need to safeguard the essential function of the trade mark", in which case the resultant partitioning could not be regarded as artificial.[779]

The essential function of intellectual property rights is one of the principles developed by the ECJ in the course of interpreting provisions of the EU law in relation to the free movement of branded goods. It was preceded by the principle that requires a distinction to be made between the existence and exercise of intellectual property rights, and the principle of specific subject-matter of intellectual property rights.

II. Principles developed by the ECJ

1. Existence and exercise of intellectual property

The principle that requires a distinction to be made between the existence and exercise of intellectual property rights was expounded by the ECJ as a response to a fundamental question of how to achieve a balance between the legitimate interests of right holders to enjoy a monopoly in respect of industrial property protected under the national law and the EU's objective to maintain undivided common market. This question becomes of paramount importance when the owner of a national industrial property seeks to enjoy his rights in a way that clashes with interests of the EU's Common Market, namely the principle of free movement of goods. A partial solution to this question can be found in Article 36 of the TFEU, which disqualifies any attempt, by individuals, to rely on intellectual property to hamper free movement of goods, especially where such reliance disguisedly restricts trade between Member States. However, Article 345 of the TFEU, which provides that the Treaty "shall in no way prejudice the rules in Member States governing the system of property ownership", is a very antithesis of the foregoing conclusion. In the light of this Article, the TFEU seems to subordinate the EU law governing ownership of intellectual property to national law of the Member States regulating the same subject. This begs the question whether the proviso to Article 36 of the TFEU outlaws the use of national industrial property adjudged to be a disguised restriction on trade between Member States.

The provisions of Article 345 and the first part of Article 36 of the TFEU ostensibly trigger individuals in the EU Member States to assume that their nationally protected copyrights, patents, trade marks and other forms of

779 *Cf.* joined cases C-427/93, C-429/93 and 436/93, *Bristol-Myers Squibb v Panarova* [1996] ECR I-3457, para. 53.

intellectual property are sacrosanct rights, unassailable on the basis of Community law, but "left to the authority and control of the Member States".[780] Nevertheless, in view of some ECJ's judgments, such as *Grundig*,[781] *Parke*,[782] *Sirena,*[783] and *Deutsche Grammophon*,[784] this assumption would be treated as a clear misconception of the relationship between Community law and the laws of the Member States. Insofar as this relationship is concerned, these cases offer a two-level approach:

- The court seized of the matter must acknowledge that the existence of intellectual property rights protected in the Member States is a matter of national legislation of a Member State concerned and abstain from questioning such existence on the basis of the Community law.
- The same court must thus employ a legal fiction to isolate existence from exercise of intellectual property rights so that whenever the exercise of intellectual property right comes into conflict with the Community law, such exercise shall be declared illegal without affecting existence of the respective rights under the national law.

As the discussion below elaborates, the above cases were basically decided based on competition law rather than the rules on free movement of goods contained in Articles 34 and 36 of the TFEU. The relevant competition provisions of the TFEU are Articles 101 (1) and 102.

Article 101(1) of the TFEU provides that:

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

On its part, Article 102 of the TFEU stipulates that:

> Any abuse by one or more undertakings of a dominant position within the common market or in a substantial part of it shall be prohibited as incompatible with the common market insofar as it may affect trade between Member States...

780 MANIATIS, S., "Trade Marks in Europe: A Practical Jurisprudence" (1st ed.) 454 (Sweet & Maxwell, London 2006).

781 ECJ, Joined cases 56 and 58-64, *Etablissements Consten S.a.R.L. and Grudig-Verkaufs-GmbH v Commission of the European Community* [1966] ECR 00299.

782 ECJ, Case 24/67 *Parke, Davis and Co. v Probel, Reese, Beintema-Interpharm and Centrafarm* [1968] ECR 00055, para. 2 of summary of the judgment.

