



FACULTY OF LAW  
Lund University

Emma Abellson

# Trademark as a legitimate barrier in trade

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Supervisor: Henrik Norinder

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# Summary

The relationship between Intellectual Property (IP), free movement of goods and competition law has always been complex. While IP safeguards an exclusive right that is territorial, the free movement of goods and competition principles aim to have free competition on the market and at first sight, they seem to be in conflict. Trademark rights works as a legitimate barrier for market entry and has the possibility to shut out competitors however has the exhaustion principle limit these rights and the European Court of Justice has made a distinction between the *existence* and *exercise* of IPRs. Exhaustion makes sure that once a product is put on the Union market by the proprietor or with their consent, they cannot limit competition because their rights are consumed.

It has been established that trademarks have different functions that it is worthy of protection, however the question has been raised whether parallel importers or grey marketers distorts fair trade and infringes the proprietors rights by affecting these types of functions. Parallel trade can cause tension between IPR's and competition law and especially in connection with exclusive licensing. The free movement of goods provisions are also relevant in this context due to that they work as the fundamental framework to trade. They cover both imports and exports and apply to situation where trade barriers emerge, although there are some legitimate justifications for restricting trade.

Under competition law a trademark can create market power that could be caught under the Article 101 of the Treaty Of the Function of the European Union that prohibits agreements that distorts competition. IPRs will not distort competition by just existing but the licensing of them may give rise to anti-competitive behaviour. The vertical relationships are usually exempted from the competition laws but there may be types of restrains that will fall under the provisions and especially when having a certain degree of market power. Modern technology has changed the market and created new obstacles that may be approached from both a free movement and competition law perspective. Because of Internets impact on trade it has raised a lot of question about how to apply the classic trademark provisions in a new forum.

# Sammanfattning

Förhållandet mellan immaterialrätten, fri rörlighet av varor och konkurrensrätt har alltid varit komplex. Varumärkesrätten är en territoriellt skyddad exklusiv rätt medan fri rörlighet av varor och konkurrensrätten strävar efter fri konkurrens på marknaden och vid en första anblick kan man få intrycket att dessa principer står i konflikt mot varandra.

Varumärkesrätten kan fungera som en legitim barriär för att ta sig in på marknaden och kan därför utestänga konkurrenter. Däremot har konsumtionsprincipen begränsat dessa rättigheter och EU-domstolen har gjort en distinktion mellan existensen och utövandet av de immateriella rättigheterna. Konsumtionsprincipen träder in när en produkt lovligen är introducerad på den europeiska marknaden av varumärkesinnehavaren eller med dennes samtycke och innebär att varumärkesinnehavaren rättigheter har konsumerats.

Varumärkets olika funktioner har ansetts vara skyddsvärda men frågan uppkommer huruvida parallell importörer och aktörer från så kallade gråa marknader kan anses snedvrída konkurrensen och påverka varumärkets olika funktioner. Parallell import kan skapa spänning mellan immaterialrätten och konkurrensrätten och speciellt i samband med exklusiva licensavtal. Reglerna för fri rörlighet av varor blir också relevant i detta sammanhang eftersom reglerna fungerar som ett grundläggande ramverk för handel. Reglerna omfattar både import och export och tillämpas på situationer där handelshinder uppstår däremot finns det legitima skäl för att begränsa handeln i vissa situationer.

Från ett konkurrensrättsligt perspektiv kan ett starkt varumärke innebära en hög grad av marknadstyrka som kan fångas upp under Artikel 101 i Fördraget om Europeiska Unionens funktionssätt (EUF) som förbjuder avtal som snedvrída konkurrensen på marknaden. Det är inte själva existensen av de immateriella rättigheter som anses påverka konkurrensen däremot kan licensieringen av dem ge upphov till konkurrensbegränsande beteende. Vertikala avtal undantas ofta från konkurrenslagstiftningen men det kan finnas olika begränsningar som kan fångas av regleringen speciellt när det är fråga om en aktör med marknadstyrka. Teknikens utveckling har förändrat marknaden och skapat nya hinder utifrån fri rörlighet samt ett konkurrensrättsligt perspektiv. På grund av att en stor del av handeln idag sker på Internet har en hel del frågor uppkommit huruvida man ska tillämpa den klassiska varumärkesrätten i förhållande till detta nya handelsforum.

# Preface

This master thesis symbolise the end of an era but also a new beginning. This experience has been quite a journey, from Örebro University to the law faculty in Lund where I have been carrying out my law studies.

I would like to give a special thanks to my wonderful family and friends who has supported me trough my studies and been there for me through wet and dry with all the encouragement in the world. They have been both my inspiration and driving force.  
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# Abbreviations

CESL	Common European Law of sales
CJEU	Court of Justice of the European
CML rev	Common Market Law Review
EC	European Communities
EEA	European Economic Area
EU	European Union
EUF	Fördraget om Europeiska Unionens funktionssätt
IP	Intellectual Property
IPR	Intellectual Property Right
RPM	Resale Price maintenance
SME	Small Medium Enterprises
TTBER	Technology Transfer Block Regulation
TFEU	Treaty Of the Function of the European Union
TRIPS	Agreement of trade-related aspects of Intellectual Property Law
OHIM	The Office of Harmonization for the Internal Market
OJ	Official Journal of the European Communities
WTO	World Trade Organisation

# 1 Introduction

## 1.1 Background

There are some legitimate barriers to market entry that is construed to the prevention of illegitimate competition. They consist of laws and regulatory acts that work as a barrier to avoid competitors taking unfair advantage and free riding of someone else's IP. This can however be seen as a problem from a perspective of free movement of goods and competition law where you would want to avoid any distortion of competition such as opposing parallel trade. This revision extends over several different areas of law but I am concentrated in identifying trademarks as a barrier of trade and have therefore pinpointed the subject.

The European competition rules are established in the articles 101 and 102 of the treaty of the Functioning of the European Union (TFEU). The competition rules are enforced by the European Commission but also by the respective national competition authorities. A main competition issue in the European Union (EU) is the barrier to enter the market where trademark proprietors prevent others to operate in marketing and cross-border sales between the member states. This examination comes down to the legality of opposing parallel trade between different countries and the measures of restricting these type of trade inside the European Union.

At the same time as proprietors will want to nourish the main principles of competition, fair trade and transparency they would expect their IP assets to be protected against competition distortion and unfair competition. Big investments are made in IP and they are worth protection. These kinds of different protections of IP rights can also serve as a legitimate barrier for market entry. Legal constraints on competition like trademarks can be a strong entry barrier. IP takes a special position in this segment. These rights confer upon their proprietor the exclusive power to exclude competitors within the scope of rights covered by the trademark. The Free movement of goods provisions found in the Articles 34-36 TFEU functions as a fundament for all trade in the Union construed to delimit all trade barriers concerning state measures.

EU has tried to solve the interaction between the territorial trademark rights and the basic Union notion to have a free common market by introducing the principle of regional exhaustion. By establishing this principle the court makes sure that trademark proprietors cannot invoke their trademark rights to oppose further commercialisation of the goods in the community as long as they have put the goods on the EEA market or by their implied consent. Parallel imports cannot be prohibited inside the EEA as long as the proprietors rights are exhausted. From a trademark proprietors perspective parallel trade can be bad for the reputation of a mark due to that its characterized by that the intention for the goods is that they would be sold on a different market. Trademark owners usually see parallel importers and the so-called grey marketers who buy genuine goods that is intend for another market as a problem. However, one must ask themselves if it actually can be beneficial for the competition climate and the consumers to allow parallel trade.

Internet is a great platform for entering a new market but it has created some new challenges for the traditional territorial rights in a climate of a market without boundaries. Trademark rights apply to the web and gets primarily relevant in cases concerning distribution, trademark use in online market and keyword advertising.

## 1.2 Purpose

The purpose of the examination is to look at trademark rights as a barrier to market entry. Therefore, I will study the circumstances where trademark rights may be a legitimate reason for opposing parallel imports of branded goods and why this may be a problem under free movement of goods regulations and competition law rules.

The study shows how barriers of free movement of goods relating to trademark rights can be caught under the Articles 34-35 of the Treaty of the Functions of the European Union (TFEU) and exempted under article 36 and the mandatory requirements. Article 101 TFEU will be reflected upon in the light of the trademark proprietor's prevention of parallel imports in distribution agreements where they would want to control the distribution chain. Trademarks owners has considered goods imported by unauthorized distributors and grey marketers as an issue but can the opposing be an excuse to reduce competition and create trade barriers? Can parallel trade with grey market goods really be seen as contrary to trademark law? What positive and negative effects do parallel trade really have on the market actors and consumers?

In addition to this, I will look on how the use of exhaustion addresses anti-competitive behaviour. The European Court of Justice (CJEU) has in a line of cases dealt with the principle regional exhaustion. In connection with parallel import, you must establish when you can consider the goods to be put on the market by the proprietor or by their consent but also if the trademark proprietor gave their consent to it. Therefore, the notion of consent and the putting on the market criterion will be further part of this examination and from what circumstances it can be recognized.

Modern technology has complicated this issue further when marketplaces now on a large scale are introduced at the web. Therefore, I'm going to look at the issues that this new challenge has presented, mainly online distribution, the use of trademarks in online marketplaces and keyword advertising. Do the same rules for use of trademarks apply online as they do offline?

This examination aims to show the interplay between trademark rights, including the regional exhaustion principle, with the competition rules and the free movement of goods provisions when it comes to parallel imports inside the EEA and from third part countries.

## 1.3 Method and Limitations

This thesis follows under a legal dogmatic methodology. This means that relevant legal sources have been a big part of the study with the purpose to interpret and analyse the current legal status concerning this matter. To examine the legal grounds for the legitimate

barriers for market entry I've been using legislation and regulations, case law from the European courts, EU directives, articles and other legal doctrine relevant for the analyse.

This issue is wide and covers several field of laws and therefore there is a lot of problems arising. More importantly, limitations were needed because of time and space constrains. I will not treat the basic parts of competition law or intellectual property rights to any large extent. This analysis will focus on parallel imports of branded goods protected by trademark rights. Therefore, I will not look at the other IPRs such as patent, copyright and trade secrets that may otherwise be relevant in the context of parallel trade.

I will treat parallel imported trademarked goods in its original state and therefore I will not touch upon issues concerning counterfeit goods, as the unlawful and intentionally copying of another's IPR, reasonably because it will not give rise to a question of exhaustion.

## 1.4 Disposition

The *first chapter* introduces this thesis and how it will be presented. The *second chapter* contains trademark rights, the provisions protecting the exclusivity of a mark, the different functions of a mark and how far the trademark proprietor's rights stretch in connection to parallel trade.

The *third chapter* touch upon the principle of regional exhaustion and how the two main criterions about consent and goods being putt on the market are applied according to the case law from the CJEU. It also extends to the limits of exhaustion and the relationship between exhaustion and marketing and repackaging.

Parallel trade is the subject of *chapter four* and how it is connected to Intellectual property rights and competition law.

*Chapter five* contains the provision in Article 34-36 TFEU on free movement of goods and how the court has applied it. It mainly covers different trade barriers in connection to imports and exports but also the justifications and mandatory requirements.

The next part in *chapter six* covers the competition law regulation and the Article 101 TFEU's application to different distribution agreement. The 2010 Vertical Regulation and hard core provisions is a part of this chapter.

To tie the exclusivity of trademark rights and the exhaustion principle to parallel trade, free movement of goods and competition provision the *chapter seven* covers online trade and new challenges that these technology developments have created for trademark rights when it comes to distribution and use of trademarks in the online forum and keyword advertising.

The last *chapter eight* discusses the relationship between trademarks and the free movement of goods and competition law provisions will be analysed and lead to a conclusion in *chapter nine* on how it is connected and how the interplay works between these different areas in law and answer the questions stated in the beginning of this examination.

# 2 Trademark rights

## 2.1 Trademarks

Trademarks serve as an identity for goods and services. Brands get recognition through trademarks and can communicate the special characters that distinguish the brand from other brands. Trademarks are an important asset of a company due to that it will influence consumers in their everyday life. Companies spend a lot of money and time to build a strong trademark that will stand out from others.<sup>1</sup> However trademark rights can also be used against competitors as a legitimate barrier for opposing use of the mark in situations like parallel imports.

The enforcement and the protection of IPRs are diverging between countries and this is problematic when international trade has become common. International trade rules like the Uruguay Round, TRIPS and WTO agreements have been seen as a solution to this problem. The approach taken with minimum levels set is to make the IP rules harmonize. The WTO rules covers dispute settlements, like enforcement of rights and how they can give adequate protection to IP rights.<sup>2</sup>

The protection for trademarks as an IP right has the possibility to close out any wannabe and lookalike competitor from their market. One of the largest barriers for market entry is maintaining register trademarks protected from competitors that tries to take unfair advantage from already existing providers by taking market shares and consumers. This has resulted to a large amount of cases on the interpretation of the Trade Mark directive<sup>3</sup>, the council regulation on the community trademark<sup>4</sup> and the national trademark acts. The protection for trademarks is the only IP right that has been harmonized at a Union level. The Trade Mark Directive solid purpose is to eliminate negative effects on free movement on goods like restrictions on free competition.<sup>5</sup> The national trademark acts are still limited to their respective territory but it must however be seen in the light of the directive. To safeguard this article 267 TFEU gives the CJEU the legitimate competence to clarify to provisions and create harmonization.

When it comes to parallel imports, the goods are the real deal and the mark is fulfilling its function in connection to origin and individualising the goods from others.<sup>6</sup> By the article 5 in the Trade Mark Directive the proprietor of a mark has the exclusive right to use his mark in the course of trade but also the right to prevent third parties from using the mark. This

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<sup>1</sup> Office for Harmonization in the internal market. *What is a trademark?* [2008] Available at:

<sup>2</sup> World Trade Organisation [www.wto.org](http://www.wto.org) accessed 20 February

<sup>3</sup> Directive 2008/95/EC of the European Parliament and of the Council of 22 October 2008 “approximates” the laws of the member states relating to trade marks.

<sup>4</sup> Council Regulation (EC) No 207/2009 of 26 February 2009 on the Community trade mark

<sup>5</sup> Directive 2008/95/EC of the European Parliament and of the Council of 22 October 2008 “approximates” the laws of the member states relating to trade marks. (2)

<sup>6</sup> Schovsbo J.: *Graensefladesporagsmål mellan immaterialretten of konkurrensretten, Kobenhavn*, PhD thesis, Djøf / Jurist- og Økonomforbundet 1996. page.91

provision gives the trademark proprietor the right to control their marked goods and also prevent parallel imports. However, CJEU has limited these rights by establishing the exhaustion principle.<sup>7</sup> The form of protection that a proprietor of a registered trademark is provided with is against any inappropriate use their trademark. A registration works as proof when a proprietor is forced to show their rights to the trademark. This creates obstacles for the third party who thinks they have a better right to the trademark because they would have to turn to national patent- and registration offices or courts to have it declared invalid, among other evidential and procedural obstacles.

It is possible to gain protection for the mark even before it has been used but there must however be an intention to make actual use of the mark.<sup>8</sup> There is a possibility to file for infringement without having to prove that the marks reputation suffered any damage. Therefore a strategy construed by using a similar or an identical mark as your competitor is somewhat risky and can lead to serious remedies.

An existing registered trademark will be an legitimate barrier for penetrating the market so it is important that competitors do their homework so to say and makes research before distributing it. It is about assessing whether it is worth taking a risk being sued for trademark infringement. The question connected to parallel trade is if the proprietor's rights extend to having the right to oppose unauthorized distributors resale and distribution of their branded goods.

## 2.2 Trademark functions

Starting with looking at the trademarks functions, the general function of a trademark is to indicate the origin of the product<sup>9</sup> and this is also emphasized in the Trade Mark Directive in recital 10 that states "*the function of which is in particular to guarantee the trade mark as an indication of origin*". Nevertheless, it is established that a trademark can imply several different functions like reflecting a certain quality<sup>10</sup>, the advertising function<sup>11</sup> and investment function<sup>12</sup>. A well-known trademark proprietor may also think the mark is giving them a special edge over their competitors.

