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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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 Assignment ITS TRADEMARK?

Gregory W. Hotaling*

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INTRODUCTION

The modern commercialization and international use\(^1\) of corporate trademarks\(^2\) 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. \(\text{Id.}\) As goods and services bearing trademarks flow more freely between nations, trademarks assume a global role. \(\text{Id.}\) 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 \(\text{id.}\) (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." \(\text{Id.}\) 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. Bermann 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 trademark 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.


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

\textsuperscript{4}See Arthur W. Well, 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].

\textsuperscript{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;


\textsuperscript{7}See, e.g., Hag I, [1974] E.C.R. at 744, ¶ 11, [1974] 2 C.M.L.R. at 143. “The exercise of trademark rights tends to contribute to the partitioning off of the markets...
Justice\(^8\) ("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).


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. The latter company, or a parallel importer, may seek to introduce its identically trademarked products back into the original Member State. This presents unwanted competition for the original proprietor of the trademark. 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. 751, [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).


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. 5, [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.*

of its state.\textsuperscript{15}

The ECJ's recent decision in \textit{IHT Internazionale Heiztechnik GmbH v. Ideal Standard GmbH}\textsuperscript{16} ("Ideal Standard") addressed the question of whether a trademark proprietor exhausts its national trademark rights when it assigns\textsuperscript{17} its trademark.\textsuperscript{18} In deciding earlier cases in which trademarks divided, the ECJ considered the determinative factor to be whether the original proprietor

\begin{itemize}
  \item See \textit{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. \textit{Id.} The national court is obligated to raise such a question if its decision is not appealable to any other national tribunal. \textit{Id.} Art. 177 provides:
    \begin{quote}
      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.
    \end{quote}
    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.
  \item See \textit{BLACK'S LAW DICTIONARY} 119 (6th ed. 1990) [hereinafter \textit{BLACK'S}]. Assignments are defined as follows:
    \begin{quote}
      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 . . . .
    \end{quote}
\end{itemize}
consented to the division of its trademark.\textsuperscript{19} In \textit{Ideal Standard}, however, the ECJ ruled that, despite the proprietor's apparent consent to an assignment,\textsuperscript{20} the proprietor had not exhausted its national trademark rights.\textsuperscript{21} This ruling modified the ECJ's prior stance by adding the requirement of proprietor control for exhaustion of trademark rights,\textsuperscript{22} thereby granting national trademark owners additional protection.\textsuperscript{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 \textit{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 \textit{Ideal Standard}, which attempted to reconcile this conflict, and examines the \textit{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

\textsuperscript{19} See \textit{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. \textit{Id.} Where consent does exist, the proprietor should, theoretically, accept responsibility for its trademark having come back into its territory. \textit{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 \textit{Ideal Standard}?, 10 EUR. INTELL. PROP. REV. 422, 424 (1994) (stating that with \textit{Hag II} decision, consent doctrine "must be considered a cast-iron rule of law"). See also \textit{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).

\textsuperscript{20} See Opinion of Advocate General Gulmann, \textit{Ideal Standard}, [1994] E.C.R. at I-2793, \section{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 \textit{Id.} at I-2820, \section{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." \textit{Id.}


\textsuperscript{22} \textit{Id.}; see \textit{Ideal Standard}, [1994], E.C.R. at I-2850, \section{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").

\textsuperscript{23} \textit{Id.}; see Contributed Article by Linklaters on Trademarks, \textit{REUTER EUR. COMMUNITY REP.}, July 15, 1994, at 2 (observing that with \textit{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, two principles with divergent historical backgrounds. European nations have enforced intellectual property rights since the Middle Ages. The European Union, on the other hand, traces its roots to the 1950's.

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 message which could jeopardize the attainment of the objectives of this Treaty.

Id.

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. National governments grant to inventors the exclusive right to their creations, sometimes over a fixed period of years. Some scholars characterize intellectual property rights as legal monopolies 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. See BERMANN, supra note 2, at 396 (giving overview of traditional categories of intellectual property rights).

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. 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, [1971] 1 C.M.L.R. 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. National governments in Europe have recognized several traditional categories of intellectual property rights, including patents, copyrights, and trademarks.

1. Patents and Copyrights

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

\begin{footnotesize}

\begin{enumerate}
\item \textsuperscript{34} \textsc{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. Bermann, supra note 2, at 396.}
\item \textsuperscript{35} \textit{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”).}
\item \textsuperscript{36} \textit{See Bugbee, supra note 26, at 17 (noting government of Florence's grant of patent to architect); Frank D. Frager & 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).}
\item \textsuperscript{37} \textit{See Frager & 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 . . . .}
\item \textit{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.}
\item \textsuperscript{38} \textit{See Frager & 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.}
\item \textit{Id. See also Yves Plaseraud & Francois Savignon, L'Etat et L'Invention: Histoire}
\end{enumerate}
\end{footnotesize}
manufacturer rather than exploit it directly. Because inventors rarely have the financial means to develop their creations for sale on the market, licensing is a common practice.

