PARALLEL TRADE IN EUROPE

Are parallel importers the key to free trade, breaking down long-established national barriers for the benefit of all? Or do they instead just operate in a dubious 'grey market' for their own profit, free-loading on the investment of innovators and brand owners to the ultimate detriment of everyone? Parallel trade is in turn lionised and demonised, both in legal commentary and in the mainstream press. As one might expect, the truth lies somewhere between these extremes.

Once goods have been manufactured they are put onto the market in one country by the manufacturer. Parallel trade occurs when the goods are subsequently transferred to a second country by another party (the parallel trader, who may be the end consumer). The distinguishing feature of parallel trade is that the manufacturer did not intend those particular goods to end up in the second country. The goods are normally described in that country as 'parallel imports' or 'grey market goods'. The latter term is generally used to suggest that the trade, while not exactly 'black market', is not entirely lawful either.

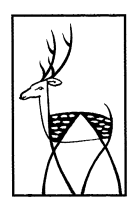
Understanding how European Community law operates to permit or restrict parallel trade involves exploring a complex matrix of rules from the fields of free movement, intellectual property, competition and regulatory law, including both private and public enforcement regimes. Where goods are parallel imported from outside the Community these rules change and new considerations come into play, such as obligations arising from the European Economic Area, the World Trade Organization and bilateral free trade agreements. The experience of Europe, which has grappled with the issues on a regional basis for more than four decades, provides a fertile source for examination of parallel trade in other jurisdictions.

Christopher Stothers' comprehensive treatment successfully analyses this difficult topic, considering both Community and national decisions.

Parallel Trade in Europe

Intellectual Property, Competition and Regulatory Law

Christopher Stothers



OXFORD AND PORTLAND, OREGON
2007

Published in North America (US and Canada) by
Hart Publishing
c/o International Specialized Book Services
920 NE 58th Avenue, Suite 300
Portland, OR 97213-3786
USA
Tel: +1 503 287 3093 or toll-free: (1) 800 944 6190
Fax: +1 503 280 8832
E-mail: orders@isbs.com
Website: www.isbs.com

Hart Publishing, 16C Worcester Place, OX1 2JW
Telephone: +44 (0)1865 517530 Fax: +44 (0)1865 510710
E-mail: mail@hartpub.co.uk
Website: http://www.hartpub.co.uk

British Library Cataloguing in Publication Data
Data Available
ISBN-13: 978-1-84113-437-6 (hardback)
ISBN-10: 1-84113-437-6 (hardback)

Typeset by Hope Services, Abingdon
Printed and bound in Great Britain by
TJ International Ltd, Padstow, Cornwall

Foreword

The architects of the European Union were visionaries. They may also have been optimists. The objectives set out in Article 2 of the EC Treaty are ambitious and inevitably challenge the supremacy of many national interests. This has and will continue to generate friction. Perhaps nowhere is that friction more apparent than in the impact the Treaty has had on the ability of traders to service individual national markets in different ways. Most businessmen want the freedom to tailor their businesses to the peculiarities of each of the markets they operate in. If a particular market can afford and is willing to pay a higher price for goods than another, it is likely to make commercial sense to charge higher prices in one than the other. This may not simply be a matter of one market offering higher profits than another. It may be that higher prices are necessary in some markets because the costs of promotion, distribution and sale there are greater than in another. However this freedom will only work if the markets can be isolated from each other. If this is not possible arbitragers will be tempted to reap profits by obtaining goods in a low price market and selling them into a high priced one. This is the classic case of parallel trade. In many respects this type of activity has been facilitated within the European Union by the Treaty. Depending on your point of view, this is a good or a bad thing. Normally the public in expensive markets is more than happy to receive the same goods at a lower price. The public in cheaper markets who find themselves starved of products because most have been diverted to richer markets might well feel rather differently. The arbitrager will rejoice that this allows him to make a profit. The business deprived of the ability to cater for individual national markets is likely to see his profits reduced and, in extreme cases, may be forced to ration the products he is prepared to supply to markets where the price he can charge is lower. The recent *Bayer Adalat* case is an example of this.

Not only does this aspect of the Treaty cause friction, but it is also something which touches the public. Not too long ago I was having dinner with a friend who was a senior executive in a company which sold sports goods under a number of famous brands. His hostility to parallel importation was sincere and strongly expressed. Yet he could see nothing wrong in travelling to the Continent to pick up a new motor car because it was cheaper to buy it in Germany than in England. Christopher records the public interest generated when major UK supermarkets fought for, and eventually lost, the right to import branded designer jeans from cheaper markets. As he says, a vast array of policy arguments have been raised in the course of legislative, administrative and judicial proceedings relating to parallel trade. Sometimes, as he points out, the arguments are in the nature of mud-slinging. I can testify to the fact that even

in the fairly rarified environment of the Chancery Division of the High Court in England, some of the passion generated by conflicting views as to the legal, moral and economic benefits and disadvantages of parallel trade was on display. I am told that sometimes even the judges joined in.

Someone who comes fresh to this topic could easily be overwhelmed by the large number of ECJ, CFI and National Court judgments and Commission decisions and the ample literature. Not all of it seems consistent. What is needed is a calm, thorough and dispassionate analysis of this material. At last that has been supplied in this book. Christopher has done a marvellous job in producing a lucid but thorough account of the development and current state of the law in this area. He has not avoided criticising decisions where he thinks they are wrong nor has he held back from expressing views as to where he thinks the law is likely to go. But what is particularly admirable is that one never gets the impression that he argues for the sake of arguing or is digging to find inconsistencies when they don't exist. Above all he is not partisan and, in this more than most areas of law, that is very refreshing.

This book is a major contribution to the learning in this area of law. I have no doubt that it will become a standard. It should be read by anyone who wants to understand what the European law on parallel trade is.

Hugh Laddie
University College London
February, 2007

Preface

In the course of writing this book, it was suggested to me that the debate over parallel trade is over and so I was wasting my time. I disagree.

Even within the European Community the debate is far from over, with fresh attempts to facilitate or block parallel trade continuing to test consumers, parallel traders, manufacturers, lawyers, policy-makers, regulators and the judiciary. At an international level the policy debate is even more open, as the consequences of the opening of global trade continue to filter through the system. Meanwhile, technological developments have increased awareness and reduced the cost of parallel trade, while at the same time introducing new methods of distribution and blurring traditional lines between products and services.

It is against this backdrop that this book aims to tease out the different legal strands which apply to the activity of parallel trade within Europe, seeking both to analyse the current state of the law within the European Community and to provide a reference point for potential problems and solutions as they arise elsewhere.

Various people have encouraged my research and writing over the years, and thanks must go particularly to Paul Stanley, Tim Eicke, Philippa Watson, Sandra Fredman, Peter Oliver, Dan Goyder and Philip Marsden. Equally thanks are due to Milbank, Tweed, Hadley & McCloy LLP, and especially David Perkins, for giving me the time to complete the book. Peter, Philip and David have all reviewed sections of the book and provided comments, as have Stefan Enchelmaier, Thomas Heide and Malcolm Jarvis, while various sections have been reworked following discussions with Lionel Bently, Anna Carboni, Oke Odudu, Brian Sher and Adrian Speck. Finally, I would like to thank Hugh Laddie for his generous Foreword and I have also appreciated greatly the patience and hard work of everyone at Hart.

Writing any book comes at a cost to those around the author and this book is no exception, as it would never have been completed without the patient love of Emily Cox.

The law is stated as of 1 January 2007.

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Introduction

ARE PARALLEL IMPORTERS the key to free trade, breaking down long-established national barriers for the benefit of all? Or do they instead just operate in a dubious 'grey market' for their own profit, free-loading on the investment of innovators and brand owners to the ultimate detriment of everyone?

Parallel trade is in turns lionised and demonised, both in legal commentary and in the mainstream press. As one might expect, the truth lies somewhere between these extremes.

I. TRADE

Trade is theoretically possible whenever the cost of a particular product in one area is higher than its cost in another. However, in the real world trade will occur only if this price differential is sufficient to cover the costs of the trader together with a sufficiently attractive margin of profit, given the risks that the prices will change. The costs of the trader may include the cost of purchasing, the cost of transport, the cost of selling, the administrative cost of meeting export and import regulations, export and import duties, the cost of the capital employed, and the trader's assessment of the cost of the various risks incurred (or the absolute cost of insuring against such risks). The trader's risks may include currency variation, market swings, product spoilage in transport, administrative corruption and civil or criminal sanctions where the trade is unlawful or illegal in one or more of the relevant countries.

Together these costs can be seen as 'barriers' to trade which result in an economically imperfect allocation of resources across the world. They can also consume resources, reducing global welfare. Various attempts have been made to reduce unnecessary barriers, encouraging trade and avoiding waste. The clearest example today is the World Trade Organisation, the members of which have entered into various agreements 'directed to the substantial reduction of tariffs and other barriers to trade and to the elimination of discriminatory treatment in international trade relations'.[1] Regional trading areas, such as the European

[1] Marrakesh Agreement Establishing the World Trade Organisation 1994, 1867 UNTS 154, preamble.

Community (which is the prime concern of this book), share this goal of reducing barriers to trade, along with certain other aims.

Although many barriers have already been removed, this process is far from complete. At the same time, the determination of whether barriers are necessary or not is far from easy, and the proliferation of literature and demonstrations against international trade makes clear the controversial nature of some of these measures. Negotiating countries are not altruistic entities but have their own agendas: while increased global prosperity is a fine goal, countries will tend to look primarily to their own wants and demands, which can distort the process, as only certain sectors are opened to international trade. A linked problem is that countries in economic difficulties may be forced to sell resources at an undervalue (the equivalent of a 'firesale' by a business), leaving them even weaker in the long run.

This said, the process has begun and businesses around the world are taking advantage of the opportunities which have been presented to them, sourcing goods and services more cheaply both within regional trading blocs and worldwide.

II. PARALLEL TRADE

It is with this background that we turn to the topic of this book, parallel trade. Once goods have been manufactured they are put onto the market in one country by the manufacturer. Parallel trade occurs when the goods are subsequently transferred to a second country by another party (the parallel trader, who may be the end consumer). The distinguishing feature of parallel trade is that the manufacturer did not intend those particular goods to end up in the second country. The goods are normally described in that country as 'parallel imports' or 'grey market goods'. The latter term is generally used to suggest that the trade, while not exactly 'black market', is not entirely lawful either.

Parallel trade normally occurs when the manufacturer sells the goods in question in both country A and country B (thus the trade is 'parallel' to the manufacturer's intended distribution structure) but the price of the goods in country A is lower than the price in country B. However, it may also occur when the manufacturer does not sell in country B at all, where it does not sell sufficient quantities there to meet demand or where it sells in both countries, but on different terms.

The price differentials which can fuel parallel trade can arise for a variety of reasons, such as:

(a) Currency fluctuation: the goods may originally be sold at the same price but if the currency in country B rises against the currency in country A then the goods will become relatively more expensive in country B;
(b) Price regulation: country A may force companies to sell at a lower price (very common in the case of pharmaceuticals in Europe);

(c) Product regulation: meeting national regulatory requirements in country B may be more expensive than in country A; this is also likely to increase the costs of the parallel importer;
(d) Distribution costs: the cost of physically getting the products to the consumer, in terms of the costs of labour, land and transport, may be higher in country B than in country A; again, this is also likely to increase the costs of the parallel importer;
(e) Manufacturer choice: the manufacturer may choose to sell the goods at a higher price in country B than in country A in order to make higher profits and/or to cover the costs of additional services in country B, such as pre-sales advice or after-sales warranties.

Price differentials can also arise within the same country, although these are more likely to arise for reason (d) or (e). Everyday examples include the price variation of similar or identical products sold in different branches of chain stores such as supermarkets, petrol stations and fast food outlets, which otherwise trade on providing the same service throughout the country (or throughout the world).

In each case, parallel trade is likely to replace some sales which would otherwise have been made by the manufacturer in country B with sales by the manufacturer in country A. However, on the basis that the parallel imported product is cheaper than the regular product in country B there should also be an increase in overall sales. It is also likely to undermine the price of the regular product in country B, while the increased demand in country A is likely to put pressure on the price to rise in that country. In any event, it is likely to reduce manufacturers' profits, and so manufacturers will typically oppose parallel trade in various ways.

This book is concerned with the legality of parallel trade between countries and the legality of measures restricting it, primarily within the European Community. It will focus on three main areas: intellectual property rights, competition law and regulatory restrictions, before turning to parallel trade from outside the Community.

III. THE EUROPEAN COMMUNITY

Although a complete knowledge of the workings of the European Community is not necessary for this book,[2] a general understanding of the terminology, the common market provisions and the enforcement provisions may be of assistance to the reader and so a brief introduction is provided below.

[2] Readers seeking a fuller introduction to Community law are advised to turn to, for instance, S Weatherill and P Beaumont, *EU Law,* 3rd edn (Penguin, London, 1999) or P Craig and G de Búrca, *EU Law: Text, Cases and Materials,* 3rd edn (OUP, Oxford, 2003).

A. Basic Terminology

The European Community (EC) was founded in 1958 as the European Economic Community (EEC). It is based in the EC Treaty, also known as the Treaty of Rome, which was signed in 1957.[3] The name was changed to the European Community in 1993 by the EU Treaty, also known as the Maastricht Treaty.[4] In addition, the numbering of the Articles of the EC Treaty was changed by the Treaty of Amsterdam in 1999.[5] The new numbering is used throughout this book, although the old numbers for the key Articles appear in parenthesis in this chapter.

The European Union (EU) is based in the EU Treaty. It is an overarching body which covers the European Community and the European Atomic Energy Community (Euratom).[6] It also covered the European Coal and Steel Community (ECSC) until its expiry in 2002.[7] In addition, it contains provisions on a Common Foreign and Security Policy (CFSP) and Police and Judicial Cooperation in Criminal Matters.

The current 27 Member States of the EC and EU are the same: Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the United Kingdom.

The expression European Community (or simply Community) is preferred to EU throughout this book as the key provisions which affect parallel trade are found within the EC Treaty rather than the EU Treaty.

For most purposes these provisions effectively extend to the European Economic Area (EEA) under the EEA Agreement.[8] The EEA comprises Iceland, Liechtenstein and Norway, together with the Member States of the European Community. Although Switzerland is a member of the European Free Trade Agreement (EFTA) (together with Iceland, Liechtenstein and Norway) it is not a member of the EEA. The EEA will be considered in Chapter 5, although it will be apparent in Chapters 2 to 4 that much of the recent case law of the ECJ explicitly applies to the EEA rather than simply the Community.

The Community institutions are listed in Articles 7 to 9 of the EC Treaty. For present purposes, the most important of these are the Commission, the Council, the Parliament and the Court of Justice (ECJ). In essence, the Commission is the Community's executive body and represents the Community itself. Among other things, it is responsible for proposing legislation and enforcing Community rules. The Council, which represents the Member States, and the

[3] EC Treaty (1957), 298 UNTS 11, [2006] OJ C321E/37 (consolidated version).
[4] EU Treaty (1992), [1992] OJ C224/1, [2006] OJ C321E/5 (consolidated version).
[5] Treaty of Amsterdam [1997] OJ C340/1.
[6] Euratom Treaty (1957), 298 UNTS 167.
[7] ECSC Treaty (1951), 298 UNTS 140.
[8] Agreement on the European Economic Area [1994] OJ L1/3.

Parliament, which represents the citizens, are responsible for amending and adopting legislation proposed by the Commission. The ECJ is the judicial institution.

The forms of legislation available to the Community institutions are laid down by Article 249 of the EC Treaty. They comprise Regulations, Directives, Decisions, Recommendations and Opinions:

—A Regulation 'shall have general application. It shall be binding in its entirety and directly applicable in all Member States'. In relation to parallel trade, most Regulations are forms of legislation which apply throughout the Community without the need for implementing domestic legislation. For instance, Regulations may establish new Community-wide intellectual property rights or may deem certain conduct not to be anti-competitive (so-called 'block exemptions').

—A Directive 'shall be binding, as to the result to be achieved, upon each Member State to which it is addressed, but shall leave to the national authorities the choice of form and methods'. Directives which relate to parallel trade are commonly those which require the harmonisation of national laws, such as those on intellectual property, without imposing a new Community-wide right.

—A Decision 'shall be binding in its entirety upon those to whom it is addressed'. Within the context of parallel trade, Decisions most often arise when the Commission reaches a conclusion in competition investigations.

—Recommendations and Opinions are stated to have 'no binding force'. In practice, the Commission will not necessarily use these titles when issuing soft law instruments and may instead describe such instruments as 'Guidelines', 'Communications' or 'Notices'.

Legislation is published in all the official languages in the L series of the Official Journal (OJ), while information and notices are published in the C series.

Provisions of the EC Treaty and Regulations will often be applied directly by national courts, even to strike down national legislation, so long as they are unconditional and sufficiently precise.[9] This is known as 'direct effect'.[10] Directives may also have direct effect in proceedings against the organs of a Member State, even if they have not been implemented by national legislation.[11] They do not typically have direct effect against private parties, although national courts have an obligation to interpret domestic legislation to give effect to Directives if possible.[12]

[9] Case 26/62 *Van Gend en Loos v Nederlandse Administratie der Belastingen* [1963] ECR 1.

[10] Much has been written about the concept of direct effect, which is fundamental to Community law. For an introduction, see S Weatherill and P Beaumont, *EU Law,* 3rd edn (Penguin, London, 1999) 392–423.

[11] Case 41/74 *Van Duyn v Home Office* [1974] ECR 1337.

[12] Case C–106/89 *Marleasing v La Comercial Internacional de Alimentación* [1990] ECR I–4135.

The ECJ will normally adopt a purposive interpretation of legislation.[13] All the language versions are deemed to be equal, and so it is possible to rely on other language versions to clarify the meaning of the legislation.[14] Finally, it is also possible to rely on the original proposal and legislative discussions, which are normally described as the *travaux préparatoires*.[15] The approach to interpretation can therefore be rather different from the more formalistic interpretation generally adopted by the English courts.

B. The Common Market

One of the most fundamental roles of the European Community, as required by Article 2 of the EC Treaty, has always been to establish a 'common market'.

Article 3 expands on this by listing the activities of the Community, including:

(a) the prohibition, as between Member States, of customs duties and quantitative restrictions on the import and export of goods, and of all other measures having equivalent effect;
(c) an internal market characterised by the abolition, as between Member States, of obstacles to the free movement of goods, persons, services and capital;
(g) a system ensuring that competition in the internal market is not distorted; and
(h) the approximation of the laws of Member States to the extent required for the functioning of the common market

The key provisions which affect parallel trade are those on the free movement of goods, the freedom to provide services, competition law and taxation.

i. Free Movement of Goods

The basic framework for trade in goods between Member States, parallel or otherwise, is laid down by Articles 28 to 30 of the EC Treaty, which read as follows:

> **Article 28 [ex 30]**
>
> Quantitative restrictions on imports and all measures having equivalent effect shall be prohibited between Member States.

[13] For further discussion of the ECJ's approach to interpretation, see Weatherill and Beaumont, above n10, 184–201.

[14] Case 29/69 *Stauder v Stadt Ulm* [1969] ECR 419.

[15] See S Schønberg and K Frick, 'Finishing, Refining, Polishing: On the Use of Travaux Préparatoires as an Aid in the Interpretation of Community Legislation' (2003) 28 *ELRev* 149.

Article 29 [**ex 34**]

Quantitative restrictions on exports, and all measures having equivalent effect, shall be prohibited between Member States.

Article 30 [**ex 36**]

The provisions of Articles 28 and 29 shall not preclude prohibitions or restrictions on imports, exports or goods in transit justified on grounds of public morality, public policy or public security; the protection of health and life of humans, animals or plants; the protection of national treasures possessing artistic, historic or archaeological value; or the protection of industrial and commercial property. Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States.

This framework has been considered extensively in the case law and what follows is simply an outline for the purposes of this book.[16]

Article 28 has a very broad scope. 'Measures having equivalent effect' were defined in *Dassonville* to include 'all trading rules enacted by Member States, which are capable of hindering, directly or indirectly, actually or potentially, intra-Community trade'.[17]

Article 30 is then split into two parts. The first sentence provides a list of potential justifications for measures which restrict trade, which include 'the protection of industrial and commercial property'. The second sentence then limits the possibility of justification by stating that the measures must not 'constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States'.

However, the scope for justification of such measures goes beyond Article 30. In *Cassis de Dijon*[18] the ECJ held:

> obstacles to movement within the Community resulting from disparities between the national laws relating to the marketing of the products in question must be accepted in so far as those provisions may be recognised as being necessary in order to satisfy mandatory requirements relating in particular to the effectiveness of fiscal supervision, the protection of public health, the fairness of commercial transactions and the defence of the consumer.

Therefore, obstacles to trade can be justified by 'mandatory requirements'.

The ECJ applied a gloss to the *Dassonville* definition in *Keck*,[19] where it confirmed that measures having equivalent effect include:

> obstacles to the free movement of goods where they are the consequence of applying rules that lay down requirements to be met by goods (such as requirements as to designation, form, size, weight, composition, presentation, labelling, packaging) to

[16] For a detailed treatment see P Oliver, *Free Movement of Goods in the European Community*, 4th edn (Sweet & Maxwell, London, 2003).

[17] Case 8/74 *Procureur du Roi v Dassonville* [1974] ECR 837, para 5.

[18] Case 120/78 *Rewe-Zentral v Bundesmonopolverwaltung für Branntwein* [1978] ECR 649, para 8.

[19] Joined Cases C–267/91 and 268/91 *Keck and Mithouard* [1993] ECR I–6097, para 15.

> goods from other Member States where they are lawfully manufactured and marketed, even if those rules apply without distinction to all products unless their application can be justified by a public interest objective taking precedence over the free movement of goods.

However, it distinguished such obstacles from 'national provisions restricting or prohibiting certain selling arrangements' which are not regarded as measures having equivalent effect 'provided that those measures apply to all affected traders operating within the national territory and provided that they affect in the same manner, in law and in fact, the marketing of domestic products and of those from other Member States'.[20]

The expression 'mandatory requirement', as used in *Cassis de Dijon*, has taken hold in the case law and literature, although its meaning is perhaps easier to grasp from the expression 'public interest objective', as used in *Keck*. 'Mandatory requirements' which have been recognised include consumer protection and the prevention of unfair competition. There is a debate about whether 'mandatory requirements' can ever be used to justify measures which impact more heavily on imports, although the better view is that they can on the same basis as the justifications listed in Article 30, and should simply be treated as forming part of that list.[21]

In summary, therefore, the EC Treaty abolishes all quotas on trade between Member States and other measures which have an equivalent effect, which is interpreted broadly. However, this would entail the abolition of many measures which are regarded as necessary on public policy grounds (for example, prohibitions on trade in illegal goods). Therefore, Member States may maintain such measures if they can be justified, either under the terms of Article 30 or by a 'mandatory requirement', so long as they do not constitute 'a means of arbitrary discrimination or a disguised restriction on trade'.

ii. Freedom to Provide Services

Although most parallel trade is of goods, there are some cases of parallel trade of services. The provisions on the freedom to provide services are not as clearly laid out as those on the free movement of goods, but the main provisions are found in Articles 49, 52, 54, 55 and 46(1) of the EC Treaty as follows:

> **Article 49 [ex 59]**
>
> Within the framework of the provisions set out below, restrictions on freedom to provide services within the Community shall be prohibited in respect of nationals of Member States who are established in a State of the Community other than that of the person for whom the services are intended.

[20] Joined Cases C–267/91 and 268/91 *Keck and Mithouard* [1993] ECR I–6097, para 16.

[21] P Oliver, *Free Movement of Goods in the European Community*, 4th edn (Sweet & Maxwell, London, 2003), paras 8.03–8.10.

The Council may, acting by a qualified majority on a proposal from the Commission, extend the provisions of the Chapter to nationals of a third country who provide services and who are established within the Community.

Article 52 [**ex 63**]

1. In order to achieve the liberalisation of a specific service, the Council shall, on a proposal from the Commission and after consulting the Economic and Social Committee and the European Parliament, issue directives acting by a qualified majority.

2. As regards the directives referred to in paragraph 1, priority shall as a general rule be given to those services which directly affect production costs or the liberalisation of which helps to promote trade in goods.

Article 54 [**ex 65**]

As long as restrictions on freedom to provide services have not been abolished, each Member State shall apply such restrictions without distinction on grounds of nationality or residence to all persons providing services within the meaning of the first paragraph of Article 49.

Article 55 [**ex 66**]

The provisions of Articles 45 to 48 shall apply to the matters covered by this chapter.

Article 46(1) [**ex 56(1)**]

The provisions of this chapter and measures taken in pursuance thereof shall not prejudice the applicability of provisions laid down by law, regulation or administrative action providing for special treatment for foreign nationals on grounds of public policy, public security or public health.

Again, this framework has been the subject of extensive consideration by the ECJ. One points which is immediately obvious is that the list of potential justifications in Article 46(1) is much shorter than that in Article 30. For instance, it does not include 'the protection of industrial and commercial property'. However, in practice the grounds of justification for restrictions on services have been interpreted in a similarly wide manner, as is considered further in Chapter 2.

iii. Competition Law

Competition law also places significant restrictions on the action which can be taken against parallel trade. The relevant provisions of the EC Treaty are laid down in Article 81, which prohibits anti-competitive agreements and concerted practices, and Article 82, which prohibits anti-competitive behaviour by undertakings which have a dominant position on the market. These provisions read as follows:

Article 81 [**ex 85**]

1. The following shall be prohibited as incompatible with the common market: all agreements between undertakings, decisions by associations of undertakings and concerted practices which may affect trade between Member States and which have as

their object or effect the prevention, restriction or distortion of competition within the common market, and in particular those which:

(a) directly or indirectly fix purchase or selling prices or any other trading conditions;
(b) limit or control production, markets, technical development, or investment;
(c) share markets or sources of supply;
(d) apply dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
(e) make the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.

2. Any agreements or decisions prohibited pursuant to this article shall be automatically void.
3. The provisions of paragraph 1 may, however, be declared inapplicable in the case of:

—any agreement or category of agreements between undertakings,
—any concerted practice or category of concerted practices,

which contributes to improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit, and which does not:

(a) impose on the undertakings concerned restrictions which are not indispensable to the attainment of these objectives;
(b) afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products in question.

Article 82 [ex 86]

Any abuse by one or more undertakings of a dominant position within the common market or in a substantial part of it shall be prohibited as incompatible with the common market in so far as it may affect trade between Member States.
Such abuse may, in particular, consist in:

(a) directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions;
(b) limiting production, markets or technical development to the prejudice of consumers;
(c) applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
(d) making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.

The Treaty provisions are supplemented by a procedural regulation adopted under Article 83,[22] together with numerous block exemptions which deem

[22] Reg 1/2003 [2003] OJ L1/1.

certain categories of agreement to be justified under Article 81(3).[23] The Commission has also published a number of guidelines covering various aspects of analysis under Articles 81 and 82.[24] Although these guidelines set out the Commission's view, they are specified to be without prejudice to the interpretation that may be given by the Court of First Instance and the Court of Justice of the European Communities (ECJ).

iv. Taxation

Finally, differences in taxation can play an important role in encouraging parallel trade. Customs duties, which may often operate as a barrier to parallel trade, are prohibited within the Community under Article 25 of the EC Treaty, which reads as follows:

> **Article 25** [**ex 13**]
>
> Customs duties on imports and exports and charges having equivalent effect shall be prohibited between Member States. This prohibition shall also apply to customs duties of a fiscal nature.

However, this does not mean that Member States are unable to tax imported goods at all. The prohibition in Article 25 applies only to charges which arise by reason of goods crossing a frontier.[25] Where the tax is payable on domestic and imported goods it will normally be regarded as internal taxation and dealt with under Article 90, which in essence requires that such taxation does not discriminate against imported goods and reads as follows:

> **Article 90** [**ex 95**]
>
> No Member State shall impose, directly or indirectly, on the products of other Member States any internal taxation of any kind in excess of that imposed directly or indirectly on similar domestic products.
>
> Furthermore, no Member State shall impose on the products of other Member States any internal taxation of such a nature as to afford indirect protection to other products.

These provisions still leave considerable flexibility for Member States to adopt different policies on taxation which can manifest themselves in different consumer prices. The treatment of price differentials so caused is considered in Chapter 4.

[23] For instance, Reg 2790/1999 [1999] OJ L336/21 (vertical agreements); Reg 2659/2000 [2000] OJ L304/3 (research and development agreements); Reg 1400/2002 [2002] OJ L203/30 (motor vehicles); Reg 2658/2000 [2000] OJ L304/3l (specialisation agreements); Reg 772/2004 [2004] OJ L123/11 (technology transfer agreements).

[24] For instance, on the relevant market [1997] OJ C372/5, vertical restraints [2000] OJ C291/1, horizontal restraints [2001] OJ C3/2, technology transfer [2004] OJ C101/2, effect on trade [2004] OJ C101/81, Art 81(3) [2004] OJ C101/97 and fines [2006] OJ C210/2.

[25] Case 90/79 *Commission v Italy* [1981] ECR 283.

C. Enforcement

Community law is enforced in a range of ways. Although the Commission is the primary enforcer, the law can also be enforced by national competition authorities and national courts, with the ultimate judicial body in any case being the European Court of Justice.

i. European Commission

The European Commission takes enforcement action against Member States and also, in relation to competition law, against private parties.

The European Commission can take action under Article 226 against Member States which breach their Treaty obligations. Member States can take similar action against one another under Article 227. The Articles read as follows:

> **Article 226** [**ex 169**]
>
> If the Commission considers that a Member State has failed to fulfil an obligation under this Treaty, it shall deliver a reasoned opinion on the matter after giving the State concerned the opportunity to submit its observations.
>
> If the State concerned does not comply with the opinion within the period laid down by the Commission, the latter may bring the matter before the Court of Justice.

> **Article 227** [**ex 170**]
>
> A Member State which considers that another Member State has failed to fulfil an obligation under this Treaty may bring the matter before the Court of Justice.
>
> Before a Member State brings an action against another Member State for an alleged infringement of an obligation under this Treaty, it shall bring the matter before the Commission.
>
> The Commission shall deliver a reasoned opinion after each of the States concerned has been given the opportunity to submit its own case and its observations on the other party's case both orally and in writing.
>
> If the Commission has not delivered an opinion within three months of the date on which the matter was brought before it, the absence of such opinion shall not prevent the matter from being brought before the Court of Justice.

If a Member State fails to comply with an adverse finding of the ECJ then the Commission (but not the Member States) can bring a further action before the ECJ under Article 228 seeking a lump sum for past breaches and, where necessary, a periodic penalty payment for continuing breaches. Article 228 reads as follows:

> **Article 228** [**ex 171**]
>
> 1. If the Court of Justice finds that a Member State has failed to fulfil an obligation under this Treaty, the State shall be required to take the necessary measures to comply with the judgment of the Court of Justice.

> 2. If the Commission considers that the Member State concerned has not taken such measures it shall, after giving that State the opportunity to submit its observations, issue a reasoned opinion specifying the points on which the Member State concerned has not complied with the judgment of the Court of Justice.
>
> If the Member State concerned fails to take the necessary measures to comply with the Court's judgment within the time limit laid down by the Commission, the latter may bring the case before the Court of Justice. In so doing it shall specify the amount of the lump sum or penalty payment to be paid by the Member State concerned which it considers appropriate in the circumstances.
>
> If the Court of Justice finds that the Member State concerned has not complied with its judgment it may impose a lump sum or penalty payment on it.
>
> This procedure shall be without prejudice to Article 227.

The Commission has issued a Communication which articulates how it will calculate these fines against Member States.[26]

The Commission also has responsibility for enforcing the Treaty's competition provisions against private undertakings.[27] If the Commission finds that the provisions have been breached, it may require the party or parties concerned to bring the infringement to an end and to pay a fine of up to 10 per cent of their turnover from the previous year.[28] In most parallel trade cases, the manufacturer will bear the lion's share of the punishment, even in cases where the distributors have been actively involved in the infringement. Initially, appeals against the Commission's competition decisions were made directly to the ECJ.[29] However, in 1989 jurisdiction over appeals was transferred to the new Court of First Instance (CFI),[30] with subsequent appeals to the ECJ being permitted only on points of law.[31]

Although now of historical interest, there was a notification system which applied between 1962 and 2004 under which most agreements regarded as restrictive under Article 81(1) had to be notified to the Commission if the parties wanted to rely on a justification under Article 81(3).[32] During that period parties were also able to notify the Commission of agreements to seek official confirmation that they did not breach Article 81(1) ('negative clearance').[33] Normally, exemptions under Article 81(3) could not be granted retrospectively, and so failure to notify would mean that a restrictive agreement would be in breach of Article 81 even if it might have been justifiable under Article 81(3). The

[26] SEC(2005)1658, Commission Communication on Application of Art 228 of the EC Treaty.

[27] EC Treaty, Arts 83 and 85. The primary regulation based on Art 83 is Reg 1/2003 [2003] OJ L1/1, which replaced Reg 17 [1959–1962] OJ Spec Ed 87.

[28] Reg 1/2003, Arts 7(1) and 23(2).

[29] EC Treaty (Rome), Art 173, para 2 (now EC Treaty, Art 230, para 4).

[30] The CFI's jurisdiction was originally based on Art 3 of Council Dec 88/591 [1988] OJ L319/1, which entered into force following the decision of the President of the ECJ of 11 Oct 1989 [1989] OJ L317/48. It is now based on EC Treaty, Art 225.

[31] Statute of the Court of Justice, Art 58.

[32] Reg 17, Art 4; Reg 1/2003, Art 5.

[33] Reg 17, Art 2.

Commission had exclusive jurisdiction to hold that a restrictive agreement was justified under Article 81(3), and so neither national competition authorities nor national courts could do so.[34]

It might be thought that the notification system gave undertakings a greater degree of legal certainty. In practice, though, it was administratively unworkable, particularly as vast numbers of unobjectionable agreements had to be notified to the Commission. As a consequence, relatively few formal decisions were ever made and undertakings typically received, at best, an informal 'comfort letter' indicating that the Commission believed the agreement was permissible. Today, the Commission will still consider issuing informal guidance, but only in exceptional cases.[35]

ii. National Competition Authorities

Along with the Commission, national competition authorities also enforce competition law under Articles 81 and 82.[36] They may require that infringements be ended, order interim measures, accept commitments from the undertakings involved and impose fines, periodic penalty payments or other penalties provided for in national law. They may also decide that there are no grounds for action in appropriate cases.

The Commission and national competition authorities are required to cooperate closely in applying Community competition law.[37] The Commission has published a notice on such cooperation, which explains how to determine which authority or authorities should handle particular cases and how consistency of decision-making will be maintained.[38]

Parties affected by anti-competitive behaviour can thus choose whether to complain to the Commission and/or to the relevant national competition authorities, and a number of factors will affect this decision, including the perceived willingness to respond and the speed of any response.

Often the best placed authority to act will be the national competition authority in the country from which goods are or would be parallel exported and there have been a number of cases dealt with by the competition authorities in France, Greece and Spain. However, given that parallel exports may cause detriment to domestic consumers (by resulting in shortages or price increases), there may be conflicts of interest for such authorities. While theoretically this should make no difference to the outcome, it may be a factor which parties will bear in mind.

[34] Reg 17, Art 9; Case C–234/89 *Stergios Delimitis v Henninger Bräu* [1991] ECR I–935. See now Reg 1/2003, Art 6.

[35] Commission Notice on informal guidance [2004] OJ C101/78.

[36] Reg 1/2003, Art 5, replacing Reg 17, Art 9(3).

[37] Reg 1/2003, Arts 11–14 and 22.

[38] Commission Notice on cooperation with the Network of Competition Authorities [2004] OJ C101/43.

iii. National Courts

Disputes between private parties before national courts may also involve issues of interpretation of Community law. Parties can often rely on the direct effect of Community law or the obligation on national courts to interpret national law consistently with Community law.[39] In relation to competition law, national courts have further obligations to maintain consistency of decision-making.[40] Although the ECJ does not hear actions between private parties directly, the parties may ask national courts to refer questions to the ECJ.

Community law, in particular Articles 28, 81 and 82, is often raised as a defence by parallel traders where national authorities seek to enforce regulations or manufacturers and official distributors seek to enforce their rights in national courts. These are referred to disparagingly as 'Euro-defences' and in many cases may indeed be the last refuge of the wicked. Even where there has been a breach of Community law it may not constitute a defence to the enforcement action. Nevertheless, in appropriate cases 'Euro-defences' may succeed.

Community law may also be used by parallel traders to go on the attack in national courts. They may seek to have legislation set aside, judicial review of the actions of national authorities or declaratory judgments against manufacturers.

Where competition issues arise, parallel traders may also seek damages and even a participant to an agreement which breaches Article 81 may be entitled to claim damages from the other party.[41] Private enforcement of competition law has become an area of particular interest in recent years and the Commission has sought to encourage such enforcement,[42] although not everyone agrees that this is a realistic approach.[43] Unlike national competition authorities, national courts cannot fine undertakings for breach of competition law. However, they do have competence to decide cases even if the Commission has initiated related proceedings and, even if the national court decides to stay the case pending the Commission's decision, the national court may decide to grant interim remedies.

Where a determination of a question of European law is necessary to the case before them, national courts may (and in the case of the highest national court, must) refer the question to the ECJ under Article 234, which reads as follows:

[39] See Sect III.A (Basic Terminology) above.

[40] Reg 1/2003, Arts 6 and 15–16; Commission Notice on the cooperation between the Commission and the courts of the EU Member States [2004] OJ C101/54, replacing the earlier Notice [1993] OJ C39/6. However, for the limits of this see *Inntrepreneur Pub Company v Crehan* [2006] UKHL 38.

[41] Case C–453/99 *Courage v Crehan* [2001] ECR I–6297; Joined Cases C–295/04 to C–298/04 *Manfredi v Lloyd Adriatico Assicurazioni* (13 July 2006, not yet reported).

[42] See the Commission green paper COM(2005)672 and the Commission staff working paper SEC (2005) 1732, together with Commission Press Releases IP/05/1634 and MEMO/05/489.

[43] See the large number of responses to this consultation, which have been published on the Commission's website. A clear and concise summary of some of the problems was articulated in J Ysewyn and H Crossley, 'Private Enforcement in the EU: Much Ado about Nothing?' (Apr 2006) *PLC* 18, available at www.practicallaw.com/8-101-3578.

> **Article 234** [**ex 177**]
>
> The Court of Justice shall have jurisdiction to give preliminary rulings concerning:
>
> (a) the interpretation of this Treaty;
>
> (b) the validity and interpretation of acts of the institutions of the Community and of the ECB;
>
> (c) the interpretation of the statutes of bodies established by an act of the Council, where those statutes so provide.
>
> Where such a question is raised before any court or tribunal of a Member State, that court or tribunal may, if it considers that a decision on the question is necessary to enable it to give judgment, request the Court of Justice to give a ruling thereon.
>
> Where any such question is raised in a case pending before a court or tribunal of a Member State against whose decisions there is no judicial remedy under national law, that court or tribunal shall bring the matter before the Court of Justice.

Community law will not always apply directly. For instance, a party may want to rely on provisions of an unimplemented Directive against a private party where the current national law clearly has the opposite effect and cannot possibly be interpreted in line with the Directive. In such a case, the other possible remedy is to bring an action for '*Frankovich*' damages against the Member State itself, on the basis of *Frankovich v Italy*.[44] However, this possibility is limited to cases where there is a sufficiently serious breach of a rule of Community law, which was intended to confer rights in individuals, and where the damage was caused by that breach. Such '*Frankovich*' damages may arise where parallel trade is restricted by national regulations, as discussed in Chapter 4.

iv. European Court of Justice

The ECJ is the Community's judicial institution. It has one Judge for each Member State. It is assisted by eight Advocates General who normally provide public, non-binding Opinions to the ECJ before it hands down its judgments. The ECJ normally sits in chambers of three or five judges, but in some cases will sit in a grand chamber of 13 judges or as a full court.

The Court of First Instance (CFI) was introduced as a second court in 1989, primarily to hear actions brought by private individuals or undertakings against action (or inaction) by the Community institutions, such as competition or trade mark decisions, or actions by Member States against the Commission. It again has one judge for each Member State. It normally sits in chambers of three judges, but may sit in chambers of five judges, a grand chamber of 13 judges or as a full court where justified by the complexity or importance of the case. Appeals are possible to the ECJ on points of law.

[44] Joined Cases C–6/90 and C–9/90 *Frankovich v Italy* [1991] ECR I–5357. See also Joined Cases C–46/93 and C–48/93 *Brasserie du Pêcheur v Germany* [1996] ECR I–1029 and the discussion in S Weatherill and P Beaumont, *EU Law*, 3rd edn (Penguin, London, 1999) 423–32.

Cases are heard in the language of the application, which may be any of the official languages of the Community. The judges traditionally deliberate in French. The Report for the Hearing is made available only in the language of the case, but the judgment (and any Opinion of the Advocate General) is normally translated into all the official languages and published in the European Court Reports (ECR), which are made available online before they are published

IV. POLICY ARGUMENTS

A vast array of policy arguments have been raised in the course of legislative, administrative and judicial proceedings relating to parallel trade. In some cases these are supported by studies which seek to prove the case for or against parallel trade.[45] In others the arguments are more in the nature of mud-slinging. Some of the most frequent themes are now considered in order to provide a flavour of the debate.

A. Free Trade

Free trade agreements can be entered into bilaterally, regionally or multilaterally. They can range from tentative statements of political intent between two countries to highly detailed multilateral regulatory systems with dispute resolution mechanisms, such as can be seen in the European Community or the World Trade Organisation. What free trade agreements have in common is that they normally seek to remove unnecessary barriers to trade between the participating countries. The market restructuring which results from the removal of barriers to trade can have a serious impact on companies and individuals, often leading to strong disagreement about whether particular barriers to trade are in fact necessary (or at least remain so in the short term).

In the context of free trade, the existence of barriers to parallel trade appears incongruous. They have been referred to by some as 'trade protectionism'[46] or even 'privatised protectionism'.[47] From a consumer perspective, price differentials

[45] For instance, in relation to parallel trade in pharmaceuticals within the Community there has been a wave of studies in recent years: see P West and J Mahon, *Benefits to Payers and Patients from Parallel Trade* (York Health Economics Consortium, York, 2003); P Kanavos, J Costa-i-Font, S Merkur and M Gemmill, *The Economic Impact of Pharmaceutical Parallel Trade in European Union Member States: A Stakeholder Analysis* (London School of Economics, London, 2004); M Ganslandt and K Maskus, *Parallel Imports and the Pricing of Pharmaceutical Products: Evidence from the European Union* (The Research Institute of Industrial Economics, Stockholm, 2004); U Enemark, K Pedersen and J Sørensen, *The Economic Impact of Parallel Import of Pharmaceuticals* (University of Southern Denmark, Odense, 2006).

[46] Hellmut Sieglerschmidt, during the European Parliament debate on the Trade Mark Dir [1983] OJ Annex 1–304/104, 107.

[47] D Richardson, 'Intellectual Property Rights and the Australia–US Free Trade Agreement', Australian Parliamentary Library Research Paper No.14 2003-04, at 12.

and barriers to parallel trade appear unfair and help feed the impression that free trade operates only in the interests of business and not consumers, despite the fact that it is consumers (as workers) who may bear the social costs of market restructuring.

Parallel trade as such is not mentioned anywhere in the EC Treaty. Nevertheless, there is a long line of case law holding that the Treaty supports parallel trade within the Community, and the Commission has long sought to uphold this. Although there is scope to debate whether this imperative is right, particularly in the context of pharmaceuticals, it is so well established that there appears little scope for change. However, in relation to parallel trade there is no such political imperative and the Community has often permitted or even mandated barriers to such trade.

One justification for barriers to parallel trade from outside the Community is that this is necessary to protect free trade within the Community. If some Member States permitted such parallel trade then the internal market would be distorted due to the lower prices in such Member States. In addition, Member States which prohibited direct parallel trade from outside the Community would be likely to seek to prohibit indirect parallel trade from outside the Community being deflected through the Member States which permitted it, which would either fragment the internal market or effectively force the policy choice of accepting such parallel trade on all Member States.

However, this approach also causes problems for parallel trade within the internal market. If it is impossible to tell from the goods themselves whether they were put on the market within the Community or outside, a buyer must run the risk that, if the goods were in fact put on the market within the Community, the manufacturer may be able to take action (for instance, under intellectual property rights covering the goods). This not only restricts parallel trade from outside the Community but also parallel trade within the Community.

B. Domestic Industry

Restrictions on parallel trade are also often justified on the basis that they are required to support or protect domestic industry. The two main strands are support of exports and support of employment.

In terms of exports, manufacturers may benefit from being able to launch and sell in foreign markets at lower prices without the risk of parallel imports undermining their domestic markets. By contrast, if products sold in foreign markets could be parallel traded into the domestic market the manufacturers might be unwilling to sell in foreign markets at lower prices. There is certainly evidence that manufacturers adjust their pricing or distribution policies in response to parallel trade within the Community. For instance, consumer products which are likely to be parallel traded may be sold at unrealistically high prices in markets with relatively low consumer spending power (such as the new Member

States) or, if subject to price control, may be supplied in limited quantities (such as pharmaceuticals in Greece and Spain).

Such price differentiation would appear to be objectionable from the perspective of consumers in the domestic market, who may feel that they are being forced to subsidise consumers in other countries. Moreover, if prices are excessive in the domestic market due to imperfect competition, the ability of manufacturers to isolate the markets will simply support this. Therefore it appears that the benefit accrues solely to domestic manufacturers to the detriment of domestic consumers.

Moreover, given that the crucial factor is where the goods are first put on the market, not where the manufacturer is based, the benefit also accrues to foreign manufacturers and not solely domestic ones. Given that all this benefit flows from domestic consumers, the result is likely to be a net financial loss to the domestic market. On a dynamic analysis, it may be argued that the prohibition of parallel trade will encourage other countries to do likewise and that this will increase the benefit to domestic manufacturers, possibly to the extent that there will be a net financial gain to the domestic market. However, there is generally little incentive for other countries to follow suit as their manufacturers will already have the benefit of the ability to maintain higher prices in markets which prohibit parallel imports.

It has sometimes been argued that a prohibition on parallel imports will help to support employment in the form of domestic manufacturing jobs.[48] Although politically attractive, this argument is fundamentally flawed. Bans on parallel imports are not dependent on where goods are manufactured, and so they are not a rational basis for companies to establish or retain domestic manufacturing facilities. Although such bans may allow manufacturers to charge higher prices, which could make domestic production feasible despite being more expensive than production abroad, it remains economically rational for the manufacturer to move manufacturing abroad and either reduce domestic prices or maintain them to increase profitability. This is supported by free trade agreements which remove the barriers to such movement of manufacturing sites. In fact, it has also been argued that, by reducing prices, parallel imports increase sales and consequently domestic employment in the retail sector.[49]

[48] See, for instance, the observations of the Union of Industries of the European Community (UNICE) of 24 Mar 1982 on the proposed Trade Mark Dir, Council document 5890/82, at 3, suggesting that the introduction of Community exhaustion might 'lead to the need to close manufacturing plants in the Community, and thus to further unemployment'.

[49] Swedish Competition Authority, *Parallel Imports—Effects of the Silhouette Ruling*, Report Series 1999:1 (Swedish Competition Authority, Stockholm, 1999); NERA, SJ Berwin and IFF Research, *The Economic Consequences of the Choice of a Regime of Exhaustion in the Area of Trademarks* (NERA, London, 1999); P Kenny and P McNutt, 'Competition, Parallel Imports & Trademark Exhaustion: Two Wrongs from a Trademark Right', Competition Authority Discussion Paper No 8 (Irish Competition Authority, Dublin, 1999). For further discussion, see Ch 5.

C. Market Differences

Another policy argument is that, despite the introduction of free trade, there remain real differences between markets. This applies as much within the Community as it does on a worldwide scale. Such differences might naturally result in different pricing or the provision of goods and services with different characteristics. Parallel trade can undermine the ability of the manufacturer to respond to these market differences.

In terms of pricing, manufacturers will generally choose to charge higher prices in countries with higher consumer spending power and lower prices in countries with lower consumer spending power. This is economically rational behaviour, as it maximises volumes of production and revenue for the manufacturer, and it also results in lower prices in poorer countries. Such price discrimination is often described as Ramsey pricing, which is recognised as maximising social welfare where fixed costs must be met by consumers with different abilities to pay, although Ramsey himself recognised that a profit constraint is required to avoid excessive pricing.[50] In the case of pharmaceuticals, manufacturers may also choose to drop prices in poorer countries, even where this is not economically rational, in response to concerns about access to medicines.

Price differentials may also arise due to state interference in pricing. Again, this is particularly the case for pharmaceutical products, where countries seek to balance policy considerations based on public health against other policy considerations such as the need to support research and development. State pricing will often result in lower prices in poorer countries.

The consequence of such price differentials may be that consumers in poorer countries are supplied with products which would be unaffordable if there were a single world price. Understandably, this argument tends to be popular in the countries which see the benefit of the lower prices and, in relation to pharmaceuticals, where the consequences of unaffordable prices are the most serious.

However, price differentiation will not always occur this way round. If the majority of consumers in a poorer country could not afford to pay even the cost of production then that product cannot be sold to the mass market but only to the economic elite. In such a case it might be economically rational to charge a higher price in that country than in relatively richer countries where the product can be sold to a mass market. Manufacturers may in practice be subject to less competition in poorer countries and so be able to charge higher prices in those countries. Finally, where there is state interference in pricing there is no guarantee that it will be the poorest countries which set the lowest prices.

[50] F Ramsey, 'A Contribution to the Theory of Taxation' (1927) 37 *Economic Journal* 47. See P Danzon and A Towse, 'Differential Pricing for Pharmaceuticals: Reconciling Access, R&D and Patents' [2003] *International Journal of Health Care Finance and Economics* 3:183, suggesting that the requirement of profit constraint is in practice met by competition in the market place.

If it is accepted that price differentials should be permitted in all cases then this supports the prohibition of parallel trade. However, if it is accepted that price differentials should be permitted only in order to allow lower prices in poorer countries, the argument only justifies the prohibition of such goods being parallel imported into richer countries. It does not justify barriers in poorer countries: if prices are indeed lower in such countries, there is no need for the barriers but, if they are higher, the barriers will prevent parallel imports from richer countries where the goods are cheaper. Such a targeted, asymmetric approach was adopted in the Community's under-utilised Regulation 953/2003,[51] which unilaterally prohibited the importation into the Community of pharmaceutical products which had been sold at substantially reduced prices in developing countries.

In terms of differences between the products, apart from differences in packaging and labelling it is clear that physical characteristics can vary, such as the taste of soft drinks being adapted to national preferences, the type of rubber used in car tyres being adapted to different climates, pharmaceuticals and pesticides being adapted to national usage or lower quality products being produced for some markets rather than others. Where such differences exist, parallel trade can result in consumer confusion. In the United States, owners of intellectual property can rely on such differences to prevent parallel trade,[52] while in the Community the differences can sometimes be relied upon to prevent the parallel trade in pharmaceutical products or pesticides.[53] However, this does not justify a prohibition on the parallel trade of identical goods. There is also the possibility that such differences may be introduced by manufacturers in order to restrict parallel trade rather than to respond to consumer demands.

As well as differences in products themselves there may be difference in related services, such as advertising, pre-sales advice and after-sales service. If the costs of such services are included in the sale price, parallel trade in the products from a country where such services were not provided would 'free-ride' on the investment in such services, undermining the provision of these services to the detriment of consumers. There is some basis for this argument, although it is premised on an assumption that consumers want those services and want them to be bundled as part of the price they pay for the goods. It also assumes that the services will not be provided in relation to parallel imported products, which is not necessarily the case.[54] Even if such assumptions are valid, this argument justifies the prohibition of parallel imports only where there is such free-riding.

[51] Reg 953/2003 [2003] OJ L135/5.

[52] *Lever Bros v United States*, 981 F 2d 1330 (DC Cir, 1989) and *Nestle v Casa Helvitia*, 982 F 2d 633 (1st Cir, 1992). See the summary in NERA, SJ Berwin and IFF Research, *The Economic Consequences of the Choice of a Regime of Exhaustion in the Area of Trademarks* (NERA, London, 1999) 22–3.

[53] See Ch 4, sects 3 and 4.

[54] NERA, SJ Berwin and IFF Research, above n52, at 38, n 34, referring to J Hilke, 'Free Trading or Free-riding: an Examination of the Theories and Available Empirical Evidence on Gray Market Imports' (1988) 32 *World Competition* 75.

D. Distribution

It is also argued that parallel trade may prevent manufacturers from distributing their products in their chosen manner. For instance, parallel trade may prevent manufacturers from carrying out staged launches of new products in different regions or countries, leading to capacity problems and reducing the possibility of refining the product or launch process based on initial feedback. In addition, supermarkets and discount chains may obtain supplies of genuine branded products which they would not be able to acquire directly from the manufacturer's official distribution network, and sale by such retailers may damage the brand image. Finally, high levels of parallel trade may lead to product shortages in countries which parallel export, for which consumers will normally hold the manufacturer responsible.

As with differences in products and services, not all market participants agree that manufacturers should have their distribution choices supported by a prohibition on parallel trade. In addition, product shortages may be the result of an unwillingness to continue supplies where there are parallel exports, rather than a genuine inability to do so, and so not the sole fault of the parallel traders. Finally, as with the previous argument, the argument supports a ban on parallel imports only where these issues arise as opposed to a general ban.

E. Risk of Piracy and Counterfeiting

One of the most frequently advanced arguments against parallel trade is that it encourages piracy and counterfeiting, particularly where repackaging is involved, or that parallel traders are more generally involved in unlawful or illegal behaviour.

The issue of counterfeiting was considered in a study by REMIT for the Commission in 1991,[55] which accepted that counterfeit pharmaceuticals might enter the supply chain under the cover of parallel trade. It noted that this had occurred in relation to a batch of counterfeit SELOKEN imported into the Netherlands, said to be from Italy, which had been discovered by Astra when conducting a survey into the extent of parallel importing. However, the study found that there had been no significant instances of this to date and 'for the time being it therefore seems fair to consider counterfeiting and parallel trade as two separate issues'.

The UK Monopolies and Merger Commission, when considering parallel imports of recorded music in 1994,[56] noted that according to the record com-

[55] REMIT Consultants, *Impediments to Parallel Trade in Pharmaceuticals within the European Community: Final Report Prepared for DGIV of the European Commission* (May 1991), EEC reference IV/90/06/01.

[56] Monopolies and Mergers Commission, *The Supply of Recorded Music* Cm 2599 (HMSO, London, 1994), para 2.96; see also paras 9.13, 9.22, 10.6, 10.27, 10.31, 10.61, 10.101–102, 12.85–12.87 and 12.92.

panies 'lack of control over parallel imports would mean that it would become more difficult to control piracy which we have been told already causes serious losses of income to copyright owners'. This was not disputed by the Monopolies and Mergers Commission, although nor was it adopted as a finding.

More recently, after taking extensive evidence the UK Select Committee on Trade and Industry reached the same conclusion as REMIT, finding that:

> We have heard nothing to sustain the allegation or implication of any substantial links between parallel or grey trade and trade in counterfeit goods, let alone drugs and arms dealing, referred to in passing by the ACG (Anti-Counterfeiting Group). While there are no doubt those that would use the cover of grey trading to mask counterfeit goods, we share the view expressed by the Institute of Trading Standards Officers that 'sellers of such [grey] goods are usually open about their actions and are not part of the enormous black economy which distinguishes the essentially criminal elements of actual product counterfeiting'. There is little or no evidence to connect the discussion on international exhaustion of trade mark rights with the problems of preventing counterfeiting and enforcing anti-counterfeiting legislation.[57]

It is clear that pirate and counterfeit products can and do enter the market alongside parallel traded products. Equally, though, the scale of the risk is often exaggerated or minimised by those against or in favour of parallel trade. Either way, there is a lack of independently produced empirical evidence.

F. Consumer Benefit

The argument most frequently raised in favour of parallel trade is that it benefits consumers in the form of cheaper prices. The media can often be supportive of the efforts of parallel traders, as was seen in the coverage of Tesco's battle against Levi Strauss over the parallel import of jeans from Mexico, Canada and the United States in *Levi Strauss v Tesco*, which was ultimately decided against the parallel importing supermarket chain and in favour of Levi Strauss.[58] Similarly, there is strong support among some consumers and legislators in the US for the parallel import or 'reimportation' of pharmaceutical products from Canada, where prices are substantially lower (as a result of government intervention). Against that, parallel trade is seen less positively in countries where parallel exports result in shortages of supplies or an upwards pressure on prices.

[57] Trade and Industry Committee, *Trade Marks, Fakes and Consumers*, Eighth Report of Session 1998–99 (HC 380, TSO, London, 1999), para 109.

[58] Joined Cases C–414/99 to C–416/99 *Zino Davidoff v A&G Imports and Levi Strauss and others v Tesco and others* [2001] ECR I–8691. For examples of the media coverage see R Schrimsley and D Hargreaves, 'UK and Sweden to lead fight against EU "grey imports" ban', *Financial Times*, 26 Apr 2001; D Rushe, 'Shops ready to sell cheap designer gear', *Sunday Times,* 18 Nov 2001; S Patten, 'Safeway to sell bargain Levi's as court gives ruling', *The Times*, 20 Nov 2001; V Fletcher, 'Outrage as Europe bans our price cuts', *Daily Express*, 21 Nov 2001; S Ryle, 'Levi stitches up cut-price jeans', *Observer*, 25 Nov 2001. See Ch 5, sect I.B.ii.e (*Davidoff).*

An obvious example of this within the Community is the case of pharmaceuticals in Greece.[59]

However, parallel traders are rarely altruistic do-gooders. Except where consumers engage in parallel trade themselves, parallel traders are normally commercial undertakings in search of a profit and they may retain a large proportion of the price differential themselves, restricting any benefit to consumers. Given that parallel traders do not produce anything, but rather act as intermediaries or arbitrageurs, their activities are often described as parasitic. Recent studies on the pharmaceutical market in the Community have come up with wildly differing conclusions. For instance, two studies commissioned by the European Association of Euro-Pharmaceutical Companies (EAEPC), a group of parallel traders, found that consumers and health insurers obtained significant benefits from parallel trade (€342 million and €237 million respectively in the United Kingdom).[60] By contrast, a study commissioned by Johnson & Johnson found that there was much smaller benefit to the national health service (€56 million in the United Kingdom) and that the majority was retained by parallel traders (€469 million in the United Kingdom).[61]

An obvious explanation for any excessive profitability is that there is a lack of competition in the market in question. Where excessive profitability is recognised, economic theory suggests that this should encourage new entrants into the market who will undercut the established participants. However, this will not occur if there are barriers to entry. In the case of parallel trade, one of the biggest barriers to entry would appear to be the frequency of legal action brought against parallel trading companies and their owners by manufacturers seeking to prevent parallel trade, which raises the cost and risk of such trade. Therefore, if little benefit is passed on to the consumers this may be due in part to the actions of manufacturers themselves.

More broadly, excessive profitability is not normally regarded as a reason to ban a particular type of activity. If such profitability exists and is maintained over a period of time, the usual response will be a competition investigation into the activity involved and possibly the imposition of some structural or regulatory remedies. There is no obvious reason why parallel trade should be treated differently.

[59] See Ch 3, sect 2.2.2.

[60] P West and J Mahon, *Benefits to Payers and Patients from Parallel Trade* (York Health Economics Consortium, York, 2003); U Enemark, K Pedersen and J Sørensen, *The Economic Impact of Parallel Import of Pharmaceuticals* (University of Southern Denmark, Odense, 2006).

[61] P Kanavos, J Costa-i-Font, S Merkur and M Gemmill, *The Economic Impact of Pharmaceutical Parallel Trade in European Union Member States: A Stakeholder Analysis* (London School of Economics, London, 2004).

V. STRUCTURE OF THIS BOOK

The next three chapters of the book consider parallel trade within the European Community. Chapter 2 reviews the impact of intellectual property rights on parallel trade, Chapter 3 then considers the impact of competition law on parallel trade and Chapter 4 concludes the analysis of parallel trade within the Community by dealing with regulatory restrictions. Finally Chapter 5 covers parallel trade between the Community and the rest of the European Economic Area and beyond.

2

Intellectual Property Rights

THIS CHAPTER IS concerned with the extent to which the owners of intellectual property rights may use these rights to restrict parallel trade within the European Community.

The chapter begins by outlining the scope of intellectual property rights recognised under the EC Treaty. It then considers the doctrine of Community exhaustion of the intellectual property right of distribution, followed by the limitations which apply in relation to advertising and to repackaging. The chapter next reviews other factors which have been argued to be relevant to exhaustion, the majority of which have been held to be irrelevant by the ECJ. The chapter ends with a consideration of other intellectual property rights, which are not subject to the doctrine of Community exhaustion.

I. SCOPE OF INTELLECTUAL PROPERTY RIGHTS

Intellectual property rights give the owners the right to prohibit third parties from carrying out certain activities. They cover a range of intangible property rights, including patents, copyright, design rights, trade marks and designations and indications of origin.

Various philosophical and economic justifications have been put forward for intellectual property rights.[1] It is not the purpose of this book to review these justifications, which can vary between jurisdictions and between types of intellectual property. However, among other things such rights often seek to correct perceived imperfections in a market: for instance, if third parties are allowed to use an invention without the consent of the inventor (another example of 'free-riding'), the profitability, and thus the incentive to expend effort inventing, is likely to be reduced and the rate of invention will fall below the optimum level for that market.

This section will first consider the so-called 'exercise/existence' dichotomy, under which the ECJ has said that the EC Treaty does not limit the existence of intellectual property rights but may limit their exercise. This is followed by an analysis of the bundle of rights held by an intellectual property owner and the

[1] L Bently and B Sherman, *Intellectual Property Law,* 2nd edn (OUP, Oxford, 2004) ch 1; W Cornish and D Llewelyn, *Intellectual Property: Patents, Copyright, Trade Marks and Allied Rights,* 5th edn (Sweet & Maxwell, London, 2003) ch 1.

impact of such rights upon parallel trade. The forms of intellectual property which are recognised as constituting 'industrial and commercial property' are then to be considered briefly, followed by related rights which fall outside the scope of 'industrial and commercial property'.

The exercise/existence dichotomy and definitions of intellectual property have been criticised by many commentators,[2] and at a philosophical level much of this criticism is justified. In particular, there would appear to be little practical significance that a right exists if it cannot be exercised. However, from a practical perspective they do give a flavour of what is recognised as the scope of intellectual property and indicate that the boundaries are not unlimited under the EC Treaty.

A. Existence/Exercise Dichotomy

Under Article 295 of the EC Treaty, Member States are free to decide what they shall protect as intellectual property. This Article states that '[t]his Treaty shall in no way prejudice the rules in Member States governing the system of property ownership'. Although this rule appears to have been intended to allow Member States to determine their own balance between public and private ownership of property, permitting nationalisation,[3] it has also been interpreted to mean that the EC Treaty cannot restrict the 'existence' of intellectual property rights but can restrict their 'exercise'.

Article 295 entered into force in 1958 and the ECJ first considered its relationship with intellectual property rights in a competition case, *Consten and Grundig*, in 1966.[4] The case concerned, in part, an agreement between Grundig, a German manufacturer, and Consten, its French distributor, under which Consten was allowed to register in France the trade mark GINT, which Grundig applied to all of its products and which could therefore be used to try to block parallel imports. The Commission held that this agreement infringed Article 81 and therefore required Consten and Grundig not to restrict or impede the parallel import of Grundig products into France, and specifically not to use the trade mark GINT to do so. Consten and Grundig appealed to the ECJ, claiming among other things that the Commission had infringed Article 295 and exceeded the limits of its powers. The ECJ disagreed, holding that Article 295

[2] G Friden, 'Recent Developments in EEC Intellectual Property Law: The Distinction between Existence and Exercise Revisited' (1989) 26 *CMLRev* 193; G Marenco and K Banks, 'Intellectual Property and the Community Rules on Free Movement: Discrimination Unearthed' [1990] *ELRev* 224; P Oliver, *Free Movement of Goods in the European Community*, 4th edn (Sweet & Maxwell, London, 2003) para 8.174 and the references in n 505; D Keeling, *Intellectual Property Rights in EU Law: Volume I: Free Movement and Competition Law* (OUP, Oxford, 2003) ch 6.

[3] P Oliver, *Free Movement of Goods in the European Community*, 4th edn (Sweet & Maxwell, London, 2003) para 9.30 and the references in n 58.

[4] Dec 64/566 *Grundig-Consten* [1964] JO 161/2545; Joined Cases 56/64 and 58/64 *Etablissements Consten and Grundig-Verkaufs v Commission* [1966] ECR 299.

did 'not exclude any influence whatever of Community law on the exercise of national industrial property rights' and pointing out that the Commission's decision did 'not affect the grant of [trade mark rights] but only limits their exercise to the extent necessary to give effect to the prohibition under Article [81(1)]'.[5] Therefore the claims of Consten and Grundig regarding Article 295 were dismissed.

This was followed in *Parke, Davis & Co v Probel & Centrafarm*[6] in relation to patents, where the Court held explicitly that 'the existence of the rights granted by a Member State to the holder of a patent is not affected by the prohibitions contained in Articles [81(1)] and [82]' and that 'the exercise of such rights cannot of itself fall either under Article [81(1)], in the absence of an agreement, decision or concerted practice prohibited by that provision, or under Article [82], in the absence of any abuse of a dominant position'.

As a result of these cases, it was established that Article 295 does not prevent Articles 81 and 82 from restricting the exercise of intellectual property rights so long as the conditions of those Articles are met. This is perfectly rational in the context of the competition rules, as these are targeted at the activities of undertakings which include the exercise of intellectual property rights. However, it is less rational in the context of Articles 28 to 30, which are directed at the activities of Member States. Member States do not typically exercise intellectual property rights themselves, but rather determine the scope of such rights (through the legislature) and allow their enforcement (through the judiciary and, in some cases, administrative enforcement).

Nevertheless, five years after its decision in *Consten and Grundig* the ECJ considered the relationship of Article 295 to Article 28 in *Deutsche Grammophon*.[7] Again this related to parallel imports of goods covered by intellectual property rights, as a German sound recording manufacturer was trying to rely on its exclusive distribution right in Germany to prevent the marketing in Germany of sound recordings which it had supplied to its French subsidiary (which had in turn sold them in France). The ECJ followed *Consten and Grundig*, emphasising that 'the Treaty does not affect the existence of rights recognized by the legislation of a Member State with regard to industrial and commercial property' but that 'the exercise of such rights may nevertheless fall within the prohibitions laid down by the Treaty'.

This has been followed in subsequent cases and is now well-established law. However, as already indicated, the reasoning does leave something to be desired and has been subjected to sustained criticism. Apart from the awkward language, some of this criticism perhaps arises from an unspoken supposition that intellectual property is a single, indivisible right. In fact, intellectual property is typically a bundle of rights, the precise contents of which may vary between forms of intellectual property and between jurisdictions. These will normally

[5] *Ibid*, 346–7.
[6] Case 24/67 *Parke, Davis & Co v Probel & Centrafarm* [1968] ECR 55.
[7] Case 78/70 *Deutsche Grammophon v Metro* [1971] ECR 487.

include the exclusive right to manufacture or import and to distribute within the jurisdiction products which embody the intellectual property right.[8] The bundle may also include a number of other rights. In particular, copyright will generally give rights of communication to the public, such as performance or broadcasting rights, and in more recent years rental and lending rights. These other rights are considered towards the end of the chapter.

Articles 28 to 30 prohibit the exercise of certain rights within that bundle to the extent that exercise of those rights would restrict parallel trade within the Community. It is true that this effectively prohibits the very existence of these sub-rights. However, this does not prohibit the existence or exercise of other rights and sub-rights in the bundle, including the sub-right to restrict parallel trade from outside the Community (which is considered further in Chapter 5). Therefore, it is true to say that the intellectual property, and the major part of the bundle of rights which goes with it, still exists even if specific sub-rights may not be exercised and, therefore, to all intents and purposes do not exist.

B. Industrial and Commercial Property

It was not until 1970 that the ECJ was first asked to consider what was meant by 'industrial and commercial property' within the meaning of the first sentence of Article 30.

In *Deutsche Grammophon*,[9] the ECJ held that Article 30 'only admits derogations . . . to the extent to which they are justified for the purpose of safeguarding rights which constitute the specific subject matter of [industrial and commercial] property' and then proceeded to establish the concept of Community exhaustion of intellectual property rights.

Although this case concerned a right of distribution related to copyright, the ECJ left open the question whether such a right would actually constitute industrial or commercial property, given that the right clearly failed to meet the other criteria in Article 30. This highlights that, even if a right constitutes industrial or commercial property, this does not mean that exercise of that right is justified under Article 30. Such exercise remains subject to the restriction in the second sentence of Article 30 that 'such prohibitions or restrictions shall not . . . constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States'. This question is the true focus of this chapter.

However, in subsequent cases the ECJ has gone on to rule on the scope of the 'specific subject matter' of industrial and commercial property in relation to

[8] In the UK, for instance, such rights are provided for by the Copyright, Designs and Patents Act 1988, ss17, 182A and 226 (manufacture), 22, 184 and 227(1)(a) (import) and 18, 182B and 227(1)(c) (distribution); the Registered Designs Act 1949, s7(2)(a) (manufacture, import and distribution); the Trade Marks Act 1994, s10(4)(a) (manufacture), 10(4)(c) (import) and 10(4)(b) (distribution); and the Patents Act 1977, s60(1)(a) (manufacture, import and distribution).

[9] Case 78/70 *Deutsche Grammophon v Metro* [1971] ECR 487.

various types of intellectual property rights. For the most part, these rulings are not particularly illuminating. In particular, the ECJ has a tendency to define them by the conduct it wants to permit or exclude.[10] However, they do serve as a useful reminder of the typical scope of each right.

i. Patents

In the United Kingdom, a patent may be granted for an invention which is new, involves an inventive step, is capable of industrial application and is not otherwise excluded from patentability.[11] Where the invention is a product, the patent owner has the right to prevent third parties from making, disposing of, offering to dispose of, using, importing or keeping that product. Where it is a process, the patent owner can prevent third parties from using it or from disposing of, offering to dispose of, using, importing or keeping any product made by means of that process.[12]

Although patent law has not formally been harmonised throughout the Community, a similar approach is taken in the other Member States and at the European Patent Office (which issues so-called European patents, which are effectively a bundle of national patents).[13]

According to the ECJ in *Centrafarm v Sterling Drug*,[14] the specific subject matter of a patent includes:

> the guarantee that the patentee, to reward the creative effort of the inventor, has the exclusive right to use an invention with a view to manufacturing industrial products and putting them into circulation for the first time, either directly or by the grant of licences to third parties, as well as the right to oppose infringements.

ii. Copyright

In the United Kingdom, copyright covers a range of different works: original literary works, original dramatic works, original musical works, original artistic works, sound recordings, films, broadcasts and typographical arrangements.[15] The copyright owner has the following exclusive rights: to copy the work; to issue copies of the work to the public; to rent or lend copies of the work to the public; to perform, show or play the work in public; to communicate the work to the public; and to make an adaptation of the work or to do any of the other acts in relation to an adaptation.[16]

[10] D Keeling, *Intellectual Property Rights in EU Law: Volume I: Free Movement and Competition Law* (OUP, Oxford, 2003) 61, and the references cited there.
[11] Patents Act 1977, s1.
[12] *Ibid*, s60.
[13] European Patent Convention, 1065 UNTS 199, [1976] OJ L17/1, Art 52.
[14] Case 15/74 *Centrafarm v Sterling Drug* [1974] ECR 1147, para 9.
[15] Copyright, Designs and Patents Act 1988, s1.
[16] *Ibid*, s16.

Again, while copyright law has not been fully harmonised throughout the Community, it provides similar rights in other Member States.

After the initial doubts in *Deutsche Grammophon*, the ECJ held in *Musik-Vertrieb Membran v GEMA*[17] that the expression commercial property 'includes the protection conferred by copyright, especially when exploited commercially in the form of licences capable of affecting distribution in the various Member States of goods incorporating the protected literary or artistic work'.

In *Phil Collins v Imtrat*,[18] the ECJ held that the specific subject matter of copyright and related rights is:

> to ensure the protection of the moral and economic rights of their holders. The protection of moral rights enables authors and performers, in particular, to object to any distortion, mutilation or other modification of a work which would be prejudicial to their honour or reputation. Copyright and related rights are also economic in nature, in that they confer the right to exploit commercially the marketing of the protected work, particularly in the form of licences granted in return for payment of royalties.

iii. Design Rights

Within the Community, registered and unregistered design rights protect 'the appearance of the whole or part of a product resulting from the features of, in particular, the lines, contours, colours, shape, texture and/or materials of the product itself or its ornamentation'.[19] They are available where the design is new and produces a different overall impression on the informed user from any previous design.[20] The owner has the right to prevent third parties from making, offering, putting on the market, importing, exporting, using or stocking for such purposes any product incorporating the design or to which it is applied.[21]

In addition, the United Kingdom has a separate form of unregistered design right which protects the design of any aspect of the shape or configuration (whether internal or external) of the whole or part of an article, so long as it is not commonplace in the design field in question at the time of its creation.[22] The owner has the exclusive right for commercial purposes to make articles to the design and to import, have, sell, let for hire or offer or expose for sale or hire such articles.[23]

The ECJ held in *Keurkoop v Nancy Kean Gifts*[24] that 'the protection of designs comes under the protection of industrial and commercial property within the meaning of Article [30]', although it did not seek to define the 'specific subject matter' of design rights.

[17] Joined Cases 55/80 and 57/80 *Musik-Vertrieb Membran v GEMA* [1981] ECR 147, para 9.
[18] Joined Cases C–92/92 and C–326/92 *Phil Collins v Imtrat* [1993] ECR I–5145, para 20.
[19] Dir 98/71 [1998] OJ L289/28, Art 1; Reg 6/2002 [2002] OJ L3/1, Art 3
[20] Dir 98/71, Arts 3–5; Reg 6/2002, Arts 4–6.
[21] Dir 98/71, Art 12; Reg 6/2002, Art 19.
[22] Copyright, Designs and Patents Act 1988, s213.
[23] *Ibid,* ss227–228.
[24] Case 144/81 *Keurkoop v Nancy Kean Gifts* [1982] ECR 2853, para 20.

However, in *CICRA v Renault*,[25] the ECJ held:

> the authority of a proprietor of a protective right in respect of an ornamental model to oppose the manufacture by third parties, for the purposes of sale on the internal market or export, of products incorporating the design or to prevent the import of such products manufactured without its consent in other Member States constitutes the substance of his exclusive right. To prevent the application of the national legislation in such circumstances would therefore be tantamount to challenging the very existence of that right.

More clearly, in *Volvo v Veng*,[26] a purely competition case decided on the same day as *CICRA v Renault*, the ECJ held:

> the right of the proprietor of a protected design to prevent third parties from manufacturing and selling or importing, without its consent, products incorporating the design constitutes the very specific subject-matter of his exclusive right.

This was confirmed in relation to Article 30 in *Commission v France*,[27] where it was also held that intra-Community transit, which 'consists in the transportation of goods from one Member State to another across the territory of one or more Member States and involves no use of the appearance of the protected design' does not form part of the specific subject-matter of the industrial and commercial property right in designs.

iv. Trade Marks

Trade marks are registered rights which can be granted by individual Member States or by the Community through its Office for Harmonization in the Internal Market (OHIM) in Alicante.[28] In either case, a trade mark may consist of 'any sign capable of being represented graphically, particularly words, including personal names, designs, letters, numerals, the shape of goods or of their packaging, provided that such signs are capable of distinguishing the goods or services of one undertaking from those undertakings'.[29]

The owner of a trade mark has the right to prevent third parties from using identical or confusingly similar signs in the course of their trade without the owner's consent, including affixing such signs to goods or their packaging, importing or exporting the goods under the signs or putting the goods on the market under the signs. The owner can prevent use of an identical sign in relation to the goods or services for which the trade mark is registered and can also prevent the use of an identical or similar sign for identical or similar goods

[25] Case 53/87 *CICRA v Renault* [1988] ECR 6039, para 11.

[26] Case 238/87 *Volvo v Erik Veng (UK)* [1988] ECR 6211, para 8; the differences in clarity appear to be due to translation: in French, the wording was '*la substance de son droit exclusif*' and '*la substance meme de son droit exclusif*' respectively.

[27] Case C–23/99 *Commission v France* [2000] ECR I–7653, para 43.

[28] Dir 89/104 [1989] OJ L40/1; Reg 40/94 [1994] OJ L11/1.

[29] Dir 89/104, Art 2; Reg 40/94, Art 4.

where this causes a likelihood of confusion on the part of the public. The owner of a trade mark with a reputation may also have the right to prevent any use of such signs which, without due cause, take unfair advantage of, or are detrimental to, the distinctive character or repute of the trade mark.[30]

The ECJ has held that the specific subject matter of a trade mark includes protecting 'the legitimate holder of the trademark against infringement on the part of persons who lack any legal title'.[31]

More usefully, the ECJ has held that it covers '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' which is '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'.[32]

In addition, it covers the trade mark owner's right 'to prohibit any unauthorised affixing of his mark to his product', even where the product in question has been put on the market by the trade mark owner and is the same as products bearing the mark.[33] However, this remains subject to the second sentence of Article 30, as discussed in section IV on repackaging below.

Finally, it includes the proprietor's right to prevent any use of the trade mark which is likely to impair the guarantee of origin. Such a guarantee of origin, described as the 'essential function' of the trade mark, is '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' so that 'the consumer or ultimate user can be certain that a trade-marked product which is sold to him has not been subject at a previous stage of marketing to interference by a third person, without the authorization of the proprietor of the trade-mark, such as to affect the original condition of the product'.[34]

As with design rights, the specific subject matter of trade mark rights does not include the right to prevent transit of goods. The decision in *Commission v France* was followed by the ECJ in *Rioglass*,[35] again concerning the French customs authorities but this time in relation to trade marks lawfully applied to car windows and windscreens manufactured in Spain and destined for Poland, then a non-Member State. The Court held that 'transit . . . which consists in transporting goods lawfully manufactured in a Member State to a non-member country by passing through one or more Member States, does not involve any marketing of the goods in question and is therefore not liable to infringe the specific subject-matter of the trade mark'.

[30] Dir 89/104, Art 5; Reg 40/94, Art 9.
[31] Case 192/73 *Van Zuylen Frères v Hag* [1974] ECR 731, paras 9–10.
[32] Case 16/74 *Centrafarm v Winthrop* [1974] ECR 1183, para 8.
[33] Case 3/78 *Centrafarm v American Home Products* [1978] ECR 1823, para 17.
[34] Case 102/77 *Hoffmann-La Roche v Centrafarm* [1978] ECR 1139, para 7.
[35] Case C–115/02 *Administration des douanes et droits indirects v Rioglass* [2003] ECR I–12705.

v. Designations and Indications of Origin

The use of certain terms for food and alcohol can also be protected as intellectual property, quite separately from trade marks. Such terms can be geographical (such as Champagne) or non-geographical terms which are associated with a geographical region (such as Sekt or Cava). Products from that region may have specific qualities or characteristics (designations of origin) or may simply have developed a reputation (indications of origin).

Within the Community, terms for agricultural products or foodstuffs can be protected by registering them as 'designations of origin' (PDO) and 'geographical indications' (PGI) under Regulation 510/2006.[36] The application for registration must include a specification with which products using the term must comply. Where the products have no specific quality or characteristic due to the region, but only a reputation, protection will be limited to PGI. There is separate protection for 'traditional specialities guaranteed' (TSG) by registration under Regulation 509/2006.[37] Terms for wines are protected by Regulation 1493/1999,[38] and for spirits by Regulation 1576/89.[39] Terms may also be protected by national legislation and through bilateral treaties.[40]

The protection of such terms restricts their use to goods produced, processed and/or prepared within the specified region. Such protection does not typically restrict parallel trade in genuine goods. However, to the extent that the specification for use of the term requires preparation, such as bottling, slicing, grating or packaging, to occur within the region it will operate to restrict parallel export of the product from the region in bulk for preparation elsewhere (as the term can no longer be used for the processed product). In any event, the protection is considered here for completeness and, in particular, as an illustration of how the ECJ's understanding of 'specific subject matter' can vary over time.

Initially, the ECJ took a restrictive approach when considering whether a particular term should properly be regarded as a designation or indication of origin under Article 30. It has subsequently backtracked and now allows relatively broad protection of designations and indications of origin.

In *Commission v Germany*[41] the Commission had brought an action against Germany in relation to legislation introduced in 1971 which restricted the use of the words '*Sekt*', '*Prädikatssekt*' and '*Weinbrand*' to sparkling wines and wine-based spirits produced in countries where German was the official language and, in the case of *Prädikatssekt*, where 60 per cent of the grapes used were German. The ECJ held that 'registered designations of origin and indirect indications of origin' would 'only fulfil their specific purpose if the product

[36] Reg 510/2006 [2006] OJ L93/12, which replaced Reg 2081/92 [1992] OJ L208/1.
[37] Reg 509/2006 [2006] OJ L93/1, which replaced Reg 2082/92 [1992] OJ L208/9.
[38] Reg 1493/1999 [1999] OJ L179/1, which replaced Reg 823/87 [1987] OJ L84/59.
[39] Reg 1576/89 [1989] OJ L160/1.
[40] L Bently and B Sherman, 'The Impact of European Geographical Indications on National Rights in Member States' (2006) 96(4) *Trademark Reporter* 850.
[41] Case 12/74 *Commission v Germany* [1975] ECR 181.

which they describe does in fact possess qualities and characteristics which are due to the fact that it originated in a specific geographical area'. In addition, 'as regards indications of origin in particular, the geographical area of origin of a product must confer on it a specific quality and specific characteristics of such a nature as to distinguish it from all other products'. The ECJ then held that the words in question did not meet these criteria and therefore were not 'indications of origin'. As a consequence, their protection could not be justified under Article 30 on the grounds of the protection of industrial and commercial property.

Similarly, in *Delhaize* v *Promalvin* the ECJ was asked whether Spanish rules on the use of 'Rioja' for wine, which required that it be bottled in cellars in the region of production, infringed Article 29 by restricting bulk export of such wine.[42] The ECJ held that 'the specific function of a registered designation of origin is to guarantee that the product bearing it comes from a specified geographical area and displays certain particular characteristics'. The ECJ held that the Spanish rules on bottling were not required to endow the wine with particular characteristics or to maintain specific existing characteristics. Therefore, on the facts they were not justified under Article 30.

However, Spain did not change its rules, and in *Belgium v Spain* the ECJ was asked to look at them again.[43] After an extensive factual reconsideration of the Spanish rule requiring bottling in the region, the ECJ overturned its previous decision in relation to Article 30 and took a less restrictive approach, holding that 'it must be accepted that the requirement at issue, whose aim is to preserve the considerable reputation of Rioja wine by strengthening control over its particular characteristics and its quality, is justified as a measure protecting the [designation of origin]'.

This more generous approach has been followed in *Ravil v Bellon Import*[44] and *Consorzio del Prosciutto di Parma v Asda Stores*.[45] In those cases the ECJ accepted, contrary to the Opinion of Advocate General Alber, that the PDO specifications could legitimately require that use of the terms be restricted to Grana Padano cheese which had been grated and packaged, and Parma ham which had been sliced and packaged, in the relevant regions.

Similarly, the rigid approach adopted towards indications of origin in *Commission v Germany* was softened in *Exportur v LOR*,[46] where the ECJ considered a bilateral treaty between France and Spain which required protection of indications of origin. The indications in question were '*Alicante*' and '*Jijona*' for touron (an almond-based sweet). The ECJ found that indications of origin may 'enjoy a high reputation amongst consumers and constitute for producers established in the places to which they refer an essential means of attracting custom'. Therefore, it does not matter that they 'cannot be shown to derive a

[42] Case C–47/90 *Etablissements Delhaize Frères v Promalvin* [1992] ECR I–3669, paras 15–27.
[43] Case C–388/95 *Belgium v Spain* [2000] ECR I–3123, paras 47–77.
[44] Case C–469/00 *Ravil v Bellon Import* [2003] ECR I–5053.
[45] Case C–108/01 *Consorzio del Prosciutto di Parma v Asda Stores* [2003] ECR I–5121.
[46] Case C–3/91 *Exportur v LOR and Confiserie du Tech* [1992] ECR I–5529, paras 23–25, 35–37.

particular flavour from the land and which have not been produced in accordance with quality requirements and manufacturing standards laid down by an act of public authority'. The objective of protecting such indications, which was said to be 'intended to ensure fair competition', could be 'regarded as falling within the sphere of the protection of industrial and commercial property within the meaning of Article [30], provided that the names in question have not, either at the time of the entry into force of [the protection] or subsequently, become generic in [Spain]'.

The ECJ distinguished the case from *Commission v Germany*, saying the latter case:

> establishes, essentially, that a Member State cannot, without infringing the provisions of Article [28], use a legislative measure to reserve to domestic products names which have been used to indicate products of any provenance whatever by requiring the undertakings of other Member States to use names unknown to or less highly prized by the public. By reason of its discriminatory nature, such legislation is not covered by the derogation provided for in Article [30].

Nevertheless, there remain some limits. In *Pistre*,[47] French rules restricting the use of the word '*montagne*' (mountain) to goods produced, prepared, manufactured and packaged in French mountainous regions could not be justified under Article 30 as the word was not regarded as a true indication of origin.

A generous margin of discretion is therefore permitted to Member States in determining whether or not specific processes are required before a product may bear a designation or indication of origin. However, the ECJ does undertake an assessment and in extreme cases remains willing to find that terms do not constitute true designations or indications of origin. This contrasts with its approach to other forms of intellectual property, where, although the ECJ may find that certain rights (such as the right to prevent transit) fall outside the specific subject matter of the intellectual property, it will not question whether the intangible in question constitutes an intellectual property right in the absence of legislation harmonising the point, thus observing the exercise/existence dichotomy.

C. Unfair Competition and Passing Off

Signatories to the Paris Convention for the Protection of Industrial Property 1883 have, since the amendment of that Convention in 1911, been required to provide effective protection against unfair competition.

Unfair competition laws can cover a wide array of conduct. Article 10*bis*(3) of the Paris Convention requires signatories to prohibit at least the following:

> (i) all acts of such a nature as to create confusion by any means whatever with the establishment, the goods, or the industrial or commercial activities, of a competitor;

[47] Joined Case C–321/94 to 324/94 *Criminal proceedings against Jacques Pistre* [1997] ECR I–2343, paras 35–36 and 53.

(ii) false allegations in the course of trade of such a nature as to discredit the establishment, the goods, or the industrial or commercial activities, of a competitor;
(iii) indications or allegations the use of which in the course of trade is liable to mislead the public as to the nature, the manufacturing process, the characteristics, the suitability for their purpose, or the quantity, of the goods.

The first of these categories is very similar to other forms of intellectual property, and in England and Wales is protected by the tort of passing off. The five requirements for passing off were laid down by Lord Diplock in *Erven Warnink v J Townend & Sons (Hull)*[48] as:

(1) a misrepresentation,
(2) made by a trader in the course of trade,
(3) to prospective customers of his or ultimate consumers of goods or services supplied by him,
(4) which is calculated to injure the business or goodwill of another trader (in the sense that this is a reasonably foreseeable consequence and
(5) which causes actual damage to the business or goodwill of the trader by whom the action or brought or (in a *quia timet* action) will probably do so.

Nevertheless, the ECJ has not treated rights under unfair competition law as falling within the concept of 'industrial and commercial property' for the purposes of Article 30. Instead, as discussed in Chapter 1, prevention of unfair competition is regarded as a 'mandatory requirement'.

In *Béguelin Import v GL Import Export*, the ECJ held that an exclusive dealer could rely on unfair competition law to prevent parallel imports from other Member States only 'if the alleged unfairness of his competitors' behaviour arises from factors other than their having effected parallel imports'.[49] This was in the context of competition law and Article 30 was not considered.

The question was dealt with under Article 30 in *Dansk Supermarked v Imerco*.[50] In that case, a group of Danish hardware merchants, Imerco, had commissioned a china service from a UK manufacturer. The UK manufacturer was permitted to market substandard pieces in the UK (these amounted to some 20 per cent of the production) but not to export them to the Scandinavian countries. However, some of these pieces were subsequently acquired by a Danish supermarket chain and offered for sale in Denmark. Imerco claimed that this infringed their copyright and trade mark rights and also that it infringed the Danish law on marketing, which was comparable to the unfair competition laws of other countries.

[48] *Erven Warnink v J Townend & Sons (Hull)* [1978] RPC 79, 99. More generally on passing off see C Wadlow, *The Law of Passing-Off: Unfair Competition by Misrepresentation*, 3rd edn (Sweet & Maxwell, London, 2004).

[49] Case 22/71 *Béguelin Import v GL Import Export* [1971] ECR 949, paras 14–15. See Ch 3, sect I.C.ix (Intellectual Property and Unfair Competition).

[50] Case 58/80 *Dansk Supermarked v Imerco* [1981] ECR 181. For the outcome of the case when it returned to Denmark, see D Keeling, *Intellectual Property Rights in EU Law: Volume I: Free Movement and Competition Law* (OUP, Oxford, 2003) 222–5.

When considering the copyright and trade mark claims, the ECJ applied Articles 28 and 30 and found that Imerco could not rely on its copyright or trade mark rights to prevent the Danish supermarket from selling the china. However, when considering the marketing law claim the ECJ adopted a different approach. Applying only Article 28, it held that 'the importation into a Member State of goods marketed in another Member State cannot as such be considered as an improper or unfair commercial practice, without prejudice however to the possible application of legislation of the state of importation against such practices on the ground of the circumstances or methods of offering such goods for sale as distinct from the actual fact of importation'. Moreover, 'an agreement between individuals intended to prohibit the importation of such goods may not be relied upon or taken into consideration in order to classify the marketing of such goods as an improper or unfair commercial practice'. The ECJ could easily have reached the same result by applying Article 30 to the marketing law, as it had done in relation to the copyright and trade mark rights. The fact that it chose not to do so confirmed that it did not regard rights under unfair competition law as industrial or commercial property.

Unfair competition law was also considered in *Pall v Dahlhausen*,[51] where the ECJ held that the sale of MICROPORE blood filters parallel imported from Italy to Germany could not be prohibited on the basis that the packaging included the ® symbol when the trade mark was not registered in Germany (it was registered in Italy). Again the ECJ did not consider Article 30 but only Article 28.

However, this does not mean that unfair competition rights cannot be relied upon to prevent imports other than parallel imports, as was confirmed in *Industrie Diensten Groep v JA Beele Handelmaatschappij*[52] where the ECJ held that the right to prevent marketing of a product 'which for no compelling reason is almost identical to the [manufacturer's] product and thereby needlessly causes confusion between the two products' was 'justified as being necessary in order to satisfy mandatory requirements relating in particular to the protection of consumers and fairness in commercial transactions' and thus did not breach Article 28.

In *Parfums Christian Dior v TUK Consultancy*[53] the ECJ held that 'a right to sue under general provisions of national law concerning wrongful acts, in particular unlawful competition, in order to protect an industrial design against copying may qualify as an 'intellectual property right' within the meaning of Article 50(1) of TRIPs'.[54] However, the ECJ held that the question whether the right did so qualify was to be determined by the Contracting Parties to TRIPs 'within the framework of their own legal systems', and so the final determination was left to the referring Dutch court.

[51] Case C–238/89 *Pall v Dahlhausen* [1990] ECR I–4827.

[52] Case 6/81 *Industrie Diensten Groep v JA Beele Handelmaatschappij* [1982] ECR 707.

[53] Joined Cases C–300/98 and 392/98 *Parfums Christian Dior v TUK Consultancy* [2000] ECR I–11307.

[54] TRIPs is the Agreement on Trade-related Aspects of Intellectual Property Rights, which is Annex 1C to the Marrakesh Agreement Establishing the World Trade Organisation 1994, 1867 UNTS 154.

To date, laws on unfair competition have not been recognised as giving rise to industrial or commercial property under Article 30. The decision in *Parfums Christian Dior v TUK Consultancy* on the interpretation of TRIPs does not necessarily mean that the same interpretation will be taken under Article 30.

It is always possible that this classification will change in the future. However, the formal distinction appears to be irrelevant for parallel trade, as unfair competition law can be justified as serving a 'mandatory requirement' and, in the end, the ECJ has arrived at the same result anyway, namely Community exhaustion. Similarly, under competition law any attempts to rely on unfair competition to prevent parallel trade have been treated in the same way as attempts to rely on intellectual property with that goal.[55]

II. COMMUNITY EXHAUSTION

As discussed in section I.A above, the owner of intellectual property will normally have a bundle of different rights. These rights can have different limitations, which in turn can vary between types of intellectual property and between jurisdictions. In the context of parallel trade, the most important rights are the right to distribute and the right to import, and the key question is to what extent these rights can be 'exhausted'.

The rights to distribute and to import are relatively consistent between jurisdictions as they relate to products manufactured by a third party unconnected to the intellectual property owner (often described as 'counterfeit' products in the case of trade marks or 'pirate' products in the case of copyright). The exclusive right to distribute can be used to prevent initial and (normally) subsequent distribution of such products. Similarly, the exclusive right to import can be used to prevent the importation of such products, regardless of whether they are imported by the third party manufacturer or whether they have been put on the market in another jurisdiction by the third party manufacturer and are then imported by yet another party. Indeed, within the Community, the right to import can be supported by customs action to seize such goods upon import.[56] This does not affect parallel traded goods, which are excluded from such customs action.

Matters are less straightforward when it comes to genuine products, in other words products which have been put on the market by the intellectual property owner or with his consent. Although the exclusive right to distribute and import such products will normally be 'exhausted' where the products were put on the market within the jurisdiction in question, matters are less consistent when this was done outside the jurisdiction and the goods are thus parallel imports.

Taking the case of domestic marketing first, in most jurisdictions intellectual property rights cannot be used to prevent genuine products which were put on

[55] See Ch 3, sect I.C.ix (Intellectual Property and Unfair Competition).
[56] See Ch 5, sect I.D (Border Controls).

the domestic market from being resold within that jurisdiction, or otherwise to control the secondary market in that jurisdiction. In effect, the rights are exhausted once they have been exercised by or with the consent of the intellectual property owner, and they cannot be used to prevent resale within the jurisdiction. Since the nineteenth century, this approach has been taken in the United Kingdom[57] and the United States,[58] where it is also known as the 'first sale' doctrine. It has also been taken in Denmark, Germany, Ireland, Italy and the Netherlands.[59] The term 'exhaustion' itself is said to come from Germany, where the Reichsgericht held in 1902:

> The effect of a patent (for a process) is that no-one, except the proprietor (or the persons whom he has authorized) may manufacture a product by the said process and put it on the domestic market. By this act, however, the effect of the protection conferred by the patent is exhausted. The proprietor who has manufactured the product and has put it on the market under this protection which excludes competition from other parties, has enjoyed advantages which the patent confers upon him and has thus exhausted his right.[60]

Some jurisdictions, such as Belgium and France, have applied a 'right of destination' which allows manufacturers a certain degree of flexibility to limit the supply of their goods to specific markets (for instance, to distribute sound recordings which are to be used by consumers but not by broadcasters or discothèques).[61] However, this right of destination is limited and cannot be used to oppose resale within the 'destination' market (in the previous example, from one consumer to another).

Turning to the case of products which were put on the market elsewhere, there are three main systems which are applied, as follow:

—Some jurisdictions apply a system of 'international exhaustion', under which the rights will be exhausted regardless of where the product was put on the market. In such jurisdictions, the intellectual property owner has no right to block parallel imports. To a certain extent, the United States applies such a system to copyright and trade marks.[62]

[57] *Betts v Wilmott* (1870–71) LR 6 Ch App 239. See Ch 5, sect I.G (International Exhaustion in the United Kingdom).

[58] For instance, in *Adams v Burke* 84 US (17 Wall) 453 (Sup Ct, 1873) and *Appolinaris v Scherer* 27 F 18 (CC SDNY, 1886).

[59] A Dietz, *Copyright Law in the European Community* (Sijthoff & Noordhoff, Alphen aan den Rijn, 1978) 91–2.

[60] *Guajakol-Karbonat* (Reichsgericht, 26 Mar 1902) 51 RGZ 139, referred to in European Council, *Records of the Luxembourg Conference on the Community Patent 1975* (OPOCE, Luxembourg, 1982), 40–1 and D Keeling, *Intellectual Property Rights in EU Law: Volume I: Free Movement and Competition Law* (OUP, Oxford, 2003) 75.

[61] Dietz, above n59, 92–3; F Gotzen, 'Distribution and Exhaustion in the EC' [1990] *European Intellectual Property Review* 299, 300–1.

[62] See *Quality King Distributors v L'anza Research International* 523 US 135; 118 S Ct 1125 (1998) (copyright); *K-Mart v Cartier* 486 US 281 (1987), *Lever Brothers v United States* 981 F.2d 1330 (1994) and *Bourdeau Bros v ITC* (Fed Cir, 30 Mar 2006) (trade marks). In both cases, this is further nuanced.

—Some jurisdictions apply a system of 'regional exhaustion', under which the rights will be exhausted only if the product was put on the market within that region. In such jurisdictions, the intellectual property owner only has the right to block parallel imports from outside the region. The European Community applies such a system.
—Some jurisdictions apply a system of 'national exhaustion' only, under which the rights will not be exhausted if the product was put on the market outside the jurisdiction. In such jurisdictions, the intellectual property owner has the right to block all parallel imports. The United States applies such a system to patents.[63]

Often, jurisdictions take a more nuanced approach and consider further circumstances when determining whether rights are exhausted by marketing abroad. Such additional circumstances can include the place of manufacture, whether any contractual restrictions apply to resale and whether there are any differences in quality between the products imported and those normally sold on the national market.

Within the European Community, the jurisdictional boundaries of most intellectual property rights are still national in scope while the internal market is Community-wide.[64] Therefore, to the extent that Member States apply a rule of national exhaustion, or even a nuanced approach to regional or international exhaustion, intellectual property owners would have some rights to block parallel trade within the Community. As a consequence, the ECJ has developed and refined the doctrine of Community exhaustion of intellectual property rights based on Articles 28 and 30.