A trademark signalizes a certain warranty of the quality of the goods. But this can also mean that the trademark proprietor may adjust their products depending on what market they will be sold in to compile with the local, economical, culture and social standard. Although these also means that when parallel importers bring goods with the same brand into another market it may not be adapted to those customs, even though the brand is already established there. The consequence can be that the consumer does not get the product they expected,

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<sup>7</sup> See Case C-16/74 Centrafarm BV and Adriaan de Peijper v Winthrop BV [1974] ECR 1183

<sup>8</sup> See Article 10(1) Directive 2008/95/EC Of the European Parliament and of the Council to approximate the laws of the Member States relating to Trade Marks.

<sup>9</sup> See Case C-206/01 Arsenal Football Club plc v Matthew Reed [2002] ECR I-10273 para 42, 48 and 51

<sup>10</sup> See Cases like Cases C-102/77 Hoffmann-La Roche & Co. AG v Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mbH [1978] ECR-1139; C-299/99 Koninklijke Philips Electronics NV v Remington Consumer Products Ltd [2002] ECR I-05475

<sup>11</sup> See Case C-323/09 Interflora Inc. and Interflora British Unit v Marks & Spencer plc et Flowers Direct Online Ltd. [2011] Not yet published

<sup>12</sup> See Case C-337/95 Parfums Christian Dior SA and Parfums Christian Dior BV v Evora BV [1997] ECR I-06013

because it is adopted for another market and this could reflect badly on the trademarks reputation. It can however be repaired by for example labelling the products so the consumers know the products is imported by unauthorized distributors channels or grey marketers.<sup>13</sup>

The promotional function of a trademark is usually a large part of the proprietor's biggest investments, to reach out to the new and existing consumers by exposing the goods, by promoting and advertising. It is also a way to promote a certain quality of the goods. This function may be the proprietors biggest concern due to that unauthorized channel does usually not participate in any proportional activates.<sup>14</sup> Parallel importers depend on the promotional effects done by the trademark proprietors and it therefore becomes a question whether this can be seen as free riding?

However is has been discussed if grey market goods can damage these rights. To have in mind is that grey market products cannot infringe trademark law because they are not counterfeit goods. It is genuine goods that are just imported from another market, as long as they do not confuse the consumers and can be identified it is not a violation.<sup>15</sup>

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<sup>13</sup> Hsiu-Li C, "Gray Marketing and Unfair Competition." Atlantic Economic Journal Volume 30, Issue 2, June 2002. Page 3

<sup>14</sup> Ibid., Page 4

<sup>15</sup> Ibid., page 3

# 3 Exhaustion of IPR's

## 3.1 Regional exhaustion

The conflict between trademark rights and the Community's intentions to create a free common market<sup>16</sup> are fundamental. The main principle is to remove all trade barriers and distortions of competition and create an internal market. Trademark rights are by their nature territorial and can divide the market and threaten the free movement of goods. The CJEU has tried to solve this clash between interests by making a distinction between the *existence* and *exercise* of an IP.<sup>17</sup>

In EU they have however implemented the "community exhaustion" principle, also called regional exhaustion, meaning once a product is sold in one member state there will not be any restraints in selling it in another state. The principle was first established by the *Centrafarm v Winthrop-case*<sup>18</sup> where a company tried to prohibit parallel imports of their goods by invoking their national trademark rights. The CJEU came to the conclusion that as long as the proprietor has put the branded goods on the market in a member state or by their consent they cannot rely on trademark rights to oppose imports of those goods. It is about securing the proprietors exclusive right to put the goods on the market first. The court tried to identify the special subject of a trademark.<sup>19</sup> This was also the approach of the CJEU in the *Sterling Drug case*<sup>20</sup> where the special subject of a trademark was established as the value of it, meaning features like goodwill.

The Union goal to have a unified single market does not really compile with the IP rights extending to the control of parallel trade. The discussion about opening up the European Union to parallel importations has a strong connection to the exhaustion of trademarks.<sup>21</sup> The exhaustion principle meaning the manufacturers rights are exhausted once they sold their products for the first time on a market. The trademark proprietors cannot use their IP rights to prevent parallel imports from another member state once it has been put on the market.<sup>22</sup>

This principle is now codified in the Trade Marks Directive 2008/95 that states in article 7(1) that: "*the trade mark shall not entitle the proprietor to prohibit its use in relation to*

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<sup>16</sup> Article 2 of that Treaty of Rome

<sup>17</sup> Case C-78/70 Deutsche Grammophon Gesellschaft mbH v Metro-SB-Großmärkte GmbH & Co. KG [1971] ECR 00487

<sup>18</sup> Case C-16/74 Centrafarm BV and Adriaan de Peijper v Winthrop BV [1974] ECR 01183

<sup>19</sup> Ibid para 8

<sup>20</sup> Ibid para 50

<sup>21</sup> Lofthus, Kai R., EU Members Unable To Reach Consensus On Parallel Imports. Billboard, 00062510, 07/03/99, Vol. 111, Issue 27

<sup>22</sup> CMS European Parallel Trade Review [2011] Available at:

[http://www.cmslegal.com/Hubbard.FileSystem/files/Publication/1468644e-bf31-45a7-b6ac-3452e4aa3e6f/Presentation/PublicationAttachment/149dc4e4-7b63-4dd8-9aac-361b4ff5b3db/CMS\\_Parallel\\_Trade\\_Review\\_2011.pdf](http://www.cmslegal.com/Hubbard.FileSystem/files/Publication/1468644e-bf31-45a7-b6ac-3452e4aa3e6f/Presentation/PublicationAttachment/149dc4e4-7b63-4dd8-9aac-361b4ff5b3db/CMS_Parallel_Trade_Review_2011.pdf) accessed 10 April 2013

*goods which have been put on the market in the Community under that trade mark by the proprietor or with his consent*". Article 7(2) contains the exception from the main provision and states that the proprietor of a trademark may have legitimate reasons for refusing further commercialisation of their goods; this applies when there have been changes or impairments in the conditions. Community trademarks have a corresponding article (13(1)) in Regulation 2007/2009<sup>23</sup>. The application of legitimate reasons, the placement of the goods on the markets and the consent criteria has currently been assessed by the CJEU. The binding effects of this provision meaning two parties cannot agree to anything else.

To have in mind is that these provisions do not disclose if they are maximum- or minimum standards. Meaning if it should be seen as a minimum requirement member states could apply a principle of international exhaustion. However by the EMI judgment<sup>24</sup> it was established that the provisions couldn't be used to open up for parallel imports from third countries due to the regional character of it.

The so called *Silhouette judgement*<sup>25</sup> established the regional exhaustion principle by concluding that member states could not have their own national provisions on exhaustion due to that it would affect the free movement on goods in the whole Union. This was further developed in the *Sebago*<sup>26</sup> and *Davidoff/Levi's*<sup>27</sup> cases.

### 3.2 "The consent"-criterion

Exhaustion is dependent on the notion of consent from the trademark proprietor. The first placement of the goods on the market must be done by the proprietor or in connection to their consent otherwise you cannot say the trademark proprietor's rights have been exhausted. The core issue is for the CJEU is to be able to determine what will be considered as consent. Sometimes the concept of consent can be more difficult then it seems.

The relationship has to be considered and the proprietor of the trademark can consent through numerous of agreements, like assignments, exclusive distribution and license agreements. Especially when it comes to trademarks, the consent criterion is quite unclear.<sup>28</sup> If two undertakings have been economically linked before but independent now the question is if they can prohibit imports of the goods on their specific territory becomes tricky. Proprietors cannot use their trademark rights to prohibit importation of legitimate manufactured goods. At first the CJEU took the parallel traders side by concluding that a trademark proprietor cannot oppose marketing of goods when the trademark has common origin.<sup>29</sup>

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<sup>23</sup> Council Regulation (EC) No 207/2009 of 26 February 2009 on the Community trade mark

<sup>24</sup> Case C-51/75, C-86/75 and C-96/75 EMI Records v CBS United Kingdom [1976] ECR 0811

<sup>25</sup> Case C- 355/96 Silhouette International Schmed GmbH & Co. KG v Harlauer Handelsgesellschaft GmbH [1998] ECR I-04799

<sup>26</sup> Case C-173/98 Sebago Inc. and Ancienne Maison Dubois & Fils SA v G-B Unic SA [1999] ECR I-04103

<sup>27</sup> C-414-416/99 Zino Davlbidoff SA v A & G Imports Ltd and Levi Strauss & Co. and Others v Tesco Stores Ltd and Others [2001] ECR I-08691

<sup>28</sup> Lidgard HH and Atik, J, *The intersection of IPR and Competition Law, Studies in recent developments in European and U.S Law*. First edition. Intellecta docysus 2008 page 67

<sup>29</sup> Case C-192/73 Van Zuylen Frères v. HAG, AG ("HAG I") [1974] ECR 731

This approach however changes in later cases in front of the court. A proprietor could oppose imports even though they had common origin because it could lead to confusion. It was an “absence of any element of consent”.<sup>30</sup> The reasoning by the CJEU took another step in the *Ideal Standard case*<sup>31</sup> and the court said that there were several factors, like the likelihood of confusion aspect, to be considered in connection to the consent criterion.

In the line of other CJEU judgement like *Silhouette*<sup>32</sup>, *Sebago*<sup>33</sup> and *Davidoff/Levi Strauss*<sup>34</sup> this more recent case focus on the consent of the trademark proprietor for the sale of goods on the Union market.

In the *Disel case*<sup>35</sup> Disel had the trademark rights for the mark DIESEL in the Benelux countries and the company Flexi Casual SA got the exclusive rights to sell Diesel branded goods in Spain, Portugal and Andorra. The exclusive seller was also allowed to do market tests on Diesel shoes. Flexi Casual gave Cosmos World SL the license rights to sell and manufacturer shoes, belts and bags with the DIESEL trademark. Flexi Casual did this without consent from the Diesels official distributors. Cosmos on their behalf sold the shoes with the Diesel mark to the company Makro, who marked them and offered them to sales.

Diesel brought an action against Makro claiming they never consented to the marketing of the Diesel shoes and that this was an infringement of trademark rights and copyrights. The court referred to the Davidoff /Levi Strauss judgement<sup>36</sup> concerning the trademark proprietors “implied consent” and if it could be seen as the determine factor of the exhaustion of the proprietors rights. The court said that the proprietor must have “unequivocally demonstrated” their intent. There is nonetheless an exception to this and it is when a party, like a licensee, that have any kind of economic link to the proprietor puts the goods on the market.

The CJEU also said that there could be implied consent by the proprietor even though the goods are being placed on the EEA market by an undertaking without any economic link and the proprietors expressed consent. Where the goods first had been marked was not relevant in this context.

This case established that the same criteria for implied consent applies regardless of the goods where first marked outside or inside the EEA. But it is also recognized that the consent must be unequivocally demonstrated for selling goods inside the EEA. One last remark regarding this case is that it was no Advocate General’s opinion, maybe because the court regarded this as a straightforward issue.

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<sup>30</sup> Case C-10/89 SA CNL-Sucal NV v Hag GF AG [1990] ECR I-3711

<sup>31</sup> Case C-9/93 IHT Internationale Heiztechnik GmbH and Uwe Danzinger v Ideal-Standard GmbH and Wabco Standard GmbH 1994] ECR I-2789

<sup>32</sup> Case C- 355/96 Silhouette International Schmed GmbH & Co. KG v Harlauer Handelsgesellschaft GmbH [1998] ECR I-04799

<sup>33</sup> Case C-173/98 Sebago Inc. and Ancienne Maison Dubois & Fils SA v G-B Unic SA [1999] ECR I-04103

<sup>34</sup> C-414-416/99 Zino Davlbidoff SA v A & G Imports Ltd and Levi Strauss & Co. and Others v Tesco Stores Ltd and Others [2001] ECR I-08691

<sup>35</sup> Case C-324/08 *Makro Zelfbedieningsgroothandel CV and others v Disel SpA* [2009] ECR I-10019

<sup>36</sup> C-414-416/99 Zino Davlbidoff SA v A & G Imports Ltd and Levi Strauss & Co. and Others v Tesco Stores Ltd and Others [2001] ECR I-08691

### 3.3 “The putting on the market”-criterion

If a proprietor only has the intention to import goods for sales, advertising or selling them but without making realisation of selling the goods inside the EEA their rights cannot be exhausted as stated in the *Peak Holdings-case*.<sup>37</sup> Having the result that the proprietor’s right cannot be used by third parties under those circumstances. Just because a proprietor has given their consent for marketing of a type of goods, it does not mean that all goods that the proprietor handles are covered by that special consent, having the practical meaning that every type of goods must have an expressed consent for the importation of those.<sup>38</sup> As stated in *Sebago*<sup>39</sup> and *Silhouette*<sup>40</sup> goods that are placed on the market outside the EEA does not lead to the exhaust of the proprietor’s rights and they may oppose parallel imports.

In the *Coty Prestige Lancaster Group GmbH v Simex Trading AG ruling*<sup>41</sup> the putting on the market requirement was studied in relation to testers of perfumes who were used at demonstrations of the products and also marked with a label that stated “not for sale”. Coty a manufacturer of perfumes owned the mark Davidoff, that was sold under a selective distributions system. The perfume tester was a part of the material Coty provided to its distributors for advertising and marketing purposes. Under the contracts, they had explicitly stated that commercial use of tester products was forbidden.

A third party supplier, Simex, provided testers of the Davidoff perfumes to a German outlet. Coty sued Simex for trademark infringement due to that the testers were originally from Singapore and they had put the goods on the EEA market without their consent. The CJEU started with stating that the goods where first put on the EEA market by Simex and not by the trademark proprietor or with their consent. Therefore, there could not be any exhaustion of Coty’s trademark rights if it could not be shown there was a consent demonstrated unequivocally as stated in the *Davidoff/Levi Strauss-case*.

The court takes the view that the trademark proprietor made it clear that there was no consent due to the markings “not for sale” and “demonstration” of the products and that this is evidence enough. Also by the agreement the tester products were still owned by the proprietor and the distributors where prohibited to sell them. Finally, the goods were package different then the originals and the CJEU takes account to all of this and interprets this as a sign that they were not giving their consent.

This case clearly shows that trademark proprietors should take these safety steps to avoid any confusion of what the intent with the goods are although the consent test is generally seen as stringent.

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<sup>37</sup> Case C-16/03 *Peak Holdings AB v Axolin-Elinor AB*, formerly *Handelskompaniet Factory Outlet in Löddeköping AB* [2004] ECR I-11313 para 41

<sup>38</sup> Case C-173/98 *Sebago Inc. And Ancienne Maison Dubois & Fils SA v G-B Unic SA* [1999] ECR I-4103

<sup>39</sup> *Ibid*

<sup>40</sup> Case C- 355/96 *Sillhouette International Schmed GmbH & Co. KG v Harlauer Handelsgesellschaft GmbH* [1998] ECR I-04799

<sup>41</sup> Case C-127/09 *Coty Prestige Lancaster Group GmbH v Simex Trading AG* [2010] ECR I-04965

### 3.4 The limit to exhaustion

The “consent”-criterion and the “putting on the market”-criterion must be fulfilled for the exhaustion principles to apply, however the exhaustion principle has some limits to its application. Those are connected to the rights to performance, compulsory licensing and the transit of goods. However due to that this examination covers trademarks the limit for the exhaustion principle relating to transfer of the goods will be in question.

The specific subject matter of a trademark cannot have been breached if the transfer of the goods does not include marketing and therefore it is permitted as stated in the *Rioglass and Transremar judgment*.<sup>42</sup> Thus according to the *Colgate-Palmolive-case*<sup>43</sup> may a trademark proprietor oppose the selling of the goods if it is due to customs warehouse procedure or an external transit. Restrictions can be carried out if it is a matter of third party making an external transfer that necessarily puts the goods on the market in a member state.<sup>44</sup>

### 3.5 Repackaging and Marketing

Repackaging and marketing affects trademark rights and the exhaustion principle. Repackaging is often done by taking the goods away from their original box or container and trading it to another, usually to comply with national standards like for an example a fixed number of pills per package. Obviously, this procedure is affecting the trademark in a manner that may affect the original function of the mark.