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. Like patents, governments grant copyrights to encourage the production of new creations. 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, § 9.025 ("[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).


calling themselves stationers, organized the printing and sale of newly-created works. In order to protect their large investments in production, the stationers sought from the English Crown exclusive rights to reproduce authors' works. The stationers' efforts led to the enactment, in 1709, of the Statute of Anne. The English Parliament enacted the Statute of Anne to provide incentive for the commercial exploitation of written works. It was the first statute specifically outlining authors' rights, and is widely regarded as the basis for modern copyright law. 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. Entr. 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.\footnote{50}

2. Trademarks

Trademarks grant parties the exclusive and perpetual\footnote{51} right to use a mark or name to identify a product or service.\footnote{52}

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

\textit{But see} Jane C. Ginsburg, \textit{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.

\textit{Id.}


\footnote{51. \textit{See} Ginsburg, \textit{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); Bermann, \textit{supra} note 2, at 396 (stating that trademarks generally grant rights "in perpetuity").}

\footnote{52. \textit{See} Ginsburg, \textit{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"); Bermann, \textit{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.


In the United States, trademarks can protect other seemingly unorthodox characteristics such as sound and odor. \textit{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, but is simply a name or label. 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.

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.

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

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Trade Mark Law, in Two Hundred Years of English and American Patent, Trademark, 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 (1950) (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, trademarks acquired an additional function aside from identifying the source of products. Trademarks became symbols of quality to consumers who were no longer in close contact with producers. In the eighteenth and nineteenth centuries, England's Industrial Revolution magnified this function of trademarks.

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 98 (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 guar-
antee of quality. This quality guaranty is known as good-will.
Because of good-will, trademarks today constitute valuable assets
for many corporations, are expressly recognized on corporate
balance sheets, 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 994, § 15.009 (“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 Grey 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 goodwill. See A. Bourjois & Co. v. Katz, 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 Unimpeaded Entry, 11 N.C. J. Int’l L. & Com. Reg. 251 (1986). The authors noted another aspect of trademarks illuminated in Bourjois v. Katz: “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
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") for the purpose of regulating production and promoting free trade in the coal and steel industries. The ECSC led to the signing of a pact calling for political and economic integration among the six ECSC Member States. This agreement, termed the Treaty of Rome, established the European Economic Community ("EEC"). In the name of free trade and European political solidarity, 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’l 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 28, 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 Berman, 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”).


81. Id.

82. See EC Treaty, supra note 3, Pmbl., [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. The Treaty of Rome also established several governmental institutions: the European Commission, the Council of Ministers, the European Parliament, and the ECJ.

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83. See EC Treaty, supra note 3, art. 5, 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 message which could jeopardize the attainment of the objectives of this Treaty.

Id.

84. See EC Treaty, supra note 3, art. 155, 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, 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, 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, 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. As such, the Commission primarily ensures that Member States properly implement the EC Treaty through the introduction and enforcement of EC legislation. Furthermore, the Commission, whose members are required to be completely independent of Member State interests, may bring an action before the ECJ if it considers that a Member State has not fulfilled an EC Treaty requirement.

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 fulfil 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, acts as the European Union's principle legislative body. A primary responsibility of the Council is to harmonize divergent national laws that affect the common market. The Council harmonizes national laws by issuing directives, requiring Member States to revise their laws according to specific guidelines.

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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 186. 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 198-99 (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. The Parliament acts as an additional legislative body, safeguarding the political interests of EU Member State citizens. Although Parliament exercised chiefly an advisory power under the EEC Treaty, its power expanded under the Maastricht Treaty.

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. Parliament’s new powers include, for example, the ability to review both EC legislation passed by the Council and proposed EU external agreements.

4. The ECJ

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

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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.
3. 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 . . . .


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”).


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. Rodriguez 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. 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. In the absence of legislative measures to the contrary, national governments retain their independence in areas where the EC Treaty is silent.

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).

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 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").


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, which addresses both intellectual property and free trade. Because the EC Treaty does not give precise limits on national intellectual property rights, the Court has formulated several doctrines, which interpret the EC Treaty in order to draw such limits. Over the last thirty years, the ECJ has revised and supplemented these doctrines to gradually expand the rights of national intellectual property owners. In the Ideal Standard case, the ECJ further extends the rights of trademark proprietors by holding

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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.


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.


