL, *supra* note 4, at 5; XIV OXFORD, *supra* note 4, at 1068 (defining intellectual property).

30. See BERMANN, *supra* note 2, at 396 (giving overview of traditional categories of intellectual property rights).

31. See DOMINICK SALVATORE, MICROECONOMICS 265 (2nd ed. 1994). The author characterizes a monopoly as a form of market structure in which one or only a few firms dominate the sales of a product or service. *Id.* It is also defined as a privilege vested in one or more persons or companies, consisting in the exclusive right to carry on a particular business or trade, or control the sale of a particular commodity. BLACK'S, *supra* note 17, at 1007. The EC Commission, which serves as the executive body of the European Union, defines it in terms of a firm having a dominant position within a given market to the point where it can price its products regardless of what its competitors charge. Commission Decision No. 72/21/EEC, J.O. L 7/25, at 35 (1971) (Continental Can). This power is typically measured by assessing the firm's market power within the relevant market. See Europemballage Corporation and Continental Can Co. Inc. v. Commission, Case 6/72, [1973] E.C.R. 215, 247, ¶ 32, [1973] C.M.L.R. 199, 226 (stating that relevant market must first be delineated before comparing firm's power with that of competitors). American courts have used this measurement technique since the 1950's. See, e.g., United States v. E.I. DuPont De Nemours & Co., 351 U.S. 377 (1956) (examining market power of company with analysis of market definition and computation of market share).

Dominant power is unlawful in the European Community if coupled with abusive practices. See EC Treaty, *supra* note 3, art. 86, [1992] 1 C.M.L.R. at 627-28 ("[a]ny abuse by one or more undertakings of a dominant position within the common market or in a substantial part of it shall be prohibited as incompatible with the common market in so far as it may affect trade between Member States"). The legislative body of the Community has given the executive branch the means to halt such abuses of power. See Council Regulation No. 17/62, 13 J.O. 204 (1962), O.J. Eng. Spec. Ed. 1959-1962, at 87 (enabling Commission to enforce Articles 85 and 86 of EC Treaty).

The dual requirement of dominance and abuse originates from opinions written by some famous American judges, who preferred the terms "monopoly" and "exclusion-

used only with the consent of their rightholders.³² National governments in Europe have recognized several traditional categories of intellectual property rights, including patents, copyrights, and trademarks.³³

1. Patents and Copyrights

Patents grant exclusive rights to inventors for the commer-

ary conduct." See, e.g., *United States v. Aluminum Co. of America*, 148 F.2d 416 (2d Cir. 1945) (Judge Learned Hand holding that monopoly power and exclusive practices violate Sherman Antitrust Act); *United States v. Griffith*, 334 U.S. 100 (1948) (Justice William Douglas declaring that use of monopoly power to exclude competition is unlawful). In the United States a monopoly combined with exclusionary conduct constitutes "monopolization," a practice outlawed by the Sherman Antitrust Act. *U.S. v. Griffith*, 334 U.S. 100 (1948); see Sherman Antitrust Act, 15 U.S.C. §§ 1-7 (1988 & Supp. V 1993) (prohibiting monopolization).

32. See ELEANOR M. FOX & LAWRENCE A. SULLIVAN, *CASES AND MATERIALS ON ANTITRUST* 11 (1989) (describing practices in sixteenth century England whereby royalty and parliament granted monopolies to favored individuals in form of intellectual property rights); BERMANN, *supra* note 2, at 396 (characterizing various forms of intellectual property as legal monopolies); Tracy R. Lewis & Dennis A. Yao, *Some Reflections on the Antitrust Treatment of Intellectual Property*, 63 ANTITRUST L.J. 603, 605 (1995) (considering, in reference to intellectual property, "a monopoly position that is achieved by discovering a scarce input like gold or oil"); Ilene Knable Gatts & Howard W. Fogt, Jr., *Clinton Administration Expresses More Than Intellectual Curiosity in Antitrust Issues Raised by Intellectual Property Licensing*, 22 AIPLA Q.J. 1, 4 (1994) (stating that U.S. Constitution provides inventors with limited monopoly for prescribed number of years); David Hurlbut, *Fixing the Biodiversity Convention: Toward a Special Protocol for Related Intellectual Property*, 34 NAT. RES. J. 379 (1994) (explaining, "the purpose of patents and other intellectual property is to create monopoly rent for the benefit of those whose inventions may have social benefit"); Jeremy Waldron, *From Authors to Copiers: Individual Rights and Social Values in Intellectual Property*, 68 CHI-KENT L. REV. 841, 848 (1993) (referring to "the monopoly characteristics of intellectual property"); Keith Aoki, *Authors, Inventors and Trademark Owners: Private Intellectual Property and the Public Domain, Part I*, 18 COLUM.-VLA J.L. & ARTS 1, 2 (1993) (describing "the monopolies of patent and copyright protection"); Preeti Sinha, *Special 301: An Effective Tool Against Thailand's Intellectual Property Violations*, 1 PAC. RIM L. & POL. J. 281 (1992) (referring to "market monopolies" held by patent owners).

But see BUGBEE, *supra* note 26, at 6-7. Bugbee stresses that the definition of intellectual property should not be confused with the meaning of a monopoly. *Id.* at 6. A United States Supreme Court opinion contrasts these two concepts: "a monopoly takes something from the people. An inventor deprives the public of nothing which it enjoyed before his discovery, but gives something of value to the community by adding to the sum of human knowledge." *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 186 (1933).

33. See Jones, *supra* note 25, at 665 (referring to intellectual property as "a broad range of rights including copyrights, trademarks, patents, trade secrets, know how, rights of publicity, and design rights"); BERMANN, *supra* note 2, at 396 (explaining that three traditional categories of intellectual property rights recognized by almost all modern capitalist governments are patents, trademarks and copyrights).

cial exploitation of their inventions for a fixed period of years.³⁴ Governments grant patents to reward inventors and to provide an incentive for the manufacture of new works which benefit society.³⁵ The world's first known patent, granted by the Republic of Florence to a vessel architect in 1421,³⁶ explicitly articulated the need for such incentive.³⁷ Historians suggest that this early monopoly represents the birth of the patent institution.³⁸ Currently, an inventor may choose to license his patent to another

34. CORNISH, *supra* note 26, at 65, § 3.001; KORAH, *supra* note 13, at 189, § 9.1. Patents are generally valid for a term of twenty years in the European Union. BERMAN, *supra* note 2, at 396.

35. See CORNISH, *supra* note 26, at 66-67, § 3.003 ("the idea of conferring a market monopoly as an incentive to innovate has old roots"); KORAH, *supra* note 13, at 189, § 9.1 ("in order to encourage and reward investment in innovation, the law of most countries enables inventors or their employers to apply for patents").

36. See BUGBEE, *supra* note 26, at 17 (noting government of Florence's grant of patent to architect); FRANK D. PRAGER & GUSTINA SCAGLIA, *BRUNELLESCHI: STUDIES OF HIS TECHNOLOGY AND INVENTIONS* 111-12 (1970) (referring to noted architect Filippo Brunelleschi as recipient of early Florentine patent for vessel design).

37. See PRAGER & SCAGLIA, *supra* note 36, at 111-12. The Florentine patent reads:

Considering that the admirable Filippo Brunelleschi, a man of the most perspicacious intellect, industry and invention, a citizen of Florence, has invented some machine or kind of ship, by means of which he thinks he can easily, at any time, bring in any merchandise and cargo on the river Arno and on any other river or water, for less money than usual, and with several other benefits to merchants and others; and that he refuses to make such machine available to the public, in order that the fruit of his genius and skill may not be reaped by another without his consent; . . . and that, if he enjoyed some prerogative concerning this, he would open up what he is hiding, and would disclose it to all:

And desiring that this matter . . . shall be brought to light, to be of profit both to said Filippo and to our whole country and others; and that some privilege be created for said Filippo, as hereinafter described, so that he may be animated even more fervently to even higher pursuits, and stimulated to more subtle investigations . . .

Id. See also EUGENIO BATTISTI, *BRUNELLESCHI, THE COMPLETE WORK* 331 (1981). Brunelleschi's patent was for a cargo vessel to be used on the Arno river. *Id.* The patent lasted three years, and gave Brunelleschi the right to have burned any ship which copied his.

Id.

38. See PRAGER & SCAGLIA, *supra* note 36, at 111 (referring to "one of the first patents of monopoly ever granted to anyone"); BUGBEE, *supra* note 26, at 18-19. Bugbee observes:

This [patent] acknowledged the benefit accruing to society from the products of original thought and affirmed that legal security of such products would stimulate further creativity by providing incentive. Thus the fundamental principles underlying intellectual property and its protection were set forth in this pioneering document, which evidently marks the genesis of the true patent institution.

Id. See also YVES PLASSERAUD & FRANCOIS SAVIGNON, *L'ETAT ET L'INVENTION: HISTOIRE*

manufacturer rather than exploit it directly.³⁹ Because inventors rarely have the financial means to develop their creations for sale on the market, licensing is a common practice.⁴⁰

Copyrights grant authors and artists the exclusive right to reproduce works that traditionally appear in a fixed medium, such as literature, art, musical compositions, theatrical works, and cinemographic productions.⁴¹ Like patents, governments grant copyrights to encourage the production of new creations.⁴² During the sixteenth century, English entrepreneurs,

DES BREVETS (1986). The authors, while referring indirectly to Brunelleschi's patent, explain how sea trade spurred inventions that expanded into other areas:

In this cosmopolitan sphere, entrepreneurial and always moving, the inventors were, so to speak, like fish in water. Indeed, this arena, or, more particularly, this aquatic milieu, was the major preoccupation of most of the inventors: dikes, floodgates, water pumps and other water management devices were their preferred domain. After 1421, the year in which, according to the foremost historian on the subject, was given the first privilege resembling an exclusive right to an invention, the practice perfected itself rapidly as it expanded into new domains: a privilege was granted to a Frenchman for a grain mill in 1443, then to numerous others for watermills and windmills, for fulling cloth, and for striking metal.

Id. (Author's translation from the French text).

39. See BLACK'S, *supra* note 17, at 919-20. A license is defined as "[p]ermission to do a particular thing, to exercise a certain privilege or to carry on a particular business or to pursue a certain occupation." *Id.* A patent license is defined as "[a] written authority granted by the owner of a patent to another person empowering the latter to make or use the patented article for a limited period or in a limited territory. A permission to make, use, or sell articles embodying invention." *Id.* at 920. Valentine Korah defines a patent license as permission to do what would otherwise infringe a patent. KORAH, *supra* note 13, at 295.

40. See KORAH, *supra* note 13, at 208, § 10.1 (noting that "[a]n individual inventor can rarely raise the capital to finance the development of his ideas and set up production").

41. See CORNISH, *supra* note 26, at 258, § 9.023 ("[s]tarting from the production of books, it has moved out into the modern media of instruction and entertainment — through stage performances to recordings and broadcasting"). In the European Union, copyrightable works also include computer software, under legislation establishing guidelines and a timetable for the Member States to revise their copyright laws accordingly. Council Directive No. 91/250, O.J. L 122/42 (1991).

In the United States copyrightable works of authorship include works of: literature, music, drama, choreographic works and pantomimes, graphic and sculptural depictions, motion pictures, sound recordings and architectural renderings. Copyright Act of 1976, 17 U.S.C. § 102 (1988 & Supp. V 1993). A 1980 Amendment to the Act provides for protection of computer software. Act of Dec. 12, 1980, Pub. L. No. 96-517, § 10, 94 Stat. 3015, 3028 (codified as amended at 17 U.S.C. §§ 101, 117 (1988 & Supp. V 1993)). A copyright is generally valid for a term of at least fifty years. BERMANN, *supra* note 2, at 396.

42. See CORNISH, *supra* note 26, at 245-46, §§ 9.001-9.002 (describing English roots of modern copyright protection).

calling themselves stationers,⁴³ organized the printing and sale of newly-created works.⁴⁴ In order to protect their large investments in production, the stationers sought from the English Crown exclusive rights to reproduce authors' works.⁴⁵ The stationers' efforts led to the enactment, in 1709, of the Statute of Anne.⁴⁶ The English Parliament enacted the Statute of Anne to provide incentive for the commercial exploitation of written works.⁴⁷ It was the first statute specifically outlining authors' rights,⁴⁸ and is widely regarded as the basis for modern copyright law.⁴⁹ Today, the European Union recognizes both copyrights

43. *See id.* at 245, § 9.001. Predecessors to the modern publisher, stationers bore the principle risk in producing authors' works because of their large investment in production. *Id.*

44. *Id.*

45. *Id.*

46. *Id.* at 246, § 9.002; British Statutes at Large, 8 Anne, ch. 19 (1764), at 82. The statute, also known as the Copyright Act of 1709, was passed during the reign of Queen Anne. CORNISH, *supra* note 26, at 246, § 9.002.

47. *See* British Statutes at Large, 8 Anne, ch. 19 (1764), at 82.

Like the Brunelleschi patent, the Statute of Anne evokes the need to provide incentive to creative minds:

Whereas printers, booksellers, and other persons have of late frequently taken the liberty of printing, reprinting and publishing . . . books and other writings without the consent of the authors or proprietors of such books and writings, to their very great detriment, and too often to the ruin of them and their families: for preventing therefore such practices for the future, and for the encouragement of learned men to compose and write useful Books; may it please your Majesty, that it may be enacted . . . that . . . the author of any book or books . . . shall have the sole right and liberty of printing such book and books for the term of one and twenty years

Id.

48. *Id.*; ROBERT A. GORMAN & JANE C. GINSBURG, COPYRIGHT FOR THE NINETIES: CASES AND MATERIALS 2 (4th ed. 1993) (observing that Statute of Anne was "the first statute of all time specifically to recognize the rights of authors").

49. *See* GORMAN & GINSBURG, *supra* note 48, at 2 ("This law was . . . the foundation of all subsequent legislation on the subject of copyright"); BUGBEE, *supra* note 26, at 49 (emphasizing influence of British copyright law as "the most influential of the world's copyright systems" and remarking that "its essential completion in the eighteenth century heralded the age of modern copyright law"); Aoki, *supra* note 32, at 73 (characterizing Statute of Anne as "the first modern copyright law"); Michael B. Reddy, *The Droit de Suit: Why American Fine Artists Should Have the Right to a Resale Royalty*, 15 LOY. ENT. L.J. 509, 534 (1995) (stating that Statute of Anne served as model for U.S. Constitution's copyright provision); Irah Doner, *The Copyright Clause of the U.S. Constitution: Why did the Framers Include it With Unanimous Approval?*, 36 AM. J. LEGAL HIST. 361, 373 (1992) (citing recommendation of American Constitutional Congress that states enact laws based on Statute of Anne, and noting resulting similarities of state statutes to Statute of Anne); Kristina Rosette, Note, *Back to the Future: How Federal Courts Create a Federal Common-Law Copyright Through Permanent Injunctions Protecting Future Works*, 2 J. INTELL.

and patents as forms of intellectual property protected under the EC Treaty.⁵⁰

2. Trademarks

Trademarks grant parties the exclusive and perpetual⁵¹ right to use a mark or name to identify a product or service.⁵²

PROP. L. 325, 337 (1994) (describing Statute of Anne as having caused "dramatic transformation").

But see Jane C. Ginsburg, *A Tale of Two Copyrights: Literary Property in Revolutionary France and America*, 64 TUL. L. REV. 991, 991-92 (1990). The author explains that the French copyright system developed apart from the Anglo-model:

The French and U.S. systems are well-known as opposites. The product of the French Revolution, French copyright law is said to enshrine the author: exclusive rights flow from one's (preferred) status as a creator. For example, a leading French copyright scholar states that one of the "fundamental ideas" of the revolutionary copyright laws is the principle that "an exclusive right is conferred on authors because their property is the most justified since it flows from their intellectual creation. By contrast, the U.S. Constitution's copyright clause, echoing the English Statute of Anne, makes the public's interest equal, if not superior, to the author's. This clause authorizes the establishment of exclusive rights of authors as a means to maximize production of and access to intellectual creations.

Id.

50. See *Musik-Vertrieb Membran GmbH v. Gesellschaft für Musikalische Aufführungs- und Mechanische Vervielfältigungsrechte (GEMA)*, Cases 55 & 57/80, [1981] E.C.R. 147, [1981] 2 C.M.L.R. 44 (interpreting phrase "industrial and commercial property," in Article 36 of EC Treaty, as including copyrights); *Centrafarm v. Sterling*, [1974] E.C.R. 1147, [1974] C.M.L.R. 480 (recognizing patents as "protected industrial property").

51. See GINSBURG, *supra* note 2, at 28 (explaining that trademark rights continue indefinitely as long as trademark neither is abandoned nor loses its trademark significance by becoming generic term); BERMAN, *supra* note 2, at 396 (stating that trademarks generally grant rights "in perpetuity").

52. See GINSBURG, *supra* note 2, at 27 ("[a] trademark is a word, design, or a combination of them, used by a manufacturer or merchant to identify his goods and distinguish them from others"); BERMAN, *supra* note 2, at 396 (defining trademarks as "legal monopolies for the exploitation of words or symbols in conjunction with specified products or services, usually in perpetuity"). The Council also defines trademarks in Article 2 of the 1988 Trademark Directive:

A trade mark may consist of 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.

Council Directive No. 89/104/EEC, art. 2, O.J. L 40/1, at 2 (1988) [hereinafter EC Trademark Directive].

In the United States, trademarks can protect other seemingly unorthodox characteristics such as sound and odor. See *Trademark Registration No. 523,616* (Apr. 4, 1950) (granting trademark protection for to National Broadcasting Corp. for musical note sequence G-E-C). In reference to a trademark applicant's attempt to register a

Unlike a patent or copyright, a trademark does not represent a significant investment in creative effort,⁵³ but is simply a name or label.⁵⁴ Through their historical development, trademarks have acquired the dual functions of providing producers with a means of establishing a positive reputation for their products and allowing consumers to distinguish between products of varying quality.⁵⁵

a. Early Development: Trademarks Convey Proprietary Rights

In Europe, trademarks were first used to establish a proprietary right in goods by identifying the source of the product.⁵⁶

fragrance with the U.S. Patent and Trademark Office, the Office's Trademark Trial and Appeal Board stated, "we believe that applicant has demonstrated that scented fragrance does function as a trademark for her thread and embroidery yarn." *In Re Clark*, 17 U.S.P.Q.2d (BNA) 1238 (granting protection for fragrance of yarn and sewing thread). A Harley-Davidson executive emphasized the importance of trademark protection for the distinctive sound of a classic engine, stating "[w]e are looking to register the sound of a Harley-Davidson motorcycle — the sound of a V-twin engine with a single crankpin. We have made engines this way since 1909." *Trademark Sought for Roar of Harley Hog*, SAN DIEGO UNION-TRIB., Oct. 7, 1995, at A6.

53. See *United States v. Emil Steffens*; *United States v. Adolph Wittemen*; *United States v. W.W. Johnson*, 100 U.S. 82, 94 (1879) [hereinafter *Steffens*; *Wittemen*; *Johnson*]. In the United States, where patent and copyright protection are specifically provided for in a Constitutional clause, the Supreme Court has ruled that the clause does not extend to trademarks because it is meant to protect only those writings and discoveries resulting from intellectual labor. *Id.*; see U.S. CONST. art. I, § 8, cl. 8 (empowering Congress "to promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries"). A trademark "does not depend upon novelty, invention, discovery, or any work of the brain." *Steffens*; *Wittemen*; *Johnson*, 100 U.S. at 94. Moreover, it "requires no fancy or imagination, no genius, no laborious thought." *Id.* at 94, 550 L.Ed. at 551-52. The U.S. Congress has since passed the Lanham Act, providing for federal trademark protection for trademarks used in commerce. 15 U.S.C §§ 1051-1127 (1988 & Supp. V 1993). Congress derives its authority to protect trademarks from the U.S. Constitution, which grants Congress the power to regulate interstate commerce. See U.S. CONST. art I, § 8, cl. 3 ("Congress shall have power . . . to regulate Commerce with foreign nations, and among the several states").

54. See GINSBURG, *supra* note 2, at 27 (characterizing trademark as "a word, design, or a combination of them").

55. See *id.* at 27 (stating that trademarks allow manufacturer to identify source of goods and help to distinguish different quality goods from one another).

56. SCHECHTER, *supra* note 26, at 19. See WILLIAM HENRY BROWNE, A TREATISE ON THE LAW OF TRADE-MARKS AND ANALOGOUS SUBJECTS 2-12 (2d ed. 1898). Browne describes the historical use of trademarks as emblems of ownership. *Id.* at 2. Dating back to the time of Christ, seals, sign-boards, water marks and engravings were used to indicate origin and convey proprietary rights. *Id.* at 4-11. Roman literature provides proof that marks were used even earlier in Europe, with extensive references to the marking of goods such as wine and cheese. John Burrell, Q.C., *Two Hundred Years of English*

One such trademark was the merchant's mark.⁵⁷ During the Middle Ages,⁵⁸ merchants used their marks to convey proprietary rights in articles that were lost by shipwreck, piracy, or other mishap.⁵⁹ In the fourteenth century, a merchant's mark constituted conclusive evidence of a proprietary right in the marked product.⁶⁰ Swan marks⁶¹ represented another type of proprietary right.⁶² Swans were regarded as royal birds in which no subject could gain a proprietary right without a grant from the English Crown.⁶³ In granting this royal privilege, the King's swan-keeper would fashion a small particular mark in the beak of the swan, signifying ownership of the swan by the grantee.⁶⁴

Trade Mark Law, in TWO HUNDRED YEARS OF ENGLISH AND AMERICAN PATENT, TRADE-MARK, AND COPYRIGHT LAW 35 (Am. Bar Assoc. ed., 1977). In eastern Asia, Browne traces trademarks to a much earlier period. See BROWNE, *supra*, at 11-12. He cites the use of characters and designs on Chinese pottery as a means of authentication during the reign of Emperor Hoang-ti at approximately 2700 B.C. *Id.*

57. SCHECHTER, *supra* note 26, at 26. Merchants transporting goods by ship affixed a unique emblem to their products. *Id.*

58. IX OXFORD, *supra* note 4, at 743. The Middle Ages generally refers to the period of European history roughly encompassing 1000-1500 A.D. *Id.* When originally used by fourteenth century humanists, the term referred to a different period: the chronological gap between the fourteenth century and the collapse of the Roman Empire. 8 *DICTIONARY OF THE MIDDLE AGES* 308 (Joseph Strayer ed., 1987).

59. SCHECHTER, *supra* note 26, at 26. Schechter explains that merchants' trademarks appeared on the registry of the ships carrying the goods, as well as on the goods themselves. *Id.* The purpose of this practice was to establish a prima facie presumption of ownership in the goods to protect against loss. *Id.* See also FREDERICK R. SANBORN, *ORIGINS OF THE EARLY ENGLISH MARITIME AND COMMERCIAL LAW* 317 (1930) (noting that, in England, "it was enacted that goods coming to land, not being wreck, were to be delivered to the owners on proof of ownership").

60. SCHECHTER, *supra* note 26, at 27; see also SANBORN, *supra* note 59, at 213 (stating that merchant's mark "was not a legal proof of ownership, but among the jurists it gave rise to such a presumption").

61. SCHECHTER, *supra* note 26, at 35. A swan mark, used to convey ownership of a swan, consisted of a simple pattern of small notches engraved in the swan's beak. *Id.*

62. *Id.* at 35; BROWNE, *supra* note 56, at 14.