In the *Hoffman la-Roche case*<sup>45</sup> the CJEU looked at the question whether a proprietor abused his trademark rights by precluding parallel imports. The goods in this case had been re-packaged without the trademark owner’s explicit consent and therefore they claimed that it abolished the original function of the mark and quality of the goods concerned. The CJEU focused on the trademark functions instead of the concern about consent and came to the conclusion that the proprietor may contest imports of these kinds of goods as long as it does not artificially divide the market. However the goods were not affected by the repackaging and also they had clearly shown that repackaging had been done.

If the repackaging is necessary for entering the market, it is permitted as established by the CJEU.<sup>46</sup> Even though the repackaging cannot jeopardize the reputation of the mark and only aim to institute a commercial advantage. It is also established by the Court that the new labelling should not affect the product itself and the importer must give prior notice before putting out it for sale. It is not about the manner and style of the repackaging it is about the

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<sup>42</sup> Case C-115/02 *Administration des douanes et droits indirects v Rioglass Sa and Transremar* [2003] ECR I-12705

<sup>43</sup> Case C-405/03 *Class International BV v Colgate-Palmolive Co* [2005] ECR I-8735

<sup>44</sup> Case C-281/05 *Montex Holdings Ltd v Diesel SpA* [2006] ECR I-10881

<sup>45</sup> Cases C-102/77 *Hoffmann-La Roche & Co. AG v Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mbH* [1978] ECR-1139 para 54

<sup>46</sup> See Joined Case C-427/93 *Bristol-Myers Squibb v Paranova A/S*, C-429/93 *C. H. Boehringer Sohn, Boehringer Ingelheim KG. Boehringer Ingelheim A/S v Paranova A/S*, Bayer C-436/93 *Aktiengesellschaft and Bayer Danmark A/S mot Paranova A/S* [1996] I-03457

necessity of it for the goods to be commercialised on that specific market. Also it is found that poor quality and defective repackaging is not enough to prevent commercialisation.<sup>47</sup>

One of the most important functions of a trademark is to advertise goods to the public and create a reputation. In the *Centrafarm v American Home judgment*<sup>48</sup> it was established that “rights granted to the proprietor to prohibit any unauthorized affixing of his mark to his product accordingly comes within the specific subject matter of the trademark”. Consequently supporting that the marketing in another member states had no meaning. It can however constitute a restriction on trade.<sup>49</sup>

Hence the trademark proprietor’s rights limited to the changes that are essential for allowing parallel importers to market their products.<sup>50</sup> It is however important that the consumers will not get misled to think the parallel importer is the owner and the manufacturer of the mark.<sup>51</sup> The proprietor of a trademark cannot oppose advertising done by an unauthorized dealer that is custom to their business sector unless it can seriously damage the reputation of the trademark.<sup>52</sup>

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<sup>47</sup> Case 348/04 Boehringer Ingelheim KG and Others v Swingward Ltd and Dowelhurst Ltd [2007] I-03391

<sup>48</sup> Case C-3/78 Centrafarm BV v American Home Products Corporation [1978] ECR 1823

<sup>49</sup> Wood L, *Free movement of Goods and Services within the European Community*. First edition. Ashgate Publishing Limited 2004. Page 152

<sup>50</sup> Joined cases C-427, 429 and 436/93 Bristol-Myers Squibb [1996] ECR I-03457 para 56

<sup>51</sup> *Ibid* para 74

<sup>52</sup> Case C-337/95 Parfums Christian Dior SA and Parfums Christian Dior BV v Evora BV [1997] ECR I-06013. See also article 7(2) of the Trade Mark Directive

# 4 Parallel trade

## 4.1 Defining parallel trade

Parallel trade is when a wholesaler are selling products to another market then what products were intended to be produced for. It is arbitrage where prices are different between different countries. This may depend on several factors, like price discrimination or simply bargaining power in the respective countries. On a national market parallel trade is legal even though there can be regional prices levels. The TRIPS agreement allows the member states to decide whether parallel imports should be allowed.<sup>53</sup>

Fair competition can be defined as companies endorsing their market shares under fair conditions the question in connection to trademark rights is if parallel trade can be seen as taking unfair advantage of a proprietors mark and if it can be considered as unfair competition. IP rights may protect the proprietor of the trademark. What characterizes parallel trade is that the manufacturer and owner of the IPR do not have the intention to have their goods sold on another market. In that second market the goods would be defined as “grey market goods” or “parallel imports”. The term grey markets where chosen due to that it is not entirely lawful but it is not what has been described as a black market either.<sup>54</sup>

Trade is usually attractive when specific goods are cheaper on one market and the cost is higher in another. The trader must however be able to cover costs like shipping, import duties, margin of profit amongst other cost for them to want to meet the risks by doing this kind of trade. The risks the sellers are facing would include market swings, currency variation etc. These costs may be considered as barriers of free trade in the world and therefore may lead to distorted resource allocation. There have been attempts to reduce barriers that could be seen as unnecessary to be able to instead encourage trade.<sup>55</sup> One example of this is the World Trade Organisation (WTO) that has created several agreements “*directed to the substantial reductions of tariffs and other barriers to trade and to the elimination of discriminatory treatment in international trade relations*”.<sup>56</sup>

One of the European Community’s (EC) main goals is to remove unnecessary trade barriers. Many has barriers to trade has been eliminated but there is still several left to consider. The necessity of a certain barrier can be hard to decide.<sup>57</sup> As mentioned parallel imports and grey marketing has been seen as an issue in the eyes of the proprietors. The main issue at stake here is what the trademark owners believe their rights include and what unauthorized distribution channels have the right to do. To have in mind is that grey markets is not usually considered as unlawful, it is not like black markets that is definitely illegal because of counterfeit or stolen goods. The manufacturing of the grey market goods is not the real issue

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<sup>53</sup> See article 6 of the TRIPS agreement

<sup>54</sup> Stothers C, *Parallel trade in Europe. Intellectual Property, Competition and Regulatory Law*. First edition. Hart Publishing. 2007 page 150

<sup>55</sup> Ibid page 1

<sup>56</sup> Marrakesh Agreement Establishing the World Trade Organisation 1994, 1867 UNTS 154, preamble.

<sup>57</sup> Stothers C, *Parallel trade in Europe. Intellectual Property, Competition and Regulatory Law*. First edition. Hart Publishing. 2007 page 2

but it is rather a matter of unauthorized distribution. An unauthorized distributor sells marked goods without the trademark proprietor's consent.<sup>58</sup>

## 4.2 Parallel trade in connection to IPR's and competition law

Parallel trade can cause tension between IP laws and competition law. When looking from a competition law perspective a manufacturer who has granted a wholesaler an exclusive territory cannot be putting restraints in a contract to shut out competitors. Parallel trade is fairly seen as a breach of competition law. Usually exclusive territories are seen with harsh eyes if it aims to keep any kind of price discrimination. From the proprietors view arbitrage may be prohibited. However, the rules of exhaustion are relevant in connection to this and it means that the seller's rights are exhausted when selling their product.

IP Proprietors has previously been able to carry out price discriminations by contractual obligations prohibiting their goods to be exported/imported between markets both in Europe and North America. In the US "the first sale doctrine" has been established, meaning the sold goods will not be in the original owners control when it has been sold but also parallel trade with trademarked goods are unlawful.<sup>59</sup>

There are several economical theories of parallel trade. When it comes to parallel trade in relation to trademarks there has been a lot of controversy. A leading authority in the Union, Justice Laddie has taken the view that the trademarks fundamental purpose is to communicate with the consumer on the origin of the products and by that letting trademark proprietors extend their IP rights to ban parallel trade would give them a "*parasitic right to interfere with the distribution of goods which bears little or no relationship to the proper function of the trademark right*".<sup>60</sup>

Also even other scholars have taken a similar approach; they think this will serve as a creation of exclusive territories when restricting parallel trade. Competition law rules should be a part of the examination of contractual issues that may form exclusive territories. They wish to give the consumers on high price markets the possibility to get products that are cheaper on other markets. However to have in mind is that these arguments does not take to count to the fact that consumers may gain from price discrimination when they instead lead to low prices and therefore can parallel trade have a negative impact.<sup>61</sup>

IP rights have the goal to encourage investments, investments to build a brand and create new products. Therefore, the investment argument is import to have in mind. The Silhouette-case<sup>62</sup> resulted in a limit of parallel import into the European market. In practice

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<sup>58</sup> Ibid.,

<sup>59</sup> Tariff Act 1930

<sup>60</sup> Zino DavIbidoff SA v A&G Import Limited CH-1998 D No. 4517, paragraph 36.

<sup>61</sup> Hsiu-Li C, "Gray Marketing and Unfair Competition." Atlantic Economic Journal Volume 30, Issue 2, June 2002. Page 2

<sup>62</sup> Case C- 355/96 Silhouette International Schmed GmbH & Co. KG v Harlauer Handelsgesellschaft GmbH [1998] ECR I-04799

meaning traders from grey markets were stopped importing branded products at lower prices. The trademark proprietors argued that the unauthorized parallel trade injured their investments and authorized distribution channels. They also claimed parallel trade damaged consumers who paid full price for the goods. However, the protest against this decision came from consumers, discount retailers and parallel importers. This led to the possibility for trademark proprietors to use their IP right to manipulate the market activities but also the price on the European market.<sup>63</sup>

### **4.3 The common sales law**

The current status consists of companies forced to adapt to all the different national contract laws if they want to do any cross-border dealings. This means that every time a company would want to make a cross-border transaction they would have to hire national lawyer, make a translation of the rules and undertake many additional costs. Also in a consumer perspective, the Europeans could have more choices if the laws and regulations at stake would be harmonized.<sup>64</sup>

The European Commission has published a purposed directive concerning contractual law issues also referred to as the Regulation on a Common European Law of sales (CESL)<sup>65</sup> The directive gives companies optional contractual rules when dealing with cross-border affairs. If the directive on common European sales law gets implemented in the national jurisdictions the barrier for market entry will be affected. The European parliament has supported this kind of direction. The existing national laws are not getting replaced if the directive is implemented; it is rather a legal framework for the creation of a single European market. The purpose of the common sales law directive is to simplify cross-boarder sales. This is also justified under a consumer perspective making it easier to choose of a wide range of different brands.

If the directive would be applied, it would cover the whole contractual process as pre-contractual matters, obligations of the parties, the final contract, rights to withdraw it, all obligations and rights due to the contract but also remedies. The regulation only covers contracts for sales of goods and when both parties have agreed to base their agreement on the proposed directive. Also one of the parties must be based one of the European member states for the directive to be applicable.

### **4.4 The relationship between trademark rights and parallel trade**

A proprietor of a trademark will invest a lot of time and money in building up a trademark that distinguish their brand from other companies on the market. However it is important that the proprietor's rights do not extend to the point that it closes out competition that can be healthy for the market and the consumers. To have in mind when looking at this issue is

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<sup>63</sup> Hsiu-Li C, "Gray Marketing and Unfair Competition." Atlantic Economic Journal Volume 30, Issue 2, June 2002. Page 1.

<sup>64</sup> Kolah A, *Essential Law for Marketers*. Second edition. Taylor and Francis. 2013 Page 93

<sup>65</sup> Proposal for a regulation of the European Parliament and of the Council on a Common European Sales Law [COM(2011) 635 final - 2011/0284 (COD)]

that the trademark directive and the rules on competition and free movement of goods rules have the same goal and that is to eliminate negative effects on free movement of goods and the restrictions on free competition. By the first look trademark rights are territorial and exclusive rights that may divide the market. Parallel trade and the trademark different functions are closely connected.

To have in mind when looking at the context of these trademark function is that there are some matters that can be in question as Chen Hsiu-Li discusses in his book *Marketing and Unfair competition*.<sup>66</sup> Can parallel importers breach trademark law when the labelling clearly shows the products origin and content and the consumers realize this after they obtained the product? And are the consumers being deceived when the products value is lesser then the consumer may think? First of all he has the opinion that you cannot expect the grey markers to do more then to label the products with the ingredients and origin of the products even though a consumer is not aware until after the purchase. Also you might say the consumers are getting compensated by the cheaper price they pay.

Another question that he considers should be debated is whether a grey marketer should have to share their promotional costs with the trademark proprietor and the authorized distributors? Mr Chen has the opinion that it is obvious that the one's conducting parallel trade are benefiting from the advertising effects and are to say free riding on their investments. The solution could then be to come to some kind of agreement between the interest parties and the unauthorized distributors to share the cost for advertising.

In addition, he discusses whether it could be said that parallel importers distort fair trade. Could it be considered as unfair competition? He states that from a general starting point parallel import gives the consumer a wider range of goods and service to choose from with a more differing price range. Therefore, the focus from the trademark proprietors should maybe be to ban counterfeit goods and not the sales of genuine products even though they come from unauthorized channels.

Mr Chen has some interesting thoughts and solutions to some of the issues that proprietors raise in discussions about parallel trade. He lifts the consumer perspective and the benefits with parallel trade for the market in general. The consumers would benefit from the price pressure that comes with parallel imports that creates price competition between the distributors he says. Another argument from the parallel importers is that it would intensify international trade. On one hand the trademark proprietor considers these grey markets as free riders due to that they benefit from the advertising made without contributing but on the other hand could the pressure from the parallel importers make the real trademark proprietors change their strategy, reduce their cost and make their own business efficient. If this would be the effect, it is beneficial for social welfare as Chen also concludes.

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<sup>66</sup> Hsiu-Li C, "Gray Marketing and Unfair Competition." *Atlantic Economic Journal* Volume 30, Issue 2, June 2002. Page 1

# 5 Free movement of goods

## 5.1 The free movement of goods provisions

Parallel trade and trade in general provisions are found in article 34 and 35 TFEU. For the internal markets development are the free movement of goods a key element and one of the economic freedoms set by the EC treaty. The principles on prohibiting unjustified restrictions on internal Union trades scope and contents are found in the EC treaty's articles 28-30. The principle of free movement of goods has been framed by legislation in specific areas but the treaty provisions are still seen as a fundamental key for the internal market. An extensive removal of trade barriers have been executed but the fact is that some still remains. Especially Small Medium Enterprises (SME's) are affected due to that they must cope with different national rules that have not been harmonized by the Union. Also some trade restrictions are being enlightening because of the new technology as Internet sales.<sup>67</sup>

Articles 34-36 are working as a fundament for the free movement of goods but there is a lot of areas where specific regulations exists where regulations or directives have been adopted by the European member states. There are also areas that are covered by specific treaty rules like the tax related-rules in article 110 TFEU. Therefore, those concrete rules concerning a specific area must be observed on first hand and not the broad principles of the treaty.<sup>68</sup>

Both imports and exports of goods are covered by the articles 34 and 35 TFEU. The provisions are applicable on all goods with an economic value.<sup>69</sup> Therefore, it could be important in a legal manner to define whether something is covered by the free movement of goods provisions and do not fall within the freedom to provide services.

Articles 34-35 TFEU are only applicable to cross-border issues, in other words the measure taken must be capable of indirect or potentially hindering intra-EU trade.<sup>70</sup> Re-import, meaning when domestic goods are exported and imported back, are covered by article 34<sup>71</sup> however not in the case where the sole purpose of it is only to avoid domestic regulations.<sup>72</sup> As long as the goods are on the internal market it does not matter where they were manufactured to enjoy the free movement of goods principle.