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


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


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 intérpréatives des six gouvernements, Documents parlementaires, Cour de Justice des Communautés Européennes (1960)).


doctrines, the ECJ must take the EC Treaty as its point of departure.\footnote{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.\footnote{121} Paramount in the achievement of the common market are four freedoms: the free movement of goods,\footnote{122} services,\footnote{123} persons,\footnote{124} and capital.\footnote{125} The EC Treaty deals most extensively with the free movement of goods.\footnote{126}

The prohibition of quantitative restrictions on imports and all measures having an equivalent effect,\footnote{127} embodied in Articles 30 through 36 of the EC Treaty,\footnote{128} represents a central com-
ponent of the Free Movement of Goods principle. An illustration of a quantitative restriction is a quota imposed on imports from another Member State. The ECJ has given an expansive meaning to the term "measures having equivalent effect," and the phrase includes a Member State's enforcement of its national intellectual property rights. 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. The Member State's enforcement of the trademark right, therefore, has an effect equivalent to that of a quantitative restriction. Consequently, the Member State's act is subject to Article 30, which explicitly prohibits measures having such an effect.

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").


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.


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. A national court's finding of trademark infringement by an importer, therefore, does not necessarily violate the EC Treaty. The court's decision may be justified as an act protecting industrial and commercial property rights under Article 36.

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

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. BERMAN, supra note 2, at 395. The European Union prefers the latter. Id.


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.


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 194 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. 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. 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. This issue may arise when a trademark has divided among two or more entities.

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

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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").
resell it in Germany to undercut T’s high prices in Germany, a tactic known as selling through the “grey market”. 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. 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.

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

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

(1995) (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).


153. See EC Treaty, supra note 8, art. 36, [1992] 1 C.M.L.R. at 605 (devoting twenty-one words to proviso).

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

The Court’s doctrines, including the doctrine established in *Ideal Standard*, address situations in which a trademark divides among several entities. These cases can be divided into two broad groups: voluntary division and involuntary division. 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. Involuntary division, on the other hand, occurs when a trademark splits

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

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. In the 1970's, the ECJ attempted to establish a standard for deciding when a party has exhausted its national intellectual property rights. The ECJ's doctrinal evolution originated in 1966 with a distinction between the existence and the exercise of intellectual property rights, which was succeeded by the doctrine of specific subject matter, and continued with the principle of essential function.


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”).


a. The Existence-Exercise Distinction

In 1966, the ECJ’s decision in *Consten and Grundig* began a brief trend of judgments that limited national intellectual property rights in favor of free trade. *Consten and Grundig* involved the attempted use of national trademark laws to block parallel imports. Grundig, a German manufacturer of electronic equipment, authorized its exclusive distributors in various Member States to register its “GINT” trademark in their respective countries. Subsequently, the parallel importer UNEF, having obtained Grundig appliances cheaply from a German wholesaler, attempted to sell the products in France. 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.

UNEF applied to the Commission for a declaration that Consten and Grundig had infringed Article 85 in registering

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172. *Id.*
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.\textsuperscript{175} Article 85 prohibits agreements restricting competition and affecting trade between Member States.\textsuperscript{176} The French court opted to stay its proceedings until the decision of the Commission.\textsuperscript{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.\textsuperscript{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.\textsuperscript{179} In response to Consten and Grundig's contention that Article 222 protected their national trademark rights,\textsuperscript{180} the ECJ stated that the EC Treaty protects


178. \textit{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, \textit{supra} note 3, arts. 30, 85, [1992] 1 C.M.L.R. at 602, 626-27. \textit{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. \textit{See} EC Treaty, \textit{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); \textit{see also} EC Treaty, \textit{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. \textit{See} Commission Regulation No. 17, 1962 O.J. Eng. Spec. Ed. 87 (enabling Commission to enforce Articles 85 and 86); \textit{see also} EC Treaty, \textit{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, \textit{supra}, art. 2, 1962 O.J. Eng. Spec. Ed. 88. Such an enforcing action by the Commission is termed a "negative clearance." \textit{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. \textit{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, \textit{supra} note 3, art. 30, [1992] 1 C.M.L.R. at 602.
the existence of these rights but not their exercise.\textsuperscript{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.\textsuperscript{182} First, the Court did not define what acts constitute "exercising" intellectual property rights.\textsuperscript{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.\textsuperscript{184}

In Sirena v. Eda,\textsuperscript{185} the ECJ nevertheless continued its appli-
cation of the existence-exercise concept.\textsuperscript{186} In 1937, an American company, Mark Allen, assigned its "Prep" trademark for a shaving cream to the Italian firm Sirena.\textsuperscript{187} Mark Allen then licensed this same mark to a firm based in Germany.\textsuperscript{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.\textsuperscript{189} Sirena brought a trademark infringement action in the Italian national courts.\textsuperscript{190} The German importer contended that, under the circumstances, Article 85 of the EC Treaty prevented Sirena from exercising its Italian trademark rights.\textsuperscript{191}