63. SCHECHTER, *supra* note 26, at 35.

64. *Id.* New swan owners were immediately registered in the royal swan keeper's book. *Id.* Trademarks took on an additional significance with the evolution of medieval trade guilds, which were groups of craftsmen who formed trading partnerships. *Id.* For the trade guilds, trademarks represented, in addition to a proprietary right, a means of tracing defective products and punishing the offending craftsmen. *Id.* at 38, 47. Marking one's product was therefore a legally required practice in most trades throughout Europe. *Id.* at 38.

b. Modern Commerce Creates Good-Will Function of Trademarks

In the sixteenth and seventeenth centuries, as trading expanded and goods were transported longer distances,⁶⁵ trademarks acquired an additional function aside from identifying the source of products.⁶⁶ Trademarks became symbols of quality to consumers who were no longer in close contact with producers.⁶⁷ In the eighteenth and nineteenth centuries, England's Industrial Revolution⁶⁸ magnified this function of trademarks.⁶⁹

65. *Id.* at 129. See CHARLES TILLEY, COERCION, CAPITAL, AND EUROPEAN STATES, A.D. 900-1990, at 49 (1990). The sixteenth and seventeenth centuries marked an increase in the number of merchants who linked western European households with distant markets. *Id.* Where city-states such as Venice and Genoa once dominated Mediterranean sea trade, the sixteenth century saw Spain, Portugal, England and Holland enter the business. *Id.* at 64. By the next century, these nations had developed extensive trading routes through the Baltic Sea and the Atlantic Ocean to reach Asia. *Id.* at 189; see *id.* at 93 (referring to "great empires" of Dutch East India and West India trading companies during seventeenth century); SINNAPAH ARASARATNAM, MARITIME TRADE, SOCIETY AND EUROPEAN INFLUENCE IN SOUTHERN ASIA 44-45 (1995) (describing European trading companies' rush to establish factories and fortify settlements along Indian coast in seventeenth century).

66. SCHECHTER, *supra* note 26, at 47.

67. *Id.* at 47, 129.

68. VII OXFORD, *supra* note 4, at 898. The Industrial Revolution is defined as "the development which took place in England in the late eighteenth and early nineteenth centuries, chiefly owing to the introduction of new or improved machinery and large-scale production methods." *Id.*

69. SCHECHTER, *supra* note 26, at 130; see CORNISH, *supra* note 26, at 400, § 15.013. Cornish observes:

With the immense growth in the scale of business, and the advertising that accompanies it, modern customers rarely have that personal knowledge of suppliers which is the hallmark of a village economy Information about origin is only a means towards an end: their main concern is in the quality of what they are buying.

Id. See also Burrell, *supra* note 56, at 42. A legal historian describes why trademarks increased in importance during the Industrial Revolution:

No longer was trade a mere regional activity. Overnight — or so it seemed after centuries of unchange — the market for goods suddenly became nationwide in a very real sense. . . . Huge international markets were in the course of being developed for British exports. This was boom time for England and boom time for trade marks as well."

Id. While historians agree that a tremendous increase in consumption and advertising occurred in England during the Industrial Revolution, they differ as to when exactly this occurred. Compare PAT HUDSON, THE INDUSTRIAL REVOLUTION 173-75 (1992) (citing view that, in latter half of eighteenth century, rising incomes and emphasis on vertical social mobility sparked "consumer revolution") with N.E.R. CRAFTS, BRITISH ECONOMIC GROWTH DURING THE INDUSTRIAL REVOLUTION 112 (1985) (stating that personal consumption increased significantly only after 1820).

Consumers continue to view trademarks as primarily a guarantee of quality.⁷⁰ This quality guaranty is known as good-will.⁷¹ Because of good-will, trademarks today constitute valuable assets for many corporations,⁷² are expressly recognized on corporate balance sheets,⁷³ and are used as collateral in international lend-

Despite consumers' emphasis on the quality of goods represented by a trademark, English Courts continued to view trademarks as exclusively a proprietary right. SCHECHTER, *supra* note 26, at 19, 147; see CORNISH, *supra* note 26, at 394, § 15.003 ("the good-will at risk was easily characterised as 'property'").

70. SCHECHTER, *supra* note 26, at 147. Schechter states that it is therefore highly questionable to view a trademark chiefly as a proprietary right meant to indicate origin. *Id.* at 38. See GINSBURG, *supra* note 2, at 37 (noting that "consumer confusion remains the foundation of the legal protection of trademarks").

71. See THOMAS MCCARTHY, TRADEMARKS AND UNFAIR COMPETITION 73, § 2:8 (2d ed. 1984). Goodwill comprises consumers' positive perceptions about a trademark. *Id.* This perception is based on consumers' assumptions that the product or service represented by the trademark will meet a certain standard of quality. *Id.*; see Brian W. Peterman, Note, *The Gray Market Solution: An Allocation of Economic Rights*, 28 TEX. INT'L L.J. 159, 171 (1993) (stating that trademark's good-will flows from quality of product).

In the United States, the Supreme Court has recognized the importance of good-will. See *A. Bourjois & Co. v. Katzel*, 260 U.S. 689 (1923). Justice Oliver Wendell Holmes, writing for the Court, explained that the true significance of a trademark is not its indication of the origin of goods, but rather its indication of the business goodwill of the trademark owner. *Id.*; see also Steven P. Kersher & Donald S. Stein, *Judicial Construction of Section 526 and the Importation of Grey Market Goods: From Total Exclusion to Unimpeded Entry*, 11 N.C. J. INT'L L. & COM. REG. 251 (1986). The authors noted another aspect of trademarks illuminated in *Bourjois v. Katzel*: "With Holmes' analysis, the Supreme Court adopted the territoriality principle, recognizing that a trademark had a separate legal existence under each country's laws." *Id.*

72. See Simensky, *supra* note 1, at 6. Some trademarks represent as much as 80 percent of the value of a company. *Id.* at 5. In the cigarette industry, the Marlboro trademark has been valued at US\$40 billion worldwide. *Id.*

Many existing trademarks have high values partly because of the difficulty that new companies have in establishing good-will. *Id.* The high cost of launching new brand names, and an 80 percent failure rate for such campaigns, increases the value of those trademarks which are already established. *Id.*

In the retail sector, the goodwill value of a trademark may also be based on current trends. See Alan Gathright, *Outlaw Club Turns to the Law Over Name; Hell's Angels Sue Marvel Comics Over Trademark*, SAN DIEGO UNION-TRIB., Jan. 24, 1993, at A3 (observing, "biker chic has turned leather jackets, Harley-Davidson hogs and other rebel icons into gold"). The Hell's Angels Motorcycle Corporation, whose members flaunt black leather jackets and a free-spirited lifestyle, owns U.S. trademarks for the "Hell's Angels" name and its death-head insignia. *Id.* Pursuant to a trademark infringement suit against Marvel Comics, Hell's Angels noted that the publicity surrounding the mere appearance of their trademark in a Marvel Comics publication increased the retail value of the issue from US\$1.75 to US\$10. *Id.*

73. See Simensky, *supra* note 1, at 6. The increased commercial value of intellectual property assets, such as world famous trademarks, has driven companies in the United Kingdom to frequently restate the value of these assets on their balance sheets. *Id.* The development of quantifiable methods of valuing intellectual property in the

ing transactions.⁷⁴

B. *The European Union and Its Institutions*

In 1951, France, Germany, Italy, Belgium, the Netherlands, and Luxembourg created the European Coal and Steel Community ("ECSC")⁷⁵ for the purpose of regulating production⁷⁶ and promoting free trade⁷⁷ in the coal and steel industries.⁷⁸ The ECSC led to the signing of a pact calling for political and economic integration among the six ECSC Member States.⁷⁹ This agreement, termed the Treaty of Rome,⁸⁰ established the European Economic Community ("EEC").⁸¹ In the name of free trade and European political solidarity,⁸² Member States relin-

UK has further encouraged the exploitation of these assets. *Id.* Moreover, British accountants maintain that, unlike tangible assets, intellectual property assets generally do not depreciate over time. *Id.*

74. *See id.* at 8. An example of one such global lending transaction involved two banks, one in the United States and the other in the United Kingdom. *Id.* Together they loaned more than US\$500 million to a multinational corporation based in Europe. *Id.* As security, the lenders sought to collateralize the corporation's worldwide trademarks. *Id.* In many countries, however, the laws do not explicitly recognize security interests in trademarks. *Id.*; see David C. Rose, Note, *Searching for the Comfort Zone: Issues Related to the Perfection of Security Interests in Trademarks in International Commercial Transactions*, 15 U. PA. J. INT. BUS. L. 137 (1994) (observing that "[i]n the United States, France, and the United Kingdom, the taking of security interests in trademarks is complicated by uncertainty").

75. ECSC Treaty, *supra* note 28, 261 U.N.T.S. 140.

76. *See* ECSC Treaty, *supra* note art. 2, at 145 (establishing goal of maintaining optimum productivity through creation of common market).

77. *See id.* art. 4(a), at 147 (prohibiting duties and quantitative restrictions on movement of coal and steel).

78. *See* SPANIER, *supra* note 25, at 35-47 (recalling social and political motivations for establishing integration of Western European nations); JOHN GILLINGHAM, *COAL, STEEL, AND THE REBIRTH OF EUROPE* 157 (1991). Gillingham explains that the French people wanted to ensure that the German post-war recovery would not outpace that of France. GILLINGHAM, *supra*, at 157. Such assurance could be obtained by the creation of an international board which would allocate the production of coal and steel, which were strong German industries. *Id.*

79. EEC Treaty, *supra* note 3, 298 U.N.T.S. 11, 1973 Gr. Brit. T.S. No. 1. *See* BER-MANN, *supra* note 2, at 5-6 (describing ECSC as first stage of European economic and political integration); GILLINGHAM, *supra* note 78, at xi (referring to "the integration that grew out of the founding of the European Coal and Steel Community").

80. EEC Treaty, *supra* note 3, 298 U.N.T.S. 11, 1973 Gr. Brit. T.S. No. 1 (setting forth term "Treaty of Rome").

81. *Id.*

82. *See* EC Treaty, *supra* note 3, Pmb., [1992] 1 C.M.L.R. at 587-88 (declaring that common action be taken among Member States to "eliminate the barriers which divide Europe"); *see also* GILLINGHAM, *supra* note 78, at xii (citing cooperative diplomacy as reason for success of European integration following World War II).

quished national sovereignty in areas covered by the Treaty of Rome.⁸³ The Treaty of Rome also established several governmental institutions: the European Commission,⁸⁴ the Council of Ministers,⁸⁵ the European Parliament,⁸⁶ and the ECJ.⁸⁷

83. See EC Treaty, *supra* note 3, art. 5, [1992] 1 C.M.L.R. at 591. Article 5 states that:

Member States shall take all appropriate measures, whether general or particular, to ensure fulfillment of the obligations arising out of the Treaty or resulting from action taken by the institutions of the Community. They shall facilitate achievement of the Community's tasks.

They shall abstain from any measure which could jeopardize the attainment of the objectives of this Treaty.

Id.

84. See EC Treaty, *supra* note 3, art. 155, [1992] 1 C.M.L.R. at 682 (delineating Commission functions regarding enforcement of EU policy and introduction of EU legislative proposals). See also A.G. TOTH, THE OXFORD ENCYCLOPAEDIA OF EUROPEAN COMMUNITY LAW 70 (1990) [hereinafter ENCYCLOPAEDIA OF EC LAW]. Toth states that:

[T]he Commission is chiefly a decision-making body whose main powers lie in the field of initiating, implementing, and enforcing legislation, while the actual decision-making is primarily carried out by the Council.

Id.

85. See EC Treaty, *supra* note 3, art. 145, [1992] 1 C.M.L.R. at 679-80. The functions of the Council are broadly listed:

To ensure that the objectives set out in this Treaty are attained, the Council shall, in accordance with the provisions of this Treaty:

- ensure coordination of the general economic policies of the Member States

- have the power to take decisions;

- confer on the Commission, in the acts which the Council adopts, powers for the implementation of the rules which the Council lays down. . . . The Council may also reserve the right, in specific cases, to exercise directly implementing powers itself.

Id. See also BERMANN, *supra* note 2, at 51 (stating that Council exercises primary legislative power in European Union).

86. See TEU, *supra* note 3, art. 138b, [1992] 1 C.M.L.R. at 677. The European Parliament is chiefly a legislative body. *Id.* Under the TEU, Parliament can participate in forming EU legislation:

In so far as provided in this Treaty, the European Parliament shall participate in the process leading up to the adoption of Community acts by exercising its powers under the procedures laid down in Articles 189b and 189c and by giving its assent or delivering advisory opinions. The European Parliament may, acting by a majority of its members, request the Commission to submit any appropriate proposal on matters on which it considers that a Community act is required for the purpose of implementing this Treaty.

Id.

87. See EC Treaty, *supra* note 3, arts. 164-87, [1992] 1 C.M.L.R. at 684-91. The ECJ acts as the judicial branch of the European Union. See *id.* (detailing jurisdiction and composition of European Court of Justice).

1. The European Commission

The European Commission ("Commission") serves as the executive body of the European Union.⁸⁸ As such, the Commission primarily ensures that Member States properly implement the EC Treaty⁸⁹ through the introduction and enforcement of EC legislation.⁹⁰ Furthermore, the Commission, whose members are required to be completely independent of Member State interests,⁹¹ may bring an action before the ECJ if it considers that a Member State has not fulfilled an EC Treaty requirement.⁹²

88. *See id.* art. 155, [1992] 1 C.M.L.R. at 682. The Article provides the Commission with tasks commonly identified with the executive branch:

In order to ensure the proper functioning and development of the common market, the Commission shall:

- ensure that the provisions of this Treaty and the measures taken by the institutions pursuant thereto are applied;
- formulate recommendations or deliver opinions on matters dealt with in this Treaty, if it expressly so provides or if the Commission considers it necessary;
- have its own power of decision and participate in the shaping of measures taken by the Council and by the European Parliament in the manner provided for in this Treaty;
- exercise the powers conferred on it by the Council for the implementation of the rules laid down by the latter.

Id.

89. *See id.* (providing that in order to ensure proper functioning and development of common market, Commission shall firstly "ensure that the provisions of this Treaty and the measures taken by the institutions thereto are applied").

90. *Id.* art. 155, [1992] 1 C.M.L.R. at 682. *See* TOTH, *supra* note 84, at 70 (describing legislative proposal and enforcement roles of Commission). The Commission proposes EU legislation, which is then passed on to the Council of Ministers for deliberation and reformulation. DAVID MEDHURST, A BRIEF AND PRACTICAL GUIDE TO EC LAW 20 (1994). The legislation, if passed by the Council, goes back to the Commission for implementation. *Id.*

91. *See* EC Treaty, *supra* note 3, art. 157, [1992] 1 C.M.L.R. at 682-83 (requiring that members of the Commission be "completely independent in the performance of their duties"); *see also* MEDHURST, *supra* note 90, at 19 (explaining that Commission consists of civil servants representing EU interests rather than Member State interests).

92. EC Treaty, *supra* note 3, art. 169, [1992] 1 C.M.L.R. at 686. Article 169 provides that:

If the Commission considers that a Member State has failed to fulfill an obligation under this Treaty, it shall deliver a reasoned opinion on the matter after giving the State concerned the opportunity to submit its observations.

If the State concerned does not comply with the opinion within the period laid down by the Commission, the latter may bring the matter before the Court of Justice.

Id.

2. The Council of Ministers

The Council of Ministers ("Council"), made up of representatives from each Member State,⁹³ acts as the European Union's principle legislative body.⁹⁴ A primary responsibility of the Council is to harmonize divergent national laws that affect the common market.⁹⁵ The Council harmonizes national laws by issuing directives,⁹⁶ requiring Member States to revise their laws according to specific guidelines.⁹⁷

93. See *id.* art. 146, [1992] 1 C.M.L.R. at 680 (providing that "[t]he Council shall consist of a representative of each Member State at ministerial level, authorized to commit the government of that Member State"); MEDHURST, *supra* note 90, at 18. A Member State has its choice of which Minister it will use to represent its interests:

Thus, if it were discussing agriculture it would be a meeting of agriculture ministers; if economics a meeting of economics ministers, and so on.

Id. But see TOTH, *supra* note 84, at 136. The author notes:

Although the Council consists of 'representatives' of the Member States who invariably represent national interests, it is a Community institution, not an intergovernmental conference.

Id.

94. See EC Treaty, *supra* note 3, art. 145, [1992] 1 C.M.L.R. at 679-80 (describing lawmaking function of Council); see also MEDHURST, *supra* note 90, at 18 (stating that Council "is as near as the Community comes to a legislative body"); TOTH, *supra* note 84, at 138-39 (observing that "Council is the main-decision making body" and "is responsible for giving general political direction to the Community").

95. See EC Treaty, *supra* note 3, art. 145, [1992] 1 C.M.L.R. at 679-80. The Treaty states that the Council is to "ensure coordination of the general economic policies of the Member States." *Id.*

96. See *id.* art. 100, [1992] 1 C.M.L.R. at 633. Article 100 states that:

The Council shall, acting unanimously on a proposal from the Commission and after consulting the European Parliament and the Economic and Social Committee, issue directives for the approximation of such laws, regulations or administrative provisions of the Member States as directly affect the establishment of the common market.

Id.

97. See TEU, *supra* note 3, art. 189, O.J. C 224/1, at 65 (1992), [1992] 1 C.M.L.R. at 693-94. This Maastricht provision explains how, apart from other legislation, directives leave it to Member States to decide how the required policy will be implemented:

A regulation shall have general application. It shall be binding in its entirety and directly applicable in all Member States. A directive shall be binding, as to the result to be achieved, upon each Member State to which it is addressed, but shall leave to the national authorities the choice of form and methods. A decision shall be binding in its entirety upon those to whom it is addressed. Recommendations and opinions shall have no binding force.

Id.

See also BERMANN, *supra* note 2, at 52. For the enactment of a directive or other legislation, the requisite amount of votes depends upon the matter being considered.

Id. While unanimity is required for matters such as the accession of new states, a simple majority vote will suffice in other instances. *Id.*

3. The European Parliament

The European Parliament ("Parliament") consists of representatives of the populations of the various Member States.⁹⁸ The Parliament acts as an additional legislative body, safeguarding the political interests⁹⁹ of EU Member State citizens.¹⁰⁰ Although Parliament exercised chiefly an advisory power under the EEC Treaty,¹⁰¹ its power expanded under the Maastricht

Harmonization of laws may also be achieved through the enactment of Community-wide laws, which require an EU regulation or convention among the Member States. See EC Treaty, *supra* note 3, art. 220, [1992] 1 C.M.L.R. at 711 (stating that "Member States shall, so far as is necessary, enter into negotiations with each other with a view to securing for the benefit of their nationals . . . the protection of persons and the enjoyment and protection of rights"); see also BERMANN, *supra* note 2, at 422 (noting two legislative solutions to problem of divergent national laws).

98. See TEU, *supra* note 3, art. 137, O.J. C 224/1, at 55 (1992), [1992] 1 C.M.L.R. at 676. The Maastricht provision reads, "[t]he European Parliament, which shall consist of representatives of the peoples of the States brought together in the Community, shall exercise the powers conferred upon it by this Treaty." *Id.* Article 138 continues, "[t]he European Parliament shall draw up proposals for election by direct universal suffrage in accordance with a uniform procedure in all Member States." *Id.* art. 138, O.J. C 224/1, at 56 (1992), [1992] 1 C.M.L.R. at 676.

99. See BERMANN, *supra* note 2, at 63. While the Commission acts as the executive and as an enforcement mechanism for integration, and the Council as an intergovernmental legislature, "the Parliament was to express the political sentiments of the Member State populations." *Id.*

100. See TEU, *supra* note 3, art. 138a, O.J. C 224/1, at 56 (1992), [1992] 1 C.M.L.R. at 676-77. The European Parliament was meant to express the political will of citizens of the Member States:

Political parties at European level are important as a factor for integration within the Union. They contribute to forming a European awareness and to expressing the political will of citizens of the Union.

Id.

101. See EEC Treaty, *supra* note 3, art. 137, 298 U.N.T.S. at 11, 1973 Gr. Brit. T.S. No. 1, at 1. The Article, which has been amended by the TEU, provided, "[t]he European Parliament, which shall consist of representatives of the peoples of the States brought together in the Community, shall exercise the advisory and supervisory powers which are conferred upon it by this Treaty." *Id.* See also MEDHURST, *supra* note 3, at 17 (stating that the Parliament "does not deserve to be called a Parliament because it neither proposes nor makes laws: the Commission proposes legislation, and the Council makes laws"). But cf. Donald Macrae, *Institutional and Decision-Making Changes*, in LEGAL ISSUES OF THE MAASTRICHT TREATY 175 (David O'Keeffe & Patrick M. Twomey eds., 1994). Despite the Parliament's slow growth in power, it has always retained some important powers which have helped it to exert influence. *Id.* It has the ability, for example, to expel the Commission upon a motion of censure. See *id.* (describing Parliament's power to "sack the entire Commission"); see EC Treaty, *supra* note 3, art. 144, [1992] 1 C.M.L.R. at 679. The provision states, "[i]f the motion of censure is carried by a two-thirds majority of the votes cast, representing a majority of the members of the European Parliament, the members of the Commission shall resign as a body." *Id.*

Treaty.¹⁰² Parliament's new powers include, for example, the ability to review both EC legislation passed by the Council¹⁰³ and proposed EU external agreements.¹⁰⁴

4. The ECJ

The ECJ represents the judicial branch of the European Union.¹⁰⁵ It consists of fifteen Judges¹⁰⁶ and nine Advocates

102. See TEU, *supra* note 3, art. 137, O.J. C 224/1, at 55 (1992), [1992] 1 C.M.L.R. at 676. Where Article 137 of the EC Treaty provided for "advisory and supervisory" powers, the amended Article 137 omits this language. *Id.* Article 137 now states, "[t]he European Parliament, which shall consist of representatives of the peoples of the States brought together in the Community, shall exercise the powers conferred upon it by this Treaty." *Id.* See also Macrae, *supra* note 101, at 174 (noting that changes related to Parliament "are perhaps best encapsulated in the amendment to Article 137").

In addition, Article 189 now provides for Parliament's participation in enacting legislation:

In order to carry out their task and in accordance with the provisions of this Treaty, the European Parliament acting jointly with the Council and the Commission shall make regulations and issue directives, take decisions, make recommendations or deliver opinions

TEU, *supra* note 3, art. 189, O.J. C 224/1, at 65 (1992), [1992] 1 C.M.L.R. at 693. Article 189b gives the Parliament the final word in passing legislation:

1. Where reference is made in this Treaty to this Article for the adoption of an act, the following procedure shall apply.

2. The Commission shall submit a proposal to the European Parliament and the Council.

The Council, acting by a qualified majority after obtaining the opinion of the European Parliament, shall adopt a common position

If, within three months of such communication, the European Parliament:

. . . .

(c) indicates, by an absolute majority of its component members, that it intends to reject the common position, it shall immediately inform the Council The European Parliament shall thereafter either confirm, by an absolute majority of its component members, its rejection of the common position, in which event the proposed act shall be deemed not to have been adopted, or propose amendments

Id. art. 189b, O.J. C 224/1, at 66 (1992), [1992] 1 C.M.L.R. at 694.

103. See TEU, *supra* note 3, art. 189b, O.J. C 224/1, at 66 (1992), [1992] 1 C.M.L.R. at 694-95 (providing Parliament with option to reject Council legislation).

104. See *id.* art. 228, O.J. C 224/1, at 77 (1992), [1992] 1 C.M.L.R. at 714 (stating that international agreements with other states "shall be concluded after the assent of the European Parliament is obtained").

105. See EC Treaty, *supra* note 3, arts. 164-87, [1992] 1 C.M.L.R. at 684-91 (detailing jurisdiction and composition of ECJ).

106. Facsimile from Armi Frisk, Information Office, Court of Justice of the European Communities, Luxembourg (Mar. 19, 1996). Fifteen Judges, one from each EU Member State, serve on the Court: G.C. Rodríguez Iglesias, President (Spain); C.N. Kakouris, President of Chambers IV and VI (Greece); D.A.O. Edward, President of Chambers I and V (the United Kingdom); J.P. Puissochet, President of Chamber III

General.¹⁰⁷ When disputes arise as to whether a certain act by a Member State is proscribed by the EC Treaty, the ECJ has jurisdiction to rule on the matter.¹⁰⁸ In the absence of legislative measures to the contrary, national governments retain their independence in areas where the EC Treaty is silent.¹⁰⁹

(France); G. Hirsch, President of Chamber II (Germany); G.F. Mancini (Italy); F.A. Schockweiler (Luxembourg); J.C. Moitinho de Almeida (Portugal); P.J.G. Kapteyn (the Netherlands); C. Gulmann (Denmark); J.L. Murray (Ireland); P. Jann (Austria); H. Ragnemalm (Sweden); L. Sevón (Finland); M. Wathelet (Belgium). *Id.* The main duties of the President of the Court are to direct the judicial business and administration of the Court and to preside at hearings and deliberations. *TOTH*, *supra* note 84, at 213.