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<sup>67</sup> Free Movement Of Goods. *Guide to the application of Treaty provisions governing the free movement of goods*. European Commission. [2010] Available at: [http://ec.europa.eu/enterprise/policies/single-market-goods/free-movement-non-harmonised-sectors/index\\_en.htm](http://ec.europa.eu/enterprise/policies/single-market-goods/free-movement-non-harmonised-sectors/index_en.htm) accessed 1 April 2013 page 8

<sup>68</sup> Case C-309/02 Radberger Getränkegesellschaft and S-Splitz [2004] ECR-I-11763 para 53

<sup>69</sup> Case C-7/68 Commission of the European Communities v Italian Republic [1968] ECR 423

<sup>70</sup> Case C-8/74 Procureur du Roi v Benoît and Gustave Dassonville [1974] ECR 837 para 5

<sup>71</sup> Case C-78/70 Deutsche Grammophon Gesellschaft mbH v Metro-SB-Großmärkte GmbH & Co. KG [1971] ECR 487

<sup>72</sup> Case C-229/83 Association des Centres distributeurs Édouard Leclerc and others v SARL "Au blé vert" and others. [1985] ECR 00001

## 5.2 Imports

The provisions are applicable on measures taken by Member states, it has however been broadly interpreted to cover all relevant authorities and public authorities of member state.<sup>73</sup> Article 34 can be invoked in both situations where the state has actively hindered cross-border trade but also in cases where they have in inactive. An example of when the state where inactive is when French farmers tried to restrict imports of agriculture goods from other member states and the state did nothing to stop these actions and therefore infringed the article.<sup>74</sup>

A “quantitative restrictions” can mean things like quota systems or a ban<sup>75</sup> and has been defined as some kind of measure that restrains imports of goods in transit.<sup>76</sup> The “Measures having equal effect” part is broad in its scope it has been defined as “*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.*”<sup>77</sup> Meaning that that the measure does not necessary have to be discriminatory but that there is other barriers to trade of goods between states. It has also been established that the article covers measures that are equal to imported and domestic goods, but that effects imports more.<sup>78</sup> This formula has however been limited to not challenge provisions with social and welfare intentions.<sup>79</sup>

Selling arrangements that are discriminatory in law or in fact does fall within the provisions. Selling arrangement may include the labelling or packaging obligation<sup>80</sup> but also a restriction on advertising.<sup>81</sup> Three general principles that has to be considered in connection to article 34; First the principle on non-discrimination, secondly the mutual recognition principle and last the principle on free access of community goods on national markets.<sup>82</sup>

The mutual recognition principle allows national systems to keep on having different technical requirement for goods.<sup>83</sup> The principle means that goods marked and manufactured lawfully in one members state shouldn't be prohibited in another member state. Justifications are to be grounded on article 36 TFEU, containing justifications on protection of public security, morality and protection of health and life etc. In relation to this stands the principle of proportionality. The Union has adopted a Regulation (EC) No 764/2008 relating

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<sup>73</sup> Joined cases C-1/90 and C-176/90 Aragonesa de Publicidad Exterior SA and Publivia SAE v Departamento de Sanidad y Seguridad Social de la Generalitat de Cataluña [1991] ECR I-4151

<sup>74</sup> Case C-265/95 Commission of the European Communities v French Republic [1997] ECR I-6959

<sup>75</sup> Case C-2/73 Riseria Luigi Geddo v Ente Nazionale Risi [1973] ECR 856

<sup>76</sup> Case C-13/68 SpA Salgoil v Italian Ministry of Foreign Trade, Rome 1968] ECR 453

<sup>77</sup> Case C-8/74 Procureur du Roi v Benoît and Gustave Dassonville [1974] ECR 837

<sup>78</sup> Case C-110/05 Commission of the European Communities v Italian Republic [2009] ECR I-519 para 35

<sup>79</sup> Joined cases C-267/91 & 268/91 Bernad Keck and Daniel Mithouard [1993] ECR I-6097 para 15-16

<sup>80</sup> Case C-159/00 Sapod Audic v. Eco-Emballages SA [2002] ECR I-5031

<sup>81</sup> Case C-412/93 Société d'Importation Edouard Leclerc-Siplec v TF1 Publicité SA and M6 Publicité SA [1995] ECR I-179

<sup>82</sup> Case C-110/05 Commission v Italy [2009] ECR I-519

<sup>83</sup> First stated in the Cassis de Dijon case Case C-120/78 Rewe-Zentral AG v Bundesmonopolverwaltung für Branntwein [1979] ECR 649 but fully recognized in the Case C-110/05 Commission v Italy [2009] ECR I-519 para 34

to goods that has been legitimately marked in another member state and the national technical regulation.

## 5.3 Trade barriers

### 5.3.1 Import barriers

Some trade barriers seem to have emerged in several cases concerning the articles 34-36 TFEU. I will describe some of them that relates to the subject of this thesis.

### 5.3.2 Price controls

The CJEU has confirmed that article 34 applies to states having price control regulations like for example maximum/minimum prices, maximum/minimum profit margins etc. If a member state set a minimum price it could affect imports more because the selling price does not get reflected on the low cost price and their competition advantage vanish. This is negative from a consumer perspective because the price is higher than I could be.<sup>84</sup> Fixed minimum/maximum profit margins can be infringing article 34 when not allowing the costs for imports of goods.<sup>85</sup> However from the *Keck and Mithourard-case*<sup>86</sup> the court considered national price controls as a selling arrangement due to that they apply to all traders within the territory and therefore does not get caught by the article 34.

### 5.3.3 Prior authorization

Prior authorization can create barriers to importers and be seen as a quantitative restriction under article 34 TFEU. It can however in some circumstances be justified, like when it is based on non-discriminatory and objective criteria that are known and it should not be the same control already done in the manufacturing country.

### 5.3.4 Labelling and advertising of goods

Regarding shape, size and presentation requirements, it could be considered as a measure having equivalent effect under article 34 TFEU. The requirements must however be connected with the product itself. Measures like those that requiring margarine to have cubical packaging has been seen as going against article 34 by the CJEU.<sup>87</sup>

In addition, the requirements on advertising are also covered. The approach to advertising has varied, sometimes making it fall into certain selling arrangement and therefore has to determine if it is discriminatory<sup>88</sup> but it has also been seen as measures that correspond to the products.<sup>89</sup> There are three main steps that the court goes through in advertising cases: First establishing that the advertising are a type of selling arrangement, in the second step

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<sup>84</sup> Case C-231/83 *Henri Cullet and Chambre syndicale des réparateurs automobiles et détaillants de produits pétroliers v Centre Leclerc à Toulouse and Centre Leclerc à Saint-Orens-de-Gameville* [1985] ECR 305

<sup>85</sup> Case C-116/84 *Ministere Public v. Henri Roelstraete*. [1985] ECR 1705

<sup>86</sup> Joined cases C-267/91 & 268/91 *Bernad Keck and Daniel Mithouard* [1993] ECR I-6097

<sup>87</sup> Case C-261/81 *Walter Rau Lebensmittelwerke v De Smedt PVBA* [1982] ECR 3961

<sup>88</sup> See Case Joined cases C-267/91 and C-268/91 *Keck and Mithouard* [1993] ECR I-06097

<sup>89</sup> Case C-470/93 *Verein gegen Unwesen in Handel und Gewerbe Köln e.V. v Mars GmbH* [1995] ECR I-1923 para 13

they look at the advertising scope if it can be considered as an prohibition and at last they consider the discrimination in other words if marketing goods coming from outside the state are affected differently comparing to the national ones.<sup>90</sup>

### 5.3.5 Origin and quality marks

Requirements to mark to goods with origin can constitute a measure of equivalent effect and can therefore be against article 34. Labelling showing origin and quality under promotional activities can influence free movement of goods due to that it can make consumer to choose domestic products over imported one's.<sup>91</sup> It can however be legitimate to have national rules on origin and quality in connection to geographical indications that shows the goods special qualities.<sup>92</sup> In the *Buy Irish-case*<sup>93</sup> the state tried to reduce imports by promoting domestic goods and therefore infringed article 34. If the consumer risks being misled it can also be justified to use labelling or packaging to prevent it.

### 5.3.6 Language requirements

In the *Colim-case*<sup>94</sup> the court concluded that changing labelling due to language requirements could be prohibited by article 34. Consumer protection is not a justification in this matter when it is prior the sales to the end consumers. However the case may be different when talking about sales to the end consumers and several different factor may have to be taken into count, like general knowledge of languages for example. The important part here is that the consumer is provided with sufficient information about the goods.<sup>95</sup>

### 5.3.7 Distance selling

The increasing trade through Internet sales mail ordering etc has lead to some new challenges for the market. In the *Deutscher Apothekerverband-case*<sup>96</sup> there was a question whether a ban of Internet sales of medical goods was opposite to article 34 TFEU. As to the *Keck* and *Mithouard-case*<sup>97</sup> this was defined as a selling arrangement and therefore it has to be discriminatory to be considered a restrictive measure. The court's conclusion was that due to the importance of Internet sales for new products to be able to gain direct access to a new market and that the ban affected non-domestic products more effectively than domestic ones and therefore they had breached article 34.<sup>98</sup> Although they pointed out that the ban

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<sup>90</sup> Free Movement Of Goods. *Guide to the application of Treaty provisions governing the free movement of goods*. European Commission. [2010] Available at: [http://ec.europa.eu/enterprise/policies/single-market-goods/free-movement-non-harmonised-sectors/index\\_en.htm](http://ec.europa.eu/enterprise/policies/single-market-goods/free-movement-non-harmonised-sectors/index_en.htm) accessed 1 April 2013 page 19

<sup>91</sup> Case C-325/00 Commission of the European Communities v Federal Republic of Germany [2002] ECR I-9977

<sup>92</sup> Case C-12/74 Commission v Germany [1975] ECR 181

<sup>93</sup> Case C-249/81 Commission of the European Communities v Ireland [1982] ECR 4005

<sup>94</sup> Case C-33/97 Colim NV v Bigg's Continent Noord NV [1999] ECR I-3175

<sup>95</sup> Case C-85/94 Groupement des Producteurs, Importateurs et Agents Généraux d'Eaux Minérales Etrangères, VZW (Piageme) and others v Peeters NV [1995] ECR I-2955

<sup>96</sup> Case C-322/01 Deutscher Apothekerverband eV v 0800 DocMorris NV and Jacques Waterval [2003] ECR I-14887

<sup>97</sup> Joined cases C-267/91 & 268/91 Bernad Keck and Daniel Mithouard [1993] ECR I-6097

<sup>98</sup> Joined cases C-267/91 & 268/91 Bernad Keck and Daniel Mithouard [1993] ECR I-6097 para 74,

could be justified of healthy- and social security reasons but only in connection to prescription medicines.<sup>99</sup>

## 5.4 Export barriers

The article 35 TFEU applies on restrictions on exports between member states. The scope of the provision does not extend to cover exports to countries outside the Union. The similarities between the import- and export restriction ban article 34 and 35 are clear but there is an important distinction between the provisions. Article 35 covers only discriminatory measures on goods as established in the *Groenveld-case*<sup>100</sup>, giving domestic goods an advantage. The reason for the more narrow interpretation is that exporters do only have to comply with the domestic rules compared to importers who may be caught with a dual burden of rules. In addition, would a wide interpretation of the article also include other restriction that has no intra-EU trade connection.<sup>101</sup> The court has dealt with several cases concerning better conditions for domestic companies and the main formula used by the court is “*at the expense of the production or of the trade of other member states*”.<sup>102</sup> In other words, article 35 applies when the treatment is different between domestic goods coming from outside the state and when there is an actual effect on the exports.

## 5.5 Justifications under article 36

Through Article 36 TFEU restrictions of imports and exports can be justified. Justifications can be done on grounds like public security, morality, health and life of humans, protection of commercial and industrial property, protections of plants and animals etc. These must however be seen in the light of the principle of proportionality. The listing in article 36 does not relate to economical interests.<sup>103</sup> Apart from the listing, the second part of the article with the wording “*constitute a means of arbitrary discrimination or a disguised restriction on trade between member states*” makes sure that member states cannot abuse the justifications to the point that it serves the right purpose.

When public morality has been used as a justification it is usually a question of obscene goods or mixed with other justifications like public interests like gambling and protection of minors. It is however not possible to invoke a justification on morality if it is not already prohibited in the domestic market.

Using public policy as a justification has not been easy due to the CJEU has interpreted it strictly. Usually has the public policy justification only been successful when used in connection to other justifications.<sup>104</sup> Public security as a justification has been used in the

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<sup>99</sup> Ibid., para 119, 123

<sup>100</sup> Case C-15/79 P.B. Groenveld BV v Produktschap voor Vee en Vlees. [1979] ECR 3409

<sup>101</sup> Oliver, P and Enchelmaier, S ”Free movement of goods: Recent developments in the case-law” CML Rev. 44 2007 p. 686

<sup>102</sup> Case C-155/80 Oebel [1981] ECR 1993

<sup>103</sup> Case C-120/95 Decker [1998] ECR I-183

<sup>104</sup> Case C-434/04 Jan-Erik Anders Ahokainen and Mati Leppik [2006] ECR I-9171, para 28

area of EU energy markets<sup>105</sup> and on the grounds of public security dual use goods<sup>106</sup> and sensitive goods<sup>107</sup> has been accepted.

The protection for industrial and commercial property means the protection of design rights, trademarks, patents and copyrights but also graphical denominations.<sup>108</sup> The main principle is that the industrial property rights will not be affected by the Treaty. National provision may contain transfer, extinction and acquisition of those rights. However if there is some kind of discrimination element in those national rules this is not applicable.<sup>109</sup> The exhaustion principle applies when goods are put on the market in one state in the Union market. The proprietor cannot oppose the goods being imported into another member states. However, the proprietors are able to collect royalties for the performance or rental of the goods.<sup>110</sup> Harmonised legislation however covers these scenarios and an example of that is the Directive 89/104/EC on trademarks.

## 5.6 Mandatory requirements

A non-exhaustive list of interests worthy of protection in the connection with article 34 was established by the CJEU in the *Cassis de Dijon-case*<sup>111</sup>. This made it possible to invoke justifications on indistinctly applicable rules meaning if something was seen as discriminatory under article 36 these justifications could not be used. One mandatory requirement is protection of the environment due to that it is “one of the community’s essential objectives”.<sup>112</sup> Consumer protection has also been established as a mandatory requirement however it must be applicable to both domestic and imported goods in the same manner and cannot be unnecessarily restrictive.<sup>113</sup> Other mandatory requirements has been established by the CJEU’s case law, like culture aims<sup>114</sup>, improvement of working conditions<sup>115</sup>, road safety<sup>116</sup>, financial balance of the social security system<sup>117</sup>, press diversity<sup>118</sup>, animal welfare<sup>119</sup> and the fight against crime<sup>120</sup>. As mentioned before the justifications under article 36 must be proportional, in another words the measures has to be necessary and they could not have achieved the objectives with less extensive provisions. The mandatory requirements are non-exhausted and therefore new one’s can appear in future case law.