783 ECJ, Case 40/70, *Sirena S.r.l. v Eda S.r.l. and others* [1971] ECR 00069, para. 1of summary of the judgment.

784 ECJ, Case 78/70, *Deutsche Grammophon Gesellschaft mbH v Metro-SB-Großmärkte GmbH & Co. KG.* [1971] ECR 00487.

a) Grundig

Grundig[785] is one of the early ECJ's cases which involved the exercise of intellectual property rights in a way that conflicts with the Community law. The material facts of the case present Grundig as a company registered in Bavaria, Germany. It owns, and affixes to all its goods, a trademark "GINT". *Grundig* entered into an exclusive distribution agreement with French Company – Consten. The *Grundig-Consten* agreement manifests a win-win scenario: *Consten* is assured access to *Grundig* stocks on a condition that *it* must abstain from selling the stocks in EU countries other than France, whereas *Grundig* rewards Consten's forbearance by undertaking not to distribute similar products to *Consten*'s business competitors in France. To ensure that no third party could export to France products bearing *Grundig*'s GINT mark bought elsewhere, *Consten* registered the trade mark "GINT" as a French national mark. The registration was undertaken as a part of *Grundig-Consten* agreement. Analysing the circumstances surrounding the case, the ECJ concluded that the registration of GINT as a French national trade mark aimed at restricting parallel imports into France of *Grundig* products. Thus, the registration strengthened the contractual restrictions already agreed upon by the parties, with the consequences that no third party could import *Grundig* products from other Member States of the Community for resale in France "without running serious risks".[786]

Having been convinced that the *Grundig-Consten agreement* aimed at "isolating the French market for *Grundig* Products and maintain artificially, for products of a very well-known brand, separate national markets within the Community", the ECJ held that the agreement distorted competition contrary to Article 101 of the TFEU. Drawing on the fact that the agreement prevented undertakings other than *Consten* from importing *Grundig* products into France, and at the same time restricted *Consten* from re-exporting those products to other countries of the common market, the ECJ held that the agreement affected trade between Member States contrary to the provisions of the TFEU.[787]

The ECJ hinted, indirectly, on the existence-exercise dichotomy by arguing that "the Community rules on competition do not allow the improper use of

785 ECJ, Joined cases 56 and 58-64, *Etablissements Consten S.a.R.L. and Grudig-Verkaufs-GmbH v Commission of the European Community* [1966] ECR 00299.

786 *Cf.* ECJ, Joined cases 56 and 58-64 *Etablissements Consten S.a.R.L. and Grudig-Verkaufs-GmbH v Commission of the European Community* [1966] ECR 00299, para. 6 of summary of the judgment.

787 *Cf.* ECJ, Joined cases 56 and 58-64, *Etablissements Consten S.a.R.L. and Grudig-Verkaufs-GmbH v Commission of the European Community* [1966] ECR 00299, para. 6 summary of the judgment.

rights under national trade-mark law in order to frustrate the Community's law on cartels".[788] With this conclusion, the ECJ intimated that the trade mark registration of the GINT mark made under the French law could not justify restriction on trade between Member States, since the registration in issue was secured in execution of a plan agreed upon by *Grundig* and *Consten* – a plan which contravenes the EU competition law.

b) Parke

Parke case[789] depicts some weaknesses inherent in the *Grundig-Consten* judgment. The *Grundig* case basis solely on competition rules of the EC Treaty to prohibit proprietors of intellectual property right from relying on their rights to restrict trade between the EU Member States. In order for Article 101(1) of the TFEU to apply, it is necessary to prove the existence of an agreement..., or a decision... or concerted practice... which tends to restrict trade between Member States.[790] This was not a case in *Parke,* which basically concerned reliance on a patent legally protected in the Netherlands. The patent covered medicinal products. The contentious issue was whether the proprietor of the patent in issue was justified to prohibit marketing, in the Netherlands, of similar medicinal products produced in another Member State where such medicinal products do not qualify for protection under patent law. The referring court had asked the ECJ to determine whether the action by the patentee was contrary to the provisions of Articles 101(1) and 102 of the TFEU. The ECJ affirmed that existence of a patent right protected in the Member State could not be affected by the prohibitions contained in the above provisions. Since there was no agreement, decision or concerted practice involved, the exercise of the said patent was not contrary to the provisions of Article 101(1) of the TFEU. In a case (such as *Parke*) in which the conditions required for Article 101(1) to apply are not fulfilled, the patentee can only be restrained from relying on his protected rights if he contravenes Article 102 of the TFEU. However, the exercise of patent right cannot be enjoined on the basis of Article 102 of the TFEU; unless it is proved that the right holder abused his dominant position.

