

## Chapter 6: Free movement of branded goods in the European Union

### ***A. Introduction***

This chapter examines the balance achieved by the ECJ and the EC<sup>773</sup> legislature to ensure that trade-mark rights are not used to compartmentalise the EU Common Market into different national markets. In this regard, the Chapter addresses some fundamental principles, which determine the precincts of a trade mark monopoly, namely, the existence-exercise dichotomy, the specific subject-matter and essential function of trade marks, as well as the principle of exhaustion of trade-mark rights. The chapter explores further various practical instances that clarify the doctrine of exhaustion. Some preliminary considerations in the Chapter are directed to provisions of the Treaty on the Functioning of the European Union (TFEU), which stipulate the principle of free movement of goods.

The central thesis of this chapter is that the principle of free movement of goods in the EU Common Market is not an absolute, but a qualified freedom, as it accommodates some concessions which are necessary to ensure that trade mark proprietors enjoy the monopoly in a way that does not distort competition in the internal market. In this regard, the Chapter reinforces a legal position that the “capacity of a trade mark proprietor to oppose the marketing of products by an importer, where they have been placed on the market in the Member State of export by him or with his consent is regarded as justified, unless it is established, in particular, that such opposition contributes to the artificial partitioning of the markets between Member States”.<sup>774</sup>

773 Throughout this Chapter the terms EC (i.e. European Community), EU (i.e. European Union) and EEA (i.e. European Economic Area) are used interchangeably to refer to the geographical area to the scale of which the Community trade mark directive and the CTMR, as well as the Treaty on the Functioning of the European Union (TFEU) are applicable.

774 ECJ, Case C-379/97 *Pharmacia & Upjohn SA v Paranova A/S* [1999] ECR I-0692, para. 72 of summary of the judgment.

## ***B. Legal basis for free movement of branded goods***

### *I. The Treaty on the Functioning of the European Union*

The interplay between intellectual property and free movement of goods in the European Union (EU) is regulated under Articles 34 to 36 and 345 of the TFEU.<sup>775</sup> The use of intellectual property rights to prohibit free movement of goods constitutes a measure having equivalent effects within the meaning of Article 34 of the TFEU. The Article provides that “Quantitative restrictions<sup>776</sup> on imports and all measures having equivalent effect shall be prohibited between Member States”. For its part, Article 36 of the TFEU manifests recognition by the EU legislature of the significant role of industrial property rights in a free market economy “despite their inherent potential to undermine the E.U. free trade objective”.<sup>777</sup> It stipulates that “The provisions of Articles 34 shall not preclude prohibitions or restrictions on imports... or goods in transit justified on grounds of ... the protection of industrial and commercial property”. However, the reliance on intellectual property rights to prohibit free movement of goods may be justified only to the extent such use does not constitute a “means of arbitrary discrimination or a disguised restriction on trade between Member States” – a requirement stipulated in the proviso to Article 34 of the TFEU.

The term “disguised restriction on trade between Member States”, as expressed in recent ECJ’s case law, refers to a scenario in which a trade mark proprietor devises a scheme enabling him to artificially partition the market between the EU Member States. For instance, the proprietor will be regarded as embarking on artificial partitioning of the EC Common Market when, with deliberate intention to segment the market, he relies on a national law, or contractual arrangements, to prohibit imports of similar goods bearing his trade mark that were legally marketed in another Member State.<sup>778</sup> The ECJ’s use of the term “artificial partitioning” presupposes existence of “natural partitioning”. It follows from the principles laid down in Article 36 TFEU, that the proprietor of a trade mark is naturally allowed to rely on his trade mark rights as owner to oppose the marketing of the branded goods “when such action is justified by the

<sup>775</sup> The consolidated version of the TFEU was published in the Official Journal of the European Union No. C 115/47 of 9.5.2008.

<sup>776</sup> Quantitative restrictions encompass “measures which amount to a total or partial restraint of, according to the circumstances, imports, exports or goods in transit” (*cf.* ECJ, Case C-2/73 *Gedo v Ente Nazionale Risi* [1973] ECR 865, para. 7).

<sup>777</sup> *Cf.* GROSS, N., “Trade mark exhaustion: the U.K. perspective”, 23(5) E. I. P. R. 224, 226 (2001).

<sup>778</sup> ECJ, joined cases C-414/99 to 416/99, *Zino Davidoff* [2001] ECR I-0869, para. 45.