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<sup>105</sup> Case C-72/83 *Campus Oil Limited and others v Minister for Industry and Energy and others* [1984] ECR 2727

<sup>106</sup> Case C-83/94 *Leifer and Others* [1995] ECR I-3231; Case C-70/94 *Werner* [1995] ECR I 3189

<sup>107</sup> Case C-367/89 *Richardt* [1991] ECR I-4621

<sup>108</sup> Case C-3/91 *Exportur v LOR* [1992] ECR I-5529

<sup>109</sup> Case C-235/89 *Commission of the European Communities v Italian Republic* [1992] ECR I-777

<sup>110</sup> Case C-187/80 *Merck & Co. Inc. v Stephar BV and Petrus Stephanus Exler* [1981] ECR 2063

<sup>111</sup> Case C-120/78 *Rewe-Zentral AG v Bundesmonopolverwaltung für Branntwein* [1979] ECR 649

<sup>112</sup> Case C-302/86 *Commission of the European Communities v Kingdom of Denmark* [1988] ECR 4607, para 8

<sup>113</sup> Case C-261/81 *Walter Rau Lebensmittelwerke v De Smedt PVBA* [1982] ECR 3961

<sup>114</sup> *Joined cases C-60/84 and C-61/84 Cinéthèque SA and others v Fédération nationale des cinémas français* [1985] ECR 2605

<sup>115</sup> Case C-155/80 *Oebel* [1981] ECR 1993

<sup>116</sup> Case C-54/05 *Commission of the European Communities v Republic of Finland* [2007] ECR I-2473 para 40

<sup>117</sup> Case C-120/95 *Nicolas Decker v Caisse de maladie des employés privés* [1998] ECR I-01831

<sup>118</sup> Case C-368/95 *Vereinigte Familiapress Zeitungsverlags- und vertriebs GmbH v Heinrich Bauer Verlag* [1997] ECR I-3689

<sup>119</sup> Case C-219/07 *Nationale Raad van Dierenkwekers en Liefhebbers and Andibel* [2008] ECR I-4475

<sup>120</sup> Case C-265/06 *Commission of the European Communities v Portuguese Republic* [2008] ECR I-2245

# 6 Competition law

## 6.1 The competition rules

IPR's creates exclusive rights to their proprietors and can also secure them a certain degree of market power. Both parallel trade and exhaustion reduces these rights to enhance competition. Competition law is created to safeguard so there is so no distortion of competition on the market and to prohibit anti-competitive behaviour.<sup>121</sup> It aims to promote innovation and secure so the consumers has a wide range of choices and lower prices. The issue with IPR's from a competition law perspective is that they create exclusive and territorial rights for their proprietors. These characteristics speak against the creation of a single market. However, you can argue that IPR's and competition law are complementing each other. Usually trademarks are seen as pro-competitive due to the transparency it gives the market and information it provides for the consumers.

Competition law aims to have efficiency on the market by allocating the resources on the market. If an act harms the society as a whole, it will be considered as an anti-competitive act. In the *Costa v ENEL judgement*<sup>122</sup> the court stated that Community law has supremacy over national legislation. Meaning IPR rights cannot stand in conflict with the fundamental aim of the Union, free competition.

The relevant competition rules are found in article 101 and 102 TFEU. Article 101 aims to prohibit agreements between undertakings that distort competition. The article 101(3) contains an individual exemption allow parties to avoid the first paragraphs of the article. While article 102 makes sure that undertakings having dominant position does not use their dominance to distort competition. The Commission has established competition as a "fundamental principle" of law.<sup>123</sup>

The relationship between Competition law and IPR has been described in terms, which suggest that an IPR could never constitute an abuse of a dominant position under article 102 TFEU.<sup>124</sup> It can nonetheless confer a dominant position. The same reasoning is considering article 101 establishing that the IPR in itself cannot infringe the competition rules but a license can give rise to the application of those.

Competition rules can catch agreement and the free movement provisions has to be seen in the light of the competition regulation as stated in the *Consten and Grundig decision*<sup>125</sup> meaning that even though an agreement is not caught by the free movement rules it can still

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<sup>121</sup> Lidgard HH and Atik, J, *The intersection of IPR and Competition Law, Studies in recent developments in European and U.S Law*. First edition. Intellecta docysus 2008 page 29

<sup>122</sup> Case C-6/64 *Costa v ENEL* [1964] ECR 585

<sup>123</sup> Commission decision 76/172/EEC, *Bayern/Gist Brocades*, 15 December 1975, OJ 1976 L 30/13 para 1 of Section III.

<sup>124</sup> Miller C, Magill: "Time to abandon the "specific subject-matter" concept" 16(10) [1994] *European Intellectual Property Review* 417 page 415

<sup>125</sup> Case C-56/64 & 58/64 *Établissements Consten S.A.R.L. och Grundig-Verkaufs-GmbH v Commission of the European Communities* [1966] ECR 299

be infringing article 101.<sup>126</sup> On the other way around may an agreement that does not affect competition in any large scale still be threatening the free movement of goods.<sup>127</sup>

The Technology Transfer Block Regulation (TTBER)<sup>128</sup> does not cover trademarks unless the licensing is ancillary to the technology covered by the Technology Block Exemptions.<sup>129</sup>

## 6.2 Article 101(1)

Article 101(1) captures agreement between undertakings, the term undertaking are not defined by the treaty but has been interpreted widely by the competition authorities and the Union Courts and an undertaking has been defined as entities involved in any economical activity irrespective of how they are financed or their legal status.<sup>130</sup>

The second part to have in mind when applying article 101(1) is that there must be some kind of agreement, decision or concerted practice. The wide applicability has its explanation in that it is necessary to catch less formal agreements that are anti-competitive. It is about at least two parties and an expression of their common intentions.<sup>131</sup> Concerted practice covers those agreements that lack physical evidence where there is a collusion between undertakings nonetheless.<sup>132</sup>

To be able to apply article 101(1) there has to be an agreement, decision or concerted practice that has the object or the effect of preventing, restricting or distorting competition on the relevant market. Usually the issue with restricting parallel trade will arise under a vertical relationship. The defence is often that their actions are unilateral and therefore Article 101(1) should not be applicable. However the commission and EU courts has taken the view that the type of conducts that will be considered as an agreement or a concerted practice is when an agreement between a manufacturer and a distributor prohibits exports or parallel imports.<sup>133</sup>

Parallel trade may also be restricted by a horizontal agreement between competitors. Although this is not as common due to that a manufacturer rarely needs another undertakings help to constrain parallel imports of their goods. These types of agreements fall outside the application of article 101(1) if they are unilateral. This does nevertheless not mean that the unilateral conduct is allowed due to that it can have the consequence that justifications under article 101(3) will not be permitted.<sup>134</sup>

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<sup>126</sup> Case C-52/75 EMI Records Limited v CBS United Kingdom Limited [1976] ECR 811, para 28

<sup>127</sup> Case C-306/96 Javico International and Javico AG v Yves Saint Laurent Parfumes SA (YSLP) [1998] ECR I-1983 para 22

<sup>128</sup> Commission Regulation (EC) No 772/2004 of 27 April 2004 on the application of Article 81(3) of the Treaty to categories of technology transfer agreements, OJ L 123,27.04.2004

<sup>129</sup> See Commission decision Moosehead/Whitbread OJ L 100 [1990]

<sup>130</sup> Case C-41/90 Klaus Höfner and Fritz Elser v Macrotron GmbH [1991] ECR I-1979

<sup>131</sup> Case T-41/96 Bayer AG v Commission of the European Communities [2000] ECR II-3383

<sup>132</sup> Craig P and De Burca G, *EU Law text, Cases and Materials*. Fifth edition. Oxford University Press Inc. 2011 page 965

<sup>133</sup> Stothers C, *Parallel trade in Europe. Intellectual Property, Competition and Regulatory Law*. First edition. Hart Publishing. 2007 page 150

<sup>134</sup> *Ibid.*,

Article 101(1) is not applicable if there is no effect on trade between member states, and then it is not a matter for the Union. The *STM case* provided for the test on whether it was likely to “foresee with a sufficient degree of probability on the basis of a set objective factors of law or of fact that the agreement in question may have an influence, direct or indirect, actual or potential, on the patterns of trade between member states.”<sup>135</sup> The agreement must be capable of having an effect however there is no need to show that it had an actual effect on trade.<sup>136</sup>

The de minimis doctrine is also relevant in connection to whether an agreement will be caught by article 101(1). If the parties are actually or potentially competitors the market share cannot exceed 10 per cent on the relevant market. The corresponding number for non-competitors is 15 per cent on the relevant market.<sup>137</sup>

### 6.3 Distribution agreements

Distribution agreements are usually exempted from competition rules due to that they rarely raise any anti-competitive concerns. Distribution agreements meaning undertakings on different levels in the distribution chain, it is usually a question about a manufacturer who grants another undertaking sales and marketing rights. Its custom that the relationship is exclusive in the sense that the manufacturer grants rights in specific territories and the parties stick to the assign territory. It is a vertical relationship due to that the manufacturer and distributors function on different levels<sup>138</sup> and anti-competitive behaviour is therefore reduced because of the inter-brand competition between similar products that origin from different producers. However, the exclusivity of the relationships can affect competition by reducing the number of undertakings participating.<sup>139</sup>

There are many different types of distribution agreements. Commercial agents works on behalf of another undertaking and has the power to conclude agreements and negotiate but without the commercial risk. Exclusive distributors work independently in their own name and get a specific territory assigned. Selective distribution provides for a system where only distributors who fulfil certain criteria may sell the products. It is usually a question of distributors who can uphold the brands prestige or provide service for the goods. Another type is franchising where a license is based on the know-how and trademark but it can also include supplying of goods.

Agreement between producers and distributors can contain clauses that prohibit parallel trade but this is less common now due to the commissions and EU courts approach to the issue.<sup>140</sup> More common methods now days are refusing to supply some parallel exports,

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<sup>135</sup> Case C-56/65 [1966] *Société Technique Minière (L.T.M.) v Maschinenbau Ulm GmbH (M.B.U.)* ECR 235.

<sup>136</sup> Case C-19/77 *Miller International Schallplatten GmbH v Commission of the European Communities* [1978] ECR 131

<sup>137</sup> Commission Notice on agreements of minor importance which do not appreciably restrict competition under Article 81(1) (De minimis) [2001] OJ C368/13

<sup>138</sup> Commission Guidelines on Vertical Restraints, OJ 2010 C 130/1 (2010 Vertical Guidelines) point 24 defines a vertical agreement.

<sup>139</sup> *Ibid.*, Negative effects in point 99

<sup>140</sup> Stothers C, *Parallel trade in Europe. Intellectual Property, Competition and Regulatory Law*. First edition. Hart Publishing. 2007 page 151

asking distributors not to export etc. Usually the producers will claim that the behaviour is unilateral. Also non-contractual documents can be considered as an agreement and fall into the Article 101(1) prohibition.<sup>141</sup>

The vertical guidelines recognize nine points where vertical restraints may be justified. They include things like avoiding free riding, first time investments and standardization. The free-riding issue relates to unauthorized distributors that free ride on an undertakings promotion and advertising activities without paying for it. Sometimes a territorial protection can be justified due to recouping a first time investment to establish a trademark in a market also a uniform and quality standardisation can be justify if it is to develop an image for the brand and make it attractive.

If the supplier has a market power under 30% it will not be considered to have any significant market power. If an undertaking with considering market power behaves in an anti-competitive manner it may concern things like price-fixing or market sharing.

## 6.4 Vertical Regulation

The 2010 Vertical Regulation<sup>142</sup> is applicable on all vertical agreements including sales and purchasing of goods and service, retailer association's vertical agreements and even vertical agreements concluded by competitors. IPRs are covered if the rights stand in relation to the marketing and sales of the products. The agreements covered by the regulation are exclusive distribution, franchising, purchasing- and selective distribution agreements.

Article 3 of the regulation contains a 30% cap on what agreements the exemption does not apply to. The supplier or the buyer cannot exceed 30 % of the relevant market. The relevant product market is determined by the characteristics of the goods and how interchangeable they are. In addition, you have to establish the relevant geographic market by determine in what area the undertakings act and where competition conditions are homogenous to distinguish an area.<sup>143</sup>

### 6.4.1 Hard core provisions

If an agreement contains any hard-core provision or they are engage by the parties the block exemption will not be applicable. Article 4 in the Regulation contains the black listed hard-core restrictions.

Resale Price maintenance (RPM) found in article 4(a) means the producers makes their parties sell their goods to a fixed price. This also includes minimum and maximum prices. Intra-brand competition can be disturbed and lead to uniformity in pricing by this kind of clauses. Indirect measures can also be caught by this provision.

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<sup>141</sup> Commission Decision 72/480/EEC of 22 December 1972, WEA-Filipacchi Music S.A OJ L303/52

<sup>142</sup> Commission Guidelines on Vertical Restraints, OJ 2010 C 130/1 (2010 Vertical Guidelines)

<sup>143</sup> Craig P and De Burca G, *EU Law text, Cases and Materials*. Fifth edition. Oxford University Press Inc. 2011 page 1012

According to 4(b) territorial restriction are seen with suspicion. What is included by this provision is appointed areas of responsibility, resale restrictions on territorial basis, the distributor's location, restricting sales to unauthorized distributors in a specific territory and customer resale restrictions. An undertaking can therefore not limit territory's or to what customers to sell the products to. It is also applicable on indirect territorial restriction for example refusing to supply and supplying a limited amount to a territory.

Although parties participating in a selective distribution system can be prohibited to sell to unauthorized suppliers and buyers, who is using the goods for manufacturing a similar goods. Restricting passive sales are not permitted while active ones are.<sup>144</sup>

Allowing passive sales means that a market cannot be isolated in whole. This is applicable on Internet sales where a customer contacts a distributor and even though the language fits the customer the distributor is still considered as passive in that sense. In the *Pierre Fabre case*<sup>145</sup> the court established that cosmetics and personal care products cannot enjoy an absolute ban from Internet sales and that it infringes article 101(1) TFEU and can therefore not enjoy the protection from the 2010 vertical regulations.

In article 5 the non-compete issue is concerned. This provision does not fall under the group exemption If the non-compete clause stands in conflict with article 101(1) the clause on itself will be considered to be void.<sup>146</sup> Under the agreement the manufacturer can prohibit the buyer to produce, sell and purchase competing goods, although this provides that the duration is maximum 5 years.

## 6.4.2 Vertical Integration

Vertical integration means that an undertaking creates control at different levels in the production chain. A barrier to enter the market can constitute vertical integration. To be noted is that only intra-brand competition will be affected of vertical integration meaning only competition between retailers but on the same branded goods will suffer an affect. In other words competition between companies with similar products will not be hindered from competing on the same mark.<sup>147</sup> This means that parallel importers and grey marketers will suffer from an undertaking using vertical integration to control the market.

## 6.5 Agreements

### 6.5.1 Commercial agency

In the 2010 Vertical Guidelines an agency agreement are defined in point 12 as “*An agent is a legal or physical person vested with the power to negotiate and/or conclude contracts on behalf of another person (the principal), either in the agents own name or in the name of the*

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<sup>144</sup> Commission Guidelines on Vertical Restraints, OJ 2010 C 130/1 (2010 Vertical Guidelines) contains the definition on “Passive sales” and “active sales” in point 51

<sup>145</sup> Case C- 439/09 *Pierre Fabre Dermo-Cosmétique SAS v PrésIbident de l’Autorité de la concurrence and Ministre de l’Économie, de l’Industrie et de l’Emploi* [2011] ECR (not yet published)

<sup>146</sup> See The 2010 Vertical Guidelines point 70 and 67.

<sup>147</sup> Craig P and De Burca G, *EU Law text, Cases and Materials*. Fifth edition. Oxford University Press Inc. 2011 page. 922

*principal for the: purchase of goods or service by the principal or; sale of goods or services supplied by the principal”.*

The main difference between distributors and agents is that the agent does not take any commercial risk and serves as an independent function for the operation. These types of relations escaped from the competition rules as confirmed in *Consten and Grundig*<sup>148</sup>. Even though an agent agreement contained a non-compete clause it did not determine whether the agreement was infringing the competition rules.<sup>149</sup> Gradually the attitude against agency agreements got stricter and in *Eirpage*<sup>150</sup> the Commission found a distribution network based on commercial agents as anti-competitive. However in this specific case they got exempted for 13 years due to consumer benefits.

Crucial for determining if Article 101(1) applies is whether the agent bears any commercial or financial risk. There are two kinds of risks to be borne in mind. The first one is considering risk relating to market-specific investments and the other one risk connected to the commercial contracts.<sup>151</sup> Clauses like territorial restraints, price fix etc., will escape the competition rules if the agent is working on behalf of the principal. The CJEU has established that an agent cannot be an independent trader meaning that he bears no risk to escape the competition rules.<sup>152</sup>

## 6.5.2 Exclusive distribution

A distributor buys the goods and sells them in their own name. In other words, the opposite from an agent agreement the distributor works independently. The distributor buys the goods from the manufacturer at a price negotiated and then sells it to end consumer or to wholesalers or retailers at a price decided independently. The distributor is assigned with a specific territory, in which they exclusively sell the goods. These types of agreements in themselves are not considered as anti-competitive but there may be clauses which can have the effect of restricting competition.

