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Repackaging of pharmaceuticals
A special study of the applicability of Article 86 to the use of trade mark rights to prevent repackaging

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Contents

SUMMARY .............................................................................................................. 1

ABBREVIATIONS ................................................................. ........................................ 3

1 INTRODUCTION ......................................................................................... 4

2 INTELLECTUAL PROPERTY RIGHTS ............................................. 6

2.1 Trade marks .............................................................................................. 6

3 THE GENERAL APPROACH IN EC LAW TO INTELLECTUAL PROPERTY RIGHTS ........................................ 9

3.1 The objectives of the EC Treaty ................................................................. 9

3.2 The rules on competition ........................................................................... 10

3.3 The rules on free movement of goods ....................................................... 10

3.3.1 The distinction between existence and exercise ..................................... 11

3.3.2 The rule of exhaustion ........................................................................... 12

3.3.3 Specific subject-matter .......................................................................... 13

3.3.4 The Merck-case ................................................................................... 14

4 ARTICLE 86 .............................................................................................. 15

4.1 Relevant market .......................................................................................... 15

4.2 Dominant position ....................................................................................... 16

4.3 Abuse ........................................................................................................... 17

4.4 Effect on trade between Member States .................................................... 19

5 CASE LAW UNDER ARTICLE 86 .................................................... 20

5.1 Commercial Solvents ................................................................................. 20

5.2 Volvo ............................................................................................................ 21

5.3 Magill ........................................................................................................... 21

5.4 Oscar Bronner ........................................................................................... 23

5.5 The essential facilities doctrine ................................................................. 24
Summary

Intellectual property rights easily come in conflict with the objectives of the EC Treaty since they are exclusive in their nature and can be seen as a legal way to create trade barriers. In Article 222 of the Treaty it is stated that the Treaty shall not prejudice the rules in the Member States governing the system of property ownership, and in Article 36 it is permitted to protect intellectual property rights in spite of the free movement provisions. To be able to apply the rules on free movement and the competition rules to intellectual property rights used to divide the market and distort competition the Court has developed the case law by referring to the objectives of the Treaty. This was done through the development of the doctrine of exhaustion, the distinction between existence and exercise and the notion of specific subject-matter. Regarding trade marks the Court has defined the specific subject-matter to be the guarantee that the owner of the trade mark has the exclusive right to use that trade mark, for the purposes of putting products protected by the mark into circulation for the first time. The rule of exhaustion concerning intellectual property rights such as trade marks makes it possible to import most products in parallel. When it comes to pharmaceuticals this has however created certain problems. The packages of the pharmaceuticals are for some reason often different in different Member States, which has given rise to legal proceedings when the proprietor has prevented the repackaging by the parallel importer.

In such cases concerning repackaging the Court has applied the free movement rules and the principles of the specific subject-matter and the difference between existence and exercise. It has also used the notion of essential function and stated this to be to guarantee the identity of the origin of the trademarked product to the consumer, by enabling him without any possibility of confusion to distinguish that product from products which have another origin. This means that the right to prevent repackaging is part of the essential function. The Court has however stated that the exercise of the trade mark nevertheless in such circumstances could amount to a disguised restriction on trade between Member States. This would be the case if the use of the trade mark contributes to the artificial partitioning of the market and if it is shown that the repackaging cannot adversely affect the original condition of the products. A parallel importer would then be permitted to repackage the pharmaceutical if he gives prior notice of the marketing and states on the new packaging by whom the product has been repackaged. In the latest case, Bristol-Myers Squibb, it was also required that the repackaging was necessary and that the reputation of the trade mark did not risk being wounded. It was also made clear that it does not have to be the intent of the proprietor to partition the market artificially, it is enough that this is the effect, to make the prevention of repackaging in breech of the free movement rules.
The question is however if instead Article 86 could have been applied to these repackaging cases. When it comes to intellectual property rights the Court has used the distinction between existence and exercise and stated that even though the exclusive nature of intellectual property rights confer some degree of market power, the mere ownership does not in itself give rise to a dominant position. To define abuse the Court has also used the notions of specific subject-matter and of essential function. In general it can be said that Article 86 could be applied in repackaging cases where the use of different packages and the striving to prevent repackaging is a manifestation of a wish to maintain price differences or to make it hard for a parallel importer to sell the product in the "wrong" packaging. If the prevention of repackaging is made because of a wish to detect the person in the selling chain who sold the product to the parallel importer it would most certainly be seen as abusive. The assessment of whether a conduct is abusive under Article 86 or not is objective and involves the same assessments as for if an exercise of an intellectual property right contributes to the artificial partitioning of the market under the free movement provisions. If a conduct has been judged to contribute to the artificial partitioning it would therefore most certainly be judged to constitute an abuse. Whether the abusive conduct actually would be caught by Article 86 or not depends on if the other criteria in the Article are fulfilled, i.e. that the undertaking occupies a dominant position in a substantial part of the Common Market and that the abuse is likely to affect trade between Member States.

The essential facilities doctrine might also be applied in accordance with case law under Article 86, if the prevention of repackaging would be likely to eliminate all competition, if it could not be objectively justified and if there are no actual or potential substitute to the repackaging.
## Abbreviations

<table>
<thead>
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<th>Abbreviation</th>
<th>Description</th>
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<tr>
<td>CFI</td>
<td>Court of First Instance of the European Communities</td>
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<td>ECR</td>
<td>European Court Reports</td>
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<td>OJ</td>
<td>Official Journal of the European Communities</td>
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1 Introduction

The fundamental objective of the EC Treaty is to create a single Market without any barriers to trade. One way to secure this objective is through the rules on competition which aims at maintaining an open market and stimulating economic activity by guaranteeing the widest possible freedom of action to all.\(^1\) Since intellectual property rights confer an exclusive right upon their owners and in that sense can be seen as a legal way to create a trade barrier they easily come in conflict with the objectives of the Treaty and with the rules on competition. The interaction between the rules on competition and intellectual property rights has thus proved to be a source for disputes under the Treaty. Intellectual property rights do however not necessarily conflict with the competition rules. Since they work as a reward for research and development by assuring the owner the exclusive right to his work they can even be said to be pro-competitive and to increase efficiency and consumer welfare in the long run. Because of the exclusivity in these rights the intellectual property rights do however also affect the competition structure in a less favourable way. By excluding third parties from a part of the market competition is naturally impeded. This conflict between the need to protect intellectual property rights as an incentive to innovations and the wish to keep a free market with competition has resulted in some interesting problems under EC law.

In this paper I will deal with one specific problem regarding trade marks – repackaging of trade marked goods. This problem arises mostly in situations of parallel import of pharmaceuticals, since they often are sold in different packages in different countries. The question is what right the proprietor have in these situations to prevent the goods from being repackaged and his trade mark from being re-affixed. I will try to answer this question by describing the case law developed by the Court in this area. So far the Court has discussed the rights of a trade mark owner in these situations by referring to the rules on free movement of goods. In this paper I will however instead try to apply Article 86 and see if the wish to prevent repackaging can constitute abuse by dominant undertakings. I will also examine what different results could have been achieved by using Article 86 instead of the rules on free movement.

The repackaging problem must however be put in a relevant context, and therefore I will start with summarily describing trade mark rights and the rules on free movement of goods and on competition, as well as the case law developed in those areas. I will then describe Article 86 more in detail and the most important cases under this Article, before I start examining the repackaging-problem.

This study is based on literature, academic articles and case law. The method I have used is to read and analyse the material. I have also gone through the relevant EC law provisions. Finally I have applied the principles I have found in the material to the repackaging situation and drawn my own conclusions about the outcome.

When referring to provisions in the EC Treaty I have chosen to refer to the Articles in the Rome Treaty since the cases refers to those and since the Articles are still more known under the old numbers than under the new ones in the Maastricht Treaty. When I refer to Article 86 it should thus actually be read as Article 82 in the Maastricht Treaty, and Articles 30 and 36 are now numbered 28 and 30.
2 Intellectual property rights

Intellectual property rights are for example patents, copyrights and trade marks. The most significant characteristic of these rights are that they confer an exclusive right upon the owner to prohibit certain acts of third parties, like using a trade mark or producing a patented product without consent. An intellectual property right does not make the rightholder a monopolist in an economic sense, but it confers a degree of immunity from the activities of existing and potential competitors. Because of this immunity the proprietor can be sure to obtain some rewards and intellectual property rights therefore work as an incentive to invest time and money in research and development. Generally it can therefore be said that the main function of intellectual property rights is to stimulate innovation and development.

The intellectual property right that is of interest for this paper is trade marks, and I will therefore describe this right more in detail. A difference compared to other intellectual property rights is that trade marks only confer exclusivity on a certain brand name and not to the product. Similar products may therefore be marked under a different brand name. Another difference is that trade marks are not limited in time.

2.1 Trade marks

Trade marks do not relate to a certain product but merely to distinctive signs affixed to products in order to distinguish it from similar products made by others and thereby declare the origin of the product. The trade mark can consist of any sign which is capable of being represented graphically and is capable of distinguishing the goods or services of one undertaking from those of other undertakings. A sign can be a personal name, design, letters, numerals, the shape of the goods or of the packaging.

Trade marks give the proprietor the right to prevent all third parties not having his consent from using any sign which is identical or similar to it, in the course of trade. The protection of trade marks is necessary for making it possible to distinguish between competing products and services. If copying would be allowed consumers could not rely on experiences of previous purchases as a guarantee of a certain quality. Without protected trade marks effective advertising would also be undermined. Trade marks also ensure the holder that he will be able to enjoy the effort of building up a goodwill associated with the product, and

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3 Wish, p 648.
4 CTMR, Article 4.
5 CTMR, Article 4.
thus works as an incentive to make products with a certain quality and to keep a good service. To protect trade marks is therefore an important component in market economy.

The Community realised in an early stage that in order to create a single market it was important that national rules did not create barriers and that it therefore was necessary to harmonise the national rules also in areas not directly concerned with this, like intellectual property. Harmonisation directives have thus been issued for example about patents, trade marks and copyrights. When it comes to trade marks it is the area of intellectual property law where the harmonisation process has attained most. In 1980 the Commission adopted a twofold strategy to harmonise national law whilst at the same time creating a Community-wide right. The Trade Mark Directive⁶ was implemented in 1989. This Directive harmonises the rights conferred by a trade mark and establishes the basic criteria for registrability, infringement, invalidity and revocation. It has to a great extent fortified the existing case law in this area. The two most important provisions in the Directive are Articles 5 and 7. Article 5 states the rights that are conferred by a trade mark. These are, as already said, the right to prevent third parties from using an identical or similar trade mark in the course of trade, unless they have the owner’s consent. Article 7 expresses the case law rule of exhaustion, which will be dealt with later in this paper. It states that

The trade mark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that trade mark by the proprietor or with his consent. Paragraph 1 shall not apply where there exist legitimate reasons for the proprietor to oppose further commercialisation of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market.

Even if most Member States legislated to bring their national laws into line with the Directive, this legislation still operated in the context of varying legal systems and traditions, and there could still arise conflicts between trade marks and the Common Market.⁷ The Commission therefore took the view that it was necessary to create a single trade mark for the whole of the Community. There was however problems regarding the legal basis for the creation of a Community trade mark since the Treaty does not explicitly confer such a competence. Article 100a, which the Directive was based on, only gives the legal basis for harmonisation measures, not for creating new Community procedures or institutions.⁸ In this case the Commission therefore had to base its proposition on Article 235. This Article gives the Council the right to take the measures necessary to attain one of the objectives of the Community even though the Treaty does not provide the

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⁷ Annand and Norman, *Blackstone’s guide to the Community Trade Mark*, p 7.
powers hereto, but it requires that the Council is unanimous and that the European Parliament has been consulted. These requirements were however fulfilled and in 1993 the Council Regulation on the Community Trade Mark\(^9\) was adopted. This Regulation will give the proprietor the exclusive right to use the trade mark throughout the Community. If there exists an earlier conflicting mark anywhere in the Community it will therefore prevent the registration of a Community Trade Mark. National trade marks system will however continue to exist alongside the Community Trade Mark system and in such a situation it will still be possible to register the mark under the national laws of those Member States where there is no conflicting mark.\(^{10}\)

Since a trade mark do not relate to a product but merely to the name affixed to the product it can be concluded that the right do not in itself confer a monopoly position as, for instance, a patent does. This is also mirrored in the fact that trade marks are not limited in time. In spite of this a well-known trade mark can nevertheless confer market power and, as will be seen in this paper, be used by an undertaking in a dominant position to gain anti-competitive profits.