788 *Cf.* ECJ, Joined cases 56 and 58-64, *Etablissements Consten S.a.R.L. and Grudig-Verkaufs-GmbH v Commission of the European Community* [1966] ECR 00299, para. 10 of summary of the judgment.

789 Case 24/67 *Parke, Davis and Co. v Probel, Reese, Beintema-Interpharm and Centrafarm* [1968] ECR 00055.

790 ECJ, Case 24/67 *Parke, Davis and Co. v Probel, Reese, Beintema-Interpharm and Centrafarm* [1968] ECR 00055, para. 2 of summary of the judgment.

c) Sirena

According to *Sirena*[791] case, a contract for an assignment of a trade-mark will always be invalidated if it negatively affects trade between EU Member States. In the case at hand, an American company (henceforth the US company) owned a trade mark in connection with which it used to market cosmetics and medicinal cream worldwide. The US Company "sold, assigned and transferred all rights, titles and interests in the said trademark" to two European Companies, namely an Italian company (henceforth IT) and a German company (henceforth DE).[792] Each company was required under the agreement to use the trade mark on its own territory. IT registered the trade mark in Italy in respect of cosmetic and medicinal products. DE sought to import in Italy cosmetic and medicinal products bearing a trade mark identical to that used by IT on identical goods. IT regarded such importation as an infringement of its trade mark registered in Italy and objected the importation. The following question was thus framed by the referring court (i.e. the Italian Court) soliciting the ECJ's response thereto: "assuming that the national law recognises the right of a trade-mark proprietor to impede imports from other Member States, does Community law affect the extent of this right?".[793] As what might be seen as a response to this question, the ECJ conceded that:

> A trade mark right, as a legal entity, does not in itself possess those elements of contract or concerted practice referred to in Article [101(1)]. Nevertheless, the exercise of that right might fall within the ambit of the prohibitions contained in the Treaty each time it manifests itself as the subject, the means or the result of a restrictive practice. When a trade mark right is exercised by virtue of assignments in one or more Member States, it is thus necessary to establish in each case whether such use leads to a situation falling under the prohibitions of Article [101].[794]

While building on the principles established in *Parke*,[795] the ECJ, in *Sirena* case, made some slight improvements on the former judgment. It clearly associated the rules in Articles 101(1) and 102 of the TFEU with the provisions of Article 36 of the TFEU which justifies, in certain instances, the exercise of intellectual property to prohibit free movement of goods. In this regard, a relevant paragraph of the judgment provides that:

791 ECJ, Case 40/70, *Sirena S.r.l. v Eda S.r.l. and others* [1971] ECR 00069.
792 ECJ, Case 40/70 *Sirena S.r.l. v Eda S.r.l. and others* [1971] ECR 00069, para. 2.
793 ECJ, Case 40/70, *Sirena S.r.l. v Eda S.r.l. and others* [1971] ECR 00069, para. 3.
794 ECJ, Case 40/70, *Sirena S.r.l. v Eda S.r.l. and others* [1971] ECR 00069, para. 9.
795 *Cf.* ECJ, Case 40/70, *Sirena S.r.l. v Eda S.r.l. and others* [1971] ECR 00069, para. 1 of summary of the judgment.

> ... [Article 36], although it appears in the chapter of the Treaty dealing with quantitative restrictions on trade between Member States, is based on a principle equally applicable to the question of competition, in the sense that even if the rights recognised by the legislation of a Member State on the subject of industrial and commercial property are not affected, so far as the existence is concerned, by Articles [101 and 102 TFEU], their exercise may still fall under the prohibitions imposed by those provision.[796]

Thus, if the cumulative assignments to different users of a national trade mark protected in two or more Member States for the same product re-enacted "impenetrable frontiers between the Member States" a conclusion could be drawn that such practice affected as well trade between the Member States, and distorted competition in the common market[797] - a fact that would lead sanctions against the said behaviour being proffered based on Articles 36 and 101(1) of the TFEU.