## 6.5.3 Consten & Grundig

In *Consten & Grundig*<sup>153</sup> the Commission found an exclusive distribution agreement enhanced by a trademark and licensing and concluded the exclusiveness to be against the competition rules. The CJEU then had to deal with the question whether vertical agreements escaped the prohibition and how to deal with national IP rights.<sup>154</sup>

First the CJEU took the stand that Article 101(1) TFEU was applicable to vertical distribution agreements as long as they affect trade between member states and have the object or effect of distorting and preventing competition. The second question that the court took a

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<sup>148</sup> Case C-56/64 & 58/64 *Établissements Consten S.A.R.L. och Grundig-Verkaufs-GmbH v Commission of the European Communities* [1966] ECR 299

<sup>149</sup> *Joined Cases C-40/48, 50, 54 to 56, 111, 113 and 114-73 Cooperatieve Vereniging “suiker Unie” UA and Others v Commission* [1975] ECR 1663

<sup>150</sup> Commission Decision 91/562/EEC *Eirpage* [1991] OJ 1991 L 306/22

<sup>151</sup> Commission Guidelines on Vertical Restraints, OJ 2010 C 130/1 (2010 Vertical Guidelines) points 13-21

<sup>152</sup> Case C-266/93 *Bundeskartellamt v Volkswagen AG and VAG Leasing GmbH* [1995] ECR I-3477 para 19

<sup>153</sup> Case C-56/64 & 58/64 *Établissements Consten S.A.R.L. och Grundig-Verkaufs-GmbH v Commission of the European Communities* [1966] ECR 299

<sup>154</sup> Colston C Galloway, J, *Modern Intellectual Property Law*. Third edition. Routledge. 2010 Page 94

stand in was the concept of “*agreements... which may affect trade between member states*”. Due to the prohibition that prevented other undertakings from importing the goods and preventing Consten to re-export the goods was enough to be considered affecting trade.

As to if the agreement where restricting competition the CJEU stated that due to that the market was isolated and maintained artificially it was infringing article 101(1) TFEU. In respect to the GINT-trademark, the parties claimed that the registration of the mark ensures territorial protection and it gives them the right to oppose parallel imports. The agreement authorizing Consten to register the trademark under their name seems to restrict competition. It therefore has a limiting effect that falls under the probation in 101(1).

### **6.3.3 The distinction between open exclusive license and absolute territorial protection**

In *Nungesser*<sup>155</sup> the question was whether an exclusive license could infringe article 101(1). INRA licensed out rights to produce and sell maize seeds to Nungesser under an absolute territorial protection. The court makes a distinction between “open exclusive license” and “absolute territorial protection”.<sup>156</sup> The first scenario relates to the proprietor who promises to only grant one undertaking the license in a specific territory and not to compete with that licensee on that territory. An absolute territorial protection on the other hand is when the parties agree to eliminate all competition from any third parties with regard to the territory and goods in question. The conclusion by the CJEU is that “the grant of an open exclusive license, that is to say a license which does not affect the position of third parties such as parallel importers and licensees for other territories, is not in itself incompatible with article 101(1) of the Treaty”.<sup>157</sup> However where absolute territorial protection caught by the Article 101(1) and could not enjoy an exemption under Article 101(3) TFEU.<sup>158</sup>

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<sup>155</sup> Case 258/78 L.C. Nungesser KG and Kurt Eisele v Commission of the European Communities. [1982] ECR 2015

<sup>156</sup> Ibid., para 53

<sup>157</sup> Case 258/78 L.C. Nungesser KG and Kurt Eisele v Commission of the European Communities. [1982] ECR 2015 para 58

<sup>158</sup> Ibid., para 61 & 73

# 7 Trademarks in the online forum

## 7.1 Trademarks online

With the development of modern technology a new marketplace for goods have emerged. Internet does not have any boundaries and in the light of the territorial IPRs, it has created new challenges for the commission and the EU courts. The law are being challenged by new technical developments and many companies are establishing themselves online. Because of these factors IP disputes on the Internet has grown. Trademark proprietors who want to establish a domain name may discover the name is already taken by another undertaking. Undertakings use other undertakings marks as keywords and in online advertising and the question arouse whether keywords can correspond to a trademark in the sense that the use of it may infringe a proprietors trademark rights?

Online distribution is about the re-sale of goods and service online and this has created several new challenges under competition law and free movement of goods. As any kind of distribution, the Vertical Agreements Block Exemptions apply.

In connection with the increased sales and marketing on Internet, a common misunderstanding is that a registration of a domain name or a company name provides with the same protection, as you would do a trademark registration. This is not the case due to that registration of domain name and company name does not protect your mark from other undertakings using an identical or similar mark as your brand.<sup>159</sup>

## 7.2 Online distribution

The basic notion is that distributors should have the possibility to sell and advertise their goods online. Restricting these kinds of Internet sales can only be justified in connection to active sales in exclusive territories or consumer group of other distributors. Although re-sales on Internet are not in itself considered as a type of “active sales” as stated in paragraph 51 of the vertical guidelines. As long as the website, do not target any special customer and remain accessible for everyone. What language the website is has not been a determining factor in this matter. However if the webpage contains links or banners that will be considered as targeted for a consumer group in a specific consumer territory it can be measured as active sales. The same thing applies for e-mails that are targeted for a specific consumer group.<sup>160</sup>

In connection to selective distribution, a supplier can require a certain quality standard for the re-sale, promotion and advertising of his goods, although the same quality standard must

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<sup>159</sup> Kolah A, *Essential Law for Marketers*. Second edition. Taylor and Francis. 2013

<sup>160</sup> Dean J M, *International Distribution Overview of Relevant Distribution laws: Review of 2011 and outlook for 2012*. [2012] Journal of European Competition Law and Practice Advance.

Available at: <http://www.vogel-vogel.com/sites/vogel-vogel/files/Article.pdf> accessed 20 Mars 2013

apply to both physical shops as to those online.<sup>161</sup> If it is objectively justified, there is a possibility to prohibit Internet sales.<sup>162</sup> Examples for what can be considered as objective criteria in the context of quality like point of sale service, sales staffs training and what range of products being sold. There must be a commercial justification of the selective distribution. In *Yves Saint Laurent*<sup>163</sup> the ban on mail-order re-sale in their selective distribution where justified because those luxury products should be presented in a homogenous way. This decision was upheld by the CFI.<sup>164</sup> Nevertheless, due to the adoption of the Block Exemptions and the Vertical Guidelines the decision where renewed and the commission concluded that a total prohibition of re-sales online where not tolerable and therefore YSL had to give their selected retailers the right to commit online sales as well.<sup>165</sup>

### 7.2.1 Pierre Fabre

In *Pierre Fabre*<sup>166</sup> the court dealt with the question whether an absolute ban of Internet sales could constitute an infringement of article 101(1) TFEU. The court of appeal referred this question to the CJEU: “Does a general and absolute ban on selling contract goods to end-users on the Internet, imposed on authorised distributors in the context of a selective distribution network, in fact constitute a “hardcore” restriction of competition by object for the purpose of article 81(1) EC (now 101(1) TFEU) which is not covered by the block exemptions provided for by Regulation No 2790/1999 but which is potentially eligible for an individual exemption under Article 81(3) EC (now 101(3) TFEU)?”

The clause in question in Pierre Fabre’s selective distribution agreement stated that the resale of their products must be made in a physical space with a qualified pharmacist present. Arguments about keeping a prestigious image and give individual advice for costumers were not justifications enough to restrict competition. The court stated that this clause had the intention and the object to restrict all online passive sales because they were de facto excluded by this provision and could therefore not enjoy the block exemptions. However it was also established that an individual exemption under article 101(3) where possible in this matter although it was limited to exceptional circumstances.

The *Pierre Fabre case* confirmed the commission’s strict approach against restricting Internet re-sale. However, instead of just making a decision with rationale from competition law it was more based on a free movement of goods way of thinking when using words like “proportionality”, “object justifications” or “necessity”.<sup>167</sup> Therefore, the judgement lacks of a competition law analyse.

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<sup>161</sup> Commission Guidelines on Vertical Restraints, OJ 2010 C 130/1 (2010 Vertical Guidelines) para 51

<sup>162</sup> As concluded in Commission decision *Yves Saint Laurent Parfums* 92/33/EEC [1992] OJ L 12/24

<sup>163</sup> Commission decision *Yves Saint Laurent Parfums* 92/33/EEC [1992] OJ L 12/24

<sup>164</sup> Case T-19/92, *Groupement d’Achat Edouard Leclerc v Commission* [1996] ECR II-01851

<sup>165</sup> EC Press reales IP/01/713 of 17 May 2001 at: [http://europa.eu/rapIbid/press-release\\_IP-01-713\\_en.htm](http://europa.eu/rapIbid/press-release_IP-01-713_en.htm)

<sup>166</sup> Case C-439/09 *Pierre Fabre Dermo-Cosmétique SAS v PrésIbident de l’Autorité de la concurrence and Ministre de l’Économie, de l’Industrie et de l’Emploi* [2011] ECR not yet published

<sup>167</sup> Ibid see point 44

## 7.2.2 Justifications for banning Internet sales

Although the *Pierre Fabre case*<sup>168</sup> was harsh in the context for banning Internet sales the CJEU has left it open for two possible justifications. The first justification is relating to a specific product and the special nature of it and the second justification is the possibility for an individual exemption.

The first possible justification relates to mandatory European or national regulations that has the objectives to protect the consumer's safety and health or for public order reasons. The Advocate General Mazák's view is that the exceptional circumstances can also include voluntary measures limiting the re-sale of goods online in the light of the nature of the goods and the customer forum they are sold in. However, he also considers the arguments laid down by Pierre Fabre to be insufficient.<sup>169</sup> These objective justifications have a narrow application and for that the justifications can only applicable in exceptional circumstances according to the commission. Due to the court's reasoning under the free movement of goods instead of the competition rules the justification on maintain a prestigious image do not have a chance of being acceptable as a legitimate justification.

The other possible justification is the individual exemption under article 101(3) TFEU due to the exclusion of the vertical block exemption. This means that all the four conditions of the article must be fulfilled to be applicable as an exemption. However did the CJEU choose not to make this assessment because of insufficient information but it seems unlikely that a prohibition of Internet sales would fall under such exemption.

## 7.2.3 Conditions to online selling

Some conditions on online sales have been accepted and some have been contested by the European Courts and the authorities. Those conditions that have generally been accepted are conditions relating to quality standards, equal conditions for online and offline sales, brick and mortar outlets and demanding minimum turnover in the brick and mortar shops. The quality standards usually are a big part of a selective distribution agreement and therefore its accepted as a way to uphold a brand image.<sup>170</sup> The conditions set on the distributors must however be equally applied on both those who use online sales as to those that have physical stores.<sup>171</sup> The vertical guidelines allows the supplier to “*require that its distributors have one or more brick and mortar shops or showrooms as a condition for becoming a member of its distribution system*”<sup>172</sup> to avoid free riders. The supplier can demand a minimum turnover in value or volume in brick and mortar shops just so they can avoid fictive shops.<sup>173</sup>

Some conditions have however been disputed like percentages of sales being effected online or offline, dual pricing and prohibition of sales at sales-platforms online. First mentioned condition concerning percentage of sales being maximum affected online or minimum

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<sup>168</sup> Case C-439/09 *Pierre Fabre Dermo-Cosmétique SAS v PrésIbident de l'Autorité de la concurrence and Ministre de l'Économie, de l'Industrie et de l'Emploi* [2011] ECR not yet published

<sup>169</sup> Opinion of Mr Advocate General Mazák in case C-439/09 *Pierre Fabre Dermo-Cosmétique SAS v PrésIbident de l'Autorité de la concurrence and Ministre de l'Économie, de l'Industrie et de l'Emploi*. [2011]

<sup>170</sup> Commission Notice, Guidelines on Vertical Restraint of May 2010 (2010) 411 final J, point 54

<sup>171</sup> *Ibid.*, Point 56

<sup>172</sup> Vertical Guidelines point 54

<sup>173</sup> *Ibid.*, Point 52

affection offline has been considered as a hard-core restriction.<sup>174</sup> Dual pricing for offline and online resale is also a hard-core restriction due to the Vertical guidelines; this also includes indirect pricing when discounts can apply.<sup>175</sup> A current discussion is restriction of resale at market platforms like Amazon or eBay, although quality standards may be imposed to the use of such platforms.<sup>176</sup> The approach against the resale of goods on a third party platform varies in the national markets.<sup>177</sup>

### 7.3 Keyword advertising

There are several decisions from the CJEU that answers the questions around keyword advertising and how the Directive and Regulation should be interpreted in the light of keyword issues like search engines, advertising and trademark proprietors rights. It has been established by the CJEU in the *Google France-case*<sup>178</sup> that the use of keywords on Internet constitutes a use of a trademark. It can therefore constitute a trademark infringement if a normal consumer cannot identify the origin of the goods and this is what the court examined in this case.<sup>179</sup>

Keyword advertising is about advertising in search engines. When a Internet user types in a word in the search engine it will get up two results: The first one is the natural objective results and the second type is the sponsored ads that will appear right next to the natural ones. The sponsored results are ads bought by companies to make their page appear as a relevant result in connection to the keywords they have selected. These chosen keywords can correspond to trademarks and therefore it has raised concerns among many trademark proprietors in the use of these keywords and how they are exploited.

Relevant provisions in this matter are the Article 5 of the Directive<sup>180</sup> and the Article 9 of the Regulation<sup>181</sup> because they prevent any double identity meaning that they give the proprietor the right to prevent the use of identical or similar trademarks. There has to be a likelihood of confusion between the trademarks. However, the CJEU has stated that in order to let the proprietors apply these provisions the third party use must somehow affect the functions of the trademark.<sup>182</sup> The E-Commerce Directive<sup>183</sup> and especially Article 14 has

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<sup>174</sup> Ibid .,

<sup>175</sup> Ibid., Point 52(d)

<sup>176</sup> Commission Notice, Guidelines on Vertical Restraint of May 2010 (2010) 411 final Point 54

<sup>177</sup> Vogel, L. EU Competition Law Applicable to distribution agreements: Review of 2011 and Outlook for 2012. Published April 19 2012. Journal of European Competition Law & Practice Advance Access

<sup>178</sup> Joined cases Google France SARL and Google Inc. v Louis Vuitton Malletier SA (C-236/08), Google France SARL v Viaticum SA and Luteciel SARL (C-237/08) and Google France SARL v Centre national de recherche en relations humaines (CNRRH) SARL and Others (C-238/08) [2010] ECR I-2417

<sup>179</sup> Joined cases Google France SARL and Google Inc. v Louis Vuitton Malletier SA (C-236/08), Google France SARL v Viaticum SA and Luteciel SARL (C-237/08) and Google France SARL v Centre national de recherche en relations humaines (CNRRH) SARL and Others (C-238/08) [2010] ECR I-2417

<sup>180</sup> First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks Official Journal L 040

<sup>181</sup> Council Regulation (EC) No 40/94 of 20 December 1993 on the Community trade mark OJ L 11 of 14.1.1994

<sup>182</sup> Google France (note 176) para 76-77

<sup>183</sup> Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market ('Directive on electronic commerce') OJ L 178

also been a part of the Court's reasoning in these types of cases due to that it exempts service providers like Google from liability because of their inactive role.<sup>184</sup>

### 7.3.1 Google France and Bergspechte

It was first established that Internet service providers like Google only stores keywords identical or similar to a trademark and does not make use of the trademark within the meaning of the Article 5(1) the directive and the Article 9(1) of the Regulation.<sup>185</sup>

In the second part of the Court's reasoning, they concluded that the same provisions must have the meaning that trademark proprietors can be able to prohibit advertisers from using a keyword that is similar or identical to their mark depending of what effects the advertising has. A trademark proprietor may prevent the use of their mark as a keyword in situations where an average Internet user cannot determine whether the trademark proprietor and the advertiser are economically linked.<sup>186</sup> However, this statement also concludes that when a Internet user actually can distinguish between the proprietor of the mark and the third party using it as a keyword there was no infringement of the trademark and the proprietor cannot prohibit such use.