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\(^{10}\) See Trade Mark Directive, Article 21.
3 The general approach in EC law to intellectual property rights

3.1 The objectives of the EC Treaty

Before going into the substantial rules in the EC Treaty that interact with intellectual property rights it is important to be aware of the fundamental objectives of the Treaty. These objectives are stated in Article 2 of the Treaty to be

> to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability, an accelerated raising of the standard of living and closer relations between the States belonging to it.

In Article 3 (a)-(k) the means by which these aims are to be achieved are listed, including for example the removal of all barriers to the free movement and the institution of a system ensuring that competition is not distorted. Competition policy therefore forms an integral part of the overall economic and political structure of the Community.

When an intellectual property owner uses his right to exclude acts like manufacturing and importing infringing products by potential competitors he is in conflict with the objectives of the Treaty, since his actions can divide the Common Market as well as distort competition. Such actions are also in breech of both the rules on free movement and the rules on competition. There is however one problem in applying these sets of rules against intellectual property rights since Article 222 states that the Treaty shall not prejudice the rules in the Member States governing the system of property ownership. To be able to apply these sets of rules to intellectual property rights the Court therefore had to develop and change the law radically, which it has done by referring to the fundamental objectives of the Treaty. Because of the case law-development both the rules on free movement and the rules on competition are now applicable on intellectual property rights exercised in a way that conflicts with the objectives. In order to attain the objectives of the Treaty measures have also, as described in the previous chapter, been taken to harmonise the rules on intellectual property, and even to create a Community Trade Mark. Nowadays it is even firmly established that, in spite of Article 222, intellectual property rights are subject not only to

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11 Govaere, p 42.
certain Treaty rules like the rules on free movement and on competition, but also
to the general principle of non-discrimination.\textsuperscript{12}

\textbf{3.2 The rules on competition}

The competition rules in the EC Treaty are set out in Articles 85 to 93 and have
the legal basis in Article 3(g), which states that as means to achieve the objectives
of the Treaty the Community shall make sure that competition is not distorted
within the Common Market. The competition rules are concerned with
suppressing anti-competitive conduct as well as with market integration since they
contribute to the creation and preservation of the single market and the elimination
of trade barriers. They also make sure that the creation of a single market is not
undermined and that new barriers do not emerge because of private agreements
or state decrees.

The two main articles are Article 85 and 86, where Article 85 prohibits anti-
competitive agreements or concerted practices between undertakings. Agreements concerning intellectual property, like licensing agreements, are
frequently affected by this article. Such agreements can however be exempted by
Article 85(3) if they have an overall positive effect, which is measured through the
fulfilment of four criteria. The criteria are that the agreement contributes to
improving the production or promoting technical or economic progress, that it
allows consumers a fair share of the resulting benefit, that it does not impose any
restrictions which are not indispensable to the attainment of the objectives and
that it does not give the undertaking the possibility of eliminating competition.

Article 86 in its turn prohibits abuse by dominant undertakings. The dominant
position is established in relation to the relevant market, which consists of a
relevant product and a relevant geographic market, and a temporal aspect. The
kinds of behaviour that have been found to be abusive are for example excessive
pricing, discriminatory conditions or pricing, refusal to supply, rebate schemes,
abuse of intellectual property rights, tying, restrictions on export and refusal to
grant access to essential facilities.\textsuperscript{13}

\textbf{3.3 The rules on free movement of goods}

The competition rules were not capable of dealing with all the situations in which
intellectual property could be used to reinforce boundaries and therefore the EC
authorities also wanted to apply the free movement rules. Article 30 provides that
quantitative restrictions on imports and all measures having equivalent effect shall
be prohibited between Member States. Article 34 contains a similar provision

\textsuperscript{12} Govaere, p 42.
\textsuperscript{13} Craig and de Búrca, \textit{EU Law, Text, Cases and Materials}, pp 958 to 972.
regarding exports. The use of these Articles were however thought to be limited because of the provision in Article 36 which permits Member States to protect intellectual property, as long as it is not done in such a manner as to constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States. This rule emanates from the underlying principle in Article 222. The Court did however, as already said, overcome these limits by referring to the interests of single market integration. Article 30, and the case law\(^\text{14}\) under it, is now applicable to intellectual property rights used in a way that creates barriers to the free trade since the Court changed the law fundamentally through the development of the doctrine of exhaustion, the distinction between existence and exercise, and the notion of the specific subject-matter.

### 3.3.1 The distinction between existence and exercise

To get around Articles 36 and 222 the Court made a distinction between the existence of an intellectual property right and the exercise of it. The former was protected by those Articles, but the latter would be limited by the Community law, especially the rules on competition and the rules on free movement of goods and services.\(^\text{15}\) This distinction was first made, in regard to the competition rules, in the Consten and Grundig case\(^\text{16}\). Grundig, a German manufacturer of televisions and tape recorders had granted exclusive trade mark and distribution rights to its exclusive distributor in France, Consten. When parallel traders began to undercut Consten’s prices in France, Consten initiated a trade mark infringement action. The Court acknowledged that the proprietary rights granted under national laws could not be prejudiced, but it stated that the exercise of those rights may be limited to the extent necessary to give effect to the competition rules. Since the imposition of territorial or quantitative restrictions in a licence agreement could serve as a tool to divide national markets it would make the prohibition in Article 85(1) ineffective if this use of trade mark would be allowed. Such a use is not part of the essential functions of the trade mark and therefore it is subject to prohibitions under the Treaty. Article 36 can thus not limit the field of application of Article 85 regarding the exercise [my emphasis] of an intellectual property right.\(^\text{17}\)

\(^{14}\) For example Dassonville, where it was stated that “all trading rules enacted by Member States which are capable of hindering, directly or indirectly, actually or potentially, intra-Community trade are to be considered as measures having an effect equivalent to quantitative restrictions.” This rule was later limited by Cassis de Dijon which stated that obstacles to the free movement of goods could be accepted if necessary in order to satisfy mandatory requirements (effectiveness of fiscal supervision, protection of public health, commercial fairness and protection of the consumer) if they were proportionate and the least restrictive to trade as possible.  
\(^{15}\) Craig and de Bürca, pp 1026-1027.  
\(^{16}\) Cases 56 and 58/64 Établissements Consten SARL and Grundig-Verkaufs-GmbH v EC Commission [1966] ECR 299.  
\(^{17}\) Consten and Grundig, p 345.
3.3.2 The rule of exhaustion

The distinction between existence and exercise was first made in relation to Articles 30 and 36 in the Deutsche Grammophon case. In this case the rule of exhaustion was also laid down for the first time. Deutsche Grammophon produced and sold records in Germany. Another company, Metro, obtained much cheaper supplies of the same records in France, where they were sold by a subsidiary to the Deutsche Grammophon. When Metro tried to import them into Germany Deutsche Grammophon claimed that it was an infringement to its right under the German Copyright Act. The Court made a clear distinction between the existence and the exercise of the property right. It stated that Article 36 only permitted restrictions on the movement of products to the extent to which they were justified for the purpose of safeguarding rights which constitute the specific subject-matter of the property, and that restrictions beyond this purpose might constitute an exercise of property rights that was incompatible with the Treaty. In this case the Court held that it would be incompatible for Deutsche Grammophon, which had consented to the marketing of the records in France, to rely upon its right under German law to prevent their importation into Germany. By permitting the records to be sold abroad it had exhausted its rights. The rule of exhaustion must therefore be read as meaning that once the goods has been put on the market, by the owner or by his consent, the prevention of the free circulation is not part of the specific subject-matter and is not protected by the Articles 222 and 36.

The reason behind this rule is to prevent a partitioning of the Common Market. If proprietors were allowed to use their intellectual property rights to prevent imports of products protected by a parallel intellectual property right in another Member State and already marketed there, proprietors would be able to isolate national markets from each other. By the exhaustion-rule the proprietor has exhausted his right to prevent import when he has put the product on the market anywhere in the Community.

The rule of exhaustion has also been used in cases concerning trade marks, for example in the repackaging-cases which will be examined thoroughly later. The rule has also, as already said, been fortified in the Trade Mark Directive, as well as in the Community Trade Mark Regulation.

The essence of the exhaustion principle is the consent of the holder of the industrial property to the initial marketing. In the Pharmon v Hoechst case the Court discussed the notion consent, and stated that where a third party is

19 Deutsche Grammophon, para 11 to 13.
20 See Article 7 of the Trade Mark Directive and Article 13 of the CTMR.
granted a compulsory licence\textsuperscript{21} the patentee can not be deemed to have given his consent, since this would deprive the patent owner his right to determine freely the conditions under which he markets his products.\textsuperscript{22} In this case a British company had received a compulsory licence regarding pharmaceuticals patented by the German company Hoechst. In spite of the prohibition on export included in the licence the British company sold a large consignment of the pharmaceuticals to the Dutch company Pharmon. The Court stated that this was an infringement of Hoechst’s patent, since Hoechst had not consented to the marketing of the product in Britain and had therefore not exhausted its right.\textsuperscript{23} The exhaustion principle does therefore not apply to products market by a compulsory licence, regardless of whether the proprietor was given royalty as a payment for the licence or not. Another case where the exhaustion principle does not apply is where goods are marketed in a third country and then imported into the EC.\textsuperscript{24}

3.3.3 Specific subject-matter

In Deutsche Grammophon the notion of specific subject-matter was used to describe which exercises might be incompatible with the Treaty. The notion refers to some core rights which are not affected by the rules in the Treaty and the exercise of which is not caught by the rules on free movement even though they create barriers to trade. The exercise under the specific subject-matter is so closely related to the actual intellectual property right that if this exercise was prohibited the intellectual property would in fact be deprived of legal protection. The notion of specific subject-matter could therefore be said to be the heart of the compromise between the need to protect intellectual property rights and the wish to create a single market without barriers to trade. The line between exercises that must be tolerated and the exercises that could be caught by EC law is thus determined by the extent of the specific subject-matter.

Regarding trade marks the Court has, for example in the Centrafarm case, defined the specific subject-matter to be the guarantee that the owner of the trade mark has the exclusive right to use that trade mark, for the purposes of putting products protected by the mark into circulation for the first time.\textsuperscript{25}

\textsuperscript{21} Compulsory licences are granted by the authorities of a Member State to a third party and are often a form of penalty for the patentee, for example if he has refused to licence in an abusive way. The compulsory licence gives the third party the right to carry out manufacturing and marketing operations which the patentee would normally have the right to prevent.
\textsuperscript{22} Case 19/84 Pharmon BV v Hoechst AG [1985] ECR 2281, para 25.
\textsuperscript{23} Pharmon v Hoechst, para 25 to 27.
\textsuperscript{24} Wish, Competition Law, p 654
\textsuperscript{25} Case 16/74 Centrafarm BV and Adriaan De Peijper v Winthrop BV [1974] ECR 1183, para 8.
### 3.3.4 The Merck-case

The reason for describing the Merck case is to show how important the Court has found the free movement-rules to be compared to intellectual property rights. Merck had marketed a pharmaceutical called Moduretic for which it had patent in all Member States except Italy, since it was not possible to get a patent there. There was quite a price difference between the Member States which a Dutch company, Stephar, took advantage of and imported Moduretic from Italy and sold it in the Netherlands. The Court stated that the substance of a patent was the exclusive right of first placing product on the market, which would enable the inventor, by allowing him a monopoly in exploiting his product, to obtain the reward for his creative effort.\(^{26}\) There are however no guarantees that the proprietor will obtain such a reward in all circumstances, and if the chooses to put the product on the market in a state where he cannot get a patent he has to take the consequences of this.\(^{27}\)

This case means that even though a product cannot be patented in a state the proprietor cannot prevent parallel import from this state and that the proprietor looses the possibility to gain on his innovation. The consequences of this would most certainly be that proprietors only sell their products in states where they can get a protection for their intellectual property rights, which could lead to a partitioning of the market to a greater extent than the difference in price could ever do.\(^{28}\) A recent case, Primecrown/Merck, dealt with a similar situation. The Court stated that the principle laid down in Merck/Stephar should be followed but that, in accordance with Pharmon/Hoechst a proprietor has the right to oppose parallel import if he was forced, by compulsory licences or state provisions, to market the pharmaceutical in a state where he could not get a patent.\(^{29}\) The problem is perhaps not real one anymore since pharmaceuticals nowadays can get a patent in all Member States. Since the Community Trade Mark Regulation the same goes for trade marks, but the Merck-cases are of interest because they show how harsh the Court treats intellectual property rights that intervene with the rules on free movement.

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\(^{27}\) Merck v Stephar, para 10 and 11.


\(^{29}\) Case C-267, 268/95 Merck & Co Inc and Others v Primecrown Ltd and Others [1996] I-6285, para 41 and 50.
Article 86 of the EC Treaty reads as follows:

Any 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.