Community exhaustion first arose in *Deutsche Grammophon*, a case which was referred to the ECJ by the Hamburg Higher Regional Court shortly after Articles 28 to 30 entered into force.[65] The Court considered Article 30 in the light of Article 3(g), which states that one of the Community's activities is 'a system ensuring that competition in the internal market is not distorted', and held as follows:

> If a right related to copyright is relied upon to prevent the marketing in a Member State of products distributed by the holder of the right or with his consent on the territory of another Member State on the sole ground that such distribution did not take place on the national territory, such a prohibition, which would legitimize the isolation of national markets, would be repugnant to the essential purpose of the Treaty, which is to unite national markets into a single market.
>
> That purpose could not be attained if, under the various legal systems of the Member States, nationals of those states were able to partition the market and bring about arbitrary discrimination or disguised restrictions on trade between Member States.

[63] *Jazz Photo v International Trade Commission* 264 F 3d 1094, 1105 (Fed Cir 2001), *cert. denied*, 536 US 950 (2002).

[64] See the opinion of Mayras AG in Case 119/75 *Terrapin (Overseas) v Terranova Industrie CA Kapferer & Co* [1976] ECR 1039.

[65] Case 78/70 *Deutsche Grammophon v Metro SB* [1971] ECR 487, paras 12–13.

> Consequently, it would be in conflict with the provisions prescribing the free movement of products within the common market for a manufacturer of sound recordings to exercise the exclusive right to distribute the protected articles, conferred upon him by the legislation of a Member State, in such a way as to prohibit the sale in that State of products placed on the market by him or with his consent in another Member State solely because such distribution did not occur within the territory of the first Member State.

In later cases the ECJ has put it even more bluntly, specifically holding that trade mark rights 'are not intended to allow their owners to partition national markets and thus promote the retention of price differences which may exist between Member States'.[66]

Therefore, the basic rule of Community exhaustion is that, once a product has been placed on the market in any Member State by an undertaking (or with its consent), that undertaking can no longer rely on any intellectual property rights to prevent that product being imported into or sold within another Member State. Although the right may constitute industrial or commercial property for the purposes of Article 30, exercise of that right would constitute 'a means of arbitrary discrimination or a disguised restriction on trade between Member States'. Once rights are exhausted, their only real application is in relation to advertising and repackaging, which are considered in sections III and IV, or where there is some other legitimate reason for the rightholder to oppose further commercialisation, as discussed in section V.

Although the concept of Community exhaustion was originally developed under Articles 28 and 30, the Community legislation which has harmonised various intellectual property rights now largely codifies the concept. For instance, Article 7 of the First Trade Mark Directive,[67] which partially harmonises trade mark rights, provides as follows:

> 1. The trade mark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that trade mark by the proprietor or with its consent.
>
> 2. Paragraph 1 shall not apply where there exist legitimate reasons for the proprietor to oppose further commercialisation of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market.

This approach has been followed in subsequent secondary EC legislation covering the Community trade mark,[68] copyright,[69] rights related to copyright (films, audio recordings and recordings of performances and broadcasts),[70] computer

[66] Joined Cases C–427/93, 429/93 and 436/93 *Bristol-Myers Squibb v Paranova* [1996] ECR I–3457, para 46; Joined Cases C–71/94, 72/94 and 73/94 *Eurim-Pharm Arzneimittel v Beiersdorf* [1996] ECR I–3603, para 33; Case C–232/94 *MPA Pharma v Rhône-Poulenc Pharma* [1996] ECR I–3671, para 19.

[67] Dir 89/104 [1989] OJ L40/1.

[68] Reg 40/94 [1994] OJ L11/1, Art 13.

[69] Dir 2001/29 [2001] OJ L167/10, Art 4(2).

[70] Dir 2006/115 [2006] OJ L376/28, Art 9(2) (which replaced Dir 92/100 [1992] OJ L346/61, Art 9(2)).

programs,[71] databases,[72] designs[73] and plant variety rights.[74] Although there is no general legislation covering patents, the proposed Community Patent would follow the same rules,[75] as would the harmonised utility model.[76]

As secondary legislation these Directives and Regulations cannot amend the EC Treaty and so they cannot provide rights which are any broader than those permitted under Article 30. They can give either narrower rights or rights which extend to the limit of Article 30. In practice, the latter approach has typically been taken, as was confirmed by the ECJ in *Bristol-Myers Squibb v Paranova*.[77] In the first of three cases decided that day, the referring court asked for an interpretation of Article 7 of the Trade Mark Directive, while in the other two cases the questions merely asked for an interpretation of Article 30. In all three judgments the ECJ made it clear that the same interpretation would be taken under Article 7 as had previously been taken under Article 30.

This case law and legislation all relates to Community exhaustion. The Directives and Regulations have also changed the law in relation to goods marketed in countries outside the Community. Exhaustion of rights in relation to such goods (international exhaustion) is considered in Chapter 5.

A. Placed on the Market

The ECJ in *Deutsche Grammophon* talked of goods being 'placed on the market', and various terms have been used for this concept in subsequent cases, such as marketed,[78] put on the market[79] or put into circulation.[80] They all appear to mean the same thing. This is the point at which exhaustion begins. The consequences of products being sold, licensed, transported or downloaded are now considered in turn.

The concept of goods being 'placed on the market' is also used in other fields of Community law, such as product regulation, conformity assessment and product liability.[81] In these fields, goods may be regarded as being placed on the

[71] Dir 91/250 [1991] OJ L122/42, Art 4(c).
[72] Dir 96/91 [1996] OJ L77/20, Arts 5(c) and 7(2)(b).
[73] Dir 98/71 [1998] OJ L289/28, Art 15 and Reg 6/2002 [2002] OJ L3/1, Art 21.
[74] Reg 2100/94 [1994] OJ L227/1, Art 16.
[75] COM (2000) 412, Article 10.
[76] COM (1999) 309, Article 21.
[77] Joined Cases C–427/93, 429/93 and 436/93 *Bristol-Myers Squibb v Paranova* [1996] ECR I–3457; Joined Cases C–71/94, 72/94 and 73/94 *Eurim-Pharm Arzneimittel v Beiersdorf* [1996] ECR I–3603; Case C–232/94 *MPA Pharma v Rhône-Poulenc Pharma* [1996] ECR I–3671.
[78] Case 15/74 *Centrafarm v Sterling Drug* [1974] ECR 1147; Case 3/78 *Centrafarm v American Home Products* [1978] ECR 1823.
[79] Joined Cases C–427/93, 429/93 and 436/93 *Bristol-Myers Squibb v Paranova* [1996] ECR I–3457.
[80] Case 144/81 *Keurkoop v Nancy Kean Gifts* [1982] ECR 2853.
[81] Commission, *Guide to the implementation of directives based on the New Approach and the Global Approach* (European Commission, Luxembourg, 2000), particularly at 18—20. See also Dir 85/374 [1985] OJ L210/29 (Product Liability Dir) and Case C–127/04 *O'Byrne v Sanofi Pasteur MSD* [2006] ECR I–1313.

market as soon as they are transferred from the stage of manufacture to the stage of distribution. This is an earlier stage than goods are regarded as being placed on the market for the purposes of exhaustion, which reflects the different roles of the concept in these other laws. As a consequence, great care should be taken when considering the relevance of any legislation or case law on the meaning of the words 'placed on the market' from other fields to the field of exhaustion.

i. Sale

Where a rightholder sells directly to a consumer it is clear that the product is put on the market at that point. However, there will often be a longer chain of distribution, and the key question is when and where in that chain the goods have been put on the market.

A simplified chain of distribution involves the transfer of a product from the manufacturer to a wholesaler, from the wholesaler to a retailer, and then from the retailer to a consumer. In practice, there may be fewer or more entities in the chain. Some or all of the entities may form part of the same economic group as the manufacturer (vertical integration). In addition, the chain can extend across more than one country, in which case the precise moment that goods are deemed to be put on the market may be crucial.

In *Kipling v GB Unic*,[82] the Benelux Court of Justice suggested that goods would be regarded as being put on the market only if they were transferred to a third party with the intention that the third party sell them in the Community. The physical location of the transfer to the third party would be irrelevant.

This appeared to be a sensible approach. However, the opposite view had already been taken by some commentators, who turned out to be prescient.[83]

In *Glaxo Group v Kohlpharma*, the Hamburg Higher Regional Court held in an interim decision that the goods were put on the market once the power of disposal of the goods was transferred to a third party intermediary. It also expressed the view, although obiter, that this would be the case even if the third party were contractually obliged to export the goods.[84]

A similar view was taken in England in *Glaxo Group v Dowelhurst*,[85] which concerned pharmaceuticals sold by Dowelhurst, a well-known parallel importer, to hospitals in the UK. Glaxo claimed that it had sold these pharmaceuticals, the majority of which were anti-retrovirals such as TRIZIVIR, COMBIVIR and EPIVIR but which also included the respiratory drug SEREVENT, at reduced prices on the basis that they would be used for treatment in Africa.

[82] Case A 98/1 *Kipling v GB Unic* (6 Dec 1999, Benelux Court of Justice) [2000] *European Intellectual Property Review* N79.

[83] T Hays and P Hansen, 'Silhouette is Not the Proper Case Upon Which to Decide the Parallel Importation Question' [1998] *European Intellectual Property Review* 277.

[84] *Glaxo Group v Kohlpharma* (Oberlandesgericht, Hamburg, 20 Mar 2003).

[85] *Glaxo Group v Dowelhurst* [2003] EWHC 2015 (Ch); [2004] EWCA Civ 290.

However, Glaxo claimed that they had then been fraudulently diverted, either before or after leaving the European Union, and had ultimately ended up in Dowelhurst's hands. Glaxo sought summary judgment for trade mark infringement and Dowelhurst countered on the basis that Glaxo had consented to the sale of the pharmaceuticals in the Community. The real question was at what stage in the chain of distribution the goods had been put on the market.

At first instance, the English High Court (Peter Prescott QC sitting as a Deputy Judge) considered Glaxo's sales of various batches of the pharmaceuticals. In relation to the majority of the batches, the court noted that they had been sold 'FCA' (Free Carrier At) locations in France. As explained by the court, this meant that Glaxo had to supply the goods to the buyer's shipping agent in France and to clear them for export, but that it was the buyer's responsibility to arrange transport and to import them into Africa. As a consequence, the court held that there was at least an arguable case that Glaxo had put the goods on the market in France. The court also doubted whether there was any contractual obligation on the buyer to export the goods, although it did not decide the point. However, in relation to one of the batches the court noted that it had been sold 'CIP' (Carrier and Insurance Paid to) Africa, with delivery to Glaxo's forwarding agent in France. According to the court, this was as if Glaxo had exported the goods to Africa itself and so, in relation to this batch, he granted summary judgment as there was no arguable case that the goods had been put on the market in the Community.

On appeal, the Court of Appeal upheld the High Court's findings in relation to the majority of the batches and refused to make a reference to the European Court of Justice. However, in relation to the CIP batch the Court of Appeal held that there was an arguable case that the goods had still been put on the market in the Community, as the buyer could have chosen to redirect them even though carriage and insurance had been paid. The Court of Appeal also said that this would arguably be the case even if there was a contractual obligation to export the goods. The case then settled before a full trial and so the point was never decided.[86]

These were only interim decisions and so it was easy to believe that, once the point was considered fully, the courts would prefer the approach of the Benelux Supreme Court in *Kipling v GB Unic* and hold that goods have not truly been placed on the market in the Community in such cases.

However, this was not the conclusion of the ECJ in *Peak Holding*.[87] This case concerned clothing bearing Peak Holding's trade mark PEAK PERFORMANCE which was marketed in Sweden by a company called Factory Outlet. In the Swedish courts, Factory Outlet claimed that the goods had been put on the market by Peak Holding by virtue of:

[86] 'GSK settles with UK parallel trader on diverted AIDS drugs' (2005) *SCRIP* 3059/60, at 18.

[87] Case C–16/03 *Peak Holding v Axolin-Elinor* [2004] ECR I–11313. The judgment was followed by the Federal Supreme Court in Germany in Case I ZR 162/03 *Ex Works* (Bundesgerichtshof, 27 Apr 2006)

(a) being imported into the Community and having customs duty paid on them, with the intention of selling them in the Community;
(b) being offered for sale in Peak Holding's shops or those of associated companies;
(c) being offered for sale in independent retailers; and/or
(d) being sold to a French company under a contract which (according to Peak Holding) required that 95 per cent be sold outside of the Community (the remaining 5 per cent could be sold in France).

The case was referred to the ECJ, which noted that 'it is not disputed that, where he sells goods bearing his trade mark to a third party in the EEA, the proprietor puts those goods on the market within the meaning of Article 7(1) of the [Trade Mark] Directive'. By contrast, goods are not put on the market 'where the proprietor imports his goods with a view to selling them in the EEA or offers them for sale in the EEA'.

Although the ECJ did not apply this to the facts, this appears to indicate that the goods would not be regarded as having been put on the market by virtue of (a) or (b). As for (c), the offer for sale by independent retailers would not itself be regarded as putting the goods on the market, but the initial sale to those retailers by Peak Holding probably would be so regarded, so long as that took place within the Community. The sale in (d) would also be putting the goods on the market within the Community, subject to the impact of the contractual restriction which required 95 per cent of the goods to be resold outside the Community.

Turning then to that restriction, the ECJ went on to hold that 'the stipulation, in a contract of sale concluded between the proprietor of the trade mark and an operator established in the EEA, of a prohibition on reselling in the EEA does not mean that there is no putting on the market in the EEA within the meaning of Article 7(1) of the [Trade Mark] Directive'. Therefore, such a territorial restriction 'does not preclude the exhaustion of the proprietor's exclusive rights in the event of resale in the EEA in breach of the prohibition'.

To say the very least, this is not a practical judgment.[88] In effect, it requires manufacturers to ensure that any products which they wish to be sold outside the Community are physically and legally transferred to a third party outside the Community, failing which the products in question may be regarded as having been placed on the market in the Community, regardless of any contractual limitations. Although there is a cost and inconvenience in having to export in this way, particularly for smaller companies with relatively low levels of exports, where the risk posed by exhaustion is serious enough then manufacturers are likely to take these steps.

The ECJ did not consider whether a separate entity within a corporate group might constitute a third party for these purposes. However, this at least seems

[88] See also the criticism of the judgment by N Clarembeaux and T Van Innis, 'EU: Trade Marks—Exhaustion Without Consent' [2005] *European Intellectual Property Review* N65.

highly unlikely, given that offers for sale to the public by distributors (which occur even further downstream) were not regarded as putting on the market.

Despite the effect on exhaustion, this does not mean that the diversion of the product from its intended destination is lawful and it may lead to liability for breach of contract, unless the contractual requirement is itself void as anti-competitive. Indeed, the planning of such a diversion in advance might be regarded in England and Wales as an illegal conspiracy to obtain property by deception regardless of any anti-competitive nature of the contract, as held in *R v Dearlove*.[89]

ii. Licences

Although it is relatively clear that a product will be put on the market when it has been sold, it is less clear whether this will be the case where the manufacturer grants a limited licence of the right to use the intellectual property at the same time as distributing it on physical media. This is a particular issue in relation to computer programs and games, which are often sold under shrink-wrap or click-wrap licences (where the user is asked to accept the licence when opening the package or when installing the program respectively).

The problem of differentiating between sales and licences was considered by the Community institutions when discussing the proposal for a Computer Program Directive. In its original proposal,[90] the Commission drew a clear distinction between the 'sale' right, which would be exhausted, and the 'licensing', 'lease' and 'rental' rights, which would not. The distinction between 'licensing' and 'sale' was developed in the Commission's explanation for the proposal, where the Commission considered how contract law could be used to protect software programs.

In terms of licensing, the Commission noted:

> Much of the software put on the market today is subject to licence agreements between right holder and user. Indeed, this is the normal mode of commercialization for all but the most simple, mass-produced software, such as games or standard business packages. Such licence agreements allow right holders to circumscribe the activities of users in respect of all of the acts connected with the use of the program. The user is free to accept or reject the limitations on his activities which the licensing contract proposes.

The Commission concluded that 'individually negotiated arrangements should be possible as long as they are not in conflict with the applicable competition law'.

[89] *R v Dearlove* (1989) 88 Cr App R 279. The offence was under the Theft Act 1968, s15, and the defendants were each sentenced to 18 months' imprisonment, of which 12 months were suspended on appeal.

[90] COM(88)816 [1989] OJ C91/4.

Turning to sale, the Commission noted:

> Contract law alone does not provide efficient protection against most forms of misappropriation. In particular, as regards mass-marketed programs for personal computers and computer games which do not need maintenance, contract law does not provide an adequate means to prevent the copying and use of computer programs by third persons. Nor is it entirely clear whether the practice of so-called 'shrink-wrap licensing' where use conditions are attached to a product which is, to all intents and purposes 'sold' to the user, constitutes a valid licence in all circumstances and in all jurisdictions.

The Commission then explained what it was proposing in the following terms:

> the granting and limitation of exclusive rights in computer programs should reflect these different models of commercial exploitation, outright sale, and licensing. Where 'sale', in the normal sense of the word occurs, certain rights to use the program must be taken to pass to the purchaser along with the physical copy of the program. Where licensing takes place in the conventional sense by means of a written contract signed by both parties, the rights to use the program which has been provided will, with a limited number of exceptions, remain circumscribed by contractual arrangements.
>
> . . .
>
> as regards the rental, leasing and licensing of software, the distribution right should not be exhausted by the first sale, leasing or licensing of the program. This will enable the right holder to exercise control over rental of products which have been previously sold, leased or licensed and to have continued control over the rental, leasing or licensing of products which have been previously distributed by these means. Once a product has been sold with the right holder's consent he should no longer be able to exercise control over subsequent sale, that is sale to third parties of legally acquired programs.

Thus, the focus was on which rights could be exhausted rather than what acts would exhaust those rights.

Turning to the proposal itself, under Article 4(c) the copyright owner was to have the exclusive right to 'the distribution of a computer program by means of sale, licensing, lease, rental and the importation for these purposes'. Exhaustion was to apply only 'in respect of its sale and its importation following the first marketing of the program by the right holder or with his consent', essentially adopting the language of the ECJ under Articles 28 to 30.

However, Article 5 drew a clearer distinction between sale and licensing, following the explanatory memorandum, by permitting certain acts (including back-ups) 'where a computer program has been sold or made available to the public other than by a written licence agreement signed by both parties'. The Commission thereby sought to adopt a 'real world' view in distinguishing sale from licensing and to lay down a relatively clear-cut distinction. A computer program would be treated as sold if it was licensed under a 'shrink-wrap' licence

or indeed any other licence which was not in the form of a written contract signed by both parties.

If the approach in Article 5 had been extended to exhaustion of distribution rights under Article 4(c), parallel trade of licensed computer programs would have been clearly lawful. However, in fact the opposite occurred and, as the legislative process continued, the distinction was abandoned in Article 5 rather than being extended to Article 4(c), leaving the question open.

First, the requirement of 'a written contract signed by both parties' was criticised by the Economic and Social Committee, on the basis that '[t]here are many ways of licensing computer programs which do not involve the signature of a written agreement by both parties'. It therefore suggested that manufacturers should be able to prohibit the acts in Article 5 by any 'legally valid agreement' and even, in the case of back-ups, simply by 'a clear statement in writing upon the original copy or upon any media or packaging in or with which it is supplied'.[91]

Similarly, although the European Parliament proposed no amendments to Article 4(c), it suggested that the manufacturer should generally be able to rely on any form of contract to prohibit the acts under Article 5, save making a back-up where that was necessary for use of the program.[92]

As a result of these discussions, the Commission adopted an amended proposal[93] which abandoned the distinction between different types of licence in Article 5 and continued to allow the manufacturer greater flexibility to prohibit certain acts where the software was licensed rather than sold.

Nevertheless, the continued distinction in Article 5 between 'sale' and 'licence' was criticised by the Council Working Party on the basis that it 'left uncertainty . . . where the sale involved a licensing agreement'.[94]

The Council Working Party was also discussing Article 4(c). The Danish delegation suggested that the Article be amended to give the owner of copyright in a computer program the exclusive right to carry out or authorise 'any form of distribution to the public, including the rental, of the original computer program or of copies thereof'. The exhaustion provision would then be amended to state that '[t]he first sale [rather than marketing] in the Community of a copy of a program by the rightholder or with his consent shall exhaust the distribution right [rather than sale or importation right] within the Community of that copy, with the exception of the right to control further rental of the program or a copy thereof'.[95] This text was readily agreed.

[91] Opinion of the Economic and Social Committee [1989] OJ C329/4.

[92] [1990] OJ C231/78.

[93] COM(90)509 [1990] OJ C320/22.

[94] Summary of Proceedings of Meeting of the Working Party on Intellectual Property (Computer Programs) on 18–19 Oct 1990, Council document 9664/90, at 7.

[95] *Ibid,* at 6 and Report from Presidency to Permanent Representatives Committee of 25 Oct 1990, Council document 9398/90, at 15–16.

As a consequence, Articles 4 and 5 of the Computer Program Directive as adopted read as follows:[96]

Article 4 Restricted Acts

Subject to the provisions of Articles 5 and 6, the exclusive rights of the rightholder within the meaning of Article 2, shall include the right to do or to authorize:

(a) the permanent or temporary reproduction of a computer program by any means and in any form, in part or in whole. Insofar as loading, displaying, running, transmission or storage of the computer program necessitate such reproduction, such acts shall be subject to authorization by the rightholder;

(b) the translation, adaptation, arrangement and any other alteration of a computer program and the reproduction of the results thereof, without prejudice to the rights of the person who alters the program;

(c) any form of distribution to the public, including the rental, of the original computer program or of copies thereof. The first sale in the Community of a copy of a program by the rightholder or with his consent shall exhaust the distribution right within the Community of that copy, with the exception of the right to control further rental of the program or a copy thereof.

Article 5 Exceptions to the restricted acts

1. In the absence of specific contractual provisions, the acts referred to in Article 4 (a) and (b) shall not require authorization by the rightholder where they are necessary for the use of the computer program by the lawful acquirer in accordance with its intended purpose, including for error correction.

2. The making of a back-up copy by a person having a right to use the computer program may not be prevented by contract insofar as it is necessary for that use.

3. The person having a right to use a copy of a computer program shall be entitled, without the authorization of the rightholder, to observe, study or test the functioning of the program in order to determine the ideas and principles which underlie any element of the program if he does so while performing any of the acts of loading, displaying, running, transmitting or storing the program which he is entitled to do.

The legislative discussions did not focus on the question of exhaustion of the distribution right, and so it is unsurprising that there is no indication whether 'sale' in Article 4(c) is intended to include shrink-wrap or other non-negotiated licensing or not. The better view is probably that the Directive covers only outright sale and not licensing and so, under the Directive, where a copy of a software program is licensed rather than sold the manufacturer will be able to rely on its copyright to prevent resale of that copy in another Member State.

However, this is a moot point. The Directive cannot restrict trade beyond what is permitted by Article 30. Therefore, if a product sold under a shrink-wrap or click-wrap licence would be regarded as having been put on the market for the purposes of Article 30, which seems likely, the manufacturer's rights will have been exhausted under that Article even if not under the Directive.

[96] Dir 91/250 [1991] OJ L122/42.

The Directive has been considered by the courts in Germany, which often take a broad view of exhaustion.[97] In *OEM-Version*,[98] the German courts considered the question of exhaustion where computer programs were distributed on physical media. The programs in question were Microsoft operating systems which had been distributed by Microsoft to an intermediate dealer, who distributed them to a retailer, who in turn distributed them to an end user. The programs were an Original Equipment Manufacturer (OEM) version, and under the contract between Microsoft and the intermediate dealer the dealer could only 'distribute and license' the programs with computer systems and had to 'require its distributors, dealers and others in its distribution channel' to comply with that restriction. However, the retailer had not done so but instead had sold the programs alone.

As there was no contract directly between Microsoft and the retailer, Microsoft brought an action for copyright infringement against the retailer and one of the defences raised was that Microsoft's rights had been exhausted by the products' distribution to the dealer and/or to the retailer. The Berlin District Court found that there was no exhaustion given the limited nature of the original distribution, and this was upheld by the Regional Court of Appeal. However, this approach was rejected by the Federal Supreme Court, which held that Microsoft's rights had been exhausted by the sale to the dealer, regardless of the licence conditions, and so the distribution by the dealer to the retailer and by the retailer to the end user did not infringe Microsoft's copyright. Therefore, the licence conditions did not prevent exhaustion.

On balance, it appears likely that the approach adopted by the Federal Supreme Court will be followed if the question comes before the ECJ. Where products are sold on physical media, ownership of which is transferred to the buyer, and where the transaction involves a one-off payment, this appears to constitute putting on the market, and exhaustion cannot then be avoided by contractual terms which prohibit resale, as discussed in the previous section. However, this does not mean that there is no distinction between licensing and sale for the purposes of exhaustion. Where a licence is for a limited period of time, or is subject to a periodic payment for use, and where the physical medium must be returned to the manufacturer at the end of the licence, there may be a stronger argument that the product should not be equated to sale but rather to rental. More generally, if title in the physical medium is retained by the manufacturer it would appear harder to say that it has been put on the market.

[97] F Gotzen, 'Distribution and Exhaustion in the EC' [1990] *European Intellectual Property Review* 299, 300. There was some tangential discussion of the issue in Case HA ZA 04-2891 *Van der Schraaf v IST Flight Training* (Gerechtshof's-Gravenhage (Court of Appeal, The Hague), 20 Nov 2003). See also L Guibault, 'Paradigm Shift in European Intellectual Property Law? From Microsoft to Linux' (2006) 10(3) *Lex Electronica* at 15–17 and the literature referred to therein.

[98] Case I ZR 244/97 *OEM Version* (Bundesgerichtshof, 6 July 2000) [2001] GRUR 153.

iii. Transportation

Although a sale to a third party, and potentially certain types of licence, will result in goods being placed on the market, mere transportation is unlikely to be sufficient.

In *Commission v France (transit of spare parts)* the ECJ considered the transportation of goods in free circulation the Community.[99] The Commission brought an action against France in relation to legislation which allowed the seizure of suspected counterfeit goods, which was being applied to car spare parts which were being transported through France. Although these spare parts infringed design rights in France, they did not infringe such rights in Spain, where they had been manufactured, or in certain other Member States, where they were to be sold. Advocate General Mischo noted that the goods were not 'put into circulation' in France but rather in the Member State in which they were sold. This was followed by the ECJ, which drew a clear distinction between 'the mere physical transportation of . . . goods' and putting the goods into circulation by 'placing them on the market, that is to say the marketing of those goods'. The French legislation was therefore in breach of Article 28 and could not be justified as ensuring the protection of intellectual property under Article 30.

This was followed in *Rioglass*,[100] which again concerned French seizures of car spare parts manufactured in Spain. This time the spare parts were destined for Poland, which was not then a Member State. The ECJ held that this made no difference and that 'transit . . . which consists in transporting goods . . . passing through one or more Member States, does not involve any marketing of the goods in question'. Again, therefore, the seizures constituted a restriction on the free movement of goods which could not be justified.

The circle was completed in *Montex Holdings v Diesel*.[101] This time, 5,076 pairs of ladies' trousers bearing the DIESEL mark had been manufactured in Poland (again not a Member State at the relevant time) without the consent of the owner of the trade mark in Germany. They were being transported to Ireland, where the mark was not protected, when they were seized by customs in Germany. The ECJ agreed with Advocate General Maduro that the trade mark owner could not prohibit the transit of the goods unless 'those goods are subject to the act of a third party while they are placed under the external transit procedure which necessarily entails their being put on the market in that Member State of transit'. It was not enough to suggest that they might be fraudulently taken out of transit and put on the market in Germany. The Court confirmed that it was irrelevant that the goods came from a non-member State

[99] Case C–23/99 *Commission v France* [2000] ECR I–7653.
[100] Case C–115/02 *Administration des douanes et droits indirects v Rioglass* [2003] ECR I–12705.
[101] Case C–281/05 *Montex Holdings v Diesel*, (9 Nov 2006, not yet reported).

Although these cases were decided on the basis of the scope of the intellectual property rights in question, it is likely that the same approach would be taken in relation to exhaustion. Therefore a manufacturer who transports goods through a Member State will not be regarded as placing them on the market in that Member State.

Although goods in transit may avoid infringement of intellectual property rights, where they are counterfeit or pirate goods (rather than parallel traded goods) they may still fall foul of the Community customs regulations. The impact of such regulations is dealt with in greater detail in Chapter 5, section I.D.

iv. Downloaded Products

The previous three sections primarily considered cases where the product is distributed on a physical medium. A different question arises when a product is downloaded, where no physical medium is involved. This is increasingly the way in which intangible products such as computer programs and literary, audio and video content are distributed.[102] Where there is electronic delivery of a copyright work, there is no physical object incorporating that work which one can resell to a third party. For instance, if a consumer downloads a series of songs from a website, rather than purchasing a CD containing those songs, the consumer does not acquire a physical medium which incorporates the songs.

Even more than licences, such forms of distribution occupy a murky area between sale of goods, rental of goods and supply of services, raising difficulties in determining whether the product has been 'put on the market' and whether rights are exhausted under Articles 28 to 30.

At a Community level, this issue has arisen in relation to computer programs, to databases and to copyright more generally (in the Information Society Directive).

Downloading was not discussed during legislative discussions which led to the Computer Program Directive in 1991.[103] However, the Commission has subsequently taken the view that on-line supply of computer programs does not result in exhaustion.[104]

Similarly, the issue was not raised in the original proposal for the Database Directive in 1992.[105] However, during the course of the legislative discussions the issue came into prominence and, as a consequence, recital 33 of the Database Directive[106] as adopted in 1996 states:

[102] For a detailed consideration of download issues, see E Tjong Tjin Tai, 'Exhaustion and Online Delivery of Digital Works' [2003] *European Intellectual Property Review* 207.
[103] Dir 91/250 [1991] OJ L122/42.
[104] COM(2000)199, at 17.
[105] COM(92)24 [1992] OJ C156/4.
[106] Dir 96/9 [1996] OJ L77/20.

> the question of exhaustion of the right of distribution does not arise in the case of on-line databases, which come within the field of provision of services; whereas this also applies with regard to a material copy of such a database made by the user of such a service with the consent of the rightholder; whereas, unlike CD-ROM or CD-i, where the intellectual property is incorporated in a material medium, namely an item of goods, every on-line service is in fact an act which will have to be subject to authorization where the copyright so provides.

Recital 43 goes on to state:

> in the case of on-line transmission, the right to prohibit re-utilization is not exhausted either as regards the database or as regards a material copy of the database or of part thereof made by the addressee of the transmission with the consent of the rightholder.

This is reflected in part in the Directive itself. Article 5(c) states that the author of a database which is protected by copyright has the exclusive right to carry out or authorise 'any form of distribution to the public of the database or of copies thereof' but that '[t]he first sale in the Community of a copy of the database by the rightholder or with his consent shall exhaust the right to control resale of that copy within the Community'. Article 5(d) gives the exclusive right of 'any communication, display or performance to the public' but has no exhaustion provision. A similar distinction is drawn in Article 7(1) and 7(2)(b) in relation to the *sui generis* database right.

At this stage, what was primarily being contemplated was the on-line provision of services, rather than the question of downloading software, music or films which could then be used off-line. Recital 33 to the Directive did suggest that rights would not be exhausted in relation to downloaded databases. However, Articles 5(c) and 7(2)(b) did not state that the 'first sale' was limited to the sale of copies on physical media to the exclusion of downloaded copies. The fact that communication, display and performance rights are not exhausted under Articles 5(d) and 7(2)(b) is quite beside the point, as such rights are not exhausted by the sale of a database on physical media either. The question is whether the right to control resale is exhausted when a copy is downloaded.

The focus on on-line services continued in the Commission's 1995 Green Paper on Copyright and Related Rights in the Information Society,[107] where the Commission indicated that, although there will be Community exhaustion where intellectual property is exploited by incorporation in a material form:

> if the work or related matter is not incorporated in a material form but is used in the provision of services, the situation is entirely different. The hearing in July 1994 has already made clear that the interested parties feel that it should be ensured that the rights are not exhausted by the information superhighway.[108] In fact, given that the provision of services can in principle be repeated an unlimited number of times, the

[107] COM(95)382 [1996] OJ C97.

[108] European Commission, *Replies from Interested Parties on 'Copyright and Neighbouring Rights in the Information Society': Hearing 07–08.07.1994* (European Commission, Luxembourg, 1995).

> exhaustion rule cannot apply. That has already been recognised by the Court of Justice in two decisions in cases concerning film provision and the right of public performance of a musical work.[109] The Commission could accept this approach in respect of services, which characterise the information society. Unlike the distribution right for material items, the different rights attached to services transmitted by electronic means can hardly be made subject to exhaustion. In fact, every service supplied (e.g. broadcasting, rental, or lending) is an act which must be authorised separately, without prejudice to future forms of exploitation.[110]

In its comments on the Green Paper, the Economic and Social Committee[111] concurred that '[e]xisting Community legislation provides that the principle of exhaustion of rights only applies when these are incorporated in physical products, not, however, to its distribution in electronic form'.

In its follow-up to the Green Paper, the Commission noted:

> a large consensus exists that no exhaustion of rights occurs in respect of works and other subject matter exploited on-line, as this qualifies as a service. Parties confirmed that given that services can in principle be repeated an unlimited number of times, the exhaustion rule cannot apply. A large number of interested parties took the view that any legislative initiative should spell out explicitly that the right applicable to the provision of on-line services may not be subject to exhaustion.[112]

The Commission also referred to recital 33 to the Database Directive and noted that this 'stipulates that the question of exhaustion does not arise in the case of the exploitation of on-line databases, which come within the field of provision of services (and thus there is no need for reconciling the material property in a tangible good with the intellectual property contained therein)'.[113] The Commission did not go on to discuss the remainder of the recital and whether the resale right would be exhausted where copies were downloaded.

The Information Society Directive was intended to implement the WIPO Copyright Treaty, which had been agreed at a Diplomatic Conference in December 1996, as indicated in recital 11 to the proposal for the Directive.[114]

Article 6 of the WIPO Copyright Treaty deals with the right of distribution and reads:

> (1) Authors of literary and artistic works shall enjoy the exclusive right of authorizing the making available to the public of the original and copies of their works through sale or other transfer of ownership.
>
> (2) Nothing in this Treaty shall affect the freedom of Contracting Parties to determine the conditions, if any, under which the exhaustion of the right in paragraph (1) applies after the first sale or other transfer of ownership of the original or a copy of the work with the authorization of the author.

[109] See especially the case *Coditel v Ciné-Vog Films* [1980] ECR 881; for the law on public performances, *Ministère Public v Tournier* [1989] ECR 2521

[110] COM(95)382, above n107, at 47–8.

[111] [1996] OJ C97/9.

[112] COM(96)568, 18–19.

[113] *Ibid*, at 18.

[114] COM(97)628 [1998] OJ C108/6; COM(1999)250 [1999] OJ C180/6.

An agreed statement at the Diplomatic Conference reads:

> As used in [Article 6], the expressions 'copies' and 'original and copies,' being subject to the right of distribution . . ., refer exclusively to fixed copies that can be put into circulation as tangible objects.

Article 8 of the Treaty then deals with the right of communication to the public and reads:

> authors of literary and artistic works shall enjoy the exclusive right of authorizing any communication to the public of their works, by wire or wireless means, including the making available to the public of their works in such a way that members of the public may access these works from a place and at a time individually chosen by them.

There is thus a clear distinction drawn in the Treaty between making material copies available to the public under Article 6 and communicating works to the public under Article 8. There is no provision for any exhaustion of the right of communication to the public. However, equally the Treaty does not indicate that the 'first sale or other transfer of ownership' under Article 6(2) cannot be as a download, although the agreed statement suggests at the very least that the copy made by the recipient would have to be a fixed copy which would be put into circulation as a tangible object.

The Information Society Directive[115] sought to make matters clearer. Recital 18 stated:

> Copyright protection under this Directive includes the exclusive right to control distribution of the work incorporated in a tangible article . . . the first sale in the Community of the original of a work or copies thereof by the rightholder or with his consent exhausts the right to control resale of that object within the Community.

Recital 19 then went on to follow the approach of recital 33 of the Database Directive:

> The question of exhaustion does not arise in the case of services and on-line services in particular . . . this also applies with regard to a material copy of a work or other subject-matter made by a user of such a service with the consent of the rightholder . . . unlike CD-ROM or CD-I, where the intellectual property is incorporated in a material medium, namely an item of goods, every on-line service is in fact an act which should be subject to authorisation where the copyright or related right so provides.

The right of distribution was implemented by Article 4 of the proposed Directive (a distribution right for rights related to copyright had already been included in the Rental Rights Directive). This provided for an exclusive right to authorise or prohibit any form of distribution to the public of copyright works, by sale or otherwise. This right would 'not be exhausted within the Community in respect of the original or copies of the work, except where the first sale or other transfer of ownership in the Community of that object is made by the rightholder or with his consent'.

[115] Dir 2001/29 [2001] OJ L167/10.

Once again, like the Database Directive, the text of the Articles did not fully implement the recitals. Therefore, although recital 19 goes further than the WIPO Copyright Treaty in stating that copyright will not be exhausted in a material copy of a work or other subject-matter made by a user of an online service with the consent of the rightholder, this is not made explicit in the relevant Article of the Directive.

Despite these limitations in the wording of the Directives, there is a strong possibility that, all else being equal, they will be interpreted in the light of their recitals. The result will be that, under the wording of the Directives, distribution rights will not be exhausted in relation to downloaded databases, music and films.

However, as in the case of licences, the Directives cannot prohibit exhaustion where it is required by Articles 28 to 30. Therefore, the question whether downloaded products should be regarded as having been put on the market, or more generally whether the rights over those products will be regarded as exhausted, may yet come before the ECJ under the EC Treaty itself.

Exhaustion is highly unlikely to be accepted as a defence to an infringement action where there has been a single purchase followed by multiple resale. It is not difficult to understand why the courts do not accept a defence of exhaustion in such cases, in the same way that they do not accept that the purchaser of a CD has the right to make and sell unlimited copies of that CD.[116]

Where there is only a single resale then the answer is less clear. For the same reasons as in the previous paragraph, exhaustion is unlikely to take place unless the original buyer deletes any copies of the product from his own systems. Even then, if there is no physical product it is difficult to see how Article 28 would apply as there will be no goods the movement of which is being restricted. However, if the storage medium itself is being transferred then it is possible that exhaustion could operate as a defence to any infringement action brought in relation to such a transfer. This is particularly so where the rightholder consented to the downloaded product being put onto the physical medium by the consumer (such as installing a program on a computer or saving a song on a portable music player).

The points have been considered by the German courts, although not in relation to parallel trade. In *Market Surveys*,[117] the German Federal Supreme Court appeared to take the view that downloading a database could exhaust the distribution rights in that copy of the database in the same way as distribution in material form, even though it did not exhaust the rights to extract and reproduce data from the database. However, in *Oracle v Usedsoft*,[118] the Munich

[116] See, for instance, *Serge Perathoner v Joseph Paumier* (Tribunal de Grande Instance, Paris, 23 May 2001) [2003] *European Copyright and Design Reports* 8.

[117] Case I ZR 1/02 *Market Surveys* (Bundesgerichtshof, 21 Apr 2005) [2005] GRUR 940, (2006) 37 IIC 489.

[118] Case 7 O 23237/05 *Oracle v Usedsoft* (Landgericht I, Munich, 19 Jan 2006), upheld by the Oberlandesgericht, Munich on 3 Aug 2006. A contrary view was adopted in Case AZ 315 O 343/06 *Microsoft v Usedsoft* (Landgericht, Hamburg, 29 June 2006). See T Heydn and M Schidl, 'Dealing With Used Software: Ingenious Business Model or Piracy?' (2006) 20(3) *World Intellectual Property*

District Court and Court of Appeal both took a different approach when considering the resale of licences for software programs without any physical media. Customers who purchased licences for the software programs did not receive any disks or CD-ROMs but could either download the software or simply make further copies themselves from existing materials. The licences were expressed to be non-transferable. In this case there were no goods (physical media) being transferred, and the courts held that copyright was not exhausted.

In any event, it does not appear that the exhaustion of rights doctrine will permit significant commercial parallel trade of downloaded products. A requirement that such products be put onto a physical medium and that the physical medium be transferred is likely to be economically unfeasible for most purposes. Therefore, to the extent that electronic distribution divides the Community into separate markets and operates price differentials, the remedy (if any) is more likely to be found under competition law than under Articles 28 to 30.

B. By or with Consent

Once it has been established that goods have been placed on the market, the question is whether this was done by or with the consent of the owner of the intellectual property rights.

i. Scope of Consent

The ECJ made it clear in *Deutsche Grammophon*[119] that consent relates to the point at which the goods are put on the market. It is irrelevant that the owner of the intellectual property rights may not consent to subsequent parallel trade within the Community.

However, it is not enough that the owner has put identical products on the market within the Community: the question is whether the owner has consented to the particular product in question being put on the market. In *Sebago*[120] a Belgian hypermarket chain had sold 2,561 pairs of Docksides Sebago shoes which it had bought from a parallel importer. The shoes had been manufactured in El Salvador and were apparently genuine, but the owner claimed that it had not consented to sale in the Community. The hypermarket chain claimed that it was sufficient that the owner had consented to the sale in the Community of similar goods bearing the same trade mark, while the owner claimed that consent had to relate to each individual batch of goods. The Brussels Court of Appeal referred the question to the ECJ, which held that 'for there to be consent

Report and J Pohle, 'Selling Used Software Licences' (2006) 159 *Copyright World* 8; F Moos, 'The Copyright Minefield of Second-hand Software' (2006) 165 *Managing Intellectual Property* 38.

[119] Case 78/70 *Deutsche Grammophon v Metro* [1971] ECR 487.

[120] Case C–173/98 *Sebago v G-B Unic* [1999] ECR I–4103.

within the meaning of Article 7(1) of [the Trade Mark Directive], such consent must relate to each individual item of the product in respect of which exhaustion is pleaded'.

The extent to which the consent to third parties may suffice was summarised in *Ideal Standard*, where the ECJ held that exhaustion:

> applies where the owner of the trade mark in the importing State and the owner of the trade mark in the exporting State are the same or where, even if they are separate persons, they are economically linked. A number of situations are covered: products put into circulation by the same undertaking, by a licensee, by a parent company, by a subsidiary of the same group, or by an exclusive distributor.[121]

The ECJ in that case also clarified the reasoning behind the concept of consent, at least in relation to trade marks, noting that Articles 28 and 30 'debar the application of national laws which allow recourse to trade-mark rights in order to prevent the free movement of a product bearing a trade mark whose use is under unitary control'. By contrast, the ECJ held that there is no such unitary control where a trade mark has been assigned and explicitly stated that 'the consent implicit in any assignment is not the consent required for application of the doctrine of exhaustion of rights'. This confirmed that there is no longer any doctrine of 'common origin' of the trade mark, which is considered further below.

Thus, when determining whether there has been consent, the separate legal personalities of corporate bodies which form a group of companies will be ignored. It is irrelevant whether the company which owns the rights is a different legal entity from the one which marketed the goods, so long as they form part of the same corporate group.

In addition, sales by companies outside the group will exhaust rights where such sales are made with the consent of a group company. This obviously covers sales by licensees within their licensed territory. The owner will often be regarded as having consented to sales by distributors, particular exclusive distributors, within their territories.

Moreover, following *Peak Holding*, the sale by the manufacturer to the distributor itself is likely to be regarded as the relevant placing on the market. Therefore, if this occurs within the Community, the manufacturer's lack of consent to subsequent sale by the distributor within the Community will be irrelevant to the question of exhaustion (although the manufacturer may have a remedy against the distributor for breach of contract). However, if the sale by the manufacturer to the distributor occurs outside the Community, the question of consent will only arise upon any subsequent sale by the distributor within the Community and, if this is outside the allocated territory, the manufacturer's rights will not be exhausted.

The question of consent in relation to goods which are parallel imported from outside the Community will be considered further in Chapter 5.

[121] Case C–9/93 *IHT Internationale Heiztechnik v Ideal Standard* [1994] ECR I–2789, para 34.

ii. Compulsory Marketing

Where the right owner is forced to market the goods there is no consent and therefore there will be no exhaustion of rights, even though the goods have been marketed by the right owner.

Compulsory marketing was considered in *Merck v Primecrown*.[122] The case involved a number of pharmaceutical products being imported from Spain and Portugal, where they were not patentable, to the United Kingdom, where they were. The ECJ was asked to consider whether rights would be exhausted if the intellectual property owner 'has a legal or ethical obligation to market or to continue to market his product' in the Member State where the product was put on the market.

In relation to legal obligations, the Court held:

> where a patentee is legally bound under either national law or Community law to market his products in a Member State, he cannot be deemed . . . to have given his consent to the marketing of the products concerned. He is therefore entitled to oppose importation and marketing of those products in the State where they are protected.

Although the case related to the situation where patent rights were not available in Spain or Portugal, there seems no reason in principle to distinguish this from a situation where such rights are available but the owner of the rights is legally bound to market the product.

However, the ECJ distinguished a legal obligation to market from strong pressure, such as the threat of a compulsory licence, the threat of a price cap or an ethical sense of obligation. In such cases the rights of the owner are exhausted notwithstanding such pressure.[123]

iii. Marketing by Third Parties

Exhaustion will not apply to goods which have been marketed by third parties without the consent of the owner of the intellectual property right. Such goods are not parallel imports and the owners will normally be able to exercise their rights to prevent their import and sale.

For instance, in *EMI Electrola v Patricia Im- und Export*,[124] the copyright in sound recordings by Cliff Richard had expired in Denmark but not in Germany. A German company had manufactured copies of the recordings in Germany and had delivered them to a company in Denmark. They were then re-exported to Germany and sold by the original Germany company. The owner of the rights in Germany brought an infringement action and the German company claimed that the rights had been exhausted due to the lawful marketing in Denmark.

[122] Joined Cases C–267/95 and 268/95 *Merck & Co v Primecrown* [1996] ECR I–6285. See the discussion of the other issues in this case in J Mutimear, '*Merck v Primecrown*: the Challenge to *Merck v Stephar*' [1996] *European Competition Law Review* 185.

[123] See sect V.G (Ethical Obligation to Market) below.

[124] Case 341/87 *EMI Electrola v Patricia Im- und Export* [1989] ECR 79.

Unsurprisingly, the ECJ rejected this cunning plan. Following what the Advocate General had described as 'the remarkable unanimity shown by the Commission and the Member States which have submitted observations', it held that there was no exhaustion where sound recordings 'are imported from another Member State in which they were lawfully marketed without the consent of the aforesaid owner or his licensee and in which the producer of those recordings had enjoyed protection which has in the meantime expired'.

The fact that an unrelated third party which put the goods on the market has its own intellectual property rights covering those goods makes no difference to the question whether the right holder has consented to such marketing. However, the point has not always been beyond dispute. Where those rights arose from the same source, but are now owned by the third party as a result of some assignment in the past, there is a potential argument that the assignor should be deemed to have consented to all sales by the assignee, as otherwise a rightholder would be able to divide up the common market by selling its rights in certain Member States only.

It has long been established in the United Kingdom that owners of intellectual property rights can rely on their rights to prevent the importation and sale of goods put on the market in another country by the (unrelated) assignee of their rights in that country. For instance, in *Betts v Wilmott*,[125] the Court of Appeal accepted that, if a patentee assigns his patent in England but continues to manufacture products under that patent in France, the English assignee is entitled to exercise the patent rights to prevent import of those products from France. Similarly, in *Pitt Pitts v George & Co*,[126] the Court of Appeal held that the English assignee of the copyright in a musical composition could rely on that right to prevent the importation of copies of that work put on the market in Germany by the German assignee of the copyright. Lindley LJ held that, if this were not the case, 'a foreign author could assign his English copyright and import and sell copies of his work here in competition with his own assignee unless prevented from doing so by express agreement'.

Nevertheless, for most of the 1970s and 1980s, the ECJ held that intellectual property rights could be exhausted by third party marketing where the rights themselves had once been related, even if their owners were now unrelated, under the 'common origin' doctrine.

This doctrine was established in *Hag I*,[127] where the trade mark HAG was owned by one party in Belgium and Luxembourg and by an unrelated party in Germany, the ownership having originally been divided as a result of government expropriation in the aftermath of the Second World War. The owner of the German mark began selling coffee under the mark in Luxembourg and the owner of the mark in Luxembourg brought an action for trade mark infringe-

[125] *Betts v Wilmott* (1870–71) LR 6 Ch App 239.
[126] *Pitt Pitts v George & Co* [1896] 2 Ch 866.
[127] Case 192/73 *Van Zuylen Frères v Hag (Hag I)* [1974] ECR 731.

ment, which was referred to the ECJ. In an extremely integrationist decision, the ECJ held that 'one cannot allow the holder of a trade mark to rely upon the exclusiveness of a trade mark right—which may be the consequence of the territorial limitation of national legislations—with a view to prohibiting the marketing in a Member State of goods legally produced in another Member State under an identical trade mark having the same origin'. The ECJ recognised the difficulty this would cause for the trade mark's function as an indication of origin of goods, but blithely held that 'information to consumers on this point may be ensured by means other than such as would affect the free movement of goods'.

The Commission took the same view the following year in an Opinion on the draft Convention for the European Patent for the common market.[128] It criticised the drafting of Article 78, which provided for the exhaustion of rights where they were held by parties who are economically linked, on the basis that this did:

> not cover the case where the holder of two or more parallel national patents assigns one of these to a third party with which he has no 'economic connection'. Article 78 in its present form thus permits partitioning of the common market through the assignment of a national patent to a third party who is economically independent of the assignor. This procedure may be used to circumvent the rules which guarantee the free movement of patented goods.

The Commission went on to state:

> There is no obvious justification for treating someone who acquired a national patent as a result of an assignment differently from the holder of an exclusive licence, which from a commercial point of view is very close to an assignment. It is to be feared that, where until now an exclusive licence was granted, assignment will be used. This could have the effect of effectively partitioning national markets. Such a result is incompatible with the principle of the free circulation of goods. For this reason the Commission takes the view, for which it finds support in the decisions of the Court of Justice, that assignment of a licence to a third party economically independent of the assignor cannot be allowed to lead to the partitioning of the market. Similar provisions should apply to any case where an invention which has not been patented is assigned to a third party who applies under his own name for a patent in respect of that invention.

The English High Court subsequently held on more than one occasion that the ECJ might in the future hold that there would be exhaustion where there had been such an assignment, although it had not yet gone so far, and that the position was at least unclear.[129]

However, after a number of years of criticism, the doctrine of 'common origin' was finally abolished in *Hag II*[130] in 1990 and *Ideal Standard*[131] in 1994.

[128] Commission Opinion 75/597 [1975] OJ L261/2, para 14.

[129] *The WHO Group v Stage One (Records)* [1980] FSR 268, 276–7; *EMI Records v The CD Specialists* [1992] FSR 70.

[130] Case C–10/89 *CNL-SUCAL v Hag (Hag II)* [1990] ECR I–3711.

[131] Case C–9/93 *IHT Internationale Heiztechnik v Ideal Standard* [1994] ECR I–2789.

In *Hag II*, the roles were reversed. This time the owner of the German HAG mark was trying to prevent the import of products bearing that mark produced by the owner of the Belgian mark. Following a strong Opinion by Advocate General Jacobs, the ECJ decided to reconsider its previous decision and held that the crucial point was that the owner of the German mark had not consented to its use by the owner of the Belgian mark who was 'economically and legally independent' of him. This would damage the function of the trade mark as a guarantee of the origin of goods. The ECJ said that the common origin of the marks was irrelevant, as from the date of expropriation each of the marks fulfilled its function independently.[132]

The question whether this was limited to the case of expropriation was addressed squarely in *Ideal Standard*. In that case, the mark IDEAL STANDARD had originally been used for both sanitary fittings and heating equipment in France and Germany. The owner of the mark ran into financial difficulties in 1976. As a result, it ceased production and marketing of heating equipment in Germany and its heating division in France was sold to a third party, with the sale including an assignment of the French mark for that sector. Over a decade later, the owner of the German mark sought an injunction to prevent the import of heating equipment bearing that mark from France. The Düsseldorf Regional Court considered that the decision in *Hag II* extended to cases of voluntary division of ownership of a trade mark originally in single ownership and granted the injunction sought. However, on appeal, the Düsseldorf Higher Regional Court referred the question to the ECJ. The ECJ noted that national trade marks are independent of each other and can be assigned independently, and it therefore rejected the suggestion that *Hag II* did not apply to cases of voluntary division, in particular rejecting the argument that an assignment should be regarded as consent to sales in the future. However, it went on to say:

> where undertakings independent of each other make trade-mark assignments following a market-sharing agreement, the prohibition of anti-competitive agreements under Article [81] applies and assignments which give effect to that agreement are consequently void. However, as the United Kingdom rightly pointed out, that rule and the accompanying sanction cannot be applied mechanically to every assignment. Before a trade-mark assignment can be treated as giving effect to an agreement prohibited under Article [81], it is necessary to analyse the context, the commitments underlying the assignment, the intention of the parties and the consideration for the assignment.

As a result of those judgments, which were generally welcomed,[133] it appeared to be irrelevant that a third party marketed the goods under intellectual prop-

[132] For a happier story of trade marks divided by expropriation see the reuniting of the NIVEA mark described in Decision 589 *Smith & Nephew/Beiersdorf UK* (Irish Competition Authority, 25 May 2001).

[133] See for instance D Kitchin, D Llewelyn, J Mellor, R Meade, T Moody-Stuart and D Keeling, *Kerly's Law of Trade Marks and Trade Names*, 14th edn (Sweet & Maxwell, London, 2005), paras 16-042 to 16-046.

erty rights which had the same origin as the owner's rights.[134] Any problems of assignments being used to divide markets could be dealt with under competition law, if appropriate. As a consequence, the doctrine of 'common origin' for exhaustion should now be a matter of purely historical interest.

However, this issue had re-emerged in England in *Bolton Pharmaceutical Company 100 Ltd v Swinghope Ltd*,[135] which concerned the trade mark KALTEN, which in 2001 had been owned by AstraZeneca in a number of Member States. The mark was used to sell a pharmaceutical product used to treat hypertension (high blood pressure). In September 2001, AstraZeneca sold its Spanish KALTEN business and trade mark to Teofarma Iberica. Under the contract, from June 2002 Teofarma was to manufacture the product itself and there were to be no further economic links between AstraZeneca and Teofarma. In September 2004 AstraZeneca sold the UK and Swiss rights in KALTEN to Bolton Pharmaceutical, although the transfer of the UK trade mark was not registered until February 2005. AstraZeneca supplied Bolton until March 2005, after which time its suppliers were M&A Pharmachem, a generic pharmaceutical manufacturer.

Bolton proceeded to bring an action in the English High Court for summary judgment for trade mark infringement against a number of companies which were parallel importing the product from Spain, where it had been put on the market by Teofarma. In response to the action for summary judgment, the defendants sought to show an arguable case that Bolton's rights had been exhausted. This was rejected by the deputy judge, Terence Mowschenson QC, who referred to *Ideal Standard* for the proposition that, for Bolton's rights to have been exhausted, there would have to be an economic link between Bolton and Teofarma. He found that there was no evidence of any such link between Bolton and Teofarma (or AstraZeneca) and that the defence of exhaustion therefore had no real prospect of success.

However, the defendants appealed and the Court of Appeal quashed the summary judgment. Mummery LJ said that the case was not suitable for summary judgment as it called for an investigation of the reasons why AstraZeneca had divested itself of the KALTEN trade mark in favour of different entities, with the result that previously lawful parallel trade was rendered unlawful. In particular, he said that there were various areas in which there might be continuing economic links between AstraZeneca, Bolton and Teofarma. He suggested that the case could potentially be distinguished from *Ideal Standard* and that, once the facts had been established at trial, a reference to the ECJ on the scope of exhaustion might be necessary.

[134] For more detail of the debate, see P Oliver, *Free Movement of Goods in the European Community*, 4th edn (Sweet & Maxwell, London, 2003), paras 8.209–213. Some, such as D Keeling, *Intellectual Property Rights in EU Law: Volume I: Free Movement and Competition Law* (OUP, Oxford, 2003) 88–9, suggest that the judgment is limited to trade marks.

[135] *Bolton Pharmaceutical Company 100 v Swinghope* [2005] EWHC 1600 (Ch); *Doncaster Pharmaceuticals Group v Bolton Pharmaceutical Company 100* [2006] EWCA Civ 661. See J Stobbs, 'One Registered Mark, Different Territorial Proprietors—Importers Beware!' (2005) 1(3) *Pharmaceutical Law Insight* 6.

It is clear that the Court of Appeal took the view that it would be wrong for right owners to be able to split trade marks in order to divide the common market, as this would allow the assignees of the trade marks to have greater rights than the assignors. However, even on the assumption that the Court of Appeal is correct that such a result is wrong in principle, the question remains whether the way to avoid such a result is through exhaustion of rights.

Of course, if on the facts there are continuing economic links between the relevant parties then the case would be distinguishable from *Ideal Standard* on this basis and the 'wrong' can indeed be addressed by exhaustion of the trade mark rights under Articles 28 to 30. However, if the assignment has been carried out cleanly then, in the light of *Ideal Standard*, it is difficult to see why Articles 28 to 30 should apply and why the intention of the parties to the assignment should be relevant to those Articles. If this is right, the more relevant provisions are likely to be Articles 81 and 82 of the EC Treaty which deal with anti-competitive conduct. The ECJ in *Ideal Standard* had indicated that Article 81 might be relevant. Indeed, the Court of Appeal began its judgment in *Bolton Pharmaceutical* by stating that '[t]he legal setting is the interface between EU competition law and UK trade mark law', later referring to the 'competition considerations affecting the enforcement of trade marks and parallel imports', despite the fact that no issues of competition law were apparently raised before the High Court or the Court of Appeal. The analysis of such cases under competition law is considered further in Chapter 3, section I.C.ix.

A third party may instead put products on the market under a compulsory licence of the right in question but again this will not result in exhaustion. This was considered in *Pharmon v Hoechst*,[136] which arose out of section 41 of the now-repealed Patents Act 1949 in the United Kingdom, under which anyone could apply for a compulsory licence of a pharmaceutical patent in the last four years of its life, which licence would be granted 'on such terms as [the Comptroller General of Patents] thinks fit, unless it appears to him that there are good reasons for refusing the application'. A British company, DDSA Pharmaceuticals, had obtained a non-assignable, non-exclusive compulsory licence of Hoechst's UK patent, which prohibited export. In breach of that prohibition, DDSA exported a consignment of the goods to a Dutch company, Pharmon, which proposed to market them in the Netherlands. The German manufacturer brought an action under its parallel Dutch patent and the Supreme Court of the Netherlands referred the free movement of goods questions to the ECJ. The ECJ held:

> where, as in this instance, the competent authorities of a Member State grant a third party a compulsory licence which allows him to carry out manufacturing and marketing operations which the patentee would normally have the right to prevent, the patentee cannot be deemed to have consented to the operation of that third party. Such a measure deprives the patent proprietor of his right to determine freely the conditions

[136] Case 19/84 *Pharmon v Hoechst* [1985] ECR 2281.

> under which he markets his product. As the Court has held . . . the substance of a patent right lies essentially in according the inventor an exclusive right of first placing the product on the market so as to allow him to obtain the reward for his creative effort. It is therefore necessary to allow the patent proprietor to prevent the importation and marketing of products manufactured under a compulsory licence in order to protect the substance of his exclusive rights under his patent.

Moreover, it was irrelevant whether the compulsory licence prohibited exports, whether the owner of the right was entitled to royalties under the licence and indeed whether the patentee had accepted such royalties.

Hitherto the fact that the third party may have been entitled to put the product on the market initially has been regarded as irrelevant. However, this is not always the case. A different approach has been taken in relation to indirect designations of source which have arisen independently and been used in good faith.

In *Prantl*, the ECJ was asked to consider the 1971 German wine legislation.[137] In this case, the legislation restricted the use of a particular shape of bottle, the '*Bocksbeutel*', to quality wine produced in certain regions in Germany where that shape of bottle had been used for several centuries. An Italian wine dealer was prosecuted for importing wine from Italy in very similar bottles, where they had been used for over a century. The Miesbach Local Court acquitted him and the prosecution appealed to the Munich Regional Court, which made a reference to the ECJ. Having indicated that the German law appeared to breach Article 28, the ECJ considered whether it might be justified under Article 30. The ECJ avoided considering whether the German legislation could be justified in general, simply holding that 'producers who traditionally use a bottle of a specific shape may not . . . successfully rely upon an industrial or commercial property right in order to prevent imports of wines originating in another Member State which have been bottled in identical or similar bottles in accordance with a fair and traditional practice in that State'.

However, *Prantl* was restricted in *Exportur v LOR*, which concerned the use of '*Alicante*' and '*Jijona*' for touron produced in France.[138] The ECJ in the latter case noted that in *Prantl:*

> the point was that the shape of the bottle had also been used in the Member State of exportation. The problem was therefore how to reconcile user of an indirect indication of national provenance with concurrent user of an indirect indication of foreign provenance. That situation is not comparable to the use of names of Spanish towns by French undertakings, which raises the problem of the protection in one State of the names of another State.

Therefore, it appears that *Prantl* will be limited to indirect indications of provenance which have arisen independently and will not undermine rights where third parties have deliberately chosen to copy the originator's designation.

[137] Case 16/83 *Criminal Proceedings against Karl Prantl* [1984] ECR 1299.
[138] Case C–3/91 *Exportur v LOR and Confiserie du Tech* [1992] ECR I–5529, paras 31–34.

The decision in *Prantl* contrasts with the position for other forms of intellectual property, where the fact that goods are produced under intellectual property rights owned by an unrelated producer in a third country is irrelevant for the purposes of determining whether intellectual property rights are exhausted, regardless of whether that unrelated producer was acting in good faith. For example, if two unrelated parties were to obtain trade marks in different Member States in the shape of a bottle they would each be able to exercise those rights to prevent imports of the other's bottles.

In practice, there will be only a limited number of designations of source which conflict in this way, and so the impact of *Prantl* is necessarily limited. In addition, given that *Prantl* was adopted at a time when the ECJ still applied the 'common origin' doctrine, there is a fair chance that *Prantl* would be overturned if the point arose again. However, until that occurs there remains the possibility that restrictions on the use of indirect designations of source may not be relied upon to prevent imports of products which use similar designations in good faith.

iv. Burden of Proof

As will be considered further in Chapter 5, in *Zino Davidoff v A&G Imports*[139] the ECJ made it clear that where goods have first been put on the market outside the EEA the burden of proof is on the parallel importer to demonstrate that the trade mark owner has consented to the subsequent sale of those goods in the EEA. This followed the approach of the Benelux Court of Justice in *Kipling v GB Unic*[140] and of the Court of Appeal in The Hague in *Dior v Etos*.[141]

However, a different question arises where there is a dispute as to where the goods were first marketed. In *Scapino v Basic Trade Mark*,[142] the parallel importer said that it had acquired the goods from an official distributor in Portugal, while the manufacturer said that it had not supplied such large quantities of the goods to that distributor. The District Court of Amsterdam granted an interim injunction on the basis that the parallel importer had not satisfied the burden of proof. However, the Amsterdam Court of Appeal held that the burden of proof should not be excessive, so as not to block legitimate trade within the Community, and therefore overturned the decision of the District Court.

[139] Joined Cases C–414/99 to 416/99 *Zino Davidoff v A&G Imports* [2001] ECR I–8691. See the discussion in T Hays, 'The Burden of Proof in Parallel-Importation Cases' [2000] *European Intellectual Property Review* 353.

[140] Case A 98/1 *Kipling v GB Unic* (Benelux Court of Justice, 6 Dec 1999) [2000] EIPR N79.

[141] *Dior v Etos* (Gerechtshof's-Gravenhage (Court of Appeal, The Hague), 15 Feb 2000) [2000] EIPR N145 discussed in detail in T Hays, *Parallel Importation Under European Union Law* (Sweet & Maxwell, London, 2004) paras 7.50–7.52.

[142] *Scapino v Basic Trade Mark* (Gerechtshof Amsterdam (Court of Appeal, Amsterdam), 14 Dec 2000) [2001] ETMR 27, [2001] EIPR N139.

This issue was considered further in *Van Doren v Lifestyle sports + sportswear*.[143] Van Doren, the exclusive German distributor of clothing bearing the STUSSY trade mark, had brought a claim for trade mark infringement against Lifestyle, which was marketing STUSSY clothing which it had not obtained from Van Doren. Van Doren claimed that the clothing had been marketed outside the EEA (in the United States), but could not prove it, while Lifestyle claimed that it had been marketed within the EEA, but could or would not prove it. The question therefore turned on the burden of proof. After decisions in lower German courts going both ways, the Federal Supreme Court said that the normal approach under German law would be to put the burden on the alleged infringer to prove that the goods had been marketed in the EEA by or with the consent of the proprietor. However, as it had doubts about the compatibility of such a rule of evidence with Articles 28 and 30 it referred the question to the ECJ.

The ECJ, while holding that the rule of evidence was consistent with Community law, held that it would have to be qualified where it would 'allow the proprietor of the trade mark to partition national markets and thus assist the maintenance of price differences which may exist between Member States'. The Court noted by way of example that 'there is a real risk of partitioning markets' in situations where 'the trade mark proprietor markets his products in the EEA using an exclusive distribution system', where:

> if the third party were required to adduce evidence of the place where the goods were first put on the market by the trade mark proprietor or with his consent, the trade mark proprietor could obstruct the marketing of the goods purchased and prevent the third party from obtaining supplies in future from a member of the exclusive distribution network of the proprietor in the EEA, in the event that the third party was able to establish that he had obtained his supplies from that member.

Therefore, if the alleged infringer:

> succeeds in establishing that there is a real risk of partitioning of national markets if he himself bears the burden of proving that the goods were placed on the market in the EEA by the proprietor of the trade mark or with his consent, it is for the proprietor of the trade mark to establish that the products were initially placed on the market outside the EEA by him or with his consent.

However, once the proprietor has done so then the rule in *Davidoff* applies and the burden falls back on the alleged infringer 'to prove the consent of the trade mark proprietor to subsequent marketing of the products in the EEA'.

[143] Case C–244/00 *Van Doren + Q v Lifestyle sports + sportswear* [2003] ECR I–3051. See C Rosner, 'Trade Mark Exhaustion' [2002] *European Intellectual Property Review* 604; P Dyrberg, 'For EEA Exhaustion to Apply, Who has to Prove the Marketing of the Trade Marked Goods in the EEA—the Trade Mark Owner or the Defendant: A Note on *Van Doren*' [2004] *European Intellectual Property Review* 81.

C. Contractual Restrictions

As discussed in the previous sections, the question whether rights have been exhausted is determined by whether they have been put on the market within the Community by or with the consent of the right owner. Where this is the case, it is irrelevant that the right owner does not actually consent to exhaustion. Similarly, exhaustion cannot be avoided by contract unless that contract means that the product was not put on the market (potentially the case where the product is licensed or leased) or that this was not done by or with the consent of the rightholder (subject to the limitations arising from *Peak Holding*).

A useful summary of the Commission's view on contractual restrictions is contained in its 1988 Green Paper entitled 'Copyright and the Challenge of Technology'.[144] The Commission began by summarising the issue in the following terms:

> In the absence of clear provisions on the exhaustion of rights upon the first sale of a copy of the work, it may be uncertain to what extent the author by contractual or semicontractual means such as a notice of rights on the cover page of a book can impose restrictions in respect of the use of the copy on the buyer of a copy and on third parties.

It went on to note that the Court had not specifically ruled on:

> the effect of the exhaustion doctrine on restrictive conditions indicated on copyright goods placed on the market and intended to limit or prevent the free circulation of those goods from one Member State to another. Such indications might state, for example, that the goods are 'Not for sale in . . .' or 'Not for export'. Such conditions might in principle be permitted by a given national law.

Nevertheless, it suggested that the position was in fact clear:

> there seems little reason to doubt that the Court would rule also in the area of copyright, as it has done in other areas of intellectual and industrial property law, that such an exercise of the reproduction right does not form part of the essential function of copyright in goods placed lawfully on the market and accordingly cannot be used to oppose the import of goods from other Member States. Such conditions run counter not only to the provisions of the [EC] Treaty on the free flow of goods but also to competition rules. To this extent then, the 'Europeanization of the exhaustion principle' has already been largely achieved.

The Commission's approach appears to be correct. Indeed, if rights were not exhausted in such cases this would drive a coach and horses through the doctrine of exhaustion, as the same contractual approach could apply to most products and effectively allow parties to exclude the doctrine of exhaustion by contract. For instance, CDs or books could easily bear such restrictions, yet it would be hard to imagine the ECJ accepting that exhaustion would not apply in

[144] COM(88)172.

such cases. That said, in the absence of specific case law on the issue, the point does not appear unarguable.

III. ADVERTISING

Retailers will normally wish to use the relevant trade marks when advertising parallel imported products. The trade marks may also be protected by copyright or design rights, for instance where they are logo marks. Such advertising may be highly objectionable to brand owners who operate a selective distribution system or otherwise seek to ensure that advertising of their products is carried out in a very specific manner or style, in order to maintain the image of their brand.

Within the Community, a trade mark owner has the right to prevent the use of his trade mark to advertise goods or services.[145] However, this right is exhausted along with the right of distribution in relation to products which have been put on the market in the Community under that trade mark by the owner or with his consent, save where the trade mark owner has legitimate reasons to object to the advertising.[146] When determining whether there are legitimate reasons for objecting, the Court will balance the retailer's desire to advertise and the trade mark owner's desire to maintain its brand image. Rights to prevent use of copyright works or designs in advertising will be treated in a similar way.

Advertising of parallel imports was considered in *Criminal proceedings against X*.[147] That case concerned criminal action for misleading advertising brought against a garage in France which advertised parallel imported cars from Belgium using the phrases such as 'buy your new vehicle cheaper' and 'one year manufacturer's guarantee'. Although the case concerned the interpretation of the Misleading Advertising Directive,[148] the ECJ followed Advocate General Tesauro in noting that the advertising in question was 'of great practical importance for the business of parallel car importers' and that 'parallel imports enjoy a certain amount of protection in Community law because they encourage trade and help reinforce competition'. It gave a strong indication that the advertising in question was not misleading and, in relation to the guarantee, noted the ECJ's case law that guarantee schemes which covered only direct imports to the exclusion of parallel imports would breach Article 81.[149]

In *Parfums Christian Dior v Evora*,[150] the manufacturer was selling its perfumes and cosmetic products through a selective distribution system. A retailer,

[145] Dir 89/104 [1989] OJ L40/1, Art 5(3)(d).
[146] *Ibid*, Art 7.
[147] Case C–373/90 *Criminal proceedings against X (Nissan)* [1992] ECR I–131, paras 11–19.
[148] Dir 84/450 [1984] OJ L250/17.
[149] Referring to Case 31/85 *ETA v DK Investment* [1985] ECR 3933. For the competition law implications, see Ch 3, sect I.C.vii (Restricting Guarantees and After-sales Service). However, for the limitations see Ch 4, sect VII (Unfair Competition and Consumer Protection).
[150] Case C–337/95 *Parfums Christian Dior v Evora* [1997] ECR I–6013.

not part of that system, was reselling parallel imports of those products in its chain of chemists' shops. The manufacturer did not challenge the retailer's right to sell the goods but instead challenged his right to advertise the products on leaflets which depicted the packaging and bottles of the products, which were covered by the manufacturer's trade mark rights and copyrights.

The ECJ began by holding that, once goods have been put on the market by a trade mark owner or with his consent, the owner's 'right to use the trade mark for the purpose of bringing to the public's attention the further commercialization of those goods' is exhausted along with his right of resale. The Court justified this finding on the basis that to hold otherwise would make the right of resale 'considerably more difficult' and would thus undermine the purpose of exhaustion of rights.

In considering whether there were exceptions to this rule, however, following *Bristol-Myers Squibb v Paranova*[151] the Court held:

> the damage done to the reputation of a trade mark may, in principle, be a legitimate reason, within the meaning of Article 7(2) of the [Trade Mark] Directive, allowing the proprietor to oppose further commercialization of goods which have been put on the market in the Community by him or with his consent.

However, the legitimate interest of the trade mark owner in avoiding such damage had to be balanced against the 'reseller's legitimate interest in being able to resell the goods in question by using advertising methods which are customary in his sector of trade'.

In drawing this balance, the Court noted that in the 'instant case, which concerns prestigious, luxury goods, the reseller must not act unfairly in relation to the legitimate interests of the trade mark owners'. The reseller must therefore 'endeavour to prevent his advertising from affecting the value of the trade mark by detracting from the allure and prestigious image of the goods in question and from their aura of luxury'. The Court therefore held that a reseller 'who habitually markets articles of the same kind but not necessarily of the same quality' could use such advertising methods, even if they were not the same as those used by the manufacturer or the members of its selective distribution system, 'unless it is established that, given the specific circumstances of the case, the use of the trade mark in the reseller's advertising seriously damages the reputation of the trade mark'. By way of example, the Court suggested that such damage could occur 'if, in an advertising leaflet distributed by him, the reseller did not take care to avoid putting the trade mark in a context which might seriously detract from the image which the trade mark owner has succeeded in creating around his trade mark'.

The Court went on to hold that the same approach must be taken to copyright under Articles 28 and 30, and that therefore 'the protection conferred by

[151] Joined Cases C–427/93, 429/93 and 436/93 *Bristol-Myers Squibb v Paranova* [1996] ECR I–3457; Joined Cases C–71/94, 72/94 and 73/94 *Eurim-Pharm Arzneimittel v Beiersdorf* [1996] ECR I–3603; Case C–232/94 *MPA Pharma v Rhône-Poulenc Pharma* [1996] ECR I–3671.

copyright as regards the reproduction of protected works in a reseller's advertising may not, in any event, be broader than that which is conferred on a trade mark owner in the same circumstances'.

BMW v Deenik[152] did not specifically concern parallel imports, but rather the use of the BMW mark in advertisements by an independent garage which sold second-hand BMW cars. The advertisements described the garage owner as a 'BMW specialist' or as 'specialised in BMWs'. BMW brought an action for trade mark infringement to stop the use of the mark. The national court referred a number of questions to the ECJ, including whether:

> the proprietor [can] prevent [use of a mark] only where the person thus using the trade mark thereby creates the impression that his undertaking is affiliated to the trademark proprietor's network, or can he also prevent that use where there is a good chance that the manner in which the trade mark is used for those announcements may create an impression among the public that the trade mark is in that regard being used to an appreciable extent for the purpose of advertising his own business as such by creating a specific suggestion of quality.

The ECJ followed *Parfums Christian Dior v Evora* and held:

> it is contrary to Article 7 of the directive for the proprietor of the BMW mark to prohibit the use of its mark by another person for the purpose of informing the public that he has specialised or is a specialist in the sale of second-hand BMW cars, provided that the advertising concerns cars which have been put on the Community market under that mark by the proprietor or with its consent and that the way in which the mark is used in that advertising does not constitute a legitimate reason, within the meaning of Article 7(2), for the proprietor's opposition.

The ECJ held that there may be a legitimate reason where the use of the mark 'may give rise to the impression that there is a commercial connection between the reseller and the trade mark proprietor, and in particular that the reseller's business is affiliated to the trade mark proprietor's distribution network or that there is a special relationship between the two undertakings'. However, there will not be such a reason by virtue of 'the mere fact that the reseller derives an advantage from using the trade mark in that advertisements for the sale of goods covered by the mark, which are in other respects honest and fair, lend an aura of quality to his own business', given that 'a reseller who sells second-hand BMW cars and who genuinely has specialised or is a specialist in the sale of those vehicles cannot in practice communicate such information to his customers without using the BMW mark'.

Advertising was considered again in *Pippig Augenoptik v Hartlauer*.[153] The case concerned comparative advertisements for spectacles run in Austria by Hartlauer, a discount chain which particularly relied on parallel imports, against a specialist optician, Pippig. One of the questions referred to the ECJ

[152] Case C–63/97 *BMW v Deenik* [1999] ECR I–905.
[153] Case C–44/01 *Pippig Augenoptik v Hartlauer* [2003] ECR I–3095, paras 57–65.

was 'whether the differences in the method of obtaining the supplies of the products whose qualities are compared may have an impact on the lawfulness of the comparative advertising'. The ECJ held that they could not, noting that 'in completing the internal market as an area without internal frontiers in which free competition is to be ensured, parallel imports play an important role in preventing the compartmentalisation of national markets'.

The ECJ has therefore made it very clear that retailers must be permitted to advertise parallel imported goods, and objection cannot be taken to use of the relevant marks simply because the goods have been parallel imported or because an advertisement lends an aura of quality to the retailer. However, it may be possible to object if the advertising causes serious damage to the reputation of the trade mark or if it gives the impression that there is a commercial connection between the advertiser and the brand owner.

IV. REPACKAGING

In many cases products are parallel imported from one Member State and resold in another in an unaltered form. However, in some cases a commercial parallel importer will repackage the product or otherwise interfere with it. Repackaging adds to the parallel importer's costs and so will not occur unless there is some advantage for the parallel importer in incurring that expense.

A wide range of conduct can potentially be described as repackaging.[154] At one extreme, a parallel importer may open internal packaging to produce different pack sizes or portions, for instance by pouring liquids or tablets from one bottle into another. At the other extreme, a retailer may simply stick a label on the external packaging which includes the retailer's name and the price charged. In between these extremes, activities which may be described as repackaging include:

1. replacing outer packaging with a box similar to that used by the manufacturer in the importing Member State;
2. replacing outer packaging with a plain box which does not use the trade mark but through which the trade mark can be seen on the inner packaging;
3. replacing outer packaging with a plain box which does not use the trade mark;
4. replacing outer packaging with a box which incorporates the parallel importer's own branding;
5. increasing or decreasing the pack size;
6. replacing existing labels;

[154] Some examples are reproduced in N Gross and L Harrold, 'Fighting for Pharmaceutical Profits: The Decision of the ECJ in *Boehringer Ingelheim v Swingward*' [2002] *European Intellectual Property Review* 497.

7. sticking a label on the existing packaging, leaving existing information visible;
8. sticking a label on the existing packaging, covering existing information;
9. changing, adding or removing instruction leaflets; and
10. changing, adding or removing accompanying products.

The first to fifth forms are all types of 'reboxing'. The second and third may be called 'debranding', while the fourth is 'cobranding'. The sixth form is described as 'relabelling', while the seventh and eighth are often described as 'overstickering'. Multiple forms of repackaging are often combined.

Sometimes repackaging will be required by legislation in the Member State where the parallel importer wishes to sell the goods. For instance, national rules may require certain information to be provided on the packaging or may prohibit the use of other words and phrases. National rules may require that the national language or languages are used. They may also dictate pack sizes or other aspects of packaging style.

In other cases repackaging may not be mandatory but may be desirable. A different trade mark may be used for the product in the importing Member State or consumers may simply be suspicious of goods bearing foreign languages and may be reluctant to purchase them. Purchasers may typically buy different pack sizes, which in the case of pharmaceuticals may be affected by rules on reimbursement. The parallel trader may wish to remove codes or markings which indicate the source of the product, from which the manufacturer may be able to prevent future supplies of the product into the parallel trade.

As a result of Community exhaustion, a trade mark owner cannot object to the marketing of a parallel imported product in an unaltered form. However, the owner may seek to prevent marketing of the product in a repackaged form. This could allow market segregation by the back door, particularly if national legislation prevents the resale of an unaltered product. This also gives manufacturers of branded products a perverse incentive to differentiate their products between Member States, even where there is no consumer demand for such differentiation, so long as the cost of differentiation is lower than the benefit of market segregation.

The question whether there is a general right to prevent repackaging is considered first, indicating the basis for the various grounds on which objections can be made to such repackaging. These grounds are then considered in turn.

A. General Right to Prevent Repackaging

The ECJ has developed a complicated line of case law dealing with repackaging, initially under Articles 28 to 30 and now largely under the Trade Mark Directive.[155]

[155] Dir 89/104 [1989] OJ L40/1.

In summary, a trade mark owner has a general right to object to the marketing of repackaged goods. However, if a number of conditions are all met then the trade mark owner will not be able to exercise that right. The exact conditions and their scope can vary depending on the type of goods and the type of repackaging in question.[156] Under Article 30 of the EC Treaty, if the conditions are met then the rights in question cannot be exercised, as this would fall outside the scope of the specific subject matter of a trade mark and/or constitutes a disguised restriction on trade between Member States. Under Article 7(2) of the Trade Mark Directive, if any of the conditions are not met this constitutes a legitimate reason for the trade mark owner to object to the marketing of the goods in question.

The conditions themselves are considered in sections B to J below and are as follows:

B the repackaging is necessary in order to market the product in the Member State of importation;

C the repackaging cannot adversely affect the original condition of the product;

D the presentation of the repackaged product is not such as to be liable to damage the reputation of the trade mark and of its owner;

E the new packaging clearly states by whom the product has been repackaged;

F the new packaging clearly states the name of the manufacturer;

G the new packaging clearly states the source of any additional articles;

H identifying marks have not been removed from the products, where there were legitimate reasons for applying such marks;

I the proprietor of the mark receives prior notice of the marketing of the repackaged product; and

J the importer supplies the trade mark owner, on demand, with a specimen of the repackaged product.

Before considering these conditions in more detail, it is necessary to set out the development of the Court's framework for repackaging.

i. Articles 28 to 30

Initially, repackaging cases were considered under Articles 28 to 30. On the assumption that national trade mark law gave trade mark owners the right to prevent marketing of repackaged goods, without which there would be no obstacle to repackaging, there were two questions under Article 30: whether such a right fell within the specific subject matter of trade mark rights (and so could be 'justified on grounds of . . . the protection of industrial and commercial

[156] For further discussion of repackaging see G Tritton, *Parallel Imports in the European Community* (The Intellectual Property Institute, London, 1997).

property') and, if so, whether it would 'constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States'.

In general, the first question was answered in the affirmative and the focus was on the second question. For instance, in the first repackaging case, *Hoffmann-La Roche v Centrafarm*,[157] the ECJ considered the parallel importation and repackaging of VALIUM tablets from the UK into Germany. The tablets were sold by Hoffmann-La Roche in the UK in bottles of 500 tablets and the parallel importer was repackaging these into bottles of 1,000 tablets for resale in Germany and was affixing the trade marks VALIUM and ROCHE to the new bottles. Under the German Trade Marks Act, the proprietor of a trade mark had the exclusive right to affix that mark to packages containing the designated product. Moreover, under the German Pharmaceuticals Act of 1961, such repackaging constituted 'production' and required a regulatory licence. The Freiburg Regional Court held that this repackaging constituted trade mark infringement under German law and referred two questions to the ECJ asking whether this was compatible with Article 30 or Article 82 of the EC Treaty.

The ECJ held that the 'essential function' of a trade mark is 'to guarantee the identity of the origin of the trade-marked product by the consumer or ultimate user'. This meant that such a person 'can be certain that a trade-marked product has not been subject at a previous stage of marketing to interference by a third person, without the authorization of the proprietor of the trade-mark, such as to affect the original condition of the product'. Therefore, the ECJ held that the right to prevent the same trade mark being reapplied to repackaged goods was justified on the ground of protection of industrial and commercial property.

In terms of the second question, the ECJ held that one case in which there might be such a disguised restriction would be where the trade mark owner marketed 'in various Member States an identical product in various packages while availing himself of the rights inherent in a trade mark to prevent repackaging by a third person even if it were done in such a way that the identity of the origin of the trade-marked product and its original condition could not be affected'. The ECJ went on to conclude:

> prevention of [repackaging] constitutes a disguised restriction on trade between Member States within the meaning of the second sentence of Article [30] where:
>
> —it is established that the use of the trade mark right by the proprietor, having regard to the marketing system which he has adopted, will contribute to the artificial partitioning of the markets between Member States;
>
> —it is shown that the repackaging cannot adversely affect the original condition of the product;
>
> —the proprietor of the mark receives prior notice of the marketing of the repackaged product; and
>
> —it is stated on the new packaging by whom the product has been repackaged.

[157] Case 102/77 *Hoffmann-La Roche v Centrafarm* [1978] ECR 1139.

However, the ECJ took a somewhat different approach to the first question in *Pfizer v Eurim-Pharm*.[158] The case again concerned the parallel importation of pharmaceuticals from the United Kingdom to Germany, this time the antibiotic VIBRAMYCIN. Here the parallel importer, Eurim-Pharm, was repackaging original blister strips of VIBRAMYCIN into new folding boxes with transparent fronts, through which the words VIBRAMYCIN PFIZER on the original packaging could be seen. The new boxes explained who had manufactured, imported and repackaged the product but did not use the trade mark. They also contained a patient information leaflet, as required by German law. The Hamburg Regional Court held that this would constitute trade mark infringement but asked the ECJ whether the trade mark proprietor could rely on the right in such a case.

The ECJ noted that Eurim-Pharm had repackaged 'merely by replacing the outer wrapping without touching the internal packaging and by making the trade mark affixed by the manufacturer on the internal packaging visible through the new external wrapping'. Therefore:

> the re-packaging in fact involves no risk of exposing the product to interference or influences which might affect its original condition and the consumer or final user of the product is not liable to be misled as to the origin of the product, above all where, as in this case, the parallel importer has clearly indicated on the external wrapping that the product was manufactured by a subsidiary of the proprietor of the trade mark and has been re-packaged by the importer.

The ECJ also held that inclusion of the patient information leaflet could not affect this conclusion.

As a consequence, the trade mark owner could not rely on its right to prevent the sale of the repackaged product under Article 30. The ECJ therefore did not go on to consider the second question. The factors listed by the ECJ were very similar to those considered in the second and fourth questions in *Hoffmann-La Roche v Centrafarm*, namely whether there was an effect on the original condition of the product and whether consumers were misled as to its origin. However, the ECJ did not require that the first and third questions be answered, in other words that there be artificial partitioning of the markets and that the manufacturer be provided with notice of the repackaging.

ii. Trade Mark Directive

After these cases, trade mark rights were harmonised within the Community by the Trade Mark Directive.[159] As a result of this harmonisation, the question whether trade mark owners have a right to prevent repackaging in the first place, previously one for national law subject to Articles 28 to 30, is now determined by the Directive.

[158] Case 1/81 *Pfizer v Eurim-Pharm* [1981] ECR 2913, para 13.
[159] Dir 89/104 [1989] OJ L40/1.

Under Article 5 of the Directive, a trade mark owner has the right to prohibit third parties from using the mark in relation to certain goods and services. Under Article 5(3), 'using' includes (without limitation):

(a) affixing the sign to the goods or the packaging thereof;

(b) offering the goods, or putting them on the market or stocking them for these purposes under the sign, or offering or supplying services thereunder;

(c) importing or exporting the goods under the sign;

(d) using the sign on business papers and in advertising.

However, under Article 7(1), the owner does not have the right to prohibit the use of the mark 'in relation to goods which have been put on the market in the Community under that trade mark by the proprietor or with his consent', unless under Article 7(2) 'there exist legitimate reasons for the proprietor to oppose further commercialisation of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market'.

Marketing of repackaged goods which continue to bear the original trade mark would appear to involve use of the trade mark under Article 5, but would be permitted by Article 7(1) save where the owner has legitimate reasons to object under Article 7(2). Beyond the broad description of goods which are 'changed or impaired' there is no provision which specifies whether or when repackaging of products gives a trade mark owner 'legitimate reasons' to object to further sale of the products under the mark.

The legislative history sheds a little light on this, although it does not fully answer the question. In the Commission's original proposals for the Directive and the Community Trade Mark Regulation,[160] the provision which became Article 7 of the Directive specifically excluded goods which had been repackaged, and therefore trade mark owners would have had a general right to prevent repackaging.[161] However, the Council Working Party sought to delete this,[162] while the European Parliament suggested deleting it and restricting the exclusion from Article 7 to 'the right of the proprietor to prohibit the affixing of sign to goods or to the packaging thereof', which would have permitted parallel importers to repackage so long as they did not add the mark to the goods or packaging but simply left the original mark visible (as was the case in *Pfizer v Eurim-Pharm*).[163]

In the Commission's amended proposals, the reference to repackaging was simply deleted. By way of explanation, the Commission indicated its view, based on *Hoffmann-La Roche v Centrafarm*,[164] that 'the proprietor of a

[160] Reg 40/94 [1994] OJ L11/1.

[161] COM(80)635 [1980] OJ C351/1, Art 6(2)(c) of the proposed Dir and Art 11(2)(c) of the proposed Reg, together with the commentary in the Explanatory Memoranda on those proposals.

[162] Summary of Conclusions of Meeting of the Working Party on Intellectual Property (Trade Mark) held in Brussels on 3 and 4 May 1983, Council document 7110/83, at 5.

[163] Parliamentary vote of 12 Oct 1983 [1983] OJ C307/44, 51 and 63.

[164] Case 102/77 *Hoffmann-La Roche v Centrafarm* [1978] ECR 1139, discussed below.

Community trade mark may in principle prohibit third parties from repackaging goods put on the market by him and reaffixing his trade mark to the new packaging'.[165] Similarly, the Council Presidency, submitting the draft Article to the Permanent Representatives Committee, indicated its view that Article 7 'reflects the jurisprudence of the Court of Justice, which has held in general that an industrial property right is exhausted once goods are put on the market with consent, but has ruled in a particular case that the exercise of trade mark rights against goods which had been repackaged was justified under Article [30] of the [EC] Treaty'.[166]

This left some doubt about the proper approach to be taken to repackaging cases under the Directive. The Directive was not intended to give trade mark owners in the Community an absolute right to prevent repackaging of their products, as the Commission's initial proposal to this effect was rejected. Such an approach would in any event have been constitutionally impermissible; as it would have permitted barriers to trade beyond those allowed under Article 30, it would have required an amendment to the Treaty and not merely a Directive. Equally, it was clear that Article 7(2) of the Directive was intended to follow the decision in *Hoffmann-La Roche*. However, it was not clear whether the Directive was intended to limit the situations in which trade mark owners could object to the marketing of repackaged products to those where the facts were similar to those discussed in *Hoffmann-La Roche* or whether the Directive was simply intended to follow Article 30 and thus allow trade mark owners to raise other objections.

This issue came before the ECJ in *Bristol-Myers Squibb v Paranova*.[167] The ECJ heard a total of seven case referred from Denmark and Germany, which concerned the marketing of repackaged pharmaceuticals from France, Greece, Portugal, Spain and the United Kingdom.

The Court rejected any distinction between *Hoffmann-La Roche* and *Pfizer v Eurim-Pharm*, stating:

> there is no reason in principle to distinguish between the situation where a third party reaffixes the trade mark after repackaging the product, and the situation where, after the product has been repackaged, he uses the trade mark affixed to the original packaging by the manufacturer by leaving it visible through new external packaging or by retaining the original external packaging itself.[168]

The ECJ also stated that 'there is nothing to suggest that Article 7 of the Directive is intended to restrict the scope of [the existing] case-law' and that

[165] COM(84)470 [1984] OJ C230/4, Art 11 of the proposed Reg together with the commentary in the Explanatory Memorandum; COM(85)793 [1985] OJ C351/4, Art 6 of the proposed Dir.

[166] Report from UK Presidency to the Permanent Representatives' Committee dated 22 Dec 1986, Council document 11716/86, at 6.

[167] Joined Cases C–427/93, 429/93 and 436/93 *Bristol-Myers Squibb v Paranova* [1996] ECR I–3457; Joined Cases C–71/94, 72/94 and 73/94 *Eurim-Pharm Arzneimittel v Beiersdorf* [1996] ECR I–3603; Case C–232/94 *MPA Pharma v Rhône-Poulenc Pharma* [1996] ECR I–3671.

[168] Joined Cases C–71/94, 72/94 and 73/94 *Eurim-Pharm Arzneimittel v Beiersdorf* [1996] ECR I–3603, para 39.

such an effect would be impermissible in any event, 'since a Directive cannot justify obstacles to intra-Community trade save within the bounds of the Treaty rules'. Article 7 could have broadened the scope for repackaging, but the court went on hold that 'Article [30] must . . . be taken as a basis for determining whether, under Article 7(2) of the Directive, a trade mark owner may oppose the marketing of repackaged products to which the trade mark has been affixed'.

The ECJ confirmed that the question whether the trade mark owner could prevent the marketing of repackaged products was to be determined by the questions laid down in *Hoffmann-La Roche v Centrafarm*. It clarified that the first question requires that the markets are being partitioned, which means that the 'repackaging undertaken by the importer is necessary in order to market the product in the Member State of importation'. It then adding the following four requirements:

—the presentation of the repackaged product is not such as to be liable to damage the reputation of the trade mark and of its owner
—the new packaging clearly states the name of the manufacturer
—the new packaging clearly states the source of any additional articles;
—the importer supplies the trade mark owner, on demand, with a specimen of the repackaged product.

The issue was considered by the English High Court in *Microsoft v Computer Future Distribution*,[169] where a distributor was removing the outer packaging from Microsoft products to disguise the fact that the products were for distribution in the United States and Canada only and, in some cases, for academic use only. Microsoft sought summary judgment and so, as the *Silhouette* case was still pending before the ECJ,[170] did not base its claim on the fact that the software had never been put on the market within the Community by Microsoft or with its consent. Instead, Microsoft argued that it had legitimate reasons to object to the removal of the outer packaging under Article 7(2). Rimer J agreed, holding that 'Microsoft does not sell its software separately, since it is a feature of its operations that a particular item of software must be accompanied by a related EULA [End User Licence Agreement]. One possible effect of the marketing of the products in the brown boxes was the increased risk that there would be an intermediate splitting up of software and EULAs'. As the distributor's arguments did not raise any other triable issues, summary judgment was granted.

The broad approach in *Bristol-Myers Squibb v Paranova* was confirmed in *Glaxo Group v Dowelhurst I*,[171] where the ECJ held that, following *Hoffmann-La Roche*, 'it is the repackaging of the trade-marked pharmaceutical products in

[169] *Microsoft v Computer Future Distribution* [1998] ETMR 597.

[170] Case C–355/96 *Silhouette International Schmied v. Hartlauer* [1998] ECR I–4799, discussed in detail in Ch 5, sect I.B.ii.c (*Silhouette*).

[171] *Glaxo Group v Dowelhurst/Boehringer Ingelheim v Swingward* [2000] FSR 529 (High Court); (Court of Appeal, 29 Mar 2000, unreported); Case C–143/00 [2002] ECR I–3759. The ECJ came to the same conclusion in Case C–443/99 *Merck, Sharp & Dohme v Paranova Pharmazeutika* [2002] ECR I–3703.

itself which is prejudicial to the specific subject-matter of the mark'. Although the question whether trade mark owners have the right to prohibit the resale of repackaged goods in the first place was questioned in the English courts, by Laddie J in *Glaxo Group v Dowelhurst I*[172] and Jacob LJ in *Glaxo Group v Dowelhurst II*,[173] the parties did not dispute the point and it formed no part of the references to the ECJ.

However, the question whether trade mark owners have the right to prevent the resale of overstickered products was part of the reference to the ECJ in *Group v Dowelhurst II*.[174] Laddie J had suggested that such overstickering should not be regarded as prejudicial to the specific subject-matter of the mark. On that basis, the parallel importer would not need to show any necessity to oversticker, but rather the trade mark owner could object only if it could show that this was necessary to protect the specific subject matter of the trade mark.[175] Similarly, in the Court of Appeal, Jacob LJ indicated that the overstickering used in the case did 'no harm to the reputation of the claimants or their marks'.[176]

Advocate General Sharpston took a broader view, indicating that 'where there is no risk that the guarantee of origin is impaired, as in the case of applying an additional external label to the original external packaging while retaining the original internal packaging, the [*Bristol-Myers Squibb v Paranova*] conditions do not apply'.[177] That broad statement should be interpreted carefully, however, as where the overstickering adversely affects the original condition of the product or where it is liable to damage the reputation of the trade mark or of its owner this may be regarded as impairing the guarantee of origin. The ECJ's judgment is awaited.

In summary, therefore, trade mark owners have a general right to object to the marketing of reboxed pharmaceutical products bearing their trade mark unless the various grounds laid down by *Hoffmann-La Roche* and *Bristol-Myers Squibb v Paranova* are satisfied. However, they have no such general right in relation to overstickered goods unless they can demonstrate that the guarantee of origin has been impaired, which probably requires that certain of the grounds are not satisfied. Before considering these grounds in more detail, the approach taken when the parallel trader seeks to use another trade mark or none at all is considered briefly, followed by the approach taken in relation to products other than pharmaceuticals.

[172] [2000] FSR 529, paras 160–161.

[173] [2004] EWCA Civ 129, paras 18–21.

[174] *Glaxo Group v Dowelhurst II/Boehringer Ingelheim v Swingward II* [2003] EWHC 110 (Ch); [2003] EWHC 2109 (Ch); [2004] EWCA Civ 129; [2004] EWCA Civ 757; Case C–348/04 [2004] OJ C273/11 (Sharpston AG's Opinion, 6 Apr 2006). See K Harris, 'Parallel Imports: the Never-ending Saga on Repackaging and Use of Trade Marks may Finally be Ending . . . and Not Before Time' (2006) 1 *Journal of Intellectual Property Law & Practice* 564 and L Harrold, 'Advocate General Repackages ECJ Jurisprudence in Favour of Importers in *Boehringer Ingelheim v Swingward*' [2006] *European Intellectual Property Review* 538.

[175] [2003] EWHC 110 (Ch), para 26.

[176] [2004] EWCA Civ 129, para 78.

[177] Case C–384/04, para 41.

iii. Changing Marks

In the cases considered above the repackaging involved use of the same mark in both countries. However, sometimes the manufacturer will use different marks for the same product in different Member States and the parallel importer will want to use the trade mark used in the Member State into which it wishes to import and sell the goods.