Upon reference to the ECJ by the Italian court, pursuant to Article 177,\textsuperscript{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.\textsuperscript{193} The ECJ stated that Sirena's use of national trademark laws to block imports, combined with other licenses and assignments made be-

\begin{footnotes}
\item[186] Id.
\item[187] Id. at 86, \textit{C.M.L.R.} at 262.
\item[188] Id. at 86, \textit{C.M.L.R.} at 262.
\item[189] Id. at 86, \textit{C.M.L.R.} at 262.
\item[190] Id. at 72, \textit{C.M.L.R.} at 275.
\item[182] See \textit{Sirena}, \textit{E.C.R.} at 80, \textit{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, \textit{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 trademark lawfully registered in one Member State from exercising the absolute right derived from the trademark to prohibit third parties from importing from other countries of the Community products bearing the same trademark, lawfully attached to them in their place of origin? Id. at 82-83, \textit{C.M.L.R.} at 275. The Court gave more attention to the Article 85 claim. Id. at 82-83, \textit{C.M.L.R.} at 273-74.
\item[193] Id. at 84, \textit{C.M.L.R.} at 275.
\end{footnotes}
tween Mark Allen and various parties in separate Member States, could distort competition within the common market.\textsuperscript{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.\textsuperscript{195} Advocate General Dutheillet de Lamothe's opinion explained why patents deserve more protection than trademarks.\textsuperscript{196} He stated that creating a trademark does not normally require the investment of time and money required for the production of a patent.\textsuperscript{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.\textsuperscript{198}

b. The Specific Subject Matter Concept

Five years after the establishment of the existence-exercise principle in \textit{Consten and Grundig}, the Court presented an alternative doctrine with respect to the Free Movement of Goods principle in \textit{Deutsche Grammophon}.\textsuperscript{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.\textsuperscript{200}

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\begin{footnotesize}
194. \textit{Id.} at 82, \textsuperscript{10} [1971] C.M.L.R. at 274.
198. \textit{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. \textit{Id}.
200. \textit{Id.} at 500, \textsuperscript{11} [1971] C.M.L.R. at 657. The Court reiterated the distinction between existence and exercise introduced in \textit{Consten and Grundig}, but it immediately modified the distinction in the next sentence with its specific object principle. \textit{Id.} at 499-500, \textsuperscript{11} [1971] C.M.L.R. at 657. The Court did not, however, explain what it meant with the term "specific subject matter." \textit{Id}.

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-

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\(^{205}\) Id. at 500, ¶ 12, [1971] C.M.L.R. at 657.

\(^{206}\) Id.

\(^{207}\) Id. at 487, [1971] C.M.L.R. 631.


\(^{209}\) 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.
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 1182, ¶ 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.

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the right is exhausted. Because an owner can exhaust his intellectual property rights, this has been termed the exhaustion doctrine. 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.

c. The Essential Function of Trademarks

While the Court has applied the concept of specific subject matter to all types of intellectual property cases, two ECJ decisions rendered in 1978 revealed that trademarks required further analysis. In both Hoffman LaRoche v. Centrafarm and Centrafarm v. AHP, 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.

In Hoffman LaRoche, the Court upheld Hoffman LaRoche's
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.\textsuperscript{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.\textsuperscript{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.\textsuperscript{227}

Upon appeal by Centrafarm and reference to the ECJ,\textsuperscript{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.\textsuperscript{229} The Court ruled that, given a trademark’s essential function, Hoffmann LaRoche was entitled to block Centrafarm’s repackaged imports.\textsuperscript{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.\textsuperscript{231}

The ECJ also analyzed the essential function of trademarks in \textit{Centrafarm v. AHP}.\textsuperscript{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.\textsuperscript{233} Centrafarm had bought AHP’s

\begin{itemize}
\item \textsuperscript{226} \textit{Id.} at 1142, [1978] 3 C.M.L.R. at 220.
\item \textsuperscript{227} \textit{Id.}
\item \textsuperscript{228} \textit{Id.} at 1142, [1978] 3 C.M.L.R. at 220-21.
\item \textsuperscript{229} \textit{Id.} at 1163, ¶ 6, [1978] 3 C.M.L.R. at 241.
\item \textsuperscript{230} \textit{Id.} at 1164, ¶ 7, [1978] 3 C.M.L.R. at 241.
\item \textsuperscript{231} \textit{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.” \textit{Id.}
\item \textsuperscript{233} \textit{Centrafarm v. AHP}, [1978] E.C.R. at 1840, ¶ 12, [1979] 1 C.M.L.R. at 342-43. Unlike in \textit{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. \textit{Id.} (emphasis supplied). \textit{See Hoffmann-LaRoche}, [1978] E.C.R. at 1164, [1978] 3 C.M.L.R. at 241 (neglecting to limit application of essential function
\end{itemize}
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. \(^{238}\) Centrafarm \(v.\) AHP, [1978] E.C.R. at 1840, \(\S\) 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. \(^{239}\) Id.