Such abuse may, in particular, consist in:
(a) directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions;
(b) limiting production, markets or technical development to the prejudice of consumer;
(c) applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a disadvantaged position;
(d) making the conclusion of contract 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.

For Article 86 to apply there are three conditions which must be fulfilled, namely (1) that there is a dominant position in a substantial part of the Common Market, which is enjoyed by one or more undertakings, (2) that there is an abuse of the dominant position and (3) that this has a resulting effect on trade between Member States.

4.1 Relevant market

For Article 86 to apply the undertaking must have a dominant position within the common market as a whole or a substantial part of it. In the past it was assumed that “a substantial part” could be no less than a Member State, but the Court has now recognised as a substantial part of the Common Market not only the territory of a small Member State but also a part of the territory of a Member State. The market territory in which an undertaking occupies its position, the relevant market, is also crucial for determining whether the undertaking is in dominance or not. This relevant market is assessed from three aspects, namely the relevant product and the relevant geographic market, and the temporal aspect.

The relevant product market is assessed by the interchangeability-test, in which both demand side substitutability and supply side substitutability are taken into consideration. In a recent Notice the Commission introduced the so called SSNIP-test for determining demand side substitutability. On the demand side

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30 Case C-7897 Oscar Bronner GmbH & Co. KG v Mediaprint Zeitungs- und Zeitschriftenverlag GmbH & Co. KG, para 36.
31 Commission Notice on the Relevant Market for the Purposes of Community Competition Law, [1997] OJ C572/5. This test states that if a sufficient number of customers were to switch to readily available substitutes or to suppliers located in other areas in response to a
the test is if a product is interchangeable in the view of the consumers. Criteria such as the character, price and intended use of the product are here taken into consideration. The test of supply side substitutability determines if producers can easily switch production capacity to produce the other product in a short term and without incurring significant costs.32

The relevant geographic market has been defined as an area in which the conditions of competition applying to the product concerned are sufficiently homogeneous for all traders.33 When assessing the relevant geographic market factors taken into consideration are the nature and characteristics of the products or services concerned, the existence of entry barriers, consumers’ preferences and substantial price differences.34

The temporal aspect means that it is enough that the market power is possessed only at particular times a year because the competition from other products varies seasonally.35

4.2 Dominant position

The classic definition of a dominant position was given in the United Brands case and was there said to be

“a position of economic strength enjoyed by an undertaking which enables it to prevent effective competition being maintained on the relevant market by affording it the power to operate to an appreciable extent independently of its competitors, its customers and ultimately the consumers.”36

Market shares are important indicators of dominance, but other factors must also be taken into consideration like the structure of the market, the number of competitors and their respective market shares, the undertaking’s technical and financial resources and the presence of barriers to entry.37

Intellectual property rights are by its nature exclusive rights and as such they evidently confer some degree of market power and a privileged position. The Court has however stated that the mere ownership of an intellectual property right does not in itself give rise to a dominant position.38 According to the Court the hypothetical small price increase (in the range of 5-10%) to such an extent that the increase would not be profitable (due to the resulting loss of sale) the market will comprise of the substitutes or the other areas.

32 Craig and de Búrca, p 943.
34 Craig and de Búrca, pp 947 and 948.
35 Craig and de Búrca, p 948.
36 United Brands, para 65.
37 Craig and de Búrca, pp 949-954.
most important factor in assessing a dominant position is the likelihood of competition from other manufacturers. But the ownership of an intellectual property right is one of the factors to be taken into account in deciding whether or not a dominant position exists.\(^{39}\) In Deutsche Grammophon the Court said that regard should be taken to the existence or possible entry of competing products into the market that could be substituted for the protected products.\(^{40}\) If the owner of an intellectual property could impede the maintenance of effective competition he would therefore normally be in a dominant position. The existence of a strong trade mark for a new invention could to a great extent reduce the possibilities for competitors to enter the market, and thus put the undertaking in a dominant position. Similarly, the existence of a very well-known trade mark could in itself reduce the likelihood of competitors entering the market and strengthen the dominance.

### 4.3 Abuse

Even if a dominant position has been established the exercise of an intellectual property right does not in itself constitute an abuse and dominant undertakings can always exercise the right in a permissible way. In Parke-Davis the Court held that it was the use of a patent would only be brought within Community law where the patent contributed to a dominant position and the use of it meant an improper exploitation which would be liable to affect trade between Member States.\(^{41}\) It is therefore important to define what kinds of behaviours that constitutes improper exploitations of intellectual property rights and by that abuse of a dominant position. Article 86 contains a list of behaviours which may constitute abuse, like imposing unfair prices or trading conditions, limiting production or markets, applying dissimilar conditions to equivalent transactions or making the conclusion of contracts subject to acceptance of supplementary obligations. This list is not exhaustive and the Article has been applied to several practices not specifically mentioned in it. In the Hoffman-La Roche Vitamins case it was more generally stated that

> “the concept of abuse is an objective concept relating to the behaviour of an undertaking in a dominant position which is such as to influence the structure of a market where, as a result of the very presence of the undertaking in question, the degree of competition is weakened and which, though recourse to methods different from those which condition normal competition in products or services on the basis of the transaction of commercial operators, has the effect of hindering the maintenance of the degree of competition still existing in the market place.”\(^{42}\)

\(^{39}\) In United Brands the Commission referred to “other major advantages such as trade mark ownership”.

\(^{40}\) Deutsche Grammophon, para 17.

\(^{41}\) Parke-Davis, para 4.

\(^{42}\) Case 85/76 Hoffman-La Roche AG v Commission [1979] ECR 461, para 91.
What can be read from this long and rather complicated definition is that abuse is all conducts by a dominant undertaking which does not amount to normal competition based on performance. It can also be read that the abuse should be determined objectively and that it is not dependent on a bad intention. It is therefore not necessary that an action that impedes competition have the purpose to do so. Examples on conducts which have been found to be abusive by the Court are using unfair prices, which includes selling at excessively high prices as well as receiving unreasonable low purchase prices, using predatory pricing in order to exclude competitors, using some kinds of tying-arrangements and refusing to supply.

Under the rules on free movement the misuse of intellectual property rights is established with reference to the specific subject-matter. This notion is however not sufficient to establish an abuse under Article 86 since “abuse” of intellectual property rights under the rules on competition is not, according to Govaere, tantamount to the “misuse” under the rules on free movement of goods. If this were the case an anti-competitive behaviour that was permitted under Article 36 would automatically be cleared under Article 86. A behaviour which was outside the specific subject-matter would also automatically be deemed to be abusive under Article 86. For a behaviour to be abusive there must however be, as Govaere puts it, some form of “additional element”. The Court has not explicitly stated what this additional element is, but has given examples of it in some cases. In Magill it was held that the exercise of an intellectual property was abusive under Article 86 when it was exercised in a way that was not part of the essential function under Article 36. This reasoning was upheld in the Volvo case where it was stated that a simple refusal to grant a licence is not in itself abusive since it belongs to the essential function, but when the refusal is made in addition with, for example unfair sales prices, discriminatory sales conditions or artificial limits on the production, it is outside this function and constitutes an abuse under Article 86. According to these cases a behaviour is abusive when it falls outside both the specific subject-matter and the essential function of the intellectual property right. In Tetra Pak the additional element was held to be the detrimental effect on the competitive market structure, since all competition was eliminated. The Court has also stated that, even though higher prices are not proof of an abuse, they may be indicative of an abuse if they cannot be justified by objective criteria. As can be concluded from the case law on abuse of intellectual property rights the Court has not come up with any clear guidelines but has adopted a case by case application. Such an application does of course have the advantage of being able to consider the special circumstances in the case in

43 Govaere, p 103.
44 Govaere, p 155.
48 Deutsche Grammophon, para 19.
question, but it also leads to a higher degree of legal uncertainty and to the risk that similar cases are not judged in the same way.

Even if an undertaking has received an exemption under Article 85(3) it can still abuse its dominant position, which Tetra Pak got to experience. When Tetra Pak bought another company and took over its licensing agreement, which was subject to a block exemption, the Commission found that the licensing strengthened the already dominant position of Tetra Pak and prevented new competing technology from entering the market. The CFI said that even though there might be no objection to the licence as such, it did not mean that it was unobjectionable for a dominant firm to take over another company which possessed the licence. 49

Talking of Article 85(3) it can be noted that Article 86 has no equivalent, which means that once caught by Article 86 there is no way of getting an exemption. The reason for this is, according to Craig and de Bürca, that classical monopolistic behaviour was felt to be inexcusable. However, in order to make Article 86 a bit more flexible the Court has now developed the concepts of objective justification and proportionality. If there is an objective justification for the dominant firm’s conduct and it is proportionate the firm will then not be caught by Article 86. Craig and de Bürca are however not certain that the notion of objective justification is something else then the ordinary assessment of abusive behaviour, since it must be based on the same assumptions like protection for competitors and consumers and market-integration. That a behaviour is permitted due to objective justification would then in reality mean that it is not regarded as abusive in the first place. 50

4.4 Effect on trade between Member States

For a behaviour to amount to abuse under Article 86 there is one final requirement that must be fulfilled, which is that trade between Member States must be affected. It is enough that the trade is directly or indirectly, in fact or potentially, affected. 51 The effect on competition and trade must however be appreciable. This can be the case even if the abuse only takes place within one Member State, since the abuse can have repercussions on inter-State trade by changing the conditions or structures of markets within the Common Market. 52

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50 Craig and de Bürca, pp 975, 976.
51 Consten and Grundig, p 341.
52 Goyder, EC Competition Law, pp 114–116.
5 Case law under Article 86

For many years Article 86 was not applied by the Commission at all to intellectual property rights and the first formal decision was not taken until 1971, in the GEMA case.\(^{53}\) And still it is only a small part of the cases involving Article 86 that have been concerned with intellectual property, since it is mostly the rules on free movement which have been applied in this area. I will in this chapter briefly describe some cases that are important for the interpretation and use of Article 86 and that are of interest for the further analysis. The cases are all concerned with the refusal to supply, which is a behaviour that it would be very hard for a non-dominant undertaking to devote itself to and therefore involves a typical dominant firm-problem. I will also describe the essential facilities doctrine, which is closely connected with the refusal to supply. Later in this paper I will apply the described case law to repackaging-situations. In the next chapter I will go into the cases concerning repackaging of pharmaceuticals and describe them more in detail.

5.1 Commercial Solvents

Generally it is not an infringement under Article 86 to refuse to deal with or refuse to share assets with others. Companies have, in principle, the right to choose with whom to do business. The Court has however in several cases stated that an undertaking which enjoys a dominant position may be required to supply other undertakings.\(^{54}\) One such case is Commercial Solvents, where the general EC approach towards refusal to supply was laid down. In this case Commercial Solvents, which made raw materials used to make a drug for tuberculosis, refused to supply the company Zoja, and also instructed other companies to which it sold the raw material not to sell to Zoja. The Court stated that an undertaking which has a dominant position in the market in raw materials and which refuses to supply a customer, which is itself a manufacturer of these derivative, and therefore risks eliminating all competition, is abusing its dominant position within the meaning of Article 86.\(^{55}\)

Regarding intellectual property a refusal to license is a form of refusal to supply, and after the Commercial Solvents case the question arose whether a holder in a dominant position could be required to grant a licence to just anyone prepared to pay a reasonable royalty. This question was dealt with in Volvo and Magill.


\(^{55}\) Commercial Solvents, para 25.
Closely connected with this is the essential facilities doctrine which was discussed in the Oscar Bronner case.

### 5.2 Volvo

In this case the question was if a refusal to grant a licence could be seen as an abuse under Article 86. Volvo was the holder of exclusive design rights in car body panels in the UK. It refused to grant licences for body panels to Veng, a spare parts manufacturer. The Court held that the right of an owner of a protected design to prevent third parties from selling, manufacturing or importing without his consent is the very subject-matter of his exclusive rights. To oblige the holder of the right to grant a licence, even in return for royalties, would mean that he would be deprived of the very substance of his exclusive intellectual property. Therefore the refusal to grant a licence can not in itself constitute an abuse.\(^56\)

The Court did however hold that the exercise of the intellectual right could be prohibited by Article 86 in certain circumstances. The use of the right in an arbitrary manner could constitute an abusive conduct where it did not aim at protecting the actual industrial property right. The examples given by the Court of such abusive conduct were the arbitrary refusal by a dominant manufacturer to supply spare parts to independent repairers, the price fixing for spare parts at unfair levels and the decision to stop producing spare parts for a model that was still in wide circulation.\(^57\) The Court did however not find any evidence of such abusive conduct in this case.