In *Centrafarm v American Home Products*[178] the manufacturer used different trade marks for its product in different Member States (SERESTA in the Benelux countries and SERENID D in the United Kingdom). The parallel importer bought the products in the Netherlands, replaced the SERESTA trade mark with the SERENID D trade mark and then sold the goods in the United Kingdom. The trade mark owner objected and the question was referred to the ECJ, which held that the 'guarantee of origin means that only the proprietor may confer an identity upon the product by affixing the mark', and so the trade mark owner's right to prevent the new mark being affixed clearly fell within the specific subject matter of his trade mark rights. The Court went on to confirm that 'it may be lawful for the manufacturer of a product to use in different Member States different marks for the same product', but that this could constitute a disguised restriction on trade under the second sentence of Article 30 if followed by the owner 'as part of a system of marketing intended to partition the markets artificially'.

The Court did not consider the questions laid down in *Hoffmann-La Roche v Centrafarm* and so it appeared that a stricter approach would be taken where different marks were used. Thus in *Cheetah Trade Mark*,[179] Morritt J in the English High Court granted summary judgment for trade mark infringement where parallel importers imported a herbicide from Belgium, where it was sold by the manufacturer under the trade mark PUMA, and sold it in the United Kingdom under the name CHEETAH (which was the trade mark used by the manufacturer for the same product in the United Kingdom). He rejected any defence under Article 28, and a proposed reference to the ECJ, as ingenious but lacking in substance, noting that there was no evidence that the use of the different marks in different countries gave rise to a disguised restriction on trade between Member States.

However, this question came back to the ECJ from the Danish Maritime and Commercial Court in *Pharmacia & Upjohn v Paranova*.[180] In that case the parallel importer was purchasing antibiotics sold in France under the trade mark DALACINE and in Greece under the trade mark DALACIN C and repackaging them for sale under the trade mark used by the manufacturer in Denmark, DALACIN. The manufacturer's use of different marks was attributable to the settlement of a trade mark dispute and subsequent difficulties in registering

[178] Case 3/78 *Centrafarm v American Home Products* [1978] ECR 1823.
[179] *Cheetah Trade Mark* [1993] FSR 263.
[180] Case C–379/97 *Pharmacia & Upjohn v Paranova* [1999] ECR I–6927.

marks in certain Member States. The manufacturer sought an injunction in Denmark, claiming that this constituted trade mark infringement and that exhaustion did not apply because there were 'objective grounds justifying the use of different trade marks in different Member States'. The parallel importer argued that the trade mark rights had been exhausted because the different trade marks 'constitute[d] in reality the same trade mark' or alternatively because the manufacturer's marketing system amounted to 'an artificial partitioning of the markets'.

The ECJ, having reviewed its previous case law, held clearly that the rules on exhaustion 'cannot be applied differently depending on whether the original trade mark is reaffixed after repackaging or replaced, unless separate rules are justified by objective differences between the two situations'. The Court held that there were no such objective differences, as both cases 'represent a use by the parallel importer of a trade mark which does not belong to him'. Therefore, '[t]he condition of artificial partitioning of the markets between Member States, as defined by the Court in *Bristol-Myers Squibb*, thus applies where a parallel importer replaces the original trade mark by that used by the proprietor in the Member State of import'. Although not in issue in the case, under this reasoning it appears clear that the other questions laid down in *Hoffmann-La Roche v Centrafarm* and *Bristol-Myers Squibb v Paranova* will apply to such repackaging.

In such cases the Trade Mark Directive does not apply directly, as Article 7 permits use of a mark only 'in relation to goods which have been put on the market in the Community under that trade mark by the proprietor or with his consent'. Thus Article 30 still applies directly.[181] The question whether it is necessary for the parallel importer to use the trade mark used in the importing Member State is considered further below.

The Commission's approach to the use of different trade marks for pharmaceuticals is considered in Chapter 4, section III.

iv. Removing Marks

The underlying requirement for all of these repackaging cases is that there is use of a trade mark. However, it is possible that the goods will be repackaged so that all trade marks are removed. Although the parallel importer will no longer have the benefit of the trade mark in order to sell the goods, this may be a price he is willing to pay in order to avoid the restrictions on repackaging.

The removal of trade marks from parallel imported goods has a long history, as it was one of the arguments raised in *Dunlop Rubber v AA Booth & Co*,[182] although there the marks had not been totally removed. However, if marks are

[181] This point is well made in JDC Turner, 'Plus Royaliste que le Roi' [2000] *European Intellectual Property Review* 434.

[182] *Dunlop Rubber v AA Booth & Co* (1926) 43 RPC 139.

entirely removed then the manufacturer is unlikely to be able to bring an action for trade mark infringement as no relevant trade mark is actually being used. This was accepted by Laddie J in the English High Court in *Glaxo Group v Dowelhurst II*.[183] However, he also suggested that if the trade mark was still used but with reduced prominence, such as by removing it from outer packaging but leaving it on inner packaging, then this may be a legitimate reason for the trade mark owner to object, as this 'may reduce the extent to which the proprietor can build up public awareness of and reputation in his brand'. This was described as 'partial de-branding'.

In *Sony Computer Entertainment v Nuplayer*,[184] an attempt was made to rely on the removal of marks as a defence in the English High Court. On the facts, this was rejected by Lawrence Collins J. Although the defendant had not used the relevant marks on its website, it had not obliterated the marks on the products themselves and, although it had offered to do so in the future, it had indicated that it would inform customers why it was doing so. The judge went further and suggested that products which would otherwise be infringing do not 'cease to be so when the marks are erased or obliterated'. However, this probably goes too far as, in such a case, there is no use of the relevant trade mark.

Even if all trade marks are removed from the products the manufacturer may still seek to rely on other intellectual property rights, including copyright, unfair competition or passing off. However, such rights may also be exhausted and it is not clear that the owners will be regarded as having the same range of legitimate interests in preventing repackaging as in the case of trade mark use. One possible legitimate interest would be that consumers are made aware who manufactured the product and are not misled into thinking that it was the parallel importer. However, this risk could be avoided by clear labelling by the parallel trader.[185]

v. Products other than Pharmaceuticals

Most of the cases considered above have related to pharmaceutical products, where repackaging issues are at their strongest. However, with some exceptions the same principles apply to other products.

This was confirmed in *Loendersloot v Ballantine*.[186] In that case, the parallel importer was relabelling bottles of whisky. In particular, it was removing original labels (which bore trade marks) in order to remove the identification numbers on or underneath the original labels. It was then replacing the labels, having removed the English word 'pure' and the name of the approved importer from

[183] *Glaxo Group v Dowelhurst II/Boehringer Ingelheim v Swingward II* [2003] EWHC 110 (Ch), para 22.

[184] *Sony Computer Entertainment v Nuplayer* [2005] EWHC 1522 (Ch), para 82.

[185] This was discussed briefly in *Glaxo Group v Dowelhurst/Boehringer Ingelheim v Swingward* [2000] FSR 529 (High Court), paras 40, 97 and 192; [2004] EWCA Civ 129, paras 55–59.

[186] Case C–349/95 *Frits Loendersloot v George Ballantine & Son* [1997] ECR I–6227.

the original labels or having produced copies without such information. Finally, it was exporting the bottles to countries within and outside the Community.

The ECJ held that the case law on pharmaceuticals applied and that such use constituted 'interference by a third party, without the authorization of the trade mark owner, which is liable to impair the guarantee of origin provided by the trade mark'. However, the Court also held that in previous cases 'account was taken of the legitimate interests of the trade mark owner with regard to the particular nature of pharmaceutical products'. Therefore, in this case, although the parallel importer had to comply with most of the conditions, it was not required to supply the manufacturers with a specimen of the repackaged product nor to state the name of the repackager on the products.

B. Necessity of Repackaging

The first ground on which a trade mark owner can oppose repackaging is that the repackaging is not necessary in order for the parallel importer to put the product on the market in the Member State in which he wishes to sell it. This is perhaps one of the most controversial grounds and exception has been taken to it by, among others, Advocate General Jacobs at the ECJ and Laddie J in the English High Court. However, the ECJ has clearly confirmed that such a condition exists.

In the initial cases, the ECJ took the approach that manufacturers could oppose the marketing of repackaged products unless this would contribute to the 'artificial partitioning' of the markets between Member States. Other than stating that regard must be had to the marketing system adopted by the manufacturer, the ECJ failed to define this further in *Hoffmann-La Roche v Centrafarm*.[187] In *Centrafarm v American Home Products*,[188] the ECJ noted that the use of different trade marks for the same product in different Member States may be lawful and would constitute a disguised restriction on trade only if it were followed by the manufacturer 'as part of a system of marketing intended to partition the markets artificially'. It therefore appeared that the manufacturer's marketing system, and possibly the intention behind it, was relevant in determining whether there was 'artificial partitioning' of the markets between Member States. By contrast, in *Pfizer v Eurim-Pharm*[189] the ECJ did not mention any need to show 'artificial partitioning'.

In *Bristol-Myers Squibb v Paranova*[190] Advocate General Jacobs suggested that there was in fact no need to demonstrate 'artificial partitioning' in order to

[187] Case 102/77 *Hoffmann-La Roche v Centrafarm* [1978] ECR 1139.
[188] Case 3/78 *Centrafarm v American Home Products* [1978] ECR 1823.
[189] Case 1/81 *Pfizer v Eurim-Pharm* [1981] ECR 2913.
[190] Joined Cases C–427/93, 429/93 and 436/93 *Bristol-Myers Squibb v Paranova* [1996] ECR I–3457; Joined Cases C–71/94, 72/94 and 73/94 *Eurim-Pharm Arzneimittel v Beiersdorf* [1996] ECR I–3603; Case C–232/94 *MPA Pharma v Rhône-Poulenc Pharma* [1996] ECR I–3671.

allow repackaging. The fundamental point, he argued, was that use of a trade mark to prohibit the resale of repackaged goods would be permissible under Article 30 only if that were necessary to safeguard the specific subject matter of the trade mark. This would be the case if the trade mark owner could demonstrate legitimate reasons for objecting to the repackaging. If not, the objection would 'amount to an abusive exercise of the trade mark and a disguised restriction on trade' as 'the presumption inevitably arises that the trade mark is being used for some other purpose, for example to cause or reinforce a partitioning of the common market and to allow the trade mark owner to maintain price differences in the various Member States'.[191]

This approach was not followed by the ECJ, which held that the requirement of 'partitioning' means that the manufacturer's rights 'to oppose the marketing of repackaged products under the trade mark should be limited only in so far as the repackaging undertaken by the importer is necessary in order to market the product in the Member State of importation'. However, the Court also rejected a test based on the manufacturer's intention, stating that 'the Court's use of the words "artificial partitioning of the markets" does not imply that the importer must demonstrate that, by putting an identical product on the market in varying forms of packaging in different Member States, the trade mark owner deliberately sought to partition the markets between Member States', but rather that 'the Court's intention was to stress that the owner of a trade mark may always rely on his rights as owner to oppose the marketing of repackaged products when such action is justified by the need to safeguard the essential function of the trade mark, in which case the resultant partitioning could not be regarded as artificial'.[192]

As described at the start of this section, there are a range of types of repackaging which can be undertaken by parallel importers. The necessity of reboxing is considered first, in relation to changing the pack size and then in relation to consumer resistance to repackaging. This is followed by the necessity of relabelling. As discussed above, there is no need to show that overstickering is necessary. The necessity of changing trade marks is then reviewed, followed by some broader discussion of the different approaches taken to the question of necessity in each case.

i. Necessity of Reboxing: Different Sizes

In *Bristol-Myers Squibb v Paranova* the Court held that it would be necessary to rebox 'when the packet size used by the owner in the Member State where the importer purchased the product cannot be marketed in the Member State of importation by reason, in particular, of a rule authorizing packaging only of a

[191] *Ibid*, para 82 of the Opinion.

[192] *Bristol-Myers Squibb v Paranova*, above n190, paras 56–57; *Eurim-Pharm Arzneimittel v Beiersdorf*, above n190, paras 46–47; *MPA Pharma v Rhône-Poulenc Pharma*, above n190, paras 28–29.

certain size or a national practice to the same effect, sickness insurance rules making the reimbursement of medical expenses depend on the size of the packaging, or well-established medical prescription practices based, inter alia, on standard sizes recommended by professional groups and sickness insurance institutions'.[193]

Moreover, the ECJ also held that even if 'the trade mark owner uses many different sizes of packaging in [the Member State of importation], the finding that one of those sizes is also marketed in the Member State of exportation is not enough to justify the conclusion that repackaging is unnecessary', because 'partitioning of the markets would exist if the importer were able to sell the product in only part of his market'.[194]

However, the ECJ also held that the use of new external packaging would not be necessary:

> where the importer is able to achieve packaging which may be marketed in the Member State of importation by, for example, affixing to the original external or inner packaging new labels in the language of the Member State of importation, or by adding new user instructions or information in the language of the Member State of importation [or by replacing an additional article not capable of gaining approval in the Member State of importation with a similar article that has obtained such approval].[195]

The issue whether reboxing is necessary where pack sizes are different returned to the ECJ in *Aventis Pharma Deutschland v Kohlpharma*,[196] where the manufacturer held two Community marketing authorisations for the product INSUMAN in packets of five and 10 3ml cartridges. In Germany it marketed only packets of 10 cartridges. The parallel importers were acquiring packets of five cartridges from France and repackaging them into new packets of 10. The manufacturer challenged the necessity of such repackaging, claiming that the parallel importers could simply bundle together two packets of five. The ECJ held that such bundling was precluded by the scope of the Community marketing authorisations but stated:

> it is for the national court, having regard to the case law of the Court and, in particular, the judgment in Case C–443/99 *Merck, Sharp & Dohme* . . ., paragraph 25, to examine whether the circumstances prevailing at the time of marketing in the Member State of importation make the creation of new packaging objectively necessary in order that the imported product can gain effective access to the market of that state.

The reason for this is clearer if one looks at the Opinion of Advocate General Jacobs, who had pointed out that, although the sale of bundles of two packets

[193] *Bristol-Myers Squibb v Paranova*, above n190, para 53; *Eurim-Pharm Arzneimittel v Beiersdorf*, above n190, para 43; *MPA Pharma v Rhône-Poulenc Pharma*, above n190, para 25.

[194] *Ibid*, paras 54, 44 and 26 respectively.

[195] *Ibid*, paras 55, 45 and 27 respectively. The words in square brackets appear only in *Bristol-Myers Squibb v Paranova*, above n190.

[196] Case C–433/00 *Aventis Pharma Deutschland v Kohlpharma* [2002] ECR I–7761. Community marketing authorisations are considered further in Ch 4, sects III.A and III.C.

of five was precluded, if the parallel importers could obtain effective access to the German market simply by relabelling and selling packets of five then it would not be necessary to repackage them into packets of 10, as the Community authorisation for packets of five covered the German market.

The issue was subsequently considered in Scotland in *Boehringer Ingelheim Pharma v Munro Wholesale Medical Supplies*.[197] That case concerned the proposed import of boxes of 60 SPIRIVA capsules (six blister strips of 10 capsules) from Germany, reboxing into boxes of 30 capsules and sale in Scotland. The manufacturer, Boehringer, sold the product in boxes of 30. Physicians generally prescribed either 30 or 60 capsules at a time. Boehringer provided evidence that there was no real resistance from customers to boxes of 60 capsules and that accordingly Munro would have access to a substantial part of the market. Lord Nimmo Smith in the Outer House of the Court of Session granted an interim interdict (injunction) against Munro, holding that it would be more likely than not that the reboxing would be found unnecessary. However, on appeal this reasoning was overturned by the Inner House of the Court of Session, which pointed out that the proper question was whether Munro was prevented from having access to a substantial part of the market (rather than whether it had access to another substantial part). Nevertheless, as the issue was uncertain, the interim interdict was left in place.

ii. Necessity of Reboxing: Consumer Resistance

Although *Bristol-Myers Squibb v Paranova* indicated that reboxing could be necessary in order to change the pack size of the product, it did not indicate whether it might be necessary in other cases. In *Astra v Paranova*,[198] the Danish Supreme Court took a restrictive approach, holding that reboxing was unnecessary where the pack sizes were the same in both countries, as in such cases overstickering would suffice. It has taken a similar approach in subsequent cases.[199]

However, a different approach was taken by Laddie J in the English High Court in *Glaxo Group v Dowelhurst I*,[200] where he was considering a number of cases of the parallel import of repackaged pharmaceutical products into the United Kingdom. In some cases labels had been attached to the original

[197] *Boehringer Ingelheim Pharma v Munro Wholesale Medical Supplies* [2003] ScotCS 238; [2004] ETMR 66. *Compare Bayer v Paranova* [2000] EIPR N11.

[198] *Astra v Paranova* (Højesteret, 2 July 1999) [1999] Ugeskrift for Retsvæsen (UfR) 1678.

[199] Case 214/2001 *Handelsselskabet af 5 januar 2002 v Løvens Kemiske Fabrik* (Højesteret, 19 Dec 2002) [2003] UfR 630 and Case 119/2002 *Paranova v Hoffmann-La Roche* (Højesteret, 28 May 2003).

[200] *Glaxo Group v Dowelhurst/Boehringer Ingelheim v Swingward* [2000] FSR 529 (High Court); 29 Mar 2000 (CA, unreported); Case C–143/00 [2002] ECR I–3759. The ECJ came to the same conclusions in Case C–443/99 *Merck, Sharp & Dohme v Paranova Pharmazeutika* [2002] ECR I–3703. See P Koutrakos, 'In Search of a Common Vocabulary in Free Movement of Goods: The Example of Repackaging Pharmaceuticals' (2003) 28 *ELRev* 53.

packaging, in some new packaging was used bearing the trade mark and in others new packaging was used which did not bear the trade mark (although the internal packaging still bore the mark). In all cases, new patient information leaflets which bore the trade mark were added.

In a long and detailed judgment, the judge found as a question of fact that, in the United Kingdom, 'there is widespread and substantial resistance to parallel-imported pharmaceuticals supplied in over-stickered boxes'.[201] By contrast, this same argument, relying on similar evidence, was rejected a few years later by the Danish Supreme Court in *Paranova v Hoffmann-La Roche*,[202] perhaps suggesting that Danish consumers (or judges) are less sensitive than those in the United Kingdom. That said, Laddie J indicated in a later case that it was not unarguable in other cases that particular reboxing might be unnecessary because overstickering would suffice.[203]

The judge then proceeded to refer a number of questions to the ECJ. In particular, he asked whether trade mark owners could object to the importation, marketing or promotion of repackaged goods where this caused no, or no substantial, harm to the specific subject-matter of his rights but where such repackaging was unnecessary, or whether this would constitute abusive conduct and a disguised restriction on trade (following Advocate General Jacobs in *Bristol-Myers Squibb v Paranova*). The judge's clear view was that there should be no requirement to show that repackaging was necessary in such cases, thus questioning the ECJ's previous judgments.[204]

The judge continued by asking whether, if the requirement of necessity was maintained by the ECJ, it would be necessary to repackage:

> if it is shown that the use of the mark is reasonably required to enable [the parallel importer or dealer] to access (a) part only of the market in the goods, or (b) the whole of the market in the goods; or does it require that the use of the mark was essential to enabling the goods to be placed on the market and if none of these, what does necessary mean?

The ECJ responded to Laddie J's criticism robustly. It began by reviewing its own judgment in *Hoffmann-La Roche v Centrafarm*, noting that this judgment held that it is 'justifiable under the first sentence of Article 30 EC to recognise that the proprietor of a trade mark is entitled to prevent an importer of a trademarked product, following repackaging of that product, from affixing the trade

[201] [2000] FSR 529, paras 104, 165 and 176–189; see also [2003] EWHC 110 (Ch), para 18.

[202] Case 119/2002 *Paranova v Hoffmann-La Roche* (Højesteret, 28 May 2003).

[203] *Glaxo Group v Europharm of Worthing* [2003] EWHC 116 (Ch); this case has been stayed pending the *Glaxo v Dowelhurst II* judgment of the ECJ: see [2003] EWHC 1037 (Ch).

[204] Supported in A Kur, '*Glaxo et al. v Dowelhurst*—Time for the ECJ to Change its Attitude towards Repackaging' [2000] *Intellectual Property Quarterly* 301 and T Wong, 'Exceptions to the Free Movement of Parallel Imports: Does Article 30 of the Treaty of Rome Protect Trade Mark Rights Beyond their Specific Subject-matter?' [2000] *European Intellectual Property Review* 585 but criticised in JDC Turner, 'Plus Royaliste que le Roi' [2000] *European Intellectual Property Review* 434 and more fundamentally in I Forrester, 'The Repackaging of Trade Marked Pharmaceuticals in Europe: Recent Developments' [2000] *European Intellectual Property Review* 512.

mark to the new packaging without the authorisation of the proprietor'. It went on to say that 'it is not in dispute that the specific subject-matter of a mark is to guarantee the origin of the product bearing that mark and that repackaging of that product by a third party without the authorisation of the proprietor is likely to create real risks for that guarantee of origin'. It then concluded that 'it is the repackaging of the trade-marked pharmaceutical products in itself which is prejudicial to the specific subject-matter of the mark, and it is not necessary in that context to assess the actual effects of the repackaging by the parallel importer',[205] with the result that the manufacturer has an absolute right to prevent repackaging, which can be restricted only where necessary.

Therefore the ECJ turned to the consequential question whether repackaging should be regarded as necessary. According to the Court, the question asked by Laddie J sought to ascertain in particular:

> whether repackaging may be considered necessary on the sole ground that, without it, the commercial success of the product would be adversely affected on the market of the importing State because a significant proportion of the consumers of that State mistrust pharmaceutical products which are manifestly intended for the market of another State.

The Court summarised its decisions in *Bristol-Myers Squibb v Paranova* and *Pharmacia & Upjohn v Paranova* before holding that the trade mark owner could 'oppose the parallel importer's use of replacement packaging' but only if 'the relabelled pharmaceutical product [would be] able to have effective access to the market concerned'. The Court held that, although 'resistance to relabelled pharmaceutical products does not always constitute an impediment to effective market access such as to make replacement packaging necessary', repackaging would be necessary 'if, without such repackaging, effective access to the market concerned, or to a substantial part of that market, must be considered to be hindered as the result of strong resistance from a significant proportion of consumers to relabelled pharmaceutical products'. In that case, 'repackaging of the pharmaceutical products would not be explicable solely by the attempt to secure a commercial advantage'.[206]

As a result of that judgment, national courts are required to consider whether reboxing is necessary to allow the parallel importer effective access to the market or whether overstickering would suffice (although the ECJ talks of relabelling it is clear that it was really overstickering which was being discussed). Consumer resistance to overstickered products will not always constitute such an impediment that reboxing is necessary, but it will do so where there is strong resistance from a significant proportion of consumers. If it is established that reboxing is necessary then it will be permitted; if not, it will be regarded solely as an attempt to secure a commercial advantage and can be prohibited by the manufacturer.

[205] Case C–143/00 [2002] ECR I–3759, paras 10–18 and 28–35.
[206] Case C–143/00 [2002] ECR I–3759, paras 45–54.

However, that was not the end of the case, which returned to the English High Court in *Glaxo Group v Dowelhurst II*.[207] Laddie J grudgingly accepted the ECJ's judgment, although he described its view that repackaging is always prejudicial to the specific subject matter of trade marks as 'an irrebuttable legal fiction unconnected with the facts'.[208] He indicated that, on this basis, 'all repackaging must be treated as harmful and only to be tolerated to the extent that it can be shown to inflict the minimum collateral damage on the claimant's mark'.[209]

Applying this to the cases before him, the judge divided the reboxing cases into two categories: partial de-branding and co-branding.

In the partial de-branding cases, the trade mark had been removed from the external packaging but left on the internal blister packs and/or the patient information leaflets. The judge held:

> removal of the mark from the outer packaging or significant diminution of its prominence may reduce the extent to which the proprietor can build up public awareness of and reputation in his mark. If such de-branding is not necessary to enable the importer to access the market, the proprietor can use his registered rights to prevent it.[210]

In the co-branding cases, the parallel importer had reboxed the products 'in a livery which serves to build up his own reputation in his own mark or get-up on the back of the claimant's product'. The judge held that this 'is likely . . . to diminish to some extent the build up of the proprietor's exclusive reputation' which 'adversely affects the proprietor's interest in his mark and, if it is not necessary to do this to enable the importer to access the market, it can be restrained'.[211] However, in a subsequent judgment in the same case, the judge distinguished co-branding cases from those where the parallel importer uses 'simple colour schemes' which have 'no significant trade mark impact' and therefore would be permitted.[212]

On appeal the manufacturers argued that Laddie J was wrong to find as a general rule that reboxing was necessary due to the resistance to overstickering, again arguing that this had to be determined on a case by case basis. This argument was rejected by the Court of Appeal, with Jacob LJ confirming that '[i]f parallel importers cannot rebox they face a substantial hindrance to sale', noting that 'if this were not so I cannot imagine why the claimants are spending so much effort on this case or why the defendants are bothering to defend'.[213]

[207] *Glaxo Group v Dowelhurst II/Boehringer Ingelheim v Swingward II* [2003] EWHC 110 (Ch); [2003] EWHC 2109 (Ch); [2004] EWCA Civ 129; [2004] EWCA Civ 757; Case C–348/04 [2004] OJ C273/11 (Sharpston AG's Opinion, 6 Apr 2006).

[208] [2003] EWHC 110 (Ch), para 15.

[209] *Ibid*, para 20.

[210] *Ibid*, para 22.

[211] *Ibid*, para 23.

[212] [2003] EWHC 2109 (Ch), paras 17–18.

[213] [2004] EWCA Civ 129, para 54.

The Court of Appeal then considered whether Laddie J was correct to find that, even if reboxing was necessary, each individual aspect of the reboxing had to be necessary.[214] Jacob LJ indicated that, in his view, Laddie J was wrong and that the trade mark owner would have to rely on one of the other grounds to oppose repackaging in such cases.[215] However, he indicated that this question was not clear, and referred to a series of judgments from Sweden,[216] Austria,[217] Denmark,[218] Germany[219] and the EFTA Court on a reference from Norway.[220] Although the national courts had taken the same approach as Laddie J, the EFTA Court had not, nor had the European Commission in its intervention in that case. Therefore, the Court of Appeal referred further questions to the ECJ asking whether or not each aspect of repackaging would have to be necessary for it to be permitted.

Advocate General Sharpston suggested in her Opinion that the ECJ should follow the EFTA Court, holding that 'the requirement that repackaging be necessary applies merely to the fact of reboxing and does not extend to the precise manner and style thereof'. In reaching this conclusion, she considered the judgment in *Hoffmann La-Roche v Centrafarm*, the legislative history of the Trade Mark Directive and the EFTA Court's judgment. However, the Advocate General also indicated that the burden of proof in relation to necessity of reboxing falls on the parallel importer.[221] The ECJ's judgment is awaited.

A similar question has been referred to the ECJ in *The Wellcome Foundation v Paranova Pharmazeutika*.[222]

iii. Necessity of Relabelling

With pharmaceutical products, if the product is not reboxed then the parallel importer will normally oversticker, i.e. stick new labels on to the existing box. However, with other products the parallel importer may actually want to remove the existing labels before replacing them with new ones.

In *Loendersloot v Ballantine*[223] the ECJ looked at the necessity of relabelling bottles of whisky. The parallel importer was repackaging to remove identification numbers and the word "pure" and to remove references to the importer (or to replace them with the parallel importer's own name).

[214] *Ibid*, paras 85–99.
[215] *Ibid*, paras 66–84.
[216] *Beecham v Netpharma* (Svea Hovrätt, 16 Apr 2000).
[217] *Schuber Verpackung II* (Oberster Gerichtshof, 30 Jan 2001).
[218] Case II 51/2000 *Orifarm v AstraZeneca* (Højesteret, 4 Jan 2002), which concerned co-branding. There have been a number of subsequent cases on this point in Denmark including Case II 146/2000 *Orifarm v Hoechst Marion Roussel* (Højesteret, 22 Apr 2002), Case 214/2001 *Handelsselskabet af 5 januar 2002 v Løvens Kemiske Fabrik* (Højeteret, 19 Dec 2002) [2003] UfR 630.
[219] *Eurim-Pharm v Boehringer Ingelheim* (Bundesgerichtshof, 11 July 2002).
[220] Case E–3/02 *Paranova v Merck & Co* [2003] EFTA Court Reports 101. See Ch 5, sect IV.A.ii (Intellectual Property).
[221] Case C–348/04, above n207, paras 92–94 of the Opinion.
[222] Case C–276/05 *The Wellcome Foundation v Paranova Pharmazeutika* [2005] OJ C217/29.
[223] Case C–349/95 *Frits Loendersloot v George Ballantine & Son* [1997] ECR I–6227.

The ECJ accepted that the removal of identification numbers was 'not necessary to enable the products in question to be marketed on the markets of the various Member States in accordance with the rules in force there'. However, it went on to hold that removal:

> might nevertheless prove necessary . . . to prevent artificial partitioning of the markets between Member States caused by difficulties for persons involved in parallel trade in obtaining supplies from distributors . . . for fear of sanctions being imposed by the producers in the event of sales to such persons. Even if . . . such conduct on the part of the producers would be in breach of the Treaty rules on competition, it cannot be excluded that identification numbers have been placed on products by producers to enable them to reconstruct the itinerary of their products, with the purpose of preventing their dealers from supplying persons carrying on parallel trade.[224]

By contrast, the Court accepted that the removal of the word 'pure' and the removal or replacement of the references to the importer could be necessary by virtue of national rules on labelling. However, the Court also held that the parallel importer must 'use means which make parallel trade feasible while causing as little prejudice as possible to the specific subject-matter of the trade mark right'. Therefore, the removal of labels would not be necessary if the original labels complied with the national rules but lacked information required by national law, 'since the mere application to the bottles in question of a sticker with the additional information may suffice'.[225] Again, therefore, relabelling will not be permitted where overstickering would suffice.

Even assuming that removal of identification numbers is necessary, the manufacturer may still be able to argue a legitimate interest in preventing such removal. This point is considered further in section IV.H below.

iv. Necessity of Changing Trade Marks

Where the manufacturer uses different trade marks for the same product in different Member States, there is a separate question whether it is necessary for the parallel importer to change the trade mark when repackaging.

In *Pharmacia & Upjohn v Paranova*[226] the ECJ considered whether the replacement of the trade marks used in France and Greece (DALACINE and DALACIN C) with that used in Denmark (DALACIN) was necessary. The ECJ held that this would be necessary:

> if, in a specific case, the prohibition imposed on the importer against replacing the trade mark hinders effective access to the markets of the importing Member State. That would be the case if the rules or practices in the importing Member State prevent

[224] *Ibid*, paras 40–41.
[225] *Ibid*, paras 44–46.
[226] Case C–379/97 *Pharmacia & Upjohn v Paranova* [1999] ECR I–6927, paras 43–44. See criticism of the broad approach in D Rosenberg and M Van Kerckhove, '*Upjohn v Paranova*: Utterly Exhausted by a Trip Too Far' [1999] *European Intellectual Property Review* 223.

> the product in question from being marketed in that State under its trade mark in the exporting Member State. This is so where a rule for the protection of consumers prohibits the use, in the importing Member State, of the trade mark used in the exporting Member State on the ground that it is liable to mislead consumers. In contrast, the condition of necessity will not be satisfied if replacement of the trade mark is explicable solely by the parallel importer's attempt to secure a commercial advantage.

In *Aventis Pharma v Paranova Lakemedel*,[227] the Stockholm District Court held that a parallel importer could not apply the trade mark IMOVANE, which was used by the manufacturer in Sweden, to pharmaceuticals sold by the manufacturer in Spain under the trade mark LIMOVAN. Although physicians in Sweden would generally prescribe by using the brand name, and under Swedish law pharmacists could not replace this with a generic product or one bearing another brand name except with the consent of the patient and the physician, the court took the view that this did not constitute the 'absolute obstacle which is required in order for objective necessity to be at hand' as the parallel importer could undertake a marketing campaign to make physicians aware of the alternative name. Therefore, replacement of the name would constitute trade mark infringement.

In *Beecham Group v Munro Wholesale Medical Supplies*,[228] Beecham asked the Outer House of the Court of Session in Scotland to prevent Munro from changing a trade mark on a parallel imported pharmaceutical product from DEROXAT, under which the product was sold in France, to SEROXAT, under which it was sold in the rest of the Community, in order to sell it in Sweden. Although accepting that Beecham had a prima facie case, particularly in the light of *Aventis Pharma v Paranova Lakemedel*, Lord Nimmo Smith indicated that he was reluctant to accept that it was unnecessary to change the trade mark and refused to grant an interim interdict (injunction).

The Danish Supreme Court took a similar view to that of the Stockholm District Court on the necessity of such a change in *Handelsselskabet af 5 januar 2002 v Løvens Kemiske Fabrik*,[229] where it held that there was no need to change the original trade mark used on the product (ONE-ALPHA) to that used in Denmark (ETALPHA) because Danish rules permitted pharmacists to supply the product bearing the original trade mark, if that was cheaper, unless the doctor expressly prohibited that in the prescription. By a majority, the Court also held that changing the trade mark would not have been necessary even under the old Danish rules, where pharmacists could not substitute a product bearing the foreign trade mark unless a doctor expressly allowed this. In neither case could the parallel trader's commercial desires render the change of trade mark necessary.

[227] Case T-10375-99 *Aventis Pharma v Paranova Lakemedel* (Stockholms Tingsrätt, 5 Oct 2000) [2001] *European Trade Mark Reports* 60.

[228] *Beecham Group v Munro Wholesale Medical Supplies* [2000] ScotCS 313.

[229] Case 214/2001 *Handelsselskabet af 5 januar 2002 v Løvens Kemiske Fabrik* (Højesteret, 19 Dec 2002) [2003] UfR 630. See also *Re Prozac/Fluctin* [2001] EIPR N107.

The decisions of the national courts indicate that there is some confusion about the distinction between cases where effective access to the importing market is 'hindered' and where the parallel importer is merely trying 'to secure a commercial advantage'. This is unsurprising, given that the two concepts are not mutually exclusive—where access to the market is hindered there will almost certainly be a commercial advantage to changing the trade mark.

The Swedish and Danish courts have taken a strict line, focussing on the question of 'commercial advantage', and required that the change of trade mark be absolutely necessary, in that no other methods would allow access, before it would be permitted. However, in both cases it appeared that effective access to the market was being hindered, and the approach taken to reboxing in *Glaxo Group v Dowelhurst I* suggests that this is the primary test. This has been raised in the European Parliament, where the Commission did not express any great concern but simply reiterated the ECJ's judgments.[230] Although it is possible that a higher threshold should be applied when one is considering whether changes of trade marks are necessary than when one is considering whether reboxing is necessary, it seems more than likely that this issue will end up being referred to the ECJ.

v. Discussion

Over the course of time the ECJ has softened its view on the concept of 'necessity', moving from a strict approach, based on the legality of resale without repackaging, to a more relaxed approach, based on whether 'effective market access' is hindered if the goods are not repackaged. However, the parallel importer is still required to show necessity in order to rebox, relabel or change trade marks. This is particularly so given that the approach taken in *Pharmacia & Upjohn v Paranova*, that the 'condition of necessity will not be satisfied if replacement of the trade mark is explicable solely by the parallel importer's attempt to secure a commercial advantage', was extended to the necessity to rebox in *Glaxo Group v Dowelhurst I*, although possibly as a lower threshold.

The rationale for this requirement appears to be that Article 28 applies only where there are restrictions on trade. Therefore, the exercise of rights to prevent repackaging cannot be restricted by Article 28 where trade is possible without repackaging. Although the ECJ did not articulate this particularly clearly in *Bristol-Myers Squibb v Paranova*, this was the explanation given by Advocate General Jacobs in *Loendersloot v Ballantine*,[231] and it would appear to be an understandable approach once it is accepted that there is a trade mark right to prevent repackaging.

However, if this is the basis for the ground one must consider Article 28 properly. The ECJ generally takes a broad approach when considering whether

[230] Parliamentary Question H-0561/03.

[231] Case C–349/95 *Frits Loendersloot v George Ballantine & Son* [1997] ECR I–6227, para 26 of the Opinion.

measures constitute 'quantitative restrictions on imports' or 'measures having equivalent effect' for the purposes of Article 28. Therefore, there is a strong argument that a similarly broad approach should apply in determining whether repackaging is necessary. Indeed, Advocate General Jacobs suggested a very efficient way to deal with the question of partitioning in *Bristol-Myers Squibb v Paranova* where he simply assumed that, if the trade mark owner has no legitimate reason for objecting to the repackaging, the objection must be in order to partition the markets. Under this approach the necessity for repackaging would be left to be determined by the parallel importers who would decide whether it was worthwhile incurring the costs of repackaging, with the right to object limited to cases where the trade mark owner can show actual damage. However, such an approach has been rejected by the ECJ and, for the time being at least, lack of necessity remains an important ground for objecting to repackaging.

C. Original Condition of the Product

The original condition of the product may be affected by the repackaging process directly or, where the new packaging does not sufficiently protect the product from damage, indirectly. Indirect damage may also be caused where additional information provided is incomplete or inaccurate. This ground of objection applies to reboxing, relabelling and overstickering alike.

In *Hoffmann-La Roche v Centrafarm*[232] the ECJ noted that 'depending on the nature of the product repackaging in many cases inevitably affects [the original condition of the product]' and 'in others repackaging involves a more or less obvious risk that the product might be interfered with or its original condition otherwise affected'. However, the ECJ also noted that 'it is possible to conceive of the repackaging being undertaken in such a way that the original condition of the product cannot be affected'. By way of example, the court pointed to cases where 'the proprietor of the trade mark has marketed the products in a double packaging and the repackaging affects only the external packaging, leaving the internal packaging intact' or where 'the repackaging is inspected by a public authority for the purpose of ensuring that the product is not adversely affected'.

The repackaging in *Hoffmann-La Roche v Centrafarm* was fairly limited. However, in *Bristol-Myers Squibb v Paranova*[233] the ECJ was able to consider the possible adverse effects of a wide range of repackaging including:

(1) using new external packaging with holes in it, through which the trade mark on the original packaging can be seen;

[232] Case 102/77 *Hoffmann-La Roche v Centrafarm* [1978] ECR 1139.

[233] Joined Cases C–427/93, 429/93 and 436/93 *Bristol-Myers Squibb v Paranova* [1996] ECR I–3457; Joined Cases C–71/94, 72/94 and 73/94 *Eurim-Pharm Arzneimittel v Beiersdorf* [1996] ECR I–3603; Case C–232/94 *MPA Pharma v Rhône-Poulenc Pharma* [1996] ECR I–3671.

(2) using new external packaging 'with a uniform appearance and [the parallel importer's] own style, namely white with coloured stripes corresponding to the colours of the manufacturer's original packaging';
(3) taking blister packs out of their original packaging and in some cases cutting them, such that the days of the week printed on the packs are no longer complete;
(4) forming new package sizes from the (cut) blister packs containing the standard number of tablets recommended by professional and commercial groups and the sickness insurance institutions in the importing Member State;
(5) covering the labels on phials, ampoules, flasks and inhalers with new labels including the names of the manufacturer, the importer and the repackager and the manufacturer's trade marks;
(6) changing the description of the product;
(7) inserting new user information in the language of the importing Member State;
(8) replacing a spray provided with a product with another spray from a different source.

The ECJ began by holding that the 'concept of adverse effects on the original condition of the product refers to the condition of the product inside the packaging'. The trade mark owner therefore retains the right 'to oppose any repackaging involving a risk of the product inside its package being exposed to tampering or to influences affecting its original condition'. The Court said that it would follow *Hoffmann-La Roche v Centrafarm* and look to the nature of the product and the method of repackaging in determining whether there was such a risk.

The ECJ held that the mere removal of blister packs, flasks, phials, ampoules or inhalers from their original external packaging and placement, with or without that packaging, in new external packaging or in another original package cannot affect the original condition of the product inside the packaging. Nor would the fixing of self-stick labels to blister packs, flasks, phials, ampoules, inhalers or the original external packaging directly affect the original condition of the product inside the packaging.

Where blister packs are cut or where batch numbers are reprinted, the national court must determine whether this is 'carried out in such a manner as to exclude any real risk of affecting the original condition of the tablets inside'. However, the ECJ did hold that such a right would be excluded 'in particular where those operations are authorized and supervised by a public authority in order to ensure that the product remains intact'.

The manufacturers had argued that such repackaging still entailed risks, claiming that 'blister packs coming originally from different packets and grouped together in single external packaging might have come from different production batches with different use-by dates, products might have been stored

for too long, and light-sensitive products might have been damaged by light during repackaging'. The ECJ took a robust view, holding that it was 'not possible for each hypothetical risk of isolated error to suffice to confer on the trade mark owner the right to oppose any repackaging of pharmaceutical products in new external packaging, or any modification in the contents of the original external packet'. However, the Court did accept that the original condition of the product might be indirectly affected where 'the packaging of the repackaged product is not such as to give the product adequate protection'.

Similarly, although the original condition of the product is not directly affected by 'the addition to the packaging of new user instructions or information in the language of the Member State of importation', it may be indirectly affected where 'the external or inner packaging of the repackaged product, or a new set of user instructions or information, omits certain important information or gives inaccurate information concerning the nature, composition, effect, use or storage of the product'. Although the national court should have particular regard when determining this to the product marketed by the trade mark owner in the Member State of importation, the parallel importer can provide additional information 'provided that information does not contradict the information provided by the trade mark owner in the Member State of importation, that condition being met in particular in the case of different information resulting from the packaging used by the owner in the Member State of exportation'.

Finally, the ECJ held that original condition of the product inside the packaging is not directly affected by 'the insertion of an extra article, such as a spray, from a source other than the trade mark owner', but it may be indirectly affected where the extra article is 'designed for the ingestion and dosage of the product' where this 'does not comply with the method of use and the doses envisaged by the manufacturer'. However, as discussed in section IV.F below, the repackager will have to make it clear what articles have been added to the original package.

The approach to labelling was followed in *Phytheron International v Jean Bourdon*,[234] which related to a plant health product, PREVICUR N, which had been parallel imported from Germany to France. The parallel importer had added certain information on the label to comply with the requirements of French law. The ECJ confirmed that the addition of such information 'cannot constitute a legitimate reason within the meaning of Article 7(2) of the Trade Mark Directive, provided that the label so altered does not omit important information or give inaccurate information'.

In *Loendersloot v Ballantine*[235] the ECJ confirmed that this requirement also applies in relation to the relabelling of bottles of whisky, although in that case the national court had already held that the relabelling in question had no adverse effect on the original condition of the alcohol.

[234] Case C–352/95 *Phytheron International v Jean Bourdon* [1997] ECR I–1729, para 23.

[235] Case C–349/95 *Frits Loendersloot v George Ballantine & Son* [1997] ECR I–6227, paras 29 and 32.

In *Glaxo Group v Dowelhurst II*, Advocate General Sharpston indicated that the burden of proof in relation to damage to the original condition of the product falls on the parallel importer.[236] However, she noted that 'in the context of pharmaceutical products, the parallel importer will of course almost certainly have had to satisfy the relevant regulatory authorities that his repackaging process carries no risk of damage to the condition of the products'.

As a consequence, although this remains a ground for objecting to repackaging, in most pharmaceutical cases the regulatory process will be regarded as precluding any potential damage.

D. Presentation of Repackaging

Rather than the condition of the product itself, this ground is more concerned with the reputation of the trade mark and its owner.

There was no mention of the presentation of repackaging in *Hoffmann-La Roche v Centrafarm*.[237] However, in *Bristol-Myers Squibb v Paranova* the ECJ extended the rights of the trade mark owner by holding that 'the trade mark owner has a legitimate interest, related to the specific subject-matter of the trade mark right, in being able to oppose the marketing of the product' in cases where 'the reputation of the trade mark, and thus of its owner, may . . . suffer from an inappropriate presentation of the repackaged product'. The national courts must therefore assess whether 'the presentation of the repackaged product is liable to damage the reputation of the trade mark', taking account of 'the nature of the product and the market for which it is intended'.

In relation to the case in question, the ECJ noted that 'the public is particularly demanding as to the quality and integrity of [pharmaceutical products], and the presentation of the product may indeed be capable of inspiring public confidence in that regard'. Therefore, 'defective, poor quality or untidy packaging could damage the trade mark's reputation'. However, the Court went on to hold:

> the requirements to be met by the presentation of a repackaged pharmaceutical product vary according to whether the product is sold to hospitals or, through pharmacies, to consumers. In the former case, the products are administered to patients by professionals, for whom the presentation of the product is of little importance. In the latter case, the presentation of the product is of greater importance for the consumer, even if the fact that the products in question are subject to prescription by a doctor may in itself give consumers some degree of confidence in the quality of the product.

[236] *Glaxo Group v Dowelhurst II/ Boehringer Ingelheim v Swingward II* [2003] EWHC 110 (Ch); [2003] EWHC 2109 (Ch); [2004] EWCA Civ 129; [2004] EWCA Civ 757; Case C–348/04 [2004] OJ C273/11 (Sharpston AG's Opinion, 6 Apr 2006), paras 95–96 of the Opinion.

[237] Case 102/77 *Hoffmann-La Roche v Centrafarm* [1978] ECR 1139.

In particular, the Court said that national courts should assess whether 'the insertion into single external packaging of both original external packaging and loose blister packs constitutes an untidy form of packaging liable to damage the reputation of the trade mark'. The national courts should also assess in each particular case whether the cutting of blister packs 'has been carried out in such a manner that the reputation of the trade mark might suffer'.

This was again followed in *Phytheron International v Jean Bourdon*,[238] where the ECJ confirmed that adding information to the label of a parallel imported product cannot constitute a legitimate reason within the meaning of Article 7(2) of the Trade Mark Directive unless its presentation 'is liable to damage the reputation of the trade mark and that of its owner'.

In *Loendersloot v Ballantine*[239] the ECJ held that this requirement is also necessary in relation to the relabelling of bottles of whisky. The Court further noted that, in making this assessment, the national court would have to 'take into account in particular the interest of Ballantine and others in protecting the luxury image of their products and the considerable reputation they enjoy'. Therefore, it appears that a different standard may apply depending on the image and the extent of the reputation of the goods.

In *Davidoff*[240] the ECJ was asked whether the removal or obliteration of batch code numbers constituted legitimate grounds under Article 7(2) of the Directive where this was 'not likely to cause any serious or substantial damage to the reputation of the trade mark or the goods bearing the mark'. Advocate General Stix-Hackl referred to *Parfums Christian Dior v Evora*[241] and opined that 'the legitimate reasons which justify a trade mark proprietor in opposing further commercialisation of products bearing the trade mark include any actions of third parties which seriously affect the value, allure or image of the trade mark or the products which bear that mark'. This was to be assessed by the national court. However, the ECJ did not consider the point.

In *Glaxo Group v Dowelhurst II*,[242] Advocate General Sharpston considered whether the damage to reputation was limited to that arising because 'defective, poor quality or untidy packaging could damage the trade mark's reputation' or whether the principle extended more broadly. Like Advocate General Stix-Hackl, she pointed to cases concerned with advertising which were considered in the previous section, this time both *Parfums Christian Dior v Evora*[243] and *BMW v Deenik*.[244] She suggested that the type of damage is not limited to that caused

[238] Case C–352/95 *Phytheron International v Jean Bourdon* [1997] ECR I–1729, para 23.
[239] Case C–349/95 *Frits Loendersloot v George Ballantine & Son* [1997] ECR I–6227.
[240] Joined Cases C–414/99 to 416/99 *Zino Davidoff v A&G Imports* [2001] ECR I–8691.
[241] Case C–337/95 *Parfums Christian Dior v Evora* [1997] ECR I–6013.
[242] *Glaxo Group v Dowelhurst II/Boehringer Ingelheim v Swingward II* [2003] EWHC 110 (Ch); [2003] EWHC 2109 (Ch); [2004] EWCA Civ 129; [2004] EWCA Civ 757; Case C–348/04 [2004] OJ C273/11 (Sharpston AG's Opinion, 6 Apr 2006), paras 56–61 of the Opinion.
[243] Case C–337/95 *Parfums Christian Dior v Evora* [1997] ECR I–6013.
[244] Case C–63/97 *BMW v Deenik* [1999] ECR I–905.

by 'defective, poor quality or untidy packaging' but that 'the issue is whether there is a serious risk that the reputation of the trade mark will be damaged'.

The Advocate General then went on to consider whether co-branding or de-branding could constitute such a risk. She held that they are both capable in principle of doing so, but that '[w]hether particular forms of repackaging cause such damage and whether the damage is sufficiently serious to amount to a "legitimate reason" within the meaning of Article 7(2) of the Directive is a question of fact for the national court'. In addition, she indicated that the burden of proof in relation to serious damage to reputation falls on the manufacturer.[245]

The ECJ's judgment is awaited, but if it similarly ducks the question, it is likely that national courts will have differing interpretations and that the question will be referred to the ECJ again by a national court with a list of potentially relevant findings of fact.

E. Identification of Repackager

This is a ground for objection because the trade mark owner may wish to ensure that those buying the product know who has repackaged it. In *Glaxo Group v Dowelhurst II*, Advocate General Sharpston indicated that the burden of proof in relation to this falls on the parallel importer.[246]

In *Hoffmann-La Roche v Centrafarm*,[247] Advocate General Capotorti suggested that 'in order to assist in establishing any fault on the part of an importer who has altered a product in the course of repackaging it, it appears to me possible to concede . . . the right of the proprietor of the mark to require that there should appear on the new packaging a statement to the effect that the repackaging was carried out by the importer'.[248] This was followed by the Court, which held that the repackager would have to 'state on the new packaging that the product has been repackaged by him', because 'it is in the proprietor's interest that the consumer should not be misled as to the origin of the product'.[249]

In *Bristol-Myers Squibb v Paranova*[250] Advocate General Jacobs suggested that the justification for requiring the repackager to identify himself was to avoid creating any impression 'that the owner of the trade mark was responsible for the new packaging and for any defects in it'.[251] The Court confirmed that this is a requirement and followed the Advocate General in holding that, when

[245] Case C–348/04, above n242, para 98 of the Opinion.
[246] *Ibid*. para 97 of the Opinion.
[247] Case 102/77 *Hoffmann-La Roche v Centrafarm* [1978] ECR 1139.
[248] *Ibid*, para 10 of the Opinion.
[249] *Ibid*, para 12.
[250] Joined Cases C–427/93, 429/93 and 436/93 *Bristol-Myers Squibb v Paranova* [1996] ECR I–3457; Joined Cases C–71/94, 72/94 and 73/94 *Eurim-Pharm Arzneimittel v Beiersdorf* [1996] ECR I–3603; Case C–232/94 *MPA Pharma v Rhône-Poulenc Pharma* [1996] ECR I–3671.
[251] *Bristol-Myers*, above n250, para 88 of the Opinion.

determining whether the indication is clearly shown, 'the national court must assess whether it is printed in such a way as to be understood by a person with normal eyesight, exercising a normal degree of attentiveness'. However, the ECJ also followed the Advocate General in stating that it is 'not necessary to require that the further statement be made on the packaging that the repackaging was carried out without the authorization of the trade mark owner, since such a statement could be taken to imply . . . that the repackaged product is not entirely legitimate'.[252]

In *Loendersloot v Ballantine*[253] the ECJ held that this requirement was related to the particular nature of pharmaceutical products and was not necessary in relation to the relabelling of bottles of whisky.

Various examples of statements which identify the repackager have been given by the courts during the course of repackaging cases. In *Glaxo Group v Dowelhurst II*[254] the Court of Appeal quoted the following statement as a typical example: '[m]anufactured by Lilly SA, Spain. Procured within the EC and repackaged by the licence holder who is: DOWELHURST LTD'. This does not appear to be a major hurdle for parallel importers.

However, it should be noted that the reference in the statement to 'licence holder' is not a reference to any licence from the manufacturer. In fact, it appears to be a reference to the fact that the repackager holds a number of licences from the Medicines and Healthcare products Regulatory Agency [MHRA], which is the regulatory agency for medicinal products in the United Kingdom. Such licences are likely to include a Wholesale Dealer's (Import) Licence, a Manufacturer's Licence and a Product Licence (Parallel Importing) for the product in question. The regulatory framework is considered further in Chapter 4, section III.1.

Although this appears to be a standard form of labelling, it is arguably misleading. It is questionable whether any consumer who actually reads the label will understand that the reference is to the regulatory framework rather than a relationship between the manufacturer and the parallel importer. Given that the basis for this ground is that 'it is in the proprietor's interest that the consumer should not be misled as to the origin of the product', manufacturers may be able to object successfully to such a form of relabelling.

F. Identification of Additional Articles and their Source

In addition to identifying that the goods have been repackaged, a parallel importer will also have to make clear whether any articles have been added to

[252] *Ibid*, paras 70–72; *Eurim-Pharm Arzneimittel v Beiersdorf*, above n250, paras 61–63; *MPA Pharma v Rhône-Poulenc Pharma*, above n250, paras 42–44.

[253] Case C–349/95 *Frits Loendersloot v George Ballantine & Son* [1997] ECR I–6227.

[254] [2004] EWCA Civ 129, para 10.

the product and, where necessary, that such articles have not been made or approved by the manufacturer of the original product.

In *Bristol-Myers Squibb v Paranova*[255] the parallel importer had added a 'small syringe-like spray' to one of the products and had stated on the external packaging that the spray had been manufactured by the parallel importer. The ECJ, following the Advocate General, held that 'where the parallel importer has added to the packaging an extra article from a source other than the trade mark owner, he must ensure that the origin of the extra article is indicated in such a way as to dispel any impression that the trade mark owner is responsible for it'.

In *Sony v Tesco*,[256] the English High Court considered the addition of articles to Sony Playstations parallel imported from France into the United Kingdom. Tesco had fitted UK-style power plugs in place of the French plugs and had added radio frequency modulator units to allow the Playstations to be used with older televisions which did not have SCART sockets. Tesco had added a label which read '[t]his product has been opened to fit an adaptor to enable it to be used in UK three pin power sockets and to include an optional RFU adaptor repacked for Tesco stores UK'. The High Court held that this was not explicit enough and required Tesco to make it absolutely clear that the RFU adaptor had not been made or approved by Sony.

In *Sony Computer Entertainment v Nuplayer*,[257] it was accepted in relation to parallel imported PlayStation Pro consoles from Japan that 'it is an infringement to supply parts (such as batteries or a United Kingdom power lead) not coming from Sony in any way under the mark'.

It is clear that parallel importers have a serious obligation in such cases. Although they may be commercially unwilling to highlight such changes to the product and its accessories, which may be viewed unfavourably by consumers, it is not unreasonable for manufacturers to insist that such changes be made explicitly clear as otherwise they are likely to be held responsible by consumers for any failings in the new articles.

G. Identification of Manufacturer

By contrast to the previous two grounds, this ground is intended to ensure that those buying the product know who manufactured it and that this was not the parallel importer. In *Glaxo Group v Dowelhurst II*, Advocate General

[255] Joined Cases C–427/93, 429/93 and 436/93 *Bristol-Myers Squibb v Paranova* [1996] ECR I–3457, para 73.

[256] *Sony Computer Entertainment v Tesco Stores* (High Court, 21 Sept 1999, unreported). See the discussion in B Miller, 'The repackaging dilemma: or how to avoid being injuncted when dealing in parallel imports', *MCV Magazine*, Dec 2004.

[257] *Sony Computer Entertainment v Nuplayer* [2005] EWHC 1522 (Ch), para 82.

Sharpston indicated that the burden of proof in relation to this falls on the parallel importer.[258]

In *Pfizer v Eurim-Pharm*,[259] although this did not appear to be a requirement, the ECJ noted that the consumer or final user would not be liable to be misled as to the origin of the product 'above all where, as in this case, the parallel importer has clearly indicated on the external wrapping that the product was manufactured by a subsidiary of the proprietor of the trade mark'.

In *Bristol-Myers Squibb v Paranova*,[260] Advocate General Jacobs suggested that there is no need for this requirement, stating that '[a]lthough the parallel importer will normally want to include such information, it is difficult to see how its omission can affect the function of the trade mark or be detrimental to the interests of the trade mark owner, at least where he is identified as the manufacturer of the goods on the original internal packaging'.[261] However, the ECJ rejected this suggestion and instead confirmed that the comment in *Pfizer v Eurim-Pharm* should be taken as a requirement and thus that 'a clear indication may be required on the external packaging as to who manufactured the product, since it may indeed be in the manufacturer's interest that the consumer or end user should not be led to believe that the importer is the owner of the trade mark, and that the product was manufactured under his supervision'.[262]

Somewhat surprisingly this issue was not discussed in *Loendersloot v Ballantine*,[263] which leaves it unclear whether this requirement, like identification of the repackager, is related to the particular nature of pharmaceutical products or whether it applies to other products. That said, the justification does not appear to be specific to pharmaceuticals and so is likely to extend to all products. In any event, in most cases the parallel importer will want to ensure that the public knows who originally manufactured the product, and so this is unlikely to be an issue in many cases.

H. Identifying Marks

As discussed above, it may be regarded as necessary to remove identification marks where these may be used by manufacturers 'to reconstruct the itinerary of their products, with the purpose of preventing their dealers from supplying

[258] *Glaxo Group v Dowelhurst II/Boehringer Ingelheim v Swingward II* [2003] EWHC 110 (Ch); [2003] EWHC 2109 (Ch); [2004] EWCA Civ 129; [2004] EWCA Civ 757; Case C–348/04 [2004] OJ C273/11 (Sharpston AG's Opinion, 6 Apr 2006), para 97 of the Opinion.

[259] Case 1/81 *Pfizer v Eurim-Pharm* [1981] ECR 2913, para 13.

[260] Joined Cases C–427/93, 429/93 and 436/93 *Bristol-Myers Squibb v Paranova* [1996] ECR I–3457; Joined Cases C–71/94, 72/94 and 73/94 *Eurim-Pharm Arzneimittel v Beiersdorf* [1996] ECR I–3603; Case C–232/94 *MPA Pharma v Rhône-Poulenc Pharma* [1996] ECR I–3671.

[261] *Bristol-Myers,* above n260, para 88 of the Opinion.

[262] *Ibid,* para 74; *Eurim-Pharm Arzneimittel v Beiersdorf*, above n260, para 64; *MPA Pharma v Rhône-Poulenc Pharma*, above n260, para 45.

[263] Case C–349/95 *Frits Loendersloot v George Ballantine & Son* [1997] ECR I–6227.

persons carrying on parallel trade'. However, trade mark owners can nevertheless rely on their rights to prevent such marks being removed where they had legitimate interests in applying the marks.

In *Loendersloot v Ballantine*[264] the purpose of the identification numbers on the bottles of whisky was in dispute. The parallel importer claimed that the sole purpose of the numbers 'was to combat parallel trade by means incompatible with Community law'. Therefore, the parallel importer claimed that their removal was necessary 'to preserve the anonymity of the dealers engaged in parallel trade', without which anonymity the dealers would refuse to supply the parallel importer for fear of sanctions from the manufacturer, even if such sanctions might themselves breach competition law. The trade mark owners, on the other hand, said that the numbers 'pursued only legitimate interests such as the recall of defective products and the need to combat counterfeiting' and that their removal was not necessary in order that the products be marketed in the Member States.

The Court noted that it was possible that 'identification numbers have been placed on products by producers to enable them to reconstruct the itinerary of their products, with the purpose of preventing their dealers from supplying persons carrying on parallel trade'. However, the Court also noted that their application 'may be necessary to comply with a legal obligation, in particular under Council Directive 89/396/EEC of 14 June 1989 on indications or marks identifying the lot to which a foodstuff belongs,[265] or to realise other important objectives which are legitimate from the point of view of Community law, such as the recall of faulty products and measures to combat counterfeiting.'

Advocate General Jacobs, while accepting that the identification numbers 'may serve legitimate public interests, in particular that of consumer protection', had suggested that 'the removal of such identification numbers cannot be resisted by virtue of trade-mark rights taken alone'.[266] However, the ECJ disagreed and held that, where identification numbers are applied for the legitimate purposes, 'the fact that an owner of trade mark rights makes use of those rights to prevent a third party from removing and then reaffixing or replacing labels bearing his trade mark in order to eliminate those numbers does not contribute to the artificial partitioning of the markets between Member States'. In such cases 'there is no reason to limit the rights which the trade mark owner may rely on under Article [30] of the Treaty' and, if the identification numbers are also used to prevent parallel trade, 'it is under the Treaty provisions on competition that those engaged in parallel trade should seek protection'.[267]

[264] Case C–349/95 *Frits Loendersloot v George Ballantine & Son* [1997] ECR I–6227.
[265] [1989] OJ L186/21.
[266] Case C–349/95, above n263, para 43 of the Opinion.
[267] *Ibid*, paras 41-43 of the Judgment.

The products in *Zino Davidoff v A&G Imports*[268] also bore batch code numbers, which in that case were intended to ensure compliance with Community and national rules on cosmetic safety, including the Cosmetics Directive.[269] Although the products were not repackaged, the batch code numbers had been removed or obliterated, in whole or in part, and the trade mark owner claimed that this in itself constituted a legitimate reason for opposing the import and marketing of the products, because it damaged the appearance of the product packaging by leaving scratches on the bottles or ink smudges, tears or stickers on the packaging and because it hindered recall of the goods.

Laddie J in the English High Court rejected these suggestions. In relation to the damage to the appearance of the goods, he found as a matter of fact that there was no such damage as the marking was 'slight and, from a practical point of view, virtually invisible' and that there was 'no evidence that any customer has ever noticed the marking, let alone thought that it impaired the appearance of the goods'. Therefore, he refused summary judgment and suggested that 'the plaintiff's prospects of succeeding on this issue are remote'.[270]

In relation to the recall of goods, he noted that it was failures in the manufacturing process rather than removal of the codes which would impair the quality of the goods. Although the manufacturer might want to retain the codes, as they would allow a smaller consignment to be recalled in case of problems, this was not the purpose of trade mark law and rather appeared to be a back door way of enforcing the Cosmetics Directive. In addition, he found that there was no evidence that such production failures were so frequent that the damage caused would be substantial. He therefore refused summary judgment and again indicated that it was likely that the defendant would succeed at trial.[271]

However, he agreed to ask the ECJ whether either of the following should be regarded as a 'legitimate reason' for the purposes of Article 7(2):

> —the removal or obliteration by third parties (in whole or in part) of any markings on the goods where such removal or obliteration is not likely to cause any serious or substantial damage to the reputation of the trade mark or the goods bearing the mark
>
> —the removal or obliteration by third parties (in whole or in part) of batch code numbers on the goods where such removal or obliteration results in the goods in question
>
> (i) offending against any part of the criminal code of a Member State (other than a part concerned with trade marks) or
>
> (ii) offending against the provisions of [the Cosmetics Directive]

[268] *Zino Davidoff v A&G Imports* [2000] Ch 127; Joined Cases C–414/99 to 416/99 *Zino Davidoff v A&G Imports* [2001] ECR I–8691.

[269] Council Dir 76/768/EEC [1976] OJ L262/169, as implemented in the UK by the Cosmetic Products (Safety) Regs 1996 (SI 2925/1996).

[270] *Zino Davidoff v A&G Imports* [2000] Ch 127, paras 62-64.

[271] *Ibid*, paras 58-61. See criticism in P Sheppard, 'Batch Codes Used in *Davidoff*: The Brand Owners' View' [2000] *European Intellectual Property Review* 147.

While that case was pending, interference with bar codes was considered by the Outer House of the Court of Session in Scotland. In *Zino Davidoff v M&S Toiletries (No.2)*,[272] the perfume boxes and bottles contained a bar code which allowed the manufacturer to determine the batch, date and time of manufacture, and thus to identify the distributor and the area of the world to which the perfume had been exported for distribution. Therefore, said the manufacturer, 'erasing or mutilating the [bar code] could conceal the provenance of the article and question and also the identify of the product, that is the distributor who had obtained it from the [manufacturer]'. Lord McCluskey agreed and held that it was 'abundantly clear that deliberate interference with the bar codes could have no obvious purpose other than to conceal activity of a more or less nefarious character'. He therefore granted an interim interdict (injunction) prohibiting the defendants from dealing with goods the bar codes on which had been interfered with.

However, in *Zino Davidoff v A&G Imports*, Advocate General Stix-Hackl opined that 'the removal or obliteration of batch code numbers affixed in compliance with a statutory obligation may be of relevance for purposes of trade mark rights only if it would have a disproportionately adverse effect on the specific subject matter of the trade mark right'. In considering when this might be the case, the Advocate General noted that a trade mark proprietor, in the interests of the good reputation of his products, had a legitimate interest in being able to recall potentially defective or sub-standard products and that this might be facilitated by affixing batch code numbers. Therefore, the national court would also have to consider 'whether the damage to the reputation of the trade mark is rendered—sufficiently—serious by the removal or obliteration of the prescribed batch code numbers.' However, she also held that '[a]n infringement of the Cosmetics Directive would be relevant in the context of trade mark rights only under this aspect.' In relation to the question of potential illegality, the Advocate General merely noted that 'the order for reference does not indicate whether the trade mark proprietor would incur liability if the identifying mark prescribed by the Cosmetics Directive were absent and he had not himself brought the trade-marked products into circulation within the EEA'.

However, the ECJ held that the manufacturer's rights had not been exhausted, as the manufacturer had not consented to the products being marketed in the Community, and so it held that it was unnecessary to consider these questions.

Nevertheless, the continuing importance of the issue is illustrated well in a case currently before the English courts. *Sportswear v Stonestyle*[273] concerns clothing bearing the trade mark STONE ISLAND, which had been put on the market within the EEA by the trade mark owner or with its consent. Stonestyle was selling this clothing with its 'labels defaced and/or swing tags cut out and

[272] *Zino Davidoff v M&S Toiletries (No.2)* [2000] ScotCS 220.
[273] *Sportswear v Stonestyle* [2005] EWHC 2087 (Ch); [2006] EWCA Civ 380.

defaced' in order to remove certain codes which contained information about the retailer for which the product was manufactured, the order and its quantity. The parties again dispute the purposes of the codes: Sportswear claims that they are to check whether the products are genuine and to help them track, administer and identify orders, while Stonestyle claims that they are used to protect Sportswear's system of territorial exclusivity, ie to prevent parallel trade.

Sportswear has accepted that, had the labels and swing tags not been 'defaced', its rights would have been exhausted and Stonestyle would have been permitted to sell the goods. There would appear to be no repackaging in the form of that in *Loendersloot v Ballantine*. The High Court will therefore have to choose between the approaches of Laddie J and Lord McCluskey. The latter view would give trade mark owners a wide right to protect their systems for tracing parallel imports. Given that this right is rather far from the core of trade mark rights, and that the use of such systems may breach competition law, it seems likely that if the question reaches the ECJ manufacturers will not be regarded as having such a right save where the removal process causes sufficiently serious damage to the presentation of the product.

I. Notice

This ground requires the parallel importer to give prior notice to the manufacturer of the intended repackaging.

In *Hoffmann-La Roche v Centrafarm*[274] the ECJ held that the repackager would have to give the proprietor of the trade mark such notice, because 'it is in the proprietor's interest that the consumer should not be misled as to the origin of the product'. Such a requirement had not been discussed by the Advocate General, and the ECJ did not explain its reasoning.

Indeed, in *Bristol-Myers Squibb v Paranova*[275] Advocate General Jacobs noted:

> The precise justification for the requirement that the trade mark owner must receive prior notice of the repackaging is not clear from the judgment in *Hoffmann-La Roche v Centrafarm*, and there may be circumstances in which such notice would be superfluous. In general it does not however seem an unreasonable requirement, at least in relation to pharmaceuticals. It can be justified on the ground that it makes it easier for the trade mark owner to verify the authenticity of repackaged goods and thus combat the activities of counterfeiters. If trade-marked goods were to appear in various parts of the Community in unfamiliar packaging, it might be difficult for the proprietor of the trade mark to determine whether the goods were genuine. That task is to some extent simplified if the new packaging and the identity of the undertaking responsible

[274] Case 102/77 *Hoffmann-La Roche v Centrafarm* [1978] ECR 1139, para 12.

[275] Joined Cases C–427/93, 429/93 and 436/93 *Bristol-Myers Squibb v Paranova* [1996] ECR I–3457; Joined Cases C–71/94, 72/94 and 73/94 *Eurim-Pharm Arzneimittel v Beiersdorf* [1996] ECR I–3603; Case C–232/94 *MPA Pharma v Rhône-Poulenc Pharma* [1996] ECR I–3671.

> for it have been made known to the proprietor of the mark in advance. The dangers of counterfeiting, from the point of the view of the public, are particularly serious in the case of pharmaceuticals.[276]

The ECJ did not go into such detail but simply confirmed that 'the trade mark owner must be given advance notice of the repackaged product being put on sale', indicating that this would 'afford the trade mark owner a better possibility of protecting himself against counterfeiting'.[277]

In *Loendersloot v Ballantine*,[278] Advocate General Jacobs echoed his suggestions in *Bristol-Myers Squibb v Paranova* that 'it may not be right to assume' that prior notice 'which may well be necessary in relation to pharmaceutical products, [applies] in the same way in respect of all products and regardless of the extent of the relabelling—however minimal it may be—of the products concerned'. In particular, he suggested that '[i]t was relevant in *Bristol-Myers Squibb*, for example, that the original condition or function of the pharmaceutical products in question could be impaired by the omission of certain important information concerning the nature, composition, effect, use or storage of the product; such considerations may be of less importance in the present case'. However, he indicated that there was no need to answer the question in that case as this formed no part of the questions referred by the national court.[279]

Nevertheless, the ECJ held that notice must be given to the manufacturer in relation to the relabelling of bottles of whisky, indicating that this was to take account of the legitimate interests of the trade mark owner in combating counterfeiting.[280]

The way in which such notice must be given was considered further in *Glaxo Group v Dowelhurst I*.[281] In various critical questions, the national court had asked the ECJ to confirm whether notice was indeed required in all cases, and if so whether the notice must come directly from the parallel importer or dealer and how much notice must be given.

The ECJ began by confirming that notice is required, its purpose being 'to safeguard the legitimate interests of trade mark proprietors'. The Court noted that 'satisfying those requirements scarcely poses any real practical problems for parallel importers provided that the proprietors react within a reasonable time to the notice'. However, the Court also noted that 'adequate functioning of the notice system presupposes that the interested parties make sincere efforts to respect each other's legitimate interests'. It therefore confirmed the requirement of notice, and held that 'it is incumbent on the parallel importer itself to give

[276] *Bristol-Myers*, above n275, para 86 of the Opinion.

[277] *Bristol-Myers Squibb v Paranova*, above n275, para 78; *Eurim-Pharm Arzneimittel v Beiersdorf*, above n275, para 69; *MPA Pharma v Rhône-Poulenc Pharma*, above n275, para 49.

[278] Case C–349/95 *Frits Loendersloot v George Ballantine & Son* [1997] ECR I–6227.

[279] *Bristol-Myers,* above n275, paras 31–32 of the Opinion.

[280] *Ibid*, paras 47–49.

[281] *Glaxo Group v Dowelhurst/Boehringer Ingelheim v Swingward* [2000] FSR 529 (High Court); 29 Mar 2000 (Court of Appeal, unreported); Case C–143/00 [2002] ECR I–3759.

notice to the trade mark proprietor of the intended repackaging' and that 'it is not sufficient that the proprietor be notified by other sources, such as the authority which issues a parallel import licence to the importer'.

In terms of the length of notice, the ECJ held that 'while, having regard to the purpose of notice to the trade mark proprietor, it is appropriate to allow a reasonable time for it to react to the intended repackaging, consideration must also be given to the parallel importer's interest in proceeding to market the pharmaceutical product as soon as possible after obtaining the necessary licence from the competent authority'. While this determination was for the national court in the light of all the relevant circumstances, on the basis of the evidence before the ECJ in these cases it held that 'a period of 15 working days seems likely to constitute such a reasonable time where the parallel importer has chosen to give notice to the trade mark proprietor by supplying it simultaneously with a sample of the repackaged pharmaceutical product'. However, the Court made it clear that this period was 'purely indicative' and that 'it remains open to the parallel importer to allow a shorter time and to the proprietor to ask for a longer time to react than that allowed by the parallel importer'.

In *Glaxo Group v Dowelhurst II*[282] Laddie J distinguished the notice required in cases of overstickering and said the notice in such cases need be only seven working days, as in such cases 'all that [the manufacturers] need to inspect is their own product with their own packaging to which a sticky label has been applied'. However, he was overturned on this point by the Court of Appeal, which said it should be 15 working days in all cases.[283]

The effect of not providing notice was part of the reference to the ECJ in *Glaxo Group v Dowelhurst II*.[284] Advocate General Sharpston explained the rationale for notice, as articulated in previous cases, as '[reducing] the risk of consumers being misled as to the origin of the product', '[enabling] the proprietor to check that the repackaging does not affect the original condition of the product and that the presentation is not likely to damage the reputation of the mark' and '[affording] the proprietor a better possibility of protecting himself against counterfeiting'. On this basis, she suggested that the condition of providing notice was a procedural one rather than a substantive one and should attract a distinct sanction from breach of the other grounds. That said, the condition was important and breach would normally be deliberate, so a sanction should be provided.

Taking these factors into consideration, the Advocate General indicated that the sanction where failure to provide proper notice was the only breach should be 'effective and dissuasive'. However, it should not:

[282] *Glaxo Group v Dowelhurst II/Boehringer Ingelheim v Swingward II* [2003] EWHC 110 (Ch), para 40.

[283] [2004] EWCA Civ 129, paras 100–107

[284] *Ibid*, paras 67–80 of the Opinion.

—be equal to the sanction that would apply if the substantive conditions had also been breached;
—be increased if the manufacturer delayed commencing proceedings after becoming aware of the repackaged product from another source;
—discriminate against a parallel importer because he was exercising Community rights rather than national law rights; or
—make it in practice impossible for him to exercise those rights.

In addition, although this did not form part of the questions referred, the Advocate General indicated that, where the substantive conditions have also been breached, a separate and additional sanction should be applied for failure to provide proper notice on top of the sanction for breach of the substantive conditions.

Finally, Advocate General Sharpston indicated that the parallel importer '[bears] the burden of proving that he has taken all reasonable steps to give due notice'. By way of further explanation, in the footnote to that statement she said, 'I do not consider that the importer should be penalised if he took all reasonable steps to give notice but for some reason, for example a failure of communication within the trade mark owner's organisation, the notice failed to reach the relevant department'.[285]

The content of the notice has been raised as a separate question in *The Wellcome Foundation v Paranova Pharmazeutika*,[286] where the Austrian Supreme Court has asked whether the parallel importer must indicate the Member State of export and the precise reasons for any repackaging.

J. Samples

Finally, this ground requires the parallel importer to provide a sample of the repackaged product to the manufacturer.

In *Bristol-Myers Squibb v Paranova*,[287] Advocate General Jacobs suggested:

> the ECJ should extend the requirement to provide notice by requiring 'that an undertaking which repackages trade-marked pharmaceuticals must not only give prior notice to the trade mark owner but must also provide him with a specimen of the repackaged product, so that the trade mark owner may point out any deficiencies and demand that they be corrected. The original packaging may contain important information (for example, that the pharmaceuticals are sensitive to light, that they must be stored at a certain temperature and out of reach of children, etc.). The trade mark owner should be entitled to object to the marketing of repackaged goods if such information is not reproduced on the new packaging.[288]

[285] [2004] EWCA Civ 129, para 99 and n 85 of the Opinion.
[286] Case C–276/05 *The Wellcome Foundation v Paranova Pharmazeutika* [2005] OJ C217/29.
[287] Joined Cases C–427/93, 429/93 and 436/93 *Bristol-Myers Squibb v Paranova* [1996] ECR I–3457; Joined Cases C–71/94, 72/94 and 73/94 *Eurim-Pharm Arzneimittel v Beiersdorf* [1996] ECR I–3603; Case C–232/94 *MPA Pharma v Rhône-Poulenc Pharma* [1996] ECR I–3671.
[288] *Bristol-Myers,* above n287, para 87 of the Opinion.

The ECJ agreed, holding that the parallel importer must supply the owner, on demand, with 'a specimen of the repackaged product before it goes on sale, to enable him to check that the repackaging is not carried out in such a way as directly or indirectly to affect the original condition of the product and that the presentation after repackaging is not such as to damage the reputation of the trade mark'. As with the requirement of notice, the Court explained that 'such a requirement affords the trade mark owner a better possibility of protecting himself against counterfeiting'.

However, in *Loendersloot v Ballantine*[289] the ECJ held that this requirement was related to the particular nature of pharmaceutical products, and that in relation to the relabelling of bottles of whisky 'the interests of the trade mark owner, and in particular his need to combat counterfeiting, are given sufficient weight if that person gives him prior notice that the relabelled products are to be put on sale'. Therefore, in such cases there would be no need to provide a sample. Advocate General Jacobs had drawn no such distinction between the requirements of notice and of providing a sample, but this may indicate that the former requirement is driven more by the need to prevent counterfeiting, while the latter requirement is more related to health dangers.

As with notice, in *Glaxo Group v Dowelhurst II* Advocate General Sharpston indicated that the parallel importer bears the burden of proving that he has taken all reasonable steps to provide the sample.

V. OTHER GROUNDS FOR OPPOSING FURTHER COMMERCIALISATION

Even where there has been consent to the initial marketing of goods, and thus Community exhaustion, owners of intellectual property rights may seek to argue that there are reasons why they should be entitled to prevent further commercialisation of the goods in question which do not, for instance, amount to a disguised restriction on trade under Article 30 of the EC Treaty.

For instance, under Article 7(2) of the Trade Mark Directive the trade mark owner may oppose further commercialisation where there are 'legitimate reasons' for him to do so, 'especially where the condition of the goods is changed or impaired after they have been put on the market'. This is broader than the original Commission proposal, which was limited to cases where the condition of the goods was changed or impaired,[290] and thus suggests that there may be other legitimate reasons for opposing further commercialisation.

Two areas where there may be legitimate reasons have already been considered: advertising and repackaging. However, although the category is open-ended, most attempts to bring situations within it have failed, as can be seen in

[289] Case C–349/95 *Frits Loendersloot v George Ballantine & Son* [1997] ECR I–6227.
[290] COM(84)470, at viii and 22 (Reg); COM(85)793, at 14 (Dir).

the following subsections, and change or impairment of goods is the only other reason which has been recognised to date. Many other arguments have been rejected by the courts as irrelevant, and these arguments are considered in turn. However, although the lack of corresponding intellectual property protection has not been accepted as a ground for opposing further commercialisation under the EC Treaty, at a political level this has been recognised upon enlargement in the form of transitional provisions, which is considered in the final subsection.

A. Change or Impairment

To the extent that an owner of intellectual property rights can show that the condition of the products in question has actually been 'changed or impaired' after they have been put on the market (rather than merely speculating that it might have been) then this may constitute a legitimate reason for objecting to further commercialisation of those products. However, whether this will be accepted by the courts may depend on whether the change or impairment is due to interference with or poor handling of the products.

This question has been considered above in relation to repackaging of products bearing a trade mark, particularly where goods are added to the package. It also applies more broadly to modifications to the goods. In *Sony v Saray Electronics (London)*, the English Court of Appeal granted an interim injunction requiring retailers of parallel imported televisions to add a label to read '[t]his equipment was manufactured by Sony for use outside the UK but has been modified by Saray's for use in the UK'.[291]

Another example relates to designations and indications of origin. In *Belgium v Spain*,[292] *Ravil v Bellon Import*[293] and *Consorzio del Prosciutto di Parma v Asda Stores*,[294] the ECJ accepted that designations and indications of origin may require that certain processing of the goods (such as bottling, grating, slicing or packaging) take place within the region. Although this has been criticised on the basis that such operations can be carried out anywhere,[295] it can perhaps be accepted on the basis that such processes are very likely to change or impair the quality of the products (in contrast to the repackaging of pharmaceuticals).

A similar case is where products protected by patent rights are repaired. Although the purchaser of a patented product can repair it, when such repair in

[291] *Sony v Saray Electronics (London)* [1983] FSR 302.

[292] Case C–388/95 *Belgium v Spain* [2000] ECR I–3123, paras 47–77.

[293] Case C–469/00 *Ravil v Bellon Import* [2003] ECR I–5053.

[294] Case C–108/01 *Consorzio del Prosciutto di Parma v Asda Stores* [2003] ECR I–5121. For a clear summary of these two cases see B O'Connor and I Kireeva, 'Overview of the EC Case Law Protecting Geographical Indications: The Slicing of Parma Ham and the Grating of Grana Padano Cheese' [2004] *European Intellectual Property Review* 313.

[295] S Enchelmaier, 'Case Comment on *Ravil* and *Asda*' (2004) 41 *CMLRev* 825.

fact amounts to remaking the product this will infringe the patent and the purchaser cannot rely on exhaustion as a defence. For instance, in *United Wire v Screen Repair Services (Scotland)*,[296] which was not a parallel trade case, the House of Lords held that the reconditioning of a sifting screen, used to recycle drilling fluid in the offshore oil-drilling industry, constituted making the patented product rather than repairing it, and so this was an infringement. The same approach was taken to modifications of patented articles in *Dellareed v Delkim Developments*.[297]

By contrast, repackaging or changing the binding or format of a copyright work is not an infringing act and so is not a ground for opposing parallel import of such goods, at least in the United Kingdom.[298]

Finally, in *SIM Lock*[299] the German Federal Supreme Court held that, where a mobile telephone is fitted with a SIM lock which means that it can be used only for making calls on a particular network, its unlocking will constitute an alteration which is an objective reason for the trade mark owner to oppose further commercialisation.

B. Differences between National Rights

Intellectual property rights systems are generally still national in scope and, despite extensive harmonisation, still vary between Member States. It is possible that there may be differences between the rights held in different Member States, in terms of whether such rights are available or their scope, duration or other characteristics. Moreover, it is possible that the owner may have taken a commercial decision not to register rights in certain Member States. For example, some patentees will seek patents in only some major European markets (such as the United Kingdom, France and Germany) to keep their expenditure on patenting within reasonable limits. However, such differences in the rights held in different countries are not a defence to exhaustion.

Differences between rights were first considered in *Centrafarm v Sterling Drug*,[300] where the manufacturer had patents in all Member States but argued that 'by reason of divergences between national legislation and practice, truly identical or parallel patents can hardly be said to exist'. The ECJ rejected this argument, holding that 'the identity of the protected invention is clearly the essential element of the concept of parallel patents which it is for the courts to assess'. However, as a result of later cases it has become clear that this assessment is not necessary as it is irrelevant to the question of exhaustion.

[296] *United Wire v Screen Repair Services (Scotland)* [2000] UKHL 42.

[297] *Dellareed v Delkim Developments* [1988] FSR 329.

[298] H Laddie, P Prescott, M Vitoria, A Speck and L Lane, *The Modern Law of Copyright and Designs,* 3rd edn (Butterworths, London, 2000), para 15.16, referring to *Frost and Reed v Oliver Series Publishing* (1908) 24 TLR 649.

[299] Case I ZR 13/02 *SIM Lock* (Bundesgerichtshof, 9 June 2004) (2005) 36 IIC 723.

[300] Case 15/74 *Centrafarm v Sterling Drug* [1974] ECR 1147, paras 13–14.

Attempts were made the following year by France and the United Kingdom, during discussion of the Community Patent Convention, to limit exhaustion to cases where the manufacturer has a patent for the invention in the Member State where it puts the product on the market. However, this was opposed by the Commission,[301] Germany and Luxembourg, which said that this would breach Article 30 of the EC Treaty.[302] Eventually, a compromise was reached in Articles 32 and 81(1) of the Convention, which indicated that any limits to exhaustion should only be those permitted under Community law.

Any doubts about the scope of *Centrafarm v Sterling Drug* were settled in *Merck v Stephar*.[303] This time the manufacturer had two patents in the Netherlands, over the product and its manufacturing process, but it had no patents in Italy, where pharmaceutical patents were not permitted at the relevant time. The Rotterdam District Court asked the ECJ whether a manufacturer could rely on its Dutch patent rights to block the import of a pharmaceutical product which it had sold in Italy. The ECJ held that this difference did not prevent exhaustion applying, and that therefore the manufacturer could not rely on its Dutch patent rights to prevent such imports. The Court noted that it was:

> for the proprietor of the patent to decide, in the light of all the circumstances, under what conditions he will market his product, including the possibility of marketing it in a Member State where the law does not provide patent protection for the product in question. If he decides to do so he must then accept the consequences of his choice as regards the free movement of the product within the common market, which is a fundamental principle forming part of the legal and economic circumstances which must be taken into account by the proprietor of the patent in determining the manner in which his exclusive right will be exercised.

Further attempts were made by Italy and France to change this rule during the discussion on the Semiconductor Topography Directive.[304] However, these attempts were withdrawn after the Legal Service of the Commission indicated that this 'would be contrary to Article [28] of the [EC] Treaty and that a directive could not permit what the Treaty prohibited'.[305]

Where a Member State allows a manufacturer weak or no intellectual property rights in relation to a particular product, therefore, the manufacturer has a stark choice. The manufacturer can either (a) enter that market at a lower price and compete without the benefit of intellectual property rights, accepting that

[301] See also the Commission's view in Opinion 74/209 [1974] OJ L109/34.

[302] European Council, *Records of the Luxembourg Conference on the Community Patent 1975* (OPOCE, Luxembourg, 1982) 275–9.

[303] Case 187/80 *Merck & Co v Stephar* [1981] ECR 2063.

[304] Summary of Conclusions of Working Party on Intellectual Property (Semi-conductor products) on 24–25 Feb 1986, Council document 5439/86, at 11; Summary of Conclusions of Working Party on Intellectual Property (Semi-conductor products) on 21–23 Apr 1986, Council document 6622/86, at 24; Summary of Conclusions of Working Party on Intellectual Property (Semi-conductor products) on 2–3 June 1986, Council document 8069/86, at 12.

[305] Summary of Conclusions of Working Party on Intellectual Property (Semi-conductor products) on 17–19 Sept 1986, Council document 9271/86, at 30.

the lower-priced products which it sells on that market may flow back into Member States where protection is available and undermine the manufacturer's pricing and sales in those countries, (b) enter that market at the same price as in Member States where protection is held, and almost certainly compete unsuccessfully, or (c) not enter that market and restrict its activities relating to that product to Member States where protection is available. Understandably, this has been criticised as 'little short of perverse'.[306]

The Member States have recognised that this can be a serious problem and this has been a strong incentive for harmonisation of intellectual property rights and the introduction of unitary Community-wide rights. Moreover, in the context of enlargement specific measures have been put in place in an attempt to minimise the problems.[307]

C. Place of Manufacture of the Products

It is no defence to exhaustion that the product in question was manufactured outside the European Community. In *Phytheron International v Jean Bourdon*[308] the ECJ held that 'it is of no importance for the application of Article 7 of the Trade Mark Directive whether or not the product protected by the mark has been manufactured in a non-member country if it has in any event been lawfully put on the market, in the Member State from which it has been imported, by the owner or the mark or with the owner's consent, including marketing by another company in the same group as the owner.'

By the same token, the fact that the product in question was manufactured in the Community is irrelevant to the question whether or not the trade mark rights have been exhausted.[309] This is often misunderstood and can result in parallel traders infringing intellectual property rights based on a belief, whether accurate or not, that the goods were manufactured within the Community.[310] Similarly, place of manufacture was raised during the discussions on the exhaustion provisions of the Trade Mark Directive, where the Union of Industries of the European Community (UNICE) suggested that the adoption of an international exhaustion regime might 'lead to the need to close manufacturing plants in the Community, and thus to further unemployment'.[311] It is hard to see how this is the case: under Community exhaustion, trade mark owners have no incentive from an exhaustion perspective to manufacture within the Community.

[306] D Keeling, *Intellectual Property Rights in EU Law: Volume I: Free Movement and Competition Law* (OUP, Oxford, 2003) 108.

[307] See sect V.J (Transitional Provisions on Enlargement).

[308] Case C–352/95 *Phytheron International v Jean Bourdon* [1997] ECR I–1729, para 21. See also case comment by E Gippini-Fournier (1998) 35 *CMLRev* 947.

[309] Joined Cases C–414/99 to 416/99 *Zino Davidoff v A&G Imports* [2001] ECR I–8691.

[310] See, for instance, *Sun Microsystems v Amtec Computer Corporation* [2006] EWHC 62 (Ch), para 4.

[311] Observations of UNICE, 24 Mar 1982, Council document 5890/82, at 3.

By contrast, the place of manufacture can be an important factor in determining whether copyright is exhausted for goods which are imported into the United States.[312]

D. Differences between Domestic and Imported Products

The quality of products often varies between countries even if they bear the same trade mark. This may be the result of the use of cheaper raw materials enabling sale at a lower price in one country or simply the use of local raw materials which have different characteristics. Alternatively, it may be due to attempts to cater for differences between the countries, such as tastes of consumers or varying temperatures.

This is an important factor in the United States, where trade marks are not exhausted where the imported products are materially different from those sold within the United States.[313] It was also suggested as a possible legitimate ground for opposing parallel imports from outside the Community by the Economic and Social Committee during discussion of the proposal that resulted in the Trade Mark Directive,[314] before that proposal was amended to prohibit all such imports.[315] Indeed, it was an important factor in determining whether trade mark rights were exhausted in the United Kingdom before the Trade Mark Directive was implemented.[316]

The question was left open in *Centrafarm v American Home Products*,[317] where the ECJ relied on the fact that the national court had characterised the products as the same in the referred questions. However, the relevance of variation in quality was considered in *Ideal Standard*,[318] where the ECJ rejected the proposition that differences in quality of products marketed in different Member States should operate as a defence to exhaustion. The Court held:

> a national law allowing the licensor to oppose importation of the licensee's products on grounds of poor quality would be precluded as contrary to Articles [28] and [30]: if the licensor tolerates the manufacture of poor quality products, despite having contractual means of preventing it, he must bear the responsibility. Similarly if the manufacture of products is decentralized within a group of companies and the subsidiaries in each of the Member States manufacture products whose quality is geared to the particularities of each national market, a national law which enabled one subsidiary of the group to oppose the marketing in the territory of that State of products manufactured by an affiliated company on grounds of those quality differences would also be precluded. Articles [28] and [30] require the group to bear the consequences of its choice.

[312] *Quality King Distributors v L'anza Research International* 523 US 135; 118 S Ct 1125 (1998).
[313] See most recently *Bourdeau Bros v ITC* (Fed Cir, 30 Mar 2006).
[314] [1981] OJ C310/22 at 24.
[315] This is discussed further in Ch 5.
[316] *Colgate-Palmolive v. Markwell* [1989] RPC 497.
[317] Case 3/78 *Centrafarm v American Home Products* [1978] ECR 1823, para 5.
[318] Case C–9/93 *IHT Internationale Heiztechnik v Ideal Standard* [1994] ECR I–2789, paras 38–39.

Therefore, variation in quality is not a defence to exhaustion within the Community, despite subsequent suggestions that it might be in the English High Court.[319]

E. Defective Products

A related argument against exhaustion is that the intellectual property owner should be able to prevent parallel imports in order to protect the public against defective products. This argument was raised and rejected in *Centrafarm v Sterling Drug*,[320] where the fact that the product was a pharmaceutical one raised health issues. However, the ECJ rejected this argument, holding that, although Member States are entitled under Article 30 to derogate from Article 28 on grounds of the protection of health and life of humans and animals, such measures 'must be such as may properly be adopted in the field of health control, and must not constitute a misuse of the rules concerning industrial and commercial property'.

There is therefore a difference between the general control of defective products, which is not a ground for opposing further commercialisation, and the control of products which have been changed or impaired since they were released on the market, which may be such a ground.

F. Governmental Interference with Pricing

One of the most important policy arguments raised against exhaustion of intellectual property rights is that the owners may not be responsible for the price differentials between the territories in which their goods are sold. This is widely recognised in the case of pharmaceutical products but other markets may also be affected.

This argument was considered in *Centrafarm v Sterling Drug*,[321] where the ECJ was asked whether the basic rule would not apply where there were 'price differences resulting from governmental measures adopted in the exporting country with a view to controlling the price of that product'. The ECJ held that such factors could not 'justify the maintenance or introduction by another Member State of measures which are incompatible with the rules concerning the free movement of goods, in particular in the field of industrial and commercial property'. Instead, the ECJ said that the elimination of such factors was the task of the Community authorities, 'in particular by the harmonization of national

[319] *Zino Davidoff v A&G Imports* [2000] Ch 127, para 14.

[320] Case 15/74 *Centrafarm v Sterling Drug* [1974] ECR 1147, paras 26–29; also, in similar terms, Case 16/74 *Centrafarm v Winthrop* [1974] ECR 1183, paras 19–22.

[321] Case 15/74 *Centrafarm v Sterling Drug* [1974] ECR 1147, paras 22–25; also, in similar terms, Case 16/74 *Centrafarm v Winthrop* [1974] ECR 1183, paras 15–18.

measures for the control of prices and by the prohibition of aids which are incompatible with the common market, in addition to the exercise of their powers in the field of competition'.

Similarly, in *Musik-Vertrieb Membran v GEMA*,[322] the ECJ considered the compulsory licence provisions for copyright in the UK which, with a royalty rate of 6.25 per cent, had the practical effect of setting a ceiling of 6.25 per cent as the royalty rate for non-compulsory licences in the UK. The German copyright management society, GEMA, claimed that it should be entitled to the difference between this 6.25 per cent and the normal royalty rate charged in Germany on parallel imports. However, the ECJ followed its judgment in *Centrafarm v Sterling Drug*, stating that 'the existence of a disparity between national laws which is capable of distorting competition between Member States cannot justify a Member State's giving legal protection to practices of a private body which are incompatible with the rules concerning free movement of goods'.

The issue arose again in the *Bristol-Myers Squibb and others v Paranova* cases,[323] where the ECJ maintained its strong position against such claims. Referring back to its judgment in *Centrafarm v Winthrop*, the ECJ held that while:

> in the pharmaceutical market especially, such price differences may result from factors over which trade mark owners have no control, such as divergent rules between the Member States on the fixing of maximum prices, the profit margins of pharmaceutical wholesalers and pharmacies, or the maximum amount of medical expenses which may be reimbursed under sickness insurance schemes, distortions caused by divergent pricing rules in one Member State must be remedied by measures of the Community authorities and not by another Member State introducing measures which are incompatible with the rules on the free movement of goods.

G. Ethical Obligation to Market

In *Merck v Primecrown*[324] the ECJ was asked to consider whether it would make a difference if the intellectual property owner 'has a legal or ethical obligation to market or to continue to market his product' in the first Member State. The case involved a number of pharmaceutical products being imported from Spain and Portugal, where they were not patentable, to the United Kingdom, where they were.

As has already been discussed in section II.B.ii above, where the owner is legally obliged to market the product there will be no consent to the marketing of the product and so no exhaustion. However, in relation to ethical obligations, the Court held:

[322] Joined Cases 55/80 and 57/80 *Musik-Vertrieb Membran v GEMA* [1981] ECR 147.

[323] Joined Cases C–427/93, 429/93 and 436/93 *Bristol-Myers Squibb v Paranova* [1996] ECR I–3457; Joined Cases C–71/94, 72/94 and 73/94 *Eurim-Pharm Arzneimittel v Beiersdorf* [1996] ECR I–3603; Case C–232/94 *MPA Pharma v Rhône-Poulenc Pharma* [1996] ECR I–3671.

[324] Joined Cases C–267/95 and 268/95 *Merck & Co v Primecrown* [1996] ECR I–6285.

such considerations are not, in the absence of any legal obligation, such as to make it possible properly to identify the situations in which the patentee is deprived of his power to decide freely how he will market his product. Such considerations are, at any rate in the present context, difficult to apprehend and distinguish from commercial considerations. Such ethical obligations cannot, therefore, be the basis for derogating from the rule on free movement of goods.

H. Damage to Prestige

In *Davidoff v A&G Imports*,[325] it was argued in the English High Court that 'any type of activity of a reseller which damages the prestige of luxury goods confers back on the proprietor of the trade mark the power to prevent further commercialisation of those goods, whether by way of importation or sale'. It was argued that this would even extend to sale in high volume, at low prices or through down-market retail premises. This argument was criticised by Laddie J, who suggested that if it was right 'the proprietor will be entitled to use his trade marks to enforce a market discipline which, as far as I can see, is contrary to the commercial objectives of the Treaty of Rome and has little to do with the proper subject matter of trade mark rights'.[326] Nevertheless, he referred a question on this to the ECJ, asking whether legitimate reasons under Article 7(2) would include 'any actions by a third party which affect to a substantial extent the value, allure or image of the trade mark or the goods to which it is applied'.

Advocate General Stix-Hackl considered this question briefly and only on the basis that 'Davidoff has not argued in the national proceedings that the marketing of the products in question by an unauthorised importer would involve damage to the reputation of its trade marks. It pleaded that the reputation of its trade marks is damaged through the removal of batch code numbers'. She opined that, on the basis of *Parfums Christian Dior* and *Bristol-Myers Squibb*, legitimate reasons under Article 7(2) do include 'any actions of third parties which seriously affect the value, allure or image of the trade mark or the products which bear that mark'. However, given that this appeared to be based on a misinterpretation of the reason the question was referred, and that there was no consideration of sale 'in high volume, at low prices or through down-market retail premises', great weight should not be placed upon the Opinion.

The ECJ did not consider the questions on the basis that its answer to the questions under Article 7(1) made this unnecessary. It seems more likely than not that the approach of Laddie J will be followed. However, it is possible that the case law on advertising could be followed, with the result that in extreme cases resale could be prohibited.

[325] *Zino Davidoff v A&G Imports* [2000] Ch 127; Joined Cases C–414/99 to 416/99 *Zino Davidoff v A&G Imports* [2001] ECR I–8691.

[326] *Zino Davidoff v A&G Imports* [2000] Ch 127, paras 47–55.

I. Pharmaceutical Products

The majority of the reasons described above have related to pharmaceutical products, where price differentials are prevalent largely as the result of government interfering in pricing.[327] It is absolutely clear that exhaustion applies to pharmaceutical products as to other products. In *Hoffmann-La Roche v Centrafarm*,[328] which concerned the repackaging of VALIUM tablets, the ECJ held that 'subject to consideration of the facts of a particular case, it is irrelevant in answering the legal question raised regarding the substance of trade-mark law that the question referred by the national court is exclusively concerned with medicinal products'.