In \(\text{Danske Supermarked} \ v. \text{Imerco},\) for example, the Court denied a company recourse to national trademark rights despite consumer confusion. \(\text{Danske Supermarked A/S} \ v. \text{Imerco A/S},\) 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. \(^{240}\) Id. at 190-91, \(\S\) 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. \(^{241}\) Id. at 191, \(\S\) 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. \(^{242}\) Id. at 191, \(\S\) 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. \(^{243}\) Id. at 196-97, [1981] 3 C.M.L.R. at 603-04. The Advocate General in \(\text{Danske Supermarked}\) 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, \(\text{Danske Supermarked A/S} \ v. \text{Imerco A/S},\) Case 58/80, [1981] E.C.R. at 201, \(\S\) 3, [1981] 3 C.M.L.R. at 597.


\(^{235}\) 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.” \(^{238}\) Id. at 1-1842, \(\S\) 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: the common origin princi-

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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. 1059, 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).


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
and its successor, the consent doctrine. 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.

a. The Common Origin Doctrine

In *Hag I*, the ECJ considered whether Articles 30 through 36 prohibited the Luxembourg-based firm Van Zuylen Frères from exerting its local Benelux trademark rights against the German company Hag AG. Van Zuylen Frères sought to prevent Hag AG from selling its competing product with the same "Hag" mark in Luxembourg. The two companies traced their origin to the Belgian subsidiary of the German firm Hag AG. 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. 1-3711, [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. 1-3711, [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.


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."


249. Id.

250. Id.
the Belgian Government, as enemy reparations from Germany, and was eventually sold to Van Zuylen Frères in Luxembourg.\footnote{251} The parent firm, meanwhile, remained a German company.\footnote{252} The Hag trademark thus became separately owned in Germany and Luxembourg.\footnote{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.\footnote{254} The Court, however, responded that trademark owners may not rely upon territorial limitations of national trademark rights to block imports.\footnote{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.\footnote{256} This established the doctrine of common origin.\footnote{257}

b. The Doctrine of Consent

More recently, in \textit{Hag II},\footnote{258} the Court expressly rejected the common origin doctrine and adopted the consent doctrine.\footnote{259}

\footnote{251. Id.}
\footnote{252. Id.}
\footnote{253. Id.}
\footnote{257. See, e.g., Rothnie, supra note 163, at 25 (stating that, with \textit{Hag I} ruling, "the doctrine of common origin was born"). The case \textit{Terrapin v. Terranova} confirmed the \textit{Hag I} judgement. [1976] E.C.R. 1039, [1976] 1 C.M.L.R 482. In \textit{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. \textit{Id.} at 1061, ¶ 6, [1976] 1 C.M.L.R. at 505-06.}
\footnote{259. Id. See Joliet, supra note 184, at 319. Judge Joliet agreed with the Court’s decision in \textit{Hag II} to ignore the precedent of \textit{Hag I}: The \textit{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 \textit{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.\(^ {267}\)

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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*).


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 licensee\(^{272}\) 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.*


273. *Id.*


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. On the other hand, the act was involuntary because the assignee, not the proprietor, placed the trademarked product into circulation. The Court resolved this difficulty by narrowing its concept of consent to exclude assignments.

1. Background to Ideal Standard

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

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. 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 1-2850, ¶ 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.


282. Id.


284. Id. at I-2798, ¶ 4, [1994] 3 C.M.L.R. at 862.
it had no economic links. 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. 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. Meanwhile, IS SA retained the mark for sanitary ware.

CICh began producing heating installations in France under the Ideal Standard trademark. 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”). As a result, two Ideal Standard marks were being used in Germany. First, American Standard’s German subsidiary, IS GmbH, sold sanitary ware under the ‘Ideal Standard’ name. Second, IHT sold heating installations under the same label.

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

289. Id. at I-2794, ¶ 5, [1994] 3 C.M.L.R. at 862.
290. Id.
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.\textsuperscript{298} IHT appealed to a higher German court,\textsuperscript{299} which referred the question to the ECJ.\textsuperscript{300}

\section*{2. Advocate General Gulmann's Opinion}

Pursuant to ECJ procedure,\textsuperscript{301} Advocate General Gulmann analyzed the arguments of the parties and made his recommendation to the Court Justices.\textsuperscript{302} In addition to IS GmbH and IHT, the EC Commission, the German Government, and the United Kingdom submitted written arguments.\textsuperscript{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.\textsuperscript{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 \textit{Ideal Standard} case.\textsuperscript{305} Instead, the Advocate General applied his own balancing method, weighing both consumer and proprietor rights.