What can be read from this judgement is that a dominant undertaking’s exercise of an intellectual property right, like here the mere refusal to grant a licence, does not in itself constitute an abuse under Article 86. The exercise of an intellectual property right may however be abusive if it has an additional element, like the three examples of abusive conduct given in the case, and if it is likely to affect trade between Member States. This case also shows the difficulties in using the concept of the specific subject-matter as a delimitation when determining whether an exercise of an intellectual property right is an infringement of the competition provisions. The Court acknowledged that the right to refuse was part of the specific subject-matter, but seemed prepared to regard a refusal, in certain circumstances, as abusive anyway.

### 5.3 Magill

Radio Telefís Eireann, RTE, was an Irish authority providing broadcasting services, which had an exclusive right to publish a weekly schedule of TV

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\(^{57}\) Volvo v Veng, para 9.
programmes for its channels in Ireland. RTE refused to grant Magill, a publishing company, a license to publish its advance TV listings in a TV guide. RTE based its refusal on the grounds that it would infringe its copyright in the weekly schedule for its channels. The Court followed the established case law and stated that the exercise of an intellectual property right does not in itself constitute an abuse under Article 86, but that it could do so, when, in the light of the details in each individual case, it is apparent that right is exercised in such ways and circumstances as in fact to pursue an aim manifestly contrary to the objectives of Article 86. The reason for why a the exercise of a copyright could be abusive in this way is that it is then exercised in a manner which does not corresponds to the its essential function. This function was held by the Court to be to protect the moral rights in the work and to ensure a reward for the creative effort, while respecting the aims of, in particular, Article 86. The Court meant that RTE, by reserving the exclusive right to publish its weekly TV guide was preventing the emergence on the market of a new product likely to compete with its own guide. RTE was thus using its copyright in order to secure a monopoly in the derivative market of weekly TV guides. Conduct of that type, that prevents the production and marketing of a new product, for which there is a potential consumer demand and thereby excluding all competition from that market solely in order to secure its monopoly, clearly goes beyond what was necessary to fulfil the essential function of the copyright as permitted by Community law, and RTE was therefore in breech of Article 86.

In this case it was, to a certain extent, clarified when the exercise of an intellectual property conflicts with Article 86. The Court made it clear that a refusal to license an intellectual property right may constitute an abuse under certain circumstances. The judgement can thereby be seen as a confirmation that it is possible for Article 86 to interfere with exclusive rights even if they are considered to be part of the specific subject-matter of an intellectual property right, even though the Court never really referred to the concept of specific subject-matter.

The most interesting aspect of this judgement is that the court here in effect granted a compulsory licence of the programme information. Formally the Court upheld the existence/exercise dichotomy but, as Govaere puts it, “in fact it emptied the copyright of its substance and allowed a compulsory licence to be imposed.” The question is how this was compatible with the rulings in Volvo, where it was held that compulsory licences could not be insisted upon under Article 86. At first the factual circumstances in both cases seems to be very similar, but there are some distinct differences between them. In Volvo the undertaking did supply the spare parts that were the subject of the intellectual property right although it refused to grant licences, but in Magill the TV-companies refused to supply the listings at all. In Volvo the refusal did not lead to

59 Magill, para 73.
60 Govaere, p 155.
any notable disadvantage for the consumers, which it did in Magill. Another aspect is the additional element. In Volvo it was held that the right to refuse was part of the specific subject-matter, but that a refusal in certain circumstances nevertheless could be abusive. This additional element was lacking in the Volvo case, but not in Magill since RTE went beyond what was necessary to fulfil the essential function. In addition to this it is interesting to notice that the Court of First Instance held that RTE’s conduct was arbitrary to a refusal by a car manufacturer to supply spare parts to an independent repairer and that the failure to take consumers need into consideration was similar to the decision of a car maker no longer to produce spare parts for cars which were still being used on the roads. RTE’s conduct therefore fell within the categories of conduct which the Court in Volvo had indicated would be abusive because it was not aimed at protecting the actual substance of its copyright.  

Another interesting question is whether this case could be seen as part of the essential facilities doctrine and if the compulsory licence was granted in respect of the copyright as an essential facility. This question will be discussed under the next chapter.

### 5.4 Oscar Bronner

Mediaprint, an Austrian undertaking, publishes two newspapers in Austria with a combined market share of 47% of the Austrian daily newspaper market. For the distribution of its newspaper, Mediaprint has established a nation-wide home-delivery scheme. Oscar Bronner is another Austrian publisher who publishes a newspaper with a market share of 4% of the Austrian market. When Mediaprint refused him to take part of its delivery-system he filed a complaint that Mediaprint had abused its dominant position.

In this case the Court made two important statements. The first was that the territory of a Member State was capable of constituting a substantial part of the common market. The second was that for a facility to be considered as an essential facility there must be no actual or potential substitute. The Court referred to the Magill case and the conclusion there that exercise of an exclusive right by a proprietor may, in exceptional circumstances, involve an abuse of a dominant position. But it stated here that for an exercise of any property right which forms the subject-matter to constitute abuse, it would be necessary to show that the refusal of the facility would be likely to eliminate all competition, and if that was the case, that the refusal could not be objectively justified, but also that there was no actual or potential substitute to the facility. The Court pointed out

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61 Magill, para 74.  
63 Oscar Bronner, para 41.  
64 Oscar Bronner, para 41.
that there were other methods of distributing newspaper, such as by post and through sale in shops, and that there were no obstacles capable of making it impossible for Oscar Bronner to establish a home-delivery scheme of its own or in co-operation with other newspapers. Therefore Mediaprint had not abused its dominant position.\textsuperscript{65}

### 5.5 The essential facilities doctrine

In Volvo it was stated that the right to restrain third parties from exploiting the design constituted the very subject-matter of the exclusive right, and that such refusal only in certain circumstances could constitute an abuse. This statement should however be seen in the light of the essential facilities doctrine, which unexceptionally requires undertakings in control of an essential facility to grant third parties access to it. An essential facility is a facility or infrastructure which is not replicable by the ordinary process of innovation and investment and without access to which competition on a market is impossible or seriously impeded.\textsuperscript{66}

This doctrine has been discussed in EC law for some time, but it was uncertain whether the Court actually used it or not. The Commission has now however referred to the doctrine explicitly in some of its recent decisions under Article 86 involving access to harbour facilities. One case concerned the company Sealink which owned the port in Holyhead and operated a ferry service to Ireland. A rival ferry company held that Sealink had organised the sailing schedules in a way that was inconvenient for the rival. The Commission stated that it was an abuse of Article 86 if the owner of an essential facility used its powers in one market to strengthen its position in another related market by using less favourable terms for rivals than for its own services without any objective justification.\textsuperscript{67} In London European Airway/Sabena the Commission held that it constituted an abuse under Article 86 for an airline to refuse access to its computer reservation system without a tie-in.\textsuperscript{68}

Compared to the ordinary assessment in Article 86 the doctrine of essential facility takes more consideration to the other party’s position. The difference is however marginally. The doctrine is an efficient way of tearing down barriers to entry, but it also make large companies subject to harder rules than smaller undertakings. The principle that dominance in itself is not prohibited therefore risks loosing its meaning.

An interesting question here is if intellectual property rights can be treated as essential facilities. Some scholars mean that this certainly can be done and that the

\textsuperscript{65} Oscar Bronner, para 43 and 44.  
\textsuperscript{66} See Craig and de Búrca, p 962.  
\textsuperscript{67} B & I / Sealink Holyhead, 22\textsuperscript{nd} Report on Competition Policy (1992), point 219, p 121.  
\textsuperscript{68} London European / Sabena, 18\textsuperscript{th} Report on Competition Policy (1988), point 76, p 82.
Court has already used this doctrine in the Magill case. At first Magill seems to have been treated like a case of refusal to supply in reference to the Commercial Solvents case and the discussion on objective justifications. Unlike previous refusal to supply-cases however Magill was a new market entrant and had no previous business relationship with the dominant undertaking. The judgement thereby indicates that it could be an infringement of Article 86 to refuse to supply products or grant licences to customers who want to enter the market in competition with the supplier, which is very close to, and in fact could be seen as an application of, the essential facilities doctrine. If the circumstances that, according to the Court, made the exercise of the copyright abusive in Magill should be dissected they could be divided into five, and consist of that (1) there was no actual or potential substitute for a comprehensive guide, (2) there was a specific, constant, and regular potential demand for a comprehensive guide, (3) the refusal to provide the basic information over which each TV company was dominant prevented the appearance of a new product which the appellants did not offer and for which there was a potential demand, (4) there was no justification for such a refusal and (5) the appellants were reserving to themselves the secondary market for weekly television guides, since they denied access to the basic information which is needed to compile such a guide. These circumstances do in fact come very close to the doctrine. The first and third, that there was no actual or potential substitute for a comprehensive guide and that the refusal to provide the basic information prevented the appearance of a new product, are for example almost identical to the definition of an essential facility as not replicable by the ordinary process of innovation and investment and without access to which competition on a market is impossible or seriously impeded. The question is then whether an intellectual property right really can be seen as an essential facility or not. Of course the essential facility doctrine is more naturally to apply to physical facilities, but there is nothing preventing that intellectual property rights may be regarded as facilities in the same way. In Magill it was then the information that was the facility without which Magill could not produce its TV guide.

Apart from copyrighted information one could well picture a patented product to be an essential facility. Take for example the case where a certain product is an essential part of other products, like a microchip in computers. If the microchip is patented and the proprietor produces computers himself he could easily eliminate all competition in the computer market by refusing to supply competitors with the microchip. Since it would be impossible to produce computers without a microchip this patented product could very well be seen as an essential facility. There could thus be situations where the essential facilities doctrine could be used to grant compulsory licences. In chapter 8 I will discuss whether the right to repackage a product could be seen as an essential facility.

In Oscar Bronner, the requirements for applying the essential facilities doctrine were interpreted very strictly by the Court. For it to apply it was necessary to
show that the refusal of the facility would be likely to eliminate all competition, and if that was the case, that the refusal could not be objectively justified, but also that there was no actual or potential substitute to the facility.\footnote{Oscar Bronner, para 41.} Even if an intellectual property right could be said to be an essential facility it would thus be very hard for a third party to get access to it.
6 Repackaging cases

Parallel import is one important aspect of the free movement of goods as well as of competition, and it is something that EC authorities are very concerned about in the striving to create a single market. The rule of exhaustion concerning intellectual property rights such as trade marks makes it possible to import most products in parallel. When it comes to pharmaceuticals this has however created certain problems. The packages of the pharmaceuticals are for some reason often different in different Member States. The parallelimporter has therefore often been forced to repackage the pharmaceuticals, which has given rise to the question what the trade mark right actually consists of and if it is not an infringement of this right to repackage a product and re-affix the trade mark to it.

6.1 Hoffman-LaRoche

This case was concerned with the tranquilliser Valium, which was developed by Hoffman-LaRoche. The parent company in Basel owned the trade marks Valium and Roche, and granted its subsidiaries in Germany and Britain the right to manufacture the drug and to use the trade marks in respect of the manufactured products. Roche-Germany sold the Valium in packages of five small packets with 20 or 50 tablets in each. Roche-Britain sold Valium in packages of 100 or 500 tablets. The price charged for drugs in the United Kingdom was much lower than in other EU countries, particularly the Netherlands and Germany. The Dutch company Centrafarm took advantage of this price differential and purchased the drug from Roche-Britain. It repackaged the drug in the Netherlands into batches of 1 000 tablets and put it for sale in Germany. The names Valium and Roche still appeared on the packages, but Centrafarm also added the words “Marketed by Centrafarm GmbH” and its address on them. Roche-Germany considered this to be an infringement of the Valium and Roche trade marks.

The Court began by stating that whilst the Treaty does not affect the existence of rights recognised by the laws of a Member State in matters of industrial and commercial property, yet the exercise of those rights may nevertheless be restricted by the prohibitions contained in the Treaty. The Court then continued, in conformity with earlier statements\(^70\), to state that derogations from the rules on free movement are admitted by Article 36 only to the extent that they are justified for the protection of rights which constitute the specific subject-matter of the property, and that the specific subject-matter for a trade mark is ‘the right to use the trade mark in order to place the product into circulation for the first time, together with the right to use the trade mark against competitors

\(^70\) For example Case 16/74 Centrafarm BV and Adriaan De Peijper v Winthrop BV [1974] ECR 1183.
The question was if those rights included the right to prevent a trade mark from being affixed to products by a third party, once those products have been placed on the market and after they have been repackaged by that third party. To answer this question the Court concluded that it must have regard to the essential function of the trade mark, which it defined as being “to guarantee the identity of the origin of the trademarked product to the consumer, by enabling him without any possibility of confusion to distinguish that product from products which have another origin”. This gives the proprietor the right to prevent an importer of a trade marked product from affixing the trade mark to the new packaging without the authorisation of the proprietor.