Before the accession of Austria, Sweden, and Finland as Member States of the European Union, 13 Judges served on the ECJ. *See* EC Treaty, *supra* note 3, art. 165, [1992] 1 C.M.L.R. at 684 (providing for 13 Judges); *see also* EC Treaty, *supra* note 3, art. 167, [1992] 1 C.M.L.R. at 685 (providing for six-year terms of Judges, and election by Judges of ECJ President serving three-year term).

107. Frisk, *supra* note 106. The nine Advocates General are: G. Tesaurò, First Advocate General (Italy); C.O. Lenz (Germany); F.G. Jacobs (the United Kingdom); A.M. La Pergola (Italy); G. Cosmas (Greece); P. Leger (France); M.B. Elmer (Denmark); N. Fennelly (Ireland); D. Ruiz-Jarabo Colomer (Spain). *Id.* The Clerk of the Court is R. Grass, a Frenchman. *Id.* Before the accession of the three new EU Member States, the EC Treaty provided for six Advocates General. *See* EC Treaty, *supra* note 3, art. 166, [1992] 1 C.M.L.R. at 685. The role of the Advocates General is described as follows:

The Court of Justice shall be assisted by six Advocates-General.

It shall be the duty of the Advocate-General, acting with complete impartiality and independence, to make, in open court, reasoned submissions on cases brought before the Court of Justice, in order to assist the Court in the performance of the task assigned to it in Article 164.

Id. *See also* *TOTH*, *supra* note 84, at 213. In fulfilling the primary task of delivering opinions for each case brought before the Court, the Advocates-General represent neither the interests of the parties to the case nor EU interests. *Id.*

Article 167 requires that both the Judges and the Advocates-General possess complete independence and the qualifications necessary for appointment to the highest judicial offices in their own countries. EC Treaty, *supra* note 3, art. 167, [1992] 1 C.M.L.R. at 685; *see* *BERMANN*, *supra* note 2, at 69 (noting that independence is expected "particularly in regard to pressures coming from Member States").

108. *See* EC Treaty, *supra* note 3, arts. 169, 170, [1992] 1 C.M.L.R. at 686-87 (describing jurisdiction of ECJ over actions by Commission or Member State in case of Member State's failure to fulfill Treaty obligations).

109. *See id.* art. 3(b), [1992] 1 C.M.L.R. at 590. The Treaty provision reads, in pertinent part:

The Community shall act within the limits of the powers conferred upon it by this Treaty and of the objectives assigned to it therein.

Any action by the Community shall not go beyond what is necessary to achieve the objectives of this Treaty.

Id.

II. EC TREATY PROVISIONS, THE ECJ'S DOCTRINES, AND THE IDEAL STANDARD CASE

When the ECJ considers to what extent it will limit national intellectual property rights in deference to the Free Movement of Goods principle, it looks first to the EC Treaty,¹¹⁰ which addresses both intellectual property and free trade.¹¹¹ Because the EC Treaty does not give precise limits on national intellectual property rights,¹¹² the Court has formulated several doctrines, which interpret the EC Treaty in order to draw such limits.¹¹³ Over the last thirty years, the ECJ has revised and supplemented these doctrines to gradually expand the rights of national intellectual property owners.¹¹⁴ In the *Ideal Standard* case, the ECJ further extends the rights of trademark proprietors by holding

110. See *id.* art. 164, [1992] 1 C.M.L.R. at 684. The EC Treaty established the ECJ for the purpose of interpreting its provisions. *Id.* The Treaty states, "[t]he Court of Justice shall ensure that in the interpretation and application of this Treaty the law is observed." *Id.*

111. See *id.* arts. 9-37, [1992] 1 C.M.L.R. at 594-606 (detailing Free Movement of Goods and mentioning national intellectual property rights).

112. See EC Treaty, *supra* note 3, art. 36, [1992] 1 C.M.L.R. at 605. The only provision of the Treaty which explicitly addresses intellectual property rights, Article 36 reads:

The provisions of Articles 30 to 34 [relating to the requirement of free movement of goods between Member States] shall not preclude . . . the protection of industrial and commercial property.

Id.

113. See, e.g., *Consten and Grundig*, [1966] E.C.R. 299, [1966] C.M.L.R. 418 (holding that EC Treaty limits exercise, but not existence, of national intellectual property rights); *Deutsche Grammophon*, [1971] II E.C.R. 487, [1971] C.M.L.R. 631 (stating that Treaty protects "specific subject matter" of national intellectual property rights which conflict with free trade); *Hoffmann-LaRoche*, [1978] E.C.R. 1139, [1978] 3 C.M.L.R. 217 (declaring that courts must consider trademark's "essential function" when determining whether Free Movement of Goods limits national trademark rights); *Hag II*, [1990] E.C.R. I-3711, [1990] 3 C.M.L.R. 571 (holding that, because trademark proprietor did not consent to division of trademark, it retained national trademark rights despite conflict with Free Movement of Goods).

114. See, e.g., *Deutsche Grammophon*, [1971] II E.C.R. 487, [1971] C.M.L.R. 631 (reciting existence-exercise doctrine articulated in *Consten and Grundig*, and adding that intellectual property owners may protect "specific subject matter" of property right despite conflict with Free Movement of Goods); *Centrafarm BV v. American Home Products Corp.*, Case 3/78, [1978] E.C.R. 1823, [1979] 1 C.M.L.R. 326 [hereinafter *Centrafarm v. AHP*] (expanding rights of trademark owners by stating that, in addition to specific subject matter, consumer-oriented "essential function" of trademarks must be considered when contemplating limiting national trademark rights); *Hag II*, [1990] E.C.R. I-3711, [1990] 3 C.M.L.R. 571 (overruling *Hag I* in holding that, because trademark owner did not consent to division of trademark, it retained national trademark rights).

that a national trademark owner does not exhaust its rights when it assigns its trademark.¹¹⁵

A. *EC Treaty Provisions on the Free Movement of Goods and on National Intellectual Property Rights*

The EC Treaty thoroughly outlines the Free Movement of Goods principle.¹¹⁶ The EC Treaty refers only briefly, however, to national intellectual property rights.¹¹⁷ Consequently, the ECJ has interpreted the limits of national intellectual property rights based on implications within the EC Treaty.¹¹⁸ When national intellectual property laws conflict with the goals of the European Union, such as the principle of Free Movement of Goods, the ECJ develops legal doctrines to define appropriate limits for national intellectual property.¹¹⁹ In developing these

115. Compare *Sirena v. Eda*, [1971] E.C.R. 69, [1971] C.M.L.R. 260 (holding that EC Treaty prevents trademark owners from exercising national trademark rights where others have acquired trademark through agreement, such as license or assignment) with *Ideal Standard*, [1994] E.C.R. I-2789, [1994] 3 C.M.L.R. 857 (holding that EC Treaty does not prevent trademark owner from exercising national trademark rights where owner has voluntarily assigned trademark to another party).

116. Compare *id.* arts. 9-37, [1992] 1 C.M.L.R. at 594-606 (devoting 29 Articles to Free Movement of Goods) with *id.* art. 36, [1992] C.M.L.R. at 605 (containing, in one article, only express reference to intellectual property rights in EC Treaty).

117. See *id.* art. 36, [1992] 1 C.M.L.R. at 605. As noted above, Article 36 is only provision of the Treaty clearly addressing intellectual property rights. *Id.* See also *id.* art. 222, [1992] 1 C.M.L.R. at 711 (stating "[t]his Treaty shall in no way prejudice the rules in Member States governing the systems of property ownership"); *Etablissements Consten SARL and Grundig-Verkaufs-GmbH v. Commission*, Joined Cases 56 & 58/64, [1966] E.C.R. 299, 345 [1966] C.M.L.R. 418, 476 (holding that Article 222 prevents Treaty from affecting grant of national trademark rights). But see Thomas C. Vine, *Magill: Its Impact on the Information Technology Industry*, 14 EUR. INTELL. PROP. REV. 397, 398 (1992). Vine points out that the legislative history of Article 222 indicates that it was intended to have the same meaning as Article 83 of the ECSC Treaty, which does not relate to intellectual property. *Id.* Instead, Article 83 was meant to ensure that ECSC Member States could determine for themselves whether companies were to be publicly or privately owned. *Id.* (citing S. Neri & H. Sperl, *Traité Instituant la Communauté Economique Européenne — Travaux préparatoires, Déclarations interprétatives des six gouvernements, Documents parlementaires*, Cour de Justice des Communautés Européennes (1960)).

118. See, e.g., *Deutsche Grammophon*, [1971] II E.C.R. 487, [1971] C.M.L.R. 631 (interpreting EC Treaty as limiting national copyrights under certain circumstances); *Centrafarm v. Sterling*, [1974] E.C.R. 1137, [1974] C.M.L.R. 480 (applying EC Treaty to detail limits of national patent rights); *Hag I*, [1974] E.C.R. 731, [1974] 2 C.M.L.R. 127 (holding that national trademark rights are subject to limitation by EC Treaty); see also BERMANN, *supra* note 2, at 397 (explaining effect of absence of Treaty definition of industrial and commercial property rights on ECJ jurisprudence).

119. See, e.g., *Deutsche Grammophon*, [1971] II E.C.R. 487, [1971] C.M.L.R. 631 (ar-

doctrines, the ECJ must take the EC Treaty as its point of departure.¹²⁰

1. The EC Treaty's Free Movement of Goods Mandate

The Treaty of Rome envisaged economic integration through the creation of a common market.¹²¹ Paramount in the achievement of the common market are four freedoms: the free movement of goods,¹²² services,¹²³ persons,¹²⁴ and capital.¹²⁵ The EC Treaty deals most extensively with the free movement of goods.¹²⁶

The prohibition of quantitative restrictions on imports and all measures having an equivalent effect,¹²⁷ embodied in Articles 30 through 36 of the EC Treaty,¹²⁸ represents a central compo-

culating "specific subject matter" doctrine); *Hag I*, [1974] E.C.R. 731, [1974] 2 C.M.L.R. 127 (applying principle of "common origin"); *Hoffmann-LaRoche*, [1978] E.C.R. 1139, [1978] 3 C.M.L.R. 217 (introducing concept of "essential function"); see also BERMAN, *supra* note 2, at 409, 421 (reviewing major doctrines laid down by Court in response to conflicts between national intellectual property rights and EC Treaty provisions).

120. See EC Treaty, *supra* note 3, art. 164, [1992] 1 C.M.L.R. at 684 ("[t]he Court of Justice shall ensure that in the interpretation and application of this Treaty the law is observed").

121. See *id.* art. 2, [1992] 1 C.M.L.R. at 588 (declaring Community shall accomplish tasks "by establishing a common market").

122. See *id.*, Title 1, arts. 9-37, [1992] 1 C.M.L.R. at 594-606 (encompassing free movement of goods between Member States). The EC Treaty requires the elimination of both customs duties and quantitative restrictions between Member States. *Id.*

123. See *id.* arts. 59-66, [1992] 1 C.M.L.R. at 616-18 (prohibiting restrictions on freedom to provide services within European Union). Services include industrial activities, commercial activities, activities of craftsmen and activities of the professions. *Id.*

124. See *id.* arts. 48-58, [1992] 1 C.M.L.R. at 612-16 (prohibiting restrictions by Member States on free movement of workers and right of establishment of persons other than workers).

125. *Id.* arts. 73a-73h, [1992] 1 C.M.L.R. at 620-23 (outlawing restrictions on movement of capital between Member States and between Member States and third countries).

126. See *id.* (devoting as much space to Free Movement of Goods as to other three freedoms combined).

127. See *id.* art. 30, [1992] 1 C.M.L.R. at 602 (prohibiting quantitative restrictions on imports between Member States and those measures having equivalent effect to such restrictions).

128. *Id.* arts. 30-36, [1992] 1 C.M.L.R. at 602-05. Article 30 proclaims, "[q]uantitative restrictions on imports and all measures having equivalent effect shall, without prejudice to the following provisions, be prohibited between Member States." *Id.* art. 30, [1992] 1 C.M.L.R. at 602. Articles 31 to 35 establish a timetable for the implementation of the restrictions set forth in Article 30. *Id.* arts. 31-35, [1992] 1 C.M.L.R. at 602-04. This timetable no longer applies because the relevant dates have expired. See *id.* (referring to past dates).

nent of the Free Movement of Goods principle.¹²⁹ An illustration of a quantitative restriction is a quota imposed on imports from another Member State.¹³⁰ The ECJ has given an expansive meaning to the term "measures having equivalent effect,"¹³¹ and the phrase includes a Member State's enforcement of its national intellectual property rights.¹³² A Member State's recognition of trademark rights, for example, prevents any party from importing goods that infringe upon that trademark in the Member State.¹³³ The Member State's enforcement of the trademark right, therefore, has an effect equivalent to that of a quantitative restriction.¹³⁴ Consequently, the Member State's act is subject to Article 30,¹³⁵ which explicitly prohibits measures having such an effect.¹³⁶

129. See BERMAN, *supra* note 2, at 341 (observing that, with respect to quantitative restrictions, "the case law is voluminous and the rules developed by the Court of Justice are among the core principles of Community law today").

130. See EC Treaty, *supra* note 3, arts. 32, 33, [1992] 1 C.M.L.R. at 603-04 (using term "quotas" interchangeably with term "quantitative restrictions").

131. *Id.* art. 30, [1992] 1 C.M.L.R. at 602.

132. See, e.g., *Deutsche Grammophon*, [1971] II E.C.R. 487, [1971] C.M.L.R. 631 (holding that Article 30 could under certain circumstances preclude use of national copyrights); *Centrafarm v. Sterling*, [1974] E.C.R. 1147, [1974] C.M.L.R. 480 (applying Articles 30-36 to prohibit firm's use of national patent rights); *Hag I*, [1974] E.C.R. 731, [1974] 2 C.M.L.R. 127 (stating that Member State's enforcement of party's national trademark rights would violate Articles 30-36); see also Council Directive No. 70/50, J.O. L 13/29, English Spec. Ed., 1970-I (1969). The Directive details practices that qualify as measures having an equivalent effect under Article 30:

In particular, it covers those measures which make imports or the disposal, at any marketing stage, of imported products subject to a condition — other than a formality — which is required in respect of imported products only, or a condition differing from that required for domestic products and more difficult to satisfy. Equally, it covers, in particular, measures which favour domestic products or grant them a preference, other than an aid, to which conditions may or may not be attached.

Id. art. 2, J.O. L 13/29, at 18.

133. See e.g., *Hag I*, [1974] E.C.R. at 744, ¶ 11, [1974] C.M.L.R. at 143. "The exercise of trade mark rights tends to contribute to the partitioning off of the markets and thus to affect the free movement of goods between Member States." *Id.* *Centrafarm v. Winthrop*, [1974] E.C.R. 1183, 1194, ¶ 9, [1974] 2 C.M.L.R. 480, 508-09 (describing how trademark laws may create obstacle to free movement of goods).

134. See, e.g., *Centrafarm v. Winthrop*, [1974] E.C.R. at 1195, ¶ 12, [1974] 2 C.M.L.R. at 509 (stating that exercise of trademark right is subject to prohibition by Free Movement of Goods rules).

135. EC Treaty, *supra* note 3, art. 30, [1992] 1 C.M.L.R. at 602.

136. *Id.*

2. EC Treaty Provisions for Intellectual Property Rights

Despite Article 30's application to a Member State's enforcement of intellectual property rights, Article 36 contains an express right of derogation for the protection of intellectual property rights.¹³⁷ A national court's finding of trademark infringement by an importer, therefore, does not necessarily violate the EC Treaty.¹³⁸ The court's decision may be justified as an act protecting industrial and commercial property rights under Article 36.¹³⁹

Some jurists also interpret Article 222¹⁴⁰ as protecting national intellectual property rights.¹⁴¹ Article 222 prohibits interpretation of the EC Treaty in a manner that disturbs national systems of property ownership.¹⁴² The ECJ has, however, recognized the limits of Article 222.¹⁴³

Article 36 also affords only limited national intellectual

137. *Id.* art. 36, [1992] 1 C.M.L.R. at 605.

The provisions of Articles 30 to 34 shall not preclude prohibitions or restrictions on imports, exports or goods in transit justified on grounds of public morality, public policy or public security; the protection of health and life of humans, animals or plants; the protection of national treasures possessing artistic, historic or archaeological value; or the protection of industrial and commercial property. Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States.

Id. The terms "intellectual property" and "industrial and commercial property" may be used interchangeably. BERMANN, *supra* note 2, at 396. The European Union prefers the latter. *Id.*

138. *Id.* See, e.g., *Hag I*, [1974] E.C.R. at 743, ¶ 7, [1974] 2 C.M.L.R. at 143 (stating that Article 36 exempts import bans arising out of intellectual property rights); *Centrafarm v. Winthrop*, [1974] E.C.R. at 1194, ¶ 5, [1974] 2 C.M.L.R. at 508 (noting that restrictions on imports are justified if based on protection of industrial or commercial property).

139. EC Treaty, *supra* note 3, art. 36, [1992] 1 C.M.L.R. at 605.

140. See *id.* art. 222, [1992] 1 C.M.L.R. at 711. The brief Article proclaims, "[t]his Treaty shall in no way prejudice the rules in Member States governing the system of property ownership." *Id.*

141. See Opinion of Advocate General Roemer, *Consten and Grundig*, [1966] E.C.R. 299, 365, [1966] C.M.L.R. 418, 447 (stating that impeding "the mere use of a national industrial property right . . . would be contrary to Article 222").

142. EC Treaty, *supra* note 3, art. 222, [1992] 1 C.M.L.R. at 711.

143. See *Consten and Grundig*, [1966] E.C.R. at 345, [1966] 2 C.M.L.R. at 478 (citing EC Treaty, *supra* note 3, art. 222, [1992] 1 C.M.L.R. at 711) (noting that "Articles 36, 222 and 134 of the Treaty . . . do not oppose every impact of Community law in the exercise of national industrial property rights Article 222 is limited to stating that the 'Treaty shall in no way prejudice existing systems and incidents of ownership'.").

property rights protection.¹⁴⁴ In its second sentence, Article 36 contains a proviso that prohibits a party from using national intellectual property rights as a disguised restriction on trade between Member States.¹⁴⁵ Consequently, when the ECJ hears an intellectual property case pursuant to Article 30, Article 36 applies, and the ECJ must decide whether a Member State's enforcement of intellectual property rights is actually a disguised restriction on trade.¹⁴⁶ This issue may arise when a trademark has divided among two or more entities.¹⁴⁷

To illustrate, assume a party ("T") markets its product in several Member States and registers its trademark in each country.¹⁴⁸ Due to the varying nature of the national markets, T product sells at much higher prices in Germany than in Portugal.¹⁴⁹ To take advantage of this situation, a parallel importer buys T's product at the lower price in Portugal and attempts to

144. See EC Treaty, *supra* note 3, art. 36, [1992] 1 C.M.L.R. at 605 (outlining conditions under which intellectual property rights will not be protected).

145. *Id.* The proviso reads, "[s]uch prohibitions or restrictions [on the protection of intellectual property] shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States." *Id.*

146. See, e.g., *Deutsche Grammophon*, [1971] II E.C.R. at 499, ¶ 9, [1971] C.M.L.R. at 657 (citing EC Treaty Article 36). The ECJ focused on the proviso to Article 36, observing that "where certain prohibitions or restrictions on trade between Member States are conceded in Article 36, the Treaty makes express reference to them, providing that such derogations shall not constitute 'a means of arbitrary discrimination or a disguised restriction on trade between Member States'." *Id.* See also *Centrafarm v. Sterling*, [1974] E.C.R. at 1162, ¶ 7, [1974] 2 C.M.L.R. at 503 (interpreting second sentence of Article 36 as limiting exercise of industrial and commercial property rights); *Terrapin (Overseas) Ltd. v. Terranova Industrie C.A. Kapferer & Co.*, Case 119/75, [1976] E.C.R. 1039, 1060, ¶ 4, [1976] 2 C.M.L.R. 482, 505 (recognizing that second sentence of Article 36 limits exercise of intellectual property rights); *Hoffmann-LaRoche*, [1978] E.C.R. at 1165, ¶ 10, [1978] 3 C.M.L.R. at 242 ("the exercise of his rights by the proprietor of the trade mark in order to fetter the free movement of goods between Member States may constitute a disguised restriction within the meaning of the second sentence of Article 36 of the Treaty").

147. See, e.g., *Hag I*, [1974] E.C.R. 731, [1974] 2 C.M.L.R. 127 (applying Article 36 proviso to trademarks which had been divided due to wartime enemy property sequestration); *Hoffmann-LaRoche*, [1978] E.C.R. 1139, [1978] 3 C.M.L.R. 217 (addressing application of second sentence of Article 36 to multiple trademarks created through subsidiaries of one company).

148. See, e.g., *Hoffmann-LaRoche*, [1978] E.C.R. 1139, [1978] 3 C.M.L.R. 217 (addressing situation wherein company created multiple trademarks, in various Member States, through its European subsidiaries); *Centrafarm v. AHP*, [1978] E.C.R. at 1840, ¶ 12, [1979] 1 C.M.L.R. at 342-43 (addressing pharmaceutical company's use of national trademarks in various EU Member States).

149. See George Y. Gonzalez, *An Analysis of the Legal Implications of the Intellectual Property Provisions of the North American Free Trade Agreement*, 34 HARV. INT'L L.J. 305, 307

resell it in Germany to undercut T's high prices in Germany, a tactic known as selling through the "grey market".¹⁵⁰ In order to prevent this grey market resale in Germany, T invokes German trademark rights to block the importation of the identically marked goods by the parallel importer.¹⁵¹ The German court, in accordance with the EC Treaty and the ECJ, will focus on whether enforcing T's trademark rights would constitute a disguised restriction on trade between Member States under the second sentence of Article 36.¹⁵²

B. *Interpreting the Article 36 Proviso: The ECJ's Evolving Doctrines*

The ECJ has expanded upon the brief language¹⁵³ of Article 36 in order to decide how intellectual property rights should be limited.¹⁵⁴ Rather than examining the wording of the Article 36 proviso, the ECJ has focused primarily on developing its own

(1993) (observing that prices for particular product may vary greatly within EU Member States).

150. See Gonzalez, *supra* note 149, at 306-07. Grey market goods are produced by the owner of a particular intellectual property right. *Id.* at 307. They are not counterfeit or pirated like black market goods. *Id.* Generally, a firm purchases these goods during favorable currency fluctuations. *Id.* In one particular country, for instance, a purchaser may buy the goods at a comparatively low price. *Id.* Parallel importation occurs when these goods are resold in another country at a price which undercuts the original owner's price in that country. *Id.* The gains arising from the price differential is known as "arbitrage." See Shubha Ghosh, *An Economic Analysis of the Common Control Exception to Gray Market Exclusion*, 15 U. PA. J. INT'L BUS. L. 373, 373-74 (1994) (stating that price differentials incite "arbitrageurs" to buy goods at low prices and resell in other markets at higher prices).

151. See, e.g., *Hag I*, [1974] E.C.R. 731, [1974] 2 C.M.L.R. 127 (considering action originally brought in local Benelux courts to prevent parallel importation); *Hoffmann-LaRoche*, [1978] E.C.R. 1139, [1978] 3 C.M.L.R. 217 (addressing infringement action, initially brought before German national court, to block parallel imports).

152. See, e.g., *Deutsche Grammophon*, [1971] II E.C.R. at 499, ¶ 9, [1971] C.M.L.R. at 657 (focusing on proviso to Article 36); *Centrafarm v. Sterling*, [1974] E.C.R. at 1162, ¶ 7, [1974] 2 C.M.L.R. at 503 (interpreting Article 36 as limiting exercise of industrial and commercial property rights); *Terrapin v. Terranova*, [1976] E.C.R. 1039, 1060, ¶ 4, [1976] 2 C.M.L.R. 482, 505 (recognizing that Article 36 limits exercise of intellectual property rights); *Hoffmann-LaRoche*, [1978] E.C.R. at 1165, ¶ 10, [1978] 3 C.M.L.R. at 242 (stating that exercise of rights by trademark owner, in order to hinder free movement of goods between Member States, may constitute disguised restriction within meaning of Article 36).