That said, there has been some recognition of the idiosyncrasies of the pharmaceutical market. For instance, in *Loendersloot v Ballantine* a less stringent approach was taken to relabelled bottles of whisky than to pharmaceutical products (counsel does not appear to have ventured the argument that the whisky was 'medicinal').[329] The ECJ accepted that the conditions for repackaging had been formulated taking into account 'the legitimate interests of the trade mark owner with regard to the particular nature of pharmaceutical products'. Therefore, although the person relabelling the whisky was still required to give the trade mark owner prior notice that the whisky would be put on sale, in contrast to the case of pharmaceuticals there was no need to provide a sample to the trade mark owner, nor to state on the whisky the name of the person responsible for the relabelling.

There have recently been a number of studies in relation to parallel trade in pharmaceuticals within Europe which seek to provide empirical evidence for or against such trade.[330] Given that these reach vastly different conclusions no clear policy choice emerges.

Nevertheless, there is more than a whiff of unfairness about the application of Community exhaustion to pharmaceuticals. As things currently stand, it is for Member States to agree to remove pricing distortions, whether by harmon-

[327] For a good overview of the range of issues which apply to pharmaceuticals, see S Kon and F Schaeffer, 'Parallel Imports of Pharmaceutical Products: A New Realism, or Back to Basics' [1997] *European Competition Law Review* 123 and J Nazerali, S Hocking and U Ranasinghe, 'Parallel Imports of Pharmaceuticals—a Prescription for Success or a Free Market Overdose?' [1998] *European Competition Law Review* 332. See also A White, 'Sunglasses: A Benefit to Health?' [1999] *European Intellectual Property Review* 176.

[328] Case 102/77 *Hoffmann-La Roche v Centrafarm* [1978] ECR 1139.

[329] Case C–349/95 *Frits Loendersloot v George Ballantine & Son* [1997] ECR I–6227.

[330] For instance, P West and J Mahon, *Benefits to Payers and Patients from Parallel Trade* (York Health Economics Consortium, York, 2003); P Kanavos, J Costa-i-Font, S Merkur and M Gemmill, *The Economic Impact of Pharmaceutical Parallel Trade in European Union Member States: A Stakeholder Analysis* (London School of Economics, London, 2004); M Ganslandt and K Maskus, *Parallel Imports and the Pricing of Pharmaceutical Products: Evidence from the European Union* (The Research Institute of Industrial Economics, Stockholm, 2004); U Enemark, K Pedersen and J Sørensen, *The Economic Impact of Parallel Import of Pharmaceuticals* (University of Southern Denmark, Odense, 2006).

ising the process across the Community or removing the price controls altogether. Given the sensitivities of health and national budgets, this has not yet occurred in relation to pharmaceuticals and may not do so for a very long time. Until then, the Community market is distorted and manufacturers face a stark choice in countries where prices are set low: refuse to sell their products or sell at the low price then seek to counter parallel trade even though their intellectual property rights have been exhausted. It is therefore entirely understandable that pharmaceutical manufacturers have adopted a wide range of strategies, described in this and the following two chapters, to restrict parallel trade and avoid bearing the full weight of the Community's failure to remove the distortion from the market. There is a strong case for some kind of stop-gap measure to deal with this.

Equally, however, price variation and parallel trade continue to occur in other markets for which there is no price interference. Even in relation to pharmaceuticals, manufacturers do have some influence in the price setting process and, given different conditions of demand and supply in different countries, one would still expect to see some price differentials even if the manufacturers were completely free to set their prices. Therefore, the wholesale exclusion of pharmaceuticals from Community exhaustion might be regarded as going too far.

In any event, as Community exhaustion derives from the Treaty itself, any such exclusion would require amendment of the Treaty. As the recent failure to ratify the proposed Constitutional Treaty illustrates, this would be far from straightforward.

J. Transitional Provisions on Enlargement

Manufacturers may be able to rely on transition provisions in the various Treaties enlarging the European Community under which their rights will not be exhausted for products put on the market in new Member States.

The European Community has gradually expanded from its original six Member States and currently numbers 27 Member States. At each expansion one issue which has been negotiated carefully is the entry of the new countries into the common market, in each case leading to certain transitional provisions. While these transitional provisions have expired in relation to the earlier accessions, as expansion is an ongoing process it is instructive to consider how these provisions have been structured and, where appropriate, treated by the ECJ. The transitional provisions for some of the newest Member States will not expire for several years.

On the accession of Denmark, Ireland and the United Kingdom, Articles 28 to 30 entered into force immediately in 1973 in relation to quantitative restrictions but not until 1975 in relation to measures of equivalent effect.[331] This

[331] Act of Accession of Denmark, Ireland and the United Kingdom [1973] OJ L73/14, Art 42(1) and (2) respectively.

distinction was considered in *Centrafarm v Sterling Drug*,[332] where the ECJ was asked whether Community exhaustion of intellectual property rights should apply to goods marketed in the United Kingdom and imported into the Netherlands prior to 1975. The ECJ held that the provision in Article 42(2) could 'refer only to those measures having an effect equivalent to quantitative restrictions which, as between the original Member States, had to be abolished at the end of the transitional period' and that therefore Article 42(2) 'has no effect upon prohibitions on importation arising from national legislation concerning industrial and commercial property'. The implication is that intellectual property rights must be regarded as quantitative restrictions rather than merely measures having an equivalent effect, although no reasoning was given for this conclusion.

Subsequent cases have taken a different approach and find that intellectual property rights constitute measures having an equivalent effect rather than quantitative restrictions per se. For instance, in *EMI Records v CBS United Kingdom*[333] the ECJ rejected the application of Regulation 1439/74 to trade mark rights on the basis that the provisions of the Regulation 'relate only to quantitative restrictions to the exclusion of measures having equivalent effect'. Similarly, in *Basset v SACEM*[334] the ECJ considered whether charging a supplementary mechanical reproduction fee for recorded works played publicly would 'constitute a measure having equivalent effect prohibited under Article [28]'. Although the position remains unclear,[335] the decision in *Centrafarm* indicates at the very least that the ECJ will read transitional provisions strictly.

The sequential abolition of quantitative restrictions followed by measures having equivalent effect has not occurred in subsequent accessions. For instance, when Greece acceded to the Community (in 1981), Articles 28 to 30 immediately entered into force in relation to both quantitative restrictions and measures of equivalent effect.[336] The same occurred upon the accession of Spain and Portugal (in 1986),[337] of Austria, Finland and Sweden (in 1995),[338] of Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovenia and Slovakia (in 2004)[339] and of Bulgaria and Romania (in 2007).[340]

[332] Case 15/74 *Centrafarm v Sterling Drug* [1974] ECR 1147, paras 31–37; also, in similar terms, Case 16/74 *Centrafarm v Winthrop* [1974] ECR 1183, paras 24–30.

[333] Case 51/75 *EMI Records v CBS United Kingdom* [1976] ECR 811, para 20.

[334] Case 402/85 *Basset v SACEM* [1987] ECR 1747, para 16.

[335] See P Oliver, *Free Movement of Goods in the European Community*, 4th edn (Sweet & Maxwell, London, 2003), paras 5.13 and 7.28 for the continuing uncertainty, although this is of significance only in those rare cases where there is a distinction between quantitative restrictions and measures having an equivalent effect.

[336] Act of Accession of Greece [1979] OJ L291/17, Art 35.

[337] Act of Accession of Spain and Portugal [1985] OJ L302/23, Arts 42 and 202.

[338] Treaty of Accession of Austria, Finland and Sweden [1994] OJ C241/9.

[339] Act of Accession of Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovenia and Slovakia [2003] OJ L236/1.

[340] Act of Accession of Bulgaria and Romania [2005] OJ L157/11

There were no transitional provisions relating to intellectual property rights applied in relation to Austria, Cyprus, Finland, Greece, Malta and Sweden. However, when Spain and Portugal joined a transitional provision was laid down for patents covering pharmaceutical, chemical and plant health products in the following terms:

> 1. Notwithstanding Article 42, the holder, or his beneficiary, of a patent for a chemical or pharmaceutical product or a product relating to plant health, filed in a Member State at a time when a product patent could not be obtained in Spain for that product may rely upon the rights granted by that patent in order to prevent the import and marketing of that product in the present Member State or States where that product enjoys patent protection even if that product was put on the market in Spain for the first time by him or with his consent.
>
> 2. This right may be invoked for the products referred to in paragraph 1 until the end of the third year after Spain has made these products patentable.[341]

This exception expired on 31 December 1994 in relation to Portugal and on 6 October 1995 in relation to Spain.[342] Seven Member States requested that the Commission take safeguard measures under Article 379 of the Accession Treaty to solve the problems caused by the expiry of the exception in relation to Spain, but the Commission rejected such an approach by decisions in December 1995.[343] A challenge to these decisions by three representatives of the pharmaceutical industry was rejected as inadmissible.[344] The transitional provisions were considered in *Generics v Smith Kline & French*,[345] although this did not relate to parallel trade but rather whether a licensee holding a compulsory licence of right in the United Kingdom could import the product from Spain.

Lessons were learned and, upon the accessions of Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovenia and Slovakia, a similar specific mechanism was put in place without the three year time limit as follows:

> the holder, or his beneficiary, of a patent or supplementary protection certificate for a pharmaceutical product filed in a Member State at a time when such protection could not be obtained in one of the [new Member States] for that product, may rely on the rights granted by that patent or supplementary protection certificate in order to prevent the import and marketing of that product in the Member State or States where the product in question enjoys patent protection or supplementary protection, even if the product was put on the market in that new Member State for the first time by him or with his consent.

[341] Act of Accession of Spain and Portugal [1985] OJ L302/23, Art 47; Art 209 contained an identical provision for Portugal, substituting Art 202 for Art 42 and Portugal for Spain and deleting the word 'present'.

[342] Joined Cases C–267/95 and 268/95 *Merck & Co v Primecrown* [1996] ECR I—6285, para 25.

[343] Decs 96/318 to 96/324 [1996] OJ L122/20–26; see Press Release IP/95/1390.

[344] Case T–60/96 *Merck & Co v Commission* [1997] ECR II–849.

[345] Case C–191/90 *Generics v Smith Kline & French* [1992] ECR I–5335.

> Any person intending to import or market a pharmaceutical product covered by the above paragraph in a Member State where the product enjoys patent or supplementary protection shall demonstrate to the competent authorities in the application regarding that import that one month's prior notification has been given to the holder or beneficiary of such protection.[346]

The prior notification is not simply a short extension of that required for repackaging, which the ECJ has indicated should often be 15 working days.[347] Under the specific mechanism, notice must be given before the parallel trader applies for marketing authorisation to import the products, and not simply before he begins importing them under such an authorisation.[348] Given that the grant of authorisation is not always a fast process, and that the parallel trader may or may not be able to commence imports the moment it is granted, this gives manufacturers far more notice than they would have under the existing rules.

As a result, unlike in the case of Spain and Portugal, the rules on exhaustion will not be applied in their entirety to products put on the market in the new Member States unless such products could have been protected by patents and supplementary protection certificates. Given that such forms of protection were not introduced until the period 1991–4,[349] and that products for which patent applications were made in 1994 could have patent protection for 20 years and supplementary protection certificates for a further five years, this means that the transitional provisions may not fully expire until around 2019.

VI. RIGHTS WHICH ARE NOT SUBJECT TO EXHAUSTION

As discussed above, once a product has been placed on the market in any Member State by an undertaking (or with its consent), that undertaking can no longer rely on any intellectual property rights to prevent that product being imported into or sold within another Member State. Thus its distribution rights have been exhausted.

However, this does not mean that the undertaking cannot rely on its intellectual property rights to restrict other uses of such a product once it has been

[346] Act of Accession of Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovenia and Slovakia [2003] OJ L236/1, Art 22 and Annex IV.2; Act of Accession of Bulgaria and Romania [2005] OJ L157/11, Art21 and Annex V.1. See Parliamentary Questions P-0234/02 [2002] OJ C277E/24 and P-1143/02 [2003] OJ C28E/76.

[347] See sect IV.I (Notice) above.

[348] This distinction is not picked up in the Commission's Communication, COM(2003)839, para 5.5.

[349] See C Feddersen, 'Parallel Trade in Pharmaceuticals in a Europe of 25: What the "Specific Mechanism" Achieves and What it Does Not' [2003] *European Intellectual Property Review* 545, which at 550–1 lists the dates on which patent protection became available in the 8 Central and Eastern European countries which joined the Community in 2004. This follows a similar survey in L Brazell, 'The Protection of Pharmaceutical Products and Regulatory Data: EU Enlargement Update' [2000] *European Intellectual Property Review* 155.

imported. Such rights include, in particular, communication and performance rights and rental and lending rights. These rights will generally not be subject to Articles 28 to 30 but will instead be subject to the Treaty provisions on the freedom to provide services, which are laid down in Article 49 as follows:

> Within the framework of the provisions set out below, restrictions on freedom to provide services within the Community shall be prohibited in respect of nationals of Member States who are established in a State of the Community other than that of the person for whom the services are intended.

Article 49 has not resulted in a concept similar to that of exhaustion under Articles 28 and 30. In part, this is because it is often far harder to resell services in the way that one can resell goods. More fundamentally, these rights would not normally be exhausted within a single jurisdiction and so there is no real difference between the way that they function within a Member State and within the Community as a whole.[350]

Nevertheless, these rights can be exercised in a discriminatory fashion in practice. In particular, there are many cases where different prices are charged for identical services in different Member States and measures are put in place to restrict access by users in other Member States, for instance by restricting purchase by users in other Member States. Similarly, different prices can be charged to different users within the same Member State. Such conduct is likely to be restricted, if at all, under the competition rules discussed in Chapter 3 rather than by application of the free movement rules.

A. Communication and Performance Rights

The owner of copyright or rights related to copyright has the right to control the communication of the work to the public in various ways, such as by television broadcasts, cable television, cinema showings and playing of music in pubs, bars, clubs, shops and other public areas. The communication right is broadly recognised in the Information Society Directive, Directive 2001/29.[351] Such rights are not exhausted by the sale of an item which can be used to play the work, such as a record, tape, CD, video or DVD, even though the right to prevent resale of that item may be exhausted.

In addition, in the United Kingdom, the owner of copyright in a literary, dramatic or musical work has the exclusive right to perform the work in public. Performance 'includes any mode of visual or acoustic presentation, including

[350] On the difference between the EC Treaty provisions on the free movement of goods and those on the freedom to provide services more broadly see J Snell, *Goods and Services in EC Law* (OUP, Oxford, 2002), particularly at 129–59 and 228–9, and H Jarass, 'A Unified Approach to the Fundamental Freedoms' in M Andenas and W-H Roth (eds), *Services and Free Movement in EU Law* (OUP, Oxford, 2002), 141–62.

[351] Dir 2001/29 [2001] OJ L167/10, Art 3, implemented in the UK in the Copyright, Designs and Patents Act 1988, s20.

presentation by means of a sound recording, film, broadcast or cable programme of the work'.[352]

Coditel I[353] concerned the film *Le Boucher*, in which the relevant proprietary rights were owned by a French production company, Les Films La Boetie. Ciné Vog, a Belgian film distribution company, had obtained the exclusive distribution rights in Belgium for seven years and started to show the film in Belgian cinemas. The following year, the film was broadcast in Germany with the consent of Les Films La Boetie. However, the channel on which it was broadcast could be picked up in Belgium and was relayed to subscribers by a group of Belgian cable television companies, Coditel. Ciné Vog sued Coditel for copyright infringement, and Coditel claimed that this infringed Article 49 of the EC Treaty.

The Brussels Court of Appeal referred the question to the ECJ, which considered the issue to be whether Article 49 'prohibit[s] an assignment, limited to the territory of a Member State, of the copyright in a film, in view of the fact that a series of such assignments might result in the partitioning of the common market as regards the undertaking of economic activity in the film industry'.

The Court began by distinguishing cinematographic films, which are 'made available to the public by performances which may be infinitely repeated', from books and records, 'the placing of which at the disposal of the public is inseparable from the circulation of the material form of the works'. The Court noted that 'the owner of the copyright in a film and his assigns have a legitimate interest in calculating the fees due in respect of the authorization to exhibit the film on the basis of the actual or probable number of performances and in authorizing a television broadcast of the film only after it has been exhibited in cinemas for a certain period of time'. It also noted that Article 49 'does not . . . encompass limits upon the exercise of certain economic activities which have their origin in the application of national legislation for the protection of intellectual property, save where such application constitutes a means of arbitrary discrimination or a disguised restriction on trade between Member States. Such would be the case if that application enabled parties to an assignment of copyright to create artificial barriers to trade between Member States'.

Applying these principles, the Court held that 'while copyright entails the right to demand fees for any showing or performance, the rules of the Treaty cannot in principle constitute an obstacle to the geographical limits which the parties to a contract of assignment have agreed upon in order to protect the author and his assigns in this regard. The mere fact that those geographical limits may coincide with national frontiers does not point to a different solution where television is organised largely on the basis of legal broadcasting monopolies, which indicates that a limitation other than the geographical field of application of an assignment is often impracticable.' The Court therefore held that the enforcement of Ciné Vog's rights would not breach Article 49.

[352] Copyright, Designs and Patents Act 1988, s19.
[353] Case 62/79 *Coditel v Ciné Vog Films (Coditel I)* [1980] ECR 881.

In *Basset v SACEM*,[354] a French discotheque owner was being sued by SACEM, the French copyright collecting society, for non-payment of royalties for music played in his discotheque. The royalty charged by SACEM was based on the discotheque's turnover and included 6.60 per cent for the performance right and 1.65 per cent as a 'supplementary' mechanical reproduction fee. As with private users, when the discotheque bought the records part of the price it paid would have constituted a mechanical reproduction fee, which amounted to a royalty payment to the copyright owner for the copy. Under French law, that fee covered only private use and so a supplementary fee was due when a record was to be used publicly. The owner claimed that the royalty contract breached competition law, and the Versailles Court of Appeal referred two questions to the ECJ on free movement of goods and on competition law.

In terms of free movement of goods, the Court of Appeal asked whether the charging of the supplementary fee was permissible 'where the sound recordings were manufactured and marketed in a Member State where . . . only a performance royalty is charged on the public use of a recorded work'. The basis for the question was the fact that reproduction fees had already been paid in the Member State where the record had been marketed, where reproduction fees were not severable into those for private use and those for public use. The case therefore seems similar to *Musik-Vertrieb Membran v GEMA*.[355] However, in its judgment the ECJ disregarded the conceptual analysis under French law and noted that, like the performance fee, the supplementary mechanical reproduction fee was calculated on the basis of the discotheque's turnover, and so could be analysed as 'part of the payment for an author's rights over the public performance of a recorded musical work'. The fee therefore did 'not constitute a measure having equivalent effect prohibited under Article [28] of the Treaty inasmuch as it must be regarded as a normal exploitation of copyright and does not constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States for the purposes of Article [30] of the Treaty'. For similar reasons, the ECJ held that charging the two fees did not itself breach competition law.

The issue arose again in *Ministère Public v Tournier*,[356] where criminal proceedings were instituted against a director of SACEM 'on the basis of a complaint by the operator of a discothèque at Juan-les-Pins . . . on the ground that SACEM required him to make excessive, unfair or undue payments for the performance of protected musical works on his premises'. The complainant said that SACEM demanded an arbitrary and excessive rate of royalties, which was higher than that in other Member States, that the rates charged to discothèques

[354] Case 402/85 *Basset v SACEM* [1987] ECR 1747.

[355] Joined Cases 55/80 and 57/80 *Musik-Vertrieb Membran v GEMA* [1981] ECR 147, discussed in sect V.F (Governmental Interference with Pricing) above, where the German copyright society was not permitted to charge on imported products the difference between the licence fee paid in the UK and the higher fee paid in Germany.

[356] Case 395/87 *Ministère Public v Jean-Louis Tournier* [1989] ECR 2521.

bore no relation to those charged to television and radio stations and that the only rates available were for access to SACEM's entire repertoire, even though discothèques typically were only interested in part of the repertoire. The Aix-en-Provence Court of Appeal referred a number of questions to the ECJ, four of which related to competition[357] but the fifth of which asked:

> In view of the fact that the Court has already held that the placing at the public's disposal of a record or book is inseparable from the circulation of the material form of the work, which results in exhaustion of the right to royalties, and despite the payment by the purchaser of the price of the record, which incorporates the royalty payable for the authorization to use the work, is the application of national legislation assimilating reproduction by means of phonograms to unlawful reproduction if the royalties for public performances fixed by the national copyright-management undertaking with a de facto monopoly are not paid compatible with Articles [28] and [49] of the Treaty if these royalties are excessive and discriminatory and if their amount is not determined by the authors themselves and/or would not be that which the foreign copyright-management undertakings representing them would be liable to agree on directly?

The Court followed *Musik-Vertrieb Membran v GEMA*, stating that national legislation could not permit a national copyright management society 'to charge a levy on products from another Member State where they have been put into circulation by the copyright owner or with his consent and thus to impose a charge on the importation of sound recordings which are already in free circulation in the common market as a result of the fact that they cross an internal frontier'. However, the Court distinguished 'the problems . . . involved in the observance of copyright in music works made available to the public through their performance', following *Coditel I* and holding that in these cases 'the copyright owner and the persons claiming through him have a legitimate interest in calculating the fees due in respect of the authorization to present the work on the basis of the actual or probable number of performances'.

The Court therefore drew these together by stating:

> the requirements relating to the free movement of goods and the freedom to provide services and those deriving from the observance of copyright must be reconciled in such a way that the copyright owners, or the societies empowered to act as their agents, may invoke their exclusive rights in order to require the payment of royalties for music played in public by means of a sound-recording, even though the marketing of that recording cannot give rise to the charging of any royalty in the country where the music is played in public.

The Court also noted that the rate of the royalty was a question for competition law and would not be considered in determining the applicability of Article 28 or 49.

As a consequence, it is quite clear that communication and performance rights are not subject to Community exhaustion under Articles 28 and 30, and

[357] The responses to these questions are discussed in Ch 3, sect III.A (Collecting Societies).

so copyright owners are free to impose different prices and conditions for communication or performance of their works in different Member States. However, this is subject to some control under Directive 93/83[358] and to possible restrictions under competition law, which are considered in the next chapter.

B. Rental and Lending Rights

Within the Community, copyright owners now have the exclusive right to authorize or prohibit rental and public lending of copies of their works.[359] Both rights cover making copies of the work available for use for a limited period of time, in the case of rental 'for direct or indirect economic or commercial advantage' and in the case of lending 'not for direct or indirect economic or commercial advantage, when it is made through establishments which are accessible to the public'.

Rental rights were first considered by the ECJ in *Warner Brothers v Christiansen*.[360] In that case the parallel importer had purchased a video of the film *Never Say Never Again* in the United Kingdom and had imported it to Denmark, intending to rent it out. At that time the owner of the copyright in a video recording had an exclusive rental right in Denmark but no such right existed in the United Kingdom. The copyright owners sought an injunction and the Eastern Division of the High Court in Denmark asked the ECJ whether the Danish rental right would be exhausted in such cases.

The ECJ began by distinguishing the case from *Musik-Vertrieb Membran v GEMA*,[361] noting that the Danish legislation 'does not enable the author to collect an additional fee on the actual importation of recordings of protected works which are marketed with his consent in another Member State, or to set up any further obstacle whatsoever to importation or resale'. Rather, the author's right 'comes into operation only after importation has been carried out'. The Court went on to hold that the legislation had to be regarded as a measure having an effect equivalent to a quantitative restriction on imports under Article 28 but that it would be justified on the grounds of industrial and commercial property under Article 30.

The ECJ then considered the question whether, by choosing to sell the video cassette in a Member State which did not recognise an exclusive rental right, the author would have exhausted his right in Member States which did recognise such rights. The Court refused to accept this argument, holding:

[358] Dir 93/83 [1993] OJ L248/15.

[359] Dir 2006/115 [2006] OJ L376/28, Ch I (which replaced Dir 92/100 [1992] OJ L346/61, Ch I) in relation to other copyright works, recorded performances, sound recordings and films.

[360] Case 158/86 *Warner Brothers v Christiansen* [1988] ECR 2605.

[361] Joined Cases 55/80 and 57/80 *Musik-Vertrieb Membran v GEMA* [1981] ECR 147, discussed at sect V.F (Governmental Interference with Pricing) above, where the German copyright society was not permitted to charge on imported products the difference between the licence fee paid in the UK and the higher fee paid in Germany.

> where national legislation confers on authors a specific right to hire out video-cassettes, that right would be rendered worthless if its owner were not in a position to authorize the operations for doing so. It cannot therefore be accepted that the marketing by a film-maker of a video-cassette containing one of his works, in a Member State which does not provide specific protection for the right to hire it out, should have repercussions on the right conferred on that same film-maker by the legislation of another Member State to restrain, in that State, the hiring-out of that video-cassette.

The ECJ's focus on the fact that rental rights were not available in the United Kingdom is potentially misleading. Distribution rights are exhausted even where the proprietor markets in a Member State where he has no rights.[362] Rather, the crucial point is that, even within Denmark, distribution of video cassettes would not exhaust the Danish right to prohibit rental of those video cassettes. Therefore, there was no differential treatment in saying that distribution in the United Kingdom would not exhaust the Danish right.

Rental and lending rights were subsequently harmonised across the Community. Article 4(c) of the Computer Program Directive[363] states that '[t]he first sale in the Community of a copy of a computer program by the rightholder or with his consent shall exhaust the distribution right within the Community of that copy, with the exception of the right to control further rental of the program or a copy thereof'. This was followed by Article 1(4) of the Rental Rights Directive,[364] which confirmed that rental and lending rights in relation to other copyright works, recorded performances, sound recordings and films 'shall not be exhausted by any sale or other act of distribution of originals and copies of copyright works'.[365] Recital 22 of the latter Directive made it clear that 'the harmonised rental and lending rights . . . should not be exercised in a way which constitutes a disguised restriction on trade between Member States'.

The scope of rental rights was considered by the Swedish courts in *Yapon v Ekstrom*.[366] This case concerned a shop which was trading Nintendo and Sega computer games. The shop established a price list at which it sold games and would also buy games for a discount from that list, unless it already had a number of copies of that particular game. The discount was larger if customers wanted to be paid in cash rather than to trade for another game or to receive a credit note allowing them to buy another game in the future. Under Article 19 of the Swedish Copyright Law, the copyright owner's rights covered not only rental but also 'activities comparable to rental'. The claimants said that Mr Ekstrom's activities constituted 'organised barter' which was comparable with rental and therefore infringed their rights.

[362] See sect V.B (Differences between National Rights) above.
[363] Dir 91/250 [1991] OJ L122/42.
[364] Dir 92/100 [1992] OJ L346/61. Now Dir 2006/115 [2006] OJ L376/28, Art 1(2).
[365] Similarly, Art 4(c) of Dir 91/250 [1991] OJ L122/42 in relation to rental of computer programs.
[366] *Yapon v Ekstrom* (Malmö tingsrätt (District Court), 21 Feb 1996) [2002] *European Copyright and Design Reports* 12; (Hovrätt över Skåne och Blekinge (Court of Appeal), 14 Oct 1997) [2002] *European Copyright and Design Reports* 13.

However, the Malmö District Court found, on the facts, that Mr Ekstrom had not reserved any rights in relation to the games he sold, and his customers could 'keep the game, sell it to someone else or dispose of it in any other way'. He did not keep a note of the games he sold and did not guarantee to buy them back in the future. The Court therefore found that this did not constitute 'rental'. It also commented:

> The rules of exhaustion of copyright establish that a copy of a computer program that has lawfully been distributed can be further distributed through sale, without the consent of the copyright owner. A second-hand market for used computer games of course influences the sale of new games. But, according to the City Court, it would not therefore be right to draw the conclusion that this would automatically lead to all trading of used games, especially if the trade is of a relatively large size, being regarded as barter in organised form and therefore as an activity or business comparable with rental.

Similarly, the Court of Appeal found that rental extended only to 'sales with some form of repurchase clause' and not activities 'where the ownership definitely is transferred to the buyer', such as those carried out by Mr Ekstrom.

The Directive's approach to rental rights was challenged in *Metronome Musik v Music Point Hokamp*,[367] where the Cologne Regional Court was concerned that 'the introduction of an exclusive rental right might infringe the principle of exhaustion of distribution rights in the event of the offering for sale, by the rightholder or with his consent, of copyright works'. The case itself involved the producers of a compact disc, by the group 'Die Ärtze', seeking to prevent a third party from renting out the disc.

The ECJ referred back to its decision in *Warner Brothers* and then, following the Opinion of Advocate General Tesauro, held:

> the release into circulation of a sound recording cannot therefore, by definition, render lawful other forms of exploitation of the protected work, such as rental, which are of a different nature from sale or any other lawful form of distribution. Just like the right to present a work by means of public performance . . . the rental right remains one of the prerogatives of the author and producer not withstanding sale of the physical recording.

As a consequence, the introduction of an exclusive rental right could not constitute 'any breach of the principle of exhaustion of the distribution right, the purpose and scope of which are different'.

Any remaining uncertainties in *Warner Brothers* were then resolved in *Foreningen af danske Videogramdistributører v Laserdisken*,[368] where the copyright owners were allowing rental of videodisks which they put on the market in Denmark but brought an action to stop Laserdisken from renting out videodisks imported from the United Kingdom. By way of distinction from

[367] Case C–200/96 *Metronome Musik v Music Point Hokamp* [1998] ECR I–1953.

[368] Case C–61/97 *Foreningen af danske Videogramdistributører v Laserdisken* [1998] ECR I–5171.

Warner Brothers there was by now a rental right in the United Kingdom, although it was said that in practice videodisks were put on the market in the United Kingdom with 'tacit acceptance' that they would be rented out there. The Ålborg Court of First Instance therefore asked the ECJ whether the Danish right would be exhausted in such a case.

The ECJ referred back to its previous decisions and held that '[j]ust like the right to present a work by means of public performance . . . rental right remains one of the prerogatives of the author and producer notwithstanding sale of the physical recording'. Following Advocate General La Pergola, the Court noted that 'the exclusive right to hire out various copies of the work contained in a video film can, by its very nature, be exploited by repeated and potentially unlimited transactions, each of which involves the right to remuneration. The specific right to authorise or prohibit rental would be rendered meaningless is it were held to be exhausted as soon as the object was first offered for rental'. The Court therefore held that 'it is not contrary to Articles [28] or [30] of the Treaty or to [Directive 92/100 (now Directive 2006/115)] for the holder of an exclusive right to prohibit copies of a film from being offered from rental in a Member State even where the offering of those copies for rental has been authorised in the territory of another Member State'.

While this case law is understandable, given the desire to protect rental and lending rights and the lack of discriminatory treatment, the decision in Laserdisken indicates that in practice this allows the copyright owners to impose different prices and conditions for rental of their works in different Member States. As with performance rights, this is not restricted by exhaustion under Articles 28 and 30 but it may be prohibited by competition law under Articles 81 and 82.

3

Competition Law

AS WAS DISCUSSED in the previous chapter, the European Community's free movement of goods provisions severely restrict the use of intellectual property rights to prevent parallel imports from other Member States. Manufacturers must therefore look at other measures if they wish to restrict parallel imports. In doing so, however, manufacturers must also ensure that their actions comply with the applicable competition laws, in particular Articles 81 and 82 of the EC Treaty.

This Chapter is principally concerned with attempts by private parties to restrict the flow of parallel trade within the Community. Different questions arise where the agreement is directed at the flow of goods into or out of the Community, and these will be considered in Chapter 5 on the international aspects of parallel imports.

I. ARTICLE 81: ANTI-COMPETITIVE AGREEMENTS

Article 81 reads as follows:

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

   (a) directly or indirectly fix purchase or selling prices or any other trading conditions;
   (b) limit or control production, markets, technical development, or investment;
   (c) share markets or sources of supply;
   (d) apply dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
   (e) make the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.

2. Any agreements or decisions prohibited pursuant to this article shall be automatically void.

3. The provisions of paragraph 1 may, however, be declared inapplicable in the case of:

—any agreement or category of agreements between undertakings,
—any concerted practice or category of concerted practices,
which contributes to improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit, and which does not:

(a) impose on the undertakings concerned restrictions which are not indispensable to the attainment of these objectives;
(b) afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products in question.

The first case to consider the application of Article 81 to an agreement to restrict parallel imports was *Consten and Grundig*.[1] Grundig had appointed Consten as its exclusive distributor in France. Consten agreed to advertise the products and provide after-sales services, such as repairs. Grundig promised not to deliver, directly or indirectly, to third parties in France and Consten promised not to deliver, directly or indirectly, to any country other than France. The same prohibition on export was also imposed on purchasers of Grundig goods in other Member States.

This contractual territorial protection was backed up by a separate agreement regarding trade marks. Grundig's products bore the mark GRUNDIG and also the mark GINT (standing for Grundig International), which had been introduced after Grundig lost a previous parallel importation case in the Netherlands when relying solely on the GRUNDIG mark. Consten was allowed to use the mark GRUNDIG, but more importantly was allowed to register the trade mark GINT in France, with the proviso that it cancel the registration or transfer it to Grundig if it ceased to be the exclusive distributor. The GINT trade mark was registered by Grundig in Germany but by its various exclusive distributors in other countries.

Subsequently, Consten brought two actions against parallel importers of Grundig products from Germany, claiming unfair competition on the basis of failure to respect Consten's contractual exclusivity and infringement of the GINT trade mark. The parallel importers raised Article 81 as a defence to the first action, claiming that the contract was void, and complained to the Commission. The first action was then stayed by the French court pending the Commission's decision. The second action was still pending when the Commission gave its decision.

The Commission held that the agreement infringed Article 81(1). Although the parties had raised a range of potential justifications under Article 81(3), the Commission found that the restrictions were not indispensable in order to attain the positive objectives and that they did not allow consumers a fair share of the resulting benefit. It therefore required that Consten and Grundig 'abstain from all measures tending to obstruct or block acquisition by third companies, as they choose, from wholesalers or retailers established in the European Economic

[1] Dec 64/566 *Grundig-Consten* [1964] OJ 161/2545; Joined Cases 56/64 and 58/64 *Etablissements Consten and Grundig-Verkaufs v Commission* [1966] ECR 299 Spec Ed.

Community, of the products covered by the contract, for their resale in the contractual territory'. In particular, although Consten could generally exercise its rights over the 'GINT' trade mark, it could not do so to obstruct or block the parallel import into France of such Grundig products.

The Commission also gave an early indication of the importance it attaches to parallel trade, noting that 'the possibility of parallel imports can be regarded as a useful corrective measure of the price difference between the various countries'.

Consten and Grundig appealed to the ECJ. The Court, while holding that the Commission had erred in saying that the entire agreement breached Article 81, upheld the Commission's finding that the restrictions on parallel imports breached that Article. As this was the first case to deal with these issues, a large number of grounds of appeal were raised and dealt with by the Court, the most important of which are now considered.

First, the parties argued that Article 81 did not apply to exclusive distribution contracts but only to agreements between competitors. The Court rejected this on the basis that no such distinction was drawn in the Treaty. It also stated that it was irrelevant that this meant that an agreement with an exclusive distributor might be prohibited under Article 81 where a vertically integrated distribution network would not.

Secondly, they argued that the agreement did not 'affect trade between Member States' as the Commission had not shown that trade would be greater without the agreement. The Court rejected this too, holding that the fact that an agreement encourages a large increase in trade does not mean that it does not 'affect' trade and that the restrictions on parallel trade here clearly did affect trade.

Thirdly, it was argued that the decision considered only the negative impact on intra-brand competition (ie between Grundig products) and did not look at the positive impact on competition between Grundig products and other brands. Again, the Court rejected this, noting that a restriction on intra-brand competition was sufficient for the purposes of Article 81(1) and that, once an anti-competitive object had been demonstrated, as in this case, there was no need to show an anti-competitive effect.

Fourthly, the parties argued that the Commission should not be able to prevent Consten's use of the GINT trade mark. The ECJ, however, held that the agreement on registration of the trade mark was 'intended to make it possible to keep under surveillance and to place an obstacle in the way of parallel imports'. The agreement was therefore prohibited under Article 81(1) and this prohibition would be ineffective if Consten were allowed to use the trade mark to achieve this object. This conclusion was not prevented by Article 30, which did not apply to Article 81, or Article 295, which did not prevent Article 81 from restricting the exercise of trade mark rights.

Finally, and most importantly, the parties claimed that the Commission should have granted an exemption under Article 81(3). In particular, it was claimed that the Commission had not shown that certain positive factors, such

as accurate sales forecasts, the provision of a proper after-sales service, local market analysis or even the very entry of Grundig products into the market, could be maintained without absolute territorial protection. The Court held that the question was whether the restrictions were indispensable to the improvement in the production and distribution of the goods, not the specific aims of the contracting parties, and that the improvements had to be balanced against the restrictions on competition. On the facts, the Court held that the risk of inaccurate sales forecasts was 'inherent in all commercial activity' and so did not deserve special protection. The Court also rejected the claim that a proper after-sales service could not be provided without absolute territorial protection. Similarly, the Court also noted that such protection was not necessary for Consten to analyse the local market, as any goods which were adapted for the French market as a result would only benefit Consten (as parallel imports would not be so adapted). Finally, as regards entry of Grundig products into the market (a point which had not even been raised before the Commission), the Court said that this amounted to a claim that Consten would not have entered into the contract without absolute territorial protection, and that this claim had nothing to do with improvements in distribution under Article 81(3).

It was therefore clearly established that agreements between manufacturers and distributors could be prohibited by Article 81 where they were anti-competitive and that this would cover restrictions on parallel imports. However, a restriction on parallel imports will breach Article 81 only if five main criteria are met. First, there must be at least two undertakings involved. Secondly, the restriction must form part of an agreement or a concerted practice between those undertakings. Thirdly, the restriction must have an anti-competitive object or effect. Fourthly, the restriction must have an appreciable effect, both in terms of its anti-competitive object or effect and in terms of trade between Member States. Fifthly, the agreement must not have sufficient countervailing benefits to outweigh the anti-competitive restriction. The first four criteria are analysed under Article 81(1), while the fifth is considered principally under Article 81(3).

Most restrictions on parallel imports will meet the third and fourth of these criteria and so the real question will be whether the restrictions arise from an agreement or concerted practice between two or more undertakings. The question is then whether they can be justified, failing which the restrictions will breach Article 81.

However, even if one of the first four criteria is not met, the restriction may still be relevant under Article 81. If an undertaking has entered into an agreement or concerted practice which is caught under Article 81(1), such as an exclusive distribution agreement, restrictions on parallel trade which relate to that agreement or concerted practice but are not themselves caught by Article 81(1) can nevertheless prevent justification of the main agreement or concerted practice under Article 81(3). In such a case it is not the restriction on parallel trade itself which is prohibited, but rather the exclusive distribution agreement. Therefore the undertaking will be required to end either one or the other. A

detailed analysis of the full range of agreements or concerted practices which may fall under Article 81(1) is outside the scope of this book;[2] the key point is that, where parties wish to rely on Article 81(3) to justify their agreements or concerted practices, they are unlikely to be permitted to restrict parallel trade at the same time (even unilaterally).

With this background the five criteria are now considered in turn.

A. Article 81(1): Undertakings

The first criterion for there to be a breach of Article 81 is that at least two parties, or undertakings, are involved. The importance of this in relation to manufacturers and distributors was confirmed as early as early as 1966, where in *Italy v Commission*[3] the ECJ held as follows:

> the wording of Article [81] . . . excludes the case of a single undertaking which incorporates as part of its activities its own distribution network. However this does not mean that by a mere business analogy . . . the contractual situation arising from an agreement between a producer undertaking and a distributor undertaking must be considered legal . . . as regards the position of a single undertaking . . . the intention in Article [81] of the Treaty [of Rome] is to respect the internal organization of an undertaking and only to question it, by way of Article [82], if it reaches a point where it amounts to an abuse of a dominant position. But the Treaty cannot have the same reservations about barriers to competition resulting from an agreement made between two different undertakings, which is normally sufficient to prohibit . . . An agreement between producer and distributor intended to restore national partitioning in trade between Member States could be such as to run counter to the most fundamental objectives of the Community. The preamble to and the body of the Treaty are aimed at removing barriers between states and in many provisions the Treaty firmly opposes their reappearance. It could not allow undertakings to recreate such barriers.

Most companies will be regarded as undertakings, but in some cases individual corporate bodies which are legally separate will not be regarded as independent and so will not constitute separate undertakings. This is particularly the case as regards corporate groups but also has a more limited application in relation to de facto subsidiaries and commercial agents. However, downstream distributors or dealers are otherwise likely to be regarded as independent undertakings, even where the economic realities mean that there is no real independence of action as terms are dictated by the manufacturer. Such economic realities will generally be reflected in the fact that such undertakings will face reduced or no fines, and in some cases may themselves be able to claim damages from the manufacturer.[4]

[2] For a more detailed review of Art 81 and its scope, see R Whish, *Competition Law*, 5th edn (OUP, Oxford, 2005) chs 3–4 and 13–16.

[3] Case 32/65 *Italy v Commission* [1966] ECR 389 Spec Ed.

[4] See Ch 1, sect III.C.iii (National Courts).

The fact that an undertaking is established outside the Community is irrelevant. In *Béguelin Import v GL Import Export*[5] the ECJ was asked whether an agreement between a Japanese manufacturer and a Belgian distributor would be caught by Article 81. The ECJ replied in the affirmative, holding:

> The fact that one of the undertakings which are parties to the agreement is situated in a third country does not prevent application of [Article 81] since the agreement is operative on the territory of the common market. An exclusive dealing agreement entered into between a producer who is subject to the law of a third country and a distributor established in the common market [may affect trade between Member States and has as its object or effect an impediment to competition within the common market] when, de jure or de facto, it prevents the distributor from re-exporting the products in question to other Member States or prevents the products from being imported from other Member States into the protected area and from being distributed therein by persons other than the exclusive dealer or his customers.[6]

i. Corporate Groups

In its first decision on parent and subsidiary companies, *Christiani & Nielsen*,[7] the Commission held that the wholly-owned subsidiary company was an integral part of the parent company economically and financially, and so an agreement between them could not have the object or effect of restricting competition (and thus fell outside Article 81).

In the next case, *Dyestuffs*,[8] the question was not whether the agreement should fall outside Article 81 but which company within the corporate group should be regarded as being responsible for the infringement (which is relevant to market perception and in determining the appropriate level of fine). The Commission had found that three uniform increases in the prices of dyestuffs had been the result of concerted practices between a number of manufacturers. In its appeal, ICI claimed among other things that the conduct in question should 'be imputed to its subsidiaries and not to itself'.

However, the ECJ refused to accept the separate legal personalities of the companies for the purposes of Article 81. It confirmed that 'where a subsidiary does not enjoy real autonomy in determining its course of action in the market, the prohibitions set out in Article [81(1)] may be considered inapplicable in the relationship between it and the parent company with which it forms one economic unit'. Equally, however, it held that 'the actions of the subsidiaries may in certain circumstances be attributed to the parent company', particularly 'where the subsidiary, although having separate legal personality, does not decide independently upon its own conduct on the market, but carries out, in all

[5] Case 22/71 *Béguelin Import v GL Import Export* [1971] ECR 949.
[6] *Ibid*, paras 11–12.
[7] Dec 69/195 *Christiani & Nielsen* [1969] OJ L165/12, EEC Bull 8/1969, 41.
[8] Dec 69/243 *Dyestuffs* [1969] OJ L195/11; Case 48/69 *ICI v Commission* [1972] ECR 619, paras 130–142.

material respects, the instructions given to it by the parent company'. The ECJ pointed to the fact that ICI held 'all or at any rate the majority of the shares' in its subsidiaries and that it had sent telex messages to its subsidiaries giving them 'orders as to the prices they were to charge and the other conditions of sale which they were to apply in dealing with their customers'.

The question whether intra-group arrangements breach Article 81 was considered again in *Kodak*,[9] where the Commission held that the subsidiaries were exclusively and completely dependent on their parent company which imposed conditions of sale upon them. The fact that the subsidiaries applied identical conditions of sale could not therefore be regarded as an agreement or concerted practice between the parent company and the subsidiaries, or among the subsidiaries, for the purposes of Article 81. However, the conditions of sale could constitute agreements between the subsidiaries and their buyers.

Soon afterwards, the ECJ considered the issue in *Béguelin Import v GL Import Export*.[10] In that case a Belgian distributor had the exclusive distribution rights in Belgium and France for the WIN brand of gas cigarette lighters. It set up a French subsidiary and transferred its French rights to that subsidiary. The Court held that transfer from the distributor to a subsidiary which had no economic independence could not be caught by Article 81.

The issue returned to the ECJ in two references by the Dutch Supreme Court in relation to parallel trade in *Centrafarm v Sterling Drug*[11] and *Centrafarm v Winthrop*.[12] This time the question was specifically whether the conduct of a parent and its subsidiary could breach Article 81. The ECJ held:

> Article [81] is not concerned with agreements or concerted practices between undertakings forming part of the same concern and having the status of parent company and subsidiary, if the undertakings form an economic unit within which the subsidiary has no real freedom to determine its course of action on the market, and if the agreements or practices are concerned merely with the internal allocation of tasks as between the undertakings.

In *AEG-Telefunken*,[13] the argument that a parent company should not be held liable for the conduct of its subsidiaries was raised again and the ECJ applied its ruling in *Dyestuffs* to the facts of the case. First, the ECJ noted that it was not disputed that the parent company, AEG, 'was in a position to exert a decisive influence on the distribution and pricing policy of its subsidiaries'. However, it then said it had to consider whether the parent company had actually made use of that power. In relation to one subsidiary, which was wholly-owned, such a check was considered superfluous. However, in relation to two other subsidiaries the ECJ relied on documents which showed that the subsidiaries

[9] Dec 70/332 *Kodak* [1970] OJ L147/24, [1970] CMLR D19.
[10] Case 22/71 *Béguelin Import v GL Import Export* [1971] ECR 949.
[11] Case 15/74 *Centrafarm v Sterling Drug* [1974] ECR 1147, paras 38–41.
[12] Case 16/74 *Centrafarm v Winthrop* [1974] ECR 1183, paras 31–32.
[13] Dec 82/267 *AEG-Telefunken* [1982] OJ L117/15; Case 107/82 *AEG-Telefunken v Commission* [1983] ECR 3151, paras 47–53.

were implementing policies which could only be set by the parent company, and that there were internal discussions between the parents and subsidiaries in relation to the subsidiaries' conduct.

There have been a number of other decisions and judgments on the issue of whether parent companies are liable for the conduct of their subsidiaries, although these will not be considered further.[14]

The requirements in *Centrafarm v Sterling Drug* were confirmed in *Pompes Funèbres*,[15] where the ECJ made it very clear that the mere fact that subsidiaries belong to the same group of undertakings is not decisive, and that account must be taken of the nature of the relationship between the undertakings belonging to the group. It was left to the national court to determine whether that relationship met the *Centrafarm* requirements.

In *Viho/Parker Pen II*,[16] the Commission rejected a complaint by Viho that Parker Pen was instructing its wholly-owned subsidiaries in Germany, France, Belgium, Spain and the Netherlands to restrict the distribution of Parker products to their allocated territories. The Commission found that 'the subsidiaries and the parent company form one economic unit within which the subsidiaries do not enjoy real autonomy in determining their course of action in the market' and that 'the assignment of a specific distribution area to each of the Parker subsidiaries does not exceed the limits of what can normally be regarded as necessary for the purpose of a proper distribution of tasks within a group'. By contrast, in *Viho/Parker Pen*[17] the Commission had already fined Parker and Herlitz, an independent German distributor, for agreeing express export bans.

Viho appealed to the CFI, arguing that Parker's subsidiaries were legally independent and operated in such different ways that there was clearly no absolute control being exercised by Parker. It also argued that the territorial restrictions were not simply an internal allocation of tasks within the group. More generally, Viho argued that the market-partitioning goal should bring the conduct within Article 81. The Commission, on the other hand, while relying on its findings that this was a simply internal allocation of tasks, queried whether this was in reality a separate test from that of whether the companies formed a single economic unit.

The CFI rejected Viho's arguments and confirmed the Commission's analysis, holding that 'for the purposes of the application of the competition rules, the unified conduct on the market of the parent company and its subsidiaries takes

[14] See, for instance: Case T–11/89 *Shell v Commission* [1992] ECR II–757, paras 311–315; Case C–310/93 P *BPB Industries and British Gypsum v Commission* [1995] ECR I–865, para 11 (and paras 23–31 of the AG's Opinion); Case T–354/94 *Stora v Commission* [1998] ECR II–2111, para 60; Case C–286/98 P *Stora v Commission* [2000] ECR I–9925, paras 27–29; Dec 2006/895 *Souris/TOPPS* [2006] OJ L353/5 (full decision available at ec.europa.eu/comm/competition/), paras 161–168.

[15] Case 30/87 *Bodson v Pompes Funèbres* [1988] ECR 2479, paras 17–20.

[16] Dec in *Viho/Parker Pen II* (30 Sept 1992, unpublished); Case T–102/92 *Viho Europe v Commission* [1995] ECR II–17; Case C–73/95 *Viho Europe v Commission* [1996] ECR I–5457.

[17] Dec 92/426 *Viho/Parker Pen* [1992] OJ L233/27; Case T–66/92 *Herltiz v Commission* [1994] ECR II–531; Case T–77/92 *Parker Pen v Commission* [1994] ECR II–549.

precedence over the formal separation between those companies as a result of their separate legal personalities'. It also implicitly supported the Commission's argument that the question whether the conduct was an internal allocation of tasks was redundant once it had been determined that the companies formed a single economic unit.

Viho appealed to the ECJ, focussing on the point that the anti-competitive effects of the territorial allocation policy should be regarded as going beyond a mere internal allocation of tasks within the Parker group. The ECJ noted that Parker and its subsidiaries formed 'a single economic unit within which the subsidiaries do not enjoy real autonomy in determining their course of action in the market, but carry out the instructions issued to them by the parent company controlling them'. In such circumstance, the effects of the policy could not bring the conduct within Article 81 but only, if the conditions were met, within Article 82. Therefore, the ECJ held that the CFI was 'fully entitled to base its decision solely on the existence of a single economic unit in order to rule out the application of Article [81(1)] to the Parker group'.

In *Zera/Montedison and Hinkens/Stähler*,[18] one wholly-owned subsidiary of the group manufactured the herbicide at issue while another was responsible for distribution. The Commission noted that the latter received continuous instructions from the former in 'all questions of registration and distribution', and consequently held that they were to be regarded as a single economic entity, and therefore could not be regarded as separate undertakings between which there could be an agreement for the purposes of Article 81.

In *Micro Leader*,[19] the CFI followed *Viho II*, holding that Microsoft Corporation and its subsidiary Microsoft France 'form a single economic unit within which [Microsoft France] does not enjoy real autonomy in determining its course of action in the market' and confirming that Article 81(1) could not apply to decisions taken within a corporate group.

In *Laboratoires 3M Santé*,[20] this was followed by the French Competition Council, which held that 3M and its national subsidiaries formed a single economic unit within which the subsidiaries, though legally separate, did not have real autonomy in determining their conduct on the market but rather implemented the instructions of 3M. The fact that this conduct could affect the competitive position of third parties could not bring it within Article 81.

In *Nintendo*,[21] the Commission cited the ECJ's decision in *Viho II* for the proposition that 'Article 81(1) of the Treaty does not apply to relationships within a single economic unit or undertaking, such as those between a parent

[18] Dec 93/554 *Zera/Montedison and Hinkens/Stähler* [1993] OJ L272/28.

[19] Dec in Case IV/36.219 *Micro Leader/Microsoft* (15 Oct 1998, unpublished); Case T–198/98 *Micro Leader Business v Commission* [1999] ECR II–3989.

[20] Dec 99-D-18 of 2 Mar 1999 *Laboratoires 3M Santé* Conseil de la Concurrence, 2 Mar 1999.

[21] Dec 2003/675 *PO Video Games, PO Nintendo Distribution and Omega—Nintendo* [2003] OJ L255/33; Case T–13/03 *Nintendo v Commission* [2003] OJ C70/27, not yet decided but appealed solely on the level of the fine; Case T–18/03 *CD-Contact Data v Commission* [2003] OJ C70/29, not yet decided and appealed on substantive grounds.

company and its dependent subsidiaries'.[22] No explicit mention was made of the requirement that a subsidiary must have no real freedom to determine its course of action on the market, although perhaps that can be read into the word 'dependent'. Similarly, in *Topps*,[23] the Commission took the same approach to exclude the relationships between Topps and its subsidiaries without any further analysis.

In the light of these cases, it is possible to argue that subsidiaries having sufficient freedom from the parent company must be regarded as separate undertakings, so that agreements between the subsidiaries become subject to Article 81. However, in almost any case where there is an agreement or concerted practice between group companies, which is required to establish the second criterion for breach of Article 81, it is highly likely that this will mean at the same time that the group companies will be regarded as a single economic unit rather than separate undertakings, and thus will be excluded from Article 81 on that basis.

ii. Other Subsidiaries

The case of wholly-owned subsidiaries within corporate groups is therefore relatively clear. However, there are many situations where the manufacturer may have a smaller equity stake in the distributor, or none at all, but will still argue that the distributor acts as its subsidiary and not a separate undertaking.

In *Gosme/Martell*,[24] the Commission held that a joint distribution subsidiary of two independent parents, in which each held 50 per cent of the capital, the voting rights and the rights to appoint supervisory board members, was an undertaking independent from its parents. The Commission regarded as relevant the fact that the subsidiary distributed brands not belonging to its parents, that it invoiced its parents' brands together, that it had its own sales force and that it concluded the conditions of sale with its buyers itself. However, there is some indication that the Commission was not entirely confident in its finding, as it also held that the wholesaler buying from the subsidiary was party to the agreement, even though the wholesaler had paid the list price under protest and had taken the dispute to the French commercial courts as well as the Commission.

In *French Radiographic Film*,[25] the manufacturer, Typon, argued that its exclusive distributor in France, Sodigraph, should be considered as part of the same group and that therefore the agreement between the companies should not breach Article 81. Typon claimed that Sodigraph had always taken instructions from it and that this economic control was formalised when it later acquired

[22] Dec 2003/675, above n21, para 245.

[23] Dec 2006/895 *Souris/TOPPS* [2006] OJ L353/5 (full decision available at ec.europa.eu/comm/competition/). Not appealed.

[24] Dec 91/335 *Gosme/Martell—DMP* [1991] OJ L185/23.

[25] Conseil de la Concurrence Dec 97-D-68 *French Radiographic Film* of 23 Sept 1997.

Sodigraph. However, this argument was rejected by the French Competition Council. Although the Competition Council accepted that around 75 per cent of Sodigraph's turnover was of Typon products, it noted that Sodigraph distributed products for a number of other companies and highlighted the fact that it was legally independent during the relevant period.In *Welded Steel Mesh*,[26] the Commission held that a subsidiary company which was 25 per cent owned by a parent company was still regarded as a separate undertaking under Article 81 where third parties had larger ownership interests, and so agreements between the parent and subsidiary did not constitute mere intragroup arrangements.[27] On appeal by the subsidiary, the CFI reiterated that a subsidiary will be regarded as part of the same undertaking as a parent company only if 'those undertakings form an economic unit within which the subsidiary has no real freedom to determine its course of action on the market'. The Court then noted that the control which the parent exercised over the subsidiary in fact corresponded to its ownership interest of 25 per cent, falling far short of a majority interest, and so the control requirement was not met. The Court also noted that the subsidiary had described itself as an autonomous and independent undertaking and had stated that it could not be regarded as a subsidiary of a group. The Court therefore upheld the Commission.[28]

iii. Agents

In 1962 the Commission published a notice relating to agency relationships under which agents undertake to negotiate or conclude transactions on behalf of a manufacturer.[29] This stated that exclusive dealing contracts made with commercial agents are not covered by the prohibition in Article 81(1). The justification for this was that 'these contracts have neither the object nor the effect of preventing, restricting or distorting competition within the common market', since 'the commercial agent only performs an auxiliary function in the market for goods' and 'unlike the independent trader, he himself is neither a purchaser nor a vendor'.

[26] Dec 89/515 *Welded Steel Mesh* [1989] OJ L260/1; Case T–141/89 *Tréfileurope Sales v Commission* [1995] ECR II–791; Case T–142/89 *Usines Gustave Boël v Commission* [1995] ECR II–867; Case T–143/89 *Ferriere Nord v Commission* [1995] ECR II–917; Case T–144/89 *Cockerill-Sambre v Commission* [1995] ECR II–947; Case T–145/89 *Baustahlgewebe v Commission* [1995] ECR II–987; Case T–147/89 *Société métallurgique de Normandie v Commission* [1995] ECR II–1057; Case T–148/89 *Tréfilunion v Commission* [1995] ECR II–1063; Case T–149/89 *Sotralentz v Commission* [1995] ECR II–1127; Case T–150/89 *GB Martinelli v Commission* [1995] ECR II–1165; Case T–151/89 *Société des Treillis et Panneaux Soudés v Commission* [1995] ECR II–1191; Case T–152/89 *ILRO v Commission* [1995] ECR I–1197; Case C–219/95 P *Ferriere Nord v Commission* [1997] ECR I–4411; Case C–185/96 P *Baustahlgewebe v Commission* [1998] ECR I–8417.

[27] Dec 89/515, above n26, para 178.

[28] Case T–145/89, above n26, paras 95–109.

[29] Commission Notice on exclusive dealing contracts with commercial agents [1962] OJ 2921. An unofficial English translation is available at ec.europa.eu/comm/competition/. The laws of the Member States relating to self-employed commercial agents have been partially harmonised by Dir 86/653 [1986] OJ L382/17.

Commercial agents were distinguished from independent traders on the basis of risk allocation. A party would be regarded as an independent trader if it took any more risk in relation to the sale or performance of the contract than offering a 'del credere' guarantee under which the agent would become liable for the insolvency or other failure to perform of the purchaser. Moreover, a party would be regarded as an independent trader if he or she (a) were required to or did in fact (i) keep a considerable stock of the products covered by the contract as his or her own property or (ii) organise, maintain or ensure at his or her own expense a substantial service free of charge to customers or (b) were allowed to or did in fact determine prices or terms of business.This notice was simply the Commission's view and not a binding interpretation of the scope of Article 81(1). In any event it was concerned with substance, not form, and did not allow manufacturers to avoid Article 81 merely by rechristening their distributors. In *Pittsburgh Corning Europe*,[30] the Commission rejected a claim that the manufacturer's Belgian distributor should be regarded as its agent, noting that in practice the distributor acted as an independent distributor rather than as an integrated part of the manufacturer's own distribution network. Moreover, a contractual term that the distributor should act as an 'agent' was clearly due to the Belgian tax regime rather than the underlying relationship between the manufacturer and distributor.

In *Suiker Unie*,[31] the ECJ considered the issue in the course of various appeals against the Commission's decision against the European sugar industry. The Court noted that an agent who sold for a principal's benefit 'may in principle be treated as an auxiliary organ forming an integral part of the latter's undertaking, who must carry out his principal's instructions and thus, like a commercial employee, forms an economic unit with this undertaking'. However, the Court said this would not be the case where the agency contracts 'confer upon these agents or allow them to perform duties which from an economic point of view are approximately the same as those carried out by an independent dealer, because they provide for the said agents accepting the financial risks of the sales or of the performance of contracts entered into with third parties'.

This was followed in *VAG Leasing*.[32] The German Federal Cartel Office had found that Volkswagen's practice of requiring its dealers to negotiate leasing contracts as exclusive agents for Volkswagen's own leasing subsidiary, VAG Leasing, was an unfair impediment to independent leasing companies under the German Law against Restraints on Competition. Volkswagen appealed to the German courts, and the Federal Supreme Court referred the case to the ECJ, asking whether such restrictions would be caught by Article 81(1). Volkswagen claimed that the dealers formed one economic unit with Volkswagen and VAG Leasing, and so there was only one undertaking involved. However, the ECJ

[30] Dec 72/403 *Pittsburgh Corning Europe—Formica Belgium—Hertel* [1972] OJ L272/35.

[31] Dec 73/109 *European Sugar Industry* [1973] OJ L140/17; Joined Cases 40/73–48/73, 50/73, 54/73–56/73, 111/73, 113/73 and 114/73 *Suiker Unie v Commission* [1975] ECR 1663.

[32] Case C–266/93 *Bundeskartellamt v Volkswagen and VAG Leasing* [1995] ECR I–3477.

rejected that argument, noting from *Suiker Unie* that 'representatives can lose their character as independent traders only if they do not bear any of the risks resulting from the contracts negotiated on behalf of the principal and they operate as auxiliary organs forming an integral part of the principal's undertaking'. The Court went on to hold that the dealers bore financial risks because they were required to repurchase the vehicles from VAG Leasing upon expiry of the leasing contracts and because their principal business of sales and after-sales services was carried out largely independently, in their own names and for their own account.

In 2000 the Commission's notice was replaced by the Vertical Guidelines,[33] which maintain the basic analytical framework but give further explanation of the concept of risk. The Commission notes that there are two types of risk which are material and which, if borne by the third party, will mean that that party is regarded as independent rather than an agent. First, there are risks directly related to the contracts, such as the financing of stock. Secondly, there are risks related to market-specific investments which the third party would have to make in order to enter the market, which are often not recoverable when the third party leaves the market ('sunk costs'). The Commission provides a non-exhaustive list of both types of risk, while noting that certain other risks related to the provision of agency services are immaterial to the assessment, such as the fact that the agent's income may be in the form of commission based on successful sales.

The Commission goes on to list restrictions which will be considered to form an inherent part of an agency agreement and which will therefore fall outside Article 81(1). In essence, these are limitations on the territory on which or the customers to whom the agent may sell the goods or services and the prices or conditions at which the agent must sell them. No specific mention is made of limitations on parallel trade and it is unclear whether 'limitations on the customers to whom the agent may sell these goods or services' would permit a limitation to customers resident within the agent's territory. Although such a limitation would appear to restrict the internal market, it should not alter the analysis of whether the agent should be regarded as a separate undertaking from the manufacturer.

In *DaimlerChrysler/Mercedes-Benz*,[34] the Commission considered whether the manufacturers' agents in Germany should be regarded as commercial agents or independent traders. The Commission held that the relevant criterion for determining this question was the degree of risk assumed by the agents, and that the degree of the agents' integration within the manufacturer's business was irrelevant. The Commission noted that where an agent agreed to discount the

[33] Commission Notice—Guidelines on Vertical Restraints [2000] OJ C291/1, paras 12–20.

[34] Dec 2002/760 *Mercedes-Benz* [2002] OJ L257/1, [2002] OJ L258/36; Case T–325/01 *DaimlerChrysler v Commission* (15 Sept 2005, not yet reported). Not appealed. See P Henty, 'Agency Agreements—What are the Risks? The CFI's Judgment in DaimlerChrysler AG v Commission' [2006] *European Competition Law Review* 102.

sale price of a new vehicle the discount would be deducted from the agent's commission. The Commission also noted that agents were required to bear other risks of providing certain services, such as delivery of vehicles from the factory to the customer, acquisition and maintenance of a stock of demonstration vehicles and of spare parts and provision of workshop services for repair work under guarantee. Finally, the Commission noted that many of the requirements placed on the agents were identical to those placed on the manufacturer's dealers in other countries. As a consequence, the agents were regarded as independent traders and thus separate undertakings for the purposes of Article 81(1).

However, this was overturned on appeal, as the CFI held that the agents' economic independence was in fact very limited and that the DaimlerChrysler assumed the main risks and obligations. The agents did not have the power to agree final prices and terms and conditions with customers, even though they were entitled to split their commission with customers. The costs of 'risks', such as stocking vehicles, transportation and repair work, were generally covered by an indemnity from DaimlerChrysler and an agreement to repurchase demonstration vehicles. As a consequence, the agents were not separate undertakings for the purposes of Article 81(1).

In *Topps*,[35] the manufacturer, Topps, said its Finnish and French distributors must be considered as agents because the products in question, Pokémon stickers, were supplied on a sale or return basis and ownership remained with Topps throughout. In addition, Topps paid various supply and advertising costs and, in relation to its Finnish distributor, bore the credit risk of non-payment by the distributor's customers. However, the Commission found that the distributors did in fact bear various risks, such as the risk of loss or destruction of the goods and certain distribution costs. In addition, the Finnish distributor also acted for Topps' competitor, Panini. In any event, the Commission found that action taken by the distributors, which included complaining about and tracing parallel imports, did not come within the restrictions inherent in an agency relationship and so did not fall outside Article 81(1).

iv. Consumers

Individuals, as opposed to companies, can constitute undertakings for the purposes of Article 81 where they are engaged in an economic activity.[36] However, individual consumers do not constitute undertakings.[37] Therefore, agreements between a company and a consumer cannot themselves breach Article 81.

[35] Dec 2006/895 *Souris/TOPPS* [2006] OJ L353/5 (full decision available at ec.europa.eu/comm/competition/). Not appealed.

[36] Case C–41/90 *Höfnerand Elser v Macrotron* [1991] ECR I–1979, para 21. For a summary of the situations when individuals may be regarded as undertakings see R Whish, *Competition Law*, 5th edn (OUP, Oxford, 2005) 80ff. See also C Bellamy and G Child, *European Community Law of Competition*, 5th edn (Sweet & Maxwell, London, 2001), para 2-006.

[37] See Joined Cases C–180/98 to 184/98 *Pavlov v Stichting Pensioenfonds Medische Specialisten* [2000] ECR I–6451, paras 78 and 81, where the Commission and ECJ respectively take this for granted.

Nevertheless, undertakings can breach Article 81 where they agree to enter into restrictive agreements with consumers. In *Volkswagen I*,[38] one of the measures taken by the manufacturer to restrict parallel trade was to recommend that its dealers require consumers to sign an agreement promising not to sell their vehicles within three months or before they had travelled at least 3,000 kilometres. The Commission found that this was a restriction in breach of Article 81(1). On appeal to the CFI, the manufacturer claimed that such agreements could not breach Article 81 because the purchaser, as a consumer, was not an undertaking. However, the CFI upheld the Commission, noting that it was not the agreements between the dealers and the consumers which were held to breach Article 81 but rather the agreement between the manufacturer and dealers to require such agreements.

B. Article 81(1): Agreement

Once it has been established that there are two undertakings involved, the second criterion under Article 81 is that there is an agreement or concerted practice between those undertakings.

The concept of an agreement is a broad one and does not require that the agreement be contractually enforceable. Even if the conduct in question cannot be brought within this wide concept of agreement, looser cooperation between undertakings may still be caught by Article 81 as a concerted practice. In *Suiker Unie*, the ECJ held:

> the concept of a 'concerted practice' refers to a form of coordination between undertakings, which, without having been taken to the stage where an agreement properly so-called has been concluded, knowingly substitutes for the risks of competition, practical cooperation between them which leads to conditions of competition which do not correspond to the normal conditions of the market, having regard to the nature of the products, the importance and number of the undertakings as well as the size and nature of the said market.

The Court also held that 'if an economic operator accepts the complaints made to him by another operator in connection with the competition to which the products manufactured by the former operator expose the latter, the conduct of the operators concerned amounts to a concerted practice'.

Restrictions on parallel trade most often arise in vertical distribution relationships between a manufacturer and its distributors. Manufacturers will typically claim that their action is unilateral and therefore falls outside the scope of Article 81. By contrast, the Commission will generally characterise such conduct as forming part of an agreement or a concerted practice, on the basis that the manufacturer has entered into an agreement either with the distributors in the

[38] Dec 98/273 *Volkswagen I* [1998] OJ L124/60; Case T–62/98 *Volkswagen v Commission* [2000] ECR II–2707; Case C–338/00 P *Volkswagen v Commission* [2003] ECR I–9189.

exporting country not to export or with the distributors in the importing country to protect them from parallel imports.

The broad approach adopted by the Commission has understandably been criticised.[39] Nevertheless, in many cases the Commission's approach, when challenged, has been accepted by the ECJ. This section begins by reviewing this long line of cases. However, in a batch of three recent cases the CFI and ECJ have marked the limits of the concept of agreement by overturning the Commission's decisions and finding that vertical conduct was unilateral. These are *Bayer (Adalat)*, *General Motors/Opel* and *Volkswagen II* and are considered in turn. Nevertheless, those judgments distinguished rather than overturning the long line of older decisions and judgments, and it is therefore likely that many vertical restrictions on parallel trade will still be regarded as involving an agreement for the purposes of Article 81.

Restrictions on parallel trade can also be agreed horizontally between competitors. However, agreements between competing manufacturers are unusual, since such manufacturers do not typically need one another's cooperation to restrict parallel trade. As a consequence, it can often be difficult to prove that there was an agreement. These cases are considered at the end of the section.

If the conduct in question is indeed unilateral it will fall outside Article 81(1) regardless of the fact that it aims to restrict parallel trade. However, just because restrictive conduct is unilateral does not mean that it is necessarily permitted. In some cases, where other aspects of the agreement fall within Article 81(1), unilateral action to restrict parallel imports can prevent the parties from justifying the agreement under Article 81(3). In addition, where the party taking the unilateral action holds a dominant position in the relevant market, the conduct may be regarded as abusive under Article 82. These issues will be considered later on in the chapter.

i. Vertical Agreements

Manufacturers can adopt a range of distribution systems for their products. For instance, they may operate a vertically integrated structure where the manufacturer itself distributes its products all the way to the consumer. Such distribution systems will normally fall outside Article 81 because there is only one undertaking involved.

However, manufacturers often use third party undertakings, such as wholesalers or retailers, as part of their distribution chain. The manufacturer may seek to encourage distribution of its products by such third parties, for instance by requiring them to provide pre-sales advice or after-sales servicing or by prohibiting them from supplying competing products.

[39] Eg, see PS Jakobsen and M Broberg, 'The Concept of Agreement in Article 81 EC: On The Manufacturers' Right to Prevent Parallel Trade Within the European Community' [2002] *European Competition Law Review* 127.

Two particularly common systems involving third parties are exclusive distribution, where the supplier agrees to supply only one distributor for a particular territory or a particular group of customers, and selective distribution, where the manufacturer supplies only certain distributors selected on the basis of some criteria which it regards as important (such as their prestige or their ability to service the product). A third distribution system is franchising, where the franchisor will license the franchisee to use trade marks and know-how and may also supply goods for resale.

In some cases the distribution agreement between the manufacturer and the distributor will explicitly prohibit parallel exports. Such agreements were particularly common in the early days of the Community, before the approach of the Commission and the ECJ became clear. However, such clauses clearly form part of an agreement and are increasingly rare. More frequently, manufacturers rely on other measures which they will argue are unilateral, such as sending circulars or representatives to distributors to ask them not to export or limiting or refusing supplies to known (or suspected) parallel exporters.

In *Consten and Grundig*[40] there was no difficulty in finding that the exclusive distribution contract constituted an agreement. Less obviously, the Commission also held that there was an agreement in relation to the registration of the GINT trade mark. Although there was no evidence of a formal agreement prior to the registration, the Commission focussed on the introduction of the mark as a result of the previous Dutch case, the registration by Grundig's dealers in each Member State and the obligation of Consten, later put in writing, to transfer the mark to Grundig or to cancel it as and when Consten ceased to be Grundig's exclusive distributor in France. This part of the decision was not challenged before the ECJ.

Non-contractual documents can also form the basis of an agreement under Article 81. In *WEA-Filipacchi Music*[41] a French distributor sold records in France while a German distributor, which was a member of the same group, sold records in Germany at over twice the French price. The French distributor sent a circular to its principal retailers and wholesalers stating that, due to contractual obligations both to its parent company and to copyright collecting societies, it had to ensure no exports of its labels would be made by third parties. It therefore asked the resellers to acknowledge receipt of the circular by returning a signed and sealed copy. Eighteen of them did so, while at least three refused on the ground that this would constitute a breach of Community law.

The Commission investigated and held that this indeed constituted an agreement on the following grounds: (a) acknowledgment of delivery would typically have been achieved by registered delivery, while in normal commercial practice the return of a signed copy would have indicated approval of its contents,

[40] Dec 64/566 *Grundig-Consten* [1964] OJ 161/2545; Joined Cases 56/64 and 58/64 *Etablissements Consten and Grundig-Verkaufs v Commission* [1966] ECR 299.

[41] Dec 72/480 *WEA-Filipacchi Music* [1972] OJ L303/52.

(b) certain resellers had refused to sign because the signature would imply a contractual prohibition on exports, (c) the terms of the circular had made it clear that the third parties referred to were the French resellers themselves and (d) the justification advanced had been a sham as no such contractual obligations had been owed by WEA-Filipacchi Music.

In *GERO-fabriek*[42] the Commission treated GERO's general terms of sale for its wholesalers, which were printed on the back of its invoices, as no different from its standard form contracts which were signed by individual retailers.

In *BMW Belgium*[43] the manufacturer's Belgian subsidiary sent a circular to its Belgian dealers asking them to stop exporting and 48 of the dealers confirmed their acceptance in writing. The dealers claimed that this did not infringe Article 81 because 'the distribution agreement with BMW Belgium made them so dependent on BMW Belgium for business that there was no question for them of failing to comply with BMW's request that they sign the circular'. Although accepting that there was a degree of dependence, the Commission rejected the argument on the facts, noting that the other 42 dealers had not notified their agreement in writing. The Commission therefore fined both BMW Belgium and, to a lesser extent, the dealers. On appeal, the Court upheld the finding of infringement and agreed that 'although it is true that the bonds of economic dependence existing between [the dealers] and BMW Belgium were liable to affect their freedom of initiative and decision, the existence of those bonds did not make it impossible to refuse to consent to the agreement'. The Court also rejected further arguments that some of the dealers had in fact continued to export cars, finding that there was an agreement and upholding the fines imposed by the Commission.

In *Musique Diffusion Française*,[44] a Japanese manufacturer sold its products through exclusive distributors in France, Germany and the United Kingdom. The Commission found that (i) the French distributor had repeatedly complained to the manufacturer and its German and British distributors about parallel imports to France; (ii) the manufacturer had passed on the complaints to the German distributor and had been involved in a meeting between the three distributors discussing parallel imports; (iii) the manufacturer had successfully pressurised the German distributor not to fulfil a contract to supply a third party which intended to export the goods to France; and (iv) the French distributor had produced evidence of parallel imports from the United Kingdom at the meeting and the British distributor had written to its customers asking them to stop parallel exporting. The Commission held that such conduct amounted to one concerted practice between the manufacturer and the French and German distributors and another between the manufacturer and the French and British distributors.

[42] Dec 77/66 *GERO-fabriek* [1977] OJ L16/8.

[43] Dec 78/155 *BMW Belgium and Belgian BMW Dealers* [1978] OJ L46/33; Joined Cases 32/78 and 36/78 to 82/78 *BMW Belgium* [1979] ECR 2435.

[44] Dec 80/256 *Pioneer Hi-Fi Equipment* [1980] OJ L60/21; Joined Cases 100–103/80 *Musique Diffusion Française and others v Commission* [1983] ECR 1825.

All four parties appealed to the ECJ on various grounds, including the ground that the Commission had misinterpreted the facts in relation to the concerted practices. This was rejected by the ECJ, which noted in particular that the manufacturer, on account of its central position, 'was obliged to display particular vigilance in order to prevent concerted efforts [to coordinate the sales efforts of its distributors] from giving rise to practices contrary to the competition rules'.

In *Johnson & Johnson*,[45] the manufacturer had formally amended its terms of trading to allow its dealers to export to other Member States. However, the manufacturer had also made it clear to dealers that such exports were still not permitted, instituting a system of checks and making and carrying out threats to withhold or delay supplies to dealers who exported. The Commission held that the continued export restrictions formed 'an integral part' of the terms of trading, and that '[f]or the purpose of determining the applicability of Article [81(1)], the facts that it was not in the dealers' interests to observe the prohibition and that some of them did not do so, are irrelevant; that Article extends to any distribution system whose object is to restrict competition, whether or not it is successful in doing so'.

In *Hasselblad*,[46] a Swedish camera manufacturer had a network of sole distributors in the Member States. Originally its distributorship agreements prohibited all sales outside the distributors' territory but, after discussion with the Commission, this was limited to a prohibition on actively promoting sales outside the territory, in particular by soliciting customers or setting up branch offices or warehouses. However, the sole distributors still complained to the manufacturer, and one another, about parallel imports and attempted to restrict such trade. In particular, the manufacturer made clear 'its general sales policy of protecting its sole distributors from imports' and the distributors took action to restrict exports from their territories. The Commission held that 'if an undertaking acts on the complaints made to it by another undertaking in connection with the competition from the former's products, this constitutes or is evidence of a concerted practice', which in this case amounted to a 'policy of market compartmentalization'. Moreover, the Commission held that a concerted practice merely requires 'an independent undertaking knowingly and of its own accord to adjust its behaviour in line with the wishes of another undertaking. The motive or the knowledge that the act is unlawful is irrelevant.' Therefore, it was irrelevant whether the distributors complied with the export ban only 'in form' or 'as a result of the extreme pressure' being exerted by the manufacturer.

In *National Panasonic*,[47] the manufacturer was found to have monitored its dealers in the United Kingdom and to have made it clear to them that supplies would be cut off if they exported the manufacturer's products to other Member States. The Commission held that 'a relationship . . . existed between [the

[45] Dec 80/1283 *Johnson & Johnson* [1980] OJ L377/16.
[46] Dec 82/367 *Hasselblad* [1982] OJ L161/18.
[47] Dec 82/853 *National Panasonic* [1982] OJ L354/28.

manufacturer] and its dealers in the United Kingdom under which the terms and conditions of supply were clearly understood' and that this constituted an agreement for the purposes of Article 81. This finding was not contested by the manufacturer.

A slightly peculiar argument was raised in *Rolled Zinc Products*, where a parallel importer had obtained goods in Belgium on the understanding that they would be exported to Egypt, but then exported the goods to Germany, where prices were higher than in Belgium.[48] On appeal from the Commission's finding of infringement, the manufacturers claimed that the requirement that goods be exported to Egypt (and thus not exported to Germany) was inserted at the request of the parallel importer, who wished to obtain more favourable export prices, and that the parties did not have a common intention to restrict competition. However, the Court rejected this argument, holding:

> in order to determine whether an agreement has as its object the restriction of competition, it is not necessary to inquire which of the two contracting parties took the initiative in inserting any particular clause or to verify that the parties had a common intent at the time when the agreement was concluded. It is rather a question of examining the aims pursued by the agreement as such, in the light of the economic context in which the agreement is to be applied.

Although not principally concerned with parallel imports, one of the crucial cases which distinguished agreements from unilateral conduct was *AEG-Telefunken*.[49] There the manufacturer, operating a selective distribution system, had refused to admit certain traders and had taken steps to exert an influence on prices. The Commission held that this breached Article 81(1) but the manufacturer appealed to the ECJ, claiming that its actions were unilateral. The Court agreed with the Commission, holding that the operation of a selective distribution system would breach Article 81(1) 'where the manufacturer, with a view to maintaining a high level of prices or to excluding certain modern channels of distribution, refuses to approve distributors who satisfy the qualitative criteria of the system'. The Court went on to hold that, rather than constituting unilateral conduct, such action:

> forms part of the contractual relations between the [manufacturer] and resellers. Indeed, in the case of the admission of a distributor, approval is based on the acceptance, tacit or express, by the contracting parties of the policy pursued by [the manufacturer] which requires inter alia the exclusion from the network of all distributors who are qualified for admission but are not prepared to adhere to that policy . . . [therefore] even refusals of approval are acts performed in the context of the contractual relations with authorized distributors inasmuch as their purpose is to guarantee observance of the agreements in restraint of competition which form the basis of

[48] Dec 82/866 *Rolled Zinc Products and Zinc Alloys* [1982] OJ L362/40; Joined Cases 29/83 and 30/83 *Compagnie Royale Asturienne des Mines and Rheinzink v Commission* [1984] ECR 1679.

[49] Dec 82/267 *AEG-Telefunken* [1982] OJ L117/15; Case 107/82 *AEG-Telefunken v Commission* [1983] ECR 3151.

> contracts between manufacturers and approved distributors. Refusals to approve distributors who satisfy the qualitative criteria mentioned above therefore supply proof of an unlawful application of the system if their number is sufficient to preclude the possibility that they are isolated cases not forming part of systematic conduct.

In *Ford*[50] the manufacturer decided to stop supplying its German dealers with right hand drive cars after a big rise in parallel exports to the United Kingdom. The Commission held that Ford's selective distribution system constituted an agreement for the purposes of Article 81(1) and that the system could not be justified under Article 81(3) due to the refusal to supply. On appeal, Ford argued that the refusal to supply was irrelevant because it constituted a unilateral act, but this was rejected by the ECJ which went further than the Commission and held that the refusal of supplies 'does not constitute, on the part of [Ford], a unilateral act which, as the applicants claim, would be exempt from the prohibition contained in Article [81(1)] of the Treaty. On the contrary, it forms part of the contractual relations between [Ford] and its dealers. Indeed, admission to the Ford AG dealer network implies acceptance by the contracting parties of the policy pursued by Ford with regard to the models to be delivered to the German market'.

In *John Deere*,[51] a manufacturer used both contractual and non-contractual means 'to persuade or constrain its dealers not to export—in other words, it . . . sought to persuade the affected dealers to accept an export ban as a concerted practice'. Even where exports were not banned by contract, the manufacturer told dealers that parallel trading was 'undesirable' or 'unfriendly' and took measures such as refusing to supply or threatening to refuse to supply goods which it knew were for export, cancelling contracts with dealers who exported, supplying goods with specifications which made them hard to export, removing or reducing credit or discounts for goods which were exported and, where possible, charging a surcharge on goods being exported. The Commission also found that the object of preventing parallel exports was 'understood and accepted by the national distributors and local dealers, even though not always observed by them'. The non-contractual means of achieving this object were therefore regarded as a concerted practice between the manufacturer and its distributors and dealers.

In *Sperry New Holland*,[52] the manufacturer had traced parallel imports to a particular dealer and asked its exclusive distributor to stop supplying that dealer, which the distributor duly did. The manufacturer claimed that its action had been unilateral and so did not infringe Article 81(1) because the distributor had ceased supplying the dealer on other grounds (specifically, that the dealer

[50] Dec 82/628 *Distribution System of Ford Werke—interim measure* [1982] OJ L256/20; Joined Cases 228/82 and 229/82 *Ford Werke and Ford of Europe v Commission* [1982] ECR 3091 and [1984] ECR 1129; Dec 83/650 *Distribution System of Ford Werke* [1983] OJ L327/31; Joined Cases 25/84 and 26/84 *Ford Werke and Ford of Europe v Commission* [1985] ECR 2725.

[51] Dec 85/79 *John Deere* [1985] OJ L35/58.

[52] Dec 85/617 *Sperry New Holland* [1985] OJ L376/21.

had defaulted on payment four years previously, when a repayment scheme was in place, and that there was a dispute about changes made to serial numbers on agricultural machinery sold the previous year). The Commission considered the grounds advanced but held that, on the facts, the distributor's action had been taken as a consequence of the manufacturer's request and so there had been a breach of Article 81(1).

In *Tipp-Ex*[53] the Commission noted that the judgments in *AEG-Telefunken* and *Ford* held that 'the conduct of an undertaking does not constitute a unilateral act outside the scope of Article [81] where it forms part of the contractual relations between the undertaking and its dealers'. In that case, the Commission went on to note that '[a]n agreement was entered into between Tipp-Ex and its authorized dealers. All authorized dealers adopted Tipp-Ex's ideas regarding the mutual protection of territories and hence these became an integral part of the agreement. It is immaterial whether or not that business policy coincides with the dealers' own interests'. However, most of the distributors and dealers were not fined since they 'followed the policy pursued by Tipp-Ex only partially and with reluctance and only under considerable pressure'.

The Commission took the same approach in *Fisher-Price/Quaker Oats*.[54] There, in response to a rise in the parallel trade of toys from the United Kingdom to Ireland, Fisher-Price wrote to its UK distributor threatening to cut off supplies if it did not stop selling toys to three Irish customers, and the UK distributor wrote back to confirm that it would comply. The Commission followed *BMW Belgium* and *Johnson & Johnson* in finding that the fact that the UK distributor 'consented under strong pressure and even against its own economic interest is not an obstacle to a finding of an agreement'. However, the Commission took this into consideration in deciding to fine only the manufacturer and not the UK distributor.

The approach to invoices adopted in *GERO-fabriek* was followed in *Sandoz*,[55] where Sandoz PF, the Italian pharmaceutical subsidiary of the Sandoz group, was printing the words 'export prohibited' on its invoices. The Commission held that the words formed part of an agreement between Sandoz PF and its customers for the following reasons:

> Although no written general contract exists between Sandoz PF and its customers, it must be considered that the type of agreement referred to in Article [81] is represented by the continuous commercial relationship set up and concretised by the whole of the above-described commercial procedures normally provided for by Sandoz PF in its relations with its customers and at least implicitly accepted by them.
>
> Consequently, the invoice cannot be seen as the expression of a merely unilateral act but forms part of such an agreement of which it constitutes the documentary evidence.

[53] Dec 87/406 *Tipp-Ex* [1987] OJ L222/1; Case C–279/87 *Tipp-Ex v Commission* [1990] ECR I–261.

[54] Dec 88/86 *Fisher-Price/Quaker Oats* [1988] OJ L49/19, paras 19 and 26.

[55] Dec 87/409 *Sandoz* [1987] OJ L222/28; Case C–277/87 *Sandoz Prodotti Farmaceutici v Commission* [1990] ECR I–45.

> The fact that the invoices have been constantly and systematically used leads to the conclusion that Sandoz PF's clients implicitly agreed with it and accepted it.

Sandoz PF appealed to the ECJ, among other things claiming that this did not constitute an agreement and in particular did not constitute a contractual agreement. The ECJ rejected these claims, holding:

> The systematic dispatching by a supplier to his customers of invoices bearing the words 'Export prohibited' constitutes an agreement prohibited by Article [81(1)] of the Treaty, and not unilateral conduct, when it forms part of a set of continuous business relations governed by a general agreement drawn up in advance, based on the consent of the supplier to the establishment of business relations with each customer prior to any delivery and the tacit acceptance by the customers of the conduct adopted by the supplier in their regard, which is attested by renewed orders placed without protest on the same conditions.

The Commission had also considered whether Sandoz PF, in order to block parallel trade, had reduced customer orders 'when quantities ordered are greater than the "normal" average of a certain client or when they do not correspond to what Sandoz PF considers to be the "normal" consumption for the territory covered by a given customer'. Sandoz claimed that such reductions could occur for a variety of reasons connected with structural shortages. The Commission held that 'in the framework of a commercial relationship such as described above, the seller's practice of reducing quantities ordered by its clients to what it considers to be their "normal" demand may be an element of an agreement between the parties, in particular when it constitutes a well known and systematically applied commercial policy on a market characterized by active parallel trade. In such cases, where no different explanation exists, the reductions may be taken as evidence of an effort to prevent parallel trading.' However, the Commission did not find that there was an agreement in this case because 'no sufficient elements have been established to conclude that the reductions practised by Sandoz PF are systematically made with that objective'.

Konica[56] is an example of a case where the manufacturer was found to be in breach of Article 81 in both the exporting and the importing Member States.

In the United Kingdom, where Konica's colour photographic negative film competed mainly on price, the manufacturer's national subsidiary sent a circular to 12 dealers which it suspected of being involved in parallel exports. The circular requested cooperation from the dealers to stop parallel exports, stating that future supplies would be 'individually coded so that any exports from the United Kingdom can be traced by batch number without any difficulty' and also that supplies would be monitored with an invisible marking system. The circular warned that the consequence of continued parallel exports would be a rise in UK prices, and the manufacturer subsequently threatened that supplies would be stopped to dealers whose supplies were found to have been parallel exported.

[56] Dec 88/172 *Konica* [1988] OJ L78/34.

The Commission held that 'it would be unusual in business for a dealer to expressly react to such a letter from a manufacturer' and so a failure to refuse the terms would mean that the dealer implicitly accepted them as a condition of doing business with the manufacturer, particularly where the dealer's behaviour also showed acceptance. This was regarded as being at the very least a concerted practice.

Prices were significantly higher in Germany, where Konica's film competed on quality and was sold only through specialist photo dealers. Konica's national subsidiary not only promised German dealers that it would not supply supermarkets or similar outlets but also bought parallel imported film when it appeared on the German market and offered to refund its dealers if they bought up such film themselves. The Commission regarded this 'as a term of [the subsidiary's] supply contracts with German dealers, whereby [the subsidiary] undertakes to protect its German dealers against competition from parallel imported Konica film by buying it up'. The Commission again held that these circumstances constituted a concerted practice, with at least the tacit acceptance of the German dealers and, in the case of two dealers who bought up parallel imports and were reimbursed, active acceptance.

In *Bayo-n-ox*,[57] the manufacturer issued a circular to its German customers offering them one price if an additive was purchased for their own use and a much higher price if they intended to resell it. The customers were asked to confirm by signing and returning a duplicate of the circular. The Commission held that the manufacturer had entered an agreement not only with those customers who returned the signed duplicate (explicitly) but also with those who did not but who ordered at the lower price anyway (tacit). The only exception was the one customer who expressly rejected the condition.

In *Eco System/Peugeot*,[58] the manufacturer was distributing cars through a network of dealers in Belgium, Luxembourg and France. It was charging substantially higher list prices in France than in the other countries. As a result, a parallel importer was acting as an agent on behalf of French consumers and buying cars in Belgium and Luxembourg. Peugeot sent a circular to its dealers asserting that the parallel importer was acting outside the scope of the relevant block exemption,[59] as it was not an intermediary with prior written consent, and that the dealers therefore could and should refuse to supply the parallel importer or anyone else acting in a similar manner. The Commission held as follows:

> The circular is not a unilateral measure by Peugeot. On the contrary, it is an integral part of the commercial relations between the manufacturer and the distributors in its

[57] Dec 90/38 *Bayo-n-ox* [1990] OJ L21/71.

[58] Dec in Case IV/33.157 *Eco System/Peugeot—Interim Measures* (26 Mar 1990, unpublished); Case T–23/90 R *Automobiles Peugeot v Commission* [1990] ECR II–195 (Order), [1991] ECR II–653 (Judgment); Dec 92/154 *Eco System/Peugeot* [1992] OJ L66/1; Case T–9/92 *Automobiles Peugeot v Commission* [1993] ECR II–493; Case C–322/93 *Automobiles Peugeot v Commission* [1994] ECR I–2727.

[59] Reg 123/85 [1985] OJ L15/16. This is discussed further in sect I.E.ii (Vertical Agreements Regarding Motor Vehicles) below.

> network; those relations, for their part, are based on a standard distribution contract signed by all the Parties concerned. The purpose of the circular is to spell out the obligations which the contracts, as interpreted by Peugeot, impose on distributors belonging to its sales network. Consequently, the mere transmission by Peugeot of the circular to its dealers contains all the features of an 'agreement' within the meaning of Article [81], without it being necessary to establish that the circular was explicitly or tacitly accepted by those to whom it was sent . . . The latter demonstrated their consent by following the instructions issued by Peugeot.

The Commission held that the refusal of supplies was anti-competitive and fell outside the scope of the block exemption. Therefore Peugeot was ordered to withdraw the circular under the threat that its distribution agreements would lose the benefit of the block exemption. Peugeot's appeals to the CFI and the ECJ were rejected.

In *Dunlop Slazenger*,[60] the UK manufacturer, DSI, sold its sports products through exclusive distributors or subsidiaries in each Member State except for the United Kingdom, where it sold directly to retailers and some wholesalers. In most cases, DSI charged substantially higher prices for goods sold in the Community than for goods exported to other countries. DSI initially tolerated sales of export goods to other Member States by a particular UK customer, Newitt, but after complaints from its overseas distributors DSI took various measures to restrict such exports.

First, DSI sent a letter to Newitt in which it confirmed an order but stated that 'I would confirm our export policy as quite simply not allowing shipments to any world market where we have local legal distributor agreements where to supply via a third party would be both a breach of contract and poor commercial practice. In essence all European markets are covered by such agreements.' When this failed, DSI specifically prohibited exports save as otherwise agreed and began not only to charge the higher UK list prices but also to reduce the discounts allowed on those prices. Ultimately, DSI refused to supply Newitt with certain goods (tennis balls) altogether, and when Newitt secured supplies from DSI's US subsidiary these too were stopped. After being told that Newitt had complained to the Commission, DSI later offered to supply, but only on condition that Newitt identified its final customer.

At the same time, DSI supported its exclusive distributors by granting them price reductions and paying for them to buy back parallel imports. DSI also marked its goods with identification codes, to enable it to trace parallel imports, and with the label of the national tennis federation in the country in which they were sold, to allow them to be easily distinguished from parallel imports.

After the complaint by Newitt, the Commission investigated and held that 'the barriers erected by DSI to the export of its products are not unilateral acts by DSI, but must be regarded as an integral, although frequently unwritten, part

[60] Dec 92/261 *Newitt/Dunlop Slazenger International* [1992] OJ L131/32; Case T–43/92 *Dunlop Slazenger International v Commission* [1994] ECR II–441.

of its distribution or sales agreements, or are the result of concerted action by DSI and some of its distributors'. It specifically pointed to DSI's letters as demonstrating unwritten clauses guaranteeing absolute territorial protection and prohibiting exports to the territories of other distributors. The Commission held that the refusal to supply resulted from concerted practices between DSI and its exclusive distributors and also from the prohibition on exports by UK customers. Finally, the Commission held that the price rises, buy backs and product marking all resulted from the complaints of the exclusive distributor, which in some cases had assisted in carrying them out.

DSI appealed to the CFI. The Court noted from *AEG-Telefunken* that an agreement 'may form a tacit part of the contractual relations between an undertaking and its commercial partners'. After reviewing the evidence, the Court noted that the reaction of the exclusive distributors to parallel imports, namely to complain to DSI, indicated either that there was a tacit provision guaranteeing them absolute territorial protection or that they accepted DSI's policy to prohibit exports to countries where it had a distributor. The Court therefore upheld the Commission's finding that DSI had imposed a general prohibition of re-export of the goods in question, and that this was not unilateral but rather a contractual prohibition forming part of DSI's relations with its exclusive distributors. In relation to Newitt, the Court held on the basis of the communications between DSI and Newitt that Newitt had tacitly accepted an anti-competitive prohibition on exports. On that basis, the Court held that it would be irrelevant whether Newitt in practice breached that prohibition or whether DSI complained about such breaches. The Court also held that the Commission had established a concerted practice in relation to pricing where the evidence demonstrated that the exclusive distributor in question had agreed to support the price changes, in particular by stopping the export of goods to the United Kingdom, and that these price changes were aimed at ending parallel trade. Finally, the Court accepted that the evidence indicated that marking tennis balls with the logo of the national tennis federation was the result of a concerted practice between DSI and its exclusive distributor.

In *Zera/Montedison and Hinkens/Stähler*,[61] the manufacturer sold a different composition of its herbicide to its German exclusive distributor from that sold in the other Member States, at around three times the price. The manufacturer relied on the German Plant Protection Law to try to block parallel imports, as such imports were permitted only if the composition of the product was identical. The manufacturer claimed that this constituted unilateral conduct. However, the Commission reasoned that the German exclusive distributor would not have accepted its obligations, including the high price, minimum sales and non-compete clauses, without the guarantee of absolute territorial protection. The exclusive distributor was aware of this strategy and indeed took part in it, for example by demanding guarantees of different formulations,

[61] Dec 93/554 *Zera/Montedison and Hinkens/Stähler* [1993] OJ L272/28.

preparing sworn statements for civil proceedings against parallel importers, drafting circulars to its customers mentioning the different formulations and reporting parallel imports to the regulatory authorities. The Commission therefore held that there was an agreement between the manufacturer and the German exclusive distributor.

A few months after the CFI issued its judgment in *Dunlop*, the Commission gave a decision in *Tretorn*[62] which again concerned the parallel export of tennis balls from the United Kingdom by Newitt. Tretorn, a Swedish manufacturer, sold its products through subsidiaries in Germany and Denmark and through exclusive distributors in other Member States including the United Kingdom. The Commission once again found that there was an agreement or concerted practice between the manufacturer and its distributors whereby the manufacturer undertook to provide its distributors with absolute territorial protection and the distributors agreed neither to export themselves nor to supply any company likely to export. The Commission also found that the reporting of parallel imports by the distributors, the stamping of products with traceable date codes, the changing of product packaging for different countries and the suspension of supplies after complaints from official distributors who came across traceable parallel imports were all evidence of agreements or concerted practices. Tretorn's exclusive distributor in the Netherlands, Van Megen, appealed to the CFI, arguing that it had not breached Article 81 by providing date codes to Tretorn, but the CFI accepted the Commission's interpretation of the evidence and rejected the appeal.

In *BMW v ALD*[63] the manufacturer had sent a circular to all its dealers in Germany telling them that they were not permitted to sell motor vehicles to independent leasing companies which intended to lease them to customers outside Germany, and threatening termination of their dealership contracts if they made such sales. This was the result of complaints from dealers in other Member States which were being obliged to provide free customer services and maintenance to such customers, even though they had not profited from the sales. One of the independent leasing companies sought an injunction from the German courts, claiming that issue of the circular breached both German competition law and Article 81. The Federal Supreme Court made a reference to the ECJ, which held that the circular was sent 'in the context of the contractual relations between BMW and its dealers' and that it therefore formed 'part of a set of continuous business relations governed by a general agreement drawn up in advance'. The circular was thus part of an agreement covered by Article 81.

In *Volkswagen I*,[64] the Commission examined a range of conduct engaged in by Volkswagen in Italy through its wholly-owned Italian distributor,

[62] Dec 94/987 *Tretorn and others* [1994] OJ L378/45; Case T–49/95 *Van Megen Sports Group v Commission* [1996] ECR II–1799.

[63] Case C–70/93 *Bayerische Motorenwerke v ALD Auto-Leasing D* [1995] ECR I–3439.

[64] Dec 98/273 *Volkswagen I* [1998] OJ L124/60; Case T–62/98 *Volkswagen v Commission* [2000] ECR II–2707; Case C–338/00 P *Volkswagen v Commission* [2003] ECR I–9189.