The Court did however go on to consider whether the exercise of the trade mark nevertheless in such circumstances could amount to a disguised restriction on trade between Member States. It said that this could be the case if the trade mark owner were to enforce his rights to prevent repackaging by a third party even if the re-packaging by the third party were carried out in such a way it could neither affect the original condition of the product nor its identity of origin. The Court concluded that the prevention of repackaging would constitute a disguised restriction on trade where

(I) it is established that the use of the trade mark right by the proprietor, having regard to the marketing system which he has adopted, will contribute to the artificial partitioning of the markets between Member States;

(II) it is shown that the repackaging cannot adversely affect the original condition of the products;

(III) the proprietor of the mark receives prior notice of the marketing of the repackaged product; and

(IV) it is stated on the new packaging by whom the product has been repackaged.

6.1.1 Remarks

In this case the Court used the notion of essential function of a trade mark to determine whether a trade mark gives the proprietor the right to prevent repackaging or not. This essential function was held to be to guarantee the identity of the origin of the trade marked product to the consumer. Taken together with the rights conferred by the specific subject-matter a trade mark does thus give the proprietor the right to be the first to place a product on the market and the right to prevent a third party from affixing the trade mark to products without

72 Hoffman-LaRoche, para 7.
73 Hoffman-LaRoche, para 8.
74 Hoffman-LaRoche, para 10 to 12.
authorisation, as well as the right to prevent any use of a trade mark by a third party which may undermine the guarantee of origin provided by that trade mark. If the Court had stopped after making this conclusion repackaging of trade-marked goods would in practice have been forbidden. The Court did however go on to discuss the exercise of the trade mark, and stated that this could amount to a disguised restriction on trade if four conditions were fulfilled. Since it would be rather easy for these four conditions to be at hand the cases where a proprietor could stop the repackaging would not be too many. It will not take too much effort from the parallel importer to notify the proprietor in advance or to state on the packages by whom it has been repackaged. It is the two first conditions which could give the proprietor the largest chance of stopping the repackaging.

The condition that the repackaging cannot adversely affect the original condition of the product can however be difficult to lean on since the affection must be adverse. The court said that this varied according to the circumstances and to the nature of the product and the method of repackaging. It mentioned two situations where repackaging could not affect the product. The first was when the goods are marketed in double packages and the repackaging only affects the external packaging. The second situation was when the repackaging is inspected by a public authority.\(^{75}\) These two examples can however not be seen as exhaustive in any way, and because of the adverse-criteria I personally think that repackaging would be allowed in many more situations. The first condition, that the exercise will contribute to the artificial partitioning of the Common Market, is actually the most difficult to apply. An important question here is for example if it is necessary that the artificial partitioning of the Common Market is the proprietor’s intention, or if it is enough that the prevention has this effect. This will be discussed under the next case, why I leave this question unanswered until then.

In this case the Court had to find a balance between the need to protect the function of a trade mark and the wish to ensure the rules on free movement of goods. By this judgement the Court stated that it is the function of a trade mark to indicate that a product has a certain origin, but it also said that only measures which are taken without consent and which alter the characteristics of the product are relevant in this aspect. This actually puts on the trade mark owner to show that the product has been handled in a way that would be likely to impair it, and it thereby seems to weaken the trade marks right quite severely. But on the other hand, if all the risks likely to arise should be eliminated, it would be necessary to prevent all third parties, that were not authorised by the owner of the trade mark, from interfering in any way with the packaging of the product. To prevent repackaging in general would thus be disproportional and could not be justified by Article 36. The Court expressed this view by stating that the power to prohibit repackaging was conferred by Article 36, but that the exercise of the power could well constitute a disguised restriction to trade.

\(^{75}\) Hoffman-LaRoche, para 10.
In this case the application of Article 86 was also discussed. The Landgericht Freiburg had asked if a dominant undertaking which marketed a product under different sizes of packages in different countries and which prohibited importation of a repacked product was abusing his position when the effect of the prohibition was that a substantial price differential was maintained.76 The Court did not really answer this question, but stated that the extent to which the exercise of a trade mark right is lawful in accordance with the provisions of Article 36, such exercise is not contrary to Article 86 on the sole ground that it is the act of an undertaking occupying a dominant position on the market, if the trade-mark right has not been used as an instrument for the abuse of such a position.77 All that can be read from this statement is that exercises that are compatible with Article 36 still can be contrary to Article 86 if they involve some kind of abuse, and that justification by Article 36 therefore do not give protection against Article 86. This statement does however not say anything about whether Article 86 could have been applied in this particular case or not. I will discuss the possibility to apply Article 86 in this and other repackaging cases later why I leave this discussion for now.

### 6.2 American Home Products

This case was also concerned with a tranquilliser, Oxazepamum, which was sold by American Home Products under the trade mark Seresta in the Netherlands and under the trade mark Serenid D in Britain. The drugs had the same therapeutic effects, but a slightly different composition like different tastes. Centrafarm bought Serenid D in Britain and sold it in the Netherlands under the Seresta mark. It also affixed its name and address on the new packages. This case is very similar to the Hoffman-LaRoche case, but there is a difference in that the pharmaceuticals were marketed under different names.

The Court began by making the usual comments on Articles 30 and 36 and about the distinction between the existence and exercise of a trade mark. It defined the specific subject-matter in the same way as it did in Hoffman-LaRoche and also made the same reference to the essential function as to guarantee the origin of a trade mark. In Hoffman-LaRoche the Court concluded that the guarantee of origin meant that a consumer could be assured that a trade marked product had not been interfered with without the authorisation of the trade mark owner, but here the Court went further and emphasised the aspect that it was the proprietor’s right to affix the mark. It stated that “the guarantee of origin would in fact be jeopardised if it were permissible for a third party to affix the mark to the product, even to an original product”.78 The essential function of the trade mark also gave the proprietor of two different marks for the same product the right to prevent

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76 Hoffman-LaRoche, para 15.
77 Hoffman-LaRoche, para 16.
third parties from affixing one of the marks to any of the other products or changing marks affixed by the proprietor to different parts of the production.\textsuperscript{79} The Court did however also state that there might be situations where the exercise of the trade mark would constitute a disguised restriction on trade. This would be the case when a proprietor uses different trade marks in different Member States as part of a system of marketing intended to partition the markets artificially.\textsuperscript{80}

6.2.1 Remarks

In this case it was stated that the proprietor of a trade mark (A) in one Member State has the right to prevent import to this state of products that has been marketed under another trade mark (B) in another Member State, if the parallel importer has affixed the product with the A-mark. The proprietor does however not have this right if it is shown that he has sold the products under different names with the intent to partition the market artificially. Since the Court did not give any examples on when such an artificial partitioning could be at hand it is hard to say what effect this statement will have. It can however be read that a proprietor who has different trade marks for the same product in different Member States should have an objective justification for this.

This judgement could very well be understood in the case where products marketed under one trade mark in one country had, or had acquired, different characteristics from products marketed in another country under another trade mark. If a parallel importer were allowed to affix this other trade mark to the different product it could cause problems where the different trade marks indicated for example different dosages of the product. The right to prevent the re-affixing would then protect against danger to health or at least against confusions.

Compared to the Hoffman-LaRoche case the Court used a different wording here, when it said that it would constitute a disguised restriction on trade for the proprietor to use different trade marks in different Member States as part of a system of marketing intended to partition the market artificially.\textsuperscript{81} In Hoffman-LaRoche the Court instead talked about if the exercise of a trade mark, in regard to the marketing system adopted by the proprietor, would contribute to the artificial partitioning of the Common Market.\textsuperscript{82} This difference in wordings could be read as that the Court has changed from a view based on effect to a view based on intent, i.e. from an objective to a subjective approach, but in Bristol-Myers Squibb the Court commented on this and stated that the use of words did not imply that the importer must demonstrate that the trade mark owner deliberately sought to partitioning the market. The Court’s intention was instead to

\textsuperscript{79} American Home Products, para 15.
\textsuperscript{80} American Home Products, para 19 and 21.
\textsuperscript{81} American Home Products, para 21.
\textsuperscript{82} Hoffman-LaRoche, para 10.
stress that the owner of a trade mark may always rely on his rights to oppose the marketing of repackaged products when such action is justified by the need to safeguard the essential function of the trade mark, in which case the resultant partitioning could not be regarded as artificial.  

To use different trade marks to identical products in different Member States is, as already said, allowed as long as it is not part of a system of marketing intended to partitioning the market artificially. The Court has however not mentioned any other negative effects that the use of different trade marks could give rise to. Pehrson therefore makes the conclusion that all other effects are permitted by the Court. Such effects could arise if the different trade marks were used in order to reach different groups of consumers. By using for example different advertising methods for the different trade marks more consumers could be persuaded to buy one product. This could give an undertaking advantages compared to competitors, but it may also lead to higher prices for consumers, especially for the consumers that buy the trade marked product that is more expensive.

It appears that the Court mitigated the ruling in Hoffman-LaRoche a little and gave trade mark rights a bit more strength again since it enlarged the essential function to include the right to prevent third parties from affixing one of the owner’s trade mark to a product for which the proprietor used two different trade marks. Before making any conclusion on whether the essential function was enlarged or not the notion of “origin” must be interpreted since it is crucial for determining the range of the essential function. The essential function of a trade mark was in this case as well as in Hoffman-LaRoche stated to be to guarantee the origin of a product to the consumer by enabling him to distinguish that product without any risk of confusion from products of different origin. As Castillo puts it, the products had here been manufactured under the control of the same undertaking and was thus of the same origin. The repackaging and the affixing of the other trade mark would then not interfere with the rights provided by the essential function defined the way above. In this case the notion of essential function of a trade mark would thus have been enlarged by the American Home Product judgement. Castillo does however think that the Court applied a strict view of the guarantee of origin since the subject-matter of the right was interpreted as preventing a third party from affixing the trade mark “even to an original product”. By affixing a new trade mark the importer would in this case be conferring an origin and thereby intervening with the guarantee of origin and the essential function. If the Court used this strict view the essential function of the

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84 Pehrson, EG och immaterialrätten: gemenskapsrättens inverkan på nationell immaterialrätt, p 75.
85 Hoffman-LaRoche, para 7.
87 Castillo, p 311.
trade mark was thus not enlarged by this judgement. I think that it is most likely that the Court applied this stricter view. I also think that this is the most reasonable interpretation of the notion of origin, since it then would mean the affixing of a reference to the origin, and that the importers re-affixing would constitute a not permitted affixing of origin-reference. That the products should have the same origin only because they are produced by the same producer does not seem reasonable considering that the products can have different characteristics, like dosages. This would in my opinion weaken the trade mark right too much and would then require protections in any other forms, like enlarging the essential function. Since the notion of origin was interpreted in this stricter way by the Court it was thus not really any enlargement of the trade mark rights, but rather only in line with the ruling in Hoffman-LaRoche.

6.3 Pfizer

The American undertaking Pfizer marketed the antibiotic “Vibramycin” in Germany by a German subsidiary and in Britain by a British subsidiary. The products were however marketed in different packagings in the different countries, and in Britain to a price considerably lower than in Germany. Eurim-Pharm bought Vibramycin by the British subsidiary and imported it to Germany. The product was packaged with 50 capsules sealed in groups of five enclosed in a folding box. To fulfil the requirements in Germany regarding marketing of pharmaceutical products Eurim-Pharm repackaged the capsules in smaller boxes. The boxes were transparent and the original text could therefore be read through it. Eurim-Pharm also added a text on the external wrapping declaring that the product had been repackaged by it.

Also in this case the Court based its judgement on the principles of the specific subject-matter and the essential function of a trade mark. It stated that those gives a proprietor of a trade mark the right to prevent the use of a trade mark which is likely to impair the guarantee of origin. When a parallel importer has repackaged a pharmaceutical product merely by replacing the external wrapping without touching the internal packaging and by making the trade mark affixed by the manufacturer on the internal packaging visible, there is however not a question of the guarantee of origin being impaired. In those circumstances there is no risk that the original condition of the product should be affected or that the final user should be misled as to the origin of the product, since the importer clearly indicated on the external wrapping that the product was manufactured by the proprietor and has been repackaged by the importer.

89 Pfizer, para 10.
90 Pfizer, para 11.
6.3.1 Remarks

The Court followed the earlier case law in this case and started from the principle that intellectual property right are recognised by Community law, but that some balance has to be found and that those rights thus are precluded when they constitute a disguised restriction on trade. As in the other cases the reason for not allowing Pfizer to use its right to oppose repackaging was lodged in the notion of essential function of a trade mark as part of the specific subject-matter. The Court did thus not find that the repackaging made by Eurim-Pharm interfered with the guarantee of origin of Pfizer’s trade mark.