153. See EC Treaty, *supra* note 3, art. 36, [1992] 1 C.M.L.R. at 605 (devoting twenty-one words to proviso).

154. See, e.g., *Deutsche Grammophon*, [1971] E.C.R. 487, [1971] C.M.L.R. 631 (articulating "specific subject matter" doctrine without regard for language of Article 36 proviso); *Hag I*, [1974] E.C.R. 731, [1974] 2 C.M.L.R. 127 (departing from wording of proviso and applying principle of "common origin"); *Hoffmann-LaRoche*, [1978] E.C.R.

doctrines.¹⁵⁵ The ECJ's new approach to trademark rights, recently articulated in the *Ideal Standard* case,¹⁵⁶ represents the Court's latest attempt to redefine the limits of national intellectual property rights.¹⁵⁷

The Court's doctrines, including the doctrine established in *Ideal Standard*, address situations in which a trademark divides among several entities.¹⁵⁸ These cases can be divided into two broad groups: voluntary division and involuntary division.¹⁵⁹ A voluntary division involves a company that has registered its trademark through its subsidiaries in more than one Member State, and attempts to exert national trademark rights in one of the Member States to prevent parallel importation.¹⁶⁰ Involuntary division, on the other hand, occurs when a trademark splits

1139, [1978] 3 C.M.L.R. 217 (introducing concept of "essential function" without examining terms of proviso).

155. See, e.g., *Deutsche Grammophon*, [1971] II E.C.R. 487, [1971] C.M.L.R. 631 (focusing on specific object doctrine rather than language of proviso); *Hag I*, [1974] E.C.R. 731, [1974] 2 C.M.L.R. 127 (neglecting to examine language of Article 36 proviso); *Hoffmann-LaRoche*, [1978] E.C.R. 1139, [1978] 3 C.M.L.R. 217 (introducing concept of essential function without studying terms of proviso).

156. See *Ideal Standard*, [1994] E.C.R. I-2789, [1994] 3 C.M.L.R. 857 (holding that, because assignment does not constitute consent for exhaustion purposes, proprietor's national rights are not exhausted).

157. See, e.g., *Consten and Grundig*, [1966] E.C.R. 299, [1966] C.M.L.R. 418 (applying EC Treaty competition rules to limit exercise but not existence of intellectual property rights); *Deutsche Grammophon*, [1971] E.C.R. 487, [1971] C.M.L.R. 631 (stating that Treaty protects "specific subject matter" of national intellectual property rights); *Hoffmann-LaRoche*, [1978] E.C.R. 1139, [1978] 3 C.M.L.R. 217 (declaring that limiting national trademark rights requires analysis of "essential function" of trademarks); *Hag II*, [1990] E.C.R. I-3711, [1990] 3 C.M.L.R. 571 (holding that trademark proprietor's lack of consent to division of trademark permits it to retain national trademark rights).

158. See, e.g., *Hag I*, [1974] E.C.R. 731, [1974] 2 C.M.L.R. 127 (considering division of trademark among two firms due to wartime enemy property sequestration); *Hoffmann-LaRoche*, [1978] E.C.R. 1139, [1978] 3 C.M.L.R. 217 (addressing multiple trademarks created through subsidiaries of one company). See *supra* note 147 and accompanying text (explaining application of Article 36 to trademark division).

159. Compare *Consten and Grundig*, [1966] E.C.R. 299, [1966] C.M.L.R. 418 (addressing voluntary division of trademarks) and *Centrafarm v. Winthrop*, [1974] E.C.R. 1183, [1974] 2 C.M.L.R. 480 (applying specific object concept to voluntary splitting of trademark rights) with *Hag I*, [1974] E.C.R. 731, [1974] 2 C.M.L.R. 127 (addressing involuntary splitting of mark) and *Hag II*, [1990] E.C.R. I-3711, [1990] 3 C.M.L.R. 571 (analyzing involuntary trademark division).

160. See, e.g., *Centrafarm v. Winthrop*, [1974] E.C.R. 1183, [1974] 2 C.M.L.R. 480 (holding that company may not benefit from national trademark rights once it has voluntarily divided trademark among multiple subsidiaries); *Hoffmann-LaRoche*, [1978] E.C.R. 1139, [1978] 3 C.M.L.R. 217 (addressing application of Free Movement of Goods principle to multiple trademarks created through subsidiaries of one company). See *supra* notes 12-13 and accompanying text (explaining parallel importation).

without the full consent of its proprietor.¹⁶¹ The proprietor will invoke national trademark rights to block any importation of identically marked products into its territory by the new trademark owner.¹⁶²

1. Voluntary Division

In defining the limits that the Free Movement of Goods principle places upon national intellectual property rights, the ECJ determines when an intellectual property proprietor has exhausted its national intellectual property rights.¹⁶³ In the 1970's, the ECJ attempted to establish a standard for deciding when a party has exhausted its national intellectual property rights.¹⁶⁴ The ECJ's doctrinal evolution originated in 1966 with a distinction between the existence and the exercise of intellectual property rights,¹⁶⁵ which was succeeded by the doctrine of specific subject matter,¹⁶⁶ and continued with the principle of essential function.¹⁶⁷

161. See, e.g., *Hag I*, [1974] E.C.R. 731, [1974] 2 C.M.L.R. 127. Involuntary division of a trademark occurred, for example, when the Belgian Government sequestered German enemy property following World War II, and the German trademark owner could not prevent his trademark from appearing in Belgium. *Id.* See also *Hag II*, [1990] E.C.R. I-3711, [1990] 3 C.M.L.R. 571 (revisiting facts of *Hag I*).

162. See, e.g., *Hag I*, [1974] E.C.R. 731, [1974] 2 C.M.L.R. 127 (ruling on trademark proprietor's attempted use of national trademark rights to block imports); *Hag II*, [1990] E.C.R. I-3711, [1990] 3 C.M.L.R. 571 (addressing circumstances under which trademark owner had filed national trademark infringement action to prevent importation of identically marked products).

163. See Warwick A. Rothnie, *Hag II: Putting the Common Origin Doctrine to Sleep*, 1 EUR. INTELL. PROP. REV. 24, 25 (1991) (stating that in *Deutsche Grammophon* "the Court expounded what has come to be known as the doctrine of exhaustion").

164. See, e.g., *Deutsche Grammophon*, [1971] E.C.R. 487, [1971] C.M.L.R. 631 (holding that once copyright owner has marketed or consented to marketing of product in another Member State, it may not use national intellectual property rights to block resulting imports); *Centrafarm v. Winthrop*, [1974] E.C.R. 1183, [1974] 2 C.M.L.R. 480 (stating that proprietor may benefit from national intellectual property rights only for purpose of putting products into circulation for first time); *Hoffmann-LaRoche*, [1978] E.C.R. 1139, [1978] 3 C.M.L.R. 217 (noting that with respect to trademarks, assessing exhaustion requires consideration of trademark's essential function).

165. See *Consten and Grundig*, [1966] E.C.R. 299, [1966] C.M.L.R. 418 (limiting exercise but not existence of intellectual property rights).

166. See *Deutsche Grammophon*, [1971] E.C.R. 487, [1971] C.M.L.R. 631 (establishing specific subject matter doctrine).

167. See *Hoffmann-LaRoche*, [1978] E.C.R. 1139, [1978] 3 C.M.L.R. 217 (articulating essential function of trademarks).

a. The Existence-Exercise Distinction

In 1966, the ECJ's decision in *Consten and Grundig*¹⁶⁸ began a brief trend of judgments that limited national intellectual property rights in favor of free trade.¹⁶⁹ *Consten and Grundig* involved the attempted use of national trademark laws to block parallel imports.¹⁷⁰ Grundig, a German manufacturer of electronic equipment, authorized its exclusive distributors in various Member States to register its "GINT" trademark in their respective countries.¹⁷¹ Subsequently, the parallel importer UNEF, having obtained Grundig appliances cheaply from a German wholesaler, attempted to sell the products in France.¹⁷² Consten, Grundig's exclusive distributor in France, was concerned that UNEF would undercut its prices and sued UNEF under French law for infringement of its GINT mark registered in France.¹⁷³

UNEF applied to the Commission for a declaration that Consten and Grundig had infringed Article 85¹⁷⁴ in registering

168. [1966] E.C.R. 299, [1966] C.M.L.R. 418.

169. See, e.g., *Deutsche Grammophon*, [1971] E.C.R. 487, [1971] C.M.L.R. 631 (holding that Free Movement of Goods principle can limit national copyrights); *Centrafarm v. Sterling*, [1974] E.C.R. 1147, [1974] 2 C.M.L.R. 480 (interpreting Free Movement of Goods rules as limiting exercise of national patent rights); *Hag I*, [1974] E.C.R. 731, [1974] 2 C.M.L.R. 127 (stating that national trademark rights are subject to limitations of Free Movement of Goods).

170. *Consten and Grundig*, [1966] E.C.R. 299, [1966] C.M.L.R. 418.

171. *Id.* at 303, [1966] C.M.L.R. at 420.

172. *Id.*

173. *Id.* at 303-04, [1966] C.M.L.R. at 420-21.

174. EC Treaty, *supra* note 3, art. 85, [1992] 1 C.M.L.R. at 626-27. Article 85 prohibits any agreement that restricts competition within the European Union:

1. The following shall be prohibited as incompatible with the common market: all agreements between undertakings, decisions by associations of undertakings and concerted practices which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the common market, and in particular those which:

(a) directly or indirectly fix purchase or selling prices or any other trading conditions;

(b) limit or control production, markets, technical development, or investment;

(c) share markets or sources of supply;

(d) apply dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;

(e) make the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.

and using the GINT trademark in France and other Member States.¹⁷⁵ Article 85 prohibits agreements restricting competition and affecting trade between Member States.¹⁷⁶ The French court opted to stay its proceedings until the decision of the Commission.¹⁷⁷ The Commission ruled in favor of UNEF and stated that Grundig's registration and use of the Gint mark in the various Member States violated Article 85.¹⁷⁸ When the matter was referred to the ECJ, the Court supported the Commission's decision and ruled that Consten's trademark rights could be limited because Consten and Grundig's partitioning of the European market through the use of national trademark laws violated Article 85 of the EC Treaty.¹⁷⁹ In response to Consten and Grundig's contention that Article 222 protected their national trademark rights,¹⁸⁰ the ECJ stated that the EC Treaty protects

Id. art. 85(1), [1992] 1 C.M.L.R. at 626.

175. *Consten and Grundig*, [1966] E.C.R. at 304, [1966] C.M.L.R. at 421.

176. EC Treaty, *supra* note 3, art. 85, [1992] 1 C.M.L.R. at 626-27.

177. *Consten and Grundig*, [1966] E.C.R. at 304, [1966] C.M.L.R. at 421.

178. *Id.* Because blocking imports can both impede Free Movement of Goods and restrict competition between firms within the European Union, the Commission often has the choice of arguing under either an Article 30 or an Article 85 basis. EC Treaty, *supra* note 3, arts. 30, 85, [1992] 1 C.M.L.R. at 602, 626-27. *See supra* notes 89, 125 and accompanying text (describing functions of Article 30 and Article 85).

An important procedural distinction, however, is that, under Article 169 of the EC Treaty, the Commission may bring an Article 30 action only against a Member State. *See* EC Treaty, *supra* note 3, art. 169, [1992] 1 C.M.L.R. at 686 (stating that Commission may bring matter before ECJ if Member State has failed to fulfill Treaty obligation); *see also* EC Treaty, *supra* note 3, art. 30, [1992] 1 C.M.L.R. at 602 (stating that quantitative restrictions shall be prohibited "between Member States"). The Commission may bring an Article 85 case, on the other hand, against either a Member State or a private party. *See* Commission Regulation No. 17, 1962 O.J. Eng. Spec. Ed. 87 (enabling Commission to enforce Articles 85 and 86); *see also* EC Treaty, *supra* note 3, art. 85, [1992] 1 C.M.L.R. at 626-27 (prohibiting agreements, by private "undertakings," which restrict competition). Regulation 17, which is not limited to acts of Member States, empowers the Commission to enforce Article 85 with respect to any agreement, decision or practice. Commission Regulation No. 17, *supra*, art. 2, 1962 O.J. Eng. Spec. Ed. at 88. Such an enforcing action by the Commission is termed a "negative clearance." *Id.* UNEF sought a negative clearance from the Commission stating that Consten and Grundig violated the Treaty by agreeing to register the Gint mark in various countries in order to partition the EU market. *Consten and Grundig*, [1966] E.C.R. at 304, [1966] C.M.L.R. at 421. Had the Commission argued under Article 30, it would have needed an act by a Member State, such as a decision by the French court to enforce Consten's registered trademark. EC Treaty, *supra* note 3, art. 30, [1992] 1 C.M.L.R. at 602.

179. *Consten and Grundig*, [1966] E.C.R. 299, [1966] C.M.L.R. 418.

180. *Id.* at 344-45, [1966] C.M.L.R. at 475. Because the case was not brought as a Free Movement violation under Article 30, Consten and Grundig could not profit from the Article 36 derogation. *See* EC Treaty, *supra* note 3, art. 36, [1992] 1 C.M.L.R. at 605

the existence of these rights but not their exercise.¹⁸¹

While this existence-exercise distinction provided the ECJ with a solution for the *Consten and Grundig* case, many legal commentators observed that the concept did not define clear boundaries for national intellectual property rights.¹⁸² First, the Court did not define what acts constitute "exercising" intellectual property rights.¹⁸³ Second, because the law tends to recognize the existence of rights in terms of their ability to be exercised, legal commentators questioned whether the distinction could be drawn at all.¹⁸⁴

In *Sirena v. Eda*,¹⁸⁵ the ECJ nevertheless continued its appli-

(providing for derogation to Articles 30 to 34 but not to other parts of Treaty). On the other hand, Article 222 was available because it applies to the entire Treaty. *Id.* art. 222, [1992] 1 C.M.L.R. at 711.

181. *Consten and Grundig*, [1966] E.C.R. at 345, [1966] C.M.L.R. at 476.

182. *Id.* See Rothnie, *supra* note 163, at 159 (stating "the apparent demise of the dichotomy between existence and exercise . . . make[s] it easier for businessmen and their advisors to determine what is, and what is not, permissible under Community law"); A. David Demiray, *Intellectual Property and the External Power of the European Commission: the New Extension*, 16 MICH. J. INT. L. 187, 238 (1994) (discussing "the inherent imprecision surrounding the existence/exercise standard"); Liam McNieve & Cyrus Mehta, *Magill and Computer Software Implications in the European Community*, 4 J. OF PROPRIETARY RIGHTS 2 (1992) (referring to existence-exercise distinction as "sometimes blurred").

183. See *Consten and Grundig*, [1966] E.C.R. at 345, [1966] C.M.L.R. at 476 (failing to elaborate on what constitutes exercise of intellectual property rights and how exercise of intellectual property rights are to be limited by EC Treaty); see also KORAH, *supra* note 13, at 190, § 9.2 (observing that "[i]n ruling that an important difference rests on a distinction which cannot be drawn by logical analysis, the Court created a very flexible instrument for it to develop the law").

184. See KORAH, *supra* note 13, at 190, § 9.2 (stating that "[i]n legal theory, it is impossible to draw the line between existence and exercise, except at the extremes. Analytically, the existence of a right consists of all the ways it must be exercised."); Rothnie, *supra* note 163, at 28 (remarking that "dichotomy between existence and exercise of intellectual property rights seems to have vanished"); Robert S. Smith, *The Unresolved Tensions Between Trademark Protection and Free Movement of Goods in the European Community*, 3 DUKE J. COMP. & INT. L. 89, 113 (1992) (stating, "[i]t is misleading to separate the existence of trademark rights from their exercise. . . . the exercise of a property right defines its existence"); Kaoru Takamatsu, *Parallel Importation of Goods: A Comparative Analysis*, 57 WASH. L. REV. 433, 459 (1982) (observing that "the existence of trademark rights without the exercise thereof has no significance"); Rene Joliet, *Trademark Law and the Free Movement of Goods: The Overruling of the Judgement in Hag I*, 22 INT. REV. OF INDUS. PROP. & COPYRIGHT L. 303, 314-15 (1991). Joliet, who served as Judge at the ECJ before his unfortunate passing in 1995, pointed out that the *Hag II* judgement was silent on the existence-exercise dichotomy. *Id.* In expressing his approval of this omission, Joliet noted that when the exercise of rights granted by national laws are reduced, the existence of those rights are called into question. *Id.*

185. [1971] E.C.R. 69, [1971] C.M.L.R. 260.

cation of the existence-exercise concept.¹⁸⁶ In 1937, an American company, Mark Allen, assigned its "Prep" trademark for a shaving cream to the Italian firm Sirena.¹⁸⁷ Mark Allen then licensed this same mark to a firm based in Germany.¹⁸⁸ The German firm began to sell its product bearing the Prep mark on the Italian market, at a price considerably lower than that of Sirena's identically-marked good.¹⁸⁹ Sirena brought a trademark infringement action in the Italian national courts.¹⁹⁰ The German importer contended that, under the circumstances, Article 85 of the EC Treaty prevented Sirena from exercising its Italian trademark rights.¹⁹¹

Upon reference to the ECJ by the Italian court, pursuant to Article 177,¹⁹² the ECJ ruled that Article 85 prevents a trademark owner from exercising national trademark rights to restrict imports bearing the same trademark, where the importer has acquired use of the trademark through an agreement.¹⁹³ The ECJ stated that Sirena's use of national trademark laws to block imports, combined with other licenses and assignments made be-

186. *Id.*

187. Opinion of Advocate General de Lamothe, *Sirena*, [1971] E.C.R. at 85, [1971] C.M.L.R. at 261.

188. *Id.*

189. *Id.* at 86, [1971] C.M.L.R. at 262.

190. *Sirena*, [1971] E.C.R. at 71, [1971] C.M.L.R. at 262.

191. Opinion of Advocate General de Lamothe, *Sirena*, [1971] E.C.R. at 86, [1971] C.M.L.R. at 262. The importer also based its defense on Article 86, which prohibits the abuse of a dominant position by an undertaking. *Id.*; see EC Treaty, *supra* note 3, Art. 86, [1992] 1 C.M.L.R. at 627-28. According to the Article, "[a]ny abuse by one or more undertakings of a dominant position within the common market . . . shall be prohibited . . . insofar as it may affect trade between Member States." *Id.*

192. See *Sirena*, [1971] E.C.R. at 80, [1971] C.M.L.R. at 272. The Tribunal Civile e Penale, in Milan, brought two questions. *Id.* The first was whether Article 85 and 86 applied to the effects of a trademark assignment made before the EC Treaty entered into force. *Id.* The ECJ answered in the affirmative. *Id.* at 84, [1971] C.M.L.R. at 275. The second question was stated as follows:

Must the said Article 85 and 86 be interpreted as preventing the proprietor of a trade-mark lawfully registered in one Member State from exercising the absolute right derived from the trade-mark to prohibit third parties from importing from other countries of the Community products bearing the same trade-mark, lawfully attached to them in their place of origin?

Id. at 72, [1971] C.M.L.R. at 262. The Court responded to the Article 86 claim by stating that Article 86 does not apply to parties that do not have the power to impede competition over a considerable part of the relevant market. *Id.* at 85, [1971] C.M.L.R. at 275. The Court gave more attention to the Article 85 claim. *Id.* at 82-83, [1971] C.M.L.R. at 273-74.

193. *Id.* at 84, [1971] C.M.L.R. at 275.

tween Mark Allen and various parties in separate Member States, could distort competition within the common market.¹⁹⁴

The ECJ, supported by the Advocate General, further observed that trademark rights merit a lesser degree of protection than other forms of intellectual property.¹⁹⁵ Advocate General Dutheillet de Lamothe's opinion explained why patents deserve more protection than trademarks.¹⁹⁶ He stated that creating a trademark does not normally require the investment of time and money required for the production of a patent.¹⁹⁷ He also asserted that society benefits more from patents than from trademarks, using as an example a comparison between the Prep trademark and penicillin.¹⁹⁸

b. The Specific Subject Matter Concept

Five years after the establishment of the existence-exercise principle in *Consten and Grundig*, the Court presented an alternative doctrine with respect to the Free Movement of Goods principle in *Deutsche Grammophon*.¹⁹⁹ The Court held that the Article 36 derogation to Free Movement of Goods will protect only the "specific subject matter" of an intellectual property right.²⁰⁰

194. *Id.* at 82, ¶ 10, [1971] C.M.L.R. at 274.

195. *Id.*; Opinion of Advocate General de Lamothe, *Sirena*, [1971] E.C.R. at 87-88, [1971] C.M.L.R. at 264-66.

196. See Opinion of Advocate General de Lamothe, *Sirena*, [1971] E.C.R. at 87-88, [1971] C.M.L.R. at 264-66.

197. *Id.* at 87, [1971] C.M.L.R. at 265.

198. *Id.* Mr. Advocate General Dutheillet de Lamothe also opined that, while trademarks once provided consumers with a guarantee of quality, they more recently have become merely an aid to advertising. *Id.*

199. [1971] II E.C.R. 487, [1971] C.M.L.R. 631.

200. *Id.* at 500, ¶ 11, [1971] C.M.L.R. at 657. The Court reiterated the distinction between existence and exercise introduced in *Consten and Grundig*, but it immediately modified the distinction in the next sentence with its specific object principle. *Id.* at 499-500, ¶ 11, [1971] C.M.L.R. at 657. The Court did not, however, explain what it meant with the term "specific subject matter." *Id.*

The phrases "specific subject matter" and "specific object" are the European Court Reports' and the Common Market Law Reports' two different translations of the same term used in the ECJ's original decisions written in French. Compare *Deutsche Grammophon*, [1971] II E.C.R. at 500, ¶ 11 (using term "specific subject matter") and *Centrafarm v. Winthrop*, [1974] E.C.R. at 1194, ¶ 7 (employing "specific subject matter" usage) with *Deutsche Grammophon*, [1971] C.M.L.R. at 657, ¶ 11 (referring to "specific object") and *Centrafarm v. Winthrop*, [1974] 2 C.M.L.R. at 508, ¶ 7 (opting for "specific object" usage). The original French term is "l'objet spécifique." See *Deutsche Grammophon*, [1971] Recueil de la Jurisprudence de la Cour 487, 500, ¶ 11. The original French decision reads, "l'article 36 n'admet de dérogations à cette liberté que dans la

Although *Deutsche Grammophone* involved copyrights, its specific subject matter concept applies to intellectual property in general.²⁰¹ The doctrine decrees that use of a trademark right falling under Article 30 is permissible under Article 36 only if the specific subject matter of the trademark right is at stake.²⁰² If the specific subject matter of the right is not at stake, the ECJ considers the trademark right to be a disguised restriction on trade between Member States pursuant to the Article 36 proviso.²⁰³

Although the Court did not explicitly define the specific subject matter of intellectual property rights,²⁰⁴ it did state that once a copyright owner has marketed or consented to the marketing of its product in another Member State, it may not block imports of that product through the use of national intellectual property rights.²⁰⁵ Thus, the specific subject matter of copyrights entitles the copyright owner to benefit fully from intellectual property laws in one Member State, but restricts such a holder from using copyrights in several Member States to impede free trade.²⁰⁶ The Court did not address whether this interpretation of the specific subject matter doctrine applied to other forms of intellectual property.²⁰⁷

For trademarks, the case *Centrafarm v. Winthrop*²⁰⁸ provided the answer to how the specific subject matter concept applied outside of copyright protection.²⁰⁹ In *Winthrop*, the Court clari-

mesure ou elles sont justifiées par la sauvegard de droits qui constituent l'objet spécifique de cette propriété." *Id.* (emphasis added).

201. See *Deutsche Grammophone*, [1971] II E.C.R. at 500, ¶ 11, [1971] C.M.L.R. at 657 (stating that Article 36 admits for derogations from Free Movement of Goods principle only to safeguard specific subject matter of "industrial and commercial property"). See, e.g., *Centrafarm v. Winthrop*, [1974] E.C.R. 1183, [1974] 2 C.M.L.R. 480 (applying specific subject matter concept to trademark division); *Centrafarm v. Sterling*, [1974] E.C.R. 1147, [1974] 2 C.M.L.R. 480 (applying specific subject matter principle to division of patent rights).

202. *Centrafarm v. Winthrop*, [1974] E.C.R. 1183, [1974] 2 C.M.L.R. 480.

203. *Id.*; *Deutsche Grammophon*, [1971] II E.C.R. at 500, ¶ 11, [1971] C.M.L.R. at 657.

204. See *Deutsche Grammophone*, [1971] II E.C.R. 487, [1971] C.M.L.R. 631 (neglecting to state what consists of specific subject matter with regard to intellectual property rights).