d) Deutsche Grammophon

In *Deutsche Grammophon*[798], the ECJ was asked to determine whether "the exclusive right of distributing the protected articles which is conferred by a national law on the manufacturer of sound recordings may, without infringing Community provisions, prevent the marketing on national territory of products lawfully distributed by such manufacturer or with his consent on the territory of another Member State". The court was urged to respond to this question in the light of the provisions of Article 101(1) of the TFEU.[799] However, the ECJ "widened the scope of the question, linked competition with free movement, and exported the distinction between existence and exercise of a right from the field of competition to that of free movement of goods".[800] This new approach acknowledges the fact that the exercise of intellectual property rights which does not result from an agreement between the parties cannot be enjoined under Article 101(1) TFEU even where such exercise produces some shrewd effects on the common market. However, under the circumstances as the foregoing, it is necessary for the court to consider whether such use is in consonance with other provisions of TFEU especially those concerning free movement of goods.[801]

796 ECJ, Case 40/70, *Sirena S.r.l. v Eda S.r.l. and others* [1971] ECR 00069, para. 5.
797 ECJ, Case 40/70, *Sirena S.r.l. v Eda S.r.l. and others* [1971] ECR 00069, para. 10.
798 ECJ, Case 78/70, *Deutsche Grammophon Gesellschaft mbH v Metro-SB-Großmärkte GmbH & Co. KG.* [1971] ECR 00487.
799 *Cf.* Case 78/70 *Deutsche Grammophon* [1971] ECR 00487, para. 4.
800 *Cf.* MANIATIS, S., "Trade Marks in Europe: A Practical Jurisprudence" (1st ed.) 455 (Sweet & Maxwell, London 2006).
801 *Cf.* ECJ, Case 78/70, *Deutsche Grammophon* [1971] ECR 00487, para. 7.

The aim of attaining a single market in the European Community provided an impulse for the ECJ to link competition rules and the principles of free movement of goods contained in Article 36 of the TFEU.[802]

Returning to the provisions of Article 36 of the TFEU, the court, justifiably, made a distinction between existence and exercise of industrial property rights as follows:

> Amongst the prohibitions or restrictions on the free movement of goods which it concedes Article [36] refers to industrial and commercial property. On the assumption that those provisions may be relevant to a right related to a copyright, it is nevertheless clear from that Article [36] that, although the Treaty does not affect the existence of rights recognised by the legislation of a Member State with regard to industrial and commercial property, the exercise of such rights may nevertheless fall within the prohibitions laid down in the Treaty.[803]

Adding to the foregoing, the ECJ made an important step for the protection of the European internal market by providing a predictable demarcation of the extent to which intellectual property rights may be based upon to abrogate the freedom of movement of goods:

> Although it permits prohibitions or restrictions on the free movement of products, which are justified for the purpose of protecting industrial and commercial property, Article [36] only admits derogations from that freedom to the extent to which they are justified for the purpose of safeguarding rights which constitute the specific-subject matter of such property.[804]

The court did not, however, provide a firm interpretation of what constituted "specific subject-matter" of intellectual property.

2. Specific subject-matter of intellectual property

The principle of specific subject matter of intellectual property right essentially means that when a trade between Member States may be affected by a proprietor who relies on his right, such reliance must be justified on the grounds of protecting the specific subject-matter of the right concerned. The principle, therefore, aims to prevent trade mark rights to be used to "partition off national markets" and thereby restrict trade between the Member States, in a situation where no such restriction was necessary to guarantee the essence of the exclusive right flowing from the trade mark.[805] Where the reason is to protect a specific

802 *Cf.* ECJ, Case 78/70, *Deutsche Grammophon* [1971] ECR 00487, para. 8.
803 *Cf.* ECJ, Case 78/70, *Deutsche Grammophon* [1971] ECR 00487, para. 11.
804 *Cf.* ECJ, Case 78/70, *Deutsche Grammophon* [1971] ECR 00487, para. 11.
805 ECJ, Case C-16/74, *Centrafarm BV et Adriaan de Peijper v Winthrop BV* [1974] ECR

subject-matter of an intellectual property right, derogation from the Community law requiring unhampered free movement of goods will be justified.[806]

Each type of intellectual property has a specific subject-matter which it protects:

> In relation to trade marks, the specific subject-matter ... is the guarantee that the owner of the trade mark has the exclusive right to use that trade mark, for the purpose of putting products protected by the trade mark into circulation for the first time, and is therefore intended to protect him against competitors wishing to take advantage of the status and reputation of the trade mark by selling products illegally bearing that trade mark.[807]

It is apparent that a trade mark proprietor may not prohibit marketing in his national territory of a product put on the market of another Member State by himself or with his consent, since under this scenario, the proprietor will be presumed to have profited from the specific subject-matter of the protection extended to his trade mark.