Compared to the other cases there is a difference in that Eurim-Pharm after the repackaging did not reaffix the trade mark since they only replaced the outer wrapping by a plastic one through which the original trade mark was visible. That Pfizer was not allowed to oppose this kind of repackaging was totally in line with the case law principles laid down by the Court. Compared to the earlier cases the risk of affecting the original condition of the product was smaller since the internal wrapping was not touched. The guarantee of origin was not at any risk either since the original trade mark was left untouched and since it was required that the repacker stated on the external packages by whom the products had been marketed in the first place and by whom they had been repackaged.

It is not quite certain if whether the Court applied the four conditions laid down in Hoffman-LaRoche or if the judgement has another base, since nothing is said about that the importer have the obligation to give prior notice of the marketing of the repackaged product. The Court did however discuss the other conditions, even though it did not refer to the Hoffman-LaRoche case. The Court did also clearly follow the principles form this case and therefore I think that the case law from Hoffman-LaRoche still stands and that the condition of prior notice remains. If the Court had wanted to alter the case law it should have discussed this condition in the judgement. And why should the importer be freed from this condition in this particular case? The difference that the trade mark was not reaffixed but merely made visible through an external wrapping cannot justify this. From the next case, Bristol-Myers Squibb, it is also made clear that the four conditions laid down in Hoffman-LaRoche is established case law.

6.4 Bristol-Myers Squibb

Paranova was an undertaking which distributed pharmaceutical products that it had imported in parallel. It purchased the products in Member States where the prices were lower and imported them into Denmark, where it sold them below the manufacturer’s official sale prices. Paranova did in this way purchase products which were manufactured by Bristol-Myers Squibb. Before selling the products in Denmark Paranova repackaged the medicines in new external packagings with coloured strips corresponding to the colours of the manufacturer’s original packaging. The packagings displayed the trade mark of the manufacturer and the
statement that the product had been manufactured by Bristol-Myers Squibb and imported and repackaged by Paranova.

In this case it was also a question about how Article 7 of the trade mark directive should be interpreted. The Court said that it should be interpreted in accordance with Article 36 and that it therefore precludes the owner of a trade mark from relying on his rights to prevent an importer from marketing a product which was put on the market in another Member State, by the owner or with his consent, even if that importer repackaged the product and reaffixed the trade mark.\(^\text{91}\) The Court did then however go on with the usual remarks about the specific subject matter and essential function of a trade mark and stated that those give the proprietor the right to prevent the use of the trade mark which is liable to impair the guarantee of origin. But, referring to the Hoffman-LaRoche case, the Court then stated that the use of this right may amount to a disguised restriction on trade when it contributes to the artificial partitioning of the market, when the repackaging cannot adversely affect the original condition of the product, when the proprietor receives a prior notice and when it is stated on the new packaging by whom the product has been repackaged.

In this case these four conditions from the Hoffman-LaRoche case were examined more thoroughly than in earlier cases. It was for example said that it was an artificial partitioning of the market to oppose the repackaging in new external packaging when the size of packet used by the owner cannot be used in the Member State of importation for reasons of government rules, sickness insurance rules or well-established medical prescription practices.\(^\text{92}\) Partitioning of the market would also exist if the importer were able to sell the product only in part of his market.\(^\text{93}\) The proprietor does however have the right to oppose the repackaging if the importer is able to achieve packagings which could be marketed in the other Member State just by affixing new labels in the language of that state, or by adding new information in that language.\(^\text{94}\) In connection with this the Court also made a statement about whether the artificial partitioning must be the intention of the proprietor or if it is enough with that effect. The answer was that it is not necessary to show that the partitioning is done deliberately, i.e. it is enough that it has this effect. A partitioning is, on the other hand, not artificial when the opposition of the marketing of repackaged products is justified by the need to safeguard the essential function of the trade mark.\(^\text{95}\)

When it comes to the affection-criteria there are some actions which have in case-law been stated as not being able to affect the condition of the product, like when the repackaging only concerns the external wrapping in a double wrapping or

\(^{91}\) Bristol-Myers Squibb, para 37.  
\(^{92}\) Bristol-Myers Squibb, para 53.  
\(^{93}\) Bristol-Myers Squibb, para 54.  
\(^{94}\) Bristol-Myers Squibb, para 55.  
\(^{95}\) Bristol-Myers Squibb, para 57.
when the repackaging is carried out under supervision of a public authority. The plaintiff did however argue that even those actions risk affect the product, since it can lead to the product getting the wrong use-by date or that light-sensitive products are damaged by light. The Court did not accept those arguments and said that it is not possible for each hypothetical risk of isolated error to suffice to confer on the trade mark owner the right to oppose any repackaging of pharmaceutical products in new external packaging.\textsuperscript{96} The Court did however state that the original condition was affected when certain important information was omitted or when inaccurate information was given.\textsuperscript{97}

The Court then went on to consider the two other requirements and stated that when an extra article is added to the packaging the importer must ensure that the origin of this article is indicated in such a way as to dispel any impression that the trade mark owner is responsible for it.\textsuperscript{98} And even if the person who carried out the repackaging is indicated on the packaging there remains the possibility that the reputation of the trade mark may nevertheless suffer from an inappropriate presentation of the product. In such a case the Court stated that the trade mark owner has a legitimate interest, related to the specific subject-matter, to oppose the marketing of the product. Regarding pharmaceutical products there is, according to the Court, certainly a sensitive area in which the public is particularly demanding as to the quality and integrity of the product and therefore defective, poor quality or untidy packaging could damage the trade mark’s reputation. This varies however according to whether the product is sold to hospitals or to consumers. In the former case the presentation is of little importance since the administration by professionals give the patients enough confidence in the product.\textsuperscript{99} The Court also stated that the trade mark owner can require not only a prior notice, but also that the importer supplies him with a specimen of the repackaged product before it goes on sale, so he can ensure that the repackaging is not carried out in a way that affects the original condition of the product or damages the trade mark.\textsuperscript{100}

\subsection*{6.4.1 Remarks}

From this case it can be read that Article 7 of the Trade Mark Directive did not alter the earlier case law, and that it should be interpreted in the light of Article 36 and the case law developed under it. Article 7.2 should therefore be interpreted as that the proprietor of a trade mark has the right to prevent parallel import of repackaged goods, but only if the four conditions stated in Hoffman-LaRoche were not at hand. It was in this case also stated that it constituted an artificial partitioning to prevent repackaging when it was necessary for the product to be

\textsuperscript{96} Bristol-Myers Squibb, para 60 to 63.
\textsuperscript{97} Bristol-Myers Squibb, para 65.
\textsuperscript{98} Bristol-Myers Squibb, para 73.
\textsuperscript{99} Bristol-Myers Squibb, para 75 to 77.
\textsuperscript{100} Bristol-Myers Squibb, para 78.
able to be marketed in the state of import, for example by reasons of government rules or well-established medical prescription practices. If however the product could be marketed if the importer just affixed a new label on the package or added new information in the right language, the proprietor had the right to oppose repackaging.

Since the notion of necessity of repackaging is of great importance for assessing whether an artificial partitioning is at hand or not it is interesting to discuss this notion a bit more thoroughly. In the case there are some examples given which would hinder the proprietor from opposing the repackaging, like government rules or well-established medical prescription practices. It can however hardly be seen as exhaustive, and there could therefore be many other circumstances that prevented opposition. A question here is if the necessity must be a factual necessity, like demands in law, or an economical necessity, like it would not be possible to sell enough otherwise. The examples given in the case seems to fall under the factual necessity, but that does not mean that the Court would not be willing to use the principle in cases where competition is impeded because the consumers only wants to buy the product if it packaged in a certain way. Castillo does however think that it would clearly not be considered to be necessary to change the trade mark in all cases just because it would entail certain commercial advantages, but he also says that the concept of necessity cannot be interpreted as strictly as meaning the legal possibility of marketing the product. He thinks that the notion instead should be interpreted as meaning the practical possibility of marketing the product, since this is an area where rules of professional groups are very important and where health insurance funds have great influence.\(^{101}\) This seems to be the most reasonable interpretation since it is important to find a balance between the free movement rules and the protection of intellectual property rights. If the necessity were interpreted too generously it would cause the proprietor a great disadvantage in that a parallel importer could benefit from the goodwill of the trade mark, and that the proprietor might not be rewarded for his efforts. This would in fact undermine the trade mark right and put the proprietor in a position where he could probably not lawfully exercise his right. If on the other hand the notion of necessity was interpreted too strictly as only consisting of legal obstacles it would prevent the free movement of goods since the practices of professionals and the guidelines from different private health associations could create inaccessible barriers for a parallel importer.

About the risk of the reputation being wounded it was stated that regard should be taken to the kind of product and to the market it is meant for, the presentation of the product is for example of little importance when it is sold directly to hospitals. An interesting case regarding this is the Dior case\(^{102}\), where the question was whether a proprietor could oppose the trade mark being used in advertising that did not correspond to the luxury and prestige that was connected with the

\(^{101}\) Castillo de la Torre, p 313.

mark. The Court stated that Article 7.2 of the Trade Mark Directive did give the proprietor the right to oppose marketing when he had legitimate reasons. Since advertising is essential for marketing a product and since a prevention of this would seriously impede the free movement a legitimate reason only existed when the advertising risked to seriously injure the reputation. In this case the Court did not think that the reputation risked any seriously injury, even though the perfume was advertised along toilet paper. From this the conclusion can be drawn that the Court is strict in assessing whether an injury is serious or not.

In the Bristol-Myers Squibb case the question of whether the artificial partitioning must be the intention of the proprietor or if it was enough that it was the effect was answered. As already said in connection with American Home Products the Court stated that it was not necessary to show that the trade mark owner deliberately sought to partitioning the market. In accordance with this statement the conclusion can be drawn that it is enough to show that this is the effect.

103 Bristol-Myers Squibb, para 57.
7 Summary of case law on repackaging

In Hoffman-LaRoche the basic principles that now are established case law were laid down. It was there stated that Article 36 and the specific subject matter and essential function of a trade mark give the proprietor the right to prevent a product from being marketed in other member states after it has been repacked in new packaging to which the trade mark has been affixed by a third party. This rule is however subject to an exemption, when the prevention constitutes a disguised restriction on trade. For this it is required that the use of the trade mark right contributes to the artificial partitioning of the market, that the repackaging cannot adversely affect the original condition of the product, that the proprietor receives a prior notice and that it is stated on the new packaging by whom the product has been repackaged.

These principles were followed in American Home Products, where it was stated that the proprietor has the right to prevent the affixing of a trade mark of his to a similar or identical product which the proprietor produces under another trade mark. The proprietor has this right since the affixing intervenes with the essential function of a trade mark, which was stated in Hoffman-LaRoche to be to guarantee the origin of a product to the consumer by enabling him to distinguish that product without any risk of confusion from products of different origin. The affixing of a new trade mark was thus found to intervene with the guarantee of origin since the origin could not be interpreted as that two products should have the same origin only because they were produced by the same producer. Instead the origin meant the original affixing of an origin-reference. Since products under different trade marks could have different characteristics, like dosages, even if they appear to be similar this way to interpret the notion of origin seems to be the most reasonable.

In Pfizer it was permitted to repack a product by merely replacing the external wrapping and making the original trade mark visible through the new wrapping. This is in accordance with the principles in Hoffman-LaRoche since it did not risk affecting the original condition of the product or misleading the consumer of the origin of the product.

In Bristol-Myers Squibb, which was judged after the new Trade Mark Directive had come into force, it was stated that Article 7 of this Directive should be interpreted in accordance with Article 36 and the case law developed under this Article. The Trade Mark Directive did thus not affect the principles laid down in Hoffman-LaRoche and the other cases. In Bristol-Myers Squibb the criteria in Hoffman-LaRoche were examined thoroughly and other criteria were added, like that the repackaging must be necessary, i.e. a product may not be repackaged if it
is sufficient to just affix a new label or add new information in the right language, and that the proprietor has the right to oppose repackaging which risks wounding the reputation of the trade mark. In accordance with the Dior case however the reputation must risk to be seriously wounded to give the proprietor this right. In this case it was also made clear that the artificial partitioning does not have to be the intent of the proprietor, it is enough that it is the effect of his behaviour.