### 7.3.2 Using a trademark as keyword

The CJEU has made their conclusions in the notion of whether using a keyword constitute a use within the meaning of the relevant provisions. Their reasoning can be divided into two parts: First of all if it is use in the course of trade and second the use is "*in relation to goods or services which are identical with or similar to, those for witch that trademark is registered.*"<sup>187</sup>

The Court made the important distinction between search engines and advertisers and their responsibilities. The search engines do not make use of the trademark and can therefore not be caught by the relevant provisions due to that they do not use them for any commercial communication.<sup>188</sup> When it comes to the advertisers on the other hand their use of keywords identical to trademarks do constitute use within the meaning of the articles. It is about whether the keywords create any likelihood of confusion and fall under the double identity provisions. However, it was stated that this conclusion must be made the respective national courts. They must look at the essential function of the trademark by assessing whether a "*normally informed and reasonably attentive internet users, or enables them only with difficulty, to ascertain whether the goods or services referred to by the ad originate from the proprietor of the trademark or an undertaking economically connected to it or, on the contrary, originate from a third party.*"<sup>189</sup> But this only applies in respect to the advertiser and not the online service provider.<sup>190</sup> However this also means that because it is up to the

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<sup>184</sup> Google France (note 176) para 13

<sup>185</sup> Google France (note 176) 121(2)

<sup>186</sup> Case C-278/08 Outdoor Reisen und Alpinschule Edi Koblmüller GmbH v Günther Guni and trekking.at Reisen GmbH 2010 ECR I-02517 para 45, Google France (note 176) para 121(1)

<sup>187</sup> Google France (note 176) para 49

<sup>188</sup> Ibid para 53-56

<sup>189</sup> Ibid para 84

<sup>190</sup> Ibid para 98

national courts to do the assessment on a case-to-case basis the result will probably vary and can lead to inharmonious on this matter.

### 7.3.3 The use of trademarks on online marketplaces

Online marketplaces and online auction sites are a new type of trade where online shopping takes place. The increasing business online depends a lot on the fact that there is no geographical barriers in comparison to the classic trade. The definition of online shopping is when the consumers can buy goods and services directly through the Internet by placing an order. The online marketplaces such as eBay allow traders to sell goods to customers by setting up an account and letting them bid on the product. However, may these online marketplaces raise concerns from trademark proprietor's perspective.<sup>191</sup> eBay is also advertising online by using keywords that relates to trademarks to attract customers to their site.<sup>192</sup> To be noted is that eBay does not sell or store the goods sold on the site but it merely connects sellers and purchasers. Issues with this service from a trademark perspective can be the resale of counterfeit goods, unpacked goods but also parallel imports by the resale of goods intended for a third country market. eBay has however taken steps to secure that trademark infringement are not committed through their site by for example the standard agreement that states that the resale of counterfeit goods and any trademark infringement is not allowed.<sup>193</sup> In the American *Tiffany v eBay ruling*<sup>194</sup> the US Court of Appeals stated that eBay's use of the Tiffany trademark was lawful due to that it was used to promote genuine goods. It was also affirmed that eBay does not have liability for any trademark infringement.

When it comes to unpacked goods sold on eBay but also the exhaustion of rights conferred by a trademark the CJEU examined this in the *Boehringer Ingelheim ruling*.<sup>195</sup> As stated in previous chapter the exhaustion principle exhausts the trademark proprietor's right as soon as the goods are put on the market inside the community by themselves or with their consent. However, the exception is when the trademark proprietor has legitimate reasons for opposing further commercialisation of the goods. The case concerned medical products that had been re-boxed and re-labelled and the Court stated that they could oppose the resale of the goods if the parallel importer was liable of damaging the trademarks reputation. It was however stated that when the packaging was not relevant for the reputation of the goods this would be irrelevant however when it comes to medical and cosmetic products the packaging contains valuable information.

When parallel imports are resold on an auction site like this the issue is quite clear. If the goods have not been put on the Community market before this will constitute an infringement of the proprietor's trademark rights. This has been confirmed in various rulings by the CJEU.<sup>196</sup> However, the issue is far more complex due to that online marketplaces can

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<sup>191</sup> Aristidou C, "Trade Mark Infringement On The Internet: Current Issues And Concerns In Europe (Sponsored Links, Search Engines And Shopping On The Internet) - Part 1" [2011] Available at: <http://www.mondaq.com/> accessed 4 Mars 2013

<sup>192</sup> Case C-324/09 L'Oreal SA, Lancôme Parfums et Beauté & Cie, Laboratoire Garnier & Cie, L'Oreal (UK) Limited v eBay International AG, eBay Europe SARL, eBay (UK) Limited, Opinion of Advocate General Jääskinen delivered on 9 december 2010

<sup>193</sup> Case C-324/09, Opinion of Advocate General Jääskinen, para 24

<sup>194</sup> Tiffany (NJ) Inc. v. eBay Inc., United States Court of Appeals for the Second Circuit, Docket No. 08-3947, decided April 1, 2010.

<sup>195</sup> Case C-348/04, *Boehringer Ingelheim and Other* [2007] ECR I-3391.

<sup>196</sup> See Joined Cases C-414/99 to C-416/99 *Zino Davlbidoff and Levi Strauss* [2001] ECR I-8691, para 33

be reached from the whole world including from the community. How can the Court determine if the goods are intended for the European market?

In the *L'Oréal v eBay case*<sup>197</sup> it was established that traders that offered goods that have not been put on the EEA market before would be held liable for infringing the trademark. The CJEU left it for the national court to decide: “*It therefore falls to the national courts to assess on a case by case basis whether there are any relevant factors on the basis of which it may be concluded that an offer for sale, displayed on an online marketplace accessible from the territory covered by the trade mark, is targeted at consumers in that territory.*”<sup>198</sup> However this will not lead to any homogenous treatment of these types of cases.

In *Silberquelle*<sup>199</sup> it was reaffirmed that promotional products that are supplied free of charge will not be regarded as being put on the market by the trademark owner within the meaning of the Trade Mark Directive 89/104 and the Regulation 40/94.

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<sup>197</sup> Case C-324/09 *L'Oréal SA, Lancôme Parfums et Beauté & Cie, Laboratoire Garnier & Cie, L'Oréal (UK) Limited v eBay International AG, eBay Europe SARL, eBay (UK) Limited*, Opinion of Advocate General Jääskinen no 26 above.

<sup>198</sup> *Ibid* para 67

<sup>199</sup> Case C-495/07 Judgment of the Court (First Chamber) of 15 January 2009. *Silberquelle GmbH v Maselli-Strickmode GmbH* [2009] ECR I-137

# 8 Analysis

## 8.1 Trademark

A proprietor of a trademark will invest a lot of time and money in building up a trademark that distinguish their brand from other companies on the market. However it is important that the proprietor's rights do not extend to the point that it closes out competition that can be healthy for the market and the consumers. Trademark rights are territorial and exclusive rights that may divide the market. To have in mind when looking at this issue is that the trademark directive and the rules on competition and free movement of goods rules have the same goal and that is to eliminate negative effects on free movement of goods and restrictions on free competition the difference is that they come from different stand points. Parallel trade and the trademark different functions are closely connected and it is important for a trademark proprietor to protect their trademarks different functions. However you cannot say that parallel importers and grey marketers infringes trademark rights in a classical sense due to that the goods that these deal with are genuine but they can be adapted to another market then the one that the parallel importers sell them in. It is common that manufacturers adjust their goods to the market it is intended to be sold in. This can be problematic when an unauthorized dealer decides to sell the goods to another market with different standards. The issue lies in the way this type of trade works and affects the trademarks functions. The reputation of a mark can be tarnished when the goods under a trademark do not live up the expectations of the consumer but it can also gain advantages by being more exploited to the public.

Trademarks are nationally bound rights and therefor the protection of them can differ. Although the trademark directive have harmonized theses rights to a large extent the CJEU often leaves the interpretation of details to the national courts creating unharmonized application. Article 5 of the directive that safeguards the proprietors exclusive rights to the mark can be limited by the exhaustion principle.

## 8.2 Exhaustion

The European Union's goal to create a common market, without any trade barriers between the member states, has come a long way although some barriers still remain. The Silhouette ruling is a landmark case that set the standard for the European approach on parallel imports and recent case law has developed this approach even further. This principle safeguards that there will not be any distortion on free movement on goods inside the EEA market. The ruling also created a link between trademark laws and trade in general. You can however discuss the fairness of setting developing countries at a disadvantage by banning parallel imports. Before this ruling it was still possible for the national authorities to decide whether they would introduce international exhaustion. This judgment however changes the standards by establishing regional exhaustion through the Union. They considered that the trademark owners should have the right to be the first one to put the goods on the market.

You cannot put restraints on the sole existence of a trademark right but you can influence how the rights should be exercised.

However, you could argue that there would have been barriers to trade inside the community if it was up to the member states themselves to decide which exhaustion principle they wanted to apply. On the other side, international exhaustion could promote price competition and therefore be advantageous for the consumer. By not allowing international exhaustion it may seem like the union are being kind of protectionist by restricting inter-brand trade. Although, the court did not take some policy issues into consideration in this important ruling that can be relevant in the context. The CJEU could have considered the impact on free trade and competition law.

When it comes to the criterion that must be satisfied for the exhaustion principle to apply the court seems to have difficulties in how to interpret them and especially the consent criteria. First the CJEU took the approach that the common origin is the deciding factor when determine whether a proprietor has given their consent in situation where it is a matter of a relationship between the proprietor and the one importing the goods. Although the Court changed their opinion in this matter but they still seem confused in how to interpret this criterion. The putting on the market criteria is clearer and the interpretation has not changed in any significant way meaning trademark owners have the exclusive right to put the goods on the market first. This can however be limited in connection to the transit of the goods, which makes sense because they do not have the intention to commercialize them.

When it comes to repackaging obviously this can affect a trademark in a concerning matter. The case law on repackaging has focused on the functions of a trademark and how they are affected by repacking the goods. Especially the original function is at stake. Compared to straight up exhaustion cases in the case law on repackaging the court do not look at the consent criteria from the proprietor in any relevant matter. However, the CJEU has established that the repackaging must be necessary for the commercialisation of the goods.

The determine factor in all parallel importation cases is that the original function of a trademark cannot be affected in a way meaning that consumers will get the wrong impression that the parallel importer is the rightful owner of the mark. Unauthorized dealers may advertise without the proprietors consent unless there is some serious damage done to the reputation of the mark. If the advertising is costume for those specific products the proprietor will have a hard time to oppose that type of commercialisation, emphasizing that trademarks functions are worthy to protect.

## **8.3 Parallel trade**

### **8.3.1 Positive and negative effects of parallel trade**

An unauthorized dealer sells goods without the proprietors consent. It is not unlawful in the classical sense like black market goods due to that the goods are genuine but not manufactured for that specific market. The trademarks reputation may be affected if the goods are different in for example quality or taste then the consumers is normally used to,

although there might only be a difference in price. The approach taken by many scholars is that giving the trademark proprietors the right to prohibit parallel imports would create exclusive territories that negatively affecting the market and competition. But as stated parallel trade could be both negative and positive for the market including the proprietor and the consumers. Negative effects for the proprietor can be that the parallel traders and grey marketer's effect the marks reputation and the original function of the mark. The consumer can be misled on who the rightful owner of the trademark is and the expectations on a certain mark may be destroyed and leading to that the proprietor can be losing consumers. The companies have been able to carry out price discrimination but parallel trade makes this hard, although to have in mind is that price discrimination can be bad where the price are cheaper for the same goods on a different market but it can also be good due to that they are cheaper on that specific market. Meaning that allowing parallel trade can actually raise prices in some markets. Although, generally the prices would be under a higher pressure and be kept low.

There is also the issue with free riding and if it is fair for the proprietor that has spent a lot of time and money to build a strong brand. Do they have to let other benefit from their efforts? I would say yes because there are some simple solutions to this issue. The positive effects are mostly reserved for the general competition climate on the market and the consumers. It puts pressure on the companies to develop and keep lower prices. The consumers are offered a wide range of different products to lower prices. Small actors are given a chance to compete with the big boys. The proprietors can also be gaining on this type of trade by letting the trademark have maximum exposure to the public. Arbitrage creates an excellent opportunity for parallel traders and price discrimination between the different European markets gets harder to commit it this type of environment. To sum this up: to give the trademark proprietors the chance to divide the market and manipulate it seems to be negative not only for pricing but also for the range of products.

The common sales law is just another step for simplifying cross-border trade. It will harmonize contractual regulations and nourish parallel trade inside the union by making it easier to carry out trade across the borders. However this will only apply to European affairs or at least when one of the parties are based in the union, meaning trade barriers inside the EEA market will be reduced. What effects it will have on international trade is yet unclear. The regulation has been evaluated to reduce a lot of additional cost in making cross-border sales. The will to engage in cross-border trade has been high but are hindered by practical barriers relating to contractual problems. Obviously, this is bad both for the companies wanting to reach more customers but also for the consumers who miss out of better offers or products.<sup>200</sup>

### **8.3.2 Can parallel trade be seen as unfair competition?**

Fair competition has been defined as companies endorsing their market shares under fair conditions. Can parallel trade affect the market in such a way leading to unfair competition?

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<sup>200</sup> COMMISSION STAFF WORKING PAPER Executive summary of the Impact Assessment. Proposal for a Regulation of the European Parliament and of the Council on a Common European Sales Law on a Common European Sales Law. Brussels, 11.10.2011 SEC(2011) 1166 final Available at: [http://ec.europa.eu/justice/contract/files/1\\_resume\\_impact\\_assesment\\_en.pdf](http://ec.europa.eu/justice/contract/files/1_resume_impact_assesment_en.pdf)

As established a grey marketer can free ride on a trademark proprietors market activities. Can the trademark proprietors restrain the parallel importers free riding or is there any other solution? If parallel importers sell trademark-protected goods with the same quality as the authorized distribution channels, the distributors with authorization do not have a monopoly of those goods on the market. Then the competition will only be on the price level. The profits of the authorized channel will however be reduced and this was the argument in the *Silhouette-case*. Another way to see it is that the trademark proprietor could expand their market share by letting the distributors compete on a price level instead.

As stated before some companies modify their products depending on what market they are being sold at. Usually this is done to adapt to the consumers on that specific market. This also has the consequence that product quality may differ and the unauthorized channels may sell goods with poorer quality to a market where better quality products are sold under the same trademark. Fair trade should however not be affected if the unauthorized distributors label the goods so the consumer know where they originates from.

Consumers do not have to be familiar to the parallel imported products and it may what to buy from already established distributors on that specific market and therefore the authorized distributor may still have a competitive advantage over the unauthorized one. But the authorized channels heavy investments in sales and advertising is done to establish their position on that market. Parallel importers usually do not pay for any advertising on their own but gain from the effects that mean that unfair competition currently does exist. There are two solutions to the free riding issue. One is that the manufacturer pays for all advertising meaning the type and content of it and in fact this is done by many on a international level. Another would be to make grey marketers to actually pay their own advertising costs or at least share them with the proprietor.

## 8.4 Free movement of goods

The Free movement of goods Articles 34-36 establish a general prohibition that covers both import and export barriers like prior authorization, price controls, and measures having equivalent effects like requiring certain types of labelling and advertising of goods, origin and quality marks, language requirements and restrictions on distance selling. The rules also applies when authorities are inactive and letting barriers emerge without taking action having the practical meaning that a single companies act can be a problem for the state authorities when it comes to restricting trade and the creation of barriers to enter the market because the state will be liable. The aim is to create free circulation of goods across the union, the member states is obligated to remove trade barriers and the rules can be relied on by the courts.