Autogerma. Among other things, the Commission found that Volkswagen had restricted supplies of vehicles to its Italian dealers in order to reduce the scope for parallel exports. The Commission went on to hold that this policy, 'viewed in its economic and legal context . . . produces its effects within the framework of the distribution agreements concluded with the authorised dealers', altering the contractual relations between Volkswagen and its dealers as Volkswagen no longer met orders placed by its dealers. The Commission also noted that Volkswagen's German and Austrian dealers had urged it to restrict supplies to the Italian market. As a result, the restriction formed part of an agreement and therefore was caught by Article 81.

Volkswagen appealed to the CFI, which noted that the restrictions, along with other anti-competitive acts, were 'intended to influence the Italian dealers in the performance of their contract with Autogerma'. The question whether there was an agreement was then contested before the ECJ, Volkswagen seeking to establish that, even if the dealership contracts permitted it to supply dealers fewer vehicles than requested, any actual reductions in supply would constitute unilateral conduct outside the scope of Article 81. The Commission, by contrast, claimed that the reductions could not be regarded as unilateral measures because they formed part of continuous business relations governed by a general agreement drawn up in advance. The ECJ preferred the Commission's approach, holding that 'by accepting the dealership contract, the Italian dealers consented to a measure which was subsequently used for the purpose of blocking re-exports to Italy and thus of restricting competition within the Community'.

In *General Motors/Opel*,[65] the Commission once again considered action taken by a motor manufacturer to restrict parallel imports. The Commission found that the manufacturer had adopted a policy of refusing to grant bonuses for exports and of directly banning exports for certain dealers, and that both of these breached Article 81. The manufacturer appealed to the CFI largely on the ground that the Commission had not proved that the policies were not unilateral acts.

In relation to the first policy, the Commission had found that the manufacturer had introduced specific conditions in certain sales promotions which excluded bonus payments for export sales and that these conditions were accepted by the dealers which took part in the promotions. The CFI upheld the Commission's findings, noting that the conditions 'became an integral part of the dealership contracts between Opel Nederland and its dealers and became incorporated into a series of continuous commercial relations governed by a pre-established general agreement' and so constituted an agreement for the purposes of Article 81.

In relation to the second policy, the Commission had found that the manufacturer had threatened a number of dealers, instructing them to stop export sales, and that nine dealers had undertaken to do so. The manufacturer claimed

[65] Dec 2001/146 *Opel* [2001] OJ L59/1; Case T–368/00 *General Motors Nederland and Opel Nederland v Commission* [2003] ECR II–4491; Case C–551/03 P *General Motors v Commission* (6 Apr 2006, not yet reported).

that the dealers had done so unilaterally, but this was rejected on the evidence by the CFI which accepted that there was a breach of Article 81. However, the CFI also rejected the Commission's argument that the breach of Article 81 related to all 20 dealers who had been threatened.

Opel did not appeal against these aspects of the judgment to the ECJ.

A summary of the Commission's approach to circulars was provided in *DaimlerChrysler/Mercedes-Benz*,[66] where the Commission held as follows:

> Account should also be taken of the fact that the agency or dealer agreements between the companies belonging to the Mercedes-Benz group on the one hand and the agents and dealers on the other form part of an exclusive and selective marketing system which, as long-term commitments, often exist for several decades. Since, for example, the development of the model range, maintenance strategies or marketing strategy are not foreseeable when a commercial agency or dealer contract is concluded, agreements must of necessity leave certain aspects to a subsequent decision by the manufacturer. The licensing of an agent or dealer as business partner presupposes that each business partner is in agreement with the evolving sales policy of the manufacturer [footnote referring to *AEG-Telefunken* and *Ford*]. This applies to changes to the range of vehicles supplied to the dealer or agent for sale, but also to other changes to the manufacturer's sales policy affecting the dealer's or agent's sales opportunities, which are usually communicated to the sales partner by means of manufacturer's circulars or instructions, which the partner expressly or tacitly accepts. These circulars and instructions have therefore become part of Mercedes-Benz's agreements with agents since they form part of an ongoing business relationship based on an existing general agreement (agency agreement).

This issue was not raised in the appeal to the CFI.

In *Topps*,[67] the Commission indicated that, despite the ECJ's judgment in *Adalat*, it would not be quick to accept that there is unilateral conduct simply because the distributor did not comply in fact with the manufacturer's requests. In that case, Topps argued that its UK distributor had parallel exported within Europe and so the distributor's assurance 'that all product that we are buying stays in the UK, and does not go out of the country' could not be genuine acquiescence. This was rejected by the Commission, which found that actual exports did not preclude an assurance not to parallel export 'as cheating can be advantageous' and that here there was agreement, or at least a concerted practice.

Similarly, Topps was unsuccessful in arguing that its responses to parallel importers in Finland, France and Germany were unilateral because they went beyond the action explicitly requested by its distributors in those countries. The Commission rejected Topps' interpretation, holding that it was artificial to suggest the distributors were merely telling Topps about parallel imports but not asking Topps to take action against them.

[66] Dec 2002/760 *Mercedes-Benz* [2002] OJ L257/1, [2002] OJ L258/36, para 125; Case T–325/01 *DaimlerChrysler v Commission* (15 Sept 2005, not yet reported). Not appealed.

[67] Dec 2006/895 *Souris/TOPPS* [2006] OJ L353/5 (full decision available at ec.europa.eu/comm/competition/). Not appealed.

Nevertheless, the Commission did not fine the distributors because the 'mere fact that [Topps' distributors] were party to anti-competitive agreements and/or concerted practices does not automatically entail their significant responsibility for the infringement' and Topps' 'strategy apparently conflicted with the interests of some of [Topps' distributors] who wanted to profit from price differentials in Pokémon products or tried to import stock which was lacking in their respective countries'.

More broadly, where the Commission does impose a fine on distributors it will typically be smaller than the fine imposed on the manufacturer. Although there is no specific reference to distinguishing between manufacturers and distributors in the Commission's guidelines on fines,[68] the basis for a lower fine may be the relative weight of the distributor in the infringement, the fact that the manufacturer is likely to have led or instigated the infringement and the fact that distributors may not have fully applied the agreement.[69]

ii. Unilateral Conduct

Despite the broad approach to the concept of agreement, behaviour will occasionally be accepted by the Commission as truly unilateral. For instance, in *Hasselblad*,[70] apart from the export ban, the national distributor was also giving priority service under the manufacturer's guarantee to products which it had sold rather than parallel imports.[71] The Commission appeared to accept that this was a unilateral measure, as it did not consider it under Article 81(1) but only under Article 81(3).

However, the breaking point for the Commission came in *Bayer (Adalat)*.[72] The price of the drug ADALAT was much lower in Spain and France than in the United Kingdom, resulting in a large rise in parallel imports. In response, the manufacturer, Bayer, began to restrict supplies to its Spanish and French distributors with the goal of allowing them sufficient stock only for their national markets. Although the distributors were still entitled to export, the reduced supplies taken together with their obligations to supply the national market reduced the scope for such exports.

[68] Fines Guidelines [2006] OJ C210/2, replacing [1998] OJ C9/3.

[69] See, eg, the calculation of the fine in Dec 2003/675 *PO Video Games, PO Nintendo Distribution and Omega—Nintendo* [2003] OJ L255/33; Case T–13/03 *Nintendo v Commission* [2003] OJ C70/27, not yet decided but appealed solely on the level of the fine; Case T–18/03 *CD-Contact Data v Commission* [2003] OJ C70/29, not yet decided and appealed on substantive grounds.

[70] Dec 82/367 *Hasselblad* [1982] OJ L161/18.

[71] See sect I.C.G (Restricting Guarantees and After-Sales Service) below.

[72] Dec 96/478 *ADALAT* [1996] OJ L201/1; Case T–41/96 *Bayer v Commission* [1996] ECR II–381 (Order), [2000] ECR II–3383 (Judgment); Joined Cases C–2/01P and 3/01P *Bundesverband der Arzneimittel-Importeure and Commission v Bayer* [2004] ECR I–23. See S Pautke and K Jones, 'Competition Law Limitations for the Distribution of Pharmaceuticals—Rough Guide to the Brave New World' [2005] *European Competition Law Review* 24. The Commission indicated that a similar system was notified by MSD International and that its response to that notification would depend on the outcome of the *Adalat* appeal: see the response to Written Question E-4002/97 [1998] OJ C196/51.

The Commission held that the export ban was part of an agreement between Bayer and its distributors because it formed part of their continuous commercial relations, particularly given that Bayer had a system in place for detecting which wholesalers were exporting and that it reduced the amounts supplied to such wholesalers.

However, Bayer appealed and the CFI annulled the Commission's decision. The Court began by referring to previous cases and summarised the existing law as follows:

> a distinction should be drawn between cases in which an undertaking has adopted a genuinely unilateral measure, and thus without the express or implied participation of another undertaking, and those in which the unilateral character of the measure is merely apparent. Whilst the former do not fall within Article [81(1)] of the Treaty, the latter must be regarded as revealing an agreement between undertakings and may therefore fall within the scope of that article. That is the case, in particular, with practices and measures in restraint of competition which, though apparently adopted unilaterally by the manufacturer in the context of its contractual relations with its dealers, nevertheless receive at least the tacit acquiescence of those dealers.
>
> It is also clear from that case-law that the Commission cannot hold that apparently unilateral conduct on the part of a manufacturer, adopted in the context of the contractual relations which he maintains with his dealers, in reality forms the basis of an agreement between undertakings within the meaning of Article [81(1)] of the Treaty if it does not establish the existence of an acquiescence by the other partners, express or implied, in the attitude adopted by the manufacturer.

The Court held that there was no evidence that Bayer had asked its distributors not to export nor that it monitored the final destination of products supplied to them. Instead the supply thresholds were based on historical supplies, taking into account possible growth in the size of the national market. The Court reviewed the conduct of the distributors and found that, although they stopped explicitly asking for products for export when such orders were rejected, they continued to try to obtain products for export by claiming that the national market had grown and by splitting orders for export across a number of branches. On this basis the Court held that the Commission was 'wrong in holding that the actual conduct of the wholesalers constitutes sufficient proof in law of their acquiescence in the [manufacturer's] policy designed to prevent parallel imports'.

The Court proceeded to distinguish the various precedents relied upon by the Commission. First, it considered *Sandoz* and noted that the words 'export prohibited' had been printed on the manufacturer's invoices and had been tacitly accepted by the distributors. There was no such statement or acceptance in the current case. Secondly, the Court looked at *Tipp-Ex* and noted that the distributors there had acted upon the manufacturer's requests to stop selling to parallel exporters. Again, this factor was not present in the current case. Thirdly, the Court reviewed *BMW Belgium* and *AEG-Telefunken*. According to the CFI, the Court in those cases had found that the distributors had acquiesced, tacitly or

expressly, in the policies of the manufacturer but there was no such acquiescence by Bayer's distributors.

The Court concluded by considering the Commission's argument that an agreement will exist where distributors maintain their commercial relations with a manufacturer which establishes a policy to restrain exports. The Court held that the Commission could not find a 'concurrence of wills' merely by virtue of the maintenance of commercial relations where the policy is a unilateral one and where the conduct of the distributors is clearly contrary to that policy. The Court held that obstacles to intra-Community trade set up by undertakings were prohibited under the Treaty only where there was a concurrence of wills between at least two parties (Article 81) or where there was an abuse of a dominant position (Article 82). Although not deciding the point, the Court noted that there was nothing in existing case law which suggested that the general prohibition on preventing parallel exports under Articles 28 to 30 of the Treaty applied to undertakings as well as to Member States.

The Commission, together with a German association of parallel traders, appealed to the ECJ but these appeals were rejected on all grounds.

These judgments were seen as a major victory by the pharmaceutical industry, which had long complained that parallel traders were taking advantage of a market distorted by national price regulation. However, the distinction which the Court applied is laid down in the Treaty and is not specific to pharmaceutical products. Manufacturers in other sectors may also try to limit supply to low-priced markets in order to reduce the level of parallel imports which undermine their pricing in high-priced markets. This has already occurred in one of the other sectors which faces high levels of parallel trade, namely cars.

In *General Motors/Opel*,[73] the Commission considered whether a policy of restricting supplies to dealers who were exporting breached Article 81. The Commission found that dealers had been informed that supplies would be limited to the sales targets in Opel's Sales Evaluation Guideline (SEG). The Commission held that this measure formed part of the commercial relationship underlying an existing general agreement and so would constitute an agreement following *Volkswagen I* and *Ford*. This was overturned by the CFI on the basis that, although a decision had been taken to restrict supplies in this way, the Commission had not proved that 'the restrictive supply measure was communicated to the dealers and still less that the measure entered into the field of the contractual relations between Opel Nederland and its dealers'. The Commission did not appeal.

In *Volkswagen II*,[74] the Commission found Volkswagen's commercial behaviour in breach of Article 81, although not in relation to parallel imports.

[73] Dec 2001/146 *Opel* [2001] OJ L59/1; Case T–368/00 *General Motors Nederland and Opel Nederland v Commission* [2003] ECR II–4491; Case C–551/03 P *General Motors v Commission* (6 Apr 2006, not yet reported).

[74] Dec 2001/711 *Volkswagen II* [2001] OJ L262/14; Case T–208/01 *Volkswagen v Commission* [2003] ECR II–5141; Case C–74/04 *Volkswagen v Commission* (13 July 2006, not yet reported).

Volkswagen had sent circulars to its German dealers urging them not to discount prices but to report any dealers offering discounted prices. It had also written to individual dealers who had discounted, warning them that such discounts damaged the brand image and threatening to terminate the dealership agreements or take other legal action. Such demands were outside the scope of the dealership agreements, which allowed Volkswagen only to make non-binding price recommendations. However, the Commission held that such conduct had to be seen against the background of the dealership agreements and that the dealers therefore had to be regarded as explicitly or implicitly accepting Volkswagen's policy as part and parcel of those agreements. The Commission did not assess whether or not the dealers actually changed their pricing policy in response to the circulars and letters.

Volkswagen appealed to the CFI which noted that, while unilateral conduct by the manufacturer would not constitute an agreement, any concurrence of wills between two parties would constitute an agreement regardless of the form in which it was manifested, including tacit acquiescence. The CFI said that the Commission's case amounted to a claim that the signing of the dealership agreement would constitute agreement to future, unlawful variations of that agreement. The CFI disagreed and held that the Commission would have to demonstrate acquiescence by the dealers to the circular or letter itself. The Court therefore overturned the Commission's decision on the basis that it had not proved the existence of an agreement. The Commission appealed to the ECJ which confirmed that the Commission had not shown that the circulars were part of any agreement, although it overturned the CFI's finding that the unlawful circulars could not form part of the overall commercial relationship between Volkswagen and its dealers simply because the dealership agreement itself did not breach Article 81.

iii. Horizontal Agreements and Unilateral Conduct

Restrictions on parallel trade can also be agreed horizontally between competing manufacturers. Normally such restrictions will form a relatively minor part of a larger anti-competitive agreement between the manufacturers, such as a price-fixing or market sharing agreement,[75] although in some cases manufacturers may enter into agreements specifically relating to parallel trade. However, manufacturers will often argue that they are acting unilaterally and that similarities arise only because one manufacturer took the lead and others then copied the strategy when it proved successful. Given that manufacturers will monitor the market to see what strategies are effective against parallel trade, and that they have a clear interest in pursuing these strategies even in the absence any agreement with other manufacturers, without clear evidence it may be difficult to prove that implementation of similar strategies is the result of an agreement between them.

[75] See, for instance, Dec 72/478 *GISA* [1972] OJ L303/45.

One case where restrictions on parallel trade were found to be part of a wider horizontal agreement was in *UK Agricultural Tractor Registration Exchange*,[76] where eight manufacturers and sole importers of tractors in the United Kingdom agreed to exchange information in relation to each other's sales. The system was also used to provide the participants with details of parallel imported tractors, as registered with the UK Department of Transport, which facilitated interference with parallel trade.

More commonly, there is no proof that the conduct has resulted from an agreement. In *Rolled Zinc Products*[77] one manufacturer had ceased supplying a parallel trader on the same day that a second manufacturer had accused the parallel trader of exporting its products to Germany. Eight days later the second manufacturer also ceased supplying the parallel trader. The Commission held that this could not be explained 'other than by the existence of an exchange of information between [the manufacturers] with a view to taking parallel and concurrent action against [the parallel trader] in a concerted practice for the protection of the [price level on the German market], by means in particular of preventing parallel exports or re-imports of rolled zinc products originating in Germany'. The Commission held that this breached Article 81. However, the parties appealed to the ECJ, claiming that there was an innocent explanation for the behaviour, in that the second manufacturer had just completed one order on the date it ceased supply and that it had already had difficulties getting payment from the parallel trader for these deliveries. On this basis, the Court overturned the Commission's decision, holding that 'the Commission has not produced sufficiently precise and coherent proof to justify the view that the parallel behaviour of the two [manufacturers] was the result of concerted action between them'.

Similarly, the parallel importers in *Glaxo Group v Dowelhurst*[78] sought to argue that trade mark infringement proceedings had been brought against them by a number of companies further to an agreement or concerted practice in breach of Article 81. The proceedings related to the repackaging of pharmaceutical products and were considered in Chapter 2. The competition issue came before the court at a preliminary stage in order to determine whether it was arguable. Laddie J held that it might be an arguable defence if proved, and therefore examined the evidence put forward to support it. The parallel importers

[76] Dec 92/157 *UK Agricultural Tractor Registration Exchange* [1992] OJ L68/19; Cases T–34/92 *Fiatagri and New Holland Ford v Commission* [1994] ECR II–905 and T–35/92 *John Deere v Commission* [1994] ECR II–957; Cases C–7/95P *John Deere v Commission* [1998] ECR I–3111 and C–8/95P *New Holland Ford v Commission* [1998] ECR I–3175.

[77] Dec 82/866 *Rolled Zinc Products and Zinc Alloys* [1982] OJ L362/40; Joined Cases 29/83 and 30/83 *Compagnie Royale Asturienne des Mines and Rheinzink v Commission* [1984] ECR 1679.

[78] *Glaxo Group v Dowelhurst/Boehringer Ingelheim v Swingward* [2000] FSR 371 (High Court); 3 Mar 2000 (CA, unreported). See discussion in S Preece, '*Glaxo and others v Dowelhurst and Swingward*: Litigation and the Scope of Article 81' [2000] *European Competition Law Review* 330. These judgments formed part of the early stage of the ongoing repackaging dispute, considered in Ch 2.

had argued that the agreement or concerted practice had come into being at two conferences and a workshop held in Vienna in February 1999 under the title 'Parallel Trade in European Pharmaceuticals'. The second conference and the workshop had been closed sessions limited to representatives of the research-based pharmaceutical industry. Evidence was put forward of the contents of the second conference and workshop and to suggest that, although only a few repackaging complaints had been received before the meetings, in the months following the meetings 'a very large number of complaints, some written in virtually identical terms, flooded into the [parallel importers] including, in particular, the defendants'. After a detailed consideration of the evidence, Laddie J accepted that it was indeed arguable at this stage that a concerted practice might have come into existence in Vienna and that all of the claimants except Glaxo Wellcome might have participated. He therefore allowed the case to go forward in relation to the other claimants, Boehringer Ingelheim, Smithkline Beecham and Eli Lilly. The first two of these appealed, along with the parallel importers, but judgment was never given in the appeal and the Article 81 defence and counterclaim were withdrawn.

Other allegations that collusion between pharmaceutical companies had led to refusals to supply were rejected as unsubstantiated by the Spanish Competition Service and Tribunal in *Laboratorios Farmacéuticos*[79] and *Distribuciones Farmacéuticas*.[80]

Similar arguments were advanced before the French Competition Council in *French Pharmaceutical Companies*.[81] French pharmaceutical exporters had filed complaints with the Competition Council against a total of 21 pharmaceutical manufacturers, alleging among other things that there was an agreement between the manufacturers to restrict or refuse supplies. However, the Competition Council found that, although there were similarities in the action taken by the manufacturers, there were differences in timing and in the detail of the action, with some introducing new systems of selective distribution and others merely adapting their existing systems. Therefore, the Competition Council rejected the allegation that there was any agreement between the manufacturers.[82] The Council rejected similar allegations in the motor vehicle sector in *Turbo Europe*.[83]

Finally, the possibility of collusion between competitors was considered but again rejected on the basis of a lack of evidence by the UK Office of Fair Trading

[79] Dec R437/00 *Laboratorios Farmacéuticos* (Tribunal de Defensa de la Competencia, 12 Feb 2001)

[80] Dec R506/01 *Distribuciones Farmacéuticas* (Tribunal de Defensa de la Competencia, 19 Feb 2004).

[81] Dec 05-D-72 *French Pharmaceutical Companies* (Conseil de la Concurrence, 20 Dec 2005) BOCCRF 6/2006. This has been appealed to the Cour d'Appel Paris.

[82] *Ibid*, paras 219–224.

[83] Dec 06-D-11 *Turbo Europe* (Conseil de la Concurrence, 16 May 2006, not yet reported) [2006] ECLR N163.

in *Wholesale Supply of Compact Discs*.[84] However, the OFT indicated that it would keep contact between the record companies under review.

C. Article 81(1): Anti-competitive Object or Effect

Once it has been established that there is an agreement or concerted practice between two or more undertakings, the third criterion is whether its object or effect is to prevent, restrict or distort competition within the common market, or in other words whether it contains an anti-competitive restriction.

As with the approach taken when determining whether there is an agreement in the first place, a broad pragmatic approach, rather than formal legalistic one, is taken when determining whether an agreement involves an anti-competitive restriction. First, the terms 'object' and 'effect' are read disjunctively, so that where an agreement's object is anti-competitive it is irrelevant that there may have been no effect on the market (ie the object failed). Secondly, where the effect on the market is being considered, the actual effect is considered, rather than what ought to have happened on the assumption that the parties involved were fully aware of their rights and acted rationally on that basis.[85]

For instance, undertakings cannot avoid the application of Article 81 by stating that a general restriction in a contract applies only in so far as permitted by law. In *Kodak*[86] an export ban which applied only 'in so far as the legislation in force allows this prohibition' was held to restrict competition because retailers would have difficulty in interpreting the scope of the legislation to determine what exports were permissible.[87] Similarly in *John Deere*[88] an export ban qualified by the words 'as far as no contrary legal regulation prevents' constituted a restriction because:

> the article is worded to read as if exporting is forbidden and imposed without explanation or negotiation by a company that ought to know the law on a multitude of small dealers; such dealers are less likely to know the law and unlikely, in the circumstances, to consult a lawyer; it is most unlikely, therefore, that the dealer would know that an export ban is contrary to Community law and could not in consequence of that fact be enforced against intra-Community exports.

The Commission's decision appears rather unfair, as it is not only small retailers who have difficulties in interpreting the exact scope of Community law, although they may not benefit from the restriction and may have fewer resources to devote to legal analysis than manufacturers who distribute across

[84] OFT391 *Wholesale Supply of Compact Discs* (Sept 2002), paras 6.8–6.10.

[85] For more detail, see R Whish, '*Competition Law* 5th edn (OUP, Oxford2005) 106–128.

[86] Dec 70/332 *Kodak* [1970] OJ L147/24, [1970] CMLR D19.

[87] Kodak therefore amended the condition to allow export or resale for export within the Community but retained the prohibition on export or resale for export outside the Community. This is considered further in Ch 5, sect II.A (Article 81).

[88] Dec 85/79 *John Deere* [1985] OJ L35/58.

Europe. Nevertheless, the Commission clearly places on manufacturers the burden of clarifying the limits to contractual restrictions.

It is equally irrelevant that a manufacturer has not enforced restrictions in its contracts. In *Miller*[89] the manufacturer's written contracts with its distributors included export bans, and the Commission held that these restricted competition. Miller appealed to the ECJ, claiming that they were adopted at the wish of Miller's distributors and had not been enforced. The Court held that this was irrelevant, noting that it was irrelevant whether the prohibitions had been instigated by the supplier or by the customer, given their purpose. The fact that Miller was not strict in enforcing them did not mean they had no effect, 'since their very existence may create a "visual and psychological" background which satisfies customers and contributes to a more or less rigorous division of the markets'. Similar conclusions were reached in *Rolled Zinc Products*,[90] *Woodpulp*[91] and *Sandoz*.[92]

Similarly, the fact that the manufacturer has the right to consent to exports under the contract does not mean that there is not a restriction. In *GERO-fabriek*[93] a Dutch manufacturer's general terms of sale for wholesalers and for retailers prohibited sale of their products abroad without the written consent of the manufacturer. The Commission considered that this was 'equivalent to a prohibition on exporting' and thus in breach of Article 81(1). The same approach was taken by the ECJ in *Kerpen & Kerpen*.[94]

Article 81 provides a non-exhaustive list of conduct which is anti-competitive. Some of the conduct listed, such as price fixing or limiting production, has nothing in particular to do with parallel trade but rather concerns attempts to distort competition between competing manufacturers. However, a wide range of restrictions on parallel trade may be regarded as anti-competitive market sharing or other territorial restraints.

The Commission's Vertical Guidelines list some of the practices which the Commission regards as territorial restrictions. Although this is in the context of Article 81(3), there is no reason to suggest that these factors do not equally apply to the determination of whether an agreement has an anti-competitive object or effect. The list is as follows:

> [Market partitioning by territory] may be the result of direct obligations, such as the obligation not to sell . . . to customers in specific territories or the obligation to refer

[89] Dec 76/915 *Miller International Schallplatten* [1976] OJ L357/40; Case 19/77 *Miller International Schallplatten v Commission* [1978] ECR 131.

[90] Dec 82/866 *Rolled Zinc Products and Zinc Alloys* [1982] OJ L362/40; Joined Cases 29/83 and 30/83 *Compagnie Royale Asturienne des Mines and Rheinzink v Commission* [1984] ECR 1679.

[91] Dec 85/202 *Woodpulp* [1985] OJ L85/1; Joined Cases C–89/85, 104/85, 114/85, 116/85, 117/85 and 125/85 to 129/85 *Ahlström Osakeyhtiö v Commission* [1993] ECR I–1307, paras 168–177.

[92] Dec 87/409 *Sandoz* [1987] OJ L222/28; Case C–277/87 *Sandoz Prodotti Farmaceutici v Commission* [1990] ECR I–45.

[93] Dec 77/66 *GERO-fabriek* [1977] OJ L16/8.

[94] Case 319/82 *Société de Vente de Ciments et Bétons de l'Est v Kerpen & Kerpen* [1983] ECR 4173.

> orders from these customers to other distributors. It may also result from indirect measures aimed at inducing the distributor not to sell to such customers, such as refusal or reduction of bonuses or discounts, refusal to supply, reduction of supplied volumes or limitation of supplied volumes to the demand within the allocated territory . . ., threat of contract termination or profit pass-over obligations. It may result from the supplier not providing a Community-wide guarantee service, whereby all distributors are obliged to provide the guarantee service and are reimbursed for this service by the supplier, even in relation to products sold by other distributors in their territory. These practices are even more likely to be viewed as a restriction of the buyer's sales when used in conjunction with the implementation by the supplier of a monitoring system aimed at verifying the effective destination of the supplied goods, e.g. the use of differentiated labels or serial numbers. However, a prohibition imposed on all distributors to sell to certain end users is not classified as a hardcore restriction if there is an objective justification related to the product, such as a general ban on selling dangerous substances to certain customers for reasons of safety or health. It implies that the supplier himself does not sell to those customers. Nor are obligations on the reseller relating to the display of the supplier's brand name classified as hardcore.[95]

The Commission goes on to note that one of the possible negative effects of vertical restraints is 'the creation of obstacles to market integration, including, above all, limitations on the freedom of consumers to purchase goods or services in any Member State they may choose'.[96]

The Commission lists further examples in Regulation 1400/2002, the block exemption for motor vehicles,[97] where it states that indirect restrictions on sales include:

> limits placed by suppliers on their distributors' sales to any end user in other Member States, for instance where distributor remuneration or the purchase price is made dependent on the destination of vehicles or on the place of residence of the end users . . . supply quotas based on a sales territory other than the common market, whether or not these are combined with sales targets [or] bonus systems based on the destination of the vehicles or any form of discriminatory product supply to distributors, whether in the case of product shortage or otherwise.

The types of conduct listed by the Commission cover some of the more common methods used to restrict parallel trade: outright restrictions; attempts to charge higher prices for goods which are exported; refusals or delays of goods which might be exported; or reducing the value of parallel imported goods by refusing guarantees or other after-sales services.

However, these lists are not exhaustive and various other methods have been used. For instance, undertakings may seek to: vary the packaging used in different countries; rely on barriers provided by national legislation on intellectual property, unfair competition or safety; trace parallel imports; or share

[95] Commission Notice—Guidelines on Vertical Restraints [2000] OJ C291/1, para 49.
[96] *Ibid*, para 103.
[97] Reg 1400/2002 [2002] OJ L203/30, rec 16.

information on pricing. They may also try to limit the access of parallel traders to services provided by third parties such as finance, legal services, advertising, transport, wholesaling or retailing.

i. Export and Import Bans

The most straightforward restriction on parallel trade is a ban on exports or, less typically, imports.

Export bans can take various forms. In *Moët et Chandon*[98] the price list for champagne sold by the manufacturer's United Kingdom subsidiary was 'valid only for goods intended for consumption within the United Kingdom or for sale through diplomatic channels, on airlines or as ships' stores'. By contrast, orders for goods intended for consumption outside the United Kingdom were to be handled and invoiced by the manufacturer's French subsidiary. Unsurprisingly, the Commission found this to be 'tantamount to a ban on the export of all champagne sold by [the manufacturer] on the said terms'.

Similarly, export bans need not be in written form. In *Johnson & Johnson*,[99] an absolute prohibition on exports was modified to a prohibition on exports to countries outside the Community. However, the Commission found that in reality exports to other Member States were still prohibited, since the manufacturer (a) stressed to dealers suspected of exporting that the absolute ban still applied; (b) made and carried out threats to withhold or delay supplies; and (c) instituted a system of checks on dealers.

In *Viho/Toshiba*[100] there were again no written export bans in Toshiba's contracts with its Danish and Spanish distributors, although there were written export bans in Toshiba's distribution agreements in other Member States. Nevertheless, the Danish distributor had complained about parallel imports and the Spanish distributor had refused to export on the basis that it was prohibited from doing so. Based on this evidence, the Commission held that the parties understood that there was an export prohibition and this breached Article 81(1).

Equally, a provision which on the face of it is not an export ban may constitute such a ban in the way it is understood or applied. In *Glasurit*,[101] which concerned parallel imports of motor vehicle refining paints from Belgium to the United Kingdom, Article 2 of the authorised dealer agreement was headed '[e]xclusive distribution right and ban on competition' and the first paragraph of Article 2(2) of that agreement stated that '[t]he authorised dealer undertakes to pass on to [the manufacturer] any customer enquiries coming from outside the contract territory and to refrain, outside the contract territory, from seeking customers or maintaining branches or supply depots for the distribution of the

[98] Dec 82/203 *Moët et Chandon (London)* [1982] OJ L94/7.
[99] Dec 80/1283 *Johnson & Johnson* [1980] OJ L377/16.
[100] Dec 91/532 *Viho/Toshiba* [1991] OJ L287/39.
[101] Dec 95/477 *BASF Lacke+Farben/Accinauto* [1995] OJ L272/16; Case T–176/95 *Accinauto v Commission* [1999] ECR II–1635.

contract products'. The parties argued that this was simply an obligation to pass on information, not an export ban, but this was rejected by both the Commission and the CFI in the light of all the evidence, in particular the fact that the Belgian dealer had stopped supplying the paint to the parallel importer.

Certain resale bans may also constitute export bans. In *Cafeteros de Colombia*,[102] the Commission found that prohibitions on the resale of green (unroasted) coffee beans involved an export ban resulting in the partitioning of the Community market, which breached Article 81(1). The Commission reached the same conclusion in *Instituto Brazileiro do Café*,[103] where the offending clauses were removed without a formal decision. A similar provision prohibiting the resale of green (unripened) bananas had been found to be abusive under Article 82 in *United Brands*.[104]

Wholesalers may be prohibited from selling directly to consumers.[105] However, prohibitions on resale between dealers or distributors can also constitute export bans.[106] In *PO/Yamaha*,[107] a requirement that dealers sell only to end users and not other dealers was found to amount to an impermissible ban on exports, as was a requirement that dealers purchase only from the manufacturer. Equally, a requirement that dealers contact the manufacturer before exporting goods sold via the Internet was regarded as discouraging exports. More recently, the Commission has taken action against a number of undertakings in relation to territorial restrictions on the resale of gas.[108]

Distribution agreements which require export bans in sale contracts with consumers are also regarded as anti-competitive. In *Sperry New Holland*,[109] the Commission held that 'a restriction on the purchaser's freedom to alienate his property as he sees fit amounts to a restriction of competition within the meaning of Article [81(1)] if such a restriction affects trade between Member States'. Similarly, in *Deutsche Philips*[110] German wholesalers were required by the manufacturer to supply the products in question only to specialised retailers, and retailers were required to supply them only to consumers. Although this was not on its face related to parallel imports, the Commission held that this prevented sales by German wholesalers to foreign wholesalers or customers, and sales by

[102] Dec 82/860 *Cafeteros de Colombia* [1983] OJ L360/31.

[103] *Instituto Brasileiro do Café,* EC Commission, *Sixteenth Report on Competition Policy* (1986), point 54; see also *Fifth Report on Competition Policy* (1975), point 33.

[104] Dec 76/353 *Chiquita* [1976] OJ L 95/1; Case 27/76 *United Brands v Commission* [1978] ECR 207. See sect II.B.i (General Case Law) below.

[105] Dec 76/159 *SABA* [1976] OJ L28/19; Case 26/76 *Metro v Commission* [1977] ECR 1875. See also Dec 85/616 *Villeroy & Boch* [1985] OJ L376/15.

[106] *Fifteenth Report on Competition Policy* (1985), points 60 (*Mitsui/Bridgestone*), 61 (*Interlübke*), 64 (*Menrad-Silhouette*) and 65 (*Rodenstock/Metzler*).

[107] Dec in Case COMP/37/975 *PO/Yamaha* of 16 July 2003 (unpublished but available at ec.europa.eu/comm/competition/)).

[108] *Statoil and Norsk Hydro*, Press Release IP/02/1084; *Nigeria LNG*, Press Release IP/02/1869; *Gazprom/ENI*, Press Release IP/03/1345; *OMV/Gazprom*, Press Release IP/05/195; *E.ON Ruhrgas/Gazprom*, Press Release IP/05/710.

[109] Dec 85/617 *Sperry New Holland* [1985] OJ L376/21.

[110] Dec 73/322 *Deutsche Philips* [1973] OJ L293/40.

German retailers to foreign wholesalers or retailers, thus having the same effect on cross-frontier trade as a direct export ban and being similarly in breach of Article 81.

This may also arise where the manufacturer agrees with an exclusive distributor to impose an export ban on its other distributors. In *Polistil/Arbois*[111] the manufacturer had agreed to 'impose on its exclusive distributors, dealers and also wholesalers a ban on selling into the exclusive territory' of its French distributor. This was regarded as having the object of restricting competition.

Import bans, although less common, are similarly regarded as anti-competitive. In *French Record Companies* the French Competition Council considered the effect of various record labels (Polygram, BMG, Virgin, Sony and EMI) seeking to force their distributors to purchase records only from the labels' French subsidiaries and not to buy cheaper parallel imports.[112] Possible sanctions against distributors included the refusal to accept returns of unsold records (Polygram, BMG and Virgin) or even the termination of commercial relations (Polygram). The Competition Council held that such pressure and potential sanctions infringed Article 81. An appeal was rejected by the Paris Court of Appeal.

Absolute territorial protection within a single Member State, although not an export ban, may also be classified as an anti-competitive restriction. *Pronuptia*[113] concerned a franchise agreement under which the franchisee was not permitted to open a second shop and the franchisor undertook to give the franchisee exclusive use of the business name or logo in a given territory. Although the territories were smaller than Member States, the Court followed *Consten and Grundig*, holding that this restricted competition within the network and that 'a restriction of that kind constitutes a limitation of competition for the purposes of Article [81(1)] if it concerns a business name or symbol which is already well-known'. The question whether a prospective franchisee would invest in entering the chain without such protection would be relevant only in considering whether the restriction was justified under Article 81(3).

Such intra-State protection is also being considered by the Office of Fair Trading in the United Kingdom in *Newspaper and Magazine Distribution*.[114] Wholesalers of newspapers and magazines are currently given exclusive territories and are prohibited from supplying retailers outside those territories. The Office of Fair Trading is of the view that such arrangements are 'highly restrictive of competition' by both object and effect[115] and therefore need to be justified if they are to be permitted under the domestic equivalent of Article 81.

[111] Dec 84/282 *Polistil/Arbois* [1984] OJ L136/9.

[112] Dec 98-D-76 *French Record Companies* (Conseil de la Concurrence, 9 Dec 1998) BOCCRF 6/1999; upheld by Cour d'Appel Paris on 19 Oct 1999 BOCCRF 19/1999.

[113] Case 161/84 *Pronuptia de Paris v Pronuptia de Paris Irmgard Schillgallis* [1986] ECR 353.

[114] Case CE/3978/04 *Newspaper and Magazine Distribution*, draft opinions release for comments in May 2005 (OFT450) and May 2006 (OFT851).

[115] OFT450, above n114, para 3.2; OFT815, above n114, para 3.4.

ii. Exclusive Distribution Agreements

Export or import bans may be part of a broader exclusive distribution agreement, under which the manufacturer agrees not to distribute in the exclusive territory and not to grant anyone else the right to do so, while the distributor may agree not to export from that territory. Such agreements often include exclusive licensing of intellectual property rights which, in itself, may not be regarded as restricting competition.

Initially the Commission suggested that exclusive licensing of patent rights would not be anti-competitive under Article 81(1),[116] although in *Consten and Grundig* both the Commission and the ECJ indicated that any attempt to impose further bans down the distribution chain, in order to prevent parallel trade and thus ensure absolute territorial protection, is likely to be regarded as anti-competitive.[117]

However, in *AOIP/Beyrard*,[118] the Commission held that both the grant of an exclusive licence and a prohibition on exporting to other countries where the licensor had granted licences had a restrictive object or effect.

The Commission's approach was then cut back by the ECJ in *Nungesser*.[119] The manufacturer, the French National Institute for Agricultural Research (INRA), had granted an exclusive licence to a German distributor to distribute certain varieties of hybrid maize seeds in Germany. Under the licence INRA was obliged to do 'everything in its power' to prevent parallel exports to Germany, while the distributor used the plant breeders' rights to block parallel imports of the seeds into Germany. The Commission held that the parties to the agreement had successfully blocked parallel imports into Germany by threatening legal action and had thus maintained higher prices in Germany. As in *AOIP/Beyrard*, the Commission found that both the granting of an exclusive licence for Germany and the restriction on third parties exporting to Germany constituted a restriction of competition for the purposes of Article 81.

However, upon appeal the ECJ distinguished the two measures. The Court held that, given the potential difficulties in disseminating new products such as those in question, the Commission was wrong to find that the grant of an exclusive licence for Germany breached Article 81(1) to the extent that INRA simply agreed not to compete with its distributor in Germany and not to license anyone else to do so, where this did 'not affect the position of third parties such as parallel importers and licensees for other territories'. However, this related only to the exclusive licence. The ECJ agreed with the Commission that the restrictions on parallel trade were restrictive and reiterated that 'absolute territorial protection granted to a licensee in order to enable parallel imports to be controlled and

[116] Commission Communication [1962] OJ 139/2922, paras I(A)(4)(b) and I(E).

[117] Dec 64/566 *Grundig-Consten* [1964] OJ 161/2545; Joined Cases 56/64 and 58/64 *Etablissements Consten and Grundig-Verkaufs v Commission* [1966] ECR 299.

[118] Dec 76/29 *AOIP/Beyrard* [1976] OJ L6/8.

[119] Dec 78/823 *Breeders' Rights—Maize Seed* [1978] OJ L286/23; Case 258/78 *LC Nungesser and Kurt Eisele v Commission* [1982] ECR 2015.

prevented results in the artificial maintenance of separate national markets, contrary to the Treaty'.

Where there is no launch of a new product, exclusive distribution agreements may be regarded as anti-competitive. In *Knoll/Hille-Form*,[120] the Commission held that an exclusive manufacturing and distribution licence granted in relation to the UK and Ireland, under which the licensor could not sell within that territory and the licensee could not sell outside that territory, restricted competition as, unlike *Nungesser*, this did not involve a new product with high launch costs requiring exclusivity. Similarly, in *BIEM-IFPI*,[121] performing rights societies had to agree not to impose export bans on sound recordings, so that sound recordings manufactured and marketable in one Member State could be sold without restriction throughout the Community.

In *Velcro/Aplix*,[122] the Commission suggested that an exclusive patent licence might not be regarded as restrictive during the term of the patent but avoided deciding the point. The Commission has indicated in its technology transfer block exemptions that an exclusive patent or know-how licence granted on a non-reciprocal basis to a non-competitor for a particular territory may fall outside Article 81(1), at least where it involves the introduction of a new technology and/or a new product in the territory in question which would not have otherwise occurred.[123] The Commission has indicated that it will now 'only exceptionally intervene against exclusive licensing between non-competitors', the main exception being where the licensee was already in a dominant position before the licence.[124]

Exclusive distribution agreements are also dealt with in the Commission's Vertical Guidelines, under which, where a product is launched on a new geographical market, it will not be regarded as anti-competitive to prohibit distributors in existing markets from making active or passive sales to intermediaries in the new market for two years, to allow the development of that new market.[125] Similarly, distributors appointed to sell a new product for testing in a limited territory can be prohibited from actively selling that product outside the territory for one year without this being regarded as an anti-competitive restriction.

iii. Selective Distribution Agreements

Another form of distribution is selective distribution, where the manufacturer supplies only certain selected distributors or retailers who meet certain criteria and who in turn do not supply outside the authorised network.

[120] *Knoll/Hille-Form*, *Thirteenth Report on Competition Policy* (1983), points 142–146.
[121] *BIEM-IFPI*, *Thirteenth Report on Competition Policy* (1983), points 147–150.
[122] Dec 85/410 *Velcro/Aplix* [1985] OJ L233/22.
[123] Reg 2349/84 [1984] OJ L219/15, rec 11; Reg 556/89 [1989] OJ L61/1, rec 6; Reg 240/96 [1996] OJ L31/2, rec 10; Reg 772/2004 [2004] OJ L123/11, rec 12; Technology Transfer Guidelines—Commission Notice [2004] OJ C101/2, paras 12(b) and 162–167.
[124] *Ibid*, paras 165–166.
[125] Commission Guidelines on Vertical Restraints [2000] OJ C291/1, para 119(10).

This type of distribution involves restrictions on the identity of parties to whom the manufacturer and distributors sell the products. Where the systems properly rely on purely qualitative criteria they may be regarded as not having an anti-competitive object or effect. For instance, in *Metro v Commission*[126] the ECJ agreed with the Commission that a selective distribution system for 'high quality and technically advanced consumer durables' did not breach Article 81(1) 'provided that resellers are chosen on the basis of objective criteria of a qualitative nature relating to the technical qualifications of the reseller and his staff and the suitability of his trading premises and that such conditions are laid down uniformly for all potential resellers and are not applied in a discriminatory fashion'.

However, if the goods are not of a type that requires such a distribution system, if the manufacturer applies quantitative limits on the number of distributors,[127] or if the system includes other restrictions on competition, the agreement will have an anti-competitive object or effect and require justification under Article 81(3).

Such systems in themselves only restrict sales to unauthorised distributors and do not necessarily prohibit sales to parallel traders, although parallel traders often may not qualify for selection. However, if the systems include export bans, restrictions on parallel trade between authorised distributors or restrictions on sales to end users from outside the territory then those restrictions are likely to bring them within the scope of Article 81(1) and therefore will again have to be justified under Article 81(3).

iv. Delaying or Refusing Supplies

Rather than prohibiting exports, manufacturers may in some cases simply seek to cause practical problems by delaying or even refusing the supply of goods which they suspect may be exported. Such conduct was at issue in many of the cases which were discussed in determining whether the conduct was part of an agreement or was unilateral. It has also been found in a number of cases about the supply of right hand drive cars outside the United Kingdom and Ireland.[128]

Such conduct will clearly be regarded as having an anti-competitive object where it aims to restrict parallel trade. However, the crucial question is whether or not the conduct was actually agreed, as it can normally be implemented by the manufacturer alone. Following *Adalat*, where the agreement is said to be with the dealers in the exporting country it is important to focus on whether or not there was agreement specifically relating to the delay or refusal to supply. However, where the agreement is to provide absolute territorial protection to

[126] Dec 76/159 *SABA* [1976] OJ L28/19; Case 26/76 *Metro v Commission* [1977] ECR 1875.

[127] Case 243/83 *Binon v Agence et messageries de la presse* [1985] ECR 2015.

[128] See, for instance, *Fiat*, *Fourteenth Report on Competition Policy* (1984), point 71 and *Alfa Romeo*, *Fourteenth Report on Competition Policy* (1984), point 72.

the dealers in the importing country, this issue will not arise and the delays or refusals to supply may be evidence of the implementation of that agreement.

v. Higher Prices for Exported Goods

Another alternative is for manufacturers to seek to increase the price of goods which are parallel exported, so as to reduce the incentive for parallel trade, while (if possible) maintaining lower prices for goods sold on the market from which they are exported. The use of such dual pricing, which may take a range of forms, is also regarded as having an anti-competitive object or effect.

In *Kodak*,[129] a sales condition required that all payments within a Member State be made to Kodak's subsidiary in that Member State, and that the price payable should be the list price on the date of delivery. The Commission said that this could be interpreted as meaning that purchasers of products from subsidiaries in other Member States would still have to pay the price charged by the subsidiary in their own Member State, undermining any price benefit. Kodak therefore amended the conditions to require that purchasers in one Member State buying from a subsidiary in another Member State should pay the latter subsidiary at the normal price applied in that subsidiary's national market.

In *Pittsburgh Corning Europe*,[130] the manufacturer, in an effort to reduce parallel trade into Germany, increased its prices sharply in Belgium and the Netherlands and then introduced discounts where the products were used in those countries. The Commission had no hesitation in holding that the object of this concerted practice was to restrict competition by placing an obstacle to parallel trade to Germany.

In *Distillers*,[131] the manufacturer introduced terms which stated that 'various allowances, rebates and discounts are designed to meet the particular requirements of the home trade and customers are only entitled to them when the goods are in fact consumed within the UK'. Customers therefore had to pay the full list price, without any such allowances, rebates or discounts, if they planned to export the goods to other Member States. As an enforcement mechanism, the manufacturer reserved the right to charge the full list price on all goods sold to a customer if it claimed allowances, rebates or discounts on goods which were later found on sale outside the United Kingdom. The Commission held that this was an anti-competitive restriction, and this was not challenged before the ECJ, although the manufacturer did argue unsuccessfully that the terms could be justified under Article 81(3).

In *Sperry New Holland*,[132] a manufacturer of agricultural tractors paid its Dutch exclusive distributor a bonus for tractor sales only if the distributor

[129] Dec 70/332 *Kodak* [1970] OJ L147/24, [1970] CMLR D19.

[130] Dec 72/403 *Pittsburgh Corning Europe—Formica Belgium—Hertel* [1972] OJ L272/35.

[131] Dec 78/163 *The Distillers Company, Conditions of Sale and Price Terms* [1978] OJ L50/16; Case 30/78 *The Distillers Company v Commission* [1980] ECR 2229.

[132] Dec 85/617 *Sperry New Holland* [1985] OJ L376/21.

proved that the tractors had not been exported by the distributor nor by one of the distributor's customers. The Commission held that this infringed Article 81(1). The Commission specifically rejected the manufacturer's argument that, since it was lawful to prohibit active marketing outside the territory, it must also be lawful to reward active marketing within the territory, holding:

> Dealers must have the right to supply farmers from other territories without being penalized by the withdrawal of bonuses. Therefore agreements or practices concerning bonuses which are conditional on the machine not being subsequently exported by the customer, are prohibited. The same rationale might apply to the condition that the machine is registered for use within the territory of the dealer or that the warranty service be completed within that territory.

This was followed in *Citroën*[133] and in *Ford Agricultural*.[134]

In *Bayo-n-ox*,[135] the manufacturer offered its German customers a low price for an animal feedstuff additive on the condition that they purchased it for their own use. The price for any additive which the customers wished to resell was much higher. The Commission said that this would constitute a restriction on competition unless the customers were prohibited by law from reselling the additive for other reasons. The Commission proceeded to hold that, although the customers were indeed prohibited by law from reselling to parties who were not authorised to process the additive, they were not prohibited from reselling to authorised parties and so the own use requirement did indeed have an anti-competitive object.

In *Gosme/Martell*,[136] the Commission again considered a case where discounts and rebates were withdrawn from goods which were parallel exported. Distribution Martell Piper (DMP) was a joint venture between two drinks manufacturers, Martell and Piper-Heidsieck, which acted as their exclusive distributor in France. At that time the price charged to distributors in Italy was 25 per cent higher than that charged to distributors in France, creating the incentive for parallel trade. DMP rightly suspected that a particular wholesaler, Gosme, was exporting Martell cognac to Italy and therefore withdrew a number of discounts from Gosme. DMP informed Martell, which monitored parallel imports into Italy, that it had done so. The Commission held that withdrawal of the discounts was anti-competitive. In addition, the Commission noted that DMP had been asked to raise prices in France to reduce parallel exports to other countries and held that this too would have constituted an anti-competitive restriction.

In *Dunlop Slazenger*,[137] the manufacturer generally charged lower prices for goods which were going to be exported than for goods for the Community mar-

[133] Press Release IP/88/778.
[134] Dec 93/46 *Ford Agricultural* [1993] OJ L20/1.
[135] Dec 90/38 *Bayo-n-ox* [1990] OJ L21/71.
[136] Dec 91/335 *Gosme/Martell—DMP* [1991] OJ L185/23.
[137] Dec 92/261 *Newitt/Dunlop Slazenger International* [1992] OJ L131/32; Case T–43/92 *Dunlop Slazenger International v Commission* [1994] ECR II–441.

ket. However, in response to problems with parallel exports, it started charging one of its exporters the domestic prices instead of the export prices. In particular, the Commission noted various documents which indicated that these price rises had been intended to ensure that parallel imports were made 'impossible'. The Commission therefore held that the price rises were aimed at preventing parallel imports entirely, by setting an artificial ratio between the prices charged to UK exporters and those charged to the exclusive distributor, and so constituted an anti-competitive restriction.

In *Organon*,[138] a pharmaceutical manufacturer increased the price of the MARVELON contraceptive pill in the United Kingdom by 12.5 per cent if it was destined for markets outside the UK. After complaints and intervention by the Commission, the manufacturer ended the practice.

In *Volkswagen I*,[139] the manufacturer was trying to stop dealers in Italy selling to dealers or consumers based outside their territory, and in particular to Germans and Austrians. The Commission found that Volkswagen had changed its system for remunerating its Italian dealers, so that part of the margin paid to the dealers was paid only if the vehicles were registered in Italy. Similarly, Volkswagen had restricted its bonus scheme to vehicles which were registered in Italy. The Commission held that both policies reduced the dealers' revenue and the profit remaining to them, and thus the ability of the dealers to engage in parallel trade. On appeal, the CFI found that, although the changes to the margin payment system had been discussed and would have been anti-competitive, the Commission had 'not adduced sufficient precise and consistent evidence' that they had been introduced. However, the CFI accepted that the Commission had proved its case in relation to the changes to the bonus system and that this was indeed an anti-competitive restriction.

In *JCB*,[140] the manufacturer implemented a scheme under which, if a JCB machine was sold outside a distributor's territory, the selling distributor would pay the distributor in that territory a 'service support fee' to compensate for the cost of supporting the machine during its warranty period. The Commission held that these fees were set by JCB at levels which bore no relation to the support costs and effectively deterred exports. However, the CFI, while agreeing with the analysis in principle, held that the Commission had not established that the fees charged were unrelated to the costs, nor that they prevented exports. The Commission had also held that JCB had withdrawn bonuses (under a scheme to encourage multiple sales to single end users) where machines had been exported, making the distributors' remuneration dependent on the geographical destination of the sale. Again, the CFI overturned the Commission's

[138] Press Release IP/95/1345; *Organon*, *Twenty-fifth Report on Competition Policy* (1995), points 37–38 and pp142–143.

[139] Dec 98/273 *Volkswagen I* [1998] OJ L124/60; Case T–62/98 *Volkswagen v Commission* [2000] ECR II–2707; Case C–338/00 P *Volkswagen v Commission* [2003] ECR I–9189.

[140] Dec 2002/190 *JCB* [2002] OJ L69/01; Case T–67/01 *JCB Service v Commission* [2003] ECR II–49; Case C–167/04 *JCB Service v Commission* (21 Sept 2006, not yet reported).

findings on the basis that the evidence pointed to the withdrawal only where machines had not in fact been sold to end users. The CFI's judgment was upheld by the ECJ.

General Motors/Opel[141] again concerned a car manufacturer which refused to pay bonuses to its dealers where cars were sold to non-resident consumers. Not only did the Commission hold that this was an anti-competitive restriction, but it also held that this was well established and so Opel had 'committed the infringement intentionally and in full knowledge of its illegality', which increased the gravity of the infringement when calculating the fine. Opel's appeal that there was no anti-competitive object was rejected by the CFI and the ECJ, with the latter following *Consten and Grundig* in holding that 'an agreement may be regarded as having a restrictive object even if it does not have the restriction of competition as its sole aim but also pursues other legitimate objectives'.

Similarly, in *Peugeot and Peugeot Nederland*[142] a system restricting bonuses for Dutch dealers to cars subsequently registered in the Netherlands was found by the Commission to have an anti-competitive effect.

In *Nigeria LNG*,[143] a gas producer had a profit-splitting mechanisms in its contracts with European customers under which customers would have to split the profits of any resale of gas outside their territory. In effect, such a mechanism is another way to increase the price of exports. After an intervention by the Commission, the parties agreed not to implement the profit-splitting. Similar agreements were reached in *ENI/Gazprom*.[144]

Occasionally, rather than seeking to increase the initial price charged for goods which are parallel exported, manufacturers may instead seek to ensure that reduced prices are not charged to consumers in the country into which they have been parallel imported.[145] This is very similar to standard price-fixing and is prohibited on that basis. In any event, on its own this is unlikely to be an effective way of prohibiting parallel trade as the parallel trader and retailer can still benefit from the price differential, even if the consumer cannot.

Instead of directly increasing prices, manufacturers may also seek to rely on the effect of taxation to achieve the same aim. The effect of taxation on parallel trade will be considered on more detail in Chapter 4, but agreements which place reliance on tax rules to limit parallel trade may themselves be regarded as anti-competitive. In *Distillers*,[146] The Distillers Company had notified the

[141] Dec 2001/146 *Opel* [2001] OJ L59/1; Case T–368/00 *General Motors Nederland and Opel Nederland v Commission* [2003] ECR II–4491; Case C–551/03 P *General Motors v Commission* (6 Apr 2006, not yet reported).

[142] Dec 2006/431 *Automobiles Peugeot and Peugeot Nederland* [2006] OJ L173/20; Case T–450/05 *Automobiles Peugeot and Peugeot Nederland v Commission* (pending).

[143] *Nigeria LNG*, Press Release IP/02/1869.

[144] *Gazprom/ENI*, Press Release IP/03/1345.

[145] See, for instance, Dec 73/322 *Deutsche Philips* [1973] OJ L293/40 and Dec 82/367 *Hasselblad* [1982] OJ L161/18.

[146] Dec 78/163 *The Distillers Company, Conditions of Sale and Price Terms* [1978] OJ L50/16; Case 30/78 *The Distillers Company v Commission* [1980] ECR 2229.

Commission of its standard conditions of sale of spirits, which included the requirement that purchasers would not resell its goods before payment of UK excise duty, which at the time could amount to several times the producer's selling price for the spirits. Excise duty was not normally payable if spirits were exported, but was not reimbursed if it had already been paid. The Commission held that the requirement to pay excise duty before export amounted to an indirect export prohibition, as '[t]he resale price of spirits in another common market country would thus have included a high amount of British non-reimbursable excise duty. This ruled out any possibility of resale there.' The Commission took the same approach in *Arthur Bell and Sons*[147] and *Wm Teacher and Sons*,[148] where the requirement to pay excise duty had effectively raised the price of exports by around 400 per cent.

In *Glaxo Wellcome*,[149] Glaxo had introduced a pricing system in Spain where distributors were charged a lower price if the goods were to be sold in Spain and financed by Spanish social security or public funds, and were charged a higher price if they were not. Other pharmaceutical manufacturers are reported to have adopted similar systems.[150] Glaxo argued that it was not setting dual prices because it was not free to set the domestic price in Spain, and that it was therefore merely seeking to remedy the distortion caused in the market when prices were set by the Spanish authorities. In assessing the policy, the Commission noted that some of the prices were set so high that they effectively amounted to an export ban, while other prices merely made parallel exports less profitable. The Commission rejected Glaxo's arguments that this was not anti-competitive, noting that neither Member States nor undertakings are entitled to take measures to remedy market distortions and casting doubt on the manufacturer's claims that the price differentials were solely due to unilateral price setting by the Spanish authorities.

On appeal, the CFI drew a distinction between the object and effect of Glaxo's conduct. It was accepted by Glaxo that the dual pricing regime was inserted with the intention of limiting parallel trade between Spain and other Member States, and the CFI acknowledged that, in principle, agreements which ultimately seek to prohibit parallel trade or to treat such trade unfavourably

[147] Dec 78/696 *Arthur Bell and Sons* [1978] OJ L235/15.

[148] Dec 78/697 *Wm Teacher and Sons* [1978] OJ L235/20.

[149] Dec 2001/791 *Glaxo Wellcome* [2001] OJ L302/1; Case T–168/01 *GlaxoSmithKline Services Unlimited v Commission* (27 Sept 2006, not yet reported). Appeals have been filed as Case C–501/06 *GlaxoSmithKline Services Unlimited v Commission*, Case C–513/06 *Commission v GlaxoSmithKline Services Unlimited* and Case C–515/06 *European Association of Euro-Pharmaceutical Companies v GlaxoSmithKline Services Unlimited*. Complaints were also made to the Tribunal de Defensa de la Competencia in Spain, which initially granted interim measures but ultimately left the case to the Commission: see Decs MC29/98 *Glaxo* of 16 Oct 1998, MC30/99 *Glaxo 2* of 19 July 1999, R418/00 *Glaxo 2* of 3 Nov 2000, R416/00 *Glaxo* of 15 Dec 2000, MC29/98 *Glaxo* of 28 Apr 2003, R515/02 *Glaxo* of 30 June 2003 and R514/02 *Glaxo* of 20 Jan 2004.

[150] For instance, see European Association of Euro-Pharmaceutical Companies, 'EAEPC forced to act once more against dual pricing in Spain', Press Release of 27 Nov 2001 and 'Pfizer breaking EU competition rules', Press Release of 17 Oct 2005; Parliamentary Question P-0942/06.

must be regarded as having as their object the restriction of competition. However, the Court agreed with Glaxo's argument that the object of an agreement had to be considered in its legal and economic context. In particular, the Court noted that the prices of pharmaceutical products are directly or indirectly controlled by Member States and that patients generally bear only a limited part of the price of pharmaceutical products they use. On this basis it could not be assumed that parallel trade would operate to reduce prices and thus to increase the welfare of final consumers, and so 'in this largely unprecedented situation' it could not be presumed that the pricing system would restrict competition by its object and the Commission had to consider the effect. The CFI made clear that it was not overturning the existing law and that for most markets the presumption would remain valid.

However, having given with one hand the CFI proceeded to take away with the other when it considered the effect of the restriction. Even accepting Glaxo's argument that competition between parallel traders was so limited that they were able to retain the majority of the price differential, which the Court said had been 'convincingly explained' by Glaxo, the Court found no reason to reject the Commission's appraisal that some of the price differential was passed on to the final consumers, namely the national sickness insurance schemes. On that basis, the effect of the dual pricing regime was to restrict competition, and so it fell within Article 81(1).

The Commission had also rejected Glaxo's more fundamental argument that the arrangement was justified under Article 81(3). That decision was overturned by the CFI and sent back to the Commission for further consideration, as will be discussed further in section I.E.i.c below.

Appeals have been filed against the CFI's judgment by Glaxo, the Commission and the European Association of Euro-Pharmaceutical Companies.

vi. Reduced Prices for Goods Facing Parallel Imports

Rather than seeking to increase the prices of goods which are parallel exported, the manufacturer may reduce its prices in countries which face parallel imports. If this is a general reduction it will normally be regarded as pro-competitive. However, if such reductions are specifically targeted at parallel trade, either under the agreement or when implemented, they may be regarded as anti-competitive.

In *Polistil/Arbois*[151] the Italian manufacturer, Polistil, had agreed that it would 'do its best to ensure the prices it charges Arbois [its exclusive distributor in France] allow Arbois to keep its resale prices competitive with those of similar products and to combat possible competition from foreign importers of Polistil products or Italian wholesalers'. The Commission found that this was half of 'a two-pronged arrangement' which, together with a promise of

[151] Dec 84/282 *Polistil/Arbois* [1984] OJ L136/9.

territorial protection, was 'intended, by its combined effect, to guarantee Arbois absolute territorial protection'. Therefore it had the object of restricting competition.

More controversially, in *Dunlop Slazenger*[152] the Commission held that, where the manufacturer gave ad hoc discounts to its exclusive distributor in the Benelux countries to allow the distributor to drop its prices and compete with parallel imports, such targeted reductions had an 'equivalent effect' to charging higher prices to the parallel exporters, and so constituted an anti-competitive restriction.

In *Renault*[153] and *Peugeot*[154] the French Competition Council adopted a better interpretation of such behaviour. Renault and Peugeot were providing additional funds to certain French distributors who were facing competition from parallel imported cars, allowing those distributors to lower prices or maintain advertising, pre-sales service and after-sales service. The Competition Council held that this did not breach Article 81 as, in contrast to the measures taken in *General Motors/Opel*, neither the object nor the effect of providing the funds was to restrict the commercial freedom of the French distributors.

A slightly different approach was considered in *Wholesale Supply of Compact Discs*,[155] where the UK Office of Fair Trading found evidence that record companies had taken various steps to combat parallel trade, including giving lower prices or preferential discounts to retailers who did not sell parallel imports and punishing those retailers who did by withdrawing discounts and marketing and promotional support. However, the OFT found no evidence that such activities were continuing and so, under the UK law as it then stood, the OFT could take no action.[156]

vii. Restricting Guarantees and After-sales Service

If it is not possible to increase the cost of parallel exported goods the manufacturer may seek to reduce their value in relation to goods put directly on the national market. One way in which this can be done is by refusing guarantees or after-sales service for such goods. Once again, this is clearly an anti-competitive restriction.

[152] Dec 92/261 *Newitt/Dunlop Slazenger International* [1992] OJ L131/32; Case T–43/92 *Dunlop Slazenger International v Commission* [1994] ECR II–441.

[153] Dec 03-D-66 *Renault* (Conseil de la Concurrence, 23 Dec 2003) BOCCRF 1/2004, upheld by the Cour d'Appel Paris on 29 June 2004 BOCCRF 8/2004 and the Cour de Cassation on 12 July 2005 BOCCRF 11/2005.

[154] Dec 03-D-67 *Peugeot* (Conseil de la Concurrence, 23 Dec 2003) BOCCRF 1/2004, upheld by the Cour d'Appel Paris on 21 Sept 2004 BOCCRF 9/2004 and the Cour de Cassation on 17 Jan 2006 BOCCRF 8/2006.

[155] OFT391 *Wholesale Supply of Compact Discs* (Sept 2002), paras 5.2–5.4.

[156] Under the Competition Act 1998 (Land and Vertical Agreements Exclusion) Order 2000, SI 2000/310, revoked by The Competition Act 1998 (Land Agreements Exclusion and Revocation) Order 2004, SI 2004/1260 as of 1 May 2005.

In *Zanussi*[157] an Italian manufacturer sold domestic electrical appliances through subsidiaries in each Member State. The products were largely identical, with some differences due to national technical and safety standards. The manufacturer included a guarantee for after-sales services with the appliances. However, buyers could rely on the guarantee only against the subsidiary which had originally sold the product, and only if it had not been used in another country nor modified or altered by unapproved persons. In practice, alterations might have to be made to meet the national technical and safety standards. The Commission held that these terms had operated to restrict parallel imports by making the guarantee worthless, especially given the importance of free after-sales service to consumers. It therefore required the manufacturer to change the conditions, allowing consumers to rely on the guarantee against their local subsidiary and preventing the guarantee from being invalidated if proper alterations had been carried out. Changes were also agreed in *Moulinex, Bauknecht*[158] and *Matsushita*.[159]

Similarly, in *Hasselblad*[160] the exclusive distributor in the United Kingdom provided a guarantee which was an improvement on the manufacturer's own guarantee, as it extended the duration from one year to two and provided for faster service. Relying on *Zanussi*, the Commission held that 'compared with a purchaser of goods that have been imported through regular channels, a purchaser of parallel-import goods must not be discriminated against either financially or technically or as regards access to after-sales service'. On that basis, although the Commission apparently took the view that the extended duration of the guarantee was acceptable, it held that the priority in speed of repair was anti-competitive.

In *Ford Garantie Deutschland*,[161] the Commission investigated advertisements placed in German daily newspapers by Ford dealers stating '[w]e do not carry out guarantee work on new Ford cars reimported after being purchased elsewhere in the European Community'. The dealers agreed to place further advertisements retracting these statements.

In *Fiat*,[162] the manufacturer differentiated between repairs carried out in the country of original sale, which were done free of charge, and those carried out in other Member States, where the customer would have to pay for them and then claim a refund. After intervention by the Commission, although it maintained a difference in treatment Fiat lengthened the period for claiming such a refund from one to two months, allowed it to be claimed in the customer's own language, allowed it to be claimed from Fiat itself rather than from the original

[157] Dec 78/922 *Zanussi* [1978] OJ L322/36.
[158] *Moulinex* and *Bauknecht*, both in *Tenth Report on Competition Policy* (1980), point 121.
[159] *Matsushita*, *Twelfth Report on Competition Policy* (1982), point 77.
[160] Dec 82/367 *Hasselblad* [1982] OJ L161/18.
[161] *Ford Garantie Deutschland*, *Thirteenth Report on Competition Policy* (1983), points 104–106.
[162] *Fiat*, *Fourteenth Report on Competition Policy* (1984), point 70.

dealer and abolished the requirement that any parts replaced had to be presented to the Fiat dealer who originally sold the car.

In *ETA Fabriques d'Ebauches*,[163] the manufacturer of SWATCH watches sold its products in the Community through a network of exclusive distributors. Each watch included a certificate guaranteeing it for 12 months. The manufacturer sought an injunction to prevent parallel importers from selling products including the guarantee certificate and the national court referred the question whether the guarantee scheme infringed Article 81 to the ECJ, which confirmed that the restriction of the guarantee scheme to exclusive distributors constituted a restriction on competition.

In *Ford Agricultural*,[164] the manufacturer refused warranties on imported tractors, or required that the warranty service take place in the country where the tractor was initially sold, and suggested that dealers also refuse warranties. The manufacturer had also written to its dealers noting this and stating that farmers should therefore verify whether they would have warranties for tractors bought from parallel importers. This was held to be anti-competitive.

In *PO/Yamaha*,[165] guarantees in Belgium, Denmark and Germany which were limited to the national territory were found to breach Article 81. The manufacturer did not seriously dispute this as a question of law, although it did dispute whether the guarantees were so limited in fact.

Such practices have also been dealt with by national competition authorities. For example, in 1997 the French Competition Council found in *French Metal Detectors*[166] that the refusal by an exclusive distributor of after-sales service for parallel imported metal detectors infringed Article 81 and the equivalent provision under French competition law. In that case, the exclusive distributor had also run an advertising campaign highlighting the fact that purchasers of parallel-imported goods would not benefit from the after-sales service, and asking such purchasers to provide it with details of such sales. Similarly, the Finnish Competition Authority has taken action to ensure that buyers of parallel imported cars receive the usual after-sales services[167] and has indicated that it may fine Nikon Nordic for refusing to extend its product guarantee to parallel imported digital cameras.[168]

As a result of these cases the law is relatively clear and such cases of infringement can often be solved without formal measures by the authorities. For instance, in *Saeco*[169] the manufacturer implemented a Community-wide guarantee system for its coffee machines after a complaint brought by a German

[163] Case 31/85 *ETA Fabriques d'Ebauches v SA DK Investment* [1985] ECR 3933.
[164] Dec 93/46 *Ford Agricultural* [1993] OJ L20/1.
[165] Dec in Case COMP/37/975 *PO/Yamaha* of 16 July 2003.
[166] Dec 97-D-21 *French Metal Detectors* (Conseil de la Concurrence, 25 Mar 1997) BOCCRF, 8 Jul 1997, upheld by the Cour d'Appel Paris on 23 Jan 1998 BOCCRF, 17 Feb 1998
[167] *Guarantee services for owners of parallelly imported cars*, Press Release of 9 Dec 1999.
[168] *Nikon Nordic*, Kilpailuvirasto Press Release of 12 May 2006.
[169] Press Release IP/00/684, 'Commission closes competition case after Saeco implements international guarantee for its products' (29 June 2000)

purchasing cooperative which had difficulties in exporting the machines to Austria. Saeco was also required to substitute the old, territorially limited guarantee certificates with new ones to ensure that consumers had certainty about their rights.

viii. Packaging

Manufacturers may use different or identical packaging for their products in different countries. Different packaging allows manufacturers to respond to differing consumer demands or may be required by different regulatory regimes.[170] On the other hand, identical packaging has obvious advantages in terms of efficient mass production and the ability to respond to changing demand flows. In either case this may restrict parallel trade and so, if that is the aim of the manufacturer, this may constitute an anti-competitive restriction.

Where different packaging is used, parallel traders may face consumer wariness of products which appear different from those to which they are accustomed. At the same time, manufacturers and their distribution chain may find it easier to trace parallel imported goods where they have distinct packaging. The parallel traders may repackage the goods, if permitted under trade mark law,[171] but this will increase their costs.

The deliberate differentiation of packaging was considered in *Dunlop Slazenger*,[172] where the manufacturer printed the initials of the national tennis federation on its tennis balls, in part to enable it to identify parallel imports. Similarly, in *Tretorn*,[173] the manufacturer had changed the colour of packaging for goods sold in the USA to combat parallel imports from the USA to Europe,[174] introduced new tubes in Italy to combat parallel imports from France and added a sticker to packaging in Italy to allow its distributors' salesmen to identify parallel imports quickly. In both cases, the Commission held that these measures were anti-competitive restrictions.

Where packaging is identical, this reduces the ability of the manufacturer and consumers to identify parallel imports, but it also makes it harder for those down the distribution chain to determine the source of products. This is irrelevant if the products have been placed on the market within the Community, as any intellectual property rights will have been exhausted (see Chapter 2). On the other hand, if the products have been placed on the market outside the Community, the intellectual property rights will not have been exhausted (see Chapter 5). If the manufacturer avoids making the distinction obvious from the

[170] See Ch 4, sect VI (Labelling).

[171] See Ch 2, sect IV (Repackaging).

[172] Dec 92/261 *Newitt/Dunlop Slazenger International* [1992] OJ L131/32; Case T–43/92 *Dunlop Slazenger International v Commission* [1994] ECR II–441.

[173] Dec 94/987 *Tretorn and others* [1994] OJ L378/45; Case T–49/95 *Van Megen Sports Group v Commission* [1996] ECR II–1799.

[174] See Ch 5 for the significance of extra-territorial restrictions.

packaging, this increases the risks for those who buy parallel traded goods that they may be buying goods which infringe intellectual property rights.

This issue has been considered by the English High Court in relation to parallel trade from outside the Community. In *Glaxo Group v Dowelhurst*,[175] both the High Court and the Court of Appeal criticised the use of identical packaging on products which were sold at a reduced price for use in Africa. However, in *Roche Products v Kent Pharmaceuticals*[176] neither criticised the use of the CE mark on goods which were put on the market outside the Community, although they both distinguished the case from *Glaxo Group v Dowelhurst* on the basis that the packaging used in the Community by Roche was different from that used outside..

The problem was also recognised by the ECJ in *van Doren + Q v lifestyle + sportswear*,[177] which held that the burden may be placed on the manufacturer to prove that the goods were in fact put on the market outside the Community. However, if this can be achieved by means other than the packaging, such as serial numbers or codes, then this may not be a problem for the manufacturer.

The impact of identical packaging on parallel trade has not yet been considered by the Commission or the courts under competition law, despite the criticism in *Glaxo Group v Dowelhurst*. However, by analogy with the decision to vary packaging, if there is any evidence that a decision to use identical packaging within and outside the Community has been taken with the aim of restricting parallel trade within the Community then this may be regarded as anti-competitive.

ix. Intellectual Property and Unfair Competition

The doctrine of Community exhaustion of intellectual property rights has already been discussed at length in Chapter 2. However, there is a separate question whether licensing or assignment of intellectual property rights which are then used to prevent parallel trade may be an anti-competitive restriction. The limits of Article 81 are not necessarily the same as those of Articles 28 and 30, so it is possible that there may be an anti-competitive restriction even where there is no exhaustion of rights (and vice-versa).

The application of Article 81 to intellectual property licences began even before Articles 28 to 30 had fully entered into force. In its 1962 Communication on patent licence agreements,[178] the Commission suggested that various clauses in patent licences would not be regarded as restricting competition under Article 81(1). In particular, the Commission suggested that a restriction on the place of exploitation, whether specifying a territory or even a particular factory, would not be anti-competitive. Nor would an agreement by the patentee not to license anyone else under the patent (a sole licence) or indeed not to practise the

[175] *Glaxo Group v Dowelhurst* [2003] EWHC 2015 (Ch); [2004] EWCA Civ 290.
[176] *Roche Products v Kent Pharmaceuticals* [2006] EWHC 335 (Ch); [2006] EWCA Civ 1775.
[177] Case C–244/00 *Van Doren + Q v lifestyle and sportswear* [2003] ECR I–3051.
[178] Commission Communication [1962] OJ 139/2922.

invention itself (an exclusive licence). However, the Communication did not discuss territorial restrictions on the sale of products by the licensor or licensee, which were dealt with under Article 81(3) by the technology transfer block exemptions.[179]

In *Consten and Grundig*,[180] Grundig had appointed exclusive distributors in various countries and had allowed them to register the trade mark GINT in those countries. Grundig's exclusive distributor in France, Consten, then brought actions against parallel importers in part based on trade mark infringement of the GINT mark. The Commission, upheld by the ECJ, held that Consten was not permitted to use the trade mark to block parallel imports. The ECJ held that the agreement on registration of the trade mark by Consten, which was 'intended to make it possible to keep under surveillance and to place an obstacle in the way of parallel imports', was an anti-competitive restriction, and that Article 81 would be ineffective if Consten were allowed to use the trade mark to achieve such an object.

A similar approach was taken in *Sperry Rand*,[181] where the manufacturer transferred its Italian trade mark to its Italian subsidiary which then brought a trade mark infringement action against a parallel importer. After the Commission intervened, the manufacturer and its Italian subsidiary agreed not to use the trade mark to block parallel trade.

This approach was followed in relation to copyright in *Deutsche Grammophon*,[182] the case which introduced the concept of Community exhaustion of intellectual property rights, where the ECJ stated that 'the exercise of the exclusive right [of distribution of sound recordings covered by copyright] might fall under the prohibition [in Article 81] each time it manifests itself as the subject, the means or the result of an agreement which, by preventing imports from other Member States of products lawfully distributed there, has as its effects the partitioning of the market'. It was also followed in relation to patents in *Centrafarm v Sterling Drug*.[183]

Unfair competition was laws were with in the same way. In *Béguelin Import v GL Import Export*,[184] Oshawa, a Japanese manufacturer of WIN gas cigarette lighters, had appointed Béguelin, a Belgian company, as its exclusive distributor for France and Belgium. Another French company, GL Import Export, purchased a consignment of lighters from Oshawa's exclusive distributor in Germany and began to distribute them in France. Béguelin brought an action for unfair competition and the Nice Commercial Court made a reference to the ECJ, which held that an exclusive dealing agreement 'may have the effects of

[179] See sect I.E.iv (Technology Transfer Agreements) below.

[180] Dec 64/566 *Grundig-Consten* [1964] OJ 161/2545; Joined Cases 56/64 and 58/64 *Etablissements Consten and Grundig-Verkaufs v Commission* [1966] ECR 299.

[181] *Sperry Rand*, EEC Bull 8/1969, 40–1.

[182] Case 78/70 *Deutsche Grammophon v Metro* [1971] ECR 487.

[183] Case 15/74 *Centrafarm v Sterling Drug* [1974] ECR 1147, paras 38–41.

[184] Case 22/71 *Béguelin Import v GL Import Export* [1971] ECR 949.

impeding competition if, owing to the combined effects of the agreement and of national legislation on unfair competition, the dealer is able to prevent parallel imports from other Member States into territory covered by the agreement'. As a consequence, Béguelin could rely on the unfair competition provisions only 'if the alleged unfairness of his competitors' behaviour arises from factors other than their having effected parallel imports'.

Similarly, in *Dassonville*,[185] Scotch whisky was being parallel imported from France to Belgium and the Belgian exclusive distributor brought proceedings for unfair competition on the basis that Belgian law prohibited the importation of goods bearing a designation of origin where the goods were not accompanied by an official document issued by the government of the exporting country certifying the right to such a designation. The ECJ was asked whether the exclusive distribution agreement was prohibited under Article 81 if it authorised or did not prohibit the exclusive distributor from relying on the Belgian legislation to impede parallel imports. The ECJ held that the agreement could be anti-competitive if the exclusive distributor 'is able to prevent parallel imports from other Member States into the territory covered by the concession by means of the combined effects of the agreement and a national law requiring the exclusive use of a certain means of proof of authenticity'. In assessing this, the national court would have to take account not only of the agreement but also of the 'legal and economic context in which it is situated, this would include both the possible existence of similar agreements concluded between the same producer and concessionaires established in other Member States' and the fact that prices for Scotch whisky were appreciably higher in Belgium. However, it was not enough simply that the agreement authorised or did not prohibit the exclusive distributor from relying on the Belgian legislation to impede parallel imports.

In *Tepea*,[186] a UK producer (Watts) had allowed its exclusive distributor in the Netherlands (Theal, later renamed Tepea) to register the trade marks for its products in the Netherlands. Theal then relied on these rights to prevent parallel imports, and a competing distributor, Wilkes, complained. The District Court of Amsterdam decided that Tepea and Watts had breached Article 81 and awarded damages to Wilkes, a finding which was upheld by the Amsterdam Court of Appeal.[187] The Commission agreed with this approach, treating the conduct as a restriction on the freedom of dealers in the Netherlands to obtain products from the United Kingdom and on the freedom of wholesalers in the United Kingdom to supply products to the Netherlands. Theal appealed to the ECJ, claiming that it had acquired the rights independently of Watts and that it used them only against counterfeit goods, not parallel imports, but both these claims were rejected by the Court on the facts.

[185] Case 8/74 *Procureur de Roi v Benoît and Gustave Dassonville* [1974] ECR 837.

[186] Dec 77/129 *Theal/Watts* [1977] OJ L39/19; Case 28/77 *Tepea v Commission* [1978] ECR 1391.

[187] Amsterdam Hof, Judgment of 11 Jan 1979, not reported but referred to in E Morony and S Keene, 'Private Antitrust Remedies: Part 2' (2001) VI *Global Counsel* 53, 70–1.

In *Nungesser*[188] the Commission and the Court had to consider the overlap between the competition provisions and the exhaustion principle. The manufacturer, which was the French National Institute for Agricultural Research (INRA), had granted an exclusive licence to a German distributor to distribute certain varieties of hybrid maize seeds in Germany. INRA subsequently assigned its German plant breeders' rights to the distributor whilst maintaining the contractual relationship. The distributor used its rights to block parallel imports of the seeds into Germany, in one case reaching a settlement under which the third party undertook 'to refrain from selling or marketing' parallel imported seeds. The Commission held that the distribution agreement and the settlement were both anti-competitive by restricting parallel imports, and the ECJ agreed. The ECJ first pointed to the judgment in *Consten and Grundig* as holding that 'absolute territorial protection granted to a licensee in order to enable parallel imports to be controlled and prevented results in the artificial maintenance of separate national markets, contrary to the Treaty'. The ECJ then rejected the argument of the United Kingdom government that the contract did not restrict parallel imports because the intellectual property rights would be exhausted in any event, holding that the prohibition of anti-competitive restrictions 'is not affected by the fact that persons or undertakings subject to such restrictions are in a position to rely upon the provisions of the Treaty relating to the free movement of goods in order to escape such restrictions'.

In *SEB/Moulinex*,[189] SEB had undertaken to grant exclusive licences of the MOULINEX brand for five years in nine EEA countries as a condition of its acquisition of the company. Although the judgment is far from clear, the CFI appeared to take the view that the licensees in those countries would not be able to rely on the trade mark licences to oppose parallel imports from other Member States.

Agreements relating to intellectual property rights can also contain anti-competitive restrictions even where the rights are not actually held by a third party. In *Bayer Dental*[190] the Commission was concerned with Article XIV of the manufacturer's wholesale price list, which stated that the products were 'intended for distribution solely in [Germany]' and that the resale of the products outside Germany 'may lead to claims for damages because they infringe industrial property rights'. The manufacturer claimed that this was aimed at preventing the manufacturer being liable if the products infringed third party rights in other countries. The Commission, however, rejected these arguments, holding that the condition was left deliberately vague and open-ended in order

[188] Dec 78/823 *Breeders' Rights—Maize Seed* [1978] OJ L286/23; Case 258/78 *LC Nungesser and Kurt Eisele v Commission* [1982] ECR 2015.

[189] Dec in Case COMP/M.2621 *SEB/Moulinex* of 8 Jan 2002 (unpublished but available in French only at ec.europa.eu/comm/competition/, see Press Release IP/02/22); Case T–114/02 *BaByliss v Commission* [2003] ECR II–1279; Case T–119/02 *Royal Philips Electronics v Commission* [2003] ECR II–1433; Dec in Case COMP/M.2621 *SEB/Moulinex* of 11 Nov 2003 (unpublished but available in French only at ec.europa.eu/comm/competition/; see Press Release IP/03/1531).

[190] Dec 90/645 *Bayer Dental* [1990] OJ L351/46.

to restrict the freedom of action of resellers, and that its purpose was to prevent resale outside Germany.

So far these cases have all concerned situations where there is a continuing relationship between the manufacturer and the distributor to which he has licensed or assigned the rights. However, the issues are more difficult where there is no continuing link. This was considered in detail in *Sirena v Eda*,[191] where an American company, Mark Allen, had assigned its rights in the Italian trade mark PREP for shaving cream to an Italian company, Sirena, in 1937. There was no indication in the contract of any assignment of manufacturing processes, techniques or know-how. The Italian company subsequently produced a shaving cream bearing the mark and sold it on the Italian market. Mark Allen had similarly assigned its PREP trade marks in Belgium, France, Germany and the Netherlands to companies in those countries. In due course some of the German product was imported to Italy and Sirena brought an infringement action to prevent its distribution. The ECJ was asked whether Sirena's rights would be restricted by Community law and responded as follows:

> When a trade mark right is exercised by virtue of assignments to users in one or more Member States, it is . . . necessary to establish in each case whether such use leads to a situation falling under the prohibitions of Article [81].
>
> Such situations may in particular arise from restrictive agreements between proprietors of trade marks or their successors in title enabling them to prevent imports from other Member States. If the combination of assignments to different users of national trade marks protecting the same product has the result of re-enacting impenetrable frontiers between the Member States, such practice may well affect trade between States, and distort competition in the common market. The matter would be different if, in order to avoid any partitioning of the market, the agreements concerning the use of national rights in respect of the same trade mark were to be effected in such conditions as to make the general use of trade mark rights [at] Community level compatible with the observance of the conditions of competition and unity of the market which are so essential to the common market that failure to observe them is penalized by Article [81] by a declaration that they are automatically void.
>
> Article [81], therefore, is applicable to the extent to which trade mark rights are invoked so as to prevent imports of products which originate in different Member States, which bear the same trade mark by virtue of the fact that the proprietors have acquired it, or the right to use it, whether by agreements between themselves or by agreements with third parties. Article [81] is not precluded from applying merely because, under national legislation trade mark rights may originate in legal or factual circumstances other than the abovementioned agreements, such as registration of the trade mark, or its undisturbed use.

The Court held that the fact that the Italian agreement dated back to 1937 was irrelevant as 'it is both necessary and sufficient that [the restrictive practices] continue to produce their effects' after the date the EC Treaty entered into force.

[191] Case 40/70 *Sirena v Eda* [1971] ECR 69.

This is obviously open to criticism on the basis that it was retrospective.[192] However, quite apart from that, it is important that the ECJ did not say that the assignment of the trade mark rights would be void, but merely that the exercise of those rights to prevent parallel imports would be prohibited by Article 81.

The scope of Article 81 was also considered in the *EMI v CBS* cases,[193] where the ECJ heard three references from the English High Court, the Copenhagen Admiralty and Commercial Court and the Cologne Regional Court. In each case, EMI Records was trying to prevent CBS from importing records bearing the COLUMBIA trade mark into the Member State in question from the United States. By way of history, the COLUMBIA trade mark had originally been owned by a single US company in the United States and in various Member States. However, in 1917 the US company had transferred the rights to the trade marks in the Member States to its English subsidiary. After a number of transfers over the years, the United States trade mark was owned by CBS and the trade marks in the Member States by EMI Records. According to the reference from Cologne, 'for more than 40 years there [had] been no legal, economic, financial or technical links between the two groups'.

The ECJ followed *Sirena v Eda* and held that the exercise of a trade mark right 'might fall within the ambit of the prohibitions contained in the Treaty if it were to manifest itself as the subject, the means, or the consequence of a restrictive practice'. However, the ECJ went on to say that 'for Article [81] to apply to a case, such as the present one, of agreements which are no longer in force it is sufficient that such agreements continue to produce their effects after they have formally ceased to be in force. An agreement is only regarded as continuing to produce its effects if from the behaviour of the persons concerned there may be inferred the existence of elements of concerted practice and of coordination peculiar to the agreement and producing the same result as that envisaged by the agreement.' This answers some of the criticism of *Sirena v Eda*. However, it does not give undertakings *carte blanche* to divide their intellectual property rights in order to carve up the internal market. In particular, there was no division of ownership of rights between Member States, and so the trade mark owner was not blocking parallel trade within the Community.

The ECJ also considered the issue in *Keurkoop v Nancy Kean Gifts*,[194] where it suggested that the exercise of design rights might be covered by Article 81 as the purpose, the means or the result of an agreement, decision or concerted practice where 'persons simultaneously or successively file the same design in various Member States in order to divide up the markets within the Community among themselves'. The Court did not expand further as it was merely giving an

[192] See D Keeling. *Intellectual Property Rights in EU Law: Volume I: Free Movement and Competition Law* (OUP, Oxford, 2003) at 161–74 and 311–24 and the articles he cites at 162, n43, 313, n64 and 317, nn79–81.

[193] Case 51/75 *EMI Records v CBS United Kingdom* [1976] ECR 811; Case 86/75 *EMI Records v CBS Grammofon* [1976] ECR 871; Case 96/75 *EMI Records v CBS Schallplatten* [1976] ECR 913.

[194] Case 144/81 *Keurkoop v Nancy Kean Gifts* [1982] ECR 2853, para 20.

example to the national court of the sort of conduct which might be covered by Article 81.

The majority of these cases are relatively old and pre-date the *Hag II* judgment, where the doctrine of common origin was abolished for Community exhaustion of rights.[195] Nevertheless, the issues may still arise and it is far from clear that *Hag II* will be extended so that such rights which have been divided in this way can be exercised against goods legitimately put on the market in other Member States without breaching Article 81. Indeed, in *Ideal Standard*,[196] generally regarded as the final nail in the coffin of the doctrine of common origin, the ECJ explicitly stated:

> where undertakings independent of each other make trade-mark assignments following a market-sharing agreement, the prohibition of anti-competitive agreements under Article [81] applies and assignments which give effect to that agreement are consequently void. However, as the United Kingdom rightly pointed out, that rule and the accompanying sanction cannot be applied mechanically to every assignment. Before a trade-mark assignment can be treated as giving effect to an agreement prohibited under Article [81], it is necessary to analyse the context, the commitments underlying the assignment, the intention of the parties and the consideration for the assignment.

Although the suggestion that the assignment itself might be void as anti-competitive appears rather extreme, it is certainly possible that the more limited judgment in *Sirena v Eda* will be followed, with the effect that such split rights cannot be exercised against parallel imports.[197]

This may have to be considered by the English courts in *Bolton Pharmaceutical Company 100 v Swinghope*,[198] where trade mark rights were assigned to different parties which then sought to assert them to prevent parallel trade. The argument so far has focussed on Articles 28 to 30. However, it is likely that the competition arguments will arise in the course of the action, particularly given that the Court of Appeal took the view that the legal setting was 'the interface between EU competition law and UK trade mark law' and discussed 'competition considerations affecting the enforcement of trade marks and parallel imports'.

Finally, the fact that an agreement relating to intellectual property was part of the commercial settlement of a dispute does not mean that it is not anti-competitive. In *Sirdar-Phildar*[199] the Commission found that a trade mark co-existence agreement breached Article 81, although it was clearly influenced by the fact that it considered the settlement a sham. This should not be read to

[195] See Ch 2, sect II.B.iii (Marketing by Third Parties).

[196] Case C–9/93 *IHT Internationale Heiztechnik v Ideal Standard* [1994] ECR I–2789.

[197] See, for instance, D Kitchin *et al*, *Kerly's Law of Trade Marks and Trade Names* 14th edn (Sweet & Maxwell, London, 2005), para 16–128.

[198] *Bolton Pharmaceutical Company 100 v Swinghope* [2005] EWHC 1600 (Ch); *Doncaster Pharmaceuticals Group v Bolton Pharmaceutical Company 100* [2006] EWCA Civ 661. See Ch 2, sect II.B.iii (Marketing by Third Parties).

[199] Dec 75/297 *Sirdar-Phildar* [1975] OJ L125/27.

preclude settlement agreements where there is a genuine clash between intellectual property rights in different jurisdictions, but parties do need to ensure that any such settlement agreement does not unnecessarily extend the territorial protection beyond that which results from the conflicting rights.[200]

x. Safety Regulations

The restrictions placed on parallel trade by regulations will be considered on more detail in Chapter 4. However, agreements which rely on such regulations to limit parallel trade may also be regarded as anti-competitive.

In *AEG-Telefunken*,[201] after an intervention by the Commission the manufacturer removed a ban on exports of its domestic electric appliances from its German dealers to the Netherlands, which the manufacturer had tried to justify on the basis that the appliances intended for the German market did not comply with Dutch safety regulations. The Commission stated that 'foreign safety regulations cannot be used to justify bans on exports. Arrangements made to assure compliance with safety requirements must not be such as to restrict exports by being more rigorous than is actually necessary.'

In *NAVEWA-ANSEAU*,[202] the Belgian law on the preservation of the quality of drinking water provided that only washing machines and dishwashers which satisfied the relevant Belgian standards could be connected to the water supply system. An agreement was entered into between the Belgian association of water suppliers, which was responsible for ensuring compliance with those rules, and various associations of manufacturers and sole importers of the machines. Under this agreement, one of the associations of manufacturers and sole importers distributed a label to show conformity with the legislation. The agreement stated that only manufacturers or sole importers could join the system, effectively meaning that any parallel imported machines had to be individually approved, even if they were of a type which had already been approved. The cost of individual approval was 'prohibitively expensive by comparison with the selling price of the machines'. There were also various statements by the associations of manufacturers and sole importers during the negotiation of the agreement which indicated that they saw it in part as a way to prevent parallel imports. In reviewing this part of the agreement, the Commission unsurprisingly found that it was intended to block parallel imports and was thus anti-competitive. The ECJ upheld the Commission's decision.

[200] Dec 78/193 *Penneys* [1978] OJ L60/19; *Persil*, *Seventh Report on Competition Policy* (1977), points 138–140; *Bayer/Tanabe*, *Eighth Report on Competition Policy* (1978), points 125–127; Dec 82/897 *Toltecs—Dorcet* [1982] OJ L379/19; Case 35/83 *BAT Cigaretten-Fabriken v Commission* [1985] ECR 363.

[201] *AEG-Telefunken*, *Fourth Report on Competition Policy* (1974), point 106.

[202] Dec 82/371 *NAVEWA-ANSEAU* [1982] OJ L167/39; Joined Cases 96 to 102, 104, 105, 108 and 110/82 *NV IAZ International Belgium v Commission* [1983] ECR 3369.

In *Ford Agricultural*,[203] Ford tried to rely on national safety regulations to block parallel imports of agricultural tractors. For instance, Ford wrote in a letter to all main dealers and open-territory dealers that 'the provision of an operator manual in English is a legal requirement in the UK and obviously this does not come with a tractor originally sold to another country unless the unauthorized importer can make special arrangements'. This was specifically criticised by the Commission, which stated:

> The users of independently imported machinery should, of course, use it both safely and legally. Cooperation between Ford and its local dealers aimed at helping these users, at a reasonable price, to respect national law would have been a proper course of action. Contractual relations between them, however, aimed at exploiting safety regulations so as to discourage such importing constitutes an infringement.

In *Zera/Montedison and Hinkens/Stähler*,[204] the manufacturer sold its herbicide to its exclusive distributor in Germany at around three times the price at which it sold the herbicide to its exclusive distributors in France and the Netherlands. The manufacturer had registered the herbicide with a different formulation in Germany from that in the other Member States, which meant that under the German Plant Protection Law in force at that time, parallel imports were not permitted. The manufacturer argued that the differences in the formulations were due to a range of reasons, such as the chronology of registrations, differing requirements in Member States, costs of registration, costs of production and patent protection in Germany, but the Commission rejected these contentions. The manufacturer also claimed that the Commission should be attacking the German legislation itself under Article 28 rather than using Article 81 against the manufacturer. The Commission rejected this on the basis that the problem was the anti-competitive agreement between the manufacturer and its German exclusive distributor rather than the law itself.

xi. Tracing Parallel Imports

As well as seeking to block parallel trade in the first place, manufacturers may attempt to trace parallel trade which does occur to enable them to plug the leaks in their distribution systems. A particularly common method of doing this is to use serial numbers or other markings on the products and to keep records which will then enable them to determine who was supplied with the products. Such conduct has been held to be anti-competitive where it is used to restrict parallel trade.

In *Kawasaki*[205] the UK subsidiary of a Japanese manufacturer sold motorcycles to dealers in the UK subject to a restriction on exports without consent, thereby restricting parallel exports to Germany where the price of motorcycles

[203] Dec 93/46 *Ford Agricultural* [1993] OJ L20/1.
[204] Dec 93/554 *Zera/Montedison and Hinkens/Stähler* [1993] OJ L272/28.
[205] Dec 79/68 *Kawasaki* [1979] OJ L16/9.

was far higher. The German subsidiary complained to the UK subsidiary and provided the frame numbers of parallel-imported bikes, enabling the UK subsidiary to determine which of its dealers were acting in breach of the contractual condition and to take action against them. Although the provision of the data by the German subsidiary to the UK subsidiary was not in itself an agreement, and did not make the German subsidiary a party to the agreements between the UK subsidiary and its dealers, the Commission noted that such data provision permitted the enforcement of those agreements, and this was regarded as a factor increasing the gravity of the infringement.

Similarly, enforcement of an export prohibition in *Johnson v Johnson*,[206] by tracing exports and ultimately cutting supplies to dealers which were exporting, was found to increase the gravity of the infringement.

In *Hasselblad*,[207] the manufacturer required its exclusive distributors to keep a list of the serial numbers of equipment sold together with the names and addresses of the purchasers and to provide this information to the manufacturer on request. Although the contractual requirement itself was permissible, it was regarded as forming part of an overall system of market partitioning, and thus 'the use for an unlawful purpose of a contractual provision which in itself is lawful'.

In *Sperry New Holland*,[208] the Commission held that, where one UK dealer sold agricultural machinery in the territory of another UK dealer, the latter could provide the manufacturer with the serial number to claim compensation and to allow the manufacturer to penalise the offending dealer. However, 'the concerted collection and reporting of serial numbers specifically for the purpose of tracing the source, outside the UK, of parallel imports' would be anti-competitive.

In *UK Agricultural Tractor Registration Exchange*,[209] manufacturers and sole importers of tractors in the United Kingdom used an information exchange system to obtain detailed information about parallel imported tractors from the registration forms provided to the UK Department of Transport. These forms included the importer, the serial number and the model of the tractor, from which the manufacturers were able to trace the dealer which had sold the tractor. This restricted trade by facilitating interference with parallel imports by the manufacturers.

The Commission expressly stated that its decision in that case was limited to the facilitation of the system but noted that '[t]he use made by certain members of the Exchange actually to stop parallel imports through this mechanism will

[206] Dec 80/1283 *Johnson & Johnson* [1980] OJ L377/16.
[207] Dec 82/367 *Hasselblad* [1982] OJ L161/18.
[208] Dec 85/617 *Sperry New Holland* [1985] OJ L376/21.
[209] Dec 92/157 *UK Agricultural Tractor Registration Exchange* [1992] OJ L68/19; Cases T–34/92 *Fiatagri and New Holland Ford v Commission* [1994] ECR II–905 and T–35/92 *John Deere v Commission* [1994] ECR II–957; Cases C–7/95P *John Deere v Commission* [1998] ECR I–3111 and C–8/95P *New Holland Ford v Commission* [1998] ECR I–3175.

be dealt with in separate proceedings'. This occurred in *Ford Agricultural*,[210] where the manufacturer's use of the vehicle registration documents to identify and trace parallel imports, together with its die-stamping of a secret number on tractors to allow identification, was held to be anti-competitive.