After reading the cases described in this paper I am of the opinion that trade marks have been given more importance by the Court. The principles laid down in Hoffman-LaRoche have been followed and developed further in the direction to strengthen the position of the trade mark. The proprietor has the right to prevent repackaging when the reputation of the trade mark risks being injured and the origin of the product must be clear. This does however not mean that the Court will allow derogations from the free movement rules easily, which can be seen in the Merck-cases and in Dior, where the advertising of perfumes together with toiletpaper was not found to risk wounding the trade mark of the perfume seriously enough. From this it can be concluded that the rules on free movement, and especially the possibility of parallel import, are still so important that it is still only a limited exercise of a trade mark that will be permitted. This limited exercise is however beginning to crystallise itself by the case law. It is now clear that it is assessed by the essential function of the trade mark, and what this function is has been stated in several cases. By applying the principles laid down in these cases it would not be too hard to judge whether an exercise will be permitted or not. What can be said here is that the requirements put on the parallel importer to be allowed to repackage a product has been stricter during the development. At first it was enough that the repackaging did not adversely affect the original condition of the product, that a prior notice was given to the proprietor and that it was stated on the packaging by whom the product had been repackaged. Because of the judgement in Bristol-Myers Squibb it now has to be necessary to repackage the product and in that case the parallel importer must, besides the other demands also make sure that the risk of reputation of the trade mark do not risk being wounded.

As a summary it can be said that the Court in these cases has tried to find a balance between the need to protect intellectual property rights and the wish to keep the single market open. It can be noted that in the earlier cases the main point was the openness of the Common Market, but that this has shifted so that the trade mark rights now get higher priority. I think that the Court has found a good balance in the case law regarding repackaging. If all forms of intervening with the intellectual property right should be prohibited it would be disproportionally and the idea of a single market would loose its meaning. But on the other hand, if it would not be permitted for the proprietor to oppose conducts that intervene with the specific subject-matter of the trade mark right the trade mark would have lost its function as a guarantee of origin.
8 Possible application of Article 86

As can be read from the cases in the previous chapter the Court has not applied Article 86 to cases involving repackaging of trade marked goods, but has used the rules on free movement against non-justified oppositions by the proprietor. In this chapter I will examine if it would have been possible to use Article 86 instead and if the use of a trade mark to prevent repackaging could constitute abuse by a dominant undertaking. In the next chapter I will then describe the difference in results that the application of Article 86 would give compared to the use of the free movement rules to repackaging-situations.

8.1 The abuse-criterium

In Hoffman-LaRoche the application of Article 86 was up to discussion, but the Court did not state whether it could have been used in the case or not. It did however state that the extent to which the exercise of a trade-mark right is lawful in accordance with the provisions of Article 36, such exercise is not contrary to Article 86 on the sole ground that it is the act of an undertaking occupying a dominant situation on the market if the trade mark right has not been used as an instrument for the abuse of such a position.\(^\text{104}\) Since the Court stated that the exercise of trade mark rights that are justified by Article 36 do not constitute abuse in themselves it can be concluded that exercises that are compatible with Article 36 still can be contrary to Article 86 if they involve some kind of abuse. The justification by Article 36 does therefore not give protection against Article 86. This means that even in American Home Products, where the prevention of repackaging was judged to be compatible with Article 36, it could still constitute a conduct that is abusive under Article 86. To determine whether Article 86 could have been used in the repackaging-cases or not it is therefore crucial to examine what behaviour by dominant undertakings that could constitute abuse in these situations. As can be concluded from the case law on abuse of intellectual property rights the Court has not come up with any clear guidelines about what constitutes an abuse but has adopted a case by case application. Since there are no clear principles to follow when it comes to intellectual property rights the analysis has to build on the general case law under Article 86 and on comparisons to the repackaging case law under the free movement of goods provisions.

One aspect regarding pharmaceuticals is that the market is highly regulated, where the public health authorities often have demands on packagings and procedures, and where the prices often are fixed. This is something that a dominant

\[^{104}\text{Hoffman-LaRoche, para 16.}\]
undertaking could take advantage of. When different packages are used in different countries because of government rules an undertaking could use this to maintain an existing price difference. According to Merkin and Williams price differences between Member States would presumably be strong evidence of the intent to create artificial market divisions. The use of a trade mark by a dominant undertaking to prevent repackaging solely in order to maintain a price difference would therefore most likely constitute an abuse under Article 86.

In American Home Products it was stated that the proprietor of a trade mark (A) in one Member State can prevent the import to this state of goods he has himself put on the market in another Member State under another name (B), even if the original trade mark (A) is reaffixed by the importer. One could here imagine a case where a proprietor chooses to market a product under different names in different Member States in order to prevent parallel import. Since the product B cannot be repackaged and get the name A affixed to it it can be hard to sell the product under a different name in competition with one already established. Pharmaceuticals is an area where it takes a long time to build up a confidence and get established. It is also an area where trust in the name is of great importance. If the “right” name cannot be used it would in practice probably mean that parallel import would be impossible. As can be read from the American Home Products case the use of different trade marks to the same product requires an objective justification. One such situations which can be objectively justified is when there are different characteristics between the products under the different marks, such as dosages. The prevention against changing marks can thus have a purpose from the view of public health.

There is also another situation, which Baden Fuller draws attention to, where the use of different trade marks have an objective purpose. Different brands of a basic product are frequently offered with marginal physical differences of little importance to consumers, but with substantial marketing differences aimed at filling the needs of different customer groups. The consequence of the differences in marketing is usually differences in price and Baden Fuller thinks that this would make it legal to buy a lower price brand, repackage and relabel it as a higher brand of the original firm and sell it. If the original firm was not dominant he thinks that this would even be against the public interest since it would reduce the incentive to match marketing to consumers’ needs or would lead to the introduction of unnecessary physical differences between the brands to make repackaging more difficult, which may be costly and lead to higher prices. Even if the original firm was dominant it could in one aspect act against the consumer

interest since it would restrict consumer choice, for instance through the availability of a low priced little promoted brand, as well as causing higher average prices and less overall output.\footnote{Baden Fuller, C W F, "Economic Issues Relating to Property Rights in Trademarks: Export Bans, Differential Pricing, Restrictions on Resale and Repackaging", \textit{European Law Review June 1981}, pp 178 and 179.} No matter what the factual economic result might be the use of difference brands to market one product to different categories of consumers could probably be seen as an intention to partition markets. It would then probably not be permitted since in the American Home Product case it was stated that when the purpose of using different trade marks in different Member States is to partitioning the market the proprietor cannot oppose the reaffixing.

In a case where the intention of the proprietor behind the use of different trade marks is to partition the market his conduct would most likely constitute an abuse under Article 86, since the intent behind his behaviour is in breech with the objectives of the Treaty that forms the base for the competition rules. In connection with this it is not too far-fetched to make the conclusion that the concept of artificial partitioning must be similar to the concept of abuse, since they both refer to a conduct that is not objectively justified and that is outside the behaviour which is protected by the intellectual property right. In the repackaging cases it has been stated that when a conduct has the effect to contribute to the artificial partitioning it is outside the essential function of the trade mark, no matter what the intent of the proprietor was. In cases concerning Article 86\footnote{See for example Magill.} the concept of essential function has also been used in order to determine whether the exercise of an intellectual property right is abusive or not. Just like in the artificial partitioning case the assessment of whether the conduct is abusive or not is objective and based on the effect. The assessments in these two cases must therefore be based on the same criteria and a behaviour that is judged to involve an artificial partitioning ought to involve an abuse under Article 86. This does however not mean that a behaviour that is prohibited by Article 36 is automatically prohibited by Article 86, since Article 86 contains other criteria that also have to be fulfilled, like a dominant position.

In Bristol-Myers Squibb it was stated that it constituted an artificial partitioning of the market to prevent repackaging when it was necessary for the product to be able to be marketed in the state of import, for example because of government rules.\footnote{Bristol-Myers Squibb, para 53.} In connection with this I discussed whether the notion of necessity should be read as factual or if it was enough with an economical necessity. I reached the conclusion that the Court most likely meant a factual necessity. In that case a company could market the products in different packages in different countries and make sure that the package is well known to the consumers. Since there would be no factual necessity to repackgage the product the proprietor could...
oppose repackaging. It would then be hard for a parallel importer to import the product and sell in a different package from the one the consumers are used to. The question is here of course how important the look of the package is for consumers, but since pharmaceutical is an area where trust for the product is essential the conclusion that such a behaviour could impede competition is not too far-fetched. It is here notable that in Bristol-Myers Squibb it was stated that an artificial partitioning of markets would exist even if the parallel importer were able to market the product without repackaging it, but only in parts of the market. If it contributes to the artificial partitioning when marketing is impeded in part of a market it would then most likely constitute an abuse when the prevention of repackaging impedes competition in the way described above.

Another aspect of the prevention of repackaging is that it enables the trade mark owner to identify the source of parallel imported products. If the products could not be repackaged the proprietor could put identification numbers on the packages and thereby detect the weak link in his sales organisation and take measures, like refusing to supply, against the seller. This is a conduct that is extremely anti-competitive and which would definitely constitute an abuse under Article 86.

8.2 The other criteria in Article 86

For an abusive conduct to actually fall under Article 86 the other criteria in the provision must also be fulfilled. The undertaking must occupy a dominant position in regard of the relevant market and the abuse must be such as to affect trade between Member States.

When assessing whether a dominant position exists or not market shares are important indicators, but factors like the structure of the market, the number of competitors, the undertaking’s technical and financial resources and the presence of barriers to entry should also be taken into consideration. The ownership of an intellectual property right is also a factor to take into account. In the repackaging-cases the undertakings involved are often very large with powerful positions and with subsidiaries in several countries. A factor of importance here is the ownership of intellectual property rights, since the undertakings often have a patent on the pharmaceutical and therefore an exclusive right to produce and put the product on the market. To develop new pharmaceuticals is a long and very costly process, which means that there are barriers to entry and that there are few competitors. In fact, I think it can be said that the pharmaceutical market is not very far from being oligopolistic with only a few actors of any real importance. The undertakings involved in the repackaging cases described are all multinational companies with technical and financial resources. When assessing if a dominant position is at hand the relevant market must however first be determined. If the

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110 Bristol-Myers Squibb, para 54.
relevant market would be pharmaceuticals in general the undertakings in question may not have a dominant position on such a large market. The Court has however in several cases\textsuperscript{111} shown that it defines the relevant market narrowly, and therefore the relevant market would most likely be the kind of pharmaceuticals involved, for example tranquilisers. The undertakings that have been involved in the repackaging cases would therefore most certainly have a dominant position, and Article 86 would thus be applicable in many cases concerning repackaging where an abusive conduct can be shown in accordance with the discussions above.

There is also the requirement that the behaviour must affect trade between Member States, but it is enough that the trade is directly or indirectly, in fact or potentially, affected. When it is such large firms involved with subsidiaries in several Member States as it has been in the repackaging cases and it regards parallel imports it does without question affect trade between Member States.

### 8.3 The essential facilities doctrine

If the right to repackage a product could be seen as an essential facility it could also be possible to apply the doctrine to the repackaging situations. The problem here is that there is an intellectual property right involved and that the essential facilities doctrine was primarily designed for physical facilities. In the Magill case however, the doctrine was applied to an intellectual property right which was used to refuse information. To use the copyright in this way did, according to the Court, clearly go beyond what was necessary to fulfil the essential function of the copyright.\textsuperscript{112} What made this exercise outside the essential function, and in breech of Article 86, was that there was no substitute and that the refusal to provide the information prevented the appearance of a new product, which corresponds to the two major criteria in the essential facilities doctrine. Since the Court forced RTE to give Magill access to the information it did in fact use the doctrine to grant Magill a compulsory licence. With this case as a support it could very well be argued that the essential facilities doctrine could be used against other intellectual property rights, such as trade marks and the right to prevent repackaging. In Hoffman-LaRoche the Court actually said that hindering the proprietor from using his right to prevent repackaging amounts to giving the parallel importer a certain licence to affix the trade mark.\textsuperscript{113} The right to repackage a product and to affix the trade mark is thus something the Court has considered to be capable of granting compulsory licences for. To consider this to be an essential facility in

\textsuperscript{111} See for example Case 27/76 United Brands Co and United Brands Continental BV v Commission [1978] ECR 207, where the relevant market was held to be bananas in stead of fruit, and case 22/78 Kassaregister Hugin AB v Commission [1979] ECR 1869, where the relevant market where spare parts for type writers, not type writers.
\textsuperscript{112} Magill, para 73.
\textsuperscript{113} Hoffman-LaRoche, para 11.
accordance with the judgement in the Magill case is therefore not very far-fetched.