205. *Id.* at 500, ¶ 12, [1971] C.M.L.R. at 657.

206. *Id.*

207. *Id.* at 487, [1971] C.M.L.R. 631.

208. [1974] E.C.R. 1183, [1974] 2 C.M.L.R. 480.

209. *Id.*

fied the specific subject matter concept introduced in *Deutsche Grammophon*.²¹⁰ *Winthrop*, a parallel importation case, involved a company that had registered its trademark for medical drugs, through its subsidiaries, in both the Netherlands and the United Kingdom.²¹¹ The product sold at a considerable price difference in the two countries.²¹² As a result, the drug manufacturer, Winthrop, enlisted Dutch trademark law to prevent Centrafarm, a parallel importer, from taking advantage of the price discrepancy.²¹³

To determine the extent of Winthrop's trademark rights under Article 36, the Court recited the existence-exercise distinction,²¹⁴ then stated that Article 36 could safeguard only the specific subject matter of trademarks.²¹⁵ The Court defined a trademark's specific subject matter as allowing a trademark owner to put products into circulation for the first time, thereby preventing competitors' unauthorized use of the trademark and the reputation it carries.²¹⁶ Once an owner has consented to putting a trademarked product into circulation for the first time,

210. *Id.* at 1194, ¶ 8, [1974] 2 C.M.L.R. at 508.

211. *Id.* at 1185, [1974] 2 C.M.L.R. at 484.

212. *Centrafarm v. Winthrop*, [1974] E.C.R. at 1185, [1974] 2 C.M.L.R. at 484.

213. *Id.*

214. *Id.* at 1194, ¶ 6, [1974] 2 C.M.L.R. at 503.

215. *Id.* at 1194, ¶ 7, [1974] 2 C.M.L.R. at 503.

216. *Id.* at 1194, ¶ 8, [1974] 2 C.M.L.R. at 508. The Court defined the specific subject matter of trademarks as follows:

[T]he guarantee that the owner of the trade mark has the exclusive right to use that trade mark, for the purpose of putting products protected by the trade mark into circulation for the first time, [thereby] protect[ing] him against competitors wishing to take advantage of the status and reputation of the trade mark by selling products illegally bearing that trade mark.

Id. at 1194, ¶ 9, [1974] 2 C.M.L.R. at 508.

In the case *Centrafarm v. Sterling*, the Court defined the specific object of patents: to reward the inventor's creative effort by granting it the exclusive right to manufacture products and put them into circulation for the first time. *Centrafarm v. Sterling*, [1974] E.C.R. at 1162, ¶ 9, [1974] C.M.L.R. at 503. Sterling owned patents for pharmaceuticals in the Netherlands as well as the United Kingdom, where Crown subsidies reduced the price to about half that in the Netherlands. *Id.* at 1149, [1974] 2 C.M.L.R. at 484; see KORAH, *supra* note 13, § 9.4.1, at 192 (explaining that English Government paid for most medical drugs used in United Kingdom). When Centrafarm attempted to take advantage of this price differential through parallel importation, Sterling contended that its Dutch patent rights could block the imports under the Article 36 derogation. *Centrafarm v. Sterling*, [1974] E.C.R. at 1149, [1974] 2 C.M.L.R. at 484. The Court, however, in view of the specific subject matter of patents, would not permit Sterling to use patent rights to protect its investment in Holland, because it had already profited from its returns in the United Kingdom. *Id.* at 1163, ¶ 15, [1974] 2 C.M.L.R. at 504. Ster-

the right is exhausted.²¹⁷ Because an owner can exhaust his intellectual property rights, this has been termed the exhaustion doctrine.²¹⁸ Consequently, Winthrop, having reaped benefits from putting its product into circulation in the United Kingdom under British trademark protection, could not thereafter use Dutch trademark laws to divide up the European market.²¹⁹

c. The Essential Function of Trademarks

While the Court has applied the concept of specific subject matter to all types of intellectual property cases,²²⁰ two ECJ decisions rendered in 1978 revealed that trademarks required further analysis.²²¹ In both *Hoffman LaRoche v. Centrafarm*²²² and *Centrafarm v. AHP*,²²³ the Court, after reciting the specific subject matter of a trademark, stated that the scope of the owner's trademark right must be further defined by its essential function.²²⁴

In *Hoffman LaRoche*, the Court upheld Hoffman LaRoche's

ling's actions thus constituted a disguised restriction on trade between Member States under the second sentence of Article 36. *Id.* at 1162, ¶7, [1974] 2 C.M.L.R. at 503.

217. *Centrafarm v. Winthrop*, [1974] E.C.R. at 1194, ¶9, [1974] 2 C.M.L.R. at 508-09.

218. See EC Trademark Directive, *supra* note 52, art. 7, O.J. L 40/1, at 5 (1988). The EC Trademark Directive has codified the doctrine of exhaustion as follows:

Exhaustion of the rights conferred by a trade mark

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

Id.

219. *Centrafarm v. Winthrop*, [1974] E.C.R. at 1194, ¶9, [1974] 2 C.M.L.R. at 508-09.

220. See, e.g., *Deutsche Grammophon*, [1971] II E.C.R. 487, [1971] C.M.L.R. 631 (holding that Article 36 safeguards only specific subject matter of national copyrights); *Centrafarm v. Sterling*, [1974] E.C.R. 1147, [1974] 2 C.M.L.R. 480 (applying specific subject matter principle to limit national patent rights); *Centrafarm v. Winthrop*, [1974] E.C.R. 1183, [1974] 2 C.M.L.R. 480 (stating that national trademark rights are protected only so far as their specific subject matter is concerned); see *supra* notes 136-54 and accompanying text (reviewing jurisprudence regarding specific subject matter doctrine).

221. See *Hoffmann-LaRoche*, [1978] E.C.R. 1139, [1978] 3 C.M.L.R. 217 (explaining that evaluating trademark rights of proprietor necessitates analysis beyond mere consideration of specific subject matter of trademarks); *Centrafarm v. AHP*, [1978] E.C.R. 1823, [1979] 1 C.M.L.R. 326 (stating that assessing trademark owner's rights requires further consideration).

222. [1978] E.C.R. 1139, [1978] 3 C.M.L.R. 217.

223. [1978] E.C.R. 1823, [1979] 1 C.M.L.R. 326.

224. *Hoffmann-LaRoche*, [1978] E.C.R. at 1164, ¶7, [1978] 3 C.M.L.R. at 241; *Centrafarm v. AHP*, [1978] E.C.R. at 1840, ¶12, [1979] 1 C.M.L.R. at 342-43.

right under Article 36 to exert German trademark law where Centrafarm had purchased Hoffman LaRoche's valium pills in England and repackaged them with both the Hoffman and Centrafarm marks for sale in Germany.²²⁵ Centrafarm, which practiced parallel trade in pharmaceutical products, imported Hoffman LaRoche's products into Germany with the Hoffman LaRoche trademark and the words "Marketed by Centrafarm GmbH" on the outside of the package.²²⁶ Hoffman LaRoche, which was marketing its product in Germany as well as England, obtained an injunction from the local German court to block Centrafarm's imports.²²⁷

Upon appeal by Centrafarm and reference to the ECJ,²²⁸ the Court considered whether Hoffman LaRoche's use of German trademark law to block Centrafarm's imports was within the specific subject matter of its trademark rights.²²⁹ The Court ruled that, given a trademark's essential function, Hoffmann LaRoche was entitled to block Centrafarm's repackaged imports.²³⁰ The Court stated that a trademark's essential function was to guarantee the origin of the trademarked product to the consumer by enabling him to distinguish that product from products of another origin.²³¹

The ECJ also analyzed the essential function of trademarks in *Centrafarm v. AHP*.²³² The issue was whether AHP's use of slightly different trademarks, along with slightly different flavors, for its pharmaceutical products in the United Kingdom and the Netherlands constituted a disguised restriction on trade in violation of Articles 30 through 36.²³³ Centrafarm had bought AHP's

225. *Hoffmann LaRoche*, [1978] E.C.R. 1139, [1978] 3 C.M.L.R. 217.

226. *Id.* at 1142, [1978] 3 C.M.L.R. at 220.

227. *Id.*

228. *Id.* at 1142, [1978] 3 C.M.L.R. at 220-21.

229. *Id.* at 1163, ¶ 6, [1978] 3 C.M.L.R. at 241.

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

231. *Id.* The Court declared that the essential function was "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." *Id.*

232. [1978] E.C.R. 1823, [1979] 1 C.M.L.R. 326.

233. *Centrafarm v. AHP*, [1978] E.C.R. at 1840, ¶ 12, [1979] 1 C.M.L.R. at 342-43. Unlike in *Hoffman LaRoche*, the Court stated that once the specific subject matter of the trademark was taken into account, the essential function would be considered *in exceptional circumstances*. *Id.* (emphasis supplied). See *Hoffmann-LaRoche*, [1978] E.C.R. at 1164, [1978] 3 C.M.L.R. at 241 (neglecting to limit application of essential function

products, labeled "Serinid D," on the British market, and repackaged them with the "Seresta" mark.²³⁴ Centrafarm then sold the repackaged products in the Netherlands, where AHP was already circulating its product under the "Seresta" label.²³⁵ Centrafarm, as plaintiff, claimed that AHP could not benefit from Dutch trademark law because its use of different marks and different flavors for its products violated Articles 30 through 36.²³⁶

The Court, however, held that a manufacturer may use different marks for the same product in different Member States, provided that the manufacturer is not engaging in a disguised restriction on parallel trade between Member States.²³⁷ In coming to its conclusion, the Court stated that the essential function of a trademark, to guarantee to consumers the origin of the marked product, allows a trademark proprietor to use national trademark laws to prevent a third party from deceiving consum-

concept to "exceptional circumstances"). Although the Court did not further elaborate, this phrase suggests that the Court did not want to advocate always considering essential function when addressing the specific object of trademarks. *Centrafarm v. AHP*, [1978] E.C.R. at 1840, ¶ 12, [1979] 1 C.M.L.R. at 342-43. The Court perhaps thought that the essential function of a trademark was worthy of consideration only in cases difficult to decide. *Id.*

In *Danske Supermarked v. Imerco*, for example, the Court denied a company recourse to national trademark rights despite consumer confusion. *Danske Supermarked A/S v. Imerco A/S*, Case 58/80, [1981] E.C.R. 181, [1981] 3 C.M.L.R. 590. The facts were that the Danish company Imerco ordered chinaware with the words "Imerco Fiftieth Anniversary" and had to reject a number of the items due to substandard quality. *Id.* at 190-91, ¶ 2, [1981] 3 C.M.L.R. at 599-600. Imerco permitted these inferior products to be sold, as long as they were not resold in Denmark. *Id.* at 191, ¶ 2, [1981] 3 C.M.L.R. at 600. When an importer repackaged the items for sale into Denmark, Imerco looked to Danish trademark and copyright law to prevent the resale. *Id.* at 191, ¶ 4, [1981] 3 C.M.L.R. at 600.

The ECJ held that since Imerco had consented to circulating its products within another Member State, it had exhausted its trademark and copyright. *Id.* at 196-97, [1981] 3 C.M.L.R. at 603-04. The Advocate General in *Danske Supermarked* felt that the proprietor's consent outweighed the consumer confusion that would result from products of varying quality being marketed with the Imerco name. Opinion of Advocate General Capotorti, *Danske Supermarked A/S v. Imerco A/S*, Case 58/80, [1981] E.C.R. at 201, ¶ 3, [1981] 3 C.M.L.R. at 597.

234. *Centrafarm v. AHP*, [1978] E.C.R. at 1825, [1979] 1 C.M.L.R. at 328.

235. *Id.*

236. *Id.* at 1825, [1979] 1 C.M.L.R. at 328-29.

237. *Id.* at 1843, [1979] 1 C.M.L.R. at 344. To decide the question of when the use of different marks in fact constitutes a disguised restriction on trade between Member States, the Court writes, "[I]t is for the national court to decide in each particular case whether the proprietor has followed the practice of using different marks for the same product for the purpose of partitioning the markets." *Id.* at I-1842, ¶ 23, [1979] 1 C.M.L.R. at 343.

ers by changing the proprietor's mark.²³⁸ Both *Hoffman LaRoche* and *Centrafarm v. AHP*, therefore, interpreted trademarks in terms not only associated with the owner's intellectual property rights but also with respect to the consumer's interest.²³⁹

2. Involuntary Division

Along with the developments regarding the voluntary division of trademarks,²⁴⁰ a set of cases arose involving the involuntary splitting of trademarks.²⁴¹ The ECJ applied a separate set of doctrines to resolve these issues:²⁴² the common origin princi-

238. *Centrafarm v. AHP*, [1978] E.C.R. at 1840, ¶ 15, [1979] 1 C.M.L.R. at 343.

239. *Id.*; *Hoffmann-LaRoche*, [1978] E.C.R. at 1164, ¶ 7, [1978] 3 C.M.L.R. at 241. Two years earlier, in *Terrapin v. Terranova*, the ECJ had noted that the basic function of a trademark was to guarantee to consumers that a product has a certain origin. Case 119/75, [1976] E.C.R. 1039, 1061, ¶ 6, [1976] 2 C.M.L.R. 482, 505-06. The concept of essential function, therefore, was not completely new in the ECJ's decisions of *Hoffmann-LaRoche* and *Centrafarm v. AHP*. *Id.* Both *Hoffmann-LaRoche* and *Centrafarm v. AHP* did represent, however, the first time that the ECJ expressly stated that the scope of a trademark owner's rights must be further defined by the trademark's essential function. See *Hoffmann-LaRoche*, [1978] E.C.R. at 1164, ¶ 7, [1978] 3 C.M.L.R. at 241 (explaining that, in addition to specific subject matter of trademark right, essential function must be considered); *Centrafarm v. AHP*, [1978] E.C.R. at 1840, ¶ 12, [1979] 1 C.M.L.R. at 342-43 (stating that trademark proprietor's rights must consider essential function of trademark).

240. See, e.g., *Consten and Grundig*, [1966] E.C.R. 299, [1966] C.M.L.R. 418 (establishing distinction between existence and exercise); *Centrafarm v. Winthrop*, [1974] E.C.R. 1183, [1974] 2 C.M.L.R. 480 (defining specific object); *Hoffmann-LaRoche*, [1978] E.C.R. 1139, [1978] 3 C.M.L.R. 217 (introducing essential function).

241. See *Hag I*, [1974] E.C.R. 731, [1974] 2 C.M.L.R. 127 (addressing involuntary splitting of mark); *Hag II*, [1990] E.C.R. I-3711, [1990] 3 C.M.L.R. 571 (analyzing involuntary trademark division).

242. See *Hag I*, [1974] E.C.R. 731, [1974] 2 C.M.L.R. 127 (establishing common origin doctrine in case of involuntary trademark division); *Hag II*, [1990] E.C.R. I-3711, [1990] 3 C.M.L.R. 571 (applying doctrine of consent to involuntary splitting of trademark).

The ECJ developed separate doctrines for voluntary division because in these cases, determining the rights of trademark proprietors depends in part on the fact that these proprietors have taken an action which resulted in the splitting of the trademark. See, e.g., *Deutsche Grammophon*, [1971] II E.C.R. 487, [1971] C.M.L.R. 631 (holding that once copyright owner has marketed or consented to marketing of product in another Member State, it may not use national intellectual property rights to block resulting imports); *Centrafarm v. Winthrop*, [1974] E.C.R. at 1194, ¶ 9, [1974] 2 C.M.L.R. at 508-09 (stating that once owner consents to putting trademarked product into circulation for first time, right is exhausted).

In cases of involuntary division, the ECJ must base its analysis on factors other than the trademark owner's consent to the division of its mark, because the owner did not provide such consent. See *Hag I*, [1974] E.C.R. 731, [1974] 2 C.M.L.R. 127 (stating that national trademark rights not enforceable because trademarks derived from common origin). Indeed, far from having to consider the proprietor's consent, the Court has

ple²⁴³ and its successor, the consent doctrine.²⁴⁴ The consent doctrine provides that an involuntary trademark division does not exhaust a trademark proprietor's national trademark rights because the proprietor has not consented to the division of its trademark.²⁴⁵

a. The Common Origin Doctrine

In *Hag I*,²⁴⁶ the ECJ considered whether Articles 30 through 36 prohibited the Luxembourg-based firm Van Zuylen Frères from exerting its local Benelux trademark rights²⁴⁷ against the German company Hag AG.²⁴⁸ Van Zuylen Frères sought to prevent Hag AG from selling its competing product with the same "Hag" mark in Luxembourg.²⁴⁹ The two companies traced their origin to the Belgian subsidiary of the German firm Hag AG.²⁵⁰ Shortly after World War II, this Belgian subsidiary was seized by

based its reasoning on the very fact that no such consent existed. See *Hag II*, [1990] E.C.R. I-3711, [1990] 3 C.M.L.R. 571 (reversing *Hag I* in holding that, because trademark owner did not consent to trademark split, it has not exhausted its national intellectual property rights).

243. See *Hag I*, [1974] E.C.R. 731, [1974] 2 C.M.L.R. 127. The common origin principle established that, where trademarks appearing in different Member States derive from a common origin, a trademark owner may not use national trademark rights to prevent the importation of identically-marked goods coming from another Member State. *Id.*

244. See *Hag II*, [1990] E.C.R. I-3711, [1990] 3 C.M.L.R. 571. The consent doctrine states that a trademark proprietor may enforce its national trademark rights as long as it has not consented to the splitting of its trademark. *Id.*

245. *Id.*

246. [1974] E.C.R. 731, [1974] 2 C.M.L.R. 127.

247. See Benelux Convention on Trade Marks of March 19, 1962, March 19, 1962, 704 U.N.T.S. 301. In 1962, Belgium, Luxembourg, and the Netherlands agreed to implement uniform national trademark laws. *Id.* art. 1, at 302-04. The Treaty begins as follows:

His Majesty the King of Belgium,
Her Royal Highness the Grand Duchesse of Luxembourg,
Her Majesty the Queen of the Netherlands,

The Above Contracting Parties shall implement in their national laws, either in one of the original texts or in both texts, the uniform Benelux law on trademarks, annexed to the present Convention, and shall establish a common bureau under the name "Benelux Trademark Bureau."

Id. (Author's translation from French text). See generally W. MAK & H. MOLIJN, INTRODUCTION TO TRADE MARK LAW IN THE BENELUX (1982) (surveying broadly trademark protection in Benelux countries).

248. *Hag I*, [1974] E.C.R. at 732-33, [1974] 2 C.M.L.R. at 129-30.

249. *Id.*

250. *Id.*

the Belgian Government, as enemy reparations from Germany, and was eventually sold to Van Zuylen Frères in Luxembourg.²⁵¹ The parent firm, meanwhile, remained a German company.²⁵² The Hag trademark thus became separately owned in Germany and Luxembourg.²⁵³

Van Zuylen Frères argued that its attempt to block Hag AG's identically-marked imports fell within the specific subject matter of its trademark rights.²⁵⁴ The Court, however, responded that trademark owners may not rely upon territorial limitations of national trademark rights to block imports.²⁵⁵ It held that, despite the involuntary nature of the trademark division, Van Zuylen Frères could not use its national trademark rights to block the importation of the identical Hag mark because the two marks came from the same origin.²⁵⁶ This established the doctrine of common origin.²⁵⁷

b. The Doctrine of Consent

More recently, in *Hag II*,²⁵⁸ the Court expressly rejected the common origin doctrine and adopted the consent doctrine.²⁵⁹

251. *Id.*

252. *Id.*

253. *Id.*

254. *Id.* at 737, [1974] 2 C.M.L.R. at 129. Recall that a few years before the *Hag I* judgement, *Deutsche Grammophon* had established that Article 36 protected the specific subject matter of national intellectual property rights. *Deutsche Grammophon*, [1971] II E.C.R. 487, [1971] C.M.L.R. 631.

255. *Hag I*, [1974] E.C.R. at 744, [1974] 2 C.M.L.R. at 143. The Advocate General in *Hag I* supported this view and stated that, while the specific subject matter of trademarks was to indicate origin, it does not include the right to enjoy territorial protection deriving from national trademark legislation. Opinion of Advocate General Mayras, *Hag I*, [1974] E.C.R. at 754, [1974] 2 C.M.L.R. at 141.

256. *Hag I*, [1974] E.C.R. at 744, [1974] 2 C.M.L.R. at 143.

257. See, e.g., Rothnie, *supra* note 163, at 25 (stating that, with *Hag I* ruling, "the doctrine of common origin was born"). The case *Terrapin v. Terranova* confirmed the *Hag I* judgement. [1976] E.C.R. 1039, [1976] 1 C.M.L.R. 482. In *Terrapin*, the Court held that an owner's intellectual property right is exhausted when its product is marketed in another member state, even when a trademark has been subdivided by public mandate. *Id.* at 1061, ¶ 6, [1976] 1 C.M.L.R. at 505-06.

258. *Hag II*, [1990] E.C.R. I-3711, [1990] 3 C.M.L.R. 571.

259. *Id.* See Joliet, *supra* note 184, at 319. Judge Joliet agreed with the Court's decision in *Hag II* to ignore the precedent of *Hag I*:

The *Hag II* judgement shows that the value of precedent is not absolute for the Court. Admittedly, a doctrine of binding precedent enhances legal certainty, but wherever it can be shown that an existing decision is clearly wrong, as was the case with the judgement in *Hag I*, the Court can be expected to review its position. That is a conclusion over which we should all rejoice.

In the late 1970's, Van Zuylen Frères had new ownership, which attempted to sell its product with the Hag mark in Germany.²⁶⁰ Hag AG then utilized its trademark rights to block the imports, as Van Zuylen Frères had attempted in *Hag I*.²⁶¹ When the case came to the ECJ, the Court focused not on the common origin of the trademarks, but on Hag AG's lack of consent to the splitting of the original trademark.²⁶²

Because Hag AG never consented to Van Zuylen Frères' marketing of the Hag trademark in Germany, the Court held that Hag AG did not exhaust its trademark rights.²⁶³ With this declaration, the Court formally adopted the doctrine of consent, stating that exhaustion of intellectual property rights occurs only with the owner's consent to putting its product into circulation.²⁶⁴ If a trademark owner's mark divides involuntarily, therefore, the Court would not consider that proprietor to have exhausted the specific subject matter of its national trademark right.²⁶⁵ If Van Zuylen Frères had been a subsidiary of Hag AG, this would have amounted to consent on the part of Hag AG.²⁶⁶ But, because Van Zuylen Frères existed as a legally and economically independent entity, neither consent nor exhaustion took place.²⁶⁷

Id.

260. *Hag II*, [1990] E.C.R. at I-3712-13, [1990] C.M.L.R. at 572-73. The facts in *Hag II* were the converse of those in *Hag I*. *Id.*

261. *Id.*

262. *Id.* at I-3758-59, ¶ 15, [1990] 3 C.M.L.R. at 608.

263. *Id.* at I-3759-60, ¶ 20, [1990] 3 C.M.L.R. at 609.

264. *Id.*; see Tritton, *supra* note 19, at 424 (discussing establishment of consent doctrine in *Hag II*).

265. See, e.g., *Centrafarm v. Winthrop*, [1974] E.C.R. 1183, [1974] 2 C.M.L.R. 480 (establishing that specific subject matter of intellectual property right is consent to putting product into circulation for first time). The *Hag II* holding thus places emphasis on the term "consent" when applying the specific subject matter of national trademark rights. *Hag II*, [1990] E.C.R. at I-3759-60, ¶ 20, [1990] 3 C.M.L.R. at 609-10.

266. See *Hag II*, [1990] E.C.R. at I-3758-59, ¶ 15, [1990] 3 C.M.L.R. at 608. The ECJ stated that the determinative factor is the absence of consent on the part of the trademark proprietor to putting products into circulation, in another Member State, which are then marketed by an undertaking economically and legally independent of that proprietor. *Id.* The Court specified that, while the trademark initially belonged to a subsidiary of Hag AG, the expropriation of that subsidiary resulted in the trademark being acquired by a third party, Van Zuylen Frères. *Id.* at I-3757, ¶ 9, [1990] 3 C.M.L.R. at 607.