In *Dunlop Slazenger*,[211] the Commission found that the manufacturer had breached Article 81 by printing the initials of the national tennis federation on its tennis balls, in part to enable it to identify parallel imports. The manufacturer appealed, but the CFI agreed that such conduct was anti-competitive regardless of its effect on the market. The manufacturer's claim that the measures also served a legitimate purpose, namely to give a competitive advantage to its goods over those of competitors, was rejected by the CFI as irrelevant, given the additional anti-competitive purpose.

This was followed in *Tretorn*,[212] where the marking of products with date codes and/or stickers indicating the exclusive distributor (and hence original country of sale) and the subsequent use of these markings by distributors to report parallel imports were regarded as anti-competitive both by the Commission and by the CFI.

In *Volkswagen I*,[213] the Commission held that the manufacturer had taken various measures to ensure that dealers were not parallel exporting, including monitoring orders, sales and vehicle registrations, auditing and investigating dealers, sending warning letters and terminating dealership agreements. The Commission found that this formed part of the manufacturer's system of banning or restricting exports and so was anti-competitive. On appeal, the CFI confirmed the Commission's finding that the manufacturer systematically monitored the situation and sent warning letters, but overturned its finding in relation to the termination of contracts, on the basis that the Commission had not shown that such sanctions were applied other than against dealers who had broken legitimate contractual restrictions, such as by reselling to independent dealers outside the selective distribution system.

In *Wholesale Supply of Compact Discs*,[214] the UK Office of Fair Trading found that record companies had used various methods to try to monitor parallel imported compact discs, including 'distinguishing UK released CDs from non-UK releases, for example, by putting additional tracks on the album ("special editions"), using different sleeve artwork or putting country codes onto packaging'. They had also made regular visits to retailers to see which retailers were selling parallel imports and where they were coming from. The OFT held that these practices went beyond what the record companies argued was

[210] Dec 93/46 *Ford Agricultural* [1993] OJ L20/1.

[211] Dec 92/261 *Newitt/Dunlop Slazenger International* [1992] OJ L131/32; Case T–43/92 *Dunlop Slazenger International v Commission* [1994] ECR II–441.

[212] Dec 94/987 *Tretorn and others* [1994] OJ L378/45; Case T–49/95 *Van Megen Sports Group v Commission* [1996] ECR II–1799.

[213] Dec 98/273 *Volkswagen I* [1998] OJ L124/60; Case T–62/98 *Volkswagen v Commission* [2000] ECR II–2707; Case C–338/00 P *Volkswagen v Commission* [2003] ECR I–9189.

[214] OFT391 *Wholesale Supply of Compact Discs* (Sept 2002), paras 5.2-5.4 and C.9-C.14.

necessary to ensure that parallel imported CDs were not mistakenly or fraudulently returned to them by wholesalers or retailers. However, the OFT also accepted that such monitoring did not in itself imply an agreement to limit parallel imports.

In *Nintendo*[215] the manufacturer used statistical methods to identify likely parallel exporters, based on the relative proportions of consoles and games being sold. However, it also sought and received information from its distributors about parallel imports into their territories. This information exchange was regarded both as further evidence of an anti-competitive concerted practice to stop parallel imports and as supporting that concerted practice by helping to trace the sources and to reduce the possibility of distributors 'cheating'.

In *Topps*,[216] a French retailer, La Souris Bleue (Souris), complained that Topps and its distributors had hindered parallel trade from Spain into France of collectable stickers and albums relating to the second Pokémon series by preventing its official Spanish distributor, Colecciones Este, and its dealers from selling products to French dealers. The Commission investigated and found a range of conduct across Europe aimed at restricting parallel trade, including tracing of parallel imports by Topps' official distributors. For instance, Topps' French distributor, Nouvelle Messageries de la Press Parisienne, had provided information about Souris as a result of which Topps had taken action against Colecciones Este. Topps' Finnish distributor, Rautakirja, had also complained about parallel trade and provided details of one parallel trader, whom Topps had contacted and convinced to stop his activities. Subsequently, Topps had asked Rautakirja to provide evidence of the activities of another parallel trader and Topps again contacted the parallel trader, without waiting to determine whether the goods were being sourced in the United Kingdom or the United States. Again, the Commission held that the manufacturer's behaviour in asking its distributors to help it to trace parallel imports was anti-competitive.

In *Sportswear v Stonestyle*,[217] the exclusive distribution contract contained a requirement that the manufacturer 'mark all the goods supplied or a part of these ones with codes for the identification of the geographical area where the goods have been destined, so that it will be possible to verify eventual infringements of the sole rights agreed between [the manufacturer] and his distributors'. These codes had been removed and the manufacturer and distributor brought an action for trade mark infringement against those trading in the goods, based on this removal. The traders raised a defence under Article 81 and the claimants sought to have it struck out at a preliminary hearing on the basis that any infringement of Article 81 was irrelevant to the question whether they could

[215] Dec 2003/675 *PO Video Games, PO Nintendo Distribution and Omega—Nintendo* [2003] OJ L255/33; Case T–13/03 *Nintendo v Commission* [2003] OJ C70/27, not yet decided but appealed solely on the level of the fine; Case T–18/03 *CD-Contact Data v Commission* [2003] OJ C70/29, not yet decided and appealed on substantive grounds.

[216] Dec 2006/895 *Souris/TOPPS* [2006] OJ L353/5 (full decision available at, ec.europa.eu/comm/competition/). Not appealed.

[217] *Sportswear v Stonestyle* [2005] EWHC 2087 (Ch); [2006] EWCA Civ 380.

enforce their trade mark rights. The High Court agreed, but on appeal the Court of Appeal reinstated the defence on the basis that breach of Article 81 might arguably affect the question whether Sportswear had legitimate reasons to oppose further commercialisation of the clothing. The full hearing of the case is likely to shed further light on the competition issues.

Finally, in *Peugeot and Peugeot Nederland*,[218] the Commission held that Peugeot's system for monitoring registrations of vehicles in the Netherlands, using information from the Dutch administrative department with responsibility for issuing new number plates together with information provided by its own dealers on the DIALOG software system, supported Peugeot's territory-dependent bonus system and contributed to the gravity of the infringement (and thus the fine imposed). Peugeot has appealed.

xii. Agreements to Litigate

The possibility of an agreement to litigate against parallel traders has already been discussed in relation to agreements between competitors.[219] It may also be arguable, according to the Court of Appeal in *Sportswear v Stonestyle*,[220] that an agreement between a manufacturer and its exclusive distributor to litigate against parallel importers could be regarded as having an anti-competitive object or effect, although this was only an interim judgment.

xiii. Third Party Services

A more general form of anti-competitive conduct is to threaten to boycott third party service providers if they continue to provide their services to one's competitors. Such third parties may include providers of financial or legal services and those who provide a route to the market, including advertising, transport, wholesale and retail facilities. Such conduct will normally be regarded as anti-competitive, and this also holds true when it comes to parallel trade.

For instance, in *CNPA*,[221] the French Competition Council held that the Centre National des Professions de l'Automobile (CNPA) breached the French equivalent of Article 81. The actions of the CNPA consisted of inciting its members (official car distributors) to boycott Crédit de l'Est, a bank which was providing finance for parallel imports, and threatening a similar boycott of Républicain Lorrain, a newspaper which was publishing advertisements for parallel importers.

[218] Dec 2006/431 *Automobiles Peugeot and Peugeot Nederland* [2006] OJ L173/20; Case T–450/05 *Automobiles Peugeot and Peugeot Nederland v Commission* (pending).

[219] See the discussion of *Glaxo Group v Dowelhurst/Boehringer Ingelheim v Swingward* [2000] FSR 371 (High Court); 3 Mar 2000 (CA, unreported) and OFT391 *Wholesale Supply of Compact Discs* (Sept 2002) in sect I.B.iii (Horizontal Agreements and Unilateral Conduct) above.

[220] *Sportswear v Stonestyle* [2005] EWHC 2087 (Ch); [2006] EWCA Civ 380.

[221] Conseil de la Concurrence Dec 03-D-68 *Centre National des Professions de l'Automobile (CNPA)* of 23 Dec 2003, upheld by the Cour d'Appel Paris on 29 June 2004 and by the Cour de Cassation on 12 July 2005.

D. Article 81(1): Appreciable Effect

The fourth criterion under Article 81 is appreciable effect. This has two main requirements: the anti-competitive object or effect must be appreciable and there must be an appreciable effect on trade between Member States. Although the requirement that there be an effect on trade between Member States is normally considered in its own right under Article 81, where the restriction is on parallel trade there is almost certainly such an effect and the real question is whether this is appreciable.

The ECJ laid down the requirement of appreciability in *Société La Technique Minière*, which was a reference from the Paris Court of Appeal.[222] The Court said that one must consider whether the anti-competitive object of the agreement would have a 'sufficiently deleterious' effect on competition. If not, one must consider the effect of the agreement and whether 'competition has in fact been prevented or restricted or distorted to an appreciable extent'. Turning to the effect on trade, the Court held that 'it must be possible to foresee with a sufficient degree of probability on the basis of a set of objective factors of law or of fact that the agreement in question may have an influence, direct or indirect, actual or potential, on the pattern of trade between Member States' and that 'it is necessary to consider in particular whether it is capable of bringing about a partitioning of the market in certain products between Member States and thus rendering more difficult the interpenetration of trade which the Treaty is intended to create'.

This was applied in *Völk v Vervaecke*,[223] where the Munich Court of Appeal had to consider whether Article 81 would cover an exclusive distribution agreement where the manufacturer undertook to prevent parallel imports by third parties. It referred the question whether the market share of the manufacturer was relevant in this analysis to the ECJ, which held:

> an agreement falls outside the prohibition in Article [81] when it has only an insignificant effect on the market, taking into account the weak position which the persons have on the market of the product in question. Thus an exclusive dealing agreement, even with absolute territorial protection, may, having regard to the weak position of the persons concerned on the market in the products in question in the area covered by the absolute protection, escape the prohibition laid down in Article [81(1)].

The following year, in its 1970 notice on agreements of minor importance,[224] the Commission gave its view on what appreciability meant, stating that agreements between undertakings producing or distributing products would not have an appreciable effect where the market share of the products affected was less

[222] Case 56/65 *Société La Technique Minière v Maschinenbau Ulm* [1966] ECR 235.

[223] Case 5/69 *Völk v Vervaecke* [1969] ECR 295.

[224] Commission Notice of 27 May 1970 concerning agreements, decisions and concerted practices of minor importance which do not fall under Art 85(1) of the Treaty establishing the European Economic Community [1970] OJ C64/1.

than 5 per cent and the turnover of the undertakings was below 15 million Euros.

In *Cadillon v Firma Höss*[225] the ECJ followed its decision in *Völk v Vervaecke*. The Court noted that, while this applies even where there is absolute territorial protection, 'this is even more the case when such an agreement does not prohibit third parties from effecting parallel imports into the territory covered by the agreement or the licensee from re-exporting the products covered by the agreement'. This suggests that the requirement of appreciability will vary depending on the type of conduct in question and that a lower threshold of appreciability will apply where the agreement actually seeks to prohibit parallel trade.

The ECJ considered the question in relation to another exclusive distribution agreement in *Béguelin Import v GL Import Export*.[226] Putting further flesh on the concept, the Court held:

> in order to determine whether a contract which contains a clause conferring an exclusive right of sale is caught by [Article 81], account must be taken in particular of the nature and quantity, restricted or otherwise, of the products covered by the agreement; the standing of the grantor and of the grantee of the concession on the market in the products concerned; whether the agreement stands alone or is one of a series of agreements; the stringency of the clauses designed to protect the exclusive right or on the other hand, the extent to which any openings are left for other dealings in the products concerned in the form of re-exports or parallel imports.

In *WEA-Filipacchi Music*[227] the distributor claimed that it fell within the scope of the Commission's 1970 notice. However, this claim was rejected by the Commission, on the basis that the US$373 million turnover of the distributor's group, Warner Communications, was far greater than 15 million Euros.

Appreciable effect was also considered in *Miller*,[228] where Miller claimed as part of its appeal against the Commission's finding of infringement that there was no appreciable effect on trade, given Miller's insignificance in the market in sound recordings, the fact that its products were solely aimed at German-speaking consumers and the fact that its customers were not interested in exporting its products.

In relation to Miller's significance on the market, the Court noted that Miller had a 5–6 per cent market share of the German market for all sound recordings, with an appreciably higher share of the market in bargain-range recordings and recordings for children, and had sales in 1975 amounting to over DM 34 million. Miller's behaviour was therefore capable, in principle, of affecting trade, in contrast to that of the undertakings considered as being of insignificant importance

[225] Case 1/71 *Cadillon v Firma Höss* [1971] ECR 351.
[226] Case 22/71 *Béguelin Import v GL Import Export* [1971] ECR 949.
[227] Dec 72/480 *WEA-Filipacchi Music* [1972] OJ L303/52.
[228] Dec 76/915 *Miller International Schallplatten* [1976] OJ L357/40; Case 19/77 *Miller International Schallplatten v Commission* [1978] ECR 131.

in previous judgments. In relation to Miller's claims that its products were of interest only to German-speaking customers, the Court noted that Miller had concluded contracts for exports to other Member States and had in fact exported some of its production. The Court went on to point out that 'exports appeared to Miller and to certain of its customers as being of sufficient importance to justify adopting the clauses in dispute', and that the fact that Miller's customers might 'prefer to limit their commercial operations to more restricted markets, whether regional or national, cannot justify the formal adoption of clauses prohibiting exports'. More specifically, the Court noted that 'the importance of Miller's German market led it to protect that market against the re-importation of products exported at low prices'. Finally, the Court held that, although higher prices in Germany made exports unprofitable at that time, a prohibition on exports from Germany could still affect trade as it was possible that exchange rates could change in the future.

The Court therefore concluded that the Commission had provided 'appropriate proof that in fact there was a danger that trade between Member States would be appreciably affected' by the prohibitions on exports. The Court also confirmed that, in such a case, there was no need to prove that the prohibitions had in fact appreciably affected trade.

In *Distillers*,[229] the manufacturer argued that, although it effectively charged higher prices for exports from the United Kingdom of PIMM'S, a spirit, the Commission was wrong to hold that this breached Article 81(1) because the sales of PIMM's 'in the member countries other than the United Kingdom are minimal in relation to the sales of other spirits'. However, the Court disagreed, stating;

> although an agreement may escape the prohibition in Article [81(1)] when it affects the market only to an insignificant extent, having regard to the weak position which those concerned have in the market of the products in question, the same considerations do not apply in the case of a product of a large undertaking responsible for the entire production. In those circumstances there is no reason for the purposes of the action to distinguish between Pimm's and the other drinks produced by the applicant.

In *Heintz van Landewyck*,[230] certain tobacco manufacturers had breached Article 81 in various ways in relation to the distribution of manufactured tobacco products on the Belgian market. The Commission held that, although the Belgian tax system itself hindered parallel imports, this did not mean that the restrictions did not appreciably affect trade. The ECJ agreed.

In *Musique Diffusion Française*,[231] the French and British distributors of Pioneer hi-fis argued that their market shares were 3.38 per cent and 3.18 per

[229] Dec 78/163 *The Distillers Company, Conditions of Sale and Price Terms* [1978] OJ L50/16; Case 30/78 *The Distillers Company v Commission* [1980] ECR 2229.

[230] Dec 78/670 *Fedetab* [1978] OJ L224/29, paras 91–93; Joined Cases 209/78 to 215/78 and 218/78 *Heintz van Landewyck v Commission* [1980] ECR 3125, paras 165–173.

[231] Dec 80/256 *Pioneer Hi-Fi Equipment* [1980] OJ L60/21; Joined Cases 100–103/80 *Musique Diffusion Française and others v Commission* [1983] ECR 1825.

cent respectively and so even their concerted practice to prevent parallel imports could not be regarded as capable of affecting trade between Member States under Article 81(1). The Court rejected this, noting that the distributors' market shares exceeded those of most of their competitors and made them among the largest suppliers of imported brands on the two markets. Having regard to their absolute market shares, it found that 'conduct by [the distributors] seeking to restrain parallel imports and therefore to partition national markets was capable of exercising an influence on the pattern of trade between Member States in a way capable of hindering the attainment of the objectives of a single market'.

By contrast, in *Mitsui/Bridgestone*,[232] the Commission accepted that restrictions on the resale of truck tyres to other authorised dealers or end users did not have an appreciable effect on competition or trade between Member States, given that the manufacturer's market share was substantially below 5 per cent and its principal competitor, Michelin, had a market share of over 80 per cent.

In *Viho/Parker Pen*[233] an English manufacturer of writing utensils was selling its products across Europe, through subsidiaries in some Member States and through independent distributors in others. A Dutch parallel importer, Viho, tried to obtain products from Parker's German and Italian distributors but in both cases was refused supplies on the basis that the distributor was not permitted to export the products. The Commission found that there was a written agreement between Parker and its German distributor, Herlitz, which prohibited Herlitz from exporting the products from Germany, and held that this agreement infringed Article 81.

Parker and Herlitz both appealed against this decision to the CFI, arguing that there was no appreciable effect on trade between Member States, because 'the wholesale prices charged by Parker were similar in the various Member States, Herlitz held an insignificant market share, and the relevant turnover was very small'. The Court, referring back to *Musique Diffusion Française*, accepted that 'even an agreement according absolute territorial protection escapes the prohibition laid down in Article [81] of the Treaty where it affects the market only insignificantly, regard being had to the weak position of those concerned on the market for the products in question'. However, considering Parker's position, the size of its production, its sales in the Member States and the proportion of sales of Parker products made by Herlitz, the Court held that the Commission was correct to hold that the agreement 'was such as to affect trade between Member States appreciably'.

The appellants also argued that there was no appreciable effect in practice because Herlitz did not implement the agreement, having exported to France and refusing to supply Viho only for business reasons (because it did not fit into

[232] *Mitsui/Bridgestone*, *Fifteenth Report on Competition Policy* (1985), point 60.

[233] Dec 92/426 *Viho/Parker Pen* [1992] OJ L233/27; Case T–66/92 *Herltiz v Commission* [1994] ECR II–531; Case T–77/92 *Parker Pen v Commission* [1994] ECR II–549.

Herlitz's business concept). The Commission claimed that correspondence between Herlitz and the parallel importer demonstrated that there was an effect in practice and that there was no need to show such an effect anyway, given the object of the agreement. The Court began by following *Miller*, noting that, even if an agreement is not implemented by a distributor, it may 'create a "visual and psychological" effect which contributes to a partitioning of the market'. The Court said that Herlitz's business concept did not 'appear to have excluded the possibility of exports by Herlitz, since the parties, or at least Parker, considered it necessary to insert in the distribution agreement an express clause prohibiting exports'. Finally, the Court held that, even if the prohibition did not currently affect trade, this did not guarantee that it would not affect trade in the future. On this basis, the Court also rejected the appeal.

In *BaByliss v Commission*[234] the CFI took a rather more generous approach when considering an appeal by third parties against the Commission's decision to allow a merger upon undertakings from the merging parties. The complainant argued that the Commission had permitted terms which would breach Article 81 as they prohibited exports. However, the Court referred to *Musique Diffusion Française* and *Völk v Vervaecke*, together with *Javico* which will be considered in Chapter 5,[235] and held that, given the absence of significant parallel trade in the past, the complainant had not shown that the clause 'might appreciably restrict competition on the relevant market in the Community or significantly affect trade between the Member States within the meaning of Article 81(1)'.

This last decision suggests a relatively high threshold for appreciability. However, it was made in relation to a merger and is unlikely to be followed in regular Article 81 cases. Instead, it is more likely that the Court's approach in *Miller* and *Viho/Parker Pen* will be followed, so that where parties regard parallel exports as 'being of sufficient importance to justify adopting the clauses in dispute' there will be a strong presumption that the clauses have an appreciable effect. Thus agreements which have the object of preventing parallel trade will fall outside Article 81 only where the market shares of the parties are incredibly small. However, where any prevention of parallel trade is not the object of the agreement but only the effect, there may be more opportunity to argue successfully that an effect is not appreciable.

[234] Dec in Case COMP/M.2621 *SEB/Moulinex* of 8 Jan 2002 (unpublished but available in French only at ec.europa.eu/comm/competition/, see Press Release IP/02/22); Case T–114/02 *BaByliss v Commission* [2003] ECR II–1279; Case T–119/02 *Royal Philips Electronics v Commission* [2003] ECR II–1433; Dec in Case COMP/M.2621 *SEB/Moulinex* of 11 Nov 2003 (unpublished but available in French only at ec.europa.eu/comm/competition/; see Press Release IP/03/1531).

[235] Case C–306/96 *Javico* [1998] ECR I–1983. See Ch 5, sect II.A (Article 81).

E. Article 81(3): Justifications

The previous four criteria were concerned with the question whether conduct constitutes an anti-competitive agreement for the purposes of Article 81(1). If it does, whether by virtue of its restrictions on parallel trade or otherwise, the one remaining question is whether it can be justified under Article 81(3) by virtue of its pro-competitive qualities. In order to be justified, the agreement must meet four sub-criteria, namely that it must:

i. contribute to improving the production or distribution of goods or to promoting technical or economic progress;
ii. allow consumers a fair share of the resulting benefit;
iii. not impose on the undertakings concerned restrictions which are not indispensable to the attainment of these objectives; and
iv. not afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products in question.

In making this assessment the broader context of the agreement is relevant, and so unilateral conduct by the parties may be considered even if it does not constitute part of any agreement under Article 81(1).

As discussed in Chapter 1, the Commission had sole jurisdiction to apply Article 81(3) from 1962 to 2004.[236] Agreements with anti-competitive elements which might be justified by their pro-competitive elements had to be notified to the Commission before it would consider granting a formal 'exemption' under Article 81(3).[237] In most cases such an exemption would not apply before the date of the notification. This could be of crucial importance when a party sought to enforce the agreement, as the impossibility of retrospective exemption would mean that anti-competitive clauses, and if these were not severable then the entire agreement, would be void until notification.

Given the administrative burden of notification, the Commission was given the power to adopt regulations declaring that specific categories of agreements would fall within Article 81(3).[238] Such regulations are known as block exemptions.

This structure fundamentally changed on 1 May 2004, when national courts and authorities were given the power to apply Article 81(3) and permit agreements with anti-competitive elements.[239] Block exemptions continue to exist, as they provide clarity for businesses. However, if businesses believe that their agreements can be justified under Article 81(3), despite falling outside any

[236] Reg 17 [1959–1962] OJ Spec Ed 87, as amended by Reg 1216/1999 [1999] OJ L148/5.
[237] Art 9. Under Arts 4(2) and 6, this did not apply to certain agreements within a single Member State, between parties at different levels in the production and distribution chain or restricting the use of intellectual property rights.
[238] Reg 19/65 [1965] OJ 533, as amended by Reg 1215/1999 [1999] OJ L148/1.
[239] Reg 1/2003 [2003] OJ L1/1, Art 5.

relevant block exemption, they are free to adopt them without needing to incur the administrative expense of notification.

The Commission has published Guidelines on the application of Article 81(3).[240] Although this does not discuss parallel trade itself, it reiterates that '[r]estrictions that are black listed [prohibited] in block exemption regulations or identified as hardcore restrictions in Commission guidelines and notices are unlikely to be considered indispensable' under the third sub-criterion of Article 81(3).[241]

Agreements which may be justified under Article 81(3) can be split into four main categories: general vertical agreements, vertical agreements involving motor vehicles, horizontal agreements and technology transfer agreements. In the majority of cases any attempt to restrict parallel trade will mean that an agreement cannot be justified under Article 81(3) and so, to the extent that it falls within Article 81(1), it will be prohibited.

i. Vertical Agreements

Over the years the Commission has issued a number of block exemptions dealing with vertical agreements between manufacturers and distributors, together with various individual exemptions.

The Commission's first block exemption was Regulation 67/67,[242] which covered exclusive dealing agreements and applied from 1967 until 1983. This was replaced by Regulation 1983/83 on exclusive distribution agreements[243] and Regulation 1984/83 on exclusive purchasing agreements,[244] which both applied from 1983 until 2000 and were fleshed out by a Commission Notice.[245] There was also a separate block exemption covering franchise agreements, Regulation 4087/88.[246]

All three block exemptions were replaced by the current block exemption, Regulation 2790/1999 on vertical agreements,[247] which entered into force in 2000 and is due to expire in 2010. It is supplemented by the Commission's Vertical Guidelines.[248]

The new block exemption takes a much broader approach and generally exempts all vertical agreements where the manufacturer has a market share of less than 30 per cent.[249] However, under Article 4 certain restrictions, including

[240] Art 81(3) Guidelines [2004] OJ C101/97.
[241] *Ibid*, para 79.
[242] Reg 67/67 [1967] OJ Spec Ed 10, as extended by Regs 2591/72 [1972] OJ L276/15 and 3577/82 [1982] OJ L373/58.
[243] Reg 1983/83 [1983] OJ L173/1, as extended by Regs 1582/1997 [1997] OJ L214/27, Art 1 and 2790/1999 [1999] OJ L336/21, Art 12(1).
[244] Reg 1984/83 [1983] OJ L173/5.
[245] Commission Notice on Regs 1983/83 and 1983/84 [1983] OJ C355/7.
[246] Reg 4087/88 [1988] OJ L359/46.
[247] Reg 2790/1999 [1999] OJ L336/21.
[248] Vertical Guidelines [2000] OJ C291/1.
[249] Reg 2790/1999, above n247, Arts 2(1) and 3(1).

some on parallel trade, are regarded as hardcore restrictions which will prevent the block exemption from applying. In previous block exemptions these were often described as 'black clauses'. In addition, under Article 5 a number of other restrictions are not block exempted. Although they do not preclude the application of the block exemption to the remainder of the agreement, they have to be individually justified under Article 81(3). These are similar to the 'grey clauses' in previous block exemptions.

In the Vertical Guidelines, the Commission indicates that 'vertical restraints often have positive effects by, in particular, promoting non-price competition and improved quality of services . . . In a number of situations vertical restraints may be helpful . . . since the usual arm's length dealings between supplier and buyer, determining only price and quantity of a certain transaction, can lead to a sub-optimal level of investments and sales'.[250] Moreover, the Vertical Guidelines note that '[f]or most vertical restraints, competition concerns can only arise if there is insufficient inter-brand competition, i.e. if there is some degree of market power at the level of the supplier or the buyer or both levels. If there is insufficient inter-brand competition, the protection of inter- and intra-brand competition becomes important. The protection of competition is the primary objective of EC competition policy'.[251] This appears to indicate that restrictions on parallel trade, which generally limit intra-brand competition, would be problematic only if the manufacturer or the distributor has a high market share.

However, the Guidelines go on to state that '[m]arket integration is an additional goal of EC competition policy. Companies should not be allowed to recreate private barriers between Member States where State barriers have been successfully abolished.'[252] As a consequence, the Guidelines indicate that the hardcore restrictions listed in Article 4 not only mean that the block exemption does not apply but also that it is unlikely that the restrictions could be justified under Article 81(3).[253] Therefore, although vertical agreements such as exclusive or selective distribution agreements can often be justified under Article 81(3) in general, even where they include some territorial restrictions, this will typically be the case only if parallel imports are not restricted.

The importance of permitting parallel imports was made clear by the Commission in the recitals to the 1967, 1983 and 1988 block exemptions, in ensuring both that consumers received a fair share of benefits and that competition is not eliminated.

First, the Commission indicated that the possibility of parallel imports is important to ensure that consumers receive a fair share of benefits, the second sub-criterion of Article 81(3). In recital 9 to Regulation 67/67, the Commission stated that 'it is in particular advisable to ensure through the possibility of

[250] Vertical Guidelines, above n248, para 115.
[251] *Ibid*, paras 6–7.
[252] *Ibid*, para 7.
[253] *Ibid*, para 46.

parallel imports that consumers obtain a proper share of the advantages resulting from exclusive dealing' and that 'it is therefore not possible to allow industrial property rights and other rights to be exercised in an abusive manner in order to create absolute territorial protection'. Similar language appears in recital 11 to Regulation 1983/83, which adds the comment that 'agreements relating to goods which the user can obtain only from the exclusive distributor should therefore be excluded from the exemption by category'.

Secondly, the Commission indicated that parallel imports are important in ensuring that competition is not eliminated, the fourth sub-criterion of Article 81(3). In recital 10 of Regulation 67/67 the Commission stated that 'competition at the distribution stage is ensured by the possibility of parallel imports' and that 'therefore, the exclusive dealing agreements covered by this Regulation will not normally afford any possibility of preventing competition in respect of a substantial part of the products in question'. This was followed in recital 12 to Regulation 1983/83. A similar approach was taken in recital 12 to Regulation 4087/88, which stated:

> To guarantee that competition is not eliminated for a substantial part of the goods which are the subject of the franchise, it is necessary that parallel imports remain possible. Therefore, cross deliveries between franchisees should always be possible. Furthermore, where a franchise network is combined with another distribution system, franchisees should be free to obtain supplies from authorized distributors . . . Furthermore, where the franchisees have to honour guarantees for the franchisor's goods, this obligation should also apply to goods supplied by the franchisor, other franchisees or other agreed dealers.

The territorial restrictions which may prevent a vertical agreement from being justified under Article 81(3) can again be split into three main categories: restrictions on sales by the manufacturer or distributor, restrictions on purchases by the distributor and other restrictions on parallel trade. These are now considered in turn.

a. Restrictions on sales by manufacturers or distributors Under a vertical agreement, the manufacturer and the distributor may undertake to restrict their sales activities. Restrictions limiting the parties to their own exclusive territories and preventing them from seeking customers outside those territories may be justified under Article 81(3). However, sales to parallel traders or consumers from outside the exclusive territory who approach the parties within their own territories are unlikely to be justified. This is often described as the distinction between 'active' and 'passive' sales.

Article 1(a) of Regulation 67/67, which was followed in similar terms by Article 1 of Regulation 1983/83, permitted restrictions on the manufacturer by providing that agreements were exempted under Article 81(3) where 'one party agrees with the other to supply only to that other certain goods for resale within a defined area of the common market'. Similar restrictions on sales by the supplier for resale were permitted by Article 2(1) of Regulation 1984/83 and Article

2(a) of Regulation 4087/88. Direct sales by the manufacturer to consumers in the exclusive territory could also be prohibited, under Article 2(1) of Regulation 1983/83, Article 2(1) of Regulation 1984/83 and Article 2(a) of Regulation 4087/88.

The Commission took a very restrictive reading of Article 1 of Regulation 1983/83 in its 1983 Notice, stating:

> The exclusive supply obligation does not prevent the supplier from providing the contract goods to other resellers who afterwards sell them in the exclusive distributor's territory. It makes no difference whether the other dealers concerned are established outside or inside the territory. The supplier is not in breach of his obligation to the exclusive distributor provided that he supplies the resellers who wish to sell the contract goods in the territory only at their request and that the goods are handed over outside the territory. It does not matter whether the reseller takes delivery of the goods himself or through an intermediary, such as a freight forwarder. However, supplies of this nature are only permissible if the reseller and not the supplier pays the transport costs of the goods into the contract territory.[254]

Article 2(1) of Regulation 1984/83 was said to be similarly limited.[255]

The prohibition on direct sales by the manufacturer to consumers would equally be justified only within the exclusive territory of the distributor. Under the 1983 Notice, the manufacturer had to be permitted to supply customers within the contract territory passively, if not actively.[256] This approach was taken by the Commission in *La maison des bibliothèques*,[257] where a French company agreed to modify its exclusive distribution agreements in Belgium, Italy and the Netherlands so that consumers in those countries could purchase from the French company directly, so long as delivery to the consumers took place outside the relevant country.

However, under Articles 4 and 5 of Regulation 2790/1999 the restrictions excluded from block exemption are now largely those which would restrict distributors rather than manufacturers. As a consequence, manufacturers can now undertake not to compete with their own distributors more broadly.

The extent to which sales by distributors can be restricted depends on whether the manufacturer operates an exclusive or a selective distribution system.

Under Article 2(1)(b) of Regulation 67/67, a manufacturer could limit an exclusive dealer's activity to its own territory by requiring it 'to refrain, outside the territory covered by the contract, from seeking customers for the goods to which the contract relates, from establishing any branch, or from maintaining any distribution depot'. This was followed in similar terms by Article 2(2)(c) of Regulation 1983/83 and Articles 2(c) and 2(d) of Regulation 4087/88.

[254] Commission Notice on Regs 1983/83 and 1983/84 [1983] OJ C355/7, para 27.
[255] *Ibid*, para 37.
[256] *Ibid*, para 30.
[257] *La maison des bibliothèques*, *Fourteenth Report on Competition Policy* (1984), point 68.

Article 2(1)(b) was considered in *Béguelin Import v GL Import Export*,[258] where the Court noted that the Regulation laid down an exhaustive list of restrictions which could be imposed on a exclusive dealer. These did not include a prohibition on re-exporting the products in question to other Member States. Therefore an exclusive dealing agreement would not benefit from an exemption under the Regulation when it included such a prohibition. In effect, this distinguished permissible prohibitions of active sales by the exclusive dealer outside its territory from impermissible prohibitions of passive sales.

In *Wm Teacher and Sons*,[259] the Commission considered a notification made by a whisky producer of sales conditions which prohibited its distributors from exporting from the United Kingdom. The producer claimed that the prohibition was justified under Article 81(3) on the basis that its distributors 'would refuse to deal with the producer's whisky in the absence of a reasonable degree of security' and that this required 'orderly and rational marketing of [the] whisky in the United Kingdom and in the other [EU] countries'. This argument was rejected by the Commission, which stated that 'the sales contracts . . . are not capable in themselves of directly achieving an improvement of distribution in the United Kingdom or in the other [EU] countries', but that they merely prohibited the producer's United Kingdom customers (wholesalers, supermarkets and brewers) from reselling or trading outside the UK. Moreover, 'the nature of the goods in question and their distribution requirements do not justify a complete isolation of the United Kingdom from the rest of the common market'.

The Commission indicated in its 1983 Notice that Article 2(2)(c) of Regulation 1983/83 'does not . . . mean that the exclusive distributor cannot sell the contract goods to customers outside his contract territory should he receive orders from them . . . the supplier can prohibit him only from seeking customers in other areas, but not from supplying them'.[260] Similarly, Article 5(g) of Regulation 4087/88 specifically precluded the application of the block exemption where 'franchisees are obliged not to supply within the common market the goods or services which are the subject-matter of the franchise to end users because of their place of residence'.

In *Novalliance/Systemform*,[261] the Commission reiterated that 'completely prohibiting distributors from making any sales outside the territories assigned to them . . . is not indispensable to realizing the potential benefits of an exclusive distribution system'. However, the Commission recognised the risk of sham arrangements and stated that a distributor which sells goods to a related company in order then to sell them outside its territory will be regarded as actively selling in that other territory.

[258] Case 22/71 *Béguelin Import v GL Import Export* [1971] ECR 949.
[259] Dec 78/697 *Wm Teacher and Sons* [1978] OJ L235/20.
[260] Commission Notice on Regs 1983/83 and 1983/84 [1983] OJ C355/7, para 28.
[261] Dec 97/123 *Novalliance/Systemform* [1997] OJ L47/1.

In *Nintendo*,[262] the Commission noted that the prohibition on active sales permitted by the Block Exemption 'relates only to the acquisition of customers', and so distributors must be able to continue to supply buyers from outside their territory after the initial approach.[263]

However, selective distribution systems were not covered by the old block exemptions. As discussed above, where such systems are purely qualitative and allow trade between those in the system they often fall outside Article 81(1) altogether. Where the systems do breach Article 81(1) they must be justified under Article 81(1) and the Commission will accept this only where parallel trade is permitted within the system. For instance, in *SABA*[264] the Commission noted that consumers would obtain a fair share of the benefit of the selective distribution system and competition would not be eliminated in part because authorised retailers could buy SABA products from any SABA distributor or wholesaler in the Community. Nevertheless, by prohibiting all sales outside the system the agreements would often mean that distributors are prohibited from supplying parallel traders, who are normally outside the system. Given the requirements of a selective distribution system, this is not an unreasonable consequence.

Regulation 2790/1999 now block exempts restrictions on distributors under both exclusive and selective distribution systems. However, under the hardcore restriction provisions of Article 4, the block exemption:

> will not apply to vertical agreements which, directly or indirectly, in isolation or in combination with other factors under the control of the parties, have as their object:
> . . .
>
> (b) the restriction of the territory into which, or of the customers to whom, the buyer may sell the contract goods or services, except:
>
> —the restriction of active sales into the exclusive territory or to an exclusive customer group reserved to the supplier or allocated by the supplier to another buyer, where such a restriction does not limit sales by the customers of the buyer,
>
> —. . .;
>
> —the restriction of sales to unauthorised distributors by the members of a selective distribution system,
>
> —. . .;
>
> (c) the restriction of active or passive sales to end users by members of a selective distribution system operating at the retail level of trade, without prejudice to the possibility of prohibiting a member of the system from operating out of an unauthorised place of establishment;

[262] Dec 2003/675 *PO Video Games, PO Nintendo Distribution and Omega—Nintendo* [2003] OJ L255/33; Case T–13/03 *Nintendo v Commission* [2003] OJ C70/27, not yet decided but appealed solely on the level of the fine; Case T–18/03 *CD-Contact Data v Commission* [2003] OJ C70/29, not yet decided and appealed on substantive grounds.

[263] Dec 2003/675, above n262, n 275.

[264] Dec 76/159 *SABA* [1976] OJ L28/19; Case 26/76 *Metro v Commission* [1977] ECR 1875.

> (d) the restriction of cross-supplies between distributors within a selective distribution system, including between distributors operating at different level of trade

For exclusive distribution, the Regulation confirms the previous block exemptions by providing that all distributors can be prevented from actively seeking sales in territories or to customer groups exclusively reserved to the supplier or another distributor.[265]

The Vertical Guidelines expand on the difference between 'active' and 'passive' sales,[266] stating that 'active sales' are:

> actively approaching individual customers inside another distributor's exclusive territory . . . by for instance direct mail or visits; or actively approaching . . . customers in a specific territory allocated exclusively to another distributor through advertisement in media or other promotions . . . targeted at customers in that territory; or establishing a warehouse or distribution outlet in another distributor's exclusive territory.

The use of the Internet to advertise or to sell products will constitute active sales only where it involves targeting customers inside a territory exclusively allocated to another distributor by, for instance, using banners or links in pages of providers specifically available to such customers or sending them unsolicited e-mails.[267]

In contrast, passive sales are:

> responding to unsolicited requests from individual customers including delivery of goods or services to such customers. General advertising or promotion in media or on the Internet that reaches customers in other distributors' exclusive territories . . . but which is a reasonable way to reach customers outside those territories . . ., for instance to reach customers in non-exclusive territories or in one's own territory, are passive sales.

For selective distribution, which was not previously block exempted, selected retailers must be free to sell actively and passively to end users or their agents in all territories, although the retailers can be prohibited from operating out of unauthorised places of establishment.[268] Selective distributors must be allowed to sell to all other selective distributors, including those operating at a different level of trade or in a different territory.[269] Selective distributors can be prohibited from selling to unauthorised distributors in territories where a selective distribution system is operated,[270] although not if the selective distributors also have the benefit of an exclusive territory.[271]

In *Newspaper and Magazine Distribution*,[272] the Office of Fair Trading in the United Kingdom is considering the application of the domestic equivalent of

[265] Reg 2790/1999 [1999] OJ L336/21, Art 4(b).
[266] Vertical Guidelines [2000] OJ C291/1, para 50.
[267] *Ibid*, para 51.
[268] Reg 2790/1999 [1999] OJ L336/21, Art 4(c).
[269] *Ibid*, Art 4(d).
[270] *Ibid*, Art 4(b)
[271] Vertical Guidelines [2000] OJ C291/1, paras 53 and 162.
[272] Case CE/3978/04 *Newspaper and Magazine Distribution*, draft opinions released for comments on May 2005 (OFT450) and May 2006 (OFT851).

Article 81(3) to the wholesale distribution agreements for newspapers and magazines under which wholesalers have exclusive territories. The Office initially indicated that the agreements in both cases resulted in improved distribution and that competition between wholesalers for the agreements, which are periodically re-tendered, ensured that competition was not eliminated and that consumers received a fair share of the benefit.[273] The absolute territorial protection was accepted as indispensable for newspaper distribution, given the short shelf-life of newspapers and the universal supply obligation undertaken by wholesalers covering all retailers in their area who can achieve a minimum volume of sales (which was the result of previous competition action).[274] However, it was not accepted as indispensable for magazine distribution, where neither of these factors applied, and so the Office indicated that the absolute territorial restriction could not be justified for magazine distribution, suggesting that the prohibition on passive sales should be removed to bring the agreements within the scope of Regulation 2790/1999.[275]

After its initial consultation, the Office amended its opinion to produce a rather more complex economic framework within which individual agreements can be assessed.[276] The opinion no longer draws a distinction between newspapers and magazines and suggests that, in both cases, absolute territorial protection may be justifiable. However, the Office does not have the same common market imperative which is applied under Article 81(3), and so it is not clear that, even if such restriction may be justified as a matter of strict economic analysis within the United Kingdom, the same analysis could be applied to agreements which restrict cross-border trade.

b. Restrictions on purchases by the distributor Under Article 1(b) of Regulation 67/67, exclusive purchasing agreements were exempted under Article 81(3) where 'one party agrees with the other to purchase only from that other certain goods for resale within a defined area of the common market'. This seemed to indicate that a distributor could agree to purchase only from the manufacturer and not from other distributors, which would restrict parallel trade.

Under Article 1 of Regulation 1984/83, exclusive purchasing agreements were exempted under Article 81(3) where the reseller agreed with the supplier 'to purchase certain goods specified in the agreement for resale only from the supplier or from a connected undertaking or from another undertaking which the supplier has entrusted with the sale of his goods'. This appeared to require that the reseller be permitted to purchase goods from other resellers. However, the Commission's 1983 Notice suggested that '[c]lauses which allow the reseller to obtain the contract goods from other suppliers, should these sell them more cheaply or on more favourable terms than the other party, are still covered by

[273] OFT450, above n272, paras 3.7–3.12, 3.19–3.24, 3.26–3.27 and 3.33.
[274] *Ibid*, paras 3.13–3.18 and 3.25.
[275] *Ibid*, paras 3.28–3.32 and 3.34–3.35.
[276] OFT851, above n272.

the block exemption', which implied that such clauses were not necessary to fall within the block exemption (just permitted) and thus that it was still possible to require purchase from the manufacturer directly.[277]

A clearer approach to purchases of parallel imports was taken in Article 4(a) of Regulation 4087/88, where a franchise agreement would benefit from the block exemption only if 'the franchisee is free to obtain the goods which are the subject-matter of the franchise from other franchisees; where such goods are also distributed through another network of authorized distributors, the franchisee must be free to obtain the goods from the latter'.

Restrictions on purchasing are not dealt with separately from restrictions on sales in Regulation 2790/1999. However, the Vertical Guidelines indicate that exclusive purchasing requirements are likely to take an agreement outside Article 81(3) where they prevent arbitrage between distributors in different territories.[278]

An example was given in *JCB*[279] of exclusive purchasing obligations placed on official distributors in France and Italy which required them to purchase machines and spare parts exclusively from the national JCB subsidiary and not from official distributors in other Member States. The Commission held that this kept prices high and thus prevented consumers from receiving a fair share of the benefit. Therefore, Article 81(3) could not apply to the agreements. This finding was upheld by the CFI and the ECJ.

c. Other restrictions on parallel trade Any attempt to restrict parallel trade by third parties or by consumers themselves is likely to take the agreement outside the scope of both the block exemption and Article 81(3). Attempts to restrict parallel imports took exclusive dealing agreements outside the scope of Regulation 67/67. Under Article 3(b) an agreement would not benefit from the block exemption where:

> the contracting parties make it difficult for intermediaries or consumers to obtain the goods to which the contract relates from other dealers within the common market, in particular where the contracting parties:
>
> (1) exercise industrial property rights to prevent dealers or consumers from obtaining from other parts of the common market or from selling in the territory covered by the contract goods to which the contract relates which are properly marked or otherwise properly placed on the market;
>
> (2) exercise other rights or take other measures to prevent dealers or consumers from obtaining from elsewhere goods to which the contract relates or from selling them in the territory covered by the contract.

[277] Commission Notice on Regs 1983/83 and 1983/84 [1983] OJ C355/7, para 35.
[278] Vertical Guidelines [2000] OJ C291/1, para 177.
[279] Dec 2002/190 *JCB* [2002] OJ L69/01; Case T–67/01 *JCB Service v Commission* [2003] ECR II–49; Case C–167/04 *JCB Service v Commission* (21 Sept 2006, not yet reported).

In *Van Vliet Kwasten- en Ladderfabriek v Fratelli Dalle Crode*,[280] the Court confirmed that an exclusive dealing contract would not be covered by Regulation 67/67 if it 'prescribes an obligation on the manufacturer to prohibit intermediaries and consumers established in his State from exporting or causing to be exported the goods in question to the territory covered by the contract and if it has the effect of rendering it impossible for intermediaries and consumers established in that territory to acquire directly from the manufacturer's State an appreciable quantity of said goods'. This was the case even if the goods could be acquired from other Member States.

In *Zanussi*,[281] the manufacturer had argued that its territorial restriction of after-sales service guarantees was justified in the light of the differences between technical and safety standards in the Member States. However, the Commission disagreed, holding that such differences did not themselves prevent parallel trade and in any event could not justify the imposition by the manufacturer of further restrictions on trade. The Commission also noted that any beneficial effects from the restrictions were not shared fairly with consumers and that the territorial restrictions were not indispensable to the operation of the guarantee scheme. The Commission specifically noted in *Omega*,[282] *SABA*[283] and *IBM Personal Computer*[284] that guarantees were provided Community-wide or internationally when granting exemptions under Article 81(3).

In *Nungesser*[285] the French producer argued that its attempt to grant absolute territorial protection to its German distributor by blocking all parallel imports of the hybrid maize seeds in question from France was justified as necessary to prevent the import of seeds which were unsuitable for the German market, and also to enable the distributor to 'undertake and maintain over a reasonably long period and in a satisfactory way the transport and conservation of the product as well as an advisory service for users'. The Commission rejected these arguments. Although it noted that there were circumstances in which 'exclusive selling rights linked with prohibitions against exporting could be exempted', such as where 'exclusivity is needed to protect small or medium-sized undertakings in their attempts to penetrate a new market or promote a new product', the Commission held that this would only be where 'parallel imports are not restricted at the same time'. In any event, it held that there was no such new market or new product in this case. The Commission also held that the absolute territorial protection did not contribute to any improvement in production or distribution of goods and that the higher prices for German farmers meant that they had not obtained 'a fair share of the resulting benefit'. On appeal, the Court

[280] Case 25/75 *Van Vliet Kwasten- en Ladderfabriek v Fratelli Dalle Crode* [1975] ECR 1103.
[281] Dec 78/922 *Zanussi* [1978] OJ L322/36.
[282] Dec 70/488 *Omega* [1970] OJ L242/22, [1970] CMLR D49.
[283] Dec 76/159 *SABA* [1976] OJ L28/19; Case 26/76 *Metro v Commission* [1977] ECR 1875.
[284] Dec 84/233 *IBM Personal Computer* [1984] OJ L118/24.
[285] Dec 78/823 *Breeders' Rights—Maize Seed* [1978] OJ L286/23; Case 258/78 *LC Nungesser and Kurt Eisele v Commission* [1982] ECR 2015.

agreed that the absolute territorial protection was not indispensable. Without dealing with the other sub-criteria, the Court held:

> as it is a question of seeds intended to be used by a large number of farmers for the production of maize, which is an important product for human and animal foodstuffs, absolute territorial protection manifestly goes beyond what is indispensable for the improvement of production or distribution or the promotion of technical progress, as is demonstrated in particular in the present case by the prohibition, agreed to by both parties to the agreement, of any parallel imports of [the manufacturer's] maize seeds into Germany even if those seeds were bred by [the manufacturer] itself and marketed in France.

In *Hennessy-Henkell*,[286] the Commission considered a distribution agreement where the French manufacturer guaranteed its German distributor prices 'such that the German domestic market and the margin of 18% are effectively protected from the point of view of prices against infiltration', which the manufacturer explained was to protect the distributor 'against parallel imports or infiltration'. The Commission held that under Article 3(b) this prevented the agreement from benefiting from the block exemption. The Commission also held that this was not indispensable to achieving the pro-competitive objectives of the agreement. It is notable that, on its own, the clause did not appear to have an anti-competitive object or effect as it did not involve targeted price reductions but simply a guarantee that the prices would be sufficiently low that the German distributor would not have sales undermined by parallel trade. However, in the context of determining whether the block exemption applied this was irrelevant, as Article 3(b) excluded any restriction of parallel trade, and the Commission took a similar approach under Article 81(3) itself.

In *Hasselblad*,[287] although the written distributorship agreements fell within the Regulation and did not prohibit parallel trade, in practice certain distributors had complained about parallel imports, and the manufacturer had taken action against the offending distributors as a result. The distributors had kept records of serial numbers and exchanged price lists in order to trace and prevent parallel imports. The United Kingdom distributor had also provided a more rapid repair service for cameras which it had sold itself than for parallel imported cameras, placing purchasers of parallel imported cameras at a disadvantage. The Commission emphasised that Article 3(b) meant that 'sole distributorship agreements do not benefit from block exemption where the parties to them take direct or indirect steps to protect the allotted territories or endeavour otherwise to prevent imports'. The conduct of the various distributors therefore meant that the agreements did not benefit from the block exemption. It was irrelevant that the United Kingdom distributor's repair policy was a unilateral measure, as Article 3(b) did not require that there be an agreement to take such steps.

[286] Dec 80/1333 *Hennessy-Henkell* [1980] OJ L383/11.
[287] Dec 82/367 *Hasselblad* [1982] OJ L161/18.

In *Hydrotherm Gerätebau v Compact del Dott. Ing. Mario Andreoli & C. SAS*,[288] the ECJ confirmed that Article 3(b)(1) of Regulation 67/67 does not prevent the block exemption applying just because there is an assignment or licence of an intellectual property right in the agreement, but only if 'either the terms of the agreement itself or the actual conduct of the parties suggest [sic] that an industrial property right is being exercised abusively in order to create absolute territorial protection'. The Commission interpreted this to mean that unilateral actions by one of the parties to restrict parallel trade would take the agreement outside the block exemption.[289]

The Commission also focussed on the absence of any restrictions on parallel imports in granting individual exemptions under Article 81(3). In *Ivoclar*,[290] the Commission noted that competition was not eliminated in part because 'parallel imports and sales between distributors are not ruled out but only restricted to depots belonging to the distribution network'. Similarly, in *Delta Chemie/DDD*,[291] the Commission held that consumers were unlikely to face increased prices because 'the contract products sold by DDD in the licensed territory are subject not only to the competition of other producers, but are also exposed to the competition of parallel imports from Member States outside the licensed territory'. Similarly, it held that competition was not eliminated in part because 'DDD benefits from no absolute territorial protection from direct and indirect imports from Member States where DC and its exclusive distributors operate'.

In *Welded Steel Mesh*,[292] the Commission rejected the application of the block exemption to exclusive distribution agreements where they were 'regarded as part of a comprehensive market-sharing arrangement to which more than two undertakings are party'. On appeal, the Court confirmed that 'an exclusive distribution contract containing no prohibition of exports cannot benefit from a block exemption under Regulation 67/67 where the undertakings concerned are engaged in a concerted practice aimed at restricting parallel imports intended for an unauthorized dealer'.[293]

[288] Case 170/83 *Hydrotherm Gerätebau v Compact del Dott. Ing. Mario Andreoli & C. SAS*, [1984] ECR 2999.

[289] *Ivoclar*, *Fourteenth Report on Competition Policy* (1984), point 142.

[290] Dec 85/559 *Ivoclar* [1985] OJ L369/1.

[291] Dec 88/563 *Delta Chemie/DDD* [1988] OJ L309/34.

[292] Dec 89/515 *Welded Steel Mesh* [1989] OJ L260/1; Case T—141/89 *Tréfileurope Sales v Commission* [1995] ECR II–791; Case T–142/89 *Usines Gustave Boël v Commission* [1995] ECR II–867; Case T–143/89 *Ferriere Nord v Commission* [1995] ECR II–917; Case T–144/89 *Cockerill-Sambre v Commission* [1995] ECR II–947; Case T–145/89 *Baustahlgewebe v Commission* [1995] ECR II–987; Case T–147/89 *Société métallurgique de Normandie v Commission* [1995] ECR II–1057; Case T–148/89 *Tréfilunion v Commission* [1995] ECR II–1063; Case T–149/89 *Sotralentz v Commission* [1995] ECR II–1127; Case T–150/89 *G B Martinelli v Commission* [1995] ECR II–1165; Case T–151/89 *Société des Treillis et Panneaux Soudés v Commission* [1995] ECR II–1191; Case T–152/89 *ILRO v Commission* [1995] ECR II–1197; Case C–219/95 P *Ferriere Nord v Commission* [1997] ECR I–4411; Case C–185/96 P *Baustahlgewebe v Commission* [1998] ECR I–8417.

[293] Case T–141/89, above n292, para 119; Case T–145/89, above n292, para 104.

This general approach was continued in Article 3(d) of Regulation 1983/83, under which the block exemption would not apply if:

> one or both of the parties makes it difficult for intermediaries or users to obtain the contract goods from other dealers inside the common market or, in so far as no alternative source of supply is available there, from outside the common market, in particular where one or both of them:
>
> 1. exercises industrial property rights so as to prevent dealers or users from obtaining outside, or from selling in, the contract territory properly marked or otherwise properly marketed contract goods;
>
> 2. exercises other rights or take other measures so as to prevent dealers or users from obtaining outside, or from selling in, the contract territory contract goods.

The amendments clarified that restrictions of parallel trade by either one of the parties (ie unilateral restrictions) would take the agreement outside the block exemption, and they introduced an exclusion for restrictions on parallel trade from outside the Community where there were no alternative sources of supply within the Community. In addition, the Commission indicated in its 1983 Notice that if the manufacturer actually agreed with its distributor to prevent parallel imports into the territory by distributors outside the Community this would take the agreement outside the block exemption, as such a restriction is not one of those which could be exempted under the Regulation.[294]

Article 3(c) of the Regulation added a new restriction, excluding application of the block exemption where 'users can obtain the contract goods in the contract territory only from the exclusive distributor and have no alternative source of supply outside the contract territory'. The Commission indicated in its 1983 Notice that this meant that 'the parties must ensure either that the contract goods can be sold in the contract territory by parallel importers or that users have real possibility of obtaining them from undertakings outside the contract territory, if necessary outside the Community, at the prices and on the terms there prevailing'.[295]

This was further extended by Article 6(c), under which the Commission reserved the right to withdraw the benefit of the block exemption if 'for reasons other than those referred to in Article 3(c) and (d) it is not possible for intermediaries or users to obtain supplies of the contract goods from dealers outside the contract territory on the terms there customary'.

In Article 4(b) of Regulation 4087/88, the Commission dealt with one specific difficulty, stating that the block exemption would apply to franchise agreements where the franchisee was obliged to honour guarantees for the franchisor's goods only if 'that obligation shall apply in respect of such goods supplied by any member of the franchised network or other distributors which give a similar guarantee, in the common market'. More broadly, however, under Article

[294] Commission Notice on Regs 1983/83 and 1983/84 [1983] OJ C355/7, para 33.
[295] Commission Notice on Regs 1983/83 and 1983/84 [1983] OJ C355/7, para 31.

8(c) the Commission reserved the right to withdraw the block exemption where the franchisee had territorial protection and 'the parties, or one of them, prevent end users, because of their place of residence, from obtaining, directly or through intermediaries, the goods or services which are the subject-matter of the franchise within the common market, or use differences in specifications concerning those goods or services in different Member States, to isolate markets'.

In *Gosme/Martell*,[296] the producer and exclusive distributor had taken measures to stop parallel exports from France to Italy. In particular, the producer had asked the distributor to increase its sale prices in France and to withdraw discounts from parallel exported products. The Commission held that these actions took the distribution agreements outside the block exemption, under Article 3(d) of Regulation 1983/83, and that the agreements were not justified under Article 81(3).

In *Novalliance/Systemform*,[297] the Commission reiterated that 'prohibiting distributors . . . from selling to customers with the known intention of exporting is not indispensable to realizing the potential benefits of an exclusive distribution system'.

In *Glaxo Wellcome*,[298] the manufacturer notified the Commission of a dual pricing policy applied in Spain, seeking an individual exemption. Glaxo claimed that its policy created additional resources for research and development, thus promoting technical progress. Glaxo also claimed that the policy ensured there was no shortage of products in Spain, thus improving distribution. Additionally, Glaxo claimed that the policy supported the provision of additional services by its distributors in other countries by reducing the risk of those distributors having their prices undercut by cheap parallel imports from Spain. The Commission rejected each of these in turn. In terms of research and development, the Commission held that there was no causal link between research and development spending and any losses resulting from parallel imports. The Commission somewhat cynically pointed out that 'it is conceivable that [savings made from preventing parallel trade] might merely be added to the companies' profits'. In terms of distribution, the Commission merely noted that the manufacturer had not given examples of such services. The Commission also rejected the manufacturer's arguments that the policy would improve allocative efficiency, refusing to accept that a manufacturer would achieve this result better than the market and noting that no shortages had been shown to have occurred in Spain. Finally, the Commission rejected the manufacturer's arguments that parallel trade caused delays in the launch of products in Spain, noting that such

[296] Dec 91/335 *Gosme/Martell—DMP* [1991] OJ L185/23.

[297] Dec 97/123 *Novalliance/Systemform* [1997] OJ L47/1.

[298] Dec 2001/791 *Glaxo Wellcome* [2001] OJ L302/1; Case T–168/01 *GlaxoSmithKline Services Unlimited v Commission* (27 Sept 2006, not yet reported). Appeals have been filed as Cases C–501/06 *GlaxoSmithKline Services Unlimited v Commission*, C–513/06 *Commission v GlaxoSmithKline Services Unlimited* and C–515/06 *European Association of Euro-Pharmaceutical Companies v GlaxoSmithKline Services Unlimited*.

delays can be caused by many other factors and that there was no evidence of particular delays.

However, on appeal the CFI overturned the Commission. The Court focused on the first condition under Article 81(3), in other words whether the agreement contributed to an improvement in the production or distribution of goods or to promoting technical or economic progress. It held that the Commission had not properly considered Glaxo's arguments, in particular the argument that the reduction in profitability would lead to a reduction in research and development spending, and therefore not balanced such improvements against the restriction on parallel trade. It went on to hold that the Commission had not completed a full analysis under any of the other heads. Therefore the case was sent back to the Commission for a full analysis under Article 81(3). It remains to be seen whether the Commission will take a different view when it reconsiders whether the increased research and development spending and distribution resulting from restrictions on parallel trade of pharmaceuticals will outweigh the price reductions resulting from such parallel trade, although the indications so far are otherwise.[299] Appeals have also been filed against the CFI's judgment by Glaxo, the Commission and the European Association of Euro-Pharmaceutical Companies.

Under Article 4(b) of Regulation 2790/1999, the block exemption 'will not apply to vertical agreements which, directly or indirectly, in isolation or in combination with other factors under the control of the parties, have as their object . . . the restriction of the territory into which, or of the customers to whom, the buyer may sell the contract goods or services', subject to specific exceptions. Such restrictions are also unlikely to be justified under Article 81(3) directly.

Although Article 4(b) is less explicit than the previous block exemptions, the Vertical Guidelines make it clear that the Article prohibits a wide range of unilateral or agreed conduct which restrict parallel trade,[300] and thus Regulation 2790/1999 is likely to apply just as broadly as its predecessors. Agreements which restrict parallel trade are unlikely be justifiable under Article 81(3) beyond the restrictions on sales by manufacturers and distributors explicitly permitted under Regulation 2790/1999.

This was understood to be the case in *Nathan-Bricolux*,[301] where the manufacturer and its exclusive distributor in Belgium had been threatening a French distributor which had been supplying to a bookseller in Belgium. This was held to take them outside the block exemptions under Article 3(d) of Regulation 1983/83 and Article 4 of Regulation 2790/1999.

However, in *Wholesale Supply of Compact Discs*,[302] the UK Office of Fair Trading suggested that there is a limit to Article 4(b) in that 'broadly, these exceptions prohibit restrictions on passive sales (i.e. parallel exports) rather

[299] See also Parliamentary Question P-1143/02 [2003] OJ C28E/76.
[300] Vertical Guidelines [2000] OJ C291/1, para 49
[301] Dec 2001/135 *Nathan-Bricolux* [2001] OJ L54/1.
[302] OFT391 *Wholesale Supply of Compact Discs* (Sept 2002), para C.19.

than parallel imports'. It would therefore not prevent exemption of vertical agreements with potential *purchasers* of parallel imported goods (rather than potential *suppliers*). Although this is an accurate reading of the wording of the block exemption, it seems unlikely that this was the intention of the Commission and the wording, which may be amended in the future if many cases arise on the point.

ii. Vertical Agreements Regarding Motor Vehicles

Initially, motor vehicle distribution agreements which infringed Article 81(1) could be exempted either under the general vertical block exemptions or individually.

In *BMW*,[303] the Commission considered BMW's distribution agreements in Germany. The Commission found that BMW's old agreements, under which its dealers were completely prohibited from delivering new BMW vehicles to countries other than their own, amounted to an export ban. This could not be justified under Article 81(3) as it did not guarantee consumers a fair share of the benefits and was not indispensable to the improvement of distribution of the goods. However, the Commission then went on to consider BMW's new distribution agreements and granted them an individual exemption.

The Commission had hoped that this would be a landmark case and that other manufacturers would simply bring their systems into line with BMW's system.[304] However, manufacturers continued to notify their own distribution agreements and ultimately the Commission recognised that the motor vehicle sector had special characteristics and introduced a sector-specific block exemption, Regulation 123/85, which applied from 1985 until 1995.[305] Its replacement, Regulation 1475/95, applied from 1995 until 2002.[306] The current block exemption is Regulation 1400/2002,[307] which applies from 2002 until 2010 and is supplemented by various guidance documents.[308]

At first the motor vehicle block exemptions were broader than the general block exemptions. The Commission's 1985 Notice explained that under Regulation 123/85 'the Commission recognizes that exclusive and selective distribution in this industry is in principle compatible with Article [81(3)] of the Treaty'. In addition, motor vehicle manufacturers could choose whether their agreements complied with the sector-specific block exemptions or with the

[303] Dec 75/73 *Bayerische Motoren Werke* [1975] OJ L29/1.

[304] *Fourth Report on Competition Policy* (1974), point 86; COM(2000)743, para 28.

[305] Reg 123/85 [1985] OJ L15/16, supplemented by Commission Notices [1985] OJ C17/4 and [1991] OJ C329/20.

[306] Reg 1475/95 [1995] OJ L145/25, supplemented by an Explanatory Brochure available at ec.europa.eu/comm/competition/car_sector/distribution/. The Notices under Reg 123/85 continued to apply: see Press Release IP/95/648.

[307] Reg 1400/2002 [2002] OJ L203/30.

[308] Press Releases IP/02/1073 and MEMO/02/174; Explanatory Brochure, Explanatory Slides and Frequently Asked Questions available at ec.europa.eu/comm/competition/car_sector/distribution/.

general block exemptions in Regulations 1983/83 and 1984/83,[309] although they could not rely on the block exemption for franchise agreements under Regulation 4087/88.[310]

The Commission's evaluation of the motor vehicle block exemption recognised serious problems with the previous system,[311] and in the draft of the new block regulation the Commission noted:

> The Commission's biannual car price reports show that car prices differentials are still very high in Europe. Although Regulation (EC) No 1475/95 tried to underpin the right of consumers to purchase a new motor vehicle in another Member State, in practice manufacturers were able to limit parallel trade to a level which avoided the need for them to even-out prices even between Member States with low tax levels. One key element of the draft [block exemption] is to considerably reinforce the consumer's single market right to take advantage of the price differentials between Member States and to purchase a new vehicle anywhere in Europe.[312]

As a result, the new block exemption, Regulation 1400/2002, is not only more similar to the general vertical block exemption than previous block exemptions but is expressly stated to be even stricter.[313] At the same time, the approach of allowing the motor vehicle industry to choose between the general and sector-specific block exemptions has been abandoned. The general vertical block exemption, Regulation 2790/1999, states explicitly that it 'shall not apply to vertical agreements the subject matter of which falls within the scope of any other block exemption regulation'.[314]

As with Regulation 2790/1999, under Article 3(1) the block exemption will generally apply only if the manufacturer's market share is less than 30 per cent. However, the threshold is raised to 40 per cent in markets where the manufacturer establishes a quantitative selective distribution system for the sale of new motor vehicles and there is no market share threshold for agreements in markets where the manufacturer establishes a qualitative selective distribution system. A quantitative selective distribution system is defined as one where 'where the supplier uses criteria for the selection of distributors or repairers which directly limit their number',[315] while in a qualitative system 'the supplier uses criteria for the selection of distributors or repairers which are only qualitative in nature, are required by the nature of the contract goods or services, are laid down uniformly for all distributors or repairers applying to join the distri-

[309] Reg 123/85 [1985] OJ L15/16, recs 24 and 29 and Art 6(3); Reg 1475/95 [1995] OJ L145/25, recs 23 and 34 and Art 6(1)(4).

[310] Reg 1475/95 [1995] OJ L145/25, rec 34 and Art 12.

[311] COM(2000)743.

[312] Explanatory note to the draft [2002] OJ C67/13, point 16. The draft itself was published at [2002] OJ C67/2.

[313] Reg 1400/2002 [2002] OJ L203/30, recs 2 and 7.

[314] Reg 2790/1999 [1999] OJ L336/21, Art 2(5).

[315] Reg 1400/2002, above n313, Art 1(1)(g).

bution system, are not applied in a discriminatory manner and do not directly limit the number of distributors or repairers'.[316]

The block exemption covers new motor vehicles intended for use on public roads and having three or more road wheels, together with spare parts for such vehicles. Regulation 1400/2002 also extends the coverage to repair and maintenance services. However, it still excludes motorcycles and, less obviously, agricultural tractors[317] and earthmoving and construction equipment[318] on the basis that their main use is not on public roads.

As with the general vertical block exemptions, restrictions on sales by the manufacturer or distributor will be considered first, followed by other restrictions on parallel trade.

a. Restrictions on sales by manufacturers or distributors In *BMW*,[319] after receiving the Commission's objections the manufacturer limited its sales restrictions to one 'not to operate branches or distribution depots or use intermediaries outside his own territory, nor to advertise nor canvass in any other way, outside his territory, unless the principal obligation under the agreement is fulfilled, namely the diligent promotion of sales and after-sales service within his territory'. Moreover, the agreements explicitly provided that 'in any event [the dealer] is free to advertise in publications having a circulation outside his territory and to sell goods covered by the agreement in territories outside his own'. These restrictions were accepted by the Commission as justified under Article 81(3).

The Commission held that the restriction led to an 'improvement of sales promotion by the appointed dealers and thus rationalizes distribution', by channelling dealers' activities 'primarily towards potential purchasers in their own territory without impeding sales to consumers and other BMW dealers outside the territory', and that the restriction was indispensable to this goal. The Commission accepted that consumers would receive a fair share of the benefit, not only by way of improved service but also from adequate competition at the distribution level, particularly as both consumers and dealers were free to purchase goods throughout the Community. Finally, the Commission held that the restriction provided no opportunity to eliminate competition in respect of a substantial part of the relevant market, given the manufacturer's market share and the fact that it was subject to effective competition in the market. As a consequence, the Commission granted an individual exemption to BMW's agreements.

The early block exemptions permitted agreements which were more restrictive than BMW's, particularly as regards restrictions on sales by distributors.

[316] *Ibid*, Art 1(1)(h).

[317] Press Release IP/90/917; as to the uncertainty see Dec 93/46 *Ford Agricultural* [1993] OJ L20/1, where contracts had been modified first to conform with Reg 123/85 and then with Reg 1983/83.

[318] Dec 2002/190 *JCB* [2002] OJ L69/01, para 200; Case T–67/01 *JCB Service v Commission* [2003] ECR II–49, para 164; Case C–167/04 *JCB Service v Commission* (21 Sept 2006, not yet reported).

[319] Dec 75/73 *Bayerische Motoren Werke* [1975] OJ L29/1.

However, this flexibility has now been reduced by Regulation 1400/2002 which is far less permissive.

First, as under the general block exemptions, manufacturers can undertake broad restrictions on their sales. Under Articles 1 and 2 of Regulation 123/85 and Regulation 1475/95, a manufacturer could agree to supply motor vehicles or spare parts for resale exclusively to one or more undertakings in a certain territory and not to supply final consumers in that territory. Similarly wide restrictions are permitted under Articles 4 and 5 of Regulation 1400/2002.

Secondly, again as under the general block exemptions, sales by distributors can also be restricted, but less broadly. Under Regulations 123/85 and 1475/95, manufacturers could operate distribution systems which were both exclusive and selective, imposing territorial restrictions and prohibiting sales to unauthorised resellers.

In terms of territorial restrictions, under Article 3(8) and (9) of both block exemptions distributors could be prohibited from seeking customers or maintaining distribution branches or depots outside their territory, whether directly or through third parties (ie active sales). Although the provisions were similar in both block exemptions, the Commission did limit the scope of the permitted restrictions on advertising in Article 3(8)(b) of Regulation 1475/95. Under Regulation 123/85, manufacturers had been able to prohibit dealers from seeking customers outside their territories entirely although, under recital 9, dealers could advertise in 'a medium which is directed to customers in the contract territory but also covers a wider area'. However, under Regulation 1475/95, dealers could be prohibited from seeking such customers only by 'personalized advertising'. This was explained in recital 9 as prohibiting 'direct personal contact with the customer, whether by telephone or other form of telecommunication, doorstep canvassing or by individual letter' but permitting 'advertising by dealers in a medium which is directed at consumers outside the contract territory'.

In terms of sales to unauthorised resellers, under Article 3(10) of both block exemptions distributors could be prohibited from selling vehicles to resellers outside the manufacturer's distribution system and from selling spare parts to such resellers unless they would be used for maintenance or repair by the purchaser (and not resold). In addition, although consumers could use an intermediary to purchase a car for them, under Article 3(11) of both block exemptions distributors could be prohibited from selling cars to such intermediaries except where they had prior written authorisation to purchase a specified vehicle and to accept delivery or collect it on behalf of the consumer.

Parallel traders could therefore not act as resellers but were restricted to acting as intermediaries for specific consumers. Although the Commission's 1985 Notice made it clear that 'the European consumer's basic rights include above all the right to buy a motor vehicle and to have it maintained or repaired wherever prices and quality are most advantageous to him', this meant that parallel importers were restricted as to what operations they could carry out without specific authorisation from an individual customer. Nevertheless, in its annual

report in 1986 the Commission noted that intermediaries could still act in a professional capacity, indicating that 'the Commission has always refused to accept as a valid ground for refusing to sell to an intermediary who has a written order to purchase a new vehicle the fact that he is collecting orders professionally or is charging for his services'.[320]

In 1991 the Commission provided further guidance on the concept of an 'intermediary',[321] which laid down some practical criteria for determining whether an individual was acting as an intermediary or an independent reseller for the purposes of Regulation 123/85. The notice confirmed that intermediaries 'may use an outlet in the same building as a supermarket, so long as the outlet is outside the premises where the principal activities of the supermarket are carried on'. It also confirmed that intermediaries could assume transport, storage and exchange rate risks. However, it also confirmed that intermediaries must make it clear that they are not authorised resellers and must provide their services transparently, particularly as regards payment, charges and services. In addition, the notice stated that intermediaries must obtain vehicles from authorised dealers under normal market conditions, including in relation to discounts. There would be a presumption that normal market conditions were not being applied where a single intermediary bought more than 10 per cent of any authorised dealer's annual sales.

In *Eco System/Peugeot*,[322] the concept of an intermediary was considered in detail by the Commission and the Courts. Peugeot had sent a circular to its dealers in Belgium, Luxembourg and France instructing them to suspend supplies to Eco System, on the ground that it was claiming to be an intermediary but was in fact acting as an independent reseller. In particular, the circular claimed that Eco System was acting in a professional capacity and was assuming economic risks in the transaction. The Commission, which was upheld by the CFI and ECJ, rejected these arguments. It held that the professional nature of Eco System's activities was irrelevant so long as it acted as an intermediary by obtaining written authorisation for each purchase and not simply reselling cars. It also rejected the suggestion that Eco System was assuming any risks normally adopted by a reseller (who would have temporary ownership of the vehicle) rather than by an agent. The Commission therefore required Peugeot to write to its dealers withdrawing the circular or face the withdrawal of the benefit of the block exemption.

In *BMW v ALD*,[323] the ECJ held that the restriction on sales to resellers did not apply to leasing companies which bought from a distributor in order to lease to customers in another Member State where they did not offer an option to

[320] *Sixteenth Report on Competition Policy* (1986), point 30.

[321] Commission notice, 'Clarification of the activities of motor vehicle intermediaries' [1991] OJ C329/20.

[322] Dec in Case IV/33.157 *Ecosystem/Peugeot—Interim Measures* (26 Mar 1990, unpublished); Case T–23/90 R *Automobiles Peugeot v Commission* [1990] ECR II–195 (Order), [1991] ECR II–653 (Judgment); Dec 92/154 *Eco System/Peugeot* [1992] OJ L66/1; Case T–9/92 *Automobiles Peugeot v Commission* [1993] ECR II–493; Case C–322/93 *Automobiles Peugeot v Commission* [1994] ECR I–2727.

[323] Case C–70/93 *Bayerische Motorenwerke v ALD Auto-Leasing D* [1995] ECR I–3439, para 29.

purchase and where 'they confine themselves to purchasing vehicles in order to satisfy requests from their customers and do not build up stocks which they offer to customers attracted in that way.' Therefore, such a restriction would fall outside Regulation 123/85. This understanding of resale was made explicit in Article 10(12) of Regulation 1475/95, which stated that resale 'shall include all leasing contracts which provide for a transfer of ownership or an option to purchase prior to the expiry of the contract'.

In *Volkswagen I*,[324] the manufacturer paid bonuses of up to 3 per cent on sales by its dealers, but only 15 per cent of such sales could be outside the dealers' territories. The manufacturer claimed that such a restriction was permitted under Regulation 123/85, which allows it to protect its exclusive and selective distribution system and give a distributor a special responsibility for his own territory. However, the Commission disagreed, noting that the block exemption allows specific measures to protect the system (namely a prohibition on dealers selling to independent dealers) but not a restriction of this form which also prevents sales to final consumers, intermediaries and other dealers inside the distribution network. The manufacturer appealed to the CFI and then the ECJ on this point, but both upheld the Commission, following *BMW v ALD* in stating that 'although Regulation No 123/85 provides manufacturers with substantial means of protecting their distribution systems, it does not authorise them to adopt measures which contribute to a partitioning of the markets'. The CFI also stated that '[t]he very spirit of a regulation granting block exemption for distribution agreements is to make the exemption available under it subject to the condition that users will, through the possibility of parallel imports, be allowed a fair share of the benefits resulting from the exclusive distribution'.

However, the block exemptions did not restrict the sale of vehicles by parallel importers who managed to avoid the permitted restrictions. For instance, in *Grand Garage Albigeois v Garage Massol*[325] and *Nissan France v Dupasquier*,[326] vehicle manufacturers and distributors had brought actions for unfair competition against parallel importers who were neither authorised by the manufacturers nor properly authorised as intermediaries by individual consumers under Article 3(11) but had nevertheless acquired vehicles in other Member States and were selling them in France. The ECJ held that Regulation 123/85 does not prohibit such parallel trading, nor its combination with activities as an authorised intermediary, but merely allows the inclusion of terms prohibiting such sales to such traders in the contracts between motor vehicle manufacturers and their distributors. The ECJ took the same approach in *Fontaine v Aqueducs Automobiles*[327] and in *VAG-Händlerbeirat v SYD-Consult*.[328]

[324] Dec 98/273 *Volkswagen I* [1998] OJ L124/60; Case T–62/98 *Volkswagen v Commission* [2000] ECR II–2707; Case C–338/00 P *Volkswagen v Commission* [2003] ECR I–9189.
[325] Case C–226/94 *Grand Garage Albigeois v Garage Massol* [1996] ECR I–651.
[326] Case C–309/94 *Nissan France v Dupasquier* [1996] ECR I–677.
[327] Case C–128/95 *Fontaine v Aqueducs Automobiles* [1997] ECR I–967.
[328] Case C–41/96 *VAG-Händlerbeirat v SYD-Consult* [1997] ECR I–3123.

In most respects Regulation 1475/95 simply replicated Regulation 123/85. However, it did introduce a number of additional conditions to Article 6 which would prevent the block exemption from applying. In particular, Article 6(1)(8) had the effect that the block exemption would not apply to restrictive clauses in favour of the supplier if 'the supplier, without any objective reason, grants dealers remunerations calculated on the basis of the place of destination of the motor vehicles resold or the place of residence of the purchaser', at least if such conduct were systematic and repeated.[329]

In *General Motors/Opel*,[330] the Commission held that Opel had taken measures restricting exports which were not 'directed exclusively and expressly against sales to independent resellers outside the distribution network' but which 'also related to exports which a car manufacturer or supplier is not permitted to restrict'. Therefore, the block exemption could not apply. In addition, no individual exemption could be granted under Article 81(3) because consumers would not share any benefits of the system. These points were not appealed to the CFI or ECJ. The same approach to individual exemption under Article 81(3) was taken in *DaimlerChrysler/Mercedes-Benz*, where the Commission also queried what benefit there was to distribution in blocking parallel trade.[331]

Similarly, in *Peugeot and Peugeot Nederland*,[332] the Commission rejected Peugeot's argument that its system of restricting bonuses for Dutch dealers to cars subsequently registered in the Netherlands had 'the sole, manifest objective' of encouraging its dealers to focus their best sales efforts within their own sales territories. In particular, the Commission noted that the agreement allowed sales to be registered anywhere within the Netherlands, not simply within the dealers' territories, but that sales registered outside the Netherlands were excluded from the bonus calculation even after specific sales targets had been met. The Commission's view was supported by various examples of opposition to parallel trade on the file, such as Peugeot's system for monitoring registrations. Peugeot has appealed to the CFI.

Despite its limitations, Regulation 1475/95 allowed manufacturers significantly to restrict parallel trade of motor vehicles. In particular, by block exempting selective distribution and by requiring intermediaries to produce prior written authorisation from a particular consumer, the scope for parallel importing was significantly restricted even when the spirit of the block exemptions was accepted. This can be seen from a flurry of complaints by parallel

[329] Reg 1475/95 [1995] OJ L145/25, rec 20.

[330] Dec 2001/146 *Opel* [2001] OJ L59/1; Case T–368/00 *General Motors Nederland and Opel Nederland v Commission* [2003] ECR II–4491; Case C–551/03 P *General Motors v Commission* (6 Apr 2006, not yet reported).

[331] Dec 2002/760 *Mercedes-Benz* [2002] OJ L257/1, [2002] OJ L258/36; Case T–325/01 *DaimlerChrysler v Commission* (15 Sept 2005, not yet reported). Not appealed.

[332] Dec 2006/431 *Automobiles Peugeot and Peugeot Nederland* [2006] OJ L173/20; Case T–450/05 *Automobiles Peugeot and Peugeot Nederland v Commission* (pending).

traders and intermediaries to the Commission, resulting in a number of unsuccessful actions before the CFI and ECJ when the Commission failed to take action.[333]

There was particularly significant criticism of the Regulation in the United Kingdom, where car prices were typically high, and the Competition Commission said in 2000 that the selective and exclusive distribution systems should be prohibited.[334] In particular, it suggested that 'suppliers should be prohibited from refusing to supply, on normal commercial terms, any party wishing to retail the supplier's new cars' and that '[r]etailers should be free to sell the supplier's brand of cars to resellers'.

In its subsequent report on the Regulation, the Commission recognised that consumers and their authorised intermediaries had suffered real difficulties in obtaining cars from other Member States under the existing system,[335] even though the Commission had brought major proceedings against manufacturers.[336] The Commission suggested that the problems might be partly relieved by the Internet, suggesting both authorised dealers[337] and intermediaries[338] could expand their electronic operations, although it recognised that the requirement for a signed authorisation and the fact that intermediaries could not act as resellers would restrict the possibilities. However, the Commission went on to question the need for the exclusion of independent resellers from the distribution of new cars.[339]

As a consequence, Regulation 1400/2002 includes very similar hardcore restrictions to those under Regulation 2790/1999. However, unlike under the general block exemption, motor vehicle manufacturers must now choose whether to apply exclusive or selective distribution in a particular territory: they cannot do both,[340] although territories can be smaller than a Member State.[341] The possibility of limiting the place of establishment of selective distributors is reduced in relation to passenger cars and light commercial vehicles.[342] The scope of the block exemption has therefore been drastically reduced, although not as drastically as some had demanded.

[333] For instance, Joined Cases T–189/95, 39/96 and 123/96 *SGA v Commission* [1999] ECR II–3587; Case C–39/00P *SGA v Commission* [2000] ECR I–11201.Joined Cases T–9/96 and 211/96 *Européenne automobile v Commission* [1999] ECR II–3639; Case T–26/99 *Trabisco v Commission* [2001] ECR II–633; Joined Cases T–190/95 and 45/96 *Sodima v Commission* [1999] ECR II–3617; Case C–44/00P *Sodima v Commission* [2000] ECR I–11231; Case T–62/99 *Sodima v Commission* [2001] ECR II–655; Case T–115/99 *SEP v Commission* [2001] ECR II–691.

[334] UK Competition Commission, *New Cars* Cm 4660 (TSO, London, 2000), paras 1.19–1.22.

[335] COM(2000)743, paras 163–167, 175 and 376–382.

[336] COM(2000)743, paras 168–174.

[337] *Ibid*, paras 155 and 403–408.

[338] *Ibid*, paras 409–412.

[339] *Ibid*, paras 384–386.

[340] This is not stated clearly anywhere in the Reg, although it is implicit in various places and is made plain in the accompanying press release IP/02/1073.

[341] Frequently Asked Questions available at ec.europa.eu/comm/competition/car_sector/distribution/, question 11.

[342] Reg 1400/2002 [2000] OJ L203/30, Arts 4(1)(d) and 5(2)(b).

In territories where manufacturers elect to use an exclusive distribution system, passive territorial restrictions are still permitted but restrictions on sales to unauthorised resellers in selective distribution territories are not.[343] In essence, this should mean that parallel traders can acquire vehicles in exclusive distribution territories which can then be resold in any territory.

In territories where a selective distribution system is chosen, the prohibition of supplies to unauthorised distributors is still permitted.[344] However, authorised distributors can sell passively to unauthorised distributors as well as end users in territories where the manufacturer operates an exclusive distribution system.[345] Authorised retailers can sell both actively and passively in all territories where selective distribution systems are in place.[346] In addition, the restrictions on intermediaries have been relaxed and they now must only produce a mandate from the consumer.[347] The mandate must give the consumer's name and address and must be signed and dated.[348] Distributors within a selective distribution system may ask intermediaries to provide further evidence of the consumer's identity, such as a copy of a passport, identity card or a utility bill, but only if the distributors take the same steps in relation to buyers from within their own Member State or, in individual exceptional cases, in order to ensure that the intermediary is not an independent reseller.[349]

Although restrictions on authorised retailers operating out of an unauthorised place of establishment will not prevent the block exemption from applying, as of 1 October 2005 any such restriction which limits retailers of passenger cars or light commercial vehicles in their ability to establish additional sales or delivery outlets must be individually justified under Article 81(3).[350] The Commission has indicated that such additional premises can still be required to comply with the manufacturer's criteria for the area concerned, giving the following example: '[a] Belgian dealer from the Ardennes wishing to set up a showroom on Paris' Champs Elysées will have to abide by the rules set by the manufacturer for this prime location'.[351] For other vehicles such restrictions are block exempted so long as they do not have the effect of limiting the expansion of the distributor's business at the existing place of business, for instance by allowing an increase of infrastructure to cope with increased sales due to business over the Internet.[352]

[343] *Ibid*, Art 4(1)(b)(i).
[344] *Ibid*, Art 4(1)(b)(iii).
[345] *Ibid*, rec 13.
[346] *Ibid*, Art 4(1)(d) and (e).
[347] *Ibid*, rec 14 and Press Releases IP/02/1073, at 3 and MEMO/02/174, at 4.
[348] Explanatory Brochure available at ec.europa.eu/comm/competition/car_sector/distribution/, at 45.
[349] *Ibid*, 45–6; Frequently Asked Questions available at ec.europa.eu/comm/competition/car_sector/distribution/, question 3.
[350] Reg 1400/2002 [2000] OJ L203/30, Art 5(2)(b).
[351] Press Release MEMO/02/74, at 9.
[352] Reg 1400/2002 [2000] OJ L203/30, Art 4(1)(e) and rec 18.

b. Other restrictions on parallel trade Although manufacturers and distributors have some freedom to block parallel trade by prohibiting the sale of vehicles to resellers and requiring intermediaries to obtain specific authorisations from consumers, this does not mean that other restrictions on parallel trade are permitted, whether under individual or block exemptions. Under Article 5 of Regulation 123/85, distribution agreements were required to meet certain conditions to avoid restricting parallel trade, and under Article 10 the Commission reserved the right to withdraw the block exemption if other restrictions on parallel trade were imposed. These conditions were made more stringent by Regulation 1475/95, and then again by Regulation 1400/2002.

As with general vertical agreements, the distribution agreement will fall outside the scope of the block exemption if the parties implement any unilateral or agreed restrictions on parallel trade, whether by way of guarantee limitations or otherwise. This was one of the requirement put in place in *BMW*,[353] where dealers were required to carry out work under guarantee for customers free of charge, regardless of where the customer had bought the product.

Under Article 5(1)(1) of Regulation 123/85, where dealers were required to perform free servicing and vehicle recall work for vehicles sold within their territory, such services also had to be provided for parallel imported vehicles. At first this could be restricted to cases where the manufacturer or dealer in the territory where the vehicles had been originally sold would have had to provide such services, although this limitation was removed in Regulation 1475/95. As explained in recital 12, the purpose of these provisions was 'to prevent the consumer's freedom to buy anywhere in the common market from being limited'.

More broadly, the Commission could withdraw the benefit of the block exemption under Article 10(2) of Regulation 123/85 if the manufacturer or its dealers 'continuously or systematically' made it difficult for consumers or other authorised dealers to obtain vehicles, spare parts or servicing within the common market using means which were not exempted by the block exemption. In its 1985 Notice, the Commission explained that these would include territorial restrictions on guarantees, hindering registration in the importing Member State or abnormally long delivery periods. The approach was strengthened under Article 6(1)(7) of Regulation 1475/95, whereby the exemption would be withdrawn automatically if such conduct occurred rather than at the discretion of the Commission. The Article also extended to authorised intermediaries as well as consumers and authorised dealers. In addition, under Article 6(1)(3), any agreement by an authorised dealer only to purchase from the manufacturer and not from other authorised dealers would take the agreement outside the block exemption.

However, this does not mean that problems did not still exist. In its report on the block exemption in 2000, the Commission noted that consumers and their

[353] Dec 75/73 *Bayerische Motoren Werke* [1975] OJ L29/1.

authorised intermediaries had suffered real difficulties in relying on warranties for parallel imported cars.[354]

Under Regulation 1400/2002, any territorial restriction on the warranty is simply regarded as an indirect territorial restriction on sales, which is prohibited under Article 4(1)(b), with the result that the distribution agreement cannot benefit from the block exemption.[355] Authorised repairers within a supplier's distribution system must be obliged to 'honour warranties, perform free servicing and carry out recall work' in respect of any motor vehicle of the relevant make sold anywhere in the common market. Other indirect territorial restrictions on sales under Regulation 1400/2002 will include:[356]

—where distributor remuneration or the purchase price is made dependent on the destination of the vehicles or on the place of residence of the end users;
—where supply quotas are based on a sales territory other than the common market, whether or not these are combined with sales targets;
—where bonus systems are based on the destination of the vehicles
—where product supply to distributors is discriminatory based on the destination of the vehicles, whether in the case of product shortage or otherwise.

As well as these general exclusions of restrictions on parallel trade, two additional issues apply in the case of motor vehicles. First, manufacturers must ensure that consumers can obtain cars with the specifications applied in their own Member State from dealers in other Member States, to avoid any restriction on parallel trade arising due to product differentiation. Secondly, the Commission expressly reserved the right to withdraw the benefit of the block exemption if prices did not converge between Member States.

c. Specifications Motor vehicle distribution agreements must allow consumers to obtain cars with the normal specifications in their own Member States from dealers in other Member States. This is known as the 'availability' requirement and is particularly important in relation to whether consumers can obtain right hand drive or left hand drive models in countries where the other model is standard. As explained in recital 16 to Regulation 123/85, this was intended to obviate 'the danger that the manufacturer and undertakings within the distribution network might make use of product differentiation as between parts of the common market to partition the market'.

That danger had already been seen in *Ford*,[357] where the manufacturer had notified its selective distribution system in Germany to the Commission. Under the system the dealers in Germany were permitted to sell both left hand drive

[354] COM(2000)743, paras 391–393.
[355] Reg 1400/2002 [2000] OJ L203/30, rec 17.
[356] *Ibid*, rec 16.
[357] Dec 82/628 *Distribution System of Ford Werke—interim measure* [1982] OJ L256/20; Joined Cases 228/82 and 229/82 *Ford Werke and Ford of Europe v Commission* [1982] ECR 3091 and [1984] ECR 1129; Dec 83/650 *Distribution System of Ford Werke* [1983] OJ L327/31; Joined Cases 25/84 and 26/84 *Ford Werke and Ford of Europe v Commission* [1985] ECR 2725.

cars (which are normal in Germany, where cars drive on the right) and right hand drive cars (which are normal in the United Kingdom, where cars drive on the left). However, after a rise in sales to British customers by German dealers the manufacturer issued a circular to its dealers stating that it would no longer supply them with right hand drive cars. The Commission found that a selective distribution system restricted trade for the purposes of Article 81(1) and that the refusal to supply (along with other restrictions) had an appreciable effect on trade. The Commission explicitly accepted that the refusal to supply right hand drive cars constituted a unilateral act on the part of the manufacturer. However, it held that the refusal had 'substantially the same economic effect as a prohibition on exports', and so it would be inappropriate to exempt the selective distribution system. The Commission therefore refused the exemption and required the manufacturer to end its infringement. The manufacturer appealed, claiming that the Commission was not entitled to consider the refusal to supply when applying Article 81(3) to the selective distribution system. The Court held that the refusal to supply could not be considered a unilateral act but rather formed part of the main dealer agreement between the manufacturer and its dealers, which laid down which models would be supplied to the dealers. It therefore held that the Commission was entitled to take the refusal to supply into account when assessing that agreement under Article 81(3).

Under Article 5(1)(2)(d) of Regulation 123/85 and Regulation 1475/95, the manufacturer was required to supply the dealers with 'any passenger car which corresponds to a model [covered by the contract] and which is marketed by the manufacturer or with the manufacturer's consent in the Member State in which the vehicle is to be registered'.

Under Article 10(4) of Regulation 123/85, the block exemption could be withdrawn if the prices or conditions applied to such sales were not objectively justified and were applied with the object or the effect of partitioning the common market. This was broadened in Article 8(3) of Regulation 1475/95, under which there was no need to show a partitioning object or effect, and so withdrawal could occur if the prices or sales conditions were unjustifiably discriminatory.

In its 1985 Notice, the Commission indicated that measures could be objectively justified where they were due to special distribution costs, differences in equipment or specification, differences in guarantees, delivery services and registrations formalities, high taxes, charges or fees or state restrictions on pricing or margins lasting for more than one year.

In *Peugeot-Talbot*,[358] the manufacturer had notified the Commission of the selective distribution system under which it sold cars in various Member States through national subsidiaries. In mainland Europe the manufacturer had originally sold both left and right hand drive cars but then took measures to reduce its increasing sales of right hand drive cars. In the Netherlands the national subsidiary sent a circular to its dealers announcing that it 'would not

[358] Dec 86/506 *Peugeot-Talbot* [1986] OJ L295/19.

accept any orders for British-specification [right hand drive] vehicles and that potential purchasers should be referred to the British dealer network'. In Belgium, while not refusing orders completely, the national subsidiary increased prices for right hand drive cars so significantly that interest dried up. Nevertheless, the manufacturer still supplied British-specification right hand drive vehicles to British servicemen stationed on the Continent and foreign-specification right hand drive vehicles to foreign residents. The Commission held that the restrictions on right drive vehicles magnified the restrictive effects of the selective distribution agreement and that no exemption could be available under Article 81(3). The Commission did not impose a fine for the infringement, given the uncertainty of the law prior to the judgment in *Ford*, but held that since then 'undertakings that take part in a systematic refusal of supplies within a distribution system must reckon with a direct application of Article [81(1)] of the Treaty' and that exemption under Article 81(3) would not be available where the refusal was of right hand drive vehicles.

In its annual report for 1986,[359] the Commission indicated that most complaints were being dealt with when the manufacturers, importers or dealers concerned were approached by the Commission. It also indicated that it checked certain ground rules when complaints were made as follows:

1. The manufacturer or importer in the exporting country was required to quote his prices, conditions and specifications for right-hand-drive (RHD) vehicles to the prospective customer on request. Delivery times were normally not to exceed the longer of the two delivery times for the vehicles in the exporting or importing country.
2. The manufacturer or importer in the importing country was not permitted to withhold his assistance in registering the vehicle, to take an unreasonably long time over providing that assistance or to impose unreasonable conditions (eg, high charges) for it. No interference with warranty rights was tolerated.

Again, under Regulation 1400/2002 the absence of a system to allow dealers to order, stock and sell vehicles with the same specification as those sold in the Member States of their customers is regarded as an indirect territorial restriction on sales, as is the application to such sales of discriminatory or objectively unjustified supply conditions, in particular regarding delivery times or prices.[360] The Commission also noted that it might withdraw the benefit of the block exemption if discriminatory prices or sales conditions, or unjustifiably high supplements, such as those charged for right hand drive vehicles, were applied to the supply of such vehicles.[361]

[359] *Sixteenth Report on Competition Policy* (1986), point 30.
[360] Reg 1400/2002 [2000] OJ L203/30, rec 20.
[361] *Ibid*, rec 32.

d. Price convergence Concern has been expressed for a number of years about high and persistent price differentials for cars between Member States. The Commission has always reserved the right to withdraw the motor vehicle block exemptions if prices did not converge.

Under Regulation 123/85, the Commission reserved the right to withdraw the benefit of the block exemption if, chiefly due to obligations exempted by the block exemption, prices or conditions of supply for vehicles or spare parts differed substantially between Member States for a considerable period.[362] The Commission indicated in its 1985 Notice that it would apply a threshold of 12 per cent in relation to list prices.[363] A similar approach was taken under Regulation 1475/95, although the requirement that the differences existed 'for a considerable period' was removed in favour of a requirement that they applied 'continually'.[364] Under Regulation 1400/2002, the Commission and national competition authorities reserve the right to withdraw the benefit of the block exemption whenever 'prices or conditions of supply for contract goods . . . differ substantially between geographic markets'.[365]

A complaint was made under Regulation 123/85 by the European Consumers Organisation (BEUC). In response, in 1992 the Commission published a study of price differentials,[366] as a result of which it asked manufacturers to provide their recommended retail prices in each Member State to the Commission every six months to enable further price comparisons.[367] This was accepted by the car manufacturers[368] and the Commission has published a price survey based on these prices every six months starting from May 1993.[369]

The price surveys indicate that various factors other than manufacturer choice may affect price variation between Member States, including currency fluctuation, taxation, discounting practices and parallel trade. First, in terms of currency fluctuation, prices in the United Kingdom were among the lowest in Europe after the devaluation of sterling in 1993,[370] but have been among the highest since 1997 after the revaluation,[371] suggesting that currency fluctuations may be one of the causes of differentials. However, currency fluctuations affect costs as well as prices, and so increases in the value of sterling should have meant that manufacturers whose costs were not in sterling were able to cut their prices in sterling terms. The Commission has noted that manufacturers often did not

[362] Reg 123/85 [1985] OJ L15/16, Art 10(3).
[363] Commission Notice [1985] OJ C17/4, at 5.
[364] Reg 1475/95 [1995] OJ L145/25, Art 8(2).
[365] Reg 1400/2002 [2000] OJ L203/30, Art 6(1)(c) and (2).
[366] Press Release IP/92/355.
[367] Press Release IP/92/441.
[368] Press Release IP/92/1042.
[369] Press Releases IP/93/545, IP/93/1201, IP/94/704, IP/95/50, IP/95/768, IP/96/145, IP/96/722, IP/97/113, IP/97/640, IP/98/154, IP/98/652, IP/99/60, IP/99/554, IP/00/121, IP/00/781, IP/01/227, IP/01/1051, IP/02/305, IP/02/1109, IP/03/290, IP/03/1117, IP/04/285, IP/04/1003, IP/05/267 and IP/05/1027. The reports are available at ec.europa.eu/comm/competition/car_sector/price_diffs/.
[370] Press Release IP/93/545, above n369.
[371] See Press Release IP/97/640 and the subsequent Press Releases, all above n369.

cut prices but simply took windfall profits from the fluctuations. In addition, price fluctuations no longer apply to the countries which have adopted the Euro.

Secondly, manufacturers argue that the high car registration tax applied in certain countries, such as Denmark, Greece and Finland (and more recently the Netherlands and Portugal), means that they must charge lower prices in those countries to make the cars affordable once the tax is added, resulting in artificial differentials. The potential distortion due to differences in taxation has been recognised by the Commission, which indicated that it would be unlikely to withdraw the benefit of the block exemption where price differentials were objectively due to taxation amounting to over 100 per cent of the net price[372] and which did not include Denmark, Greece or Finland in its price survey until 1999.[373] In 2005 the Commission introduced a proposal to abolish car purchase tax in favour of annual circulation tax as of 2016.[374]

Thirdly, given that the survey is based on recommended retail prices rather than actual prices paid by consumers after discounts from those prices, the figures do not reflect differences in discounting practices between Member States.