The ECJ has however held that the scope of the right to enjoy a specific subject-matter of a trade mark can be determined by making a reference to essential function of a trade mark.[808]

3. Essential function of a trade mark

The ECJ made it clear in *Hoffmann-La Roche*[809] that the essential function of a trade mark was to guarantee "the identity of the origin of the trade-marked product to the consumer or ultimate user, by enabling him without any possibility of confusion to distinguish that product from products which have another origin". The essential function of trade marks is therefore to provide an assurance to the ultimate consumer that a branded good which is being marketed to him comes directly from the proprietor of a trade mark or from a person authorised to use a mark by the proprietor so that the consumer is certain of quality of the products usually bearing the proprietor's mark.[810] In the event third

01183, para. 11.

806 ECJ, Case C-16/74, *Centrafarm BV et Adriaan de Peijper v Winthrop BV* [1974] ECR 01183, para. 8.

807 ECJ, Case C-23/78, *Hoffmann-La Roche & Co. AG v Centrafarm* [1978] ECR 01139, para. 7.

808 ECJ, Case C-10/89, *SA CNL-Sucal NV v HAG G AG* [1990] ECR I-03711, para. 14.

809 ECJ, Case C-102/77, *Hoffmann-La Roche & Co. AG v Centrafarm* [1978] ECR 01139, para. 7.

810 ECJ, Case C-102/77, *Hoffmann-La Roche & Co. AG v Centrafarm* [1978] ECR 01139, para. 7.

parties interfere with the essential function of a trade mark, the proprietor will not be able to enjoy the specific subject-matter of his trade mark.

It follows naturally that the proprietor can enforce his specific subject matter of a CTM based on the essential function of a trade mark as well. This could happen if a third party, who has no authorisation to a use a mark, markets the goods bearing the mark in such a way as to impair the "guarantee of origin".[811]

It is important to note that the principles of specific subject matter and the essential function of trade mark right are relied upon by the ECJ to define the extent to which manufacturers and/or trade mark proprietors may rely on the principle of trade mark exhaustion stipulated in Articles 7 and 13 of the TD and the CTMR respectively, to prohibit free movement of goods. As is shown in section C below, the principle of exhaustion is the ECJ's approach to the balancing of two opposing interests, namely, the fundamental tenet of free movement of goods assured by Article 34 of the TFEU and the legitimate interests, which trade mark proprietors can enforce based on Articles 345 and 36 of the TFEU.[812]

C. Exhaustion of trade mark rights

I. Delineation and forms of trade mark exhaustion

Section C (I) (2) (a) of chapter 3 hints to the fact that a regime for trade mark exhaustion is usually delimited to a specific geographical area.[813] The doctrine of trade mark exhaustion in the EU "relates to the territory of the Member States". The European Union applies to the Community trade mark regime the principle of regional exhaustion based on Article 13(1) of the CTMR. Similarly, Member States are required under Article 7(1) of the TD to apply the principle of regional exhaustion to trade mark rights protected under the national law. Pursuant to the principle of regional exhaustion, "trade mark rights cannot be invoked to restrain the free movement of goods within the EU, but they can be used to restrain the entry of such goods into the EU".[814] Thus, regional exhaustion of CTM rights is

811 ECJ, Case C-102/77, *Hoffmann-La Roche & Co. AG v Centrafarm* [1978] ECR 01139, para. 7.

812 ENCHELMAIER, S., "the inexhaustible question – free movement of goods and intellectual property in the European Court of Justice's Case Law, 2002-2006", 38(4) IIC 453 (2007).

813 *Cf.* STUCKI, M., "Trademarks and Free Trade" 26 (Staempfli Verlag AG, Bern 1997).

814 *Cf.* Commission of the European Communities, "possible abuses of trade mark rights within the EU in the context of Community exhaustion", Commission Staff Working