267. *Id.* at I-3759, ¶ 19, [1990] 3 C.M.L.R. at 609. The Court also emphasized the essential function of a trademark, recalling that it was to guarantee the origin of a marked product by "enabling [the consumer] without any possibility of confusion to

The Court's requirement of voluntary consent in *Hag II* had precedence in prior non-trademark cases.²⁶⁸ In *Keurkoop v. Nancy Kean Gifts*,²⁶⁹ for instance, the Court ruled that because Nancy Kean had not consented to the selling of her handbags in Germany, she could invoke her Benelux design rights to keep German imports of her products out of the Netherlands.²⁷⁰ In *Pharmon v. Hoechst*,²⁷¹ the Court found that where a Dutch patent holder's compulsory licensee²⁷² in the United Kingdom exported its products into the Netherlands, the patent holder could block the importation because it had not consented to the licensing.²⁷³

C. The Ideal Standard Decision

In light of the consent doctrine established in *Hag II*,²⁷⁴ the ECJ determined in *Ideal Standard* whether a proprietor's assignment of its trademark rights constituted consent.²⁷⁵ On the one

distinguish that product." *Id.* at I-3758, ¶ 14, [1990] 3 C.M.L.R. at 608. In order to preserve the 'Hag' mark's essential function, the Court stated, Hag AG would need to block Van Zuylen Frères' products from entering the German market so that consumers could identify the source of the product. *Id.* at I-3759, ¶ 16, [1990] 3 C.M.L.R. at 608. If Van Zuylen Frères' products entered Germany, consumers would be confronted with two 'Hag' brands of possibly varying quality. *Id.* In analyzing a trademark's essential function, the Court not only rejected the common origin doctrine favored in *Hag I*, but it endorsed a policy on trademark rights which focused on the consumer. *Id.*

268. See *Keurkoop BV v. Nancy Kean Gifts BV*, Case 144/81, [1982] E.C.R. 2853, [1983] 2 C.M.L.R. 47 (focusing on significance of design right owner's consent); *Pharmon v. Hoechst*, [1985] E.C.R. 2281, [1985] 3 C.M.L.R. 775 (requiring voluntary consent by patent proprietor).

269. [1982] E.C.R. 2853, [1983] 2 C.M.L.R. 47

270. *Keurkoop v. Nancy Kean Gifts*, [1982] E.C.R. at 2881, ¶ 29, [1983] 2 C.M.L.R. at 84.

271. [1985] E.C.R. 2281, [1985] 3 C.M.L.R. 775.

272. *Pharmon v. Hoechst*, [1985] E.C.R. at 2298, ¶ 25, [1985] 3 C.M.L.R. at 791.

273. *Id.*

274. See *Hag II*, [1990] E.C.R. I-3711, [1990] 3 C.M.L.R. 571 (introducing principle of consent).

275. See *Ideal Standard*, [1994] E.C.R. at I-2847, 48, 49, ¶¶ 34, 37, 40, [1994] 3 C.M.L.R. 907, 908, 909. In reviewing the established doctrines, the Court states:

The exhaustion of rights applies where the owner of the trademark in the importing State and the owner of the trade mark in the exporting State are the same or where, even if they are separate persons, they are economically linked. A number of situations are covered In [these situations] the function of the trademark is in no way called into question by freedom to import The problem posed by the [lower court's] question is whether the same principles apply where the trademark has been assigned.

Id.

hand, this assignment represented a voluntary act because the proprietor executed an assignment by choice.²⁷⁶ On the other hand, the act was involuntary because the assignee, not the proprietor, placed the trademarked product into circulation.²⁷⁷ The Court resolved this difficulty²⁷⁸ by narrowing its concept of consent to exclude assignments.²⁷⁹

1. Background to *Ideal Standard*

American Standard, a manufacturer of heating equipment and sanitary ware,²⁸⁰ was a U.S.-based company with international subsidiaries situated in various nations, including France and Germany.²⁸¹ The German subsidiary, Ideal Standard GmbH ("IS GmbH"), owned the trademark "Ideal Standard" in Germany.²⁸² Since 1976, IS GmbH dealt in sanitary ware only, due to American Standard's decision to end its operations in heating equipment.²⁸³

American Standard's French subsidiary, Ideal Standard SA ("ISSA"), first registered the Ideal Standard trademark in 1949, for both sanitary ware and heating installations in France.²⁸⁴ As its parent began to close down its heating equipment operations in 1975, ISSA turned over its manufacturing and marketing activities in heating equipment to SGF, a French company with which

276. See *id.* at I-2850, ¶ 42, [1994] 3 C.M.L.R. at 909 (referring to Commission's contention that by assigning its mark trademark owner gave implied consent to marked products being put into circulation).

277. See *id.* at I-2849-50, ¶ 41, [1994] 3 C.M.L.R. at 909 (stating that assignments result in products being marketed by assignee); *id.* at I-2850, ¶ 43, [1994] 3 C.M.L.R. at 909 (stating that with assignments, determination of which products will be affixed to mark, and control over quality of products, is lost).

278. See *id.* at I-2849-50, ¶¶ 41-43, [1994] 3 C.M.L.R. at 909 (failing to reconcile previously established concept of consent with assignment).

279. See *id.* at I-2850, ¶ 43, [1994] 3 C.M.L.R. at 909 (holding that "consent implicit in any assignment is not the consent required for the application of the doctrine of exhaustion of rights").

280. See XIV OXFORD, *supra* note 4, 463. Sanitary ware is defined as "the distinctive epithet of appliances specially contrived with a view to sanitary requirements; e.g. of certain makes of wallpaper, of glazed tiles for flooring and walls, of non-absorbent pipes for drainage; and the like." *Id.*

281. *Ideal Standard*, [1994] E.C.R. at 2839, ¶ 3, [1994] 3 C.M.L.R. at 902.

282. *Id.*

283. Opinion of Advocate General Gulmann, *Ideal Standard*, [1994] E.C.R. at I-2794, ¶ 2, 3, [1994] 3 C.M.L.R. at 861-62. These and other facts were detailed by the Advocate General but did not appear in the Court's Judgment. *Id.*

284. *Id.* at I-2793, ¶ 4, [1994] 3 C.M.L.R. at 862.

it had no economic links.²⁸⁵ In 1984, as a result of SGF's desire to market its heating installation products under the Ideal Standard name, ISSA assigned its trademark for heating equipment to SGF.²⁸⁶ Subsequently, SGF, a part of the French holding company Nord Est, assigned the trademark to Compagnie Internationale de Chauffage ("CICH"), another entity within the Nord Est group.²⁸⁷ Meanwhile, IS SA retained the mark for sanitary ware.²⁸⁸

CICH began producing heating installations in France under the Ideal Standard trademark.²⁸⁹ Although CICH never sold this equipment in France, beginning in 1988 it sold the equipment in Germany through its German subsidiary, IHT Internationale Heiztechnik GmbH ("IHT").²⁹⁰ As a result, two Ideal Standard marks were being used in Germany.²⁹¹ First, American Standard's German subsidiary, IS GmbH, sold sanitary ware under the 'Ideal Standard' name.²⁹² Second, IHT sold heating installations under the same label.²⁹³

IS GmbH brought an action for trademark infringement against IHT before Germany's local court.²⁹⁴ The plaintiff sought an injunction against IHT, prohibiting IHT from marketing heating equipment bearing the Ideal Standard mark in Germany.²⁹⁵ IS GmbH contended that IHT's Ideal Standard heating equipment would create a risk of confusion²⁹⁶ with the identically labelled sanitary ware sold by IS GmbH.²⁹⁷ The German court held that IHT had infringed IS GmbH's trademark

285. *Ideal Standard*, [1994] E.C.R. at I-2839, ¶ 5, [1994] 3 C.M.L.R. at 902.

286. Opinion of Advocate General Gulmann, *Ideal Standard*, [1994] E.C.R. at I-2793, ¶ 4, [1994] 3 C.M.L.R. at 862.

287. *Ideal Standard*, [1994] E.C.R. at I-2839, ¶ 5, [1994] 3 C.M.L.R. at 902.

288. Opinion of Advocate General Gulmann, *Ideal Standard*, [1994] E.C.R. at I-2794, ¶ 4, [1994] 3 C.M.L.R. at 862.

289. *Id.* at I-2794, ¶ 5, [1994] 3 C.M.L.R. at 862.

290. *Id.*

291. *Ideal Standard*, [1994] E.C.R. at I-2839, ¶ 6, [1994] 3 C.M.L.R. at 902.

292. *Id.*

293. *Id.*

294. *Id.* at I-2839, 2840, ¶¶ 6, 8, [1994] 3 C.M.L.R. at 902, 903. The German court was the Landgericht Dusseldorf. *Id.*

295. *Id.* at I-2840, ¶ 7, [1994] 3 C.M.L.R. at 903.

296. *Id.* at I-2840, ¶ 9, [1994] 3 C.M.L.R. at 903. German trademark law prohibits the use of a trademark so similar in name to another mark as to create a risk of confusion for the public. *Id.*

297. *Id.*

rights.²⁹⁸ IHT appealed to a higher German court,²⁹⁹ which referred the question to the ECJ.³⁰⁰

2. Advocate General Gulmann's Opinion

Pursuant to ECJ procedure,³⁰¹ Advocate General Gulmann analyzed the arguments of the parties and made his recommendation to the Court Justices.³⁰² In addition to IS GmbH and IHT, the EC Commission, the German Government, and the United Kingdom submitted written arguments.³⁰³ In order to clarify the maze of transactions that led to IS GmbH's action for infringement, both the Advocate General and the Court made several factual conclusions.³⁰⁴ After narrowing down the relevant facts, the Advocate General stated that an analysis based on exhaustion of national trademark rights could not decide the *Ideal Standard* case.³⁰⁵ Instead, the Advocate General applied his own balancing method, weighing both consumer and proprietor

298. *Id.* at I-2840, ¶ 8, [1994] 3 C.M.L.R. at 903.

299. *Id.* at I-2840, ¶¶ 9, 11, [1994] 3 C.M.L.R. at 903. The appellate court was the Oberlandesgericht Dusseldorf. *Id.*

300. *Id.* at I-2841, ¶ 12, [1994] 3 C.M.L.R. at 903. The question was posed to the ECJ as follows:

Does it constitute an unlawful restriction of intra-Community trade, within the meaning of Articles 30 and 36 of the Treaty, for an undertaking carrying on business in Member State A which is a subsidiary of a manufacturer of heating equipment based in Member State B to be prohibited from using as a trademark the name 'Ideal Standard' on the grounds of risk of confusion with a mark having the same origin, where the name 'Ideal Standard' is lawfully used by the manufacturer in its home country by virtue of a trademark registered there which it has acquired by private contract and which was originally the property of a company affiliated to the undertaking which is opposing, in Member State A, the importation of goods marked 'Ideal Standard'?

Id.

301. See EC Treaty, *supra* note 3, art. 166, [1992] 1 C.M.L.R. at 685. Article 166 of the EC Treaty provides that for every case an Advocate General must make an impartial written analysis of the case in order to assist the Court in coming to its decision. *Id.*; see *supra* note 107 and accompanying text (discussing Advocate General's role in ECJ proceedings).

302. Opinion of Advocate General Gulmann, *Ideal Standard*, I-2793-835, [1994] 3 C.M.L.R. at 861-901.

303. *Ideal Standard*, [1994] E.C.R. at I-2837, [1994] 3 C.M.L.R. at 903. The Commission, Germany and the United Kingdom, while having no legal rights at stake in the case, submitted arguments as interested parties. *Id.*

304. *Id.* I-2789, [1994] 3 C.M.L.R. 857.

305. Opinion of Advocate General Gulmann, *Ideal Standard*, [1994] E.C.R. at I-2807, ¶ 51, [1994] 3 C.M.L.R. at 875.

interests.³⁰⁶

a. Narrowing Down the Relevant Facts

First, Advocate General Gulmann stated that IS GmbH, although it did not assign the Ideal Standard trademark to SGF, should be held responsible for ISSA's assignment to SGF.³⁰⁷ Because IS GmbH and the assignor ISSA both were part of the same American Standard group, Gulmann observed that the two could coordinate their actions.³⁰⁸ The ECJ did not dispute this assumption in its judgment.³⁰⁹

In addition, both the Advocate General and the Court concluded that the products were put into circulation for the first time in France.³¹⁰ The opinions focus on the issue of whether IS

306. *Id.* at I-2797, ¶ 15, [1994] 3 C.M.L.R. at 865.

307. *Id.* at I-2811, ¶ 68, [1994] 3 C.M.L.R. at 879. The Advocate General stated that:

In my view it is correct, as contended by IHT and the Commission, that the group connection between Ideal-Standard GmbH and its French affiliate means that the companies are assimilated into one another, so that the assignment is to be ascribed to Ideal-Standard GmbH as if it had been effected by that company itself. Contrary to the claim of Ideal-Standard GmbH, it must suffice that undertakings within the same group have the opportunity to coordinate their marketing policy in the common interest of the group. It cannot be a determinant factor whether that opportunity in practice is taken up.

Id.

308. *See id.* at I-2810-11, ¶ 67, [1994] 3 C.M.L.R. at 878. Gulmann states:

This situation is based on the idea that the situation in which the Court is called upon to give its ruling is actually a situation in which the *assignor* of the trade mark is seeking to prevent direct sale by the *assignee* on the territory for which the assignor has retained his trade mark. However, as may be seen from . . . the question referred to the Court, the characteristic situation here is that in France the trade mark was assigned not by Ideal-Standard GmbH, which is seeking to oppose importation into Germany, but by the latter's French affiliate.

Id.

309. *See Ideal Standard*, [1994] E.C.R. at I-2489, ¶ 40, [1994] 3 C.M.L.R. at 907.

The Court, attributing the assignment to IS GmbH, states:

[T]he trademark has been assigned, for one or several Member States only, to an undertaking which has no economic link with the assignor and the assignor opposes the marketing, in the State in which he has retained the trade mark, of products to which the trade mark has been affixed by the assignee.

Id.

310. *See* Opinion of Advocate General Gulmann, *Ideal Standard*, [1994] E.C.R. at I-2812, ¶ 72, [1994] 3 C.M.L.R. at 880 (stating that *Ideal Standard* case concerns assignment, whereby "the proprietor consents to others applying the mark to their product and marketing them both in the country concerned and in the rest of the Community"); *see also Ideal Standard*, [1994] E.C.R. at 2851, ¶ 45, [1994] 3 C.M.L.R. at 909-10.

GmbH gave consent to putting the products into circulation.³¹¹ Neither opinion considers that, far from the possibility of IS GmbH having consented to circulation of goods in France, the products never entered circulation in France.³¹² In other words, IS GmbH was opposing direct imports, not parallel importation.³¹³ Because IS GmbH's marked products were put into circulation for the first time in Germany, IS GmbH could have argued that by blocking IHT's direct imports it was still safeguarding the specific subject matter of its trademark right.³¹⁴ IS GmbH could exert German trademark law, therefore, regardless of whether its assignment of the trademark constituted consent.³¹⁵ Neither IS GmbH, the Advocate General, nor the Court, however, discuss this point.³¹⁶

Both Gulmann and the Court agreed that, of the two trademark assignments described in the factual circumstances, ISSA's assignment to SGF was the only relevant assignment because it first transferred the mark to an entity independent of ISSA.³¹⁷

The Court, analogizing the facts of *Hag II* to the *Ideal Standard* situation, stated "the determinant factor was absence of consent of the proprietor of the trade mark in the importing State to the putting into circulation in the exporting State of products marketed by the proprietor of the right in the latter State." *Id.*

311. See Opinion of Advocate General Gulmann, *Ideal Standard*, [1994] E.C.R. at I-2820, ¶ 102, [1994] 3 C.M.L.R. at 887-88 (stating that "[a] trademark proprietor who concludes a separate assignment for certain Member States has voluntarily relinquished the right to be the only one to market on Community territory products bearing the mark in question"); see also *Ideal Standard*, [1994] E.C.R. at I-2850, ¶ 43, [1994] 3 C.M.L.R. at 909 (holding that "[t]he consent implicit in any assignment is not the consent required for the application of the doctrine of exhaustion of rights").

312. See Tritton, *supra* note 19, at 424 (observing that "in *Ideal Standard* the products *in casu* were directly imported from the manufacturer and thus it could be said that they had not been put into circulation in France").

313. See *id.* (remarking that *Ideal Standard* is actually not parallel importation case).

314. See *id.* (observing that IS GmbH could have submitted that products were first placed into circulation in Germany, not France).

315. See *id.* at 424-25 (stating that IS GmbH could have been justified in exerting German trademark rights because it sought to protect specific subject matter of trademark in circulating its marked products for first time in Germany).

316. See *Ideal Standard*, [1994] E.C.R. 2789, [1994] 3 C.M.L.R. 857 (neglecting to raise issue of whether IS GmbH was within its specific subject matter right regardless of consent).

317. Opinion of Advocate General Gulmann, *Ideal Standard*, [1994] E.C.R. at I-2974, ¶ 4, [1994] 3 C.M.L.R. at 862; *Ideal Standard*, [1994] E.C.R. at 2839, ¶ 4, [1994] 3 C.M.L.R. at 902. See Opinion of Advocate General Gulmann, *Ideal Standard*, [1994] E.C.R. I-2789, [1994] 3 C.M.L.R. 857 (referring throughout to IS GmbH's decision to assign mark to SGF but not to subsequent assignment of mark by SGF to CICH).

Regardless of SGF's subsequent decision to assign the mark to ClCh, which then attempted to export the marked products into IS GmbH's territory via IHT, IS GmbH could have expected that products with the Ideal Standard label would eventually end up in Germany due to ISSA's assignment to SGF.³¹⁸ The Court and the Advocate General, therefore, treated the case as if IS GmbH had assigned its mark directly to IHT.³¹⁹

Finally, Advocate General Gulmann and the Court both stated that the extent to which sanitary ware and heating installations are similar products remained a matter for national law.³²⁰ Because the risk of confusion between these products was to be determined by German trademark law, the ECJ treated the case as if IS GmbH's sanitary ware and IHT's heating equipment were the same type of product.³²¹ Gulmann and the Court con-

318. See Opinion of Advocate General Gulmann, *Ideal Standard*, [1994] E.C.R. at I-2820, ¶ 102, [1994] 3 C.M.L.R. at 887-88. Advocate General Gulmann stated that "[a] trade mark proprietor who concludes a separate assignment for certain Member States has voluntarily relinquished the right to be the only one to market on Community territory products bearing the mark in question." *Id.* See also *Ideal Standard*, [1994] E.C.R. at I-2850, ¶ 43, [1994] 3 C.M.L.R. at 909 (stating that "power [of controlling quality] is lost if, by assignment, control over the trademark is surrendered to a third party having no economic link with the assignor").

319. See Opinion of Advocate General Gulmann, *Ideal Standard*, [1994] E.C.R. at I-2827, ¶ 136, [1994] 3 C.M.L.R. at 894 (hypothesizing situation whereby Court would permit IS GmbH to oppose importation of marked product by "assignee of the mark"); *Ideal Standard*, [1994] E.C.R. at I-2850, ¶ 41, [1994] 3 C.M.L.R. at 909. The ECJ noted, in reference to the facts of the case, that "a contract of assignment . . . does not give the assignor any means of controlling the quality of products which are marketed by the assignee." *Id.* (emphasis added).

320. Opinion of Advocate General Gulmann, *Ideal Standard*, [1994] E.C.R. at I-2834, ¶ 154, [1994] 3 C.M.L.R. at 900; *Ideal Standard*, [1994] E.C.R. at I-2843, ¶ 20, [1994] 3 C.M.L.R. at 905.

321. See Opinion of Advocate General Gulmann, *Ideal Standard*, [1994] E.C.R. at I-2834, ¶ 156, [1994] 3 C.M.L.R. at 901. The Advocate General explained that, with regard to sanitary ware and heating equipment, it did not appear that the German government had intentionally broadened the risk of confusion concept so as to protect the German trademark owner IS GmbH. *Id.* Gulmann noted that this would have constituted a violation by the German government of the second sentence of Article 36. *Id.* He cites the case *Deutsche Renault*, which states:

There is nothing to suggest that German courts make a broad interpretation of the concept of confusion where the protection of the trade mark of a German producer is at issue, but make a strict interpretation of the same concept where the protection of the trade mark of a producer established in another Member State is concerned.

Id. (citing *Deutsche Renault AG v. Audi AG*, Case 317/91, [1993] E.C.R. at 6230, ¶ 13, [1993] 1 C.M.L.R. at 891). The Advocate General would therefore assume that the two products could have confusingly similar marks under German law. *Id.*; see also *Ideal*

cluded, in sum, that IS GmbH had licensed its Ideal Standard trademark to IHT, which had then circulated its own similar products bearing the mark in France and wished to do so in IS GmbH's territory, Germany.³²²

b. Did the Assignor Exhaust Its Trademark Rights?

IS GmbH and the German and UK Governments argued that IS GmbH's consent to assignment of its trademark did not amount to the consent required by the exhaustion doctrine.³²³ Both IHT and the Commission, on the other hand, maintained that consent to an assignment satisfies exhaustion.³²⁴ Gulmann concluded that exhaustion was inapplicable under the circumstances of the case, because exhaustion applies only where the parallel rightholders in separate Member States are economically linked, such as through a parent-subsidiary relationship.³²⁵

i. Arguments of the Parties

IS GmbH, Germany, and the United Kingdom stated that the consent required by the exhaustion principle allows the trademark owner to control the quality of the marked product when it is put into circulation.³²⁶ This ensures that the mark's reputation will not be tarnished by substandard products carrying the mark.³²⁷ Consenting to a mere assignment, they argued, does not afford the assignor this control.³²⁸

Standard, [1994] E.C.R. at 2843, ¶ 20, [1994] 3 C.M.L.R. at 905 (stating that "the Court must also proceed on the assumption that there is a risk of confusion . . . as if the products for which the trade mark was assigned and those covered by the registration relied on in Germany were identical").

322. See Opinion of Advocate General Gulmann, *Ideal Standard*, [1994] E.C.R. at I-2810-11, ¶ 67, [1994] 3 C.M.L.R. at 878.

323. *Id.* at I-2806, ¶ 49, [1994] 3 C.M.L.R. at 874. Germany and the United Kingdom, in their capacity as national governments which enforced their own intellectual property laws, supported IS GmbH's contention that national trademark rights should prevail over EC law in this case. *Id.*

324. *Ideal Standard*, [1994] E.C.R. at I-2850, ¶ 42, [1994] 3 C.M.L.R. at 909. The Commission, whose task is to ensure that Member States conform with the principles outlined in the EC Treaty, supported IHT's argument that IS GmbH had exhausted its national trademark rights according to the EC Treaty. *Id.*; see *supra* note 89 and accompanying text (describing role of Commission).

325. Opinion of Advocate General Gulmann, *Ideal Standard*, [1994] E.C.R. at I-2807, ¶ 51, [1994] 3 C.M.L.R. at 875.

326. *Id.*

327. *Id.*

328. *Id.* For example, if IS GmbH had put its products into circulation in France

The Commission conceded that a trademark assignor relinquishes control over goods carrying its trademark to the assignee.³²⁹ The Commission maintained, however, that the assignor nevertheless accepted the possibility that the assignee's goods could be imported into the assignor's territory.³³⁰ Consequently, the assignor, having indirectly put its product into circulation and accepted a fee for the assignment, exhausts its trademark right.³³¹

ii. Gulmann's Answer

Advocate General Gulmann, rather than subscribing to one of these views, declared the exhaustion principle inapplicable to assignments.³³² The Advocate General stated that exhaustion applies only to parallel rightholders, in separate Member States,

through a subsidiary rather than an assignment, it could ensure through its subsidiary that goods carrying the 'Ideal Standard' mark in France were of adequate quality. See *Ideal Standard*, [1994] E.C.R. at I-2848, ¶ 37, [1994] 3 C.M.L.R. at 908. The fact that IS GmbH would retain control over the goods through its subsidiary exhausts its rights. *Id.* at I-2848, ¶ 39, [1994] 3 C.M.L.R. at 908. The same is true if IS GmbH had transferred its trademark by means of a license, which would permit IS GmbH to control the marked product through contractual provisions. *Id.*

An assignment does not give IS GmbH the opportunity to control the mark because trademark assignments do not contain restrictive clauses. Opinion of Advocate General Gulmann, *Ideal Standard*, [1994] E.C.R. I-2815, ¶ 83, [1994] 3 C.M.L.R. at 882. Because most trademark assignees are also acquiring the business represented by the trademark, they would never accept that the assignor could retain control over the marked products. *Id.* The Advocate General recognized this fact in his opinion:

However, it cannot be assumed that the assignor of the mark can, as the Commission claims, retain control of the quality of the mark by including in the contract of assignment conditions for revocation with a view to guaranteeing the maintenance of a minimum quality. As the Commission itself has recognized, an agreement to that effect would in fact be a license agreement. The United Kingdom government in particular has pointed out that from a practical business point of view it is unrealistic to imagine that the assignee of a trademark would accept continued control by the assignor. The contract of assignment is chosen precisely so as to effect a complete assignment of the rights connected with the mark.