\begin{footnotesize}
\begin{enumerate}
\item\textsuperscript{298} \textit{Id.} at I-2840, ¶ 8, [1994] 3 C.M.L.R. at 903.
\item\textsuperscript{299} \textit{Id.} at I-2840, ¶¶ 9, 11, [1994] 3 C.M.L.R. at 903. The appellate court was the Oberlandesgericht Dusseldorf. \textit{Id.}
\item\textsuperscript{300} \textit{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'? \textit{Id.}

\item\textsuperscript{301} See EC Treaty, \textit{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. \textit{Id.; see supra} note 107 and accompanying text (discussing Advocate General's role in ECJ proceedings).
\item\textsuperscript{304} \textit{Id.} I-2789, [1994] 3 C.M.L.R. 857.
\end{enumerate}
\end{footnotesize}
interests.\textsuperscript{306}

\textbf{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.\textsuperscript{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.\textsuperscript{308} The ECJ did not dispute this assumption in its judgment.\textsuperscript{309}

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

\begin{footnotesize}
\begin{enumerate}
\item \textsuperscript{306} Id. at I-2797, ¶ 15, [1994] 3 C.M.L.R. at 865.
\item \textsuperscript{307} Id. at I-2811, ¶ 68, [1994] 3 C.M.L.R. at 879. The Advocate General stated that:

\begin{quote}
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.
\end{quote}

\textit{Id.}

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

\begin{quote}
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.
\end{quote}

\textit{Id.}


\begin{quote}
[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.
\end{quote}

\textit{Id.}

\end{enumerate}
\end{footnotesize}
GmbH gave consent to putting the products into circulation.\textsuperscript{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.\textsuperscript{312} In other words, IS GmbH was opposing direct imports, not parallel importation.\textsuperscript{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.\textsuperscript{314} IS GmbH could exert German trademark law, therefore, regardless of whether its assignment of the trademark constituted consent.\textsuperscript{315} Neither IS GmbH, the Advocate General, nor the Court, however, discuss this point.\textsuperscript{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.\textsuperscript{317}

The Court, analogizing the facts of \textit{Hag II} to the \textit{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." \textit{Id.}

\textsuperscript{311} See Opinion of Advocate General Gulmann, \textit{Ideal Standard}, [1994] E.C.R. at 1-2820, ¶ 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 \textit{Ideal Standard}, [1994] E.C.R. at 1-2850, ¶ 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").

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

\textsuperscript{313} See id. (remarking that \textit{Ideal Standard} is actually not parallel importation case).

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

\textsuperscript{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).


Regardless of SGF's subsequent decision to assign the mark to CICh, 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.\textsuperscript{318} The Court and the Advocate General, therefore, treated the case as if IS GmbH had assigned its mark directly to IHT.\textsuperscript{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.\textsuperscript{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.\textsuperscript{321} Gulmann and the Court con-

\begin{footnotesize}
\begin{enumerate}
\item[318.] See Opinion of Advocate General Gulmann, \textit{Ideal Standard}, [1994] E.C.R. at 1-2820, \S\ 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." \textit{Id.} See also \textit{Ideal Standard}, [1994] E.C.R. at I-2850, \S\ 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").
\item[321.] See Opinion of Advocate General Gulmann, \textit{Ideal Standard}, [1994] E.C.R. at I-2834, \S\ 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. \textit{Id.} Gulmann noted that this would have constituted a violation by the German government of the second sentence of Article 36. \textit{Id.} He cites the case \textit{Deutsche Renault}, which states:

\begin{quote}
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.
\end{quote}

\textit{Id.} (citing \textit{Deutsche Renault AG v. Audi AG}, Case 317/91, [1993] E.C.R. at 6230, \S\ 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. \textit{Id.; see also \textit{Ideal}}
\end{enumerate}
\end{footnotesize}
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.\footnote{222}

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.\footnote{223} Both IHT and the Commission, on the other hand, maintained that consent to an assignment satisfies exhaustion.\footnote{224} 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.\footnote{225}

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.\footnote{226} This ensures that the mark’s reputation will not be tarnished by substandard products carrying the mark.\footnote{227} Consenting to a mere assignment, they argued, does not afford the assignor this control.\footnote{228}


\footnote{223} 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. \textit{Id}.

\footnote{224} \textit{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. \textit{Id}; see supra note 89 and accompanying text (describing role of Commission).


\footnote{226} Id.

\footnote{227} Id.

\footnote{228} 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. The Commission maintained, however, that the assignor nevertheless accepted the possibility that the assignee's goods could be imported into the assignor's territory. Consequently, the assignor, having indirectly put its product into circulation and accepted a fee for the assignment, exhausts its trademark right.

ii. Gulmann's Answer

Advocate General Gulmann, rather than subscribing to one of these views, declared the exhaustion principle inapplicable to assignments. 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, ¶ 85, [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.


330. Id.


that are economically linked. With an assignment, Gulmann reasoned, exhaustion is irrelevant because the original proprietor is not marketing the trademarked product in more than one Member State. 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.