Finally, although the Commission has regularly stated that parallel trade by consumers is an important factor in the reduction of price differentials for cars between Member States, it has also noted that consumers frequently encounter difficulties in purchasing cars in other Member States and that manufacturers (particularly Volkswagen) often charge high supplements for British and Irish consumers seeking to purchase right hand drive cars in other Member States. These restrictions will reduce any price convergence due to parallel trade, both in terms of the consumers who wish to engage in such trade and also in terms of the pressure on prices in their home Member States. In response, the Commission called upon manufacturers in 1992 to assure their distributors that they were free to engage in parallel trade to the extent permitted under the block exemption, which they did,[375] and has also taken a number of high profile actions against manufacturers which seek to restrict parallel trade, as discussed earlier in the chapter.

Although there has been some limited convergence, in its report on the block exemption in 2000 the Commission noted that price differentials had not become significantly smaller by that stage and regularly exceeded 20 per cent.[376] More recently, since the adoption of the new block exemption, prices have converged more rapidly, and in the May 2006 survey the average standard deviation in prices between Member States was 4.4 per cent in the Member States using the Euro and 6.9 per cent in the Community as a whole,[377] as compared to 10.6 per cent in the Community as a whole in May 2002.[378]

[372] Commission Notice [1985] OJ C17/4, 5.
[373] See Press Releases IP/99/60 and IP/99/554, both above n369.
[374] COM(2005)261. See Press Release IP/05/839 and MEMO/05/236.
[375] Press Release IP/92/1042.
[376] COM(2000)743, para 308.
[377] May 2006 Survey, available at ec.europa.eu/comm/competition/car_sector/price_diffs/.
[378] Press Release IP/03/290.

iii. Horizontal Agreements

In general, territorial restrictions in agreements between competitors are highly unlikely to be justified under Article 81(3). One unusual exception was *Transocean Marine Paint Association*,[379] where a number of medium-sized marine paint producers had established an association to harmonise the composition of their paints and to sell them under a single trade mark around the world. In 1967 the Commission granted an initial exemption under Article 81(3) for certain restrictions on competition between the members, which prohibited the sale of certain paints into one another's territories and required payment of a commission on the sale of other paints, on the basis that this was indispensable as the association established itself. However, the exemption for these restrictions was withdrawn in 1974 as no longer justified.

There are block exemptions for specialisation agreements[380] and for research and development agreements.[381] More broadly, as with vertical agreements, the Commission has published Guidelines on horizontal cooperation agreements,[382] which cover the block exemptions together with other production agreements, commercialisation agreements, agreements on standards and environmental agreements.

Under a specialisation agreement the undertakings may agree that one of them will specialise in the manufacture of certain products or services or that they will undertake such manufacturing jointly. Under the block exemption on specialisation agreements, subject to market share thresholds the parties are permitted to distribute the products or services individually, jointly or through a third party exclusive distributor (so long as that third party is not a competitor on the market for the products or services).[383] The old block exemption made it clear that, where an exclusive distributor was appointed, the parties were not permitted to make it difficult for users and intermediaries to obtain to contract products from other suppliers.[384] By contrast, the current block exemption simply excludes any agreements 'which directly or indirectly, in isolation or in combination with other factors under the control of the parties, have as their object . . . the allocation of markets or customers', as this is regarded as a severe anti-competitive restraint (hardcore).[385] As with Regulation 2790/1999, although the current block exemption is less explicit than the old one, the effect

[379] Dec 67/454 *Transocean Marine Paint Association* [1967] OJ L163/10; Dec 74/16 *Transocean Marine Paint Association* [1974] OJ L10/18; Dec 80/184 *Transocean Marine Paint Association* [1980] OJ L39/73; Press Release IP/88/771

[380] Reg 2658/2000 [2000] OJ L304/3, replacing Reg 417/85 [1985] OJ L53/1 as amended by Reg 151/93 [1993] OJ L21/8.

[381] Reg 2659/2000 [2000] OJ L304/3, replacing Reg 418/85 [1985] OJ L53/5 as amended by Reg 151/93 [1993] OJ L21/8.

[382] Horizontal Guidelines—Commission Notice [2001] OJ C3/2, replacing previous guidance in Commission Notices [1968] OJ C75/3 and [1993] OJ C43/2.

[383] Reg 2658/2000, above n380, Art 3(b).

[384] Reg 417/85, as amended by Reg 151/93, both above n380,Art 2(1)(c) and (1)(f).

[385] Reg 2658/2000, above n380, rec 14 and Art 5(1)(c).

is to exclude agreements from the block exemption if the parties try to restrict parallel trade.

Similarly, under the current block exemption on research and development agreements undertakings can agree on how to exploit products which result from such research and development. Subject to market share thresholds they can agree certain territorial restrictions, such as prohibiting the passive sale and, for seven years after the products are first put on the market within the Community, the active sale of such products in territories reserved to other parties.[386] A period longer than seven years may be justified under Article 81(3) if it is necessary to guarantee an adequate return on investment.[387] However, further allocation of markets or customers such as restrictions on parallel trade are not permitted and the block exemption will not apply to agreements which:

> directly or indirectly, in isolation or in combination with other factors under the control of the parties, have as their object . . . the requirement to refuse to meet demand from users or resellers in their respective territories who would market the contract products in other territories within the common market; or . . . the requirement to make it difficult for users or resellers to obtain the contract products from other resellers within the common market, and in particular to exercise intellectual property rights or to take measures so as to prevent users or resellers from obtaining, or from putting on the market within the common market, products which have been lawfully put on the market within the Community by another party or with its consent.[388]

Again, the Commission has indicated that such restrictions will in most cases mean that the agreement cannot be individually justified under Article 81(3).[389]

iv. Technology Transfer Agreements

Rather than simply manufacturing goods and selling them to third parties, in some industries undertakings may choose to sell the manufacturing technology itself. For instance, a patentee may license its patents to a third party which will then manufacture and distribute products which utilise those patents. This is known as technology transfer.

Some technology transfer agreements may fall outside Article 81(1) altogether. However, to the extent that they restrict competition, such agreements will require exemption under Article 81(3).

The current technology transfer block exemption is contained in Regulation 772/2004,[390] which again is supplemented by extensive Technology Transfer

[386] Reg 2659/2000, above n381 rec 17 and Art 5(1)(f) and (g). Under Reg 418/85 as amended by Reg 151/93, both above n381, Art 4(1)(f) and (fc), only restrictions on active sales were permitted and the maximum duration was 5 years.

[387] Horizontal Guidelines, above n382, para 73.

[388] Reg 2659/2000, above n381, rec 17 and Art 5(1)(i) and (j); previously Reg 418/85, above n381, Art 6(h).

[389] Horizontal Guidelines, above n382, para 70.

[390] Reg 772/2004 [2004] OJ L123/11.

Guidelines.[391] This replaces a series of earlier block exemptions: Regulation 2349/84 on patent licences,[392] Regulation 556/89 on know-how licences[393] and Regulation 240/96, which brought the previous two together as technology transfer agreements.[394]

The block exemption now extends to licences of patents, know-how, utility models, designs, topographies of semiconductor products, supplementary protection certificates, plant breeder's certificates and software copyright,[395] and the Commission has indicated that a similar approach will be taken to licences for the reproduction and distribution of other copyright works.[396] It covers vertical agreements between non-competitors where neither has a share on the relevant market of more than 30 per cent and horizontal agreements between competitors whose combined share of the relevant market is no more than 20 per cent.[397] Above those thresholds the block exemption will not apply, although the Commission has indicated that a similar approach will be taken to sales restrictions in such cases.[398]

The technology transfer block exemptions have always permitted greater territorial restrictions than the general block exemptions, save in the cases of reciprocal licences between undertakings which are competitors on the market for the products covered by the licences.[399] The Commission now recognises that technology transfer may not occur if certain territorial restrictions are not permitted. For instance, the licensor may be unwilling to grant a licence if he will face active competition in his main area of activity, while a licensee with a weak market position in the territory who would have to make significant investments in order to exploit the licensed technology effectively may similarly be unwilling to do so without protection from active competition.[400] Broad territorial restrictions are therefore permitted between the licensor and licensee, and certain narrower restrictions can be placed on the licensee in relation to the territories of other licensees. However, parallel trade must not be restricted.[401]

In terms of the broad restrictions, the licensor can be prohibited from selling the licensed products in the licensed territory[402] and the licensee can be prohib-

[391] Technology Transfer Guidelines—Commission Notice [2004] OJ C101/2.
[392] Reg 2349/84 [1984] OJ L219/15.
[393] Reg 556/89 [1989] OJ L61/1.
[394] Reg 240/96 [1996] OJ L31/2.
[395] Reg 772/2004, Art 1(1)(b) and (1)(h).
[396] Technology Transfer Guidelines, above n391, para 51.
[397] Reg 772/2004, above n390, Art 3.
[398] Technology Transfer Guidelines, above n391, paras 170–174.
[399] Reg 772/2004, above n390, Art 4(1)(c)(ii), (iv) and (v) and Technology Transfer Guidelines above n391, para 84; previously Reg 2349/84, above n392, Art 5(2); Reg 556/89, above n393, Art 5(2); Reg 240/96, above n394, Art 5(2)(2).
[400] Technology Transfer Guidelines, above n391, paras 170–174; previously Reg 2349/84, above n392, rec 12; Reg 556/89, above n393, rec 7; Reg 240/96, above n394, rec 12.
[401] Reg 2349/84, above n392, recs 13 and 15; Reg 556/89, above n393, rec 9; Reg 240/96, above n394, rec 17.
[402] Reg 772/2004, above n390, Art 4(1)(c)(iv); previously Reg 2349/84, above n392, Reg 556/89, above n393, and Reg 240/96, above n394, Art 1(1)(2) in each Reg.

ited from selling the licensed products in territories within the common market which are reserved to the licensor.[403] The exemption will apply until the relevant intellectual property rights expire, lapse or are declared invalid or, in the case of know-how, for as long as the know-how remains secret.[404]

By contrast, the restrictions permitted on sales by a licensee in another licensee's exclusive territory are far narrower. Licensees can be prohibited from actively selling the licensed product in the exclusive territories of other licensees, but only if the licensor and licensee are not competitors or, if they are, if the licence is not reciprocal and if the protected licensee was not itself a competitor of the licensor when it signed its own licence.[405] Moreover, licensees can be prohibited from passive sales to the exclusive territories of other licensees only where the licensor and the licensee are not competitors, and even then only for two years from the time that the protected licensee began selling the licensed products in that territory.[406]

Further territorial restrictions on sales by the licensor or licensee are normally regarded as hardcore restrictions which prevent the application of the block exemptions and are unlikely to be justifiable under Article 81(3).[407] In addition, territorial restrictions agreed directly between licensees are not covered by the block exemption.[408]

The old block exemptions dealt with parallel trade explicitly and in a very similar way to the old vertical block exemptions, stating that the block exemptions would not apply if the parties agreed to do or, as the result of a concerted practice, actually did either of the following:[409]

(a) refuse without any objectively justified reason to meet demand from users or resellers in their respective territories who would market products in other territories within the common market; or
(b) make it difficult for users or resellers to obtain their products from other resellers within the common market, and in particular to exercise industrial or commercial property rights or to take measures so as to prevent users or resellers from obtaining outside, or from putting on the market in, the licensed territory products which have been lawfully put on the market within the common market by the patentee or with his consent.

[403] Reg 772/2004, above n390, Art 4(1)(c)(iv) and (2)(b)(i); previously Reg 2349/84, above n392, Reg 556/89, above n393, and Reg 240/96, above n394, Art 1(1)(3) in each Reg

[404] Reg 772/2004, above n390, Art 2; previously Reg 2349/84, above n392, Art 1(1)(2) and (1)(3); Reg 556/89, above n393, Art 1(2) and (4); Reg 240/96, above n394, Art 1(2)–(4).

[405] Reg 772/2004, above n390, Art 4(1)(c)(v).

[406] *Ibid*, Art 4(2)(b)(ii); previously Reg 2349/84, above n392, Art 1(1)(6); Reg 556/89, above n393, Art 1(1)(6) and (2); Reg 240/96, above n394, Art 1(2)–(4).

[407] Reg 772/2004, above n390, Art 4(1)(c) and (2)(b) and Technology Transfer Guidelines, above n391, para 101; previously Reg 2349/84, above n392, Art 3(3) and (10); Reg 556/89, above n393, Art 3(11); Reg 240/96, above n394, Art 3(7).

[408] Technology Transfer Guidelines, above n391, paras 89 and 174.

[409] Regulation 2349/84, above n392, Art 3(11); similarly, Reg 556/89, above n393, Art 3(12) and Reg 240/96, above n394, Art 3(3).

Moreover, the Commission reserved the right to withdraw the benefit of the block exemption if either of the parties took such action unilaterally[410] or if 'the licensee refuses, without objectively valid reason, to meet unsolicited demand from users or resellers in the territory of other licensees', save where such refusals were permitted under the block exemption.[411]

By contrast, Regulation 772/2004 does not explicitly mention restrictions on parallel trade. Instead, as with the current vertical block exemption, territorial restrictions are generally regarded as hardcore save those which are specifically permitted.

Where the agreement is between competitors, this extends to all 'agreements which, directly or indirectly, in isolation or in combination with other factors under the control of the parties, have as their object . . . the allocation of markets or consumers'. Given that these are essentially horizontal agreements, this effectively prohibits restrictions on parallel trade and, although the hardcore provision is subject to various exceptions, none of these permits restrictions on parallel trade.[412]

Where the agreement is between non-competitors, by contrast, restrictions on active sales are permitted save where the licensee is the member of a selective distribution system and operates at the retail level. Restrictions on passive sales by the licensor are permitted, but restrictions on passive sales by licensees are prohibited, subject to various exceptions which again do not permit restrictions on parallel trade (and which generally mirror those in Regulation 2790/1999).[413] The Commission provides various examples of passive sales restrictions, which include obligations to refer orders from customers in other territories to the relevant licensee, differential royalty rates depending on the final destination of products and monitoring systems to check such destinations.[414]

In addition, Regulation 772/2004 highlights that any supply and distribution agreements concluded between the licensor or the licensee and its distributors are not exempted by the Regulation itself.[415] Therefore, even if Regulation 772/2004 allows the licensor and licensee to agree to impose restrictions in their distribution agreements, the distribution agreements themselves must be also be analysed under Article 81, which in turn may involve the application of Regulation 2790/1999. In particular, the Commission has indicated that each licensee will generally be regarded as a separate supplier for those purposes, save where the licensees sell products incorporating the technology under a common

[410] Reg 2349/84, above n392, Art 9(5); similarly, Reg 556/89, above n393, Art 7(5) and Reg 240/96, above n394, Art 7(3).

[411] Reg 2349/84, above n392, Art 9(4); Reg 556/89, above n393, Art 7(4); Reg 240/96, above n394, Art 7(2).

[412] Reg 772/2004, above n390, Art 4(1).

[413] *Ibid.*, Art 4(2).

[414] Technology Transfer Guidelines, above n391, para 98.

[415] Reg 772/2004, above n390, rec 19; Technology Transfer Guidelines, above n391, paras 39, 62–63 and 106.

brand, and so distributors normally must be permitted to sell actively and passively into the exclusive territories of other licensees.[416]

II. ARTICLE 82: ABUSE OF A DOMINANT POSITION

Article 82 prohibits the abuse of a dominant position and reads as follows:

> Any abuse by one or more undertakings of a dominant position within the common market or in a substantial part of it shall be prohibited as incompatible with the common market in so far as it may affect trade between Member States.
>
> Such abuse may, in particular, consist in:
>
> (a) directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions;
> (b) limiting production, markets or technical development to the prejudice of consumers;
> (c) applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
> (d) making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.

Restrictions on parallel trade will breach Article 82 only if certain criteria are met. First, there must be an undertaking which has a dominant position. Secondly, there must be an abuse of that dominant position, which is not limited to the four types laid down in Article 82. Thirdly, the abuse must affect trade between Member States.

Dominance will be considered first, followed by the three main forms of abuse which may arise or be alleged in parallel trade cases: refusal to supply, restrictions on resale and misuse of regulatory controls. Given that the present concern is with cases where parallel trade is affected, there will not generally be a serious dispute over whether there is an effect on trade between Member States, and so this will not be considered further. Finally, the question whether excessive or discriminatory pricing is itself abusive will be considered.

A. Dominance

The legal test for dominance was laid down in *United Brands*, which defined it as 'a position of economic strength enjoyed by an undertaking which enables it to prevent effective competition being maintained on the relevant market by affording it the power to behave to an appreciable extent independently of its competitors, customers and ultimately of its consumers'.[417]

[416] Technology Transfer Guidelines, above n391, para 64.
[417] Dec 76/353 *Chiquita* [1976] OJ L95/1; Case 27/76 *United Brands v Commission* [1978] ECR 173.

The Commission has issued Guidelines on how it will determine the relevant market, which is analysed in terms of the product market and the geographical market.[418]

The product market comprises 'all those products and/or services which are regarded as interchangeable or substitutable by the consumer, by reason of the products' characteristics, their prices and their intended use'. As well as this 'demand substitution', the Commission will also consider 'supply substitution', where manufacturers currently absent from the market could easily switch into the market in the short-term.

The geographical market 'comprises the area in which the undertakings concerned are involved in the supply and demand of products or services, in which the conditions of competition are sufficiently homogeneous and which can be distinguished from neighbouring areas because the conditions of competition are appreciably different in those areas'.

Once the relevant market has been defined, the undertaking's share of that market forms an important part of the analysis. An undertaking can be found dominant with a market share of 40 per cent, as in *United Brands*, while a market share of 50 per cent or more gives rise to a presumption of dominance. However, high market shares do not preclude an undertaking from demonstrating that it does not in fact have market power.[419] For instance, it is at this stage that more long-term substitution, 'potential competition', can be relevant.

Ownership of intellectual property rights does not in itself give rise to a dominant position, although the exclusive rights may contribute to dominance depending on the market circumstances. In *Sirena v Eda*[420] the ECJ made it clear that 'the proprietor of a trade mark does not enjoy a "dominant position" within the meaning of Article [82] merely because he is in a position to prevent third parties from putting into circulation, on the territory of a Member State, products bearing the same trade mark'. Rather, in order to be considered dominant the owner must also 'have power to impede the maintenance of effective competition over a considerable part of the relevant market, having regard in particular to the existence and position of any producers or distributors who may be marketing similar goods or goods which may be substituted for them'.

Similarly in *Deutsche Grammophon*,[421] the ECJ indicated that, in determining whether a manufacturer of sound recordings was dominant, one should consider its relationships with recording artists and 'if [the artists] are tied to the manufacturer by exclusive contracts consideration should be given, inter alia, to their popularity on the market, to the duration and extent of the obligations undertaken and to the opportunities available to other manufacturers of sound recordings to obtain the services of comparable performers'.

[418] Guidelines on the relevant market [1997] OJ C372/5.

[419] Dec 85/609 *ECS/AKZO Chemie* [1985] OJ L374/1; Case C–62/86 *AKZO Chemie v Commission* [1991] ECR I–3359.

[420] Case 40/70 *Sirena v Eda and others* [1971] ECR 69.

[421] Case 78/70 *Deutsche Grammophon v Metro* [1971] ECR 487.

The determination of whether an undertaking is dominant is far from an exact science and frequently there will be competing economic analyses of the market.[422] Often it will be clear that a manufacturer does not hold a dominant position and so the analysis under Article 82 ends there. However, where an undertaking does hold such a position, the next criterion is whether its conduct constitutes an abuse of that position.

B. Refusals to Supply

One type of conduct which may be regarded as an abuse of a dominant position is a refusal to supply. In relation to parallel trade, this may occur where a manufacturer refuses to supply distributors which it suspects would parallel export or cuts off supplies to distributors which it suspects have been parallel exporting. In addition, the manufacturer may limit the quantity of products it supplies to its distributors to the volume it believes is necessary for their territory, with the aim of limiting the quantity which may be parallel exported.

There is an extensive line of case law dealing with the question of when, if ever, the refusal by a dominant undertaking to supply a third party will constitute an abuse.[423] The refusal may be to supply a product, such as a raw material which is required to manufacture the finished product, or a service, such as access to a port, a bridge or a distribution service. It could also be the refusal to license an intellectual property right. The general case law is considered first, followed by cases which are particularly concerned with parallel trade.

i. General Case Law

Not all refusals to supply by dominant undertakings will be abusive. Additional circumstances need to be shown which (at least where the refusal is to license an intellectual property right) are described as 'exceptional circumstances'. Although the criteria for determining what circumstances are exceptional are

[422] For a more detailed analysis of the concept of dominance see R Whish, *Competition Law*, 5th edn (OUP, Oxford, 2005) 178–91.

[423] There has been much commentary on this issue. See, for instance, A Stratakis, 'Comparative Analysis of the US and EU Approach and Enforcement of the Essential Facilities Doctrine' [2006] *European Competition Law Review* 434; S Vezzoso, 'The Incentives Balance Test in the EU Microsoft Case: A Pro-Innovation 'Economics-Based' Approach?' [2006] *European Competition Law Review* 382; N Le, 'What Does "Capable of Eliminating all Competition" Mean?' [2005] *European Competition Law Review* 6; B Ong, 'Anti-competitive Refusals to Grant Copyright Licences: Reflections on the IMS Saga' [2004] *European Intellectual Property Review* 505; E Derclaye, 'The *IMS Health* Decision and the Reconciliation of Copyright and Competition Law' [2004] 29 *ELRev* 687; D Ridyard, 'Compulsory Access under EC Competition Law—a New Doctrine of "Convenient Facilities" and the Case for Price Regulation' [2004] *European Competition Law Review* 669; C Stothers, '*IMS Health* and its Implications for Compulsory Licensing in Europe' [2004] *European Intellectual Property Review* 467.

less clear, they generally appear to require at the very least (1) damage to competition caused by the refusal and (2) no objective justification for the refusal.

Commercial Solvents[424] considered the decision by a US company, Commercial Solvents, to stop its Italian subsidiary, ICI, from supplying the raw material aminobutanol. Another Italian company, Zoja, had been using the raw material to manufacture ethambutol, used to treat tuberculosis. ICI had supplied Zoja for a number of years but Commercial Solvents and ICI now wanted to produce ethambutol themselves. The Commission found that the refusal was an abuse of Commercial Solvents' dominant position on the market for raw materials for the product of ethambutol. Before the ECJ, Commercial Solvents argued that the refusal was not abusive because it was 'inspired by a legitimate consideration of the advantage that would accrue to it of expanding its production to include the manufacture of finished products and not limiting itself to that of raw material or intermediate products'. However, the ECJ upheld the Commission's approach, stating that an undertaking with a dominant position in the market for raw materials 'which, with the object of reserving such raw material for manufacturing its own derivatives, refuses to supply a customer, which is itself a manufacturer of these derivatives, and therefore risks eliminating all competition on the part of this customer, is abusing its dominant position within the meaning of Article [82]'. The ECJ also held that the Commission was right to disregard Commercial Solvents' argument that it could not produce unlimited quantities of aminobutanol, noting that there was no dispute that Commercial Solvents was able to supply sufficient quantities for Zoja. As a consequence, the ECJ upheld the Commission's decision to require Commercial Solvents to recommence supplies to Zoja.

In *United Brands*[425] the Commission considered various actions by the US company United Brands in relation to its heavily marketed CHIQUITA bananas. Among these was a refusal to continue supplies to one of its Danish distributors, Olesen. United Brands explained that it took action because Olesen had participated in the advertising campaign of one of United Brands' competitors, Standard Fruit, which had appointed Olesen as its exclusive distributor in Denmark. In addition, Olesen had been increasing sales of Standard Fruit's DOLE bananas at the expense of United Brands' CHIQUITA bananas. The Commission held that United Brands, with its dominant position, was not entitled to prevent its distributors from advertising competing brands of bananas. Also, part of the reason for the reduction in Olesen's sales of CHIQUITA bananas was that United Brands had failed to supply Olesen's full orders even before it began to refuse supplies entirely. The Commission therefore held that the justifications put forward by United Brands were not sufficient and that it had abused its dominant position by refusing to supply CHIQUITA bananas to Olesen.

[424] Dec 72/457 *Zoja/CSC—ICI* [1972] OJ L299/51; Joined Cases 6/73 and 7/73 *Istituto Chemioterapico Italiano and Commercial Solvents v Commission* [1974] ECR 223.

[425] Dec 76/353 *Chiquita* [1976] OJ L 95/1; Case 27/76 *United Brands v Commission* [1978] ECR 207.

United Brands appealed, but the ECJ upheld the Commission's decision. It said that 'an undertaking in a dominant position for the purpose of marketing a product—which cashes in on the reputation of a brand name known to and valued by the consumers—cannot stop supplying a long standing customer who abides by regular commercial practice, if the orders placed by that customer are in no way out of the ordinary' as this would 'limit markets to the prejudice of consumers and would amount to discrimination which might in the end eliminate a trading party from the relevant market'. The ECJ went on to consider whether the discontinuance of supplies could be justified. It held that, although an undertaking in a dominant position has the right to take reasonable steps to protect its own commercial interests if they are attacked, such behaviour is not permitted 'if its actual purpose is to strengthen this dominant position and abuse it', and it must in any event 'be proportionate to the threat taking into account the economic strength of the undertakings confronting each other'. The ECJ held that United Brands' action in refusing supplies to Olesen was excessive and that this would have the obvious effect of discouraging other distributors from supporting the advertising of other brand names, to the detriment of competition on the market.

BP[426] concerned a temporary shortage of petroleum in the Netherlands as a result of the oil crisis in late 1973. In the 12 months running up to the crisis, BP had been the principal supplier to ABG, a Dutch purchasing cooperative, providing an average of 81 per cent of ABG's requirements, even though BP had terminated its supply contract with ABG and the supplies had been on an ad hoc basis. BP then drastically cut its supplies to ABG during the crisis, by an average of 74 per cent, whereas they cut their supplies to other customers in general by only 13 per cent. Even in the case of customers which, like ABG, did not have a supply contract the reduction had averaged only 29 per cent. ABG complained to the Commission, which held that this disproportionate restriction on supplies to ABG was not objectively justified and constituted an abuse of a dominant position. However, BP appealed and the ECJ quashed the Commission's decision. The ECJ distinguished the position of ABG from that of BP's customers who had supply contracts, and said that BP had no duty under Article 82 to apply a similar rate of reduction to its ad hoc customers as to its contractual customers. In addition, it noted that ABG had in fact been able to obtain supplies from other companies due to the intervention of the Dutch government.

In *Hugin*[427] a Swedish group, Hugin, was owned by a cooperative organisation, the Federation of Swedish Consumers. Hugin manufactured and sold cash registers and spare parts for those cash registers. A UK company, Liptons, had bought spare parts from Hugin since the late 1950s in order to maintain, repair and recondition Hugin cash registers, which it bought new and second hand for

[426] Dec 77/327 *ABG/Oil Companies Operating in the Netherlands* [1977] OJ L117/1; Case 77/77 *Benzine en Petroleum Handelsmaatschappij (BP) v Commission* [1978] ECR 1513.

[427] Dec 78/68 *Hugin/Liptons* [1978] OJ L22/23; Case 22/78 *Hugin Kassaregister v Commission* [1979] ECR 1869.

rental and resale. In addition, between 1969 and 1972 Liptons had been Hugin's main agent for sales to all customers in England, Scotland and Wales except those in the cooperative movement. However, in 1972 Hugin set up a subsidiary in the United Kingdom, and after a few months discontinued supplies of spare parts to Liptons and would only supply cash registers at retail price. Liptons tried unsuccessfully to obtain spare parts from Hugin itself and its subsidiaries and distributors in other Member States. As Hugin was the sole source of such spare parts, which were not interchangeable with parts for other brands of cash registers and which could not be economically reproduced, Liptons faced difficulties in servicing and maintaining Hugin cash registers.

The Commission found that Hugin had a dominant position for the supply of Hugin spare parts and that it had abused this position in the following ways:

(a) by refusing 'without objective justification to supply [spare parts] to existing substantial customers for and users of [the spare parts]' where 'the refusal to supply seriously injures the latter in their business by interfering with and ultimately preventing them from continuing to offer a service or to carry on a line of business, thereby eliminating all competitors independent of the dominant undertaking from the market for that service or that line of business'; and
(b) by prohibiting 'its subsidiaries and dealers from supplying those products outside its own distribution network and in particular to buyers in other Member States, thereby making the refusal to supply more effective by denying those products to the customers and users in question'.

The Commission rejected the argument that only Hugin itself could properly maintain and repair its cash registers, on the basis that it was not disputed that anyone having the skill to maintain and repair competing cash registers and having experience and training in the repair of Hugin cash registers was competent to do so. Therefore, there was no valid objective reason for the refusal to supply Liptons.

The ECJ, although agreeing that Hugin held a dominant position, disagreed that there was an effect on trade between Member States. It held that Liptons did not supply other Member States and would not have sought spare parts from other Member States had Hugin not refused to provide it with spare parts in the United Kingdom. Therefore, the ECJ annulled the Commission's decision on this basis and thus did not consider whether or not the conduct was abusive.

In *Télémarketing*,[428] a Belgian telemarketing company, CBEM, had been conducting telemarketing campaigns for third party advertisers on the RTL television station between 1982 and 1984. The telemarketing advertisements included CBEM's telephone number and CBEM provided the staff to run the telephone lines for the advertisers. From April 1984, the company which ran the

[428] Case C–311/84 *Centre Belge d'Etudes de Marché Télémarketing (CBEM) v Compagnie Luxembourgeoise de Télédiffusion (CLT)* [1985] ECR 3261.

RTL television station, CLT, said that it would no longer accept telemarketing advertisements unless the telephone number listed for Belgium was that of CLT itself. CBEM challenged this before the Brussels Commercial Court, which asked the ECJ whether CLT's conduct would constitute an abuse of a dominant position by reserving the ancillary telephone services to itself. CBEM argued that the condition amounted to a refusal to sell broadcasting time to competing telemarketing operations. CLT argued that the reservation of ancillary services to itself was not abusive and that it was justified 'to preserve the television station's image'. The ECJ held that its *Commercial Solvents* judgment also applied 'to the case of an undertaking holding a dominant position on the market in a service which is indispensable for the activities of another undertaking on another market'. It indicated that CLT's conduct amounted to a refusal to supply services to CBEM and that if 'that refusal is not justified by technical or commercial requirements relating to the nature of the television, but is intended to reserve to [CLT] any telemarketing operation broadcast by [RTL], with the possibility of eliminating all competition from another undertaking, such conduct amounts to an abuse prohibited by Article [82]'.

These cases all concerned the termination of supplies of goods or services which had previously been provided to the third party in question, in order to allow the supplier to move into the subsidiary or derivative market itself without competition from that party.

In *Volvo v Veng*,[429] by contrast, there was no such prior supply and the refusal related to the use of intellectual property. Volvo owned a UK registered design over the front wings of its series 200 cars. Veng was importing unauthorised copies and, when sued for infringement, claimed as a defence that Volvo was abusing a dominant position under Article 82. The English High Court referred the question to the ECJ, which held that Volvo's right to oppose the imports 'constitutes the very specific subject-matter of [its] exclusive right' and that therefore the refusal to grant a licence to use the right, even in return for a reasonable royalty, could not without more be regarded as an abuse. However, the ECJ went on to indicate that the exercise of the right might be abusive if it involved on Volvo's part 'certain abusive conduct such as the arbitrary refusal to supply spare parts to independent repairers, the fixing of prices for spare parts at an unfair level or a decision no longer to produce spare parts for a particular model even though many cars of that model are still in circulation'.

Barely two months after the ECJ's judgment, the Commission made its decision in relation to another refusal to license intellectual property in *Magill*.[430] In

[429] Case 238/87 *Volvo v Erik Veng (UK)* [1988] ECR 6211.

[430] Dec 89/205 *Magill TV Guide/ITP, BBC and RTE* [1989] OJ L78/43; Joined Cases 76/89R, 77/89R and 91/89R *Radio Telefis Eireann v Commission* [1989] ECR 1141; Case T–69/89 *Radio Telefis Eireann v Commission* [1991] ECR II–485, Case 70/89 *British Broadcasting Corporation v Commission* [1991] ECR II–535 and Case 76/89 *Independent Television Publications v Commission* [1991] II–575; Joined Cases C–241/91P and 242/91P *Radio Telefis Eireann v Commission* [1995] ECR I–743.

that case, Magill had begun publishing a weekly multi-channel television programme guide for programmes which could be received in Ireland and Northern Ireland. Initially Magill had limited itself to providing weekend programme listings and highlights of the programmes during the week. In April 1986 it had complained to the Commission that three television companies (BBC, ITP and RTE) had abused their dominant positions by refusing to grant Magill licences to use weekly listings, even though they each published their individual listings in their own weekly magazines and they permitted newspapers to print daily multi-channel listings. In May 1986, Magill went ahead to publish full listings for the week anyway. Unsurprisingly, the three companies sought and obtained injunctions from the Irish High Court to restrain publication of the magazine on the ground of infringement of their copyright in the listings.

The Commission held that the television companies had dominant positions in relation to their respective listings. The Commission also held that the refusal to license the listings constituted the abuse of a dominant position as it prevented 'the meeting of a substantial potential demand existing on the market for comprehensive TV guides' and was 'intended to protect and have the effect of protecting the position of their individual TV guides, which do not compete with one another or with any other guides'. The Commission rejected the argument of the television companies that the refusal was 'motivated by the need to ensure comprehensive high-quality coverage of all their programmes, including those of minority and/or regional appeal, and those of cultural, historical and/or educational significance', noting that the companies could achieve such goals by including the necessary terms in their licences and that, in any event, they had not included such terms in their daily newspaper licences. The Commission also rejected the arguments relating to copyright, noting that 'the practices and policies of ITP, BBC and RTE in the present case in fact use copyright as an instrument of the abuse, in a manner which falls outside the scope of the specific subject-matter of that intellectual property right'.

The Commission's decision was appealed but, although implementation of the decision was partially suspended pending the hearing, both the CFI and then the ECJ ultimately rejected the appeals and upheld the Commission's decision.

In relation to the question of abuse, the CFI began by noting that '[i]n the absence of harmonization of national rules or Community standardization, the determination of the conditions and procedures under which copyright is protected is a matter for national rule', responding to the Commission's criticism of the fact that such listings were covered by copyright in Ireland at all. However, it went on to hold that 'while it is plain that the exercise of the exclusive right to reproduce a protected work is not in itself an abuse, that does not apply when, in the light of the details of each individual case, it is apparent that that right is exercised in such ways and circumstances as in fact to pursue an aim manifestly contrary to the objectives of Article [82]', in which case 'copyright is no longer exercised in a manner which corresponds to its essential function, within the meaning of Article [30] of the Treaty, which is to protect the moral rights in the

work and ensure a reward for the creative effort, while respecting the aims of, in particular, Article [82]'.

Applying this to the case in hand, the CFI found that the television companies, by reserving their exclusive right to publish their weekly programme listings, were 'preventing the emergence on the market of a new product, namely a general television magazine likely to compete with [their] own [magazines], the RTE Guide'. It went on to say:

> Conduct of that type—characterized by preventing the production and marketing of a new product, for which there is potential consumer demand, in the ancillary market of television magazines and thereby excluding all competition from that market solely in order to secure [their monopolies]—clearly goes beyond what is necessary to fulfil the essential function of copyright as permitted in Community law. [The television companies'] refusal to authorize third parties to publish [their] weekly listings was, in this case, arbitrary in so far as it was not justified either by the specific needs of the broadcasting sector, with which the present case is not concerned, nor by those peculiar to the activity of publishing television magazines. It was thus possible for [the television companies] to adapt to the conditions of a television magazine market which was open to competition in order to ensure the commercial viability of . . . the RTE Guide. [The television companies'] conduct cannot, therefore, be covered in Community law by the protection conferred by its copyright in the programme listings.

The ECJ upheld the CFI, noting that 'the exercise of an exclusive right by the proprietor may, in exceptional circumstances, involve abusive conduct' and that the CFI did not err in finding the following circumstances to be sufficiently exceptional:

1. That the television companies' 'refusal to provide basic information by relying on national copyright provisions . . . prevented the appearance of a new product, a comprehensive weekly guide to television programmes, which the [television companies] did not offer and for which there was a potential consumer demand';
2. That the television companies, 'by their conduct, reserved to themselves the secondary market of weekly television guides by excluding all competition on that market . . . since they denied access to the basic information which is the raw material indispensable for the compilation of such a guide';
3. That 'there was no justification for such refusal either in the activity of television broadcasting or in that of publishing television magazines'.

Not all cases will be seen by the Commission as involving exceptional circumstances. In *Lederle-Praxis Biologicals*,[431] the Commission held that Pasteur Mérieux, Merck and SKB were entitled to refuse to supply the registration documents to their hepatitis B vaccine to Lederle, which was seeking to produce a multivalent vaccine (combining several antigens in one vaccine). The Commission noted in particular that the parties refusing the supply were

[431] *Lederle-Praxis Biologicals*, *Twenty-fourth Report on Competition Policy* (1994), at 353.

themselves seeking to develop multivalent vaccines and that Lederle was not an existing customer whose supplies had been stopped.

In *Tiercé Ladbroke*[432] the Commission held that it was not abusive for French *sociétés de courses* to refuse Tiercé Ladbroke a licence to broadcast in its Belgian betting shops the sound and pictures from horse races in France. In particular, the Commission noted that the *sociétés de courses* were not themselves operating in Belgium and had not granted licences to anyone else in Belgium. In upholding the Commission's decision, the CFI relied not only on this but also on the fact that the refused licence was not 'essential for the exercise of the activity in question, in that there was no real or potential substitute', nor did it prevent the introduction of a new product for which there was 'specific, constant and regular potential demand on the part of consumers'.

In *Oscar Bronner*,[433] the ECJ considered a reference from the Vienna Higher Regional Court asking whether a large Austrian newspaper group's refusal to include a smaller rival's newspaper in its national home-delivery service could constitute an abuse of a dominant position. The ECJ noted that both *Commercial Solvents* and *Télémarketing* required that the raw material or service refused be indispensable and that the refusal eliminate all competition on the part of the undertaking refused. The ECJ left open the question whether *Magill* applied outside the sphere of intellectual property, but strongly suggested that the conditions in *Magill* were not met anyway, on the basis that newspapers could be (and were in practice) distributed by post or through sale in shops and at kiosks. It also stated that, in order to show that the home-delivery scheme was indispensable, it was not enough to argue (as the complainant had done) that it was not economically viable to set up its own scheme by reason of its small circulation, but that the complainant must show that it was 'not economically viable to create a second home-delivery scheme for the distribution of daily newspapers with a circulation comparable to that of the daily newspapers distributed by the existing scheme'.

The scope of abuse in relation to a refusal to license intellectual property arose again in *IMS Health*.[434] IMS Health collected and sold data on pharmaceutical sales and prescriptions using its copyrighted system for segmenting the German market into 1,860 'bricks' of four or more pharmacies. A working group set up by IMS Health in the early 1970s, consisting of around 15 of its pharmaceutical customers elected by the customer base as a whole, had played an extensive role in designing the structure. The company successfully brought actions in the Frankfurt courts against competitors using the system for breach of copyright and then refused to grant licences to them.

[432] Dec in Case IV/33.699 *Tiercé Ladbroke (B) / PMU* (24 June 1993, unpublished); Case T–504/93 *Tiercé Ladbroke v Commission* [1997] ECR II–923.

[433] Case C–7/97 *Oscar Bronner* [1998] ECR I–7791.

[434] Dec 2002/165 *NDC Health/IMS Health: Interim measures* [2002] L59/18; Case T–184/01 *IMS Health v Commission* [2001] ECR II–2349 and II–3193; Case C–481/01P *IMS Health v Commission* [2002] ECR I–3401; Dec 2003/741 *NDC Health/IMS Health: Interim measures* [2003] OJ L268/69; Case C–418/01 *IMS Health v NDC Health* [2004] ECR I–5039

One of those competitors, NDC Health, complained to the European Commission, claiming that IMS Health's refusal to license breached Article 82. After an initial investigation, the Commission agreed, finding that the copyrighted system was indispensable for competitors in the pharmaceutical sales data market (as there was no actual or potential substitute), that the refusal would eliminate all competition in Germany and that there was no objective justification for the refusal. The Commission held that the system operated as 'a de facto industry standard', as customers would not switch to a significantly different alternative, and that creation of an alternative structure would be unreasonably difficult. The Commission therefore imposed interim measures requiring IMS Health to license its copyright on commercially reasonably, non-discriminatory terms.

However, IMS appealed, arguing that under the existing case law the Commission had to show that the refusal 'prevent[s] the appearance of a new product on a market separate from that on which the undertaking in question is dominant'. On this basis the President of the CFI held that there was 'a serious dispute, at the very least' as to whether there were exceptional circumstances in this case capable of justifying the imposition of a compulsory licence. He therefore stayed the interim measures until the full appeal could be held, and this decision was upheld by the President of the ECJ. Subsequently, the Commission withdrew its interim measures on the basis that NDC Health had managed to improve its commercial position on the market, for the first time concluding contracts with some larger pharmaceutical companies. This improvement in NDC Health's position coincided with a ruling by the Frankfurt Higher Regional Court, on appeal by one of the other competitors, that IMS was not the sole owner of the copyright in the structure and so could not enforce this. Although IMS had the right to prevent direct copying by competitors on the basis of unfair competition, this allowed its competitors to develop a similar system.

As well as complaining to the Commission, NDC had also appealed the judgment of the German court. As a result, the Frankfurt Higher Regional court referred three questions to the ECJ on the interpretation of abuse. The ECJ responded by returning to the approach in *Magill*. It held that IMS Health's refusal to grant a licence of the copyright would be abusive if the following four circumstances existed (splitting the second circumstance of *Magill* into two):

1. NDC Health intended to offer, on the market for the supply of the data in question, new products or services not offered by the copyright owner and for which there was a potential consumer demand;
2. The refusal was such as to reserve to IMS Health the market for the supply of data on sales of pharmaceutical products in the Member State concerned by eliminating all competition on that market;
3. The copyright was indispensable to the presentation of regional sales data on pharmaceutical products; in determining whether it was indispensable, relevant factors would include the degree of participation by users in the

development of that structure and the outlay, particularly in terms of cost, on the part of potential users in order to purchase studies on regional sales of pharmaceutical products presented on the basis of an alternative structure;

4. The refusal was not justified by objective considerations.

Finally, the current *Microsoft*[435] case concerns in part a refusal to provide interface information for computer operating systems. Microsoft produces the Windows operating systems ('OS') which run on more than 95 per cent of personal computers in the world. Microsoft has a lower share of the market in OS for work group servers, which 'provide services . . . such as file and printer sharing, security and user identity management'. In December 1998 Sun Microsystems, which produces competing server OS, complained to the Commission that Microsoft had refused to provide the interface information which would allow Sun's server OS products to communicate properly with personal computers running Microsoft Windows. This information was not the Windows source code itself but rather the 'hooks at the edge of the source code which allow one product to talk to another'.

In April 2004, the Commission held that this refusal was an abuse and required Microsoft to disclose the interoperability information to third parties including Sun on reasonable and non-discriminatory terms within 120 days. The Commission justified the compulsory licence of the intellectual property covered by the order on the basis of the 'exceptional circumstances' of the case, which can be summarised as 'Microsoft's overwhelming dominance, indispensability of the interface information, [and] risk of elimination of competition in the market'.[436] The Commission also fined Microsoft 497 million Euros. Microsoft appealed to the CFI but its application for the Decision to be stayed pending the hearing of the appeal was rejected in December 2004 on the basis that, although Microsoft had demonstrated a prima facie case for its appeal, it had not shown the urgency required to warrant a stay. The hearing of the full appeal took place in April 2006 and the judgment is awaited. Meanwhile, in July 2006 the Commission fined Microsoft a further 280.5 million Euros for non-compliance with its April 2004 Decision.

ii. Cases Involving Parallel Trade

On the basis of the general case law, it is clear that additional circumstances are required before a refusal of supply by a dominant undertaking will constitute an abuse. The question then arises whether the fact that the refusal restricts parallel trade will itself be such a circumstance, with the result that such a refusal by

[435] Dec C(2004)900 *Microsoft* of 24 Mar 2004; Case T–201/04 R *Microsoft v Commission* [2004] ECR II–4463; Dec *Microsoft* of 12 July 2006. See S Vezzoso, 'The Incentives Balance Test in the EU Microsoft Case: A Pro-innovation "Economics-Based" Approach?' [2006] *European Competition Law Review* 382.

[436] The Commission's full findings on exceptional circumstances occupy paras 546–791 of the Dec.

a dominant party is prohibited under Article 82, or whether other circumstances, such as those laid down in the general cases, will still be required before the refusal will be considered abusive. Unsurprisingly, the Commission has taken the view that a restriction on parallel trade is sufficient to render a refusal to supply abusive.

In *Polaroid/SSI Europe*,[437] Polaroid Nederland had provided a quote to SSI Europe for one order but then refused to provide a quote for a larger order on the ground that the quantities ordered were too large for the Netherlands or even the Community market. However, after an investigation by the Commission under Article 82, Polaroid agreed to provide a quote for the larger order, and so the investigation was closed.

In *Hilti*,[438] two UK companies sought to obtain empty cartridges for Hilti nail guns from Hilti's independent distributors in the Netherlands, so that the UK companies could supply their own nails to users along with the cartridges. In response, Hilti pressurised its distributors to stop exporting the cartridges. The Commission found that this constituted an abuse of Hilti's dominant position and this characterisation was not challenged on appeal.

The issue has come into particular prominence recently in the light of unilateral supply restrictions imposed by pharmaceutical companies whose supply agreements do not breach Article 81(1), particularly after the confirmation in *Bayer (Adalat)*[439] that such restrictions will not constitute agreements and thus will not infringe Article 81(1) themselves.

In France, pharmaceutical wholesalers can register as wholesaler-distributors (*grossistes-répartiteurs*) or wholesaler-exporters (*exportateurs*). According to the French Competition Council, the latter category appears to be unique to France.[440] Various pharmaceutical manufacturers began to refuse and restrict supplies to both categories of wholesaler and the wholesalers filed complaints with the French Competition Council against a total of 21 manufacturers. In a number of applications for interim measures against the pharmaceutical companies decided between 2000 and 2002, the Council rejected the applications but indicated that the conduct of the manufacturers might be abusive.[441]

[437] *Polaroid/SSI Europe*, *Thirteenth Report on Competition Policy* (1983), points 155–157.

[438] Dec 88/138 *Eurofix-Bauco v Hilti* [1988] OJ L 65/19; Case T–30/89 *Hilti v Commission* [1991] ECR II–1439; Case C–5/92 P *Hilti v Commission* [1994] ECR I–667.

[439] Dec 96/478 *ADALAT* [1996] OJ L201/1; Case T–41/96 *Bayer v Commission* [1996] ECR II–381 (Order), [2000] ECR II–3383 (Judgment); Joined Cases C–2/01P and C–3/01P *Bundesverband der Arzneimittel-Importeure and Commission v Bayer* [2004] ECR I–23.

[440] Dec 05-D-72 *French Pharmaceutical Companies* (Conseil de la Concurrence, 20 Dec 2005) BOCCRF 6/2006, para 262.

[441] Dec 00-MC-14 *Pharma-Lab* (Conseil de la Concurrence, 23 Oct 2000) BOCCRF 14/2000; Dec 01-MC-04 *Pharmadex TMC* (Conseil de la Concurrence, 24 Sept 2001) BOCCRF 16/2001; Dec 02-MC-07 *Pharma-Lab* (Conseil de la Concurrence, 15 May 2002) BOCCRF 11/2002, upheld by the Cour d'Appel Paris on 26 June 2002 BOCCRF 8/2003 but overturned by the Cour de Cassation on 14 Dec 2004, not yet published in BOCCRF; Dec 02-MC-09 *Pharmajet* (Conseil de la Concurrence, 12 June 2002) BOCCRF 14/2002, upheld by the Cour d'Appel Paris on 16 July 2002 BOCCRF 15/2002.

Similar issues were also arising in Spain. In *Laboratorios Farmacéuticos*,[442] DIFAR had complained that several pharmaceutical companies had refused to supply it with pharmaceutical products. However, the Spanish Competition Service and Tribunal both held that, even if the pharmaceutical companies had held dominant positions, they had not abused their position on the basis that DIFAR could obtain the products from other sources (following *Oscar Bronner*) or, if not, that DIFAR was not an existing distributor of the products in question (following *United Brands*). A similar result was reached in *Distribuciones Farmacéuticas*,[443] which related to complaints about other pharmaceutical companies by DIFAR and by Spain Pharma.

In 2003, the issue of restrictions on parallel trade of pharmaceuticals was raised in the European Parliament by Ward Beysen MEP, who asked whether the Commission could use Article 82 'as a legal basis for ensuring pharmaceutical manufacturers play by the single market rules'.[444] Commissioner Monti indicated that approximately 30 cases were pending before the Commission and the Commission expected to adopt a position on the approach it would take under Article 82 by the end of the year. However, no such position was adopted and in response to a follow-up question by Ward Beysen the Commission explained that it was still examining various issues relating to dominance.[445] A further attempt to get a concrete response lapsed with the Parliamentary elections[446] and later that year the Commission explained that it was waiting for the judgment in *Syfait*, considered below, before taking further action.[447]

Meanwhile, in *Phoenix Pharma*,[448] the French Competition Council considered another request for interim measures by one wholesaler-distributor, Phoenix Pharma, which had complained about supply restrictions imposed by nine pharmaceutical companies. The Council began by holding that there was no evidence of any agreement between the pharmaceutical manufacturers to restrict supplies. Therefore, as in *Bayer (Adalat)*, there was no infringement of the French equivalent of Article 81. Turning to abuse, the Council focussed on the question whether the restrictions prevented new wholesaler-distributors from entering the market. It held that there was insufficient evidence of any restriction at all being imposed by two of manufacturers (Janssen-Cilag and Norgine Pharma). Three of the manufacturers (GlaxoSmithKline, Pfizer and Servier) had a system of quotas in place but there was insufficient evidence that such quotas would restrict new wholesaler-distributors from entering the market. However, the quota systems operated by the remaining four manufacturers

[442] Dec R488/01 *Laboratorios Farmacéuticos* (Tribunal de Defensa de la Competencia, 5 Dec 2001).

[443] Dec R506/01 *Distribuciones Farmacéuticas* (Tribunal de Defensa de la Competencia, 19 Feb 2004).

[444] Oral Question H-0315/03, answered in plenary debate on 3 June 2003.

[445] Written Question P-0193/04 [2004] OJ C783E/252.

[446] Written Question E-1411/04 (not published but available at www.europarl.europa.eu).

[447] Written Question E-2747/04 (not published but available at www.europarl.europa.eu).

[448] Conseil de la Concurrence Dec 04-D-05 *Phoenix Pharma* of 24 Feb 2004.

(Lilly, Sanofi, Boehringer and Merck Sharp & Dohme) appeared to be less flexible, and the Council held that these might possibly operate as a barrier to entry for new wholesaler-distributors. Nevertheless, Phoenix Pharma had not shown the requisite damage in order to justify interim measures.

On the same day, the Council rejected a separate complaint brought by the French Ministry of the Economy against *GlaxoSmithKline*[449] that restrictions on supplies of LAMICTAL, an anti-epileptic, were an abuse of a dominant position. The case was fuelled by the case of a patient in Reims who had not been supplied with his full prescription because his pharmacist had insufficient stock and the pharmacist's supplier, the wholesaler-distributor OCP Reims, had exhausted the quota assigned by GSK for that month. The patient decided to reduce his dosage and had an epileptic fit. Contrary to the view of the Ministry, the Council found that there was insufficient evidence to prove that GSK's quota policy was the reason for the accident. In particular, it noted that there was nothing in the complaint to explain why the patient, the pharmacist or the wholesaler-distributor could not have turned to other sources for LAMICTAL (the patient was a fourth year medical student). Therefore, the Council held that there was no evidence of an abusive refusal to supply contrary to the French equivalent of Article 82. Although this does not itself relate to parallel trade, it illustrates some of the public relations problems which can arise where a manufacturer restricts supplies of pharmaceuticals.

Later that year, the Spanish Competition Tribunal upheld the Spanish Competition Service's rejection of another complaint about refusal to supply in *Spain Pharma/Glaxo*.[450] Spain Pharma parallel exported various pharmaceutical products from Spain, principally to the Netherlands and the United Kingdom. It complained that Glaxo Wellcome had refused to supply it with certain products, including ZOVIRAX, IMIGRAN, SEREVENT and LAMICTAL, even before Glaxo introduced its dual pricing system in Spain in April 1998.[451] However, after an extended investigation, the Competition Service held that Glaxo did not have a dominant position in relation to the products in question, taking into account the regulation of the market, and this was upheld by the Competition Tribunal. The Tribunal also noticed that, by contrast to the situation in *United Brands*, Spain Pharma's orders had not remained constant but had increased by some 400 per cent.

The French Competition Council considered yet another complaint later that year in *Productiv*.[452] Again the complaint was against GSK and again it was rejected. Productiv, which was exclusively a exporter (rather than a wholesaler-distributor), complained that GSK had stopped supplying it. The Council noted

[449] Conseil de la Cocurrence Dec 04-D-06 *GlaxoSmithKline* of 24 Feb 2004.

[450] Dec R611/2004 *Spain Pharma/Glaxo* of 13 Oct 2004. See also Dec R360/99 *Glaxo* of 14 June 1999.

[451] See Dec 2001/791 *Glaxo Wellcome* [2001] OJ L302/1; Case T–168/01 *GlaxoSmithKline Services Unlimited v Commission* (27 Sept 2006, not yet reported), discussed in sects I.C.v and I.E.i.c above.

[452] Conseil de la Concurrence Dec 04-D-77 *Productiv* of 22 Dec 2004.

that Productiv had provided no evidence that it was unable to obtain supplies of the products in question, or therapeutic equivalents, from elsewhere. In addition, there were plenty of other pharmaceutical products which Productiv was free to supply, and so there was no evidence to show that supplies from GSK were indispensable to its business. In addition, it accepted that GSK had raised a serious case that its refusal to supply was objectively justified on the basis that the pharmaceutical market in Europe is highly regulated, that prices vary as a result of state intervention rather than free market pricing and that Productiv had the choice to become a wholesaler-distributor and distribute pharmaceuticals on the French market, with the supply obligations that that entailed, or to obtain the pharmaceuticals from another source. Following *United Brands*,[453] the Council held that even dominant undertakings have the right to take reasonable measures to protect their commercial interests, so long as these are proportionate to the threat and do not seek to reinforce their dominant position or to abuse it. This was the one of the first signs of acceptance by competition authorities that refusals to supply with the aim of restricting parallel trade might be justifiable in relation to pharmaceuticals because of the specific conditions which apply in that sector. However, it was based on a peculiarity of the French market, namely the separate categories of wholesalers who would distribute in France and wholesalers who would export only.

It had appeared that matters might be clarified by the ECJ in *Syfait v GlaxoSmithKline*,[454] which related to pharmaceutical products sold by GSK in Greece under the brand names IMIGRAN, LAMICTAL and SEREVENT. Until November 2000, these were supplied to wholesalers in Greece, some of which then parallel exported a substantial quantity to other Member States where prices were higher. GSK stopped supplying these products to the wholesalers, who complained to the national competition authority, the Greek Competition Commission. In turn, GSK notified the Greek Competition Commission of its actions and sought confirmation that its conduct was not anti-competitive. In February 2001 GSK recommenced some supplies, although the full orders were still not met. The Greek Competition Commission then referred two questions to the ECJ for a preliminary ruling under Article 234.

In essence, the first question asked whether the refusal to supply pharmaceutical products by a dominant manufacturer in order to prevent parallel trade

[453] Dec 76/353 *Chiquita* [1976] OJ L95/1; Case 27/76 *United Brands v Commission* [1978] ECR 173.

[454] Case C–53/03 *Synetairismos Farmakopoion Aitolias & Akarnanias (Syfait) v GlaxoSmithKline* [2005] ECR I–4609. See A Dawes, 'Neither Head Nor Tail: the Confused Application of EC Competition Law to the Pharmaceutical Sector' [2006] *European Competition Law Review* 269; MI Manley and A Wray, 'New Pitfall for the Pharmaceutical Industry' (2006) 1 *Journal of Intellectual Property Law & Practice* 266; G Robert and S Ridley, 'Parallel Trade in the Pharmaceutical Industry: Scourge or Benefit' [2006] *European Competition Law Review* 91; D Glynn, 'Article 82 and Price Discrimination in Patented Pharmaceuticals: the Economics' [2005] *European Competition Law Review* 135; R Subiotto and R O'Donoghue, 'Defining the Scope of the Duty of Dominant Firms to Deal with Existing Customers under Article 82 EC' [2003] *European Competition Law Review* 683.

would constitute an abuse of the dominant position in all cases, given that the pharmaceutical market is distorted by state intervention. If it was not an abuse in all cases, the second question asked how to determine whether it was an abuse in a particular case, suggesting various criteria which could be relevant, such as (a) the percentage of products being exported relative to national demand; (b) the loss suffered by the manufacturer relative to its total turnover or profits; (c) the limited financial benefit to the patient of parallel trade and/or (d) the interests of social insurance bodies in obtaining cheaper products.

Advocate General Jacobs began his Opinion by determining that, although a borderline case, the Greek Competition Commission did constitute a 'court or tribunal' entitled to make a reference under Article 234. He then turned to the substance of the case.

In considering the first question, the Advocate General conducted a detailed review of the case law concerning refusals to supply under Article 82 (specifically *Commercial Solvents*, *United Brands*, *BP*, *Télémarketing*, *Volvo v Veng*, *Magill*, *Oscar Bronner*, *IMS Health* and *Microsoft*). He concluded that refusals to supply may be abusive, particularly where they involve stopping existing supplies, but that dominant undertakings remain entitled to defend their commercial interests and that they may be able to provide an objective justification for the refusal. That determination would be 'highly dependent on the specific economic and regulatory context in which the case arises'. He accepted as plausible the Commission's argument that an intention to restrict parallel trade will normally make a refusal to supply abusive, but indicated that this would depend on whether 'such a refusal is in all the circumstances justified'.

The Advocate General then went on to ask whether the factors identified by the Greek Competition Commission were relevant in determining whether the refusal to supply was objectively justified. He rejected the Commission's submission that any such justification must be construed very narrowly and said instead that there were three relevant factors: regulation of price and distribution, impact of parallel trade on manufacturers and impact of parallel trade on purchasers and patients.

In terms of the first factor, the Advocate General noted that Member States intervene in various ways to influence the price of pharmaceutical products and that this causes the price differentials which encourage parallel trade. At the same time, many national laws place obligations on manufacturers and wholesalers to guarantee the availability of pharmaceutical products; in fact, this is now required by Community law.[455] These obligations restrict both the manufacturers' ability to refuse to supply a market and also the wholesalers' ability to parallel export, and compliance could be undermined by high levels of parallel trade.

[455] Dir 2001/83 [2001] OJ L311/67, Art 81(2). This para was introduced by Dir 2004/27 [2004] OJ L136/34 and had to be implemented by Member States by 30 Oct 2005.

As for the second factor, the Advocate General summarised the economic structure of the pharmaceutical sector, where the price of pharmaceuticals must reflect not only the relatively low marginal cost of production but also the high fixed cost of research and development, including risk. This price can be uniform or it can vary between markets, such that products sold in the higher price markets bear a higher proportion of the fixed costs. However, while manufacturers may accept a lower price in certain markets (so long as this is above the marginal cost of production), they will not do so if the products are then parallel exported to a higher price market, undermining the manufacturer's sales and thus recoupment of the fixed costs by the higher priced sales. Forcing manufacturers to supply wholesalers in low-price markets for parallel export would encourage manufacturers to seek to increase prices in such markets, reducing consumer welfare, or failing that to withdraw existing products from such markets and/or to delay the launch of new pharmaceuticals there.

Finally, in terms of the third factor, the Advocate General noted that much of the profit from parallel trade ends up in the hands of those in the distribution chain rather than the final purchaser. Also, as the purchaser is often a public body involved in negotiating the price for that market, the purchaser has a far more direct way to set the price and parallel trade may in fact undermine the agreed pricing level for the market. Lastly, as patients do not generally pay for pharmaceutical products directly there is little or no impact upon them from parallel trade.

The Advocate General therefore concluded that 'a restriction of supply by a dominant pharmaceutical undertaking in order to limit parallel trade is capable of justification as a reasonable and proportionate measure in defence of that undertaking's commercial interests'. However, he also made it very clear that this conclusion was 'highly specific to the pharmaceutical industry in its current condition and to the particular type of conduct at issue in the present proceedings'. He said that it was 'highly unlikely' that supply restrictions could be justified in other sectors and that even in the pharmaceutical sector other conduct 'which more clearly and directly partitioned the common market would not be open to a similar line of defence'.

The ECJ, however, avoided the substantive question. It disagreed with the Advocate General that the Greek Competition Commission was a court or tribunal entitled to make a reference under Article 234, on the basis that the Greek Competition Commission was not wholly independent of the Greek Government and that its proceedings would not lead to a decision of a judicial nature. As a consequence, the Court found that it lacked jurisdiction to hear the reference and returned the case to the Greek Competition Commission.

The wholesalers subsequently complained directly to the European Commission and asked it to take action itself on the basis that the Greek Competition Commission was too slow and that the case raised fundamental questions of EC competition law. The Commission refused to take over the case

from the Greek Competition Commission, although the wholesalers have appealed against that refusal.[456]

In due course, the Greek Competition Commission made its decision.[457] It held that Glaxo held a dominant position in relation to LAMICTAL but not in relation to IMIGRAN or SEREVENT. It found that the absolute refusal to supply LAMICTAL between November 2000 and February 2001 had breached Greek law by jeopardising the supply to the domestic Greek market. However, by a majority it found that this refusal had not breached Article 82, principally on the basis that the prices of pharmaceuticals are regulated differently by each Member State and so Article 82 could not be applied to such markets. It also found that, after February 2001, the limited supplies did not breach Greek law or Article 82.

The wholesalers also brought cases in the Greek courts, and these have now been referred to the ECJ directly.[458]

A few months after the ECJ's judgment in *Syfait*, the French Competition Council had a chance to consider the question in its full consideration of the supply restrictions which had been imposed on wholesaler-exporters in France in *French Pharmaceutical Companies*.[459] The Council held that the conduct could not constitute an abuse, leaving open the question whether the manufacturers in each case held a dominant position. First, the Council reviewed some of the cases on refusal to supply (*Commercial Solvents*, *Télémarketing*, *Oscar Bronner*, *Syfait* and *Microsoft*) and on objective justification for allegedly abusive conduct (*United Brands*, *BP* and *French Molasses and Rum*[460]). It went on to note that the prices of pharmaceuticals in France were not free market prices but were fixed by the public authorities at a level deemed compatible with the social security budget. It held that it was not abusive for the manufacturers to defend their commercial interests by refusing to supply wholesaler-exporters at the administrative French price, given that the wholesaler-exporters were not supplying to the French market at all, but instead exporting for profit. The Council did, however, draw a clear distinction between the approach taken by the manufacturers to the wholesaler-exporters and that taken by them to the wholesaler-distributors, which was the subject of a separate investigation. The wholesaler-distributors had a duty to ensure that the French market was properly supplied, but otherwise could export pharmaceuticals which they had

[456] Dec D/201953 *EAEPC/Glaxo Greece (Imigran, Lamictal, Serevent)* (10 Apr 2006, unpublished); Case T–153/06 *European Association of Euro-Pharmaceutical Companies v Commission* [2006] OJ C178/38.

[457] Dec 318/V/2006 *GlaxoSmithKline* (Epitropi Antagonismou, 1 Sept 2006).

[458] Cases C-468/06 to C-478/06 *Sot. Lélos kai Sia*.

[459] Dec 05-D-72 *French Pharmaceutical Companies* (Conseil de la Concurrence, 20 Dec 2005) BOCCRF 6/2006. This has been appealed to the Cour d'Appel Paris. See J-A Robert, A Regniault and D Coussieu, 'Parallel Trade in Medicinal Products—a French Point of View', *Pharmaceutical Law Insight*, May 2006, 14.

[460] Dec 01-D-70 *French Molasses and Rum* (Conseil de la Concurrence, 24 Oct 2001) BOCCRF 1/2002.

acquired at the French administrative price. Indeed, the Competition Council had already found that two-thirds of exports were made by wholesaler-distributors rather than wholesaler-exporters.

C. Restrictions on Resale

As under Article 81, attempts to block parallel trade by contractually restricting resale or by seeking to enforce intellectual property rights against parallel imported products are also likely to be regarded as abusive if carried out by an undertaking in a dominant position.

In *United Brands*,[461] the dominant undertaking, United Brands, had originally prohibited its distributors from reselling their bananas to all other distributors. After an initial intervention by the Commission, this had been restricted to a prohibition on resale of green (unripened) bananas. However, in the course of its fuller investigation the Commission found that '[o]wing to their highly perishable nature, bananas can be transported only when green; once they have ripened and become yellow they cannot be transported without great risk of damage'. The Commission therefore found that the resale restriction amounted to an export prohibition which maintained 'effective market segregation'. It rejected United Brands' argument that the obligation helped 'to guarantee the quality of the products sold to the consumer, thereby assuring the supply of good quality bananas, properly ripened', noting that this would justify a prohibition on the sale of green bananas only to consumers, not to other distributors. The Commission therefore found that United Brands had abused its dominant position and the ECJ upheld the Commission on appeal.

In *Hoffmann-La Roche v Centrafarm*[462] the Freiburg Regional Court had referred to the ECJ two questions relating to repackaging of its pharmaceutical product VALIUM. The first question, which related to the extent of Hoffmann-La Roche's ability to restrict such repackaging under its trade mark rights, has already been considered in Chapter 2. However, the second question asked whether prohibiting the sale of repackaged parallel imports could breach Article 82 where the effect of the prohibition was to maintain substantial price differentials. The Advocate General stated that there was no need to answer the question but suggested that such a prohibition could breach Article 82 only if it fell outside the scope of Article 30. However, the ECJ did not go so far and simply stated:

> It is sufficient to observe that to the extent to which the exercise of a trade-mark right is lawful in accordance with the provisions of Article [30] of the Treaty, such exercise is not contrary to Article [82] of the Treaty on the sole ground that it is the act of an

[461] Dec 76/353 *Chiquita* [1976] OJ L 95/1; Case 27/76 *United Brands v Commission* [1978] ECR 207.

[462] Case 102/77 *Hoffmann-La Roche v Centrafarm* [1978] ECR 1139.

undertaking occupying a dominant position on the market if the trade-mark right has not been used as an instrument for the abuse of such a position.

D. Misuse of Regulatory Controls

The third type of conduct which is likely to be regarded as abusive is the misuse of regulatory controls, particularly where this is intended to restrict parallel trade.

The first cases of this sort arose under motor vehicle safety regulations. A car will generally have to be approved before it can be used on public roads. Such approval is normally obtained by the manufacturer for a type of car and the manufacturer then certifies that cars conform to that type. Although individual approval is possible in theory, in practice the cost is prohibitive. In the past, each Member State dealt with such authorisations individually.[463]

The first case was *General Motors*,[464] which concerned parallel imports into Belgium. In that case, the Commission found that General Motors had charged excessive prices for certificates of conformity for parallel imported cars. However, on appeal the ECJ overturned the finding of abuse on the facts on the basis that, although General Motors had initially charged the same price as for cars imported from the United States (where the higher price was justified due to the lower volume of imports involved), as soon as complaints were made, and even before the Commission began its investigation, it reduced the price for imports from other Member States and refunded the excess. Therefore, the ECJ held that the Commission's intervention was unjustified.

However, the Commission dealt with a more serious case in *British Leyland*.[465] British Leyland sold left-hand drive (LHD) cars at lower prices in other Member States than its right-hand drive (RHD) cars in the United Kingdom. This gave rise to parallel imports into the United Kingdom. In response, British Leyland initially let its UK type-approval for LHD cars lapse and refused to grant certificates of conformity. It also refused to provide the information which would make individual approvals cost-effective. It subsequently renewed the type-approval but then proceeded to charge a much higher price for certificates of conformity for LHD cars than for RHD cars. The Commission held that these actions sought to penalise imports, could not be justified objectively and thus constituted an abuse of British Leyland's dominant position. This time the Commission's findings were upheld by the ECJ on appeal.

[463] See Ch 4, sect V (Motor Vehicles).

[464] Dec 75/75 *General Motors Continental* [1975] OJ L29/14; Case 26/75 *General Motors v Commission* [1975] ECR 1367.

[465] Dec 84/379 *British Leyland* [1984] OJ L207/11; Case 226/84 *British Leyland v Commission* [1986] ECR 3263.

Cases also arise in relation to pharmaceutical regulation. In *Euglucon 5*,[466] where action was taken under Article 81 rather than Article 82, Hoechst and Boehringer-Mannheim withdrew one formulation of their anti-diabetic product, EUGLUCON 5, from the German market and replaced it with another formulation, EUGLUCON N. They made a joint announcement but did not mention that they continued to sell EUGLUCON 5 in other Member States, where EUGLUCON N had not yet completed the regulatory process. The Commission took the view that this might restrict parallel imports by influencing doctors' prescribing habits. Although there was no indication that this was the intention of the parties, they agreed to send a circular making clear that EUGLUCON 5 was still sold abroad and could be prescribed and obtained in Germany.

Pharmaceutical regulation was considered more recently under Article 82 in *AstraZeneca*,[467] which concerned the marketing authorisation which manufacturers need in order to produce and sell pharmaceutical products in the European Union.[468] Parallel importers also need to obtain authorisation, but usually they can do so by reference to the manufacturer's authorisation. AstraZeneca had a marketing authorisation for its blockbuster drug, LOSEC, in a capsule form in various Member States. Subsequently, it introduced a new tablet formulation for the drug, for which it needed a new marketing authorisation. Upon obtaining that new authorisation, AstraZeneca then sought to deregister the existing marketing authorisation for the capsule form in certain EEA countries, including Denmark, Finland, Norway and Sweden.[469] Among other things, such deregistration might prevent parallel imports of the capsule form of the drug, as parallel importers would no longer be able to obtain marketing authorisations to import the capsule form of the product based on AstraZeneca's authorisation in those Member States.[470]

[466] *Euglucon 5*, *Thirteenth Report on Competition Policy* (1983), point 108.

[467] Dec 2006/857 *AstraZeneca* [2006] OJ L332/24 (full version available at ec.europa.eu/comm/competition/); Case T–321/05 *AstraZeneca v Commission* [2005] OJ C271/24 (pending). AstraZeneca has also issued a press release which expands on its reasons for appealing, which can be found at www.astrazeneca.com/pressrelease/4983.aspx. See P Treacy and M Manley, 'Intervention by the Competition Authorities: an Evergreen Problem?', *Pharmaceutical Law Insight*, June 2005, 13; S Lawrance and P Treacy, 'The Commission's *AstraZeneca* Decision: Delaying Generic Entry is Abuse of a Dominant Position' (2005) 1 *Journal of Intellectual Property Law & Practice* 7; J-P Gunther and C Breuvart, 'Misuse of Patent and Drug Regulatory Approval Systems in the Pharmaceutical Industry: an Analysis of US and EU Converging Approaches' [2005] *European Competition Law Review* 669.

[468] See Ch 4, sect III.A (Regulatory Structure).

[469] Cases C–15/01 *Paranova Läkemedel v Läkemedelsverket* [2003] ECR I–4175 and C–113/01 *Paranova Oy* [2003] ECR I–4243 discuss the impact on parallel imports of the withdrawals in Sweden and Finland. Case C–223/01 *AstraZeneca v Lægemiddelstyrelsen* [2003] ECR I–11809, while concerned with marketing authorisations for generic pharmaceutical products rather than parallel imports, discusses the withdrawal in Denmark.

[470] However, the ECJ held that this should not prevent marketing authorisations being granted in Case C–15/01 *Paranova Läkemedel v Läkemedelsverket* [2003] ECR I–4175 and in Case C–113/01 *Paranova Oy* [2003] ECR I–4243. See Ch 4, sect III.B.ii (Withdrawal of Authorisation).

After a prolonged investigation, the Commission issued a decision in 2005 which found that AstraZeneca had abused its dominant position by requesting deregistration in Denmark, Norway and Sweden,[471] that AstraZeneca's purpose was to stop parallel trade, that deregistration was selectively planned for those countries where AstraZeneca believed it had a good chance of success and that there was no objective justification for AstraZeneca's action. AstraZeneca has appealed to the CFI.

E. Excessive or Discriminatory Pricing

Parallel imports generally arise as a result of price differentials, and it is sometimes suggested that the competition authorities should seek to address excessive or discriminatory pricing directly rather than relying on the more indirect tool of parallel trade to level out price differentials. However, although excessive pricing of products in one Member State or discriminatory pricing can constitute an abuse of a dominant position, this can be difficult to establish.

In *United Brands*,[472] the Commission found that United Brands had abused its dominant position by charging widely different prices to its distributors in different Member States even though all the CHIQUITA bananas were sold to them in the same two ports (Bremerhaven and Rotterdam) and, with one exception, the distributors would then pay customs duties, taxes and transport costs from those ports. United Brands justified its different prices on the basis that retail prices for ripened bananas vary between Member States. However, this was rejected by the Commission, which held that the policy of charging different prices constituted an abuse. The Commission also held that the prices charged to customers in the higher-price Member States (Belgium, Luxembourg, Denmark, Germany and the Netherlands) were excessive and thus also abusive. On appeal, the ECJ confirmed that the discriminatory prices constituted an abuse but held that the Commission had not established that the prices were excessive. Although charging a price which 'has no reasonable relation to the economic value of the product supplied' would indeed be an abuse, the Commission had not made any attempt to establish United Brands' cost structure and United Brands had raised a sufficient case that its prices were not excessive by arguing that it had made a loss for most of the years in question.

In *Sirena v Eda*[473] the Court, considering the exercise of trade mark rights to block imports, noted that 'although the price level of the product may not of itself necessarily suffice to disclose [the abuse of a dominant position], it may, however, if unjustified by any objective criteria, and if it is particularly high, be

[471] Although not clear from the decision, it appears that the Commission did not believe that it could prove the existence of a dominant position in Finland.

[472] Dec 76/353 *Chiquita* [1976] OJ L 95/1; Case 27/76 *United Brands v Commission* [1978] ECR 207.

[473] Case 40/70 *Sirena v Eda and others* [1971] ECR 69.

a determining factor'. Similarly, in *Deutsche Grammophon*[474] the ECJ held that 'the difference between the controlled price and the price of the product reimported from another Member State does not necessarily suffice to disclose [an abuse within the meaning of Article 82]; it may however, if unjustified by any objective criteria and if it is particularly marked, be a determining factor in such abuse'.

In *Iffli-Connexion*,[475] a French distributor of consumer electronics equipment complained to the Commission about Belgian wholesalers, claiming that they were abusing a dominant position by charging the distributor higher prices at a wholesale level than the retail prices in Belgium and Luxembourg. After an initial investigation by the Commission, the wholesale prices in France and in Belgium moved substantially closer and the complaint was withdrawn.

Finally, in *Micro Leader*[476] a wholesaler had been importing copies of Microsoft products from Canada and selling them to distributors in France. Microsoft said that it was taking measures to reinforce the ban on sale of products from Canada in France and the wholesaler complained to the Commission that it had lost significant orders as a result of Microsoft's conduct, which it said infringed Articles 81 and 82. The Commission rejected the complaint on both grounds but the wholesaler appealed to the CFI.

The CFI upheld the Commission's decision under Article 81, finding that there was no evidence of any agreement between Microsoft and its distributors in Canada to partition the markets or its distributors in France to fix resale prices. However, the CFI overturned the Commission's decision under Article 82. The CFI agreed that Directive 91/250[477] meant that the sale of Microsoft products in Canada did not exhaust Microsoft's copyright in the Community.[478] However, following *Magill*, the CFI held:

> whilst, as a rule, the enforcement of copyright by its holder, as in the case of the prohibition on importing certain products from outside the Community in to a Member State of the Community, is not in itself a breach of Article [82] of the Treaty, such enforcement may, in exceptional circumstances, involve abusive conduct.

The CFI held that Micro Leader had provided sufficient evidence of a possible abuse to the Commission, in the form of a Microsoft bulletin which stated that the parallel imported products were 'marketed at markedly lower prices than those generally found and adversely affected distributors who used the usual Microsoft sales network'. This indicated that 'products imported from Canada were in direct competition with the products marketed in France and that their resale price in France was significantly lower, despite the expense of importing them into the Community from a third country' and was 'at the very least, an

[474] Case 78/70 *Deutsche Grammophon v Metro* [1971] ECR 487.
[475] Press Release IP/91/81.
[476] Dec of 15 Oct 1998 in Case IV/36.219 *Micro Leader/Microsoft* (unpublished); Case T–198/98 *Micro Leader Business v Commission* [1999] ECR II–3989.
[477] [1991] OJ L122/42.
[478] See Ch 5, sect I.B.iii.v (Computer Programs).

indication that, for equivalent transactions, Microsoft applied lower prices on the Canadian market than on the Community market and that the Community prices were excessive'. The CFI therefore annulled the Commission's decision.

In early 2000, the Commission stated that it was re-examining the case and that Microsoft would 'have to provide information on its pricing-policy and provide reasons for any possible differences in prices for prima facie identical products'.[479] However, there do not appear to have been any further developments in the case.

III. RESTRICTIONS ON SERVICES

So far the focus has been on how restrictions on parallel trade in goods are considered under competition law. With services, there are relatively few cases where a third party could realistically purchase the service in one Member State and resell it to the consumer in another. However, as with goods, consumers themselves may seek to purchase the service from another Member State.

In response, providers of services may seek to discriminate territorially when providing their services. Clear analogies can be drawn with restrictions on the parallel trade in goods. As was discussed in Chapter 2, the provisions on the freedom to provide services do not extend as broadly as the free movement of goods and primarily operate to protect service providers. For instance, no doctrine of exhaustion of intellectual property rights has developed in relation to communication, performance, rental and lending rights.[480] However, this does not mean that there will be no remedy under competition law.

The long series of cases relating to territorial restrictions imposed by collecting societies will be considered first, followed by cases of individual undertakings which impose such restrictions.

A. Collecting Societies

It can often be unfeasible or at least economically wasteful or unfeasible for individual owners of intellectual property rights (particularly copyright) to monitor use of their rights, in terms of both agreeing licences with potential users and bringing action to prevent unauthorised use. The costs could easily outweigh the benefits. As a result, collecting societies developed as organisations which would carry out these activities on behalf of a number of rightholders. While they are generally accepted to be a positive way of overcoming the problem of relatively high transaction costs, there have often been concerns about the power of such societies. In addition, collecting societies have tended to operate only in their own

[479] Press Release IP/00/141.
[480] See Ch 2, sect VI (Rights which are Not Subject to Exhaustion).

territories and to enter into reciprocal representation agreements with collecting societies in other territories,[481] resulting in territorial restrictions.

In a number of early cases, the ECJ indicated that the conditions of membership of collecting societies which applied to rightholders could potentially fall foul of competition law.[482] Controversial conditions include residency requirements for membership and broad requirements of assignment of rights to the collecting society.

However, in more recent cases the authorities and courts have considered the terms and conditions offered by collecting societies to rights users.

A number of these cases concerned allegations that the royalty rates charged to operators of night clubs by the French copyright collecting society, SACEM, at some 8.25 per cent of the gross turnover of the clubs, were excessive and thus an abuse of a dominant position.[483] These arguments were generally sent back to the French courts with a strong indication that the rates might be excessive. However, a question relating to parallel trade in services arose in *Ministère Public v Tournier*,[484] *Lucazeau v SACEM*[485] and *Tremblay v Commission*.[486] Various night club operators had approached copyright collecting societies in other Member States, seeking licences to use their repertoires, but had been refused (SACEM also refused to grant cheaper licences limited to foreign music). The operators alleged that this arose from the reciprocal representation agreements between SACEM and those foreign collecting societies. In fact, although there had originally been exclusive representation clauses in the original agreements, these had been removed at the request of the Commission. Therefore the real question was whether there was nevertheless a concerted practice between the collecting societies in breach of Article 81 or whether the refusals constituted unilateral decisions by the foreign collecting societies, perhaps on the basis that they did not want to start operating in France directly.

In *Ministère Public v Tournier* and *Lucazeau v SACEM* the ECJ confirmed that such a concerted practice would breach Article 81 but left it to the national court to determine whether there was such a concerted practice. Complaints about such

[481] This has not always been the case: see C McGreevy, 'Music Copyright: Commission Recommendation on Management of Online Rights in Musical Works', Press Release SPEECH/05/588, making the point that the French collecting society SACEM operated internationally back in the nineteenth century.

[482] Dec 71/224 *GEMA I* [1971] OJ L134/15; Case 45/71 *GEMA v Commission* [1971] ECR 791; Dec 72/268 *GEMA II* [1972] OJ L166/22; Case 127/73 *Belgische Radio en Televisie v SABAM* [1974] ECR 313; Case 22/79 *Greenwich Film Distribution v SACEM* [1979] ECR 3275; Dec 82/204 *GEMA III* [1982] OJ L94/12; Dec 81/1080 *GVL* [1981] OJ L370/49; Case 7/82 *GVL v Commission* [1983] ECR 483; Dec *GEMA IV, Fifteenth Report on Competition Policy* (1985), point 81. More recently, see Dec in Case 37.219 *Banghalter & Homem Christo v SACEM* ('Daft Punk') (8 Oct 2002, unpublished).

[483] Case 402/85 *Basset v SACEM* [1987] ECR 1747; Case 395/87 *Ministère Public v Tournier* [1989] ECR 2521; Joined Cases 110/88, 241/88 and 242/88 *Lucazeau v SACEM* [1989] ECR 2811; Case T–5/93 *Tremblay v Commission* [1995] ECR II–185.

[484] Case 395/87 *Ministère Public v Tournier* [1989] ECR 2521.

[485] Joined Cases 110/88, 241/88 and 242/88 *Lucazeau v SACEM* [1989] ECR 2811.

[486] Case T–5/93 *Tremblay v Commission* [1995] ECR II–185.

a concerted practice were also made directly to the Commission, which rejected them. However, the complainants appealed to the CFI, which in *Tremblay v Commission* held that the Commission had failed to give reasons for rejecting the allegation and so annulled that part of the Commission's decision.

More recently, the issue has not been whether collecting societies will grant licences directly to users in other Member States but rather the conditions under which they will grant Community-wide licences for electronic use. In *IFPI '*Simulcasting*'*,[487] a number of collecting societies had agreed to a model reciprocal agreement relating to grants of international licences of authors' rights for simulcasting, which the societies defined as 'the simultaneous transmission by radio and TV stations via the Internet of sound recordings included in their single channel and free-to-air broadcasts of radio and/or TV signals'. The participating societies represented all Member States (except France and Spain) and a number of other countries. The agreement was to operate on an experimental basis until the end of 2004. The societies submitted the agreement to the Commission seeking negative clearance or, alternatively, individual exemption under Article 81(3).

Under the agreement, each licensing society would charge the sum of the licence fees applied in each country when granting a licence. As originally submitted, national collecting societies were empowered to grant international simulcasting licences only to parties broadcasting from their own territory. However, this was then amended so that anyone located in the EEA who wanted to simulcast could seek a multi-territorial licence from any one of the EEA-based collecting societies. The agreement was then further amended by the collecting societies agreeing after a transitional period to specify which part of the tariff charged corresponded to the administration fee charged to the user and which part corresponded to the royalty payment.

The Commission began its analysis by holding that each of the societies was an undertaking and thus that the agreement could fall within the scope of Article 81(1) if it were anti-competitive. The Commission went on to analyse the particular terms and noted that national tariffs were composed of two elements, namely the royalties due for the use of copyright and the cost of administration charged by the societies. The Commission held that the original proposal, under which the royalties and administration costs would remain aggregated when calculating the tariff for a multi-territorial licence, went further than necessary and that, although the other criteria of Article 81(3) were met, such an amalgamation was not indispensable to the agreement. However, the Commission went on to hold that the proposals to disaggregate the elements in due course were sufficient to bring the agreement within Article 81(3). The Commission therefore granted an individual exemption until the end of 2004 when the agreement expired.

[487] Dec 2003/300 IFPI '*Simulcasting*' [2003] OJ L107/58; Press Release IP/02/1436.

By contrast, the *Santiago Agreement*[488] was an agreement between copyright collecting societies which covered on-line licensing of record producers' rights by providing 'one-stop' licences for downloading and streaming. In 2004 the Commission issued a statement of objections suggesting that the agreement breached Article 81 by virtue of its territorial restrictions, under which users can seek a licence only from the collecting society in their own Member State. The Commission contrasted this with the free choice of collecting society permitted in the Simulcasting agreements. The agreement terminated at the end of 2004 and was not renewed. In 2005, two of the intended participants in the Santiago Agreement, BUMA (the Netherlands) and SABAM (Belgium), undertook to the Commission that they would not be party to any agreement containing such territorial restrictions for the next three years.

The Santiago Agreement is based on the CISAC model contract for licensing of music copyright, which contains territorial restrictions which force users to obtain a licence from the collecting society in the Member State of use and limits such a licence to that Member State. In 2006 the Commission issued a Statement of Objections in relation to the model contract and its bilateral implementation between collecting societies, focussing on the application of the territorial restrictions to licences for use of music on the internet, satellite transmission or cable retransmission.[489]

Finally, the Commission accepted commitments in relation to the *Cannes Extension Agreement*,[490] including the amendment of a clause which the Commission suggested might limit the possibility of price competition in relation to Community-wide licences by requiring the written consent of all members of a collecting society before it could reduce the fees it charged to certain companies.

The Commission has also been taking steps to lay down a general framework for the management of copyright and related rights in the internal market. In its 2004 Communication,[491] the Commission began a consultation considering possible ways in which copyright and related rights could be managed within the Community. This was followed by a study published in July 2005,[492] which found that the current networks of bilateral reciprocal representation agreements, with their territorial restrictions on which collecting society rightholders and users can turn to and on the scope of any licence granted, could not provide the multi-territorial licences which commercial online services required and restricted the choice of representation for rightholders. The Commission noted that the first problem could be resolved by removal of the territorial restrictions.

[488] Commission Notice [2001] OJ C145/2; Press Release IP/04/586; Commission Notice [2005] OJ C200/11; Press Release IP/05/1056.

[489] Press Release MEMO/06/63.

[490] Commission Notice [2003] OJ C282/14; Press Release IP/06/1311.

[491] COM(2004)261.

[492] Commission Staff Working Document of 7 July 2005; Press Release IP/05/872 and MEMO/05/241.

However, in order to resolve the second problem, the Commission proposed that rightholders should instead be able to select a single collecting society to license and monitor all the different online uses made of their works throughout the Community. This is a rather different approach from that adopted in the competition investigations, which was adopted by a different part of the Commission. The Commission initially indicated that the action could be based on Articles 12 and 49 of the Treaty, although when it was implemented by a Recommendation, backed up with an impact assessment which was heavily based on the study, the Treaty basis was changed to Article 211 which lays down the Commission's powers more broadly.[493] In May 2006 the MCPS-PRS Alliance announced the first licence in line with the Recommendation, giving Skype access to its members' music repertoire for all countries except North America.[494]

However, this move towards pan-European licensing has been criticised. In a study by KEA European Affairs,[495] commissioned by the European Parliament and published in July 2006, it was suggested that territoriality was still important and the Commission's actions primarily benefited international, Anglo-American artists to the detriment of local artists and regional diversity in general. On the other hand, some commentators believe that it has not gone far enough and that the difficulties of licensing will still hamper growth of this sector within the Community.[496]

B. Individual Undertakings

Individual undertakings may also seek to restrict parallel trade by placing territorial limitations on their services. For instance, they may charge different prices depending on the Member State of the customer for services like the communication or rental of copyright works, online delivery of software, films or music, airline tickets or train tickets. Such differential pricing may be supported by residency or payment requirements. They may also place restrictions on such resale of the service once purchased, to the extent that such resale would otherwise be possible.

In contrast to distribution of goods, which typically takes place through third parties, services are often supplied directly by the service provider to individual consumers. In such cases, as with a manufacturer which distributes its goods directly to customers, there is only one undertaking involved (the consumer is

[493] Commission Recommendation 2005/737 [2005] OJ L276/54; Impact Assessment SEC(2005)1254; Press Release IP/05/1261 and MEMO/05/369.

[494] MCPS-PRS Alliance press release of 3 May 2006.

[495] KEA European Affairs, *The Collective Management of Rights in Europe: The Quest for Efficiency* (KEA European Affairs, Brussels, 2006)

[496] C Chitham, 'In the Slow Lane? The Tricky Case of Online Music, Collecting Societies and Cross-border Licensing in Europe' (2006) 158 *Copyright World* 13.

not regarded as an undertaking) and so the supplier will not breach Article 81 unless it agrees this approach with other suppliers. Moreover, the supplier will be at risk of breaching Article 82 only if it has a dominant position on the relevant market.

One case which did fall to be considered under Article 81 was *Coditel II*,[497] where a Belgian film distribution company, Ciné Vog, had acquired exclusive distribution rights in Belgium for the film *Le Boucher* from the French production company. A Belgian cable television group, Coditel, retransmitted a German television broadcast of the film and was sued by Ciné Vog. Coditel's claim that Ciné Vog's exercise of the rights was in breach of Article 49 had already been considered by the ECJ in *Coditel I*.[498] However, Coditel also claimed that this exercise was in breach of Article 81 and the Belgian Court of Cassation went on to refer the question to the ECJ.

The Court began by confirming that 'a contract whereby the owner of the copyright in a film grants an exclusive right to exhibit that film for a specific period in the territory of a Member State is not, as such, subject to the prohibitions contained in Article [81] of the Treaty'. However, certain aspects of the manner in which copyright is exercised 'may prove to be incompatible with Article [81] where they serve to give effect to an agreement, decision or concerted practice which may have as its object or effect the prevention, restriction or distortion of competition within the common market'.

The Court held that it was for the national court to determine 'whether there are economic or legal circumstances the effect of which is to restrict film distribution to an appreciable degree or to distort competition on the cinematographic market, regard being had to the specific characteristics of that market'. By way of example, the Court suggested it was for the national court:

> to establish whether or not the exercise of the exclusive right to exhibit a cinematographic film creates barriers which are artificial and unjustifiable in terms of the needs of the cinematographic industry, or the possibility of charging fees which exceed a fair return on investment, or an exclusivity the duration of which is disproportionate to those requirements, and whether or not, from a general point of view, such exercise within a given geographical area is such as to prevent, restrict or distort competition within the common market.

This indicates that exclusive distribution agreements based on intellectual property will be analysed in a similar way in relation to services as in relation to goods.

Article 82 will be relevant only where the service provider holds a dominant position, which will be unusual. However. an issue has recently arisen in relation to Apple's iTunes music download service. Which? (formerly the Consumers' Association) complained to the Office of Fair Trading in the United

[497] Case 262/81 *Coditel v Ciné Vog Films (Coditel II)* [1982] ECR 3381.

[498] Case 62/79 *Coditel v Ciné Vog Films (Coditel I)* [1980] ECR 881, considered in Ch 2, sect VI.A (Communication and Performance Rights).

Kingdom, stating that users in the UK were being charged 20 per cent more to download music tracks than users in France and Germany. In addition, it was said that users in the United Kingdom could not use the French or German websites unless they had a registered address and payment mechanism in the relevant country. The Office of Fair Trading referred the case to the Commission in December 2004 and the Commission is currently investigating the case.

4

Regulation

THE PREVIOUS TWO chapters have considered the possibilities for manufacturers to block or restrict parallel trade within the European Community actively, whether by asserting intellectual property rights or by taking other action falling outside the scope of competition law. However, manufacturers may simply do nothing and rely on national market regulations which in themselves limit parallel trade.

Such regulations are rarely directed at parallel trade specifically. However, in practice they may prevent parallel trade or impose unnecessary administrative or financial burdens on parallel traders. For instance, they may subject parallel imports to double taxation or procedural formalities which have already been satisfied by the manufacturer.

These regulations, like the intellectual property rights considered in Chapter 2, are subject to Article 28 of the EC Treaty. Under that Article, Member States are not permitted to apply quantitative restrictions or measures having equivalent effect in relation to goods in free circulation within the Community, save where they can be justified. The types of regulations which can have an equivalent effect to quantitative restrictions include import licences, obligations to provide certificates, inspections, controls, obligations to have a national agent or national storage facilities, national price regulations and discriminatory conditions of credit and payment for imports.[1] The prohibition under Article 28 applies to restrictions on parallel imports just as much as restrictions on imports by manufacturers or their authorised distributors.

The chapter begins by looking at how Article 28 has been interpreted to prohibit quotas and import licences, save (in the past) where these were used to avoid trade deflection. It then turns to the Community's taxation regime, which generally supports parallel trade by individuals although not by commercial parallel traders. Three examples of products which are normally subject to authorisation by Member States and where parallel trade issues have arisen then follow, namely pharmaceuticals, pesticides and motor vehicles. Finally, labelling is considered briefly, followed by the application of general rules on unfair competition and consumer protection to parallel imports.

[1] For a complete list, see P Oliver, *Free Movement of Goods in the European Community*, 4th edn (Sweet & Maxwell, London, 2003), ch VII.

I. QUOTAS AND IMPORT LICENCES

Article 28 prohibits quotas and import licences being applied to trade between Member States. There is an exception to avoid trade deflection, which could affect parallel trade, but this exception has fallen into disuse since the introduction of the internal market in 1993.

A. General Prohibition

Initially, the Commission believed that Member States could still require a system of licences or other authorisations for imports from other Member States, subject to the proviso that such documents would be issued promptly and for all the quantities in respect of which they were requested.

However, in *International Fruit Company v Produktschap voor Groenten en Fruit*,[2] the ECJ was asked whether import licences were prohibited outright by Article 28. The ECJ held that they were, finding that 'apart from the exceptions for which provision is made by Community law itself [Articles 28 to 30] preclude the application to intra-Community trade of a national provision which requires, even purely as a formality, import or export licences or any other similar procedure'. As a result, import licences are prohibited except where permitted by other provisions of Community law.

B. Trade Deflection

One such exception arose as a result of the fact that there has not always been complete harmonisation of trade policy between Member States in relation to third countries. Where there is a difference in policies, there is a danger that the trade policy of Member State A may be undermined if goods are imported into and put on the market in Member State B before being imported into Member State A. This is described as trade deflection.

Article 134 of the EC Treaty (originally Article 115) allows for measures to protect against trade deflection. Prior to the entry into force of the internal market in 1993, this obliged the Commission to authorise such measures where necessary and permitted Member States to take action without prior authorisation in cases of urgency (followed by notification to the other Member States and the Commission). After amendment,[3] it now gives the Commission the discretion whether or not to authorise such measures and requires prior notification to the Commission, even in cases of urgency.

[2] Joined Cases 51–54/71 *International Fruit Company v Produktschap voor Groenten en Fruit* [1971] ECR 1107.

[3] Treaty on European Union 1992 (Maastricht Treaty), Art G(30): see [1992] OJ C224/1, 44.

In 1971 the Commission laid down a system for import licensing to avoid trade deflection where Member States had placed restrictions on direct imports from third countries.[4] After some amendment, this is still in place today.[5]

The first part of the system provided for surveillance. In contrast to the usual position, Member States could require undertakings to apply for licences to import goods from other Member States where the goods in question had originated from third countries. Initially Member States only had to inform the Commission and the other Member State that they had imposed such a requirement, although from 1980 they had to seek prior authorisation from the Commission to do so. Import licences had to be granted within eight working days (reduced to five for most cases in 1980).

The second part of the system provided for protective measures. If the Member States actually wished to refuse applications for import licences, on the basis that the imports would cause economic difficulties, they needed to apply for further authorisation from the Commission. Initially the Member States could be authorised to reject existing applications, although from 1980 they could generally only be authorised to reject future applications.

The fact that Member States may be permitted to take measures to avoid trade deflection does not mean that undertakings can take matters into their own hands. In *Musique Diffusion Française*,[6] the German distributor of a Japanese manufacturer claimed it should not be fined for restricting parallel exports to France on the basis that '[t]he Commission authorized the French Republic, under Article [134] of the Treaty, to exclude from Community treatment certain hi-fi products originating in Japan and placed in free circulation in other Member States'. This contention was rejected by the ECJ, which approved the Commission's statement that 'restrictions imposed by public authorities cannot justify the implementation, by private persons, of concerted practices intended to restrict competition'.

In practice, hundreds of authorisations were granted before 1993.[7] However, since then the process has all but disappeared, along with underlying differences in trade policy, as the Commission has taken responsibility for trade policy on behalf of the Member States.[8] Therefore, although Article 134 remains in the Treaty, it has been described by Oliver as 'moribund, if not actually dead'.[9]

[4] Commission Dec 71/202 [1971] OJ L121/26.

[5] Commission Dec 73/55 [1973] OJ L80/22; Commission Dec 80/47 [1980] OJ L16/14; Commission Dec 87/433 [1987] OJ L238/26.

[6] Commission Dec 80/256 *Pioneer Hi-Fi Equipment* [1980] OJ L60/21; Joined Cases 100–103/80 *Musique Diffusion Française and others v Commission* [1983] ECR 1825, paras 99–100.

[7] For examples see Commission Dec 79/687 [1979] OJ L201/31 (France, radios from Japan); Commission Dec 80/448 (Ireland, suits from Romania); Commission Dec 81/54 [1981] OJ L50/36 (France, radios from Hong Kong, Japan, South Korea and Taiwan); Commission Dec 92/397 [1992] OJ L220/33 (Italy, bananas from Bolivia, Canada, Colombia, Costa Rica, Cuba, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Philippines, United States of America and Venezuela).

[8] Under the common commercial policy provisions found in Arts 131–133 of the Treaty

[9] P Oliver, *Free Movement of Goods in the European Community*, 4th edn (Sweet & Maxwell, London, 2003), 9.28.

This does not mean that trade deflection issues no longer arise. In particular, in some cases measures may be necessary to ensure that products exported from the Community do not come back into the Community. This has been used to justify Community action prohibiting the export of beef from the United Kingdom to third countries[10] and prohibiting the manufacture for export of tobacco products which could not be sold in the Community.[11] This will be considered further in Chapter 5, section III.D in the context of exports of pharmaceutical products at reduced prices or under compulsory licences.