Id. For these reasons IS GmbH argued that putting products into circulation through assignments should be treated differently than doing so via licenses or subsidiaries. *Id.* at I-2815, ¶ 85, [1994] 3 C.M.L.R. at 883.

329. Opinion of Advocate General Gulmann, *Ideal Standard*, [1994] E.C.R. at I-2812, ¶ 72, [1994] 3 C.M.L.R. at 880.

330. *Id.*

331. *Ideal Standard*, [1994] E.C.R. at I-2850, ¶ 42, [1994] 3 C.M.L.R. at 909.

332. Opinion of Advocate General Gulmann, *Ideal Standard*, [1994] E.C.R. at I-2807, ¶ 51, [1994] 3 C.M.L.R. at 875.

that are economically linked.³³³ With an assignment, Gulmann reasoned, exhaustion is irrelevant because the original proprietor is not marketing the trademarked product in more than one Member State.³³⁴ However, because IS GmbH's decision to assign its trademark eventually led to the circulation of the trademark in more than one territory, Advocate General Gulmann held IS GmbH responsible for the circulation.³³⁵

c. Gulmann's Balancing Test: Proprietor's Responsibility Versus Consumer Interest

Having declared the exhaustion principle inapplicable, Advocate General Gulmann balanced the responsibility of the proprietor against the consumer interest.³³⁶ In upholding the Free Movement of Goods principle,³³⁷ Gulmann addressed the fact that IS GmbH made a voluntary decision to assign its trademark.³³⁸ Alternatively, Gulmann considered the possible detrimental effects to consumers if IS GmbH were denied the ability to block IHT's imports.³³⁹

i. Arguments of the Parties

In balancing the competing considerations of the proprietor's conduct and consumers' interests, Gulmann first examined IHT's argument, which was supported by the Commission.³⁴⁰ The decisive factor, according to these two parties, was IS GmbH's execution of a voluntary transaction as the proprietor.³⁴¹ The most important function of a trademark, argued IHT and the Commission, is not to protect consumers, but to give the proprietor the right to have the quality of its product accurately represented.³⁴² In the case of an assignment, where the proprietor consents to use of the mark on other products, the trade-

333. *Id.*

334. *Id.*

335. *Id.* at I-2835, [1994] 3 C.M.L.R. at 901.

336. *Id.* at I-2797, ¶¶ 15, 16, [1994] 3 C.M.L.R. at 865.

337. See *supra* notes 121-36 and accompanying text (explaining Free Movement of Goods).

338. Opinion of Advocate General Gulmann, *Ideal Standard*, [1994] E.C.R. at I-2797, ¶ 16, [1994] 3 C.M.L.R. at 865.

339. *Id.*

340. *Id.* at I-2812, ¶¶ 71, 72, [1994] 3 C.M.L.R. at 879-80.

341. *Id.* at I-2812, ¶ 72, [1994] 3 C.M.L.R. at 880.

342. *Id.* at I-2812, ¶¶ 71, 72, [1994] 3 C.M.L.R. at 879-80.

mark's main function, therefore, is relinquished.³⁴³ Consequently, if trademark owners become aware that assignments may eventually diminish the reputation of their marks, they will become more careful in assigning their marks.³⁴⁴

Gulmann then addresses the arguments of IS GmbH, supported by both the German and UK Governments.³⁴⁵ IS GmbH argued that its right to assign freely its mark, without fear of substandard imports carrying the mark, forms part of the specific subject matter of its trademark right.³⁴⁶ Thus, even aside from the consumer interest served by being able to block IHT's imports, IS GmbH felt that its own proprietary rights in the trademark entitled it to prevent the imports.³⁴⁷

ii. Gulmann's Answer

In assessing the proprietary right, Gulmann dismissed IS GmbH's view that free assignability forms a trademark's specific subject matter.³⁴⁸ Gulmann stated that without free assignability, a trademark nevertheless serves its purpose in helping the proprietor establish a reputation for its products.³⁴⁹ The minimal restriction imposed on the proprietor by not guaranteeing trademark protection after an assignment, Gulmann reasoned, is outweighed by the EC Treaty mandate that goods flow freely across national frontiers.³⁵⁰

With respect to the consumer factor, Gulmann declared that a trademark is not an absolute guarantee of quality to consumers.³⁵¹ Because a proprietor may, at any time, vary the quality of its product, Gulmann resolved that consumers are never guaranteed that a mark represents a certain quality.³⁵² Gulmann further stated that, regardless of the scope of a trademark's guar-

343. *Id.* at I-2812, ¶ 72, [1994] 3 C.M.L.R. at 880.

344. *Id.* This would result in less confusion of brands for the public, thus serving the consumer interest as well. *Id.*

345. *Id.* at I-2815-20, ¶¶ 85-102, [1994] 3 C.M.L.R. at 883-88.

346. *Id.* at I-2815, ¶ 85, [1994] 3 C.M.L.R. at 883.

347. *Id.*

348. *Id.* at I-2815, ¶ 86, [1994] 3 C.M.L.R. at 883.

349. *Id.* at I-2817, ¶ 94, [1994] 3 C.M.L.R. at 885.

350. *Id.* at I-2817, ¶ 95, [1994] 3 C.M.L.R. at 885.

351. *Id.* at I-2818, ¶ 98, [1994] 3 C.M.L.R. at 886.

352. *Id.* The "so-called quality guarantee," states Gulmann, does not justify obstructing Free Movement of Goods. *Id.* at I-2818, 2819, ¶¶ 98, 100, [1994] 3 C.M.L.R. at 886.

antee to consumers, a trademark serves to protect its owner.³⁵³ While Gulmann conceded that a trademark's essential function is to enable consumers to discern the quality of a product, he stated that this function benefits mainly the proprietor.³⁵⁴

Based on this view of trademarks, as primarily supportive of the proprietor, Gulmann concluded that Articles 30 through 36 prevented German trademark law from allowing IS GmbH to block IHT's products.³⁵⁵ Gulmann did not recognize the independent consumer interest as a sufficient justification for the proprietor's right to protect the distinguishing function of trademarks.³⁵⁶ For Gulmann, this principle applies whether the owner acquired the mark by a license, an assignment, or any other contractual arrangement.³⁵⁷

3. Judgment of the Court

In contrast to the Advocate General's balancing test, the

353. *Id.* at I-2819-20, ¶ 101, [1994] 3 C.M.L.R. at 887. Gulmann notes:

Irrespective of the fact that certain rules of trade mark law may have regard to the interests of consumers, it may be concluded in view of the foregoing that the rules which give the trade mark proprietor the opportunity to protect his exclusive right by means of actions for infringement are not so intended. The scope of the proprietor's exclusive right must not therefore be determined on the basis of what is necessary for the protection of the consumer but only on an assessment of whether it is necessary to protect the trade mark proprietor's interest in the mark's performing its essential function of enabling consumers to distinguish the product from those of a different origin without risk of confusion.

Id.

354. *Id.* Gulmann asserted that national laws allow proprietors to protect their trademark rights by suing for infringement. *Id.* He stated that, regardless of their beneficial effects on consumers, these laws are intended to benefit the proprietor. *Id.* Therefore, when determining the extent of these national rights under the EC Treaty, the Court must consider the proprietor's interests and not those of the consumer. *Id.*

355. *Id.* at I-2835, [1994] 3 C.M.L.R. at 901.

356. *Id.* at I-2828, ¶ 138, [1994] 3 C.M.L.R. at 895.

357. *Id.* at I-2835, [1994] 3 C.M.L.R. at 901. Gulmann's conclusion reads as follows:

Articles 30 and 36 of the EEC Treaty preclude national legislation from allowing an undertaking which is the proprietor of a trademark in a Member State to oppose the importation from another Member State of similar products lawfully bearing in the latter State a mark which is identical or may be confused with the protected mark, where the mark under which the disputed products are imported originally belonged to a company affiliated to the undertaking which is opposing the importation and was acquired by the new proprietor by means of a contract concluded with the affiliated company.

Id.

Court's opinion confronted the exhaustion doctrine.³⁵⁸ The Court observed that because a trademark proprietor's assignment does not afford the proprietor the opportunity to control the goods bearing the assigned trademark, it does not constitute consent within the meaning of exhaustion.³⁵⁹ In support of a trademark owner's right to assign its mark for a particular Member State, the Court examined the territorial nature of trademark rights.³⁶⁰

a. Territoriality and Independence of Trademarks

The Court stated that trademark rights are territorial, and hence assignments of trademarks must be permitted by reference to a particular territory.³⁶¹ IHT unsuccessfully argued that IS GmbH should not be able to make a territorially limited assignment.³⁶² If IS GmbH chose to assign its trademark, argued IHT, it should have accepted that it was doing so for the whole Community.³⁶³ The Court commented that trademarks in Europe are meant to form rights independently of one another in different territories.³⁶⁴

For support, the Court cited the Paris Union Convention for the Protection of Industrial Property,³⁶⁵ which provides that a mark registered in one signatory country is regarded as in-

358. See *Ideal Standard*, [1994] E.C.R. at I-2847-48, 50, ¶¶ 34, 40, 43 [1994] 3 C.M.L.R. at 907, 909 (explaining that, due to proprietor's lack of control, consent to assignment does not constitute consent within meaning of exhaustion doctrine).

359. *Id.*

360. See *id.* at I-2843-46, ¶¶ 21-32, [1994] 3 C.M.L.R. at 905-07 (focusing on territorial nature and independence of trademarks).

361. *Id.* at I-2851, ¶ 48, [1994] 3 C.M.L.R. at 910. The Court focused extensively on the territorial nature of national trademark rights. See *id.* at I-2843-46, ¶¶ 21-32, [1994] 3 C.M.L.R. at 905-07 (devoting to territoriality section of opinion entitled "[t]he territorial nature and independence of national trade-mark rights").

362. *Id.* at I-2851, ¶ 47, [1994] 3 C.M.L.R. at 910.

363. *Id.*

364. *Id.* at I-2844, ¶ 24, [1994] 3 C.M.L.R. at 905.

365. Paris Convention for the Protection of Industrial Property of 1883, Mar. 20, 1883, 25 Stat. 1372, 13 U.S.T. 1, T.I.A.S. No. 4931, as revised at Stockholm on July 14, 1967, 53 Stat. 1748, 21 U.S.T. 1583, T.I.A.S. No. 6293, 828 U.N.T.S. 305 (entered into force on Apr. 26, 1970) [hereinafter Paris Convention]. Eleven nations signed the original convention. See Paris Convention for the Protection of Industrial Property of 1883, Mar. 20, 1883, 161 Consolidated Treaty Series 409 (providing original text of 1883 Paris Convention between Belgium, Brazil, France, Guatemala, Italy, the Netherlands, Portugal, Salvador, Serbia, Spain and Switzerland). Many more nations have since become signatories. See TRADEMARKS THROUGHOUT THE WORLD 1051-52 (Anne Marie Greene ed., 3d ed. 1982) (listing 94 parties to Paris Convention as of 1982).

dependent of marks registered in other signatory countries.³⁶⁶ According to the Court, therefore, trademarks may be assigned in one country without being assigned in other countries.³⁶⁷ The Court also found support in the Madrid Agreement Concerning the International Registration of Marks,³⁶⁸ which states that assignments of marks may be made for either one or several of the contracting countries.³⁶⁹

The Court noted an exception for arrangements in which the territories of several states are joined into a single territory

366. *Ideal Standard*, [1994] E.C.R. at I-2844, ¶ 25, [1994] 3 C.M.L.R. at 905-06 (citing Paris Convention, *supra* note 365, art. 6, 53 Stat. at 1777, 21 U.S.T. at 1639, 828 U.N.T.S. at 325). Article 6 of the Paris Convention states, in pertinent part:

A mark duly registered in a country of the Union shall be regarded as independent of marks registered in the other countries of the Union, including the country of origin.

Paris Convention, *supra* note 365, art. 6, 53 Stat. at 1777, 21 U.S.T. at 1639, 828 U.N.T.S. at 325.

367. *Ideal Standard*, [1994] E.C.R. at I-2845, ¶ 26, [1994] 3 C.M.L.R. at 906. While the Court concedes that some countries do not allow a trademark assignment without an accompanying transfer of the business, the Court refers to Article 6 of the Paris Convention, which states that the transfer of the accompanying business need only include that portion of the company located in the country. *Id.* at I-2845, ¶¶ 28-29, [1994] 3 C.M.L.R. at 906, (citing Paris Convention, *supra* note 365, art. 6, 53 Stat. at 1778, 21 U.S.T. at 1643, 828 U.N.T.S. at 329-31). The Paris Convention states as follows:

When, in accordance with the law of a country of the Union, the assignment of a mark is valid only if it takes place at the same time as the transfer of the business or goodwill to which the mark belongs, it shall suffice for the recognition of such validity that the portion of the business or goodwill located in that country be transferred to the assignee, . . .

Paris Convention, *supra* note 365, art. 6, 53 Stat. at 1778, 21 U.S.T. at 1643, 828 U.N.T.S. at 329-31.

368. Madrid Agreement Concerning the International Registration of Marks, Apr. 14, 1891, 828 U.N.T.S. 389 [hereinafter Madrid Agreement]. The Madrid Agreement has provided a means for trademark owners to acquire simultaneous protection of their marks in multiple foreign countries. See Roger E. Schechter, *Facilitating Trademark Registration Abroad: The Implications of U.S. Ratification of the Madrid Protocol*, 25 GEO. WASH. J. INT'L L. & ECON. 419, 419 (1992). The protection afforded by the foreign country is the same as if the mark had been filed directly in that country. *Id.* at 419-20 (citing Madrid Agreement, *supra*, art. 4, 828 U.N.T.S. at 399). While the Madrid Agreement itself confers no substantive rights, such rights are provided in the national protections that emanate from the international registrations provided by the Madrid Agreement. See Jeffrey M. Samuels, *The Madrid Protocol and Trademark Harmonization*, 387 PLI/PAT 231 (1994) (describing trademark rights conferred by Madrid Agreement).

369. *Ideal Standard*, [1994] E.C.R. at I-2845, ¶ 31, [1994] 3 C.M.L.R. at 906, (citing Madrid Agreement, *supra* note 368, art. 9, 828 U.N.T.S. at 409). See Madrid Agreement, *supra* note 368, art. 9, 828 U.N.T.S. at 409 (referring to "the assignment of an international mark in respect of one or several of the contracting countries").

for the purposes of trademark law.³⁷⁰ The Uniform Benelux Law,³⁷¹ for instance, specifically prohibits the assignment of a mark for one part of the joined territory.³⁷² The Court noted that, unlike the Uniform Benelux Law, Community trademark law does not replace the laws of the Member States.³⁷³ Community trademark law, therefore, does not affect assignments of trademarks that enjoy national territorial protection.³⁷⁴ A positive obligation on the part of the Member States to alter their national laws to prohibit trademark assignments for only a part of the Community, maintained the Court, would require specific

370. *Ideal Standard*, [1994] E.C.R. at I-2845, ¶ 32, [1994] 3 C.M.L.R. at 906-07.

371. Uniform Benelux Law on Trademarks of Jan. 1, 1971, Jan. 1, 1971, 704 U.N.T.S. 312. The Uniform Benelux Law on Trademarks came into force as a result of the Benelux Treaty on Trademarks of March 19, 1962. See Benelux Treaty on Trademarks of March 19, 1962, March 19, 1962, art. 1, 704 U.N.T.S. 301, 302-04 (requiring contracting countries, Belgium, Luxembourg and Netherlands, to implement Uniform Benelux Law on Trademarks as national trademark laws). See *supra* note 247 (discussing Benelux Treaty on Trademarks).

372. *Ideal Standard* at I-2845, ¶ 32, [1994] 3 C.M.L.R. at 906-07. See Uniform Benelux Law on Trademarks of Jan. 1, 1971, art. 11, 704 U.N.T.S. 312, 320. Article 11 provides, in relevant part:

The exclusive right to a trademark may, independently of the transfer of all or part of the business, be transferred or licensed, for all or part of the products for which the mark was registered.

The following shall be void:

....

2. assignments or other transfers which are not made for the entire Benelux territory.

Id. (Author's translation from French).

373. *Ideal Standard*, [1994] E.C.R. at 2853-54, ¶ 56, [1994] 3 C.M.L.R. at 911. See EC Trademark Directive, *supra* note 52, O.J. L 40/1 at 1. The Directive provides for a Community trademark which may be used concurrently with, but does not replace, national trademark rights:

The Directive does not deprive the Member States of the right to continue to protect trade marks acquired through use but takes them into account only in regard to the relationship between them and the trade marks acquired by registration;

Whereas Member States also remain free to fix the provisions of procedure concerning the registration, the revocation and the invalidity of trade marks acquired by registration; whereas they can, for example, determine the form of trade mark registration and invalidity procedures, decide whether earlier rights should be invoked either in the registration procedure or in both and, if they allow earlier rights to be invoked in the registration procedure, have an opposition procedure or an *ex officio* examination procedure or both; whereas Member States remain free to determine the effects of revocation or invalidity of trade marks"

Id.

374. *Ideal Standard*, [1994] E.C.R. at 2853-54, ¶ 56, [1994] 3 C.M.L.R. at 911.

language in a directive or a regulation.³⁷⁵

b. Does an Assignment Amount to Consent?

Unlike Advocate General Gulmann, the Court applied the exhaustion analysis, assessing whether IS GmbH's territorially-limited assignment fell within the specific subject matter of its trademark right.³⁷⁶ The Court recited the rule that Article 36 only permits derogations to the Free Movement of Goods principle when the specific subject matter of the intellectual property right is at stake.³⁷⁷ The Court cited *Centrafarm v. Winthrop* in recalling the specific subject matter of trademarks as being the exclusive right to use the mark for the purpose of putting products into circulation for the first time.³⁷⁸

The Court then evaluated IS GmbH's contention that consenting to a trademark assignment is not consent to putting trademarked products into circulation within the exhaustion doctrine.³⁷⁹ The Court observed that when a trademark is divided, exhaustion occurs if the two separate trademark owners are either the same or economically linked.³⁸⁰ Economic linkage, according to the Court, includes a licensing arrangement.³⁸¹ The licensor may control the quality of the licensee's products by inserting contractual clauses requiring the licensee to comply with specific instructions.³⁸²

With an assignment, however, the proprietor relinquishes control over the quality of the goods bearing its trademark.³⁸³ The Court stated that for a proprietor to exhaust its national

375. *Id.* at I-2854, ¶¶ 57-58, [1994] 3 C.M.L.R. at 912.

376. *Id.* at I-2846-51, ¶¶ 33-45, [1994] 3 C.M.L.R. at 907-10.

377. *Id.* at I-2846, ¶ 33, [1994] 3 C.M.L.R. at 907.

378. *Id.*

379. *Id.* at I-2849, ¶ 40, [1994] 3 C.M.L.R. at 909.

380. *Id.* at I-2847-48, ¶ 34, [1994] 3 C.M.L.R. at 907. For support the Court cites the *Hag II* opinion, which states, "[f]or the trademark to be able to fulfil [its] role, it must offer a guarantee that all goods bearing it have been produced under the control of a single undertaking which is accountable for their quality." *Id.* at I-2848, ¶ 37, [1994] 3 C.M.L.R. at 908 (citing *Hag II*, [1990] E.C.R. at I-3758, ¶ 13, [1990] 3 C.M.L.R. at 608).

381. *Id.* at I-2848, ¶ 37, [1994] 3 C.M.L.R. at 908.

382. *Id.*

383. See Opinion of Advocate General Gulmann, *Ideal Standard*, [1994] E.C.R. I-2815, ¶ 83, [1994] 3 C.M.L.R. at 882. Most firms assign their trademark in conjunction with the transfer of part of their business to another firm. *Id.* With these assignments, the assignees require that the assignor relinquish control over the quality of the goods carrying the trademark. See *id.* (noting that, in situations where assignees acquire part

trademark rights it must be able to exert some control over the quality of the circulated goods.³⁸⁴ Without this control, the proprietor's trademark could be affixed to products of substandard quality, thereby devaluing the trademark.³⁸⁵ Thus, while licensing a trademark can exhaust the owner's right, an assignment preserves the owner's trademark right.³⁸⁶ The proprietor may, therefore, benefit from national trademark laws and may limit its assignment to a particular territory.³⁸⁷

The Court rejected the argument of IHT and the Commission that, by assigning its trademark, IS GmbH impliedly consented to putting its trademark into circulation.³⁸⁸ The Court responded that, because a trademark assignment does not give the assignor control over the quality of products marketed by the assignee, the assignor is not consenting to putting its own products into circulation.³⁸⁹ The Court held that consent to assigning a trademark does not amount to the consent required to exhaust national trademark rights.³⁹⁰

of business and accompanying trademark, assignee would never accept continued control by assignor over goods carrying mark).

384. *Ideal Standard*, [1994] E.C.R. at I-2849, ¶ 38, [1994] 3 C.M.L.R. at 908. See Joliet, *supra* note 184, at 317. Before the *Ideal Standard* case came before the ECJ, Judge Joliet expressed his views on how the Court should treat trademark assignments, based largely on the lack of control over the trademarked goods:

In itself, an assignment is an operation carried out instantaneously which likewise does not provide the assignor with the means to influence the quality of the goods produced by the assignee. Consequently, if a company which is the proprietor of the trade mark in several Member States assigns its trade mark for one of those States to another completely independent company, it must be allowed to prevent, in the States in which it retains ownership of the trade mark, the importation of goods produced by the assignee. Conversely, the same right must be granted to the assignee. It would be otherwise if there were economic links between the assignor and the assignee with the result that they must be regarded as a single source, that is to say a manufacturing group subject to single management.

Id.

385. *Ideal Standard*, [1994] E.C.R. at I-2849, ¶ 38, [1994] 3 C.M.L.R. at 908.

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

387. *Id.* See *supra* notes 361-75 and accompanying text (outlining Court's discussion of nature of trademarks as territorially limited form of intellectual property).

388. *Ideal Standard*, [1994] E.C.R. at I-2850, ¶ 43, [1994] 3 C.M.L.R. at 909.

389. *Id.* Recall that assigning a trademark may result in that trademark later appearing on a product of substandard quality, thus diminishing the reputation earned by the original trademark owner. Opinion of Advocate General Gulmann, *Ideal Standard*, [1994] E.C.R. at I-2815, ¶ 85, [1994] 3 C.M.L.R. at 909; see *supra* note 328 and accompanying text (discussing lack of control in assignment of national trademark).

390. *Ideal Standard*, [1994] E.C.R. at I-2850, ¶ 43, [1994] 3 C.M.L.R. at 909. See

c. The Consumer Interest

The Court addressed the rights of consumers in terms of the essential function of trademarks.³⁹¹ The Court cited *Hag II* for the proposition that, when considering the specific subject matter of trademark rights, the scope of the proprietor's exclusive trademark right must be determined with regard to the mark's essential function.³⁹² The Court stated that deferring to the Free Movement of Goods principle would undermine this essential function.³⁹³ Consumers would no longer be able to identify with certainty the origin or quality of trademarked goods.³⁹⁴ Moreover, the trademark owner could be held accountable for the poor quality of the goods for which it was not responsible.³⁹⁵ The Court further noted that these considerations apply whether the splitting of the trademark resulted from a voluntary or involuntary assignment.³⁹⁶ While this distinguishing function of trademarks was not the main focus of the Court's analysis,³⁹⁷ the Court affirmed the importance of the consumer

Gerd F. Kunz, *Waiting for Sirena II — Trademark Assignment in the Case Law of the European Court of Justice*, 22 INT. REV. INDUS. PROP. & COPYRIGHT L. 319, 326 (1991). Three years before the *Ideal Standard* judgement, Kunz foreshadowed the Court's line of reasoning when he contemplated the absurdity of equating a trademark assignment with consent:

"Consent" in such circumstances could mean that the proprietor of a trademark by its assignment for part of the European Community has consented to the use of this trademark by the assignee within the whole Community (including territories in which the assignor has retained his trademark rights). . . . In my opinion, it is absurd to assume that parties in the course of a normal trademark assignment would have such intentions.