**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. In upholding the Free Movement of Goods principle, Gulmann addressed the fact that IS GmbH made a voluntary decision to assign its trademark. Alternatively, Gulmann considered the possible detrimental effects to consumers if IS GmbH were denied the ability to block IHT’s imports.

**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. The decisive factor, according to these two parties, was IS GmbH’s execution of a voluntary transaction as the proprietor. 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. In the case of an assignment, where the proprietor consents to use of the mark on other products, the trade-

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333. Id.
334. Id.
335. Id. at I-2835, [1994] 3 C.M.L.R. at 901.
337. See supra notes 121-36 and accompanying text (explaining Free Movement of Goods).
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. 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.

Gulmann then addresses the arguments of IS GmbH, supported by both the German and UK Governments. IS GmbH argued that its right to assign freely its mark, without fear of sub-standard imports carrying the mark, forms part of the specific subject matter of its trademark right. 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.

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. Gulmann stated that without free assignability, a trademark nevertheless serves its purpose in helping the proprietor establish a reputation for its products. 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.

With respect to the consumer factor, Gulmann declared that a trademark is not an absolute guarantee of quality to consumers. 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. 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.
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. 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.

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. Gulmann did not recognize the independent consumer interest as a sufficient justification for the proprietor's right to protect the distinguishing function of trademarks. For Gulmann, this principle applies whether the owner acquired the mark by a license, an assignment, or any other contractual arrangement.

3. Judgment of the Court

In contrast to the Advocate General's balancing test, the
Court’s opinion confronted the exhaustion doctrine.\textsuperscript{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.\textsuperscript{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.\textsuperscript{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.\textsuperscript{361} IHT unsuccessfully argued that IS GmbH should not be able to make a territorially limited assignment.\textsuperscript{362} If IS GmbH chose to assign its trademark, argued IHT, it should have accepted that it was doing so for the whole Community.\textsuperscript{363} The Court commented that trademarks in Europe are meant to form rights independently of one another in different territories.\textsuperscript{364}

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

\textsuperscript{358} See Ideal Standard, [1994] E.C.R. at I-2847-48, 50, \textsuperscript{\textcircled{111}} 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).

\textsuperscript{359} Id.

\textsuperscript{360} See id. at I-2843-46, \textsuperscript{\textcircled{111}} 21-32, [1994] 3 C.M.L.R. at 905-07 (focusing on territorial nature and independence of trademarks).

\textsuperscript{361} Id. at I-2851, \textsuperscript{\textcircled{111}} 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, \textsuperscript{\textcircled{111}} 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”).

\textsuperscript{362} Id. at I-2851, \textsuperscript{\textcircled{111}} 47, [1994] 3 C.M.L.R. at 910.

\textsuperscript{363} Id.

\textsuperscript{364} Id. at I-2844, \textsuperscript{\textcircled{111}} 24, [1994] 3 C.M.L.R. at 905.

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

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


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.


\textsuperscript{367} Ideal Standard, [1994] E.C.R. at 1-2845, ¶ 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 1-2845, ¶¶ 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, . . .


\textsuperscript{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).

\textsuperscript{369} Ideal Standard, [1994] E.C.R. at 1-2845, ¶ 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. The Uniform Benelux Law, for instance, specifically prohibits the assignment of a mark for one part of the joined territory. The Court noted that, unlike the Uniform Benelux Law, Community trademark law does not replace the laws of the Member States. Community trademark law, therefore, does not affect assignments of trademarks that enjoy national territorial protection. 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


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).


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.

language in a directive or a regulation.\textsuperscript{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.\textsuperscript{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.\textsuperscript{377} The Court cited \textit{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.\textsuperscript{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.\textsuperscript{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.\textsuperscript{380} Economic linkage, according to the Court, includes a licensing arrangement.\textsuperscript{381} The licensor may control the quality of the licensee's products by inserting contractual clauses requiring the licensee to comply with specific instructions.\textsuperscript{382}