The state cannot require goods to have origin and quality marks due to that it would promote the domestic goods. Language requirements can only be justified when consumers needs to have sufficient information about the goods. This is dependent of what type of products are concerned and the general knowledge about the language. For example medical products need to have clear labels because of consumers health concerns. Also you might presume the English language is known by a great part of the union and that you cannot require to change it to the domestic language.

Banning Internet sales have been considered as a selling arrangement having the meaning that the question is if prohibiting online sales can be seen as discriminatory. The CJEU took the view that that it is especially important for new brands to be able to use the online forum to access a new market. However, the court says nothing about if this applies to parallel traders and grey marketers. They have focused on new products and how new companies must be able to establish themselves on new markets. When it comes to parallel traders the products are not new but the distributors might be at least not on the European market but it could be new for that specific domestic market due to that regional exhaustion applies. The question could be what rights the unauthorized distributors should have in this matter.

Article 36 trademark works as a legitimate justification for restrictions on trade. However they cannot use this provision with an economical approach and it must be seen under the light of the proportionality principle. The justifications cannot lead to discrimination and the proprietors cannot oppose the imports of goods already put on the EEA market. The problem with unauthorized goods is that you could claim that the proprietors do not gain on it in any way more than the exposition of the mark. Otherwise the positive effects of parallel imports usually apply to the market and the consumers because it could lead to better prices and a wider range of products.

The mandatory requirements fall under an own list of justifications. It is however from my point of view peculiar that Article 36 does not contain any of these further justifications like these mandatory requirements; they are still dependent on the notion of non-discrimination and proportionality. Meaning a member state cannot ban a product that is manufactured by domestic companies due to that it would qualify as discrimination.

## **8.5 Competition law**

### **8.5.1 The competition law perspective on trademarks**

Trademarks are not anti-competitive by their very nature but they do have characteristics that by their first look seems to go against the goals of free competition. From a supremacy point of view, competition law will have priority over the national intellectual property rights. Trademarks cannot be dangerous from a competition law perspective by their mere existence; it is when they are used for anti-competitive aims like in a licensing-agreement that can they close up the market. When trademarks are used to make an artificial dividing of the market and works as a barrier for market entry that you can consider it as an anti-competitive issue. The free movement of goods and competition law provisions complement each other. An action can escape the free movement of goods provisions but still be caught by the competition law provisions but this also applies the other way around.

Article 101(1) TFEU has the function of catching agreements, no matter of what form they have, which restricts competition on the market. Vertical relationships between manufacturer and distributors can be caught under this provision if there is a union dimension and if it direct or indirectly affects trade between member states. The de minimis doctrine is also relevant in the context of article 101(1) due to that an agreement must have a

certain degree of market share on the relevant market, otherwise would small agreements with no noticeable effects be caught.

## 8.5.2 Distribution in a competition law perspective

Distribution agreements are vertical relationships and they are usually exempted under the competition rules because they rarely give rise to anti-competitive behaviour. Although these types of agreements are not entirely exempted from the competition rules and this especially applies to exclusive co-operations. Typically prohibiting parallel trade inside the union is seen with harsh eyes from the courts and authorities. Although some vertical restraints may be justified, like the one scenario when trying to avoid free riders. Also territorial protection can be justified in connection to first time investments for establishing a trademark on a new market.

Trademarks are covered by the Vertical regulation in relation to marketing and sales of goods. Resale Price Maintenance can be disturbing for intra-brand competition meaning the prices for similar goods remain on the same level and no competition pressure arises giving consumers less beneficial prices. Territorial restrictions are usually seen as anti-competitive behaviour because they divided the market. This also has the practical meaning that there cannot be any restrictions on passive sales to unauthorized distributors in a specific territory although active ones may be restricted. Passive sales may be especially important in connection to Internet-sales where the consumer approach a seller straight through the web page. An absolute ban on sales through Internet has been caught by Article 101(1) by the CJEU and will not be exempted under the Vertical Regulation.

When using an exclusive distribution system the manufacturer and the proprietor must be more careful to decide what terms they use in the agreement. The reason is that some clauses will be seen as anti-competitive in a exclusive relationship. The CJEU established that the competition rules are applicable on vertical agreements; the determining factor is whether a competition is distorted or prevented. Trademarks cannot be used for dividing the market and prohibiting parallel trade because they would be caught by Article 101(1).

There is a distinction between an open exclusive license agreement and an agreement with an absolute territorial protection. The reason the court made the distinction is that third parties would be affected of an absolute territorial license and there will be restraints on competition, while an open exclusive license can be beneficial for competition. The conclusion to draw from the distinction between those two is that under an exclusive relationship the parties cannot use clauses that have the effect of shutting out all competitors like restricting parallel trade. You can also draw the conclusion that parallel trade can be healthy for competition in general because it puts pressure on companies to meet consumer demands and keep the best prices available.

## 8.6 The use of trademarks online

### 8.6.1 Trademark rights online

Internet trade has a great impact on the world economy and therefore trademark rights and advertising online is a hot topic inside the European Union. It is for the national courts to apply the relevant provisions in the Directive and the Regulation by using the framework that the CJEU has developed by the rulings in *Google France* and *Bergspechte*. Although the national courts still has a lot of freedom in deciding in these types of cases. The impact of future case law on the keywords relating to trademarks will be of great value in the eyes on the proprietors and the advertisers. The main reasons is that territorial restraints cannot be upheld due to that web pages can be reached from all over the world and are easy accessible. The question raised is how territorial bound trademark rights are applied in this context. Mainly online distribution and keyword advertising has been an issue in the light of trademark rights.

As stated in free movement of goods cases Internet sales are of a big importance for companies trying to establish themselves on a new market. It is cheaper then to set up an actual store and they can reach consumers all around the world. Meaning that companies trying to restrict sales online restrict the possibility for some companies to be successful. Trademark rights are valuable assets but it should not include the restriction of online sales unless there are legitimate justifications.

The main rule is that passive sales like online sales cannot be prohibited as long as they do not target any specific consumer group. There could however be some justifications on restricting online re-sale like quality standards. The court has considered the nature of different marketplaces. However, I do not see how you can demand the same high standards on a online web shop like you do on a physical sales point. Online stores are limited in how to present the products and the trademarks while in real life stores there are details like window-display etc. I see it hard to compare quality standards when the way to do business is so entirely different. Nevertheless, this has not been a part of any assessment from the courts. There are however some limited conditions to online sales that has been accepted by the court, as long as they are applied equally to online resale as to physical shops, but they are limited to quality standards and brick and mortar outlets and minimum turnover conditions.

The issue with distribution in an online forum has not yet found a balance but its aiming towards an efficient law. In addition, the court seems to have a hard time with the economic analysis of the vertical restrictions when they took a more formal and traditional approach to the restriction and disregarded the practical effects of it. The new approach in the block exemptions and guidelines has a focused more on the effects of the restriction with an empiric and economical-view, opposite to this traditional approach taken by the court. There is also a political side of this matter where both the commission and the CJEU want to promote this new trading method and the creation of an internal market without depending on treaties.

## 8.6.2 The courts approach in Pierre Fabre

The Pierre Fabre case illustrates the connection between trademark rights, competition law and free movement of goods. Taking a traditional approach and an economical-based one will lead to different evaluation by the court as discussed in the article about the consequences of the Pierre Fabre judgement on distribution online by Louis Vogel.<sup>201</sup> The traditional approach takes a more hands on method by just establishing whether the restriction is prohibited and the economical aspect will not be a part of their reasoning. If on the other hand an economical analyse is made it will penetrate deeper but with the cost of legal certainty.<sup>202</sup>

Vogel takes the view that if the court did an economical analyse of the vertical restriction the outcome would probably would have been different. The two main arguments are the efficiency that these types of distribution system create but also that this was a good way to avoid free riders.<sup>203</sup>

This judgment has been highly criticized because of the short motivation and the nature of the CJEU's reasoning. Vogel believes the judgement has some weaknesses and that the CJEU should not have reflected on the ban of Internet sales as a restriction by object and that this principle does not meet the traditional object approach. He considers that prohibiting Internet sales creates positive effects on competition and is opposite to the other hard-core restrictions, as market sharing or price fixing, which will be presumed to have a negative impact on competition. Vogel is also criticizing the fact that the court only established the clause was disproportionate because it de facto banned Internet sales when stating that they would take the objectives and the economic and legal context of the clause.<sup>204</sup> The fact in this case was that there was a strong level of both inter-brand and intra-brand competition but this was not a part of the courts analyse at all.<sup>205</sup>

Although the Pierre Fabre case gave some guidelines in how the issue with restricting resale online will be seen by the court. It seems like it is hard to impose an absolute ban on resale online to authorized distributors, unless there is some legit justifications, keeping a prestigious image was not enough. Justifying a complete ban online seems to be limited but the authorities has left a small window open by mentioning their might be justifications due to exceptional circumstances or under the individual exemptions under Article 101(3). Although has "exceptional circumstances" not really been defined in connection to online resale, so what the court will actually consider as a justification will be interesting to see.

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<sup>201</sup> Vogel, L. EU Competition Law Applicable to distribution agreements: Review of 2011 and Outlook for 2012. Published April 19 2012. Journal of European Competition Law & Practice Advance Access

<sup>202</sup> Ibid page 2

<sup>203</sup> Ibid

<sup>204</sup> Ibid page 3

<sup>205</sup> Ibid Page 4

### 8.6.3 Keyword advertising

Can trademark really be used in the classical way in the online environment? This question has been considered several times in front of the CJEU. There is different interest to consider when it connection to keyword advertising. You have the trademark proprietors right to protection of their trademark, the consumers right to not be mislead but also free competition on the market. There is no specific regulation on keyword advertising the courts have therefore been doing an extensive interpretation of the trademark directive and regulation and other related provisions on the issue. In mentioned case law the issue was about using another proprietors trademark as a keyword on advertising online at a service provider without any consent from the proprietor. The CJEU has considered whether this action is infringing the proprietor's rights and if a service provider like Google has any responsibility. It is the double identity provision that get relevant in connection to keyword advertising. The trademarks different function is considered and if the original function could be damage and the use of a trademark as a keyword must clearly be identified by a normally informed consumer.

In the Google France-case Google was not considered to have responsibility for the trademark infringement because they functioned as a third party provider without using the trademark in the sense that I would be caught under the relevant trademark provisions. The advertiser the use a trademark as a keyword could however be hold responsible for disturbing any of the trademarks functions. Meaning trademarks can also function as a legitimate barrier to trade online.

### 8.6.4 Speculative consequences from keyword advertising

However there could be positive consequences for a proprietor when third parties use their trademark in online advertising like keyword advertising. One thing can be an enhancement of goodwill for the mark because of the exposure. From a consumer perspective keyword advertising also can be beneficial because it makes it easier for them to find a specific brand, but also to compare prices between different dealers. Another positive effect from this type of advertising is that could open up the market for smaller companies if they can associate themselves with the big players. Internet opens up opportunities without spending a lot of money.

There could be some negative effects from keyword advertising to, like the issue with free riding and trademark infringement. In the long-term, a trademark can lose their reputation and get weaker because of the exposure. The consumer and proprietor can be negatively affected and competition may be distorted.

## 9 Conclusion

Trademark protection can be used as a barrier against competitors, by mainly securing the right to exclusively use and prevent competitors from using a confusingly similar mark to lend acceptance or value to their products or services. By doing so, the trademark protection barrier preserves the owner's reputation and recognition for quality and reliability on the market, probably developed over time through promotional effort, expenses and innovation.

Trademark rights can serve as a legitimate reason for opposing free movement of goods, in the sense of parallel trade and this may be a problem under the free movement of goods rules as from a competition law perspective. On one hand there is the trademark proprietors right to use their mark and prevent double identity marks and infringements of it, on the other hand it cannot be used to restrict free movement of goods and distortion of competition. The relationship in-between these are complex. The distinction between the existence and exercise of a mark means that you cannot put restraints on the sole existence of a trademark right but you can influence how the rights should be exercised. It has been established that the trademarks different function are worthy protection, especially the original function have been highlighted by the CJEU in almost every parallel trade case. Although the legal provisions can constitute barriers to entry they cannot be inevitably barriers due to that the trademark right covers a specific brands products and do not prevent the manufacturing and sales of similar products under a different trademark. Trademarks create barrier for market entry but the problem lies in when the proprietors use them to form a strategic behaviour that distorts competition.

The regional exhaustion principle has been presented in the community as a solution for restricting the use of trademark rights to oppose further commercialisation of the goods, including parallel trade inside the Community between the member states. The relevant consent-criterion and the putting on the market-criterion has to be fulfilled for the exhaustion to be recognized, mainly to safeguard that the rights of the proprietor does not get exhausted by a third parties market behaviour. The provisions that safeguards free movement of goods are operating to take away barriers of trade and function in a complementary way but can stand in conflict with the territorial rights that IP creates. The exhaustion principle was instituted to create a balance and limit the right oppose the use of their trademark to among other things ban parallel imports. Further commercialization of goods can only be opposed when having some kind a justification that the court has accepted.

Intra-brand competition creates some serious conflicts between the trademark proprietors and the unauthorized players. Proprietors have argued that parallel trade and grey marketing can harm their mark, which is true to some extent. The reputation and origin function of the mark can suffer from this type of trade and can in some situation be legitimate justifications for opposing parallel trade. Parallel trade can have both positive and negative effects for the actors on the market. The negative effects mostly affects the trademark proprietors due to that their marks reputation and original function can be denigrated but they may also be affected be parallel importers and grey marketers free riding on their advertising and efforts to build a strong brand on the market. However, there are many factors that points to many positive effects of parallel trade and grey marketing, as exploitation of the mark, lower prices, wider range of products, good climate for intra-brand and inter-brand competition

and social welfare. Small actors can have a chance to compete with already established market actors. Even though the free riding issue still remains, there are better solutions, then to prohibit parallel trade. The negative effects of parallel trade can be solved by simple means therefore the conclusion drawn from this examination is that parallel trade in general are good for the market, consumers and competition among the different actors on the market. So therefore the parallel traders and grey marketers use of trademarks cannot be seen contrary to trademark rights.

If banning parallel trade from grey markets it could lead to a monopoly situation. The negative effect from a competition view is trademark proprietors prohibiting parallel imports could lead to exclusionary results and be used to prevent any price pressure and therefore creating trade barriers. Competition law and the free movement of goods provisions complete each other by covering different scenarios of barrier of trade. This means that these regulations will frame trademark rights and protect competition from not getting distorted. Under the competition rules active sales may be restricted but a restriction on passive sale can be seen as anti-competitive.

When it comes to trademarks in the online forum the same rules applies as to the use of trademarks offline. The only difference is that service providers like Google and online marketplaces like eBay do not have to be hold responsible for the infringements conducted in their service. The exhaustion principle applies to goods sold online and the notion of consent and putting on the market criterion will be considered to determine if the proprietor of the mark can oppose the commercialization of their goods online, although it has to be determined on a case-to-case basis due to that the sites can be reached globally.

Keywords that correspond to trademarks are considered to be used online in the classical sense if it is a question about an advertiser using it for online advertising, having the practical meaning that the proprietors can oppose the use depending on the effects of the advertising and especially to prevent any double identity. The trademark rights can rarely be used to restrict online sales due to that it is seen as passive sales, this seems only be possible in situations where it is connected to active sales in exclusive territories and when there is a justification or a individual exemption for the ban. The ground rule is that distributors should be able to sell and advertise their goods in the same extent online as they do offline. However, a proprietor can demand that the re-seller fulfils conditions relating to quality standards, equally applied conditions on physical shops as to those online, brick and mortar outlets and minimum turnover requirements. To sum this up the use of trademarks online are a complex situation. The web is global in it is nature and trademark rights are limited to their respective national protection. There has been a constant increasing number of cases concerning this matter, so the picture will be clarified subsequently.

To conclude this examination trademarks function as a legitimate barrier of trade but the regulations and decisions on these matters has been effective in striking a balance between the different interests.

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