Id.

391. *Ideal Standard*, [1994] E.C.R. at I-2850-51, ¶ 45, [1994] 3 C.M.L.R. at 909-10.

392. *Id.* at I-2850, ¶ 45, [1994] 3 C.M.L.R. at 909-10 (citing *Hag II*, [1990] E.C.R. at I-3759, ¶ 16, [1990] 3 C.M.L.R. at 608).

393. *Id.*

394. *Id.* See Kunz, *supra* note 390, at 327. With respect to preserving the interests of consumers subsequent to a trademark assignment, Kunz states:

The products marketed by the new proprietor in the new countries are clearly his products and can and will probably be different in quality and composition from the products sold by the owner of the trademark in the old countries. Consequently, it is in the interest of consumers that the owner of the trademark in the old countries can object to parallel imports of products bearing the trademark coming from the owner of the trademark in the new countries and vice versa.

Id.

395. *Ideal Standard*, [1994] E.C.R. at I-2850, ¶ 45, [1994] 3 C.M.L.R. at 909-10.

396. *Id.*

397. *Compare id.* at I-2850, ¶¶ 45-46, [1994] 3 C.M.L.R. at 909-10 (devoting two paragraphs to its consideration of "identifying function" or "essential function" of trade-

oriented essential function of trademarks.³⁹⁸

III. *IDEAL STANDARD: A COMMENDABLE DECISION, BUT A MISSED OPPORTUNITY TO REVISIT THE UNIQUE NATURE OF TRADEMARKS*

The Court in *Ideal Standard* justly held that, due to a trademark assignor's lack of control over the assignee's trademarked products, a trademark assignment within the European Union does not constitute exhaustion of national trademark rights.³⁹⁹ The Court thus modified its recently articulated consent doctrine with a thoughtful, practical standard based on control.⁴⁰⁰ The Court, however, should have more clearly articulated this new standard. And, more importantly, the Court failed to state whether the requirement of control applies only to trademarks or equally to all forms of intellectual property.⁴⁰¹ Companies and legal practitioners, therefore, are left wondering whether a patent or copyright assignment would exhaust their rights. In view of the unique consumer function of trademarks,⁴⁰² the ECJ should have expressly limited its control doctrine to trademarks, apart from other forms of intellectual property.

A. *The Court's New Definition of Consent is Confusing*

In adding its requirement of control for the exhaustion of trademark rights, the Court clung to the terminology of the consent doctrine recently articulated in *Hag II*.⁴⁰³ In *Ideal Standard*,

marks) *with id.* at I-2846-51, ¶¶ 33-45, [1994] 3 C.M.L.R. at 907-10 (using 13 paragraphs to apply exhaustion of rights analysis) *and id.* at I-2843-46, ¶¶ 21-32, [1994] 3 C.M.L.R. at 905-07 (devoting 12 paragraphs to territorial nature of trademarks).

398. *Ideal Standard*, [1994] E.C.R. at I-2850, ¶ 45, [1994] 3 C.M.L.R. at 909-10.

399. *Id.* at I-2789, [1994] 3 C.M.L.R. 857.

400. *Id.* at I-2849, ¶ 38, [1994] 3 C.M.L.R. at 908. *See supra* notes 379-90 and accompanying text (explaining ECJ's new principle stating that consent for exhaustion purposes requires that trademark proprietor maintain control over goods).

401. *See Ideal Standard*, [1994] E.C.R. I-2789, [1994] 3 C.M.L.R. 857 (failing to state whether control standard applies beyond trademarks, to other forms of intellectual property).

402. *See supra* notes 51-74 and accompanying text (tracing historical development of trademarks and development of consumer function).

403. *See supra* notes 379-90. The Court, in *Ideal Standard*, explained that consent to putting goods into circulation for the first time, for exhaustion purposes, requires that the trademark proprietor have control over the trademarked products. *Id.* *See also* notes 263-67 and accompanying text (describing doctrine of consent as articulated in *Hag II*).

the Court redefined the term "consent," stating that, due to a lack of control, consent to an assignment is not the consent required for exhaustion.⁴⁰⁴ This new, narrow definition of consent is confusing because it unnecessarily departs from the common meaning of the word "consent."

The Court could have stated, alternatively, that a trademark assignor does indeed consent to the marketing of his products. The Court could then have expressly recognized that the consent doctrine is no longer adequate for trademark cases and that it must be supplemented with the requirement of control. Therefore, exhaustion of trademark rights would require both consent and control over the mark.⁴⁰⁵ Consequently, while a trademark assignor does consent to the circulation of its marked goods within the European Union, it nevertheless retains its national rights due to its lack of control over those goods. The Court, however, rather than admit that its consent doctrine was no longer adequate, simply changed the meaning of "consent" to require control over trademarked goods.⁴⁰⁶ While the legal effect is the same either way, the Court could have framed its analysis less confusingly.

B. *The Control Standard Should Apply Only to Trademarks*

The Court's requirement of control for exhaustion purposes should be limited to trademarks. The Court did not expressly confine its control requirement to trademarks and it failed to distinguish trademarks from other forms of intellectual property.⁴⁰⁷ Evidence of the unique nature of trademarks can be found in their consumer function, in their historical develop-

404. See *supra* note 390 and accompanying text (articulating Court's new definition of consent).

405. See *Ideal Standard*, [1994] E.C.R. at I-2850, ¶ 43, [1994] 3 C.M.L.R. at 909. As explained above, rather than create a new requirement *in addition* to consent, the Court chose to narrow the definition of consent. *Id.* The legal effect is the same either way: the new element of control is required. *Id.*

Conceptually, adding a new requirement seems more simple than reworking the meaning of an established doctrine. *Id.* Perhaps the Court chose the latter because it would have found it embarrassing to the admit that its consent doctrine, which it had recently introduced in *Hag II*, was not sufficient. *Id.* Now, in *Ideal Standard*, the consent doctrine still suffices because it incorporates the control requirement. *Id.*

406. *Id.*

407. See *Ideal Standard*, [1994] E.C.R. I-2789, [1994] 3 C.M.L.R. 857 (neglecting to state whether control standard applies beyond trademarks).

ment,⁴⁰⁸ in prior ECJ decisions,⁴⁰⁹ and in EC legislation.⁴¹⁰ Such characteristics are absent from patents and copyrights.⁴¹¹

1. Only Trademarks Have a Consumer Function

Because consumers depend upon trademarks to represent a certain quality, the Court aptly requires control for the exhaustion of national trademark rights.⁴¹² The consumers' positive perceptions generated by a trademark constitute the good-will value of the trademark.⁴¹³ If a trademark owner is deemed to have exhausted its national rights by making an assignment, the consuming public could be betrayed by unexpectedly poor quality imports bearing the mark.⁴¹⁴ This is because the original trademark proprietor had no means of controlling the goods carrying the assigned trademark.⁴¹⁵ The inferior goods not only confuse consumers as to the quality represented by the trademark, but they also undermine the trademark's good-will value upon which the original proprietor depends to sell his products.⁴¹⁶

408. See *supra* notes 56-74 and accompanying text (tracing development of trademarks beyond mere proprietary right to guaranty of quality to consumers).

409. See *supra* notes 220-39 and accompanying text (describing essential function of trademarks).

410. See *supra* note 373 (referring to EC Trademark Directive).

411. See *supra* notes 34-50 and accompanying text (defining and explaining purposes of patents and copyrights).

412. See *supra* notes 65-74 (detailing how trademarks came to represent quality guaranty to consumers).

413. See *supra* note 71 (defining good-will of trademark).

414. See *supra* note 394 and accompanying text (noting that, in *Ideal Standard*, the Court pointed out that, without national trademark rights, assignment would result in consumers being betrayed by substandard goods produced by unknown companies).

415. See Tritton, *supra* note 19, at 425. As for intellectual property other than trademarks, considerations of control over the manufacture of products are irrelevant. *Id.* When patents and copyrights are assigned, as opposed to trademarks, there is no likelihood of the public being deceived. *Id.*

416. See *supra* note 385 and accompanying text (referring to Court's statement in *Ideal Standard* that, if free movement of goods were to prevail over national trademark rights, trademark owners would be held accountable for substandard goods of other manufacturers). Even when applying the control principle purely from an intellectual property owner's point of view, it appears that trademarks are the only form of intellectual property meriting the control requirement. Unlike a trademark owner, a patent or copyright owner is not concerned that his assignment will result in the marketing of inferior products under its patent or copyright. Since patents and copyrights represent original creations with inherent value, assignees will not alter the quality of the patented or copyrighted product. Therefore, a patent or copyright assignor, by making the assignment, puts his product into circulation knowing that if it is eventually im-

Unlike trademarks, other forms of intellectual property sustain artistic and creative values that inhere in the patents and copyrights issued for their protection.⁴¹⁷ Whereas the information protected by patents and copyrights help to define products,⁴¹⁸ trademarks affix good-will to products placed in the market.⁴¹⁹ Trademarks also retain a purpose different from both copyrights and patents. Consisting of a name or label, trademarks communicate verifiable features to distinguish different products.⁴²⁰ By contrast, patents and copyrights protect unique characteristics but do not supply that communicative element.⁴²¹ Consumers, therefore, do not rely on a patent or copyright to identify a product's quality in the same way they rely on a trademark.

The ECJ need not require that patent and copyright owners retain control over their products before their national rights are exhausted because an assignment of the patent or copyright will not diminish the value of the patent or copyright in the hands of the assignee. If a national patent owner, for example, assigns its patent, thereby relinquishing control over products employing the patent, consumers of those goods will nevertheless benefit from the innovations of the patent. Unlike with trademarks, there will be no substandard goods carrying the pat-

ported back into his territory, it will have remained unchanged. *See supra* note 385 and accompanying text (implying that parties should be able to assign their national trademarks due to unique control requirements of trademarks).

A trademark proprietor, on the other hand, fears that its mark may end up on a substandard product. This is obviously damaging to the trademark owner's reputation. Therefore, while trademark owners are entitled to use national intellectual property rights to block substandard imports carrying their mark, copyright and patent owners should not be afforded the same luxury. *See supra* note 385 and accompanying text (referring to control requirement for trademarks).

417. *See supra* notes 34-50 (discussing how patents protect inventions, and copyrights create rights for literary or artistic works). A trademark, which consists of a name or label, requires comparatively little creative effort. *See supra* notes 51-54 (defining trademarks and distinguishing them from copyrights and patents).

418. *See supra* notes 34-50 (outlining protections afforded by patents and copyrights).

419. *See supra* notes 71-74 and accompanying text (defining good-will and citing examples of increasing importance of good-will function for trademarks).

420. *See supra* notes 54-55 and accompanying text (stating that a trademark is a name or label allowing consumers to distinguish between products).

421. *See supra* notes 34-35 and accompanying text (stating that patents protect inventions to encourage manufacture of new works that will benefit society); *see also supra* notes 41-42 and accompanying text (explaining that copyrights encourage production of new literary and artistic creations).

ent because the patent itself dictates the quality of the goods.⁴²² The same is true of copyrights.

2. Historically, Europe Has Recognized the Unique Nature of Trademarks

The value of trademarks has evolved beyond the mere indication of origin of a product.⁴²³ As the Industrial Revolution spurred the growth of business and advertising, the public developed a reliance on trademarks as a guarantee of quality.⁴²⁴ During the same period, the Paris Convention and the Madrid Agreement recognized the territorial nature of trademarks.⁴²⁵ These conventions provided that, because trademarks were understood by reference to a particular territory, they could be assigned for particular countries. These provisions implicitly acknowledged the public's reliance on trademarks and the possibility of consumer confusion if identical trademarks were affixed to products of varying quality within the same territory.

3. The ECJ's Essential Function Principle Acknowledges the Unique Nature of Trademarks

More recently, the ECJ has recognized the consumer function of trademarks through its principle of essential function.⁴²⁶ In the repackaging cases,⁴²⁷ the Court evaluated a trademark's essential function in deciding whether to limit national trade-

422. See *supra* note 394 and accompanying text (noting that trademarks, on other hand, may be affixed to goods of varying quality).

423. See *supra* notes 56-74 and accompanying text (outlining evolution of trademarks, from ancient proprietary mark to modern corporate asset); see also *supra* notes 65-67 and accompanying text (describing changing role of trademarks in sixteenth and seventeenth centuries).

424. See *supra* notes 68-69 and accompanying text (citing England's Industrial Revolution as reason for trademark's increasing function as quality guaranty to consumers); *supra* note 55 and accompanying text (setting forth dual function of trademarks).

425. See *supra* notes 365-69 and accompanying text (referring to provisions of Paris Convention and Madrid Agreement stating that trademarks assignments may be made for single nations).

426. See *Hoffman LaRoche*, [1978] E.C.R. 1139, [1978] 3 C.M.L.R. 217 (stating that scope of trademark proprietor's national trademark right must be defined not only by specific subject matter but also by essential function of trademark); *Centrafarm v. AHP*, [1978] E.C.R. 1823, [1979] 1 C.M.L.R. 326 (discussing consumer oriented essential function of trademarks).

427. See *supra* notes 220-39 and accompanying text (detailing facts and significance of *Hoffman LaRoche* and *Centrafarm v. AHP*, which address application of national trademark rights after repackaging and importation of goods).

mark rights.⁴²⁸ Unlike other forms of intellectual property, trademarks primarily enable consumers to distinguish between products of varying quality.⁴²⁹ Denying a party national trademark protection, therefore, requires that the party could control the quality of the goods carrying its trademark.⁴³⁰ Otherwise, the Court would appear ignorant of the essential function of trademarks.⁴³¹

The essential function principle contradicted the Court's previous language in *Sirena v. Eda*, in which the Court declared that trademarks deserved less protection than other forms of intellectual property.⁴³² The Advocate General in *Sirena* explained that trademarks neither require creative effort nor contribute as much to society as do patents or copyrights.⁴³³ The Court held

428. See *supra* note 224 and accompanying text (stating that Court, in evaluating scope of trademark proprietor's rights, went beyond specific subject matter analysis, and considered essential function of trademark).

429. See *supra* note 231 and accompanying text (describing ECJ's definition of essential function of trademark as guaranty to consumers of origin of product).

While the essential function of trademarks has been defined by the ECJ as guaranteeing the origin of products, it really is a guarantee of quality. See *supra* notes 65-70 and accompanying text (noting that trademarks are no longer meant to indicate origin of products, and that guarantee of quality is what consumers look for in trademarks). The assigning and licensing of trademarks among various companies, for example, means that a trademark may not indicate the actual origin of a product. It should, however, guarantee the quality of the product. See *supra* notes 65-70 and accompanying text (observing that modern usage of trademarks indicates quality).

It is likely that the Court continues to use the word "origin," rather than "quality," simply out of habit. See, e.g., *supra* notes 56-64 and accompanying text (tracing ancient, traditional view of trademarks as indicator of origin of goods). One may assume, therefore, that when the Court refers to the consumer-oriented essential function of a trademark, it is referring to a guarantee of quality, and not origin. See *supra* notes 220-39 and accompanying text (discussing ECJ's essential function principle).

430. See *supra* note 384 and accompanying text (reciting holding of *Ideal Standard* that, for trademark owner to exhaust national rights, it must have possibility of control over circulated goods).

431. See *supra* notes 391-98 (relaying Court's observation, in *Ideal Standard*, that denying trademark assignor national trademark rights would confuse consumers, thus undermining trademark's essential function).

Note that the Court states that consumers would be confused as to the *origin* of the goods. *Ideal Standard*, [1994] E.C.R. at I-2850, ¶ 45, [1994] 3 C.M.L.R. at 909-10. As explained above, the Court should realize that, in fact, consumers would be confused as to the *quality* of the goods. See *supra* note 429 (arguing that terminology of ECJ's essential function principle is outdated, and should be changed to reflect quality variation in goods).

432. See *supra* note 195 and accompanying text (describing view of trademarks set forth by Court and Advocate General in *Sirena*).

433. See *supra* notes 196-98 and accompanying text (noting that the Advocate General compared the societal contribution of the 'Prep' trademark to that of penicillin).

that any agreement, including an assignment, exhausted national trademark rights.⁴³⁴

The *Sirena* decision failed to recognize that trademarks contain something which cannot be found in patents and trademarks: a guarantee of quality to consumers.⁴³⁵ Trademarked products can create consumer confusion if not controlled by one entity.⁴³⁶ Patents and copyrights do not present this same danger.⁴³⁷ The Court's essential function principle recognizes this distinction.⁴³⁸

Despite the Court's inherent reliance a trademark's consumer oriented essential function in *Ideal Standard*, the Court made only cursory mention of it.⁴³⁹ The Court's holding, however, clearly benefits consumers.⁴⁴⁰ With the control standard, the Court explicitly emphasized the proprietor's need to maintain the quality of goods linked with his trademark, and implicitly recognized the consumer's need to depend on the quality that a mark represents. The importance of control, therefore, stems from both the proprietor's fear of substandard products carrying his mark⁴⁴¹ and the possibility of different quality goods

This seems like an unfair comparison, because the invention of penicillin, a medical breakthrough, surely contributed much more to society than most other patented inventions. See *supra* note 198 and accompanying text (citing positive contribution of penicillin).

434. See *supra* note 193 and accompanying text (reciting Court's statement that *Sirena's* use of national trademark laws, combined with assignments and licenses, violated EC Treaty).

435. See *Sirena v. Eda*, [1971] E.C.R. 69, [1971] C.M.L.R. 260 (failing to recognize quality guaranty of trademarks).

436. See *supra* note 394 and accompanying text (describing how consumers may be betrayed by trademark due to unexpected substandard quality goods bearing trademark).

437. See *supra* notes 417-22 and accompanying text (explaining that, since patents and copyrights do not guaranty quality of product to public, they are less likely to deceive consumers).

438. See *supra* notes 220-39 and accompanying text (detailing Court's application of essential function principle to trademarks, but not to other forms of intellectual property).

439. See *Ideal Standard* at I-2850, ¶¶ 45, 46, [1994] 3 C.M.L.R. at 909-10. The ECJ devoted but two paragraphs to essential function. *Id.* The Court did not mention the consumer function of trademarks in its exhaustion analysis. See *id.* at I-2846-51, ¶¶ 33-45, [1994] 3 C.M.L.R. at 907-10 (failing to consider essential function of trademarks in exhaustion analysis of trademark assignment).

440. See *supra* notes and accompanying text 391-98 (discussing Court's adherence to interests of consumers in *Ideal Standard* opinion).

441. See *supra* note 385 and accompanying text (explaining that, without national

being offered to consumers under the same mark.⁴⁴²

4. EC Trademark Legislation Reflects the Unique Nature of Trademarks

In recent legislation regarding Community-wide trademarks, the Council expressly recognized the distinct consumer function of trademarks.⁴⁴³ The Council's Trademark Directive and recent Regulation provide that, for Community marks, exhaustion must consider not only consent but also the possibility of consumer confusion.⁴⁴⁴ The Regulation permits a trademark owner to prevent the importation of goods under his mark, even if he has consented to their circulation, if the quality of the goods has been altered.⁴⁴⁵ The Regulation therefore takes into account possible harm to consumers, regardless of the proprietor's consent.⁴⁴⁶

C. Practical Implications of the Ideal Standard Decision

Despite some oversights in the ECJ's analysis, the Court's

trademark rights, trademark owner risks having to compete with identically marked products of lesser quality due to lack of control over goods).

442. See *supra* note 394 and accompanying text (observing that, if assignments were to exhaust national trademark rights, consumers would no longer be able to identify origin of goods).

443. See EC Trademark Directive, *supra* note 52, art. 7, O.J. L 40/1, at 5 (1988) (providing that, despite consent to circulation of goods, trademark proprietor may oppose further importation of goods where condition of goods is changed or impaired); Council Regulation No. 40/94, art. 13, O.J. L 11/1, at 6 (1994) [hereinafter EC Trademark Regulation] (employing language virtually identical to that of EC Trademark Directive's Article 7).

444. EC Trademark Directive, *supra* note 52, art. 7, O.J. L 40/1, at 5 (1988); EC Trademark Regulation, *supra* note 443, art. 13, O.J. L 11/1, at 6 (1994). The section of the Regulation dealing with exhaustion, which closely resembles that of the Directive, provides:

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

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

EC Trademark Regulation, *supra* note 443, art. 13, O.J. L 11/1, at 6 (1994). In Paragraph 2, the Council recognizes the possibility of consumers being deceived by similar trademarks affixed to goods of varying quality. *Id.*

445. *Id.*

446. *Id.*

final decision in *Ideal Standard* should be applauded for its practical benefits. Had the Court alternatively decided that a trademark assignment exhausts national trademark rights, it would have discouraged trademark owners from assigning their marks within the European Union. Trademark owners seeking to assign their trademark would face the risk of having to compete with cheaper, substandard imports bearing their trademark.⁴⁴⁷ Consequently, they would refuse to assign their mark, or do so only in return for much higher fees.

Because trademark assignments are often made in conjunction with the sale of a company,⁴⁴⁸ holding that an assignment exhausts trademark rights would limit corporate acquisition activity in the European Union.⁴⁴⁹ A trademark's good-will often represents a substantial portion of a company's assets.⁴⁵⁰ If assigning trademark rights meant exhausting those rights, however, an EU company which transferred its business and trademark to another firm would suffer a reduction in the good-will value of its trademark, due to the possibility of substandard products carrying the trademark.⁴⁵¹ This would leave the purchasing company, as the assignee of the mark, with a greatly devalued trademark. Consequently, EU companies would be deterred from engaging in otherwise efficient corporate acquisitions.⁴⁵²

447. See *supra* note 385 and accompanying text (discussing prospect of trademark's devaluation if assignments resulted in exhaustion of national trademark rights).

448. See *supra* note 383 (citing Advocate General Gulmann's observation that trademarks are often assigned concurrently with the sale of business).

449. See *supra* note 383 (noting that issue of whether trademark assignment exhausts national trademark rights has important consequences for companies depending heavily on reputation of their trademarks). Assignees acquiring another company and its accompanying trademark generally require that the assignor relinquish control over the quality of the goods carrying the trademark. See *supra* note 383 (referring to Advocate General Gulman's explanation of standard practice of corporate trademark assignees).

Therefore, trademark assignors must be able to protect themselves against the importation, into their national territory, of substandard goods bearing the trademark. Without this protection, firms would be discouraged from assigning trademarks concurrent with the transfer of their business. This, in turn, would discourage firms from selling their business. See *supra* note 383 (emphasizing importance of control over trademark for firms selling their business and assigning their trademark).

450. See *supra* notes 72-73 and accompanying text (citing presence of trademarks on corporate balance sheets and increasing value of trademarks to companies).

451. See *supra* note 385 and accompanying text (explaining possible devaluation of trademark due to poor quality goods carrying trademark).

452. See Brian V. Mullany, *How M & A is Reshaping Europe's Industrial Landscape*,

CONCLUSION

The commercial evolution of trademarks and the European Union's recognition of the consumer function of trademarks suggest that the ECJ should develop a set of doctrines expressly tailored to national trademark rights apart from other forms of intellectual property. The *Ideal Standard* decision is a partial step in this direction because it allows a trademark owner to assign his mark while retaining his national trademark rights and preserving consumer reliance on trademarks. To take the full step, however, the ECJ must limit its control doctrine to trademarks and explain how trademarks are different from patents and copyrights. In doing so, the ECJ would create a legal environment that more effectively serves the purposes of national intellectual property rights. This would provide the business and legal communities with clearer guidance as to the limits of their national intellectual property rights.

MERGERS & ACQUISITIONS, Jan. 1, 1992. During the 1980's, corporate restructuring in Europe, in the form of labor-shedding measures, reduced cost inefficiencies and improved productivity. *Id.* The next wave of restructuring, in the early 1990's, took the form of corporate mergers and acquisitions. *Id.* Cross-border acquisitions and mergers of domestic firms aimed at cutting costs and providing the means to compete with non-European competitors. *Id.* In the United States, during the merger wave of the 1980's, mergers were a means of curing management incompetence. *Should Congress Stem the Rising Tide of Takeovers?*, L.A. TIMES, Apr. 14, 1985, at Business, 5. An active merger market was seen as beneficial to the economy because it shifted corporate assets from poor managers to more efficient ones. *Id.*