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

\begin{itemize}
  \item \textsuperscript{375} Id. at I-2854, ¶ 57-58, [1994] 3 C.M.L.R. at 912.
  \item \textsuperscript{376} Id. at I-2846-51, ¶¶ 33-45, [1994] 3 C.M.L.R. at 907-10.
  \item \textsuperscript{377} Id. at I-2846, ¶ 33, [1994] 3 C.M.L.R. at 907.
  \item \textsuperscript{378} Id.
  \item \textsuperscript{379} Id. at I-2849, ¶ 40, [1994] 3 C.M.L.R. at 909.
  \item \textsuperscript{380} Id. at I-2847-48, ¶ 34, [1994] 3 C.M.L.R. at 907. For support the Court cites the \textit{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." \textit{Id.} at I-2848, ¶ 37, [1994] 3 C.M.L.R. at 908 (citing \textit{Hag II}, [1990] E.C.R. at I-3758, ¶ 13, [1990] 3 C.M.L.R. at 608).
  \item \textsuperscript{381} Id. at I-2848, ¶ 37, [1994] 3 C.M.L.R. at 908.
  \item \textsuperscript{382} Id.
  \item \textsuperscript{383} See Opinion of Advocate General Gulmann, \textit{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. \textit{Id.} With these assignments, the assignees require that the assignor relinquish control over the quality of the goods carrying the trademark. \textit{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.\textsuperscript{384} Without this control, the proprietor's trademark could be affixed to products of substandard quality, thereby devaluing the trademark.\textsuperscript{385} Thus, while licensing a trademark can exhaust the owner's right, an assignment preserves the owner's trademark right.\textsuperscript{386} The proprietor may, therefore, benefit from national trademark laws and may limit its assignment to a particular territory.\textsuperscript{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.\textsuperscript{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.\textsuperscript{389} The Court held that consent to assigning a trademark does not amount to the consent required to exhaust national trademark rights.\textsuperscript{390}

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

\textsuperscript{384} \textit{Ideal Standard}, [1994] E.C.R. at 1-2849, ¶ 38, [1994] 3 C.M.L.R. at 908. \textit{See} Joliet, supra note 184, at 317. Before the \textit{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 trademark in several Member States assigns its trademark 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 trademark, 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.

\textit{Id.}


\textsuperscript{386} \textit{Id.} at 1-2850, ¶ 43, [1994] 3 C.M.L.R. at 909.

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


\textsuperscript{389} \textit{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, \textit{Ideal Standard}, [1994] E.C.R. at 1-2815, ¶ 85, [1994] 3 C.M.L.R. at 909; \textit{see} supra note 328 and accompanying text (discussing lack of control in assignment of national trademark).

c. The Consumer Interest

The Court addressed the rights of consumers in terms of the essential function of trademarks. 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. The Court stated that deferring to the Free Movement of Goods principle would undermine this essential function. Consumers would no longer be able to identify with certainty the origin or quality of trademarked goods. Moreover, the trademark owner could be held accountable for the poor quality of the goods for which it was not responsible. The Court further noted that these considerations apply whether the splitting of the trademark resulted from a voluntary or involuntary assignment. While this distinguishing function of trademarks was not the main focus of the Court’s analysis, 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.*


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.*


396. *Id.*

397. Compare *id.* at 1-2850, ¶¶ 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.  

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. The Court thus modified its recently articulated consent doctrine with a thoughtful, practical standard based on control. 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. 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, 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. In Ideal Standard,
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. 1-2850, ¶ 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 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.

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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).
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.\textsuperscript{417} Whereas the information protected by patents and copyrights help to define products,\textsuperscript{418} trademarks affix good-will to products placed in the market.\textsuperscript{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.\textsuperscript{420} By contrast, patents and copyrights protect unique characteristics but do not supply that communicative element.\textsuperscript{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-

\textsuperscript{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).

\textsuperscript{418} See supra notes 34-50 (outlining protections afforded by patents and copyrights).

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

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

\textsuperscript{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. 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. As the Industrial Revolution spurred the growth of business and advertising, the public developed a reliance on trademarks as a guarantee of quality. During the same period, the Paris Convention and the Madrid Agreement recognized the territorial nature of trademarks. 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. In the repackaging cases, the Court evaluated a trademark's essential function in deciding whether to limit national trade-

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

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. The Advocate General in *Sirena* explained that trademarks neither require creative effort nor contribute as much to society as do patents or copyrights. The Court held

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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 1-2850, ¶ 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.\textsuperscript{434}

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

Despite the Court's inherent reliance a trademark's consumer oriented essential function in \textit{Ideal Standard}, the Court made only cursory mention of it.\textsuperscript{439} The Court's holding, however, clearly benefits consumers.\textsuperscript{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 mark\textsuperscript{441} and the possibility of different quality goods

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\textsuperscript{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).


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

\textsuperscript{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).

\textsuperscript{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).


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

\textsuperscript{441} See supra note 385 and accompanying text (explaining that, without national
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being offered to consumers under the same mark.\footnote{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.\footnote{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.\footnote{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.\footnote{445} The Regulation therefore takes into account possible harm to consumers, regardless of the proprietor's consent.\footnote{446}

C. Practical Implications of the Ideal Standard Decision

Despite some oversights in the ECJ's analysis, the Court's
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. 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, holding that an assignment exhausts trademark rights would limit corporate acquisition activity in the European Union. A trademark's good-will often represents a substantial portion of a company's assets. 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. 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.

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 concurrently 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).

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 Gullmann'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 Gullman's explanation of standard practice of corporate trademark assignees).
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.*