Because of the judgement in Oscar Bronner the doctrine is now however interpreted very restrictively and there are several requirements that must be fulfilled. The refusal to supply the facility must thus be likely to eliminate all competition and it must be shown that the refusal could not be objectively justified and that there is no actual or potential substitute to the facility.\textsuperscript{114} For the right to repackage a product to constitute an essential facility it would then, firstly, require that the prevention of repackaging would be likely to eliminate all competition. This could be the case if there are government rules about the packages of pharmaceuticals or if the consumers only want to buy the product if it is packaged in a certain way. Secondly it requires that the prevention could not be objectively justified. This requirement has been discussed thoroughly in the repackaging cases. When the prevention in these cases were found not to constitute a disguised restriction to trade by contributing to the artificial partitioning of the market it could be said to be objectively justified. The criteria for assessing whether the conduct contributed to an artificial partitioning could then be used to determine the objective justification. When the guarantee of origin and the original condition of the product is not at risk it would then not be objectively justified to prevent repackaging. For the right to repackage to be seen as an essential facility there must also be shown that there is no actual or potential substitute to repackaging. This corresponds to the requirement in Bristol-Myers Squibb that the repackaging must be necessary. When there are government rules on the packaging it must be said to be necessary to repackage so the packaging is in conformity with the rules. In those cases the right to repackage could thus very well be seen as an essential facility.

The Court has however not been very willing to apply the essential facilities doctrine and for a long time it has been uncertain whether this doctrine even was part of EC law or not. The Court has also chosen not to apply Article 86 to repackaging cases. That the Court would start applying the essential facilities doctrine, which goes further than this Article does therefore not seem very likely. The Court is however not always predictable and it is also known for changing the law without really admitting it. In Magill for example it most probably used the essential facilities doctrine without actually saying it. That the Court would use the doctrine to repackaging cases would therefore not be totally unbelievable even if I find it most unlikely.

\textsuperscript{114} Oscar Bronner, para 41
In general both the rules on free movement and on competition have similar objectives in that they aim at freeing trade between Member States from restrictions imposed by public or private sources. Regarding intellectual property rights the rules on free movement and on competition interact in the way that they provide different ways to attack the rights when they aim at partitioning the Common Market. Sometimes both sets of rules might be applicable in the same case, for example when proprietors try to prevent parallel import by relying on their intellectual property right. As have been discussed in the previous chapter Article 86 could very well have been used by the Court in the repackaging-cases instead of Articles 30 and 36. The question is then why the Court has not used Article 86 and what different results could have been reached.

When an industrial property right is exercised in a manner not justifiable on the basis of Article 36, i.e. is outside the specific subject-matter and the essential function, by an undertaking in a dominant position, it is very likely that the exercise also constitutes an abuse under Article 86. There is however no automatic link between the Articles. According to Govaere the “abuse” of an intellectual property right under the rules on competition is not tantamount to the “misuse” of intellectual property rights under the rules on free movement, and that a behaviour is permitted under Article 36 does not automatically clear it under Article 86. Even though the national measure protecting the intellectual property right is compatible with Article 36, the exercise of it can therefore still constitute an abuse of a dominant position. However, as have been discussed in the previous chapter the assessment of whether an exercise of an intellectual property right is outside the essential function, i.e. contributes to the artificial partitioning of the market, or not is often very similar to the assessment of whether the exercise constitutes an abuse or not. But this does not make the link between the Articles automatic, and Article 86 also has other requirements that must be fulfilled, like the dominant position.

The two sets of rules seems to help and complete each other very well when it comes to preventing intellectual property rights from being used to divide the Common Market. There are however some differences between the two provisions. One is formal in that in Articles 30 and 36 it is Member States that are the addressees, not individual undertakings as in Article 86. The rules on competition are thus aimed at anti-competitive behaviour of undertaking whereas

115 Govaere, p 103.
the free movement provisions apply to national law that creates distortion to intra-
Community trade. However, this distinction is not really detectable in the case law
concerning intellectual property rights. As Govaere puts it: “National intellectual
property law is hardly ever struck down under the rules on free movement,
whereas both set of rules are currently applied to curtail the anti-competitive
behaviour of economic actors who are rightowners, even if they may merely be
enforcing their nationally granted right.” In the repackaging cases the Court
discusses if the trade mark owner may rely on his rights to prevent an importer
from marketing repackaged products, and not whether the national laws are
incompatible with the free movement-provisions or not. In effect there might
therefore not be such a big difference regarding the applicability as should be
expected.

There are however other formal differences between the provisions. The
Commission does not have the same type of direct executive powers in relation to
the free movement rules as have been conferred upon it by regulation 17/62 under
the competition rules of the Treaty. The only way for the Commission to act
in cases of restrictions on trade resulting from national intellectual property
legislation is by invoking Article 169 against the Member State. When it comes to
remedies and enforcement there is also a difference between which set of rules
that is applied. Fines can only be imposed under competition law. Further the
competition rules are enforced by the Commission and the national courts, whilst
the rules on the free movements of goods only are applied by the national courts.
Thus the Commission can supervise and control adherence to the competition
rules, and where deemed suitable also grant exemptions. Additionally the
Commission can develop competition policy by issuing notices and taking
decisions, or by using its legislative powers under Regulation 17/62. The
development of the free movement of goods will instead take place through the
judicial activities of the Court in Article 177 proceedings.

There are also other aspects in what provision to choose. It can for example be
easier to show that the rules on free movement have been infringed than it is with
the rules on competition. The new principles developed by the Court, like for
example the rule of exhaustion, are often easier to apply than it is to show that the
enforcement of an intellectual property right amounts to abuse of a dominant
position. In repackaging cases it will now of course be easier to apply the free
movement rules since the Court has developed a firm case law with clear criteria
under these provisions. The question is however why the Court decided to use
the free movement rules instead of Article 86 in the first place. One aspect to
have in mind is that the Court under Article 177 only can answer the questions
that the national court has submitted to it. There might therefore not always be so
much a choice of the Court as one might think. In the repackaging cases it must

\[116\] Govaere, p 47.
\[117\] Council Regulation 17/62 – First implementing Regulations pursuant to Articles 85 and 86 of the EEC Treaty.
however be seen as the Court made a decision since in the first case, Hoffman-LaRoche, the national court also submitted a question about the applicability of Article 86. The Court chose not to answer this question, but stated that there are no automatic links between Articles 36 and 86 and that the permission under one of those Articles does not clear the behaviour from the other.

What did the Court then mean by stating this instead of answering the question? One factor to take into account is that the Court is careful not to say more than necessary in its judgements since it thereby may be bound in the future by a statement not really well thought-out. Since it had answered the question by referring to the free movement rules it might therefore not have wanted to deal with the possible application of Article 86. By the statement that a permission by Article 36 does not clear the conduct under Article 86 the Court did then perhaps try to make clear that no conclusions should be made from the judgement about the applicability of Article 86, but that this had to be assessed independently of the free movements provisions. One reason for the Court to choose the free movement rules could be that intellectual property rights are not really of concern for the EC, even though harmonisation measures have been taken. Instead of using Article 86 which is aimed at the undertaking in question the Court therefore used the free movement provisions since they are addressed to the Member States. In this way the Court did perhaps feel that it did not interfere too much with the actual exercise of the intellectual property right itself, but merely with the national rules not compatible with the Treaty. There are also more assessments to make under Article 86 since it there has to be decided what the relevant market is, if there is a dominant position, if there has been an abuse of this dominant position and if it will affect trade between Member States. The Court might therefore have felt it to be easier to use the rules on free movement of goods. But by doing this it lost the possibility to use effective remedies since fines only can be imposed under competition law. On the other hand it did not have to interfere very much with the exercise of the property right but left it to the Member States to take measures. I think that the main reason for the Court to choose the rules on free movement of goods was that it wanted to make clear that intellectual property rights still are of national concern and that the Court only deals with them in circumstances when they are in breech of the objectives of the Treaty, and that even in those cases the Courts wants to intervene as little as possible.
10 Conclusions

In the repackaging cases so far the Court has applied the rules on free movement of goods and stated that the right to prevent repackaging is part of the essential function of the trade mark and therefore permitted by Article 36, but that when the prevention contributes to the artificial partitioning of the market it constitutes a disguised restriction of trade which is not permitted by this Article and therefore in breach of Article 30. When it comes to Article 86 the Court has stated nothing about the possibility to apply this Article to repackaging-situations, but has made clear that there is not automatic link between this Article and Article 36. Even if a conduct has been permitted under Article 36 it can therefore still constitute an abuse under Article 86.

So far Article 86 has not been applied in very many cases concerning intellectual property rights. In the cases where it has been applied however, the Court has adopted a case by case approach and there are therefore no clear guidelines to follow on what behaviour constitutes an abuse. However after examining the abuse-requirement in Article 86 and the way it has been applied in the cases concerning intellectual property rights as well as in other cases under this Article I think it can be concluded that in general Article 86 could be applied to repackaging-situations where a proprietor uses his trade mark right in a way that is in breech of the objectives of the Treaty. In such a case the exercise of the trade mark right cannot be justified by the need to protect the intellectual property right and it is therefore outside the specific subject-matter and the essential function of the right. Such situations are for example when the use of different packages and the striving to prevent repackaging is a manifestation of a wish to maintain price differences or to make it hard for a parallel importer to sell the product in the "wrong" packaging. If the prevention of repackaging is made because of a wish to detect the person in the selling chain who sold the product to the parallel importer it would most certainly be seen as abusive. The assessment of whether a conduct is abusive under Article 86 or not is objective and involves the same assessments as for if an exercise of an intellectual property right contributes to the artificial partitioning of the market under the free movement provisions. If a conduct has been judged contribute to the artificial partitioning it would therefore most certainly be judged to constitute an abuse.

Whether the abusive conduct actually would be caught by Article 86 or not depends on if the other criteria in the Article are fulfilled, i.e. that the undertaking occupies a dominant position in a substantial part of the Common Market and that the abuse is likely to affect trade between Member States. The undertakings that are involved in repackaging cases are often multinational firms with a clear dominance on the market. The Court has also been very narrow in its definition of the relevant market and the dominance would therefore come easily. In the case of pharmaceuticals it is most likely that the relevant market would be judged to be
the kind of pharmaceutical involved, for example tranquillisers. It can be noted that in the case where any of the criteria is not fulfilled there are also national rules on competition that might apply to the conduct.

The essential facilities doctrine might also be applicable to intellectual property rights in some situations. In Magill the exercise of the copyright was found to be outside the essential function since there was no substitute and since the refusal to provide the information prevented the appearance of a new product, which corresponds to the two major criteria in the essential facilities doctrine. Since the Court by this judgement gave Magill access to the information it did in effect grant a compulsory licence of the programme information. Even though the Court has used the free movement provisions in the repackaging cases it could in fact be seen as they in those cases granted a compulsory licence on the right to repackage. In accordance with Magill the right to repackage a product could thus be seen as an essential facility. For this it would however require that the prevention of repackaging would be likely to eliminate all competition, which could be the case if there are government rules about the packages of pharmaceuticals or if the consumers only wants to buy the product if it is packaged in a certain way. It would also require that the prevention could not be objectively justified which it, in accordance with the discussion in case law, could be if the guarantee of origin and the original condition of the product is at risk. For the right to repackate to be seen as an essential facility there must also be shown that there is no actual or potential substitute to repackaging. This corresponds to the requirement in Bristol-Myers Squibb that the repackaging must be necessary. When there are government rules on the packaging it must be said to be necessary to repack so the packaging is in conformity with the rules. In those cases the right to repack could thus very well be seen as an essential facility. Another question is of course if the Court would be willing to apply this doctrine, since it has so far not even applied Article 86.

The main difference between the free movement provisions and Article 86 is that in Article 30 and 36 it is Member States that are the addressees, not individual undertakings as in Article 86. In Article 86 there are also other assessments to make, like determining the relevant market and if there is a dominant position which has been abused. Under the free movement rules it is enough to show that trade is restricted and that it is not objectively justified. The reason for the Court to apply the rules on free movement instead of the competition rules were however probably that the Court wanted to intervene as little as possible with intellectual property rights and to make clear that those are still mainly part of the national systems. By using the free movement provisions the Court did not have to intervene with the actual right but merely with the national rules. It also left it to the Member States to take measures to bring the legislation in conformity with EC law and did not have to come up with the solutions itself. By using the free movement rules the Court did in fact intervene as little as possible with the trade mark right.
As a summary it could be said that I have reached the conclusion that Article 86, and even the essential facilities doctrine, could be used in repackaging-situations. The Court has however chosen to use the rules on free movement of goods instead, probably because it did not want to interfere too much with intellectual property rights. If the Court in the future would find it necessary to deal more directly with intellectual property rights or if those rights were made part of the jurisdiction of the European Union there would thus be nothing to stop the Court from applying Article 86 or the essential facilities doctrine to the use of trade marks rights to prevent repackaging.
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