II. TAXATION

Article 25 of the EC Treaty prohibits customs or import duty on trade between Member States and Article 90 prohibits discriminatory taxation. However, internal taxation regimes have not been fully harmonised.

There are two main types of internal taxation which apply to goods in the European Community: excise duty and value added tax (VAT). There are significant variations in the rates of excise duty and VAT applied in different Member States, which can result in substantial price differentials for goods. At first sight this would appear to encourage parallel trade. However, in general terms the rates of duties and taxes which are applied are those of the Member State in which the final commercial sale of a product takes place. Therefore, any price differentials which arise due to different rates of taxation will be eliminated and commercial parallel traders are unlikely to be able to profit from such price differentials.

On the contrary, taxation regimes may restrict commercial parallel trade. Parallel traders will often acquire goods in one Member State, where the excise duty and VAT have already been paid, and transport the goods to a second Member State, where a second set of excise duty and VAT has to be paid. Even though the parallel trader should be able to reclaim the duty and the tax from the first Member State, this results in an administrative cost for the parallel trader, together with the cost of capital which may be tied up in such duty and taxes. By contrast, manufacturers can often rely on special tax suspension regimes under which they can transport goods before payment of tax.

However, private individuals may be able to engage in parallel trade on their own account. Although they will not normally be able to reclaim the excise duty and VAT which they have paid, within certain limits they may not be liable to pay excise duty or VAT when they take the goods into another Member State. As a result, private individuals who purchase goods in other Member States can potentially pay a lower rate of excise duty or VAT than would be charged by

[10] Case C–180/96 *United Kingdom v Commission* [1998] ECR I–2265.

[11] Case C–491/01 *R v Secretary of State for Health, ex parte British American Tobacco* [2002] ECR I–11453.

any manufacturer or commercial parallel trader who wished to provide the goods in their own Member State.

Finally, special rules apply to VAT and car registration tax when means of transport are moved from one Member State to another, which may mean that such taxes constitute a barrier to parallel trade even by individual consumers.

A. Excise Duty

Excise duty typically applies to only limited categories of goods. For instance, Directive 92/12[12] lays down a system of Community excise duties for alcohol, manufactured tobacco and fuels. There has been some harmonisation of the methods for calculating the duty which is payable but, although minimum rates have been set,[13] Member States are free to impose higher rates and there remains a wide variation.[14]

Before the internal market was completed in 1993, Member States could charge excise duty when goods entered their territory from other Member States. To avoid payment in more than one Member State, commercial undertakings had to rely on suspension regimes or seek to reclaim excise duty when goods were exported. Although private individuals would not have to pay excise duty when travelling and when receiving parcels up to certain limits, above those limits they were required to pay the duty and so, effectively, double duty.

The structure was changed by Directive 92/12. Excise duties now become chargeable primarily when goods are produced within or imported into the territory of the Community. However, they also become chargeable when, after payment of excise duty in one Member State, the goods are held for commercial purposes in another Member State (in which case the excise duty paid in the first Member State is reimbursed). Thus, although excise duty is no longer chargeable simply due to the movement of goods from one Member State into another, the end result is still that the rate of excise duty is that applied by the Member State where the goods are sold to a consumer. However, there is a significant difference for consumers in that there is no longer a limit to the goods which they may obtain duty-paid in one Member State and take them to another Member State free of further excise duty, provided they do so personally and not for commercial purposes. Consignments of goods are also unlikely to be subject

[12] Dir 92/12 [1992] OJ L76/1, as amended by Dir 92/108 [1992] OJ L390/124 and Reg 807/2003 [2003] OJ L1322/36. COM(2004)227, a Commission proposal to amend the Dir, is currently being considered by the Council: see Commission Press Releases IP/04/452 and MEMO/04/80, Opinion of the Economic and Social Committee (ESC) [2005] OJ C120/111, European Parliamentary Report A6-0138/2005 and Res T6-0226/2006 [2006] OJ C124E/395 and Parliamentary Question H-0897/05.

[13] Dirs 92/79 [1992] OJ L316/8 and 92/80 [1992] OJ L316/10 (tobacco); Dir 92/84 [1992] OJ L316/29 (alcohol); Dir 2003/96 [2003] OJ L283/51 (fuels), which replaced Dir 92/82 [1992] OJ L316/19 (mineral oils).

[14] See, for instance, ESC Opinion [2005] OJ C120/111, para 2.3.

to excise duty in the Member State in which they are received, so long as they are non-commercial.

B. Value Added Tax (VAT)

By contrast to excise duty, Value Added Tax (VAT) applies to a broad range of goods or services. VAT was introduced in the European Community in 1970 to replace turnover taxes.[15] There was substantial harmonisation in 1977,[16] which has continued over the years, but even today the coverage and rates are not uniform. It is typically calculated as a fixed percentage of the value of the goods, with standard rates of VAT in the Member States ranging between 15 and 25 per cent, although some goods are subject to a reduced rate (which must be at least 5 per cent) or a nil rate.[17]

As with excise duty, prior to the introduction of the internal market in 1993 the import of goods from another Member State was subject to VAT, and so the rate of VAT applied was the rate in the importing Member State rather than that in the exporting Member State. Private individuals were exempt from paying this VAT when travelling or receiving parcels from other Member States up to certain limits, although above those limits any additional VAT in the importing Member State was payable.[18]

Under the internal market, the original intention was to change this so that VAT would only be charged in the exporting Member State and not in the importing one.[19] However, this was not agreed by the Member States for various reasons, including the variation in rates and the lack of a mechanism for redistributing VAT receipts to the Member State of consumption. Therefore, a transitional system was adopted in 1991 and this remains in place today.[20]

Under this 'transitional' system, where goods are supplied to a taxable person acting as such or a non-taxable legal person in another Member State this will be regarded as an '[i]ntra-Community acquisition of goods' subject to VAT in the importing Member State.[21] The supplier can deduct any VAT which it has already paid on the goods and does not account for VAT on the supply. As a result, commercial parallel traders must pay VAT in the Member State into which they import the goods (and will then charge their customers VAT at that rate when they supply the goods onward).

[15] Dir 67/227 [1967] OJ Spec Ed 14; Dir 67/228 [1967] OJ Spec Ed 16.

[16] Dir 77/388 [1977] OJ L145/1.

[17] *Ibid*, Art 12(3)(a). The maximum standard rate is based on a political understanding not legislative agreement.

[18] Case 15/81 *Gaston Schul Douane Expediteur v Inspecteur der Invoerrechten en Accijnzen, Roosendaal* [1982] ECR 1409; Case 47/84 *Staatssecretaris van Financiën v Gaston Schul Douane-Expediteur* [1985] ECR 1491. See also the implementation in the UK in Value Added Tax (Goods Imported for Private Purposes) Relief Order 1988, SI 1988/1174, Art 3.

[19] Dir 77/388 above n16, Arts 8 and 9.

[20] *Ibid*, Art 28a to 28m, introduced by Dir 91/680 [1991] OJ L376/1.

[21] *Ibid*, Art 28a(1)(a).

However, where private individuals acquire goods directly from suppliers in other Member States VAT will be charged in the exporting Member State unless the goods are new means of transport or the delivery is organised by the supplier. Thus, as with excise duty, in most cases consumers who wish to parallel trade for their own use can obtain unlimited quantities of VAT-paid goods from other Member States.

Supplies of services are treated differently from supplies of goods and the normal principle is that VAT is charged in the exporting Member State where the supplier is established, although when supplied to a taxable person a wide range of services are regarded as being supplied in the Member State in which the customer is established.[22] The Commission has recently proposed to change this so that VAT is generally applied in the Member State in which the customer is established, if the customer is a taxable person. Where the customer is not a taxable person, VAT would still be charged in the Member State in which the supplier is established, but in the case of electronically supplied services, telecommunication services, radio and television broadcasting services and distance teaching VAT would be charged in the Member State in which the customer is established.[23] The Commission's proposals have broadly been welcomed by the Parliament[24] and the Economic and Social Committee.[25]

C. Travellers

i. General Principles

Even before the abolition of excise duty and VAT on the import of goods from another Member State, it was stated in the preamble to Directive 69/169[26] that 'the populations of the Member States should become more strongly conscious of the reality of the common market and that to this end measures should be adopted for the greater liberalisation of the system of taxes on imports in travel between Member States'.

Thus, beginning in January 1970, private individuals travelling between Member States were allowed to import goods up to certain limits without payment of excise duty or VAT. The limits were twofold: a financial limit[27] and an additional limit for certain goods subject to excise duty, which did not count towards the financial limit.[28] In addition, such imports had to be transported in the travellers' personal luggage and could not have a commercial character, which meant that they had to 'take place occasionally', they had to 'consist exclusively of goods for the personal or family use of the travellers, or of goods

[22] *Ibid*, Art 9.
[23] COM(2005)334, amending COM(2003)822.
[24] Parliament Report A6-0153/2006 and Res T6-0196/2006, both above n12.
[25] Opinion [2006] OJ C195/54.
[26] Dir 69/169 [1969–I] OJ Spec Ed 232.
[27] *Ibid*, Art 2.
[28] *Ibid*, Art 4.

intended as presents' and 'the nature of quantity of such goods must not be such as might indicate that they are being imported for commercial reasons'.[29]

The financial limit was initially set at 75 Euros (which Member States could reduce to 20 Euros for travellers under 15 years old[30]) and the limits for goods subject to excise duty were initially set as follows:

Cigarettes/ Cigarillos/ Cigars	Tobacco	Spirits / Intermediate alcoholic drinks	Still wine	Perfume/ Toilet Water	Coffee/ Tea
200/100/50	250g	1 litre /2 litres	2 litres	50g/250ml	500g/100g

These limits were progressively increased. By 1991 the financial limits were 600 Euros and 150 Euros respectively.[31] In the United Kingdom, the limit rose to £420 by 1991, with the same rate for children.[32] Similarly, the limits for goods subject to excise duty were generally increased by 50 per cent in 1972,[33] the limit for still wines was increased to four litres in 1979[34] and five litres in 1985,[35] and in 1985 the limits for coffee and tea were doubled. As of January 1993, the limits for private individuals travelling between Member States were effectively abolished.

In terms of excise duty, Article 8 of Directive 92/12 states: '[a]s regards products acquired by private individuals for their own use and transported by them, the principle governing the internal market lays down that excise duty shall be charged in the Member State in which they are acquired'.

By contrast, Article 9 confirms that 'excise duty shall become chargeable where products [released][36] for consumption in a Member State are held for commercial purpose in another Member State'. Article 7 is of similar effect.

[29] *Ibid,* Art 3(2).

[30] These amounts were originally expressed in European Units of Account (EUA). Under Reg 3308/80 [1980] OJ L3345/1, these references were changed to European Currency Units (ECU) as of 1 Jan 1981. Under Reg 103/97 [1997] OJ L162/1, the references were then changed to Euros as of 1 Jan 1999. For ease of reading, they will be expressed in Euros throughout.

[31] Dir 69/169, above n26; Dir 72/230 [1972–II] OJ Spec Ed 565; Dir 78/1032 [1978] OJ L366/28; Dir 82/443 [1982] OJ L206/35; Dir 84/231 [1984] OJ L117/42; Dir 85/348 [1985] OJ L183/24; Dir 88/664 [1988] OJ L382/41; Dir 91/191 [1991] OJ L94/24.

[32] Customs Duty (Personal Reliefs) (No.1) Order 1968, SI 1968/1558; Customs Duty (Personal Reliefs) (No.1) Order 1968 (Amendment) Order 1972, SI 1972/1770; Customs Duty (Personal Reliefs) (No. 1) Order 1968 (Amendment) Order 1978, SI 1978/1883; Customs Duty (Personal Reliefs) (No.1) Order 1968 (Amendment) Order 1985, SI 1985/1375; Customs Duty (Personal Reliefs) (No.1) Order 1968 (Amendment) Order 1986, SI 1986/2105; Customs Duty (Personal Reliefs) (Amendment) Order 1989, SI 1989/2252; Customs Duty (Personal Reliefs) (Amendment) Order 1991, SI 1991/1286.

[33] Dir 72/230 [1972–II] OJ Spec Ed 565.

[34] Dir 78/1032 [1978] OJ L366/28.

[35] Dir 85/348 [1985] OJ L183/24.

[36] The word 'released' has been omitted in the English version of the Dir but is apparent in the French ('*mis à la consommation*') and Spanish ('*puestos a consume*') versions. The full translation of those phrases as 'released for consumption' appears in the English versions of Arts 7(1) and (2), 10(2) and 22(1). See for the same interpretation Case C–5/05 *Staatssecretaris van Financiën v Joustra* (23 Nov 2006, not yet reported), Opinion of Jacobs AG, n4

As regards VAT, although the importation of goods by private individuals is regarded as an 'intra-Community acquisition', this is not generally subject to VAT in the importing Member State because private individuals are not 'taxable persons' nor 'non-taxable legal persons'. However, travellers do have to pay VAT in the importing Member State when importing new means of transport, as discussed below.

Therefore, as a general rule, travellers can bring home unlimited quantities of goods without payment of excise duty or VAT in their own Member State so long as the goods are not for commercial use. As duty has already been paid in the Member State where the goods were acquired, such goods are not 'duty free'. The 'duty free' regime, under which travellers between Member States could acquire products without paying excise duty or VAT in either Member State, ended on 30 June 1999.[37] 'Duty free' purchases are still possible for those travelling between Member States and third countries.

ii. Limitations

The relief for travellers can result in a significant benefit for private individuals who live within reasonable travelling distance of a Member State which applies lower rates of excise duty or VAT.

This has led in the United Kingdom to the phenomenon of the 'booze cruise' where individuals make brief trips to Belgium and France to purchase large quantities of alcohol and cigarettes at lower rates of excise duty. For instance, in *Hoverspeed v Commissioners of Customs & Excise*[38] the English High Court noted that the typical price of a pack of 20 premium brand cigarettes in the United Kingdom was £4.39, as compared to £2.25 in France and £1.85 in Belgium, largely due to the high rates of excise duty imposed in the United Kingdom in order to protect public health.

As well as depriving the importing Member State of the tax which would otherwise be paid by the traveller, which is the accepted effect of the internal market, it is alleged that such goods are often intended for resale without payment of excise duty or VAT, which constitutes smuggling. Again, in *Hoverspeed v Commissioners of Customs & Excise* the British customs authorities estimated that in 1996 around £678 million was lost due to smuggling by individual travellers, and that by 2000 this figure had risen to £1,362 million.

As a consequence, various limitations have been placed on the relief for travellers. Restrictions on relief for frontier zone travel applied until 1993. The remaining restrictions for most products are the requirements of Article 8 of Directive 92/12: that travellers must transport the goods and that the goods must be for their own use and not for commercial purposes.

[37] Dir 92/12 [1992] OJ L76/1, Art 28; Dir 77/388 [1977] OJ L145/1, Art 28k, introduced by Dir 91/680 [1991] OJ L376/1.

[38] *Hoverspeed v Commissioners of Customs & Excise* [2002] EWHC 1630 (Admin); [2002] EWCA Civ 1804.

a. Frontier zone travel The problems which could arise in border regions were recognised in Directive 69/169, which allowed Member States to reduce the limits for relief for 'frontier zone travel'. This concept was fleshed out in Directive 72/230, which defined 'frontier zones' as covering all local administrative districts which were at least partially within 15 kilometres of the border of the Member State and permitted Member States to reduce the limits by up to 90 per cent when residents of a frontier zone travelled back from the frontier zone of a neighbouring Member State. This possibility of restricting relief was implemented, for instance, by the United Kingdom which reduced the relief by 50–75 per cent when residents of Northern Ireland or the Republic of Ireland entered Northern Ireland across the land boundary with the Republic of Ireland more than once every four weeks.[39] Such restrictions were abolished along with the limits on relief in 1993.

b. Transportation by individuals The first of the two remaining limitations is that goods must be transported by the individual traveller.

The question whether goods can be transported by an agent was considered by the ECJ in *R v Commissioners of Customs and Excise, ex parte EMU Tabac*.[40] The case involved an ingenious scheme under which consumers in the United Kingdom placed orders for cigarettes with an agent who would purchase them duty-paid in Luxembourg, where excise duty on tobacco was far lower, and arrange the transport of the cigarettes to the consumer. This allowed the agent to charge up to 40 per cent less than UK duty-paid prices. The UK customs authorities seized certain shipments for non-payment of UK excise duty and the agent applied for judicial review, claiming that excise duty was payable in Luxembourg and not in the United Kingdom. The application was rejected at first instance. On appeal, the Court of Appeal referred the question to the ECJ which agreed that UK excise duty was payable because the cigarettes had not been transported by the consumers themselves but had rather been dispatched or transported directly or indirectly by the vendor or on his behalf.

This was followed in *Commissioners of Customs and Excise v Newbury*,[41] where the question was whether a woman was permitted to import tobacco and cigarettes for her daughter and her son-in-law, where they had provided her with the money to purchase them. The Court of Appeal agreed that UK excise duty would need to be paid on such imports, based on *EMU Tabac*, although it indicated that the House of Lords might choose to refer the case to the ECJ based on the differences from *EMU Tabac*.

There does appear to be a gap in the provisions of Directive 92/12. Article 8 requires goods to be transported by private individuals who wish to avoid excise

[39] Customs Duty (Personal Reliefs) (No.1) Order 1968 (Amendment) Order 1972, SI 1972/1770.

[40] Case C–296/95 *R v Commissioners of Customs and Excise, ex parte EMU Tabac* [1998] ECR I–1605.

[41] *Commissioners of Customs and Excise v Newbury* [2003] EWHC 702 (Admin).

duty in the importing Member State. However, once excise duty has been paid in one Member State, for further excise duty to be due in the importing Member State under Articles 7 and 9 the products must be 'held for commercial purposes' in that Member State. For further excise duty to be due in the importing Member State under Article 10, the products must be 'dispatched or transported directly or indirectly by the vendor or on his behalf'. It is therefore not entirely clear on what basis excise duty becomes due in the importing Member State where the products are dispatched or transported by the consumer or on his behalf and where they are not held in the importing Member State for commercial purposes. Although this did not matter in *EMU Tabac* it was highly relevant in *Newbury*. The Court of Appeal sought to answer this by finding that there should not be a gap between Articles 7 and 9 and Article 8 and so any imports falling outside Article 8 would be regarded as being held for a commercial purpose.

This issue was considered by the ECJ on a reference from the Supreme Court of the Netherlands in *Joustra*.[42] Mr Joustra had ordered wine in France for a group of about 70 private individuals calling itself the *Cercle des Amis du Vin*. The wine was collected by a Dutch transport company on Mr Joustra's instructions and delivered to his house, from where it was delivered onwards to the other individuals. Each individual paid for the wine and a proportionate share of the transportation costs. The Dutch tax authorities sought payment of excise duty on the wine. Advocate General Jacobs suggested that Mr Joustra would not be liable for excise duty on the wine imported for his own use, as none of Articles 7 to 9 would apply, but that he would have to pay the duty on wine imported for other individuals, as such imports would be regarded as being held for commercial purposes under Article 7. However, the ECJ disagreed and held that excise duty was payable on all of the imports, on the basis that Article 8 could not apply (as the wine had not been imported by Mr Joustra himself) and that Article 7 would apply (because the transportation was carried out by a trader acting for profit, namely the Dutch transport company). However, the ECJ did say that Mr Joustra should therefore be able to reclaim the excise duty paid in France under Article 22(3) of the Directive. As a consequence, the requirement of personal transportation remains a strict one

By contrast to excise duty, in relation to VAT it is clear that there is no need for the goods to be transported personally by the consumer so long as the consumer (and not the supplier) arranges the transport. This will be considered in further detail below.[43]

The Commission has suggested that the rules for excise duty should be harmonised along the lines of those for VAT, with the exception of tobacco products for which the present requirement of personal transportation would remain.[44]

[42] Case C–5/05 *Staatssecretaris van Financiën v Joustra* (23 Nov 2006, not yet reported).
[43] See sect II.D.ii (Commercial Consignments) below.
[44] COM(2004)227, para 3.4.2.

c. Personal use The second question is whether the imports are for personal use or a commercial purpose. Under Article 9 of Directive 92/12, although no absolute limit is set, Member States are permitted to lay down guide levels which their customs authorities can use when determining whether the imports are for personal use, as shown in the following table. Some Member States were allowed to set lower guide levels for a transitional period but these periods have now expired.

Cigarettes/ Cigarillos/ Cigars	**Tobacco**	**Spirits**	**Intermediate alcoholic drinks**	**Wine (of which Sparkling)**	**Beer**
800/400/200	1kg	10 litres	20 litres	90 litres (60 litres)	110 litres

More recently, the Commission proposed to delete the guide levels from the Directive altogether, on the basis that they have been used in some Member States as limits beyond which the burden is placed on the private individual to demonstrate that the imports are indeed for personal use and that this restricts the functioning of the internal market.[45] This was strongly supported by the European Parliament[46] but has to date been rejected by the Council.[47]

One of the Member States under fire is the United Kingdom, which has taken very firm action against imports from other Member States. In particular, it has laid down presumptions that large quantities of imports are for commercial purposes and it has levied heavy penalties against importers, including seizure of their vehicles.

In terms of presumptions, as early as November 1982 the United Kingdom had already introduced a legislative presumption that personal imports of more than 50 litres of beer would be for a commercial purpose.[48] Following on from this, in 1993 the United Kingdom implemented Article 9 by laying down a presumption that the goods were for a commercial purpose if they exceeded the guide levels laid down in Article 9, with the burden on the importer to rebut this presumption.[49] Initially the customs authorities took the view that they had an absolute discretion in determining whether the presumption had been rebutted, which could not be reviewed by the courts,[50] but this was rejected as an improper interpretation of Article 9 by the VAT Tribunal in *Hodgson v Commissioners of Customs and Excise*.[51] Subsequently, as a result of the High

[45] *Ibid,* paras 3.4.2 and 3.5.2.
[46] European Parliamentary Report A6-0138/2005 and Res T6-0226/2006 [2006] OJ C124E/395.
[47] Parliamentary Question H-0897/05.
[48] Customs Duty (Personal Reliefs) (No 1) Order 1968 (Amendment) Order 1982, SI 1982/1591.
[49] Excise Duties (Personal Reliefs) Order 1992, SI 1992/3155, as amended by the Excise Duties (Personal Reliefs) (Amendment) Order 1999, SI 1999/3155.
[50] See *Commissioners of Customs and Excise v Carrier* [1995] 4 All ER 38.
[51] *Hodgson v Commissioners of Customs and Excise* [1997] 3 CMLR 1082

Court's judgment in *Hoverspeed v Commissioners of Customs and Excise*,[52] the presumption was abolished entirely, with the result that the burden now lies on the customs authorities to show that the goods were for a commercial purpose.[53] The guide levels, which were increased in relation to cigarettes and tobacco (to 3,200 cigarettes and 3kg of tobacco respectively), are now simply one factor which the authorities must consider in making their determination.

Goods which are imported into the United Kingdom without payment of the required excise duty are liable to forfeiture.[54] Any ship, aircraft, vehicle or animal used to carry the goods, and anything mixed, packed or found with such goods, is also liable to forfeiture.[55] Goods and means of transport liable to forfeiture can be seized by the customs authority, which must then notify the owner, giving him one month to oppose forfeiture. If the owner does oppose forfeiture, customs must bring an action for forfeiture in the High Court or the appropriate magistrates' court.[56]

The approach of the British customs authorities to forfeiture has changed over the years:[57]

—In 1996, the normal policy was simply to seize goods subject to excise duty which customs believed were intended for commercial purposes, and to restore them only in exceptional circumstances.
—From April 1998, the vehicle used to transport the goods would also be seized, to be restored upon payment of the greater of £250 or 50 per cent of the duty due, with penalties rising to £1,000 or 100 per cent for subsequent seizures.
—In August 1999, the payment was raised to 100 per cent of the duty due for the first offence, with the vehicle not to be restored after subsequent seizures save in certain mitigating circumstances. Where the vehicle was owned by a third party, the penalty for restoration was reduced to £75, although this could be increased to 25 per cent of the duty due where the owner had been negligent in permitting the use of the vehicle, such as 'where no attempt was made to ascertain the use to which the vehicle was to be put'.
—In July 2000, the approach was strengthened further, with 'zero tolerance' guidelines circulated to customs officials requiring seizure of vehicles in all cases and allowing restoration only where the vehicle was owned by a third party who could demonstrate his innocence.

[52] *Hoverspeed v Commissioners of Customs and Excise* [2002] EWHC 1630 (Admin); [2002] EWCA Civ 1804.
[53] Excise Duties (Personal Reliefs) (Revocation) Order 2002, SI 2002/2691; Goods, Beer and Tobacco Products (Amendment) Regulations 2002, SI 2002/2692.
[54] Customs and Excise Management Act 1979, s 49(1).
[55] *Ibid,* s141(1).
[56] *Ibid,* s139 and Sched 3.
[57] See *Hoverspeed v Commissioners of Customs and Excise* [2002] EWHC 1630 (Admin); [2002] EWCA Civ 1804.

—In July 2002, implementing the Court of Appeal's decision in *Lindsay v Commissioners of Customs and Excise*,[58] the customs authority issued new guidance indicating that, in cases where there was insufficient evidence that the goods were being imported for profit, it would apply the principle of proportionality and take all circumstances into account in deciding whether the vehicle should be forfeited.

The approach to forfeiture was considered by the High Court in *Hoverspeed v Commissioners of Customs and Excise*.[59] In that case a husband and wife had borrowed a car from the husband's sister and, together with their lodger, had taken a hovercraft to France. They returned later the same day with a total of 25,200 cigarettes and 8 kilograms of hand rolling tobacco. The British customs authorities stopped them and, after questioning, seized the goods and the car. Customs subsequently compensated the husband and wife for their purchases, accepting that they were for personal use, but brought forfeiture proceedings against all three travellers. In response the travellers, the car's owner and Hoverspeed (the hovercraft operator) brought judicial review proceedings against the customs authorities. Hoverspeed in particular complained about the impact on its passengers of the heavy-handed approach of the customs authorities.

After a detailed review of the European legislative background, the High Court indicated that it believed the UK's implementation did not comply with Directive 92/12 because it required travellers to show that the goods subject to excise duty were for their own use, under the burden of a presumption to the contrary where the quantities were above the guide levels, rather than applying excise duty only where customs authorities were satisfied that the goods were being held in the United Kingdom for a commercial purpose. The court held that customs authorities could stop and search individuals only where there were reasonable grounds for suspecting that those individuals were holding goods subject to excise duty for a commercial purpose and that there had been no reasonable grounds for stopping and searching the individuals in question. The court therefore found that the stop and search had been unlawful and quashed the consequent forfeiture of the tobacco and the car. The court was also highly critical of the disproportionate approach taken by the customs authorities as regards the forfeiture of vehicles and separately regarded this as a ground for quashing the forfeiture of the car.

The customs authorities appealed against the High Court's judgment in relation to their decision to stop and search the individuals, although they did not challenge the finding that forfeiture of the car was disproportionate. The Court of Appeal upheld the High Court's finding that the customs authorities could stop and search only upon reasonable suspicion, which had not been the case

[58] *Lindsay v Commissioners of Customs and Excise*, Case E00174 (LON/00/8053), dec of 1 Nov 2001 (VAT & Duties Tribunal); [2002] EWCA Civ 267 (CA).

[59] *Hoverspeed v Commissioners of Customs and Excise* [2002] EWHC 1630 (Admin); [2002] EWCA Civ 1804.

here, rendering the stop and search unlawful. More generally, the Court of Appeal noted that the manner, scale or effect of the exercise of stop and search powers at or near the border must not result in an unjustified or disproportionate obstacle to the free movement of persons between Member States. However, the Court of Appeal overturned the High Court's finding that the seizure of the tobacco and car was rendered unlawful as a result of the stop and search being unlawful. Nor was the seizure unlawful on the basis of more general principles of free movement or human rights. Finally, the Court of Appeal held that goods must be regarded as being held either for commercial purposes or for private individuals' own use and that there is no third category of goods being held for 'non-commercial' purposes other than one's own use. Although the exact scope of an individual's 'own use' was not determined, the Court indicated that goods bought for reimbursement by others would be regarded as being held for commercial purposes, while goods bought for a celebration would be regarded as for the individual's own use.

The approach of the British customs authorities has been criticised by the European Commission for a number of years.[60] In 2004, the Commission decided to bring a case against the United Kingdom before the ECJ.[61] However, after the United Kingdom amended its regime in May 2006, so that first-time offenders would not face forfeiture but only payment of the duty and a fine unless there were other aggravating circumstances, the Commission closed the case.[62]

Given the wide variation of excise duty between Member States, the debate has generally focussed on such duty. In relation to VAT, where the differences are less extreme, the key question is who acquires the goods. If the acquisition is by a taxable person acting as such or by a non-taxable legal person then any VAT is paid in the importing Member State. Otherwise, if the acquisition is by a non-taxable natural person, VAT is paid in the exporting Member State.

iii. Mineral Oils

Member States are permitted to charge excise duty on mineral oils which are transported into their territory by private individuals using atypical means of transport.[63] Atypical transport means the transport of fuels other than in the tanks of vehicles or appropriate reserve fuel canisters and the transport of liquid heating products other than by means of tankers used on behalf of professional traders.

This was originally justified on the basis of safety considerations. The Commission has proposed abolishing this limitation on the basis that safety

[60] Commission Press Releases IP/01/1482, IP/02/1320, IP/03/1539 and IP/04/867.
[61] Commission Press Release IP/04/1255.
[62] Commission Press Release IP/06/860. See D Anderson, 'Duty Calls' (2006) 840 *Tax Journal* 21.
[63] Dir 92/12 [1992] OJ L76/1, Art 9(3).

considerations should not be dealt with under tax legislation.[64] This proposal has been supported by the Economic and Social Committee[65] but rejected by the European Parliament on the basis that 'mineral oil tourism' constitutes a serious challenge, especially in the new Member States, and that in the interests of budgetary rectitude the current regime should not be relaxed.[66]

iv. Tobacco Products

Transitional measures for tobacco products were permitted in relation to the eight Member States which joined the European Union in 2004 together with the two which joined in 2007.[67] These provisions allow the new Member States gradually to increase the excise duty they apply on tobacco products, particularly cigarettes, up to the minimum level required by Directive 92/79.[68] For the Czech Republic and Slovenia this must occur by the end of 2007 (by the end of 2006 for most tobacco products in the Czech Republic), for Hungary, Poland and Slovakia by the end of 2008 and for Bulgaria, Estonia, Latvia, Lithuania and Romania by the end of 2009. Pending such harmonisation, other Member States can choose to limit the quantity of tobacco which can be brought back by travellers from such Member States without payment of excise duty to the level which can be brought in from countries outside the Community.[69] The United Kingdom has elected to place such a limitation on imports,[70] Currently, the main limit is 200 cigarettes from each of the new Member States, with further limitations on other tobacco products from Estonia.

D. Parcels

The previous section was concerned with the limitations placed on travellers. We now turn to the limitations placed on parcels, which can be divided into non-commercial consignments and commercial consignments.

[64] COM(2004)227, para 3.5.3.

[65] ESC Opinion [2005] OJ C120/111.

[66] Parliamentary Report A6-0138/2005 and Res [2006] OJ C124E/395.

[67] Act concerning the conditions of accession of the Czech Republic, the Republic of Estonia, the Republic of Cyprus, the Republic of Latvia, the Republic of Lithuania, the Republic of Hungary, the Republic of Malta, the Republic of Poland, the Republic of Slovenia and the Slovak Republic and the adjustments to the Treaties on which the European Union is founded [2003] OJ L236/33, Art 24 and Annexes V(5)(2)–(3), VI(7)(3)–(4), VII(7)(2), IX(8)(2), X(7)(2), XII(9)(2), XIII(6)(2) and XIV(7)(2); Act concerning the conditions and arrangements for the admission of Bulgaria and Romania to the European Union [2005] OJ L157/203, Art 23 and Annexes VI(6)(2) and VII(7)(2).

[68] Dir 92/79 [1992] OJ L316/8.

[69] See Ch 5, sect III.B.iv (Travellers).

[70] Customs and Excise Duties (Travellers' Allowances and Personal Reliefs) (New Member States) Order 2004, SI 2004/1002.

i. Non-commercial Consignments

Prior to 1993, when the internal market began, small consignments of goods on which excise duty and VAT had been paid in one Member State could be sent to another Member State without payment of further excise duty or VAT. The relief was available only where the goods were not intended for commercial use, where they appeared from their nature and quantity to be intended solely for the personal or family use of the recipient and where they were not sent against payment of any kind by the recipient.[71]

The financial limit for such gifts was initially 40 Euros, although this limit was gradually increased to 110 Euros by 1989.[72] In the United Kingdom, the level rose from £17 to £75.[73] By contrast to the rules for travellers, there was no additional limit for goods subject to excise duty and Member States were entitled to restrict or prohibit the application of the relief to such goods.[74]

Unsurprisingly, given its high rates of excise duty, the United Kingdom chose to restrict the relief,[75] at first entirely and then from 1979 according to the following table.

Cigarettes/ Cigarillos/ Cigars	Tobacco	Spirits / Intermediate alcoholic drinks	Still wine	Perfume/ Toilet Water
50/25/10	50g	0.25 litres[76] / 1 litre	2 litres	50g/250ml

In 1993, with the entry into force of the internal market, all such limits were abolished. Where excise duty and VAT have already been paid in the exporting Member State, further excise duty is chargeable only where goods are

[71] Dir 74/651 [1974] OJ L354/6, Art 1.

[72] Dir 78/1034 [1978] OJ L366/33; Dir 81/934 [1981] OJ L338/25; Dir 85/349 [1985] OJ L183/27; Dir 88/663 [1988] OJ L382/41.

[73] Value Added Tax (Imported Goods) Relief Order 1975, SI 1975/1491; Value Added Tax (Imported Goods) Relief Order 1980, SI 1980/1009; Excise Duties (Relief on Small Consignments) Regulations 1980, SI 1980/1012; Excise Duties (Relief on Small Consignments) (Amendment) Regulations 1985, SI 1985/1377; Value Added Tax (Imported Goods) Relief (Amendment) Order 1985, SI 1985/1384; Excise Duties (Small Non-Commercial Consignments) Relief Regulations 1986, SI 1986/938; Value Added Tax (Small Non-Commercial Consignments) Relief Order 1986, SI 1986/939; Excise Duties (Small Non-Commercial Consignments) Relief (Amendment) Regulations 1987, SI 1987/149; Value Added Tax (Small Non-Commercial Consignments) Relief (Amendment) Order 1987, 1987/154; Excise Duties (Small Non-Commercial Consignments) Relief (Amendment) Regulations 1989, SI 1989/2253; Value Added Tax (Small Non-Commercial Consignments) Relief (Amendment) Order 1989, SI 1989/2273.

[74] Dir 74/651, above n71, Art 1(3).

[75] Value Added Tax (Imported Goods) Relief Order 1975, SI 1975/1491; Value Added Tax (Imported Goods) Relief Order 1980, SI 1980/1009; Excise Duties (Relief on Small Consignments) Regulations 1980, SI 1980/1012.

[76] This was raised to 1 litre in 1986: Excise Duties (Small Non-Commercial Consignments) Relief Regulations 1986, SI 1986/938; Value Added Tax (Small Non-Commercial Consignments) Relief Order 1986, SI 1986/939.

held commercially in the importing Member State[77] and further VAT only where goods are supplied for consideration.[78] As a consequence, as a general rule there should no excise duty or VAT liability in the importing Member State for a non-commercial consignment.

ii. Commercial Consignments

Commercial consignments are not treated as generously as non-commercial consignments. Beginning in 1984 Member States were permitted (but not required) to exempt commercial consignments from VAT up to a maximum of 22 Euros.[79] In 1989, the Directive was amended to require exemption of consignments up to 10 Euros (save for mail order goods) while still permitting exemption up to 22 Euros.[80] There was no exemption from excise duty, and indeed alcohol, tobacco, perfume and toilet water are excluded from the VAT exemption.

In the UK, the VAT exemption was implemented immediately for consignments up to £6,[81] and this level was gradually increased to £18 in 1996.[82]

With the introduction of the internal market, although the VAT exception still applies,[83] excise duty and VAT are otherwise generally chargeable on commercial consignments.

Under Directive 92/12[84] it is clear that liability for excise duty will arise in the destination Member State where the products are 'dispatched or transported directly or indirectly by the vendor'. As a result of the ECJ's judgment in *Joustra*,[85] it is also clear that it makes no difference if the consumer arranges the transportation by a third party.

The acquisition by a private individual of goods from another Member State is not itself normally subject to VAT. However, where the supplier is VAT registered the supply of those goods will be subject to VAT and, where the goods are dispatched or transported by or on behalf of the supplier, the place of supply will be deemed to be the importing Member State if that supplier's total supplies to that Member State are over a certain threshold.[86] The legislation requires the threshold to be 100,000 Euros per calendar year but permits the

[77] Dir 92/12 [1992] OJ L76/1, Arts 7 and 9.
[78] Dir 77/388 [1977] OJ L145/1, Art 2.
[79] Dir 83/181 [1983] OJ L105/38, Arts 22 and 23.
[80] Dir 88/331 [1988] OJ L151/79.
[81] Value Added Tax (Imported Goods) Relief Order 1984, SI 1984/746, Sched 2(8)(8).
[82] Value Added Tax (Imported Goods) Relief (Amendment) Order 1987, SI 1987/155; Value Added Tax (Imported Goods) Relief (Amendment) Order 1990, SI 1990/2548; Value Added Tax (Imported Goods) Relief (Amendment) Order 1995, SI 1995/3222.
[83] Dir 77/388, above n78, Art 28c(B)(b); Value Added Tax (Acquisitions) Relief Order 2002, SI 2002/1935.
[84] Dir 92/12 [1992] OJ L76/1, Art 10.
[85] Case C–5/05 *Staatssecretaris van Financiën v Joustra* (23 Nov 2006, not yet reported). See sect II.C.ii.b (Transportation by Individual) above.
[86] Dir 77/388, above n78, Art 28b(B).

importing Member State to reduce the threshold to 35,000 Euros if it fears that the higher threshold would lead to serious distortions of the conditions of competition. In practice, the lower limit has been adopted by most Member States, with the exception of Austria, France, Germany, Luxembourg, the Netherlands and the United Kingdom.[87]

E. Motor Vehicles

There are two main taxes on motor vehicles which may affect parallel trade: VAT and car registration tax.

i. VAT on New Means of Transport

By contrast to the normal regime, under which private individuals pay VAT in the Member State in which they purchase goods for their own use, private individuals are required to pay VAT in their own Member State where they import 'new means of transport'[88] from another Member State. These are defined as means of transport which are supplied three months or less after the date of their first entry into service (six months in the case of motorised land vehicles) and which are:

—motorised land vehicles the capacity of which exceeds 48 cubic centimetres or the power of which exceeds 7.2 kilowatts, which have travelled for only 6,000 kilometres or less;
—vessels exceeding 7.5 metres in length which have sailed for only 100 hours or less (excluding certain commercial vessels[89]); or
—aircraft the take-off weight of which exceeds 1,550 kilograms, which have flown for only 40 hours or less (excluding certain commercial aircraft[90]).

This limits the possibility of parallel imports of new cars and other means of transport by consumers.

ii. Car Registration Tax

Before the completion of the internal market in 1993, some Member States had applied a luxury VAT rate and/or an excise duty on cars. Although these were abolished, with the result that the regular VAT rate now applies, the majority of Member States instead apply a car registration tax. Car registration taxes can vary widely, from nothing to 180 per cent of pre-tax price. They are particularly

[87] See the Table regularly updated at: ec.europa.eu/taxation_customs/taxation/vat/traders/vat_community/index_en.htm
[88] Dir 77/388 [1977] OJ L145/1, Art 28a(1)(b) and (2).
[89] As defined in *ibid*, Art 15(5).
[90] As defined in *ibid*, Art 15(6).

high in Denmark, Finland, Greece, Ireland, the Netherlands and Portugal, while there is no car registration tax in the Czech Republic, Estonia, France, Germany, Lithuania, Luxembourg, Slovakia, Sweden and the United Kingdom.

Car registration tax can be highly relevant to parallel trade. First, as already discussed in Chapter 3, section I.E.ii.d, this can lead to manufacturers lowering their prices in Member States with high car registration taxes in order to make cars affordable in those countries, distorting price differentials. Secondly, car registration tax is often payable when a car is transferred from another Member State and yet not reimbursed in the original Member State. This increases the cost of parallel trade.

The Commission previously took the view that car registration tax could not be applied where an individual moved temporarily or permanently to another Member State with their existing car or where an individual inherited from someone in another Member State.[91] These were fairly limited. They did not apply to imports by purchasers already resident in the Member State, and in the case of temporary moves they prohibited sales by the importer. In the case of permanent moves they applied only if the car had been owned for at least six months before the change of residence, and the car could not be sold for a further 12 months after the change. In any event, the ECJ has now held that the relevant provisions do not extend to car registration tax, as such tax does not constitute a 'turnover tax, excise duty or other consumption tax'.[92]

The Commission floated some possible options for change in 2002,[93] and in 2005 proposed to abolish car registration tax in favour of an annual circulation tax by 2016.[94] In the meantime, Member States which apply a car registration tax would be required to refund a proportion of it where the car is moved to another Member State, which would make parallel trade easier. These proposals have been supported by Parliament[95] and the Economic and Social Committee.[96]

III. PHARMACEUTICALS

A. Regulatory Structure

There are important public health reasons to ensure that pharmaceutical products are both safe and efficacious. Therefore pharmaceutical products for human and veterinary use can be put on the market only with prior regulatory

[91] Dir 83/182 [1983] OJ L105/59; Dir 83/183 [1983] OJ L105/64.

[92] Case C–387/01 *Weigel v Finanzlandesdirektion für Vorarlberg* [2004] ECR I–4981; Case C–365/02 *Lindfors* [2004] ECR I–7183.

[93] COM(2002)431.

[94] COM(2005)261[2005] OJ C236/14. See Press Releases IP/05/839 and MEMO/05/236.

[95] Parliament Report A6-0240/2006, debated on 4 Sept 2006, and Res T6-0334/2006, adopted on 5 Sept 2006.

[96] Opinion [2006] OJ C195/80.

authorisation. In the United Kingdom the regulatory authority is the Medicines and Healthcare products Regulatory Agency (MHRA), which replaced the Medicine Control Agency (MCA). At the Community level it is the European Medicines Agency (EMEA), formerly the European Agency for the Evaluation of Medicinal Products, which is also based in London.

Authorisation of pharmaceutical products was initially a matter for each Member State. However, disparities between national rules could result both in barriers to trade and in duplication of effort by national regulatory authorities in ensuring the safety and efficacy of such products. Therefore the rules have gradually been harmonised and centralised.

The harmonisation process began with authorisation and labelling in 1965[97] and was gradually extended over the years, including the introduction of a mutual recognition procedure which is now compulsory.[98] The legislation was codified in Directive 2001/83[99] and has since been amended a number of times.[100]

A more centralised procedure was introduced in 1987[101] leading to Community-wide authorisations in 1995.[102] Again this procedure has been expanded[103] and ultimately codified in Regulation 726/2004.[104] The Community authorisation procedure is compulsory for certain products and optional for others (in particular those involving new active substances).

Parallel importers may require the following authorisations:

a) Marketing authorisation: anyone who wishes to place a particular medicinal product on the market must hold a marketing authorisation for that product.[105] Where this is a national authorisation, parallel importers must hold a simplified version. Where this is a Community authorisation, parallel importers must notify the EMEA but can then rely on the manufacturer's marketing authorisation.
b) Manufacturing authorisation: anyone who manufactures a medicinal product or who imports it from outside the Community requires a manufacturing authorisation.[106] Manufacture includes total and partial manufacture, as well as the various processes of dividing up, packaging and presentation. Most forms of repackaging parallel imports will require a manufacturing authorisation.

[97] Dir 65/65 [1965–66] OJ Spec Ed 24.
[98] Dir 2001/83 [2001] OJ L311/67, Arts 18 and 27 to 39.
[99] *Ibid*, .
[100] Dir 2002/98 [2003] OJ L33/30; Reg 1084/2003 [2003] OJ L159/1; Dir 2003/63 [2003] OJ L159/46; Dir 2004/24 [2004] OJ L136/85; Dir 2004/27 [2004] OJ L136/34.
[101] Dir 87/22 [1987] OJ L15/38.
[102] Reg 2309/93 [1993] OJ L214/1.
[103] Reg 542/95 [1995] OJ L55/15; Reg 1085/2003 [1985] OJ L159/24.
[104] Reg 726/2004 [2004] OJ L136/1.
[105] Dir 2001/83 [2001] OJ L311/67, Arts 6 to 39.
[106] *Ibid*, Arts 40 to 53.

c) Distribution authorisation: anyone procuring, holding, supplying or exporting medicinal products, apart from supplying medicinal products to the public, will be regarded as a wholesale distributor and will require a marketing authorisation.[107] Parallel importers will normally operate as wholesale distributors and thus need to be authorised.

Similar legislation exists for veterinary pharmaceutical products, which will not be considered separately.[108]

Detailed guidance on the regulatory procedures is laid down in the 10 chapters of the Rules governing Medicinal Products in the European Community.[109] As well as the legislation, these contain the Notice to Applicants prepared by the Commission and Guidelines prepared by the EMEA. The Commission has also published specific Communications on the Community marketing authorisation procedure[110] and on parallel trade of authorised products.[111]

B. Parallel Imports of Nationally Authorised Products

i. Simplified Authorisation

The first case to consider the problems faced by parallel traders in obtaining authorisation was *De Peijper*[112] in 1976, which concerned the parallel import of pharmaceutical products from the United Kingdom to the Netherlands. Criminal proceedings had been brought against Mr de Peijper, the managing director of Centrafarm, for supplying the products without authorisation. Under the Dutch legislation, in order to obtain authorisation it was necessary to file documents providing information about the product (product documents) and then further documents confirming that the batch being imported conformed to that product (conformity documents). The manufacturer had already provided the product documents to the Dutch authorities but, unsurprisingly, refused to provide these to Mr de Peijper or his company. Nor would it provide the conformity documents. The Rotterdam District Court referred two questions to the ECJ, asking first whether the authorisation provisions were in breach of Articles 28 and 30 if the products in question were identical, and secondly whether the same answer would apply if there were minor differences between the products.

[107] Dir 2001/83 [2001] OJ L311/67, Arts 76 to 85.

[108] Principally, the harmonisation provisions of Dir 2001/82 [2001] OJ L311/1, as amended by Dir 2004/28 [2004] OJ L136/58, and the centralisation provisions of Reg 726/2004 [2004] OJ L136/1, Title III.

[109] These are regularly updated and can be found at ec.europa.eu/enterprise/pharmaceuticals/eudralex/index.htm.

[110] [1998] OJ C229/4.

[111] COM(2003)839, replacing COM(81)803 [1982] OJ C115/5.

[112] Case 104/75 *Criminal proceedings against De Peijper* [1976] ECR 613.

Responding to the first question, the ECJ held that the measures in question had an effect equivalent to a quantitative restriction and so breached Article 28. It went on to hold that they could be justified under Article 30 only on the ground of 'the protection of health and the life of humans' to the extent that they were necessary. This would not be the case if 'the health and life of humans can [be] as effectively protected by measures which do not restrict intra-Community trade so much'. The ECJ held that it was clearly unnecessary to require a parallel trader to produce a file of product information which had already been provided to the national authorities by the manufacturer. The ECJ accepted that the authorities had a legitimate interest in being able to check that any particular batch conformed with that information, but said that there were various ways in which the authorities could do so and it was not justified to compel the parallel trader to provide documents to which he had no access. Contrary to the arguments of the British, Danish and Dutch governments, the ECJ said that such compulsion was not required by the harmonising Directives 65/65, 75/318 and 75/319 as these could not extend the 'very considerable' powers of the Member States to protect health under Article 30. Therefore, the ECJ held that the Dutch rules were in breach of Article 28 and could not be justified under Article 30 'unless it is clearly proved that any other rules or practice would obviously be beyond the means which can reasonably be expected of an administration operating in a normal matter'.

Turning to the second question, the District Court had asked whether the answer would be the same where 'the process of manufacture and the qualitative and quantitative composition of the [parallel import] are different from those of the medicinal preparation bearing the same name and in respect of which the authorities of the Member State into which it has been imported already have these data' but where the differences were 'of such minor importance that it is likely that the manufacturer is applying or introducing . . . these differences with the conscious and exclusive intention of using these differences . . . in order to prevent or impede the possibility of the parallel importation of the proprietary medicinal product'. The ECJ held that the answer would indeed be the same, unless the differences in question would have a therapeutic effect which would require separate marketing authorisation. It noted that the national authorities would be entitled to require the manufacturer, when applying for its marketing authorisation, to state whether it manufactured variants of the medicinal preparation for different Member States under the same name and, if so, to produce similar documentation for those variants and specify the differences.

Following that judgment, the law in question was changed to provide a simplified procedure for authorisation of parallel importers, seeking simply to ascertain whether the parallel imported product was 'the same' or 'practically the same' as the product already authorised by the manufacturer.[113]

[113] Besluit Registratie Geneesmiddelen of 8 Sept 1977 [1977] Staatsblad 573, Art 23.

However, for this service parallel importers were charged an initial fee which was 25 per cent of that charged to manufacturers for a marketing authorisation and an annual fee which was the same as that charged to manufacturers. This resulted in *Kortmann*,[114] which was another criminal prosecution of a parallel trader in the Netherlands who had not obtained an authorisation, this time because he considered that the fees were excessive. The Roermond District Court therefore asked the ECJ whether a fee could be charged for authorisation to parallel import and, if so, 'what standards should be applied to the amount and frequency of the payments and the system governing payments'. The ECJ held that the fees were not necessarily justified even though they were designed to pay for a monitoring system which was justified under Article 30. They had to be considered under Articles 25 to 27, which prohibit customs duties on imports and charges having equivalent effect, and Article 90, which prohibits internal taxation which discriminates against imported products. The ECJ first held that, as fees were also charged for the authorisation of products produced in the Netherlands, the fees could not be regarded as having equivalent effect to customs duties so long as the criteria used to determine the fees were identical or comparable to those used to determine fees for domestically produced products. Turning then to Article 90, the ECJ held that the fee would not be discriminatory so long as it 'applies in accordance with the same criteria, objectively justified by the purpose for which the tax was introduced, to domestic and imported products so that it does not result in the imported products bearing a heavier charge than that borne by the similar domestic product'. The fact that the fees, being a fixed rate regardless of the number of products distributed, might fall more heavily on parallel traders than on manufacturers (who would generally distribute higher volumes) was irrelevant under Article 90.

Meanwhile, in 1980 the Commission had proposed to amend the regulatory framework to codify the judgment in *De Peijper*.[115] At the same time, the Commission had also proposed to require national authorities to refuse authorisations where the manufacturer sought to use a different name or composition (qualitative or quantitative) for a product which was already authorised in another Member State. However, this proposal was rejected by the Economic and Social Committee[116] and the European Parliament,[117] principally on the basis that other barriers to authorisation of pharmaceuticals should be removed as a greater priority. As a result, the proposal was withdrawn by the Commission in 1981 and replaced with a Communication in relation to parallel imports of proprietary medicinal products.[118]

[114] Case 32/80 *Criminal proceedings against Kortmann* [1981] ECR 251.
[115] COM(80)267 [1980] OJ C143/8.
[116] [1980] OJ C348/40.
[117] Parliament Report I-303/81 [1981] OJ C287/127; Debates of the European Parliament I-275/286 (16 Oct 1981).
[118] COM(81)803 [1982] OJ C115/5.

In the Communication, the Commission summarised the decision in *De Peijper* and went on to propose an acceptable procedure which Member States might adopt when authorising parallel imports. It laid down a list of basic information which national authorities could require from the parallel importer, and indicated that the national authorities should make a decision within a reasonable period once all the required information had been provided, such reasonable period not to exceed 45 days. It did not seek to prohibit the use of different names or compositions.

As a result of the Communication, various Member States following the Dutch example and introduced a simplified authorisation process for parallel imports. In the United Kingdom this results in the grant of a Product Licence (Parallel Importing) or PL(PI).[119]

However, not all Member States did so immediately. For instance, years later the Commission was still taking action against France[120] and Italy[121] for failing to do so.

Even where simplified procedures were introduced, this did not eliminate all barriers to parallel trade. In 1991 REMIT Consultants completed a study for the Commission on the issue.[122] The study focused particularly on the situation in Germany, the Netherlands and the United Kingdom. Two particular areas of concern were the time taken to grant parallel import authorisations under the simplified procedures and differences in brand names and packaging adopted by manufacturers.

The study found that the time taken to grant parallel import licences was far longer than the suggestion in the Commission's 1981 Communication. In Germany, the legal timeframe was four months (extendable to seven in exceptional cases), but in practice delays of over a year were common. In the United Kingdom, the average time taken was said to be 19 months,[123] and in some cases it could take as much as four years, although in the future the target was to be six months for new parallel imports licences and three months for mirror applications (ie for another parallel importer for the same product from the same country). In the Netherlands, the average delay was only three months (still

[119] Medicines for Human Use (Marketing Authorisations Etc) Regs 1994, SI 1994/3144, reg 4(1); Form MLA 201 (PI), 'Application for a Product Licence (Parallel Importing)' (revised Apr 2004); Form MLA 221 (PI), 'Application for Variation of a Product Licence (Parallel Importing)' (revised Mar 2004); Medicine Control Agency, 'Guidance Notes on Application for Product Licences for Parallel Imported Medicinal Products'.

[120] Case C–263/03 *Commission v France* (judgment of 12 Oct 2004, available only in French); see also Commission Press Release IP/00/8 and [2003] OJ C200/15; Commission Press Release IP/03/1755 (in relation to veterinary pharmaceuticals); see also Tribunal de Grande Instance Lorient, *X*, 14 Mar 2003.

[121] Commission Press Release IP/96/774.

[122] REMIT Consultants, *Impediments to Parallel Trade in Pharmaceuticals within the European Community: Final Report prepared for DGIV of the European Commission* (May 1991), EEC reference IV/90/06/01.

[123] This was confirmed in the House of Commons, where for the seven months from Jan–July 1990 the average time was said to be 18 months: HC Debs, vol 187, col 317W, 8 Mar 1991.

twice the period suggested by the Commission). The study suggested that the Commission's suggested period was too short, but that the time taken in the Netherlands appeared to be reasonable. Unnecessary delays in granting parallel import authorisations despite a simplified procedure were subsequently challenged by the Commission in Ireland (where they took an average of 30 months)[124] and in Italy.[125]

Differences between brand names and packaging were found to be a serious impediment to parallel trade, particularly in Germany where manufacturers often adopted a different name from that they used in the rest of the Community. The reasons for such differences were disputed: parallel importers suggested that different names were adopted in order to frustrate parallel trade, while manufacturers said that they would prefer to use the same name for marketing reasons but that sometimes a brand name was rejected by the registration authority, ran into local trade mark problems or was unsuitable in the local language. The study concluded that '[u]nless and until the EC or national governments decree that all drugs shall have identical brand names in all countries, German and other manufacturers may choose different brand names providing they do not infringe competition law'. The Commission's 1998 Communication on the Community marketing authorisation procedures for medicinal products[126] therefore states that under the mutual recognition procedure, although different names can be used in different Member States, 'normally an identical name should be chosen for an identical product, unless there are compelling reasons not to do so'.

The simplified procedures for authorisation of parallel imports also came before the courts directly. For instance, under the provisions in the United Kingdom a parallel importer could obtain a simplified Product Licence (Parallel Import) (PL(PI)) only if it met various conditions, including the requirement that the product had 'been made by or under licence [of] the manufacturer of the product covered by the United Kingdom marketing authorization or by a member of the same group of companies as the manufacturer of the product covered by the United Kingdom marketing authorization'.[127]

The ECJ was asked to consider this 'same group' requirement in *Smith & Nephew and Primecrown*.[128] The case concerned the authorisation of parallel imports into the United Kingdom from Belgium of the product DITROPAN. In the United Kingdom the product was sold by Smith & Nephew under an agreement with the US company Marion Merrell Dow (MMD). Smith & Nephew's marketing authorisation had been obtained on the basis of data and information

[124] Commission Press Release IP/01/286.

[125] Commission Press Release IP/02/999.

[126] [1998] OJ C229/4.

[127] Then under the administrative guidelines laid down in Medicine Control Agency, 'MAL 2 (PI)—Notes on Application for Product Licence (Parallel Importing) (Medicines for Human Use)' (May 1984).

[128] Case C–201/94 *R v Medicine Control Agency, ex parte Smith & Nephew Pharmaceuticals/Primecrown v Medicine Control Agency* [1996] ECR I–5819.

supplied by MMD together with additional clinical studies carried out by Smith & Nephew. In Belgium the product was sold by Marion Merrell Dow Belgium (MMD Belgium), which said that it could not ensure that the excipients used in the product sold in Belgium were the same as those used in the product sold in the United Kingdom because MMD only sold the active substance to Smith & Nephew and did not control the excipients used by Smith & Nephew. Excipients are the constituents of a pharmaceutical product other than the active substance.

The UK authority, then known as the Medicines Control Agency (MCA), initially authorised the parallel imports from Belgium, on the basis that the Belgian DITRPOAN was identical in formulation to the UK DITROPAN, but later revoked this authorisation on the basis that there was not a sufficient link between the manufacturers in the two countries. Smith & Nephew and Primecrown appealed against the grant and withdrawal respectively and the English High Court referred four questions to the ECJ on the propriety of the MCA's approach.

The ECJ held that its decision in *De Peijper* applied, regardless of the fact that the products were being produced by independent companies, on the basis that the products had 'a common origin by virtue of the fact that they are manufactured pursuant to agreements concluded with the same licensor'. Otherwise 'such agreements could lead to partitioning of the national markets of the various Member States'. The national authority would need to verify that the two products, 'if not identical in all respects, have at least been manufactured according to the same formulation, using the same active ingredient, and that they also have the same therapeutic effects'. If those conditions were met, the authority could refuse authorisation only if there were 'countervailing considerations relating to the effective protection of the life and health of humans'. If they were not met, the authority had to refuse the authorisation until a full application was made under Directive 65/65. In reaching its verdict, the national authority could consult the information supplied by the manufacturer, could compel the manufacturer to supply any further information the authority considered necessary and could seek information from its counterpart authorities in other Member States.

R v Medicines Control Agency, ex parte Rhône-Poulenc Rorer[129] concerned the MCA's grant of parallel import authorisations for the product zopiclone, which was sold in the United Kingdom as ZIMOVANE. At the time, the MCA's administrative guidelines required that any differences between the product covered by the UK authorisation and the parallel imported product have no therapeutic effect, following *De Peijper*. They also required that the parallel imported product had been made by or under licence to the manufacturer of the product covered by the UK authorisation (or a member of the manufacturer's

[129] *R v Medicines Control Agency, ex parte Rhône-Poulenc Rorer* [1997] EWHC Admin 750; Case C–94/98 *R v Medicines Control Agency, ex parte Rhône-Poulenc Rorer* [1999] ECR I–8789.

group), ie that they had a common origin. Finally, the guidelines stated that, upon the lapse or revocation of either the UK authorisation or the relevant authorisation in Member State from which the parallel imports came, the UK parallel import authorisation would cease to be valid.

In 1996, the original UK marketing authorisations for ZIMOVANE were revoked upon the request of the owner, and new marketing authorisations were granted for a new formulation of the product, using a different manufacturing process and different excipients. The differences in the formulation were confidential but were based on reasons of public health. Parallel import authorisations for the original formulation ZIMOVANE would therefore have lapsed. Nevertheless, the original formulation continued to be sold in other Member States by the manufacturer. The MCA varied seven existing parallel import authorisations and granted three new ones for original formulation ZIMOVANE, all based on the authorisation for new formulation ZIMOVANE.

Although it was accepted that the products had the same therapeutic effect, the marketing authorisation holder challenged the grant of the parallel import authorisations, arguing that *Smith & Nephew and Primecrown* had changed the approach in *De Peijper* in relation to excipients by requiring that the formulation be the same. It was also argued that the pharmacovigilance system would not operate, as the manufacturer would not longer be required to submit information to the MCA in relation to original formulation ZIMOVANE, and that the public health benefit of the new formulation could not be achieved if both formulations circulated in the United Kingdom at the same time. The English High Court referred a series of questions to the ECJ.

The ECJ accepted that changes in excipients could have implications for public health. However, this did not mean that the national authorities could not rely on the simplified procedure to grant parallel import authorisations wherever there was a change in excipients. Instead, they should grant such authorisations so long as the active ingredient and therapeutic effect remain the same and the parallel import does not 'pose a problem of quality, efficacy or safety'. Pharmacovigilance could be ensured either by cooperation with the authorities in other Member States or by requiring the UK marketing authorisation holder to provide the information. Finally, the argument that the public health benefit of the new formulation would not be achieved was regarded as irrelevant, so long as the parallel imported product did not pose a risk as to quality, efficacy or safety.

The question of common origin was addressed in *Kohlpharma v Germany*,[130] where the active ingredient, selegiline hydrochloride, was produced by a Hungarian manufacturer, Chinoin. The active ingredient was supplied under a licensing agreement to an Italian manufacturer, Chiesi, which used it to produce a pharmaceutical product which it sold as JUMEX. The active ingredient was also supplied under a supply agreement to the Finnish sister company of an

[130] Case C–112/02 *Kohlpharma v Germany* [2004] ECR I–3369.

unrelated German manufacturer, Orion, which used it to produce a pharmaceutical product which it sold as MOVERGAN. Kohlpharma, a parallel importer, sought a parallel import marketing authorisation in Germany, based on the authorisation for MOVERGAN, in order to import JUMEX from Italy into Germany. This was initially rejected by the German Federal Institute for Medicinal Products, on the basis that Chiesi and Orion were unrelated companies and so the JUMEX and MOVERGAN products did not have a 'common origin'. However, the case was appealed and referred to the ECJ, which held that the true question was whether the domestic safety and efficacy assessment could be applied to the parallel imported product without any risk to the protection of public health. Although the common origin could be a relevant factor in establishing this, it was not in itself a ground for refusing to authorise the parallel imported product.

In the United Kingdom, the Competition Commission has queried whether even simplified authorisation procedures are still necessary where veterinary pharmaceutical products have been authorised under the mutual recognition procedure.[131] However, the Government has not yet taken any steps to remove this requirement, which would appear to require amendment of the Directives.[132]

In its 2003 Communication[133] the Commission confirmed its view that parallel trade is a 'lawful form of trade in goods between Member States of the European Union'. It also states that the word 'parallel' does not 'indicate something not quite proper', but that it 'simply indicates that the marketing of a medicinal product takes place outside the distribution network of the manufacturer or its licensee'. The Commission summarised the case law of the ECJ but noted that not all problems had been resolved, as 'new questions keep emerging and old answers need more clarification'. Whatever one's view of the legitimacy of parallel trade, it is hard to disagree with the Commission's last statement.

ii. Withdrawal of Authorisation

The relevance of the withdrawal of the manufacturer's authorisation in the importing Member State was not considered by the ECJ in *R v Medicines Control Agency, ex parte Rhône-Poulenc Rorer*, given that the MCA had just varied the parallel import authorisations to refer to the manufacturer's new authorisation.

[131] Competition Commission, *Veterinary Medicines: A Report on the Supply within the United Kingdom of Prescription-only Veterinary Medicines*, Cm 5781 (TSO, London, 2003), Recommendation 4.

[132] HC Debs, vol 408, col 54WS, 9 July 2003.

[133] COM(2003)839, 'Commission Communication on parallel imports of proprietary medicinal products for which marketing authorisations have already been granted'.

However, this issue did have to be addressed in *Ferring v Eurim-Pharm*.[134] Under the German pharmaceutical regulations,[135] products which had been on the market prior to 1978 benefited from an implied authorisation, but this could be withdrawn by the manufacturer with immediate effect. Under the provisions on the parallel import of pharmaceuticals,[136] parallel importers of such products could be authorised simply by indicating the reference number of the manufacturer's implied authorisation. Since before 1978, Ferring had sold a product called MINIRIN SPRAY, which had to be kept in a cool place. However, Ferring then obtained a marketing authorisation for a new version of MINIRIN using different excipients which improved its thermostability at room temperature. Ferring proceeded to withdraw its old authorisation and brought proceedings against Eurim-Pharm, which was parallel importing the old version from other Member States where it was still sold by Ferring, on the basis that Eurim-Pharm was now marketing the product in Germany without authorisation. The Cologne Regional Court granted an interim injunction against Eurim-Pharm but, although it indicated its view that Ferring was right, it referred the question to the ECJ.

The ECJ held that the automatic withdrawal of the parallel import authorisation upon withdrawal of the manufacturer's authorisation constituted a restriction on the free movement of goods under Article 28, and so the question was whether this was justified under Article 30. Following *R v Medicines Control Agency, ex parte Rhône-Poulenc Rorer*, the ECJ held that such a withdrawal was not justified as the public health considerations could be satisfied by less restrictive measures. The Court indicated that, if it was demonstrated that the coexistence of the old and new versions of the medicinal product on the market gave rise to a risk to public health then that might justify the withdrawal of the parallel import authorisation. However, that was a question which had to be determined by the regulatory authority, which could not accept the mere assertion of the manufacturer and would have to consider whether less restrictive measures, such as labelling requirements, would suffice.

Similar issues arose in relation to the requested withdrawals of the Swedish and Finnish marketing authorisations for LOSEC capsules by Astra in 1998.[137] Astra was replacing them with LOSEC tablets, which were therapeutic equivalents but which contained a different active ingredient (magnesium salt of omeprazole acid rather than omeprazole acid), which dissolved more easily in water and was more stable and thus easier to manufacture.

[134] Case C–172/00 *Ferring v Eurim-Pharm* [2002] ECR I–6891.

[135] Arzneimittelgesetz vom 24.08.1976 (Law on Medicinal Products of 1976) BGBI I/2445, paras 105 and 31(1)(2).

[136] Communication from the Bundesinstitut für Arzneimittel und Medizinprodukte (Federal Institute of Medicines and Medicinal Products) of 17 Apr 1996.

[137] The withdrawal in Sweden also formed the subject of the Commission's decision under Art 82 in *AstraZeneca*: see Ch 3, sect II.D (Misuse of Regulatory Controls).

In Sweden the regulations of the Swedish Medical Product Agency (MPA) provided that parallel import authorisations would be withdrawn at the same time as the manufacturer's authorisation, subject to the possibility that the authority could maintain the parallel import authorisation if the manufacturer's authorisation was withdrawn for economic reasons and not reasons relating to the effects or the safety of the pharmaceutical product.[138] Astra's subsidiary requested the withdrawal of its marketing authorisation for LOSEC capsules, and the MPA decided that this should occur at the end of 1998. It initially said that the parallel import authorisations should expire at the same time (subsequently extended by six months), on the basis that the active ingredient was different and that the safety of the parallel imported product could not be ensured. The parallel importers appealed and the case eventually reached the Swedish Supreme Administrative Court, which referred the question to the ECJ in *Paranova Läkemedel v Läkemedelsverket*.[139] The ECJ simply followed its judgment in *Ferring* and held that the automatic withdrawal of parallel import authorisations breached Article 28 unless justified on public health grounds under Article 30.

In Finland the regulations of the Finnish Medical Product Agency (MPA) again provided for the automatic withdrawal of parallel import authorisations upon withdrawal of the manufacturer's authorisation.[140] This time, the MPA withdrew Astra's authorisation two days after the request and notified Paranova, the parallel importer, that its authorisation had expired at the same time. Again, Paranova appealed, arguing that it had been given no opportunity to dispose of its stock. The Finnish Supreme Administrative Court referred the question to the ECJ in *Paranova Oy*[141] and the ECJ again simply followed *Ferring*.

The Commission has also taken action against Belgium for automatically withdrawing parallel import authorisations in such cases.[142]

iii. Other Restrictions

Given the highly regulated nature of the pharmaceutical market, it is unsurprising that the Commission and ECJ have been called on to consider a number of other restrictions on parallel trade of pharmaceuticals. For instance, the following restrictions on commercial parallel imports have been regarded as breaching Article 28 and not justified under Article 30:

—a requirement that parallel imports be repackaged or relabelled before entering Germany, even where the parallel importer held the necessary manufacturing authorisation;[143]

[138] Regulation of the Läkemedelsverket (Medical Products Agency) LVFS 1994:22.
[139] Case C–15/01 *Paranova Läkemedel v Läkemedelsverket* [2003] ECR I–4175.
[140] Reg 1/1997 of the Medical Products Agency.
[141] Case C–113/01 *Paranova Oy* [2003] ECR I–4243.
[142] Press Release IP/03/1755.
[143] Case C–347/89 *Freistaat Bayern v Eurim-Pharm* [1991] ECR I–1747.

—a requirement that parallel importers show customs a certificate of compliance when importing;[144]
—a requirement that parallel importers obtain a specific import licence;[145]
—a requirement that parallel importers completely repackage products which differ from domestic products by having shorter shelf-lives, different trade names, different sized packages or different storage conditions.[146]

However, a requirement that pharmacists fill prescriptions written using the brand name of a product (and not the generic name) with the branded product (and not parallel imports bearing the different brand name used by the manufacturer in the exporting Member State or no brand name at all) were held to be justified under Article 30.[147]

Restrictions on parallel imports by individuals for their own use have also been attacked. For instance, in *Schumacher v Hauptzollamt Frankfurt am Main-Ost*,[148] the ECJ held that a German prohibition on the import of pharmaceuticals by individuals for their personal use breached Article 28. As the product in question was authorised in Germany and was available without a prescription the prohibition could not be justified under Article 30.

Following on from that, in *Commission v Germany*[149] the ECJ held that German restrictions on the import by post of pharmaceutical products which had been prescribed and purchased in another Member State, and which were authorised both in that Member State and in Germany, could not be justified under Article 30.

More broadly, in *Deutscher Apothekerverband v 0800 DocMorris*,[150] the ECJ held that a German prohibition on the sale by mail order of pharmaceutical products, which restricted internet sales by a pharmacy established in the Netherlands, breached Article 28. However, although that prohibition could not be justified in relation to non-prescription pharmaceuticals, it could be justified under Article 30 in relation to pharmaceuticals only available in Germany on prescription. This was due to 'the need to be able to check effectively and responsibly the authenticity of doctors' prescriptions and to ensure that the medicine is handed over either to the customer himself, or to a person to whom its collection has been entrusted by the customer'. It was also justified as necessary to avoid both the risk of prescriptions being abused and the risk of harm being caused due to labelling on the pharmaceuticals being in a language other than German.

[144] Press Release IP/93/12. Similar French provisions in relation to Community authorised products were found to be in breach of Art 28 in Case C–122/03 *Commission v France* [2003] ECR I–15093.

[145] Press Release IP/95/209.

[146] Press Release IP/01/1126; see also Press Release IP/98/1124.

[147] Joined Cases 266/87 and 267/87 *R v Royal Pharmaceutical Society of Great Britain, ex parte Association of Pharmaceutical Importers* [1989] ECR 1295.

[148] Case C–215/87 *Schumacher v Hauptzollamt Frankfurt am Main-Ost* [1989] ECR I–617.

[149] Case C–62/90 *Commission v Germany* [1992] ECR I–2575.

[150] Case C–322/01 *Deutscher Apothekerverband v 0800 DocMorris* [2003] ECR I–14887.

A similar approach was taken in *Commission v France*,[151] where the ECJ held that French rules requiring authorisation for imports of pharmaceuticals by individuals for their personal use where this was otherwise than by personal transportation breached Article 28. The ECJ agreed with the Commission that such authorisation could not be justified where the products were authorised in the exporting Member State and in France. Nor could they be justified when the products were highly-diluted homeopathic products which did not raise health concerns. More generally, the Court agreed that the French procedure for authorisation of personal imports of pharmaceutical products which were not authorised in France was disproportionate because it was not easily accessible, was not carried out within a reasonable period of time and did not lead to an import authorisation in respect of such products where they did not present a risk to public health.

On a similar basis, the Commission has indicated that in its view a rule prohibiting chemists from accepting prescriptions from doctors established in other Member States would breach Article 49 on the freedom to provide services, although individual refusals by chemists to honour such prescriptions would not be in breach of that Article.[152]

However, not all restrictions on parallel imports by individuals will breach Article 28. For instance, there is no requirement that information be provided in languages other than those of the Member State where the product is sold.[153]

C. Parallel Imports of Community Authorised Products

i. Notification

A Community marketing authorisation extends across the Community and does not vary in scope between Member States. As a consequence, parallel importers do not need to obtain a marketing authorisation from national authorities for a product which is the subject of a Community marketing authorisation, whether under a simplified procedure or otherwise, although they do still need a wholesale distribution authorisation in the importing Member State. Under the Commission's 1998 Communication,[154] the parallel importer must instead notify the EMEA, to allow it to check compliance with the terms of the Community marketing authorisation, and the national authorities in the destination Member State(s), to allow them to monitor the market and to carry

[151] Case C–212/03 *Commission v France* [2005] ECR I–4213; see also Commission Press Release IP/02/1155.

[152] Parliamentary Question 2306/96 [1997] OJ C72/27; see also Parliamentary Question 2640/85 [1986] OJ C182/44.

[153] Parliamentary Question E-0506/03 [2003] OJ C280E/58.

[154] [1998] OJ C229/4. See now Reg 726/2004 [2004] OJ L136/1, Art 57(o) and EMEA, 'Post-Authorisation Guidance on Parallel Distribution' EMEA/Ho/2368/04 (Draft Rev.4, 2006) at 5.

out post-marketing surveillance. The notified authorities are supposed to make any objections to the parallel imports, with reasons, within 30 days.

A parallel importer is generally required to provide the following information when notifying its intention to start parallel trade:

(a) a copy of its wholesale distribution authorisation;
(b) the brand, International Non-proprietary Name (INN) and Community authorisation number of the medicinal product; and
(c) a mock-up of the medicine as it will be marketed in the destination Member State, including the Patient Information Leaflet.

The EMEA permits only changes to the packaging which are strictly necessary to market the product in the destination Member State.[155] Where the language on the labelling and package leaflet is not the same as that in the importing Member State the parallel importer will be required to change it. Although the parallel importer is allowed to mention the parallel distributor, the repackager (if any), the manufacturer and the trade mark owner, other expressions such as '[p]rocured from the EU' or '[i]mported by' are not permitted as they are deemed unnecessary.[156]

In addition, if the changes involve any repackaging, the parallel importer must also provide the authorities with a copy of the manufacturing authorisation of the person carrying out the repackaging.[157] This will often be the case, as repackaging is interpreted to include both 'removal of blister packs from the original external packaging and their insertion into new external packaging' and 'addition to the packaging of new user instructions or information or the fixing of self-stick labels'.

Occasionally the parallel importer may need to change the size of the product package. If so, the parallel importer must also provide the authorities with a comprehensive justification for the change of pack size, demonstrating that it is strictly necessary to market the product distributed in parallel in the Member State of destination in the same conditions as the product distributed by the marketing authorisation holder.

The issue of whether pack size changes could be achieved by bundling rather than repackaging was considered in *Aventis Pharma Deutschland v Kohlpharma*,[158] where the manufacturer held two Community marketing authorisations for the product INSUMAN in packets of five and 10 3ml cartridges. In Germany it marketed only packets of 10 cartridges. The parallel importers were acquiring packets of five cartridges from France and repackaging them into new packets of 10. The manufacturer challenged the necessity of such repackaging, claiming that the parallel importers could simply bundle

[155] EMEA, 'Post-Authorisation Guidance on Parallel Distribution' EMEA/Ho/2368/04 (Draft Rev.4, 2006) at 4.
[156] *Ibid*, 13.
[157] *Ibid*, 20.
[158] Case C–433/00 *Aventis Pharma Deutschland v Kohlpharma* [2002] ECR I–7761.

together two packets of five. By contrast, the parallel importer, based on a letter from the EMEA, said that such bundling was not permitted under the Community marketing authorisation. The Cologne Regional Court referred the question to the ECJ, which agreed with the EMEA and held 'that the detailed and specific requirements regarding the packaging of the medicinal products which are the subject of a central marketing authorisation, which are intended to prevent consumers from being misled and thereby to protect public health, preclude the bundling of the packages of those medicinal products'.

Although notification should be a more straightforward process than seeking a simplified authorisation, it is not without its costs and complications. The EMEA's fee for each notification may be higher than the cost of a national parallel import authorisation under the simplified procedure.[159] Although a notification will cover all pack sizes, separate notifications need to be made for each strength, pharmaceutical form and presentation for administration of the product.[160] Where it is sought to distribute the product in Member States with different official languages a separate fee must be paid for each language.[161] Parallel importers must also notify any changes, including changes both in the source Member States and in the destination Member States (for instance, where the manufacturer's marketing authorisation is changed). In addition, the EMEA has struggled to meet its administrative deadlines, recently indicating that the average time for completion of the notification process was three to six months rather than the 30-day period for objections laid down in the Commission's 1998 Commission.[162] Once the notification process is complete the EMEA will notify the relevant national authorities and will also notify the marketing authorisation holder.[163]

Upon enlargement existing Community authorisations were automatically extended to the new Member States and any conflicting national marketing authorisations became invalid. Products which were put on those markets under the old national authorisations could continue to be sold in those Member States but could not be parallel imported into other Member States.[164]

ii. Single Product Name and Branding

The Commission has also used the introduction of a Community authorisation system to try to limit some of the product variations which may restrict parallel trade, including those which were rejected in relation to national authorisations in 1981.

[159] See the critical Parliamentary Questions 156/99 [1999] OJ C348/27 and E-1057/99 [2000] OJ C27E/28.
[160] EMEA, 'Post-authorisation Guidance on Parallel Distribution', above n156, 17.
[161] *Ibid*, 18.
[162] *Ibid*, 9.
[163] *Ibid*, 11.
[164] *Ibid*, 4.

For instance, the Commission has always insisted that any Community authorised product bear a single brand name and branding throughout the Community, despite the initial lack of any clear legislative basis for this.[165] In 1998, the Commission's Communication on the Community marketing authorisation procedures for medicinal products[166] noted that Community marketing authorisations should be treated like a single national authorisation and so '[o]nly one brand name should normally be approved per marketing authorisation granted'. In exceptional cases, the Commission said that the manufacturer may be able to show that, in spite of all its efforts, the proposed brand name could not be used in a certain Member State, for instance because the name had been cancelled, opposed or objected to under trade mark law in that Member State. In such cases the Commission said that it would authorise use of another name in that Member State, but warned that this 'shall not be used to introduce any partitioning of the European market, i.e. to restrict or prevent the free movement of the concerned medicinal product'.

This approach was considered in *Dr Karl Thomae v Commission*,[167] where Dr Karl Thomae, a subsidiary company of Boehringer Ingelheim, had applied for a Community marketing authorisation for the product DAQUIRAN in 1996. The marketing authorisation was then granted in 1997. While this application was being considered, Dr Karl Thomae wrote to another German pharmaceutical company which owned the trade mark TAXILIN, asking it not to object to the use of DAQUIRAN. This request was rejected on the ground that there was a risk of confusion and the other company asked Dr Karl Thomae to stop using the name DAQUIRAN. In 2000 Dr Karl Thomae sought to vary its authorisation to use the name FIROL in Germany, together with different packaging, and to use the name SIPNOK in Denmark, Sweden and Finland, where the trade mark DAQUIRAN had not been registered. The EMEA rejected that application on the basis that the trade mark and packaging used throughout the Community must be identical, and so Dr Karl Thomae could not change the name in just some Member States. Dr Karl Thomae appealed to the CFI, supported by the European Federation of Pharmaceutical Industries and Associations (EFPIA).

The appellants argued that there was no legislative basis requiring the use of an identical mark and that such a requirement was disproportionate, in that there was no need for an identical mark on public health grounds (as opposed to free movement grounds) and that in fact use of an identical mark could cause a detriment to public health by forcing the use of marks which could be confusing with other pharmaceutical products in certain Member States, and more generally by delaying the marketing authorisation until a single trade mark could be found. In addition, Dr Karl Thomae pointed out that another com-

[165] See the critical Parliamentary Question 2553/96 [1997] OJ C83/26.
[166] [1998] OJ C229/4.
[167] Case T–123/00 *Dr Karl Thomae v Commission* [2002] ECR II–5193.

pany, Hoechst Roussel Marion, had been permitted to use the names REFLUDIN and REFLUDAN for the same product under a Community marketing authorisation.

In response, the Commission argued that the legislative basis was the unitary nature of Community authorisation, and more specifically Article 6 of Regulation 2309/93, which requires applications for Community authorisation to comply with Article 4 of Directive 65/65, which in turn requires that the application include the 'name' (singular) of the product. This was supported by free movement considerations. In terms of public health, the Commission suggested that manufacturers could always launch the product with the international common name (generic name) and the manufacturer's trade mark, adding a trade mark for the product later. Finally, although the Commission accepted that it would in exceptional circumstances permit manufacturers to use more than one name, both in the case mentioned and in relation to the names INGERGEN and INFERAX, no such circumstances had been shown in this case as the dispute with the owner of the trade mark TAXILIN had never been considered by the German authorities and no disputes had been raised in the other three Member States.

The CFI agreed that, as a general rule, a Community marketing authorisation will have only one name. However, it went on to hold that this did not preclude variations to add further names 'where the holder of the Community [marketing authorisation] shows that exceptional circumstances which may adversely affect public health so require and that the variation applied for satisfies the criteria of the quality, safety and efficacy of the medicinal product'. In this case, the EMEA had not given its reasons for rejecting the claim that there were such exceptional circumstances, and so the decision had to be annulled.

The Court then turned to the question of the application to use different packaging in Germany. Dr Karl Thomae again argued that there was no legal requirement to use the same packaging in all countries, and noted that the EMEA had permitted parallel importers to use different packaging when repackaging. It also pointed to the lack of public health dangers from different packaging. In response, the Commission pointed to Article 9(1) of Regulation 2309/93, which requires applications for Community authorisation to comply with the rules on packaging in Directive 92/27 and thus to have identical packaging throughout the Community, save in relation to languages[168] and Member State-specific information, such as indications of price or reimbursement conditions, which appear in a 'blue box' on one side of the packaging.[169] In addition, the Commission said that Dr Karl Thomae had given no basis for its request beyond 'commercial reasons'.

[168] Dir 92/27 [1992] OJ L113/8, Art 4(2).

[169] *Ibid*, Art 5(2). Under Art 2(2), this 'blue box' can also contain the name of the local distributor or representative along with its logo: see Case T–179/00 *A Menarin—Industrie Farmaceutiche Riunite* [2002] ECR II–2879.

The CFI did not agree with the Commission's reasoning, explaining that there was no specific basis in Directive 92/27 requiring the use of the same packaging in each Member State, but nevertheless held that this general requirement arose from the unitary nature of Community authorisations and the free movement of goods. As with the use of a single name, the CFI held that the EMEA was wrong to reject the application without considering whether there were exceptional circumstances which meant that the refusal would entail risks to public health, such as whether the use of the existing packaging was prohibited in a Member State on the conclusion of an infringement action. The decision was therefore annulled on the basis of a lack of reasoning.

Although the EMEA's decision in *Dr Karl Thomae v Commission* was overturned, the CFI did make it clear that the general rule is that a Community marketing authorisation must involve a single trade mark and a single style of packaging, save where there are exceptional circumstances which mean that variations must be permitted in certain Member States for reasons of public health.

In *Shering-Plough v Commission*,[170] the manufacturer had a marketing authorisation for three different pharmaceutical forms of a products, namely film-coated tablets, syrup and an oral lyophilisate. The manufacturer applied to vary its marketing authorisation to change the name for the oral lyophilisate form from ALLEX to ALLEX REDITABS. The EMEA rejected this application and the manufacturer appealed to the CFI, claiming that the case can be distinguished from *Dr Karl Thomae v Commission* on the basis that these were really different products under a single marketing authorisation. Although there does not appear to be any parallel trade issue which arises from the proposed variation, the CFI's judgment may shed further light on the circumstances in which the use of different names may be permitted.

In any event, however, even if multiple trade marks and forms of packaging are refused under a single Community marketing authorisation, this does not appear to prevent different trade marks or forms of packaging being permitted under multiple Community marketing authorisations for the same product.

For example, the product in question in *Dr Karl Thomae v Commission*, generically known as pramiprexole, was jointly developed by Boehringer Ingelheim and Pharmacia & Upjohn. In the United States it was co-promoted by both companies under the same name, MIRAPEX.[171] On the same day that Dr Karl Thomae applied for a Community marketing authorisation for DAQUIRAN, its parent, Boehringer Ingelheim, had applied for a Community marketing authorisation for SIFROL and Pharmacia & Upjohn had applied for a Community marketing authorisation for MIRAPEXIN (the three marketing authorisations being granted on 27 October 1997, 14 October 1997 and 23 February 1998 respectively). DAQUIRAN was never actually marketed in the

[170] Case T–133/03 *Schering-Plough v Commission* [2003] OJ C171/32.

[171] Boehringer Ingelheim press release, 'New therapeutic option for the management of Parkinson's disease', dated 26 Nov 2001.

Community by Dr Karl Thomae, upon whose request that marketing authorisation was withdrawn in February 2006.[172] Instead, by July 1999 MIRAPEXIN was being sold in Greece, Italy, Spain and the United Kingdom and SIFROL was being sold in Denmark, Finland, Germany and Sweden.[173] Subsequently, Pfizer acquired Pharmacia and as a result the Community marketing authorisation for MIRAPEXIN was transferred to Boehringer Ingelheim in July 2004.[174] Both marketing authorisations are therefore now owned by Boehringer Ingelheim, covering the same product with two different names.

In 2004, Regulation 726/2004[175] was adopted to replace Regulation 2309/93. This required that applications for Community authorisations 'shall take account of the unique, Community nature of the authorisation requested and, otherwise than in exceptional cases relating to the application of the law on trade marks, shall include the use of a single name for the medicinal product',[176] thus placing this requirement on a legislative basis. In addition, generic pharmaceutical manufacturers who seek national marketing authorisations based on a Community authorisation are required to use the same name in all Members States.[177]

However, more recently the Commission has indicated that it may retreat from this position, suggesting that any restrictions on the use of names which are not justified on grounds of public health, particularly safety, should be avoided and that the naming guideline is being revised.[178]

D. Price Controls

Price differentials for pharmaceutical products vary over time and between products. However, some Member States are generally seen as low price countries for pharmaceutical products while others are seen as high price countries. For instance, a study in 1990 showed that the then 12 Member States could be placed in the following order from cheapest to most expensive retail prices for a basket of 125 commonly prescribed drugs: Portugal, France, Spain, Greece, Italy, Belgium, Luxembourg, the United Kingdom, Germany, Denmark, Ireland and the Netherlands.[179] Prices in the Netherlands were almost twice those in

[172] EMEA Public Statement 184565/2006 of 23 May 2006.

[173] EMEA Public Statement 20642/99 of 19 July 1999.

[174] Major Change T/0029; Boehringer Ingelheim press release, 'Pramipexole for Parkinson's Disease returns to Boehringer Ingelheim's product portfolio' of 14 Oct 2004.

[175] Reg 726/2004 [2004] OJ L136/1.

[176] *Ibid*, Arts 6(1) and 33(1).

[177] *Ibid*, Art 3(3)(c).

[178] (2006) 3203 *SCRIP* 3, (2006) 3206 *SCRIP* 3.

[179] F Diener, 'Arzneimittelpreise in der EG', 135 (40) *Pharmazeutische Zeitung* (Nov 1990) 9, updating G Adriaenssens and G Sermeus, *Drug Prices and Drug Legislation in Europe* (BEUC, Brussels, 1989) which had been carried out for the Commission. Quoted in REMIT Consultants, *Impediments to Parallel Trade in Pharmaceuticals within the European Community: Final report prepared for DGIV of the European Commission* (May 1991), EEC reference IV/90/06/01, at 16.

Portugal. In 2001, the Commission in *Glaxo Wellcome*[180] accepted the suggestion that Austria, Denmark, Finland, Ireland, Sweden and the United Kingdom could be regarded as 'high price countries' and Belgium, France, Greece, Italy, Portugal and Spain as 'countries with relatively lower prices'.

The variation in prices of pharmaceutical products between Member States is one of the biggest drivers of parallel trade in the Community. Although there are several reasons for this variation, one of the most important is that the Member States seek to control prices of pharmaceutical products. Such price controls in general do not breach Article 28, as they do not restrict the free movement of goods, although they may do so where they (a) do not apply on an equivalent basis to domestic and imported products, (b) impose maximum prices which are so low that the sale of more expensive imported products is impossible or more difficult than that of domestic products or (c) impose minimum prices which are so high that any competitive advantage of cheaper imported products is extinguished as compared to domestic products.[181] A Greek system in which prices were set at the level of the lowest price in any other Member State was also challenged by the Commission.[182] The system has been modified so that it will now be the average of the price in the three lowest priced Member States.[183]

The ECJ has noted that 'distortions caused by different price legislation in a Member State must be remedied by measures taken by the Community authorities'.[184] However, Member States have generally been unwilling to agree such measures. In fact, although there has been a great deal of discussion in relation to pharmaceutical price controls,[185] the Community's action has essentially been limited to a Commission Communication in 1986[186] and the Transparency Directive in 1989.[187]

[180] Commission Dec 2001/791 *Glaxo Wellcome* [2001] OJ L302/1, para 162; Case T–168/01 *GlaxoSmithKline Services Unlimited v Commission* (27 Sept 2006, not yet reported). This division was based on a study by Frontier Economics which had been submitted to the Commission by Glaxo in Nov 1999.

[181] Joined Cases 16–20/79 *Openbar Ministrie v Danis* [1979] ECR 3327; Case 181/82 *Roussel Laboratoria v Netherlands* [1983] ECR 3849; Case 231/82 *Cullet v Leclerc* [1985] ECR 305; Case 238/82 *Duphar v Netherlands* [1984] ECR 523; Case 56/87 *Commission v Italy* [1988] ECR 2919; Case C–249/88 *Commission v Belgium* [1991] ECR I–1275.

[182] Parliamentary Question 4091/96 [1997] OJ C367/3; Press Release IP/97/708; Press Release IP/00/1204.

[183] Press Release of the Greek Ministry of Development, 20 Apr 2005; (2006) 3128 *SCRIP* 4.

[184] Joined Cases C–267/95 and 268/95 *Merck & Co v Primecrown* [1996] ECR I–6285.

[185] See, for instance, Press Release SPEECH/92/113; Economic and Social Committee Opinion 96/C 97/01 [1996] OJ C91/1; COM(98)588, Commission Communication on the Single Market in Pharmaceuticals; Parliamentary Question E-2409/01 [2002] OJ C81E/172; European Commission, *High Level Group on Innovation and Provision of Medicines: Report and Recommendations for Action* (European Commission, Brussels, 7 May 2002); COM(2003)383, Commission Communication, 'A Stronger European-based Pharmaceutical Industry for the Benefit of the Patient—A Call for Action'; R Minder and A Jack, 'EU call to shake up pricing of drugs', *Financial Times*, 3 Nov 2005, 1.

[186] Commission Communication 86/C 310/08 [1986] OJ C310/7.

[187] Dir 89/105 [1989] OJ L40/8.

Price controls in an importing Member State may restrict or eliminate parallel trade into that country by reducing the margins available to parallel traders, which may be even wider in a free market. However, price controls in the exporting Member State are hugely important to parallel traders, and arguments against price regulation normally come from the pharmaceutical manufacturers themselves, who bear the burden not only of the price controls themselves but also of the resultant parallel trade.

That said, in unusual cases the mechanism of the price controls can also affect parallel traders. In *R v Secretary of State for Health, ex parte British Association of European Pharmaceutical Distributors*,[188] a representative body of parallel importers (BAEPD) together with Dowelhurst, a well-know parallel importer, challenged certain provisions in the United Kingdom's Pharmaceutical Price Regulation Scheme (PPRS), an agreement between the government and the pharmaceutical industry made in July 1999. Under the PPRS, pharmaceutical manufacturers were required to reduce their prices by an average of 4.5 per cent by the start of October 1999 and to continue that reduction until at least the end of 2000. Although it was accepted that a price cut across the board would not have breached Article 28, the complaint related to the fact that manufacturers could choose to 'modulate' their prices to achieve these reductions, increasing prices for some products and decreasing them for others. Manufacturers were prevented from simply reducing the prices of products as they faced generic competition, as reductions for products which came off-patent between July 1999 and December 2000 were excluded from modulation. However, there were no provisions to prevent manufacturers from targeting products which were parallel imported and BAEPD pointed to a speech by Frank Dobson as implying that manufacturers should take that opportunity by stating that '[f]or every pound that the NHS saves through parallel imports, the [pharmaceutical] industry loses £6'. BAEPD therefore sought judicial review of the modulation, claiming that it was in breach of Article 28 or Article 81. In particular, it argued that the object or effect of the scheme was to discriminate against parallel imports.

However, the High Court rejected BAEPD's arguments, finding that modulation could be used to target competition from other branded products and from generic products as well as parallel imports, and that the object of the PPRS was to control pharmaceutical profits and not to target parallel imports. Therefore, modulation did not restrict the free movement of goods under Article 28, although if it had done so it would not have been justified under Article 30. The Court also rejected the argument under Article 81, on the basis that there was no agreement and no object or effect on competition. The Court of Appeal rejected an appeal by BAEPD on the basis that it could not strike down the modulation provisions without striking down the whole of the PPRS, which was

[188] *R v Secretary of State for Health, ex parte British Association of European Pharmaceutical Distributors* [2001] EWHC Admin 183; [2001] EWCA Civ 1896.

not in the interests of the parallel importers, and noted that the case would be better dealt with by the European Commission, if at all.

E. Funding and Reimbursement

Even once the price of pharmaceuticals has been established, there is the related issue of whether any public or quasi-public body will fund or reimburse the cost of buying those pharmaceuticals. If so, this raises the question of who should benefit from the lower prices of parallel imports. In any event, such reimbursement schemes must not themselves breach Articles 28 to 30.

Within the Community, consumers generally do not pay for pharmaceutical products directly. The costs are instead borne collectively through taxation (in Member States with national health systems) or insurance premiums (in Member States with health insurance funds). As a result, consumers may not be particularly interested in the cost of pharmaceutical products and may be more concerned about things like the safety of parallel imported products with foreign language labels. Wholesalers and pharmacists in the distribution network will be interested in parallel imports only if they are able to retain some of the price differential or if the distributor provides a better level of service, given the risk of consumer objections. Equally the body which ultimately pays for the pharmaceuticals, whether the national health system or a health insurance fund, will be interested only if the use of parallel imports will reduce its costs, thus freeing up resources. In the case of national health systems there may also be a conflicting interest in not undermining the profitability of the domestic pharmaceutical industry, as is the case in the United Kingdom (as demonstrated by the speech by Frank Dobson described above).

The first question is whether the cost of specific pharmaceutical products should be funded by national health services or reimbursed by health insurance funds at all. This was discussed in the Commission's 1986 Communication and the Transparency Directive.[189] Although this appears to be unrelated to the source of the product, some Member States apply rules which can restrict parallel trade. For instance, the Commission has challenged a Belgian requirement that parallel imported products go through the reimbursement process even if the same product placed directly on the national market has already done so.[190] Similarly, the Commission has challenged a requirement in Austria that parallel imported products will be reimbursed only if they are 10 per cent cheaper than products put directly on to the market in Austria.[191]

The second question, assuming there is funding or reimbursement, is who actually benefits from any lower cost of parallel traded pharmaceuticals. In the

[189] Commission Communication 86/C 310/08 [1986] OJ C310/7; Dir 89/105 [1989] OJ L40/8.
[190] Press Release IP/02/216.
[191] Press Releases IP/03/1755 and IP/04/919.

1991 REMIT study,[192] it was noted that the system for the reimbursement of pharmacists varied in Germany, Denmark, the Netherlands and the United Kingdom, with consequent effects on parallel trade. In Germany, pharmacists were reimbursed by insurance schemes for their cost of purchase together with a fixed percentage mark-up of that cost. Pharmacists did not themselves retain any of the price savings from buying parallel imports but would see their mark-ups reduced. As a result, pharmacists had a perverse incentive to sell higher priced products from the manufacturer rather than cheaper parallel imports. In some cases parallel importers could grant pharmacists special discounts, which did not have to be passed on to the insurance schemes, but these were not always possible. Although new legislation introduced in 1988 required pharmacists to use parallel imports in certain cases, stringent conditions meant that this obligation rarely arose. In addition, although insurance schemes would prefer to see greater volumes of parallel imports used, competition between these schemes was limited and so the incentive to reduce their costs (and thus their tariffs) by encouraging pharmacists to distribute cheaper parallel imports was dulled.

Similarly, in Denmark the mark-ups and profits of pharmaceutical wholesalers and pharmacists were closely controlled by the government, and as a result there was little or no incentive for them to purchase parallel imports. However, patients would have to contribute between 25 and 100 per cent of the cost of the pharmaceutical and so in 1990, as the result of advertising by a parallel importer aimed directly at patients, patients themselves began to demand parallel imports.

In the Netherlands, pharmacists were reimbursed for their costs by social health insurance funds but were legally permitted to retain a proportion of the savings through buying parallel imports. In 1991 this was 20 per cent but it was proposed to increase it to 33 per cent. There were also suggestions that pharmacists often failed to declare that they had bought parallel imports and therefore were over-reimbursed. Therefore, although pharmacists were keen to buy parallel imports, social health insurance funds were more ambivalent and focussed on other methods to reduce their costs.

In the United Kingdom, pharmacists were reimbursed by the National Health Service. The pharmacists would be paid according to a list price regardless of whether or not they sold parallel imports. The list prices were reduced by a 'claw back' percentage in recognition of the fact that pharmacists could sell parallel imports, but this disregarded whether or not they did in fact do so. The pharmacists would in any event retain the whole of any price reductions and so had an incentive to use parallel imports. The National Health Service had a long term interest in increasing use of parallel imports, as the 'claw back' percentage could be increased over time, but there was no short term benefit.

[192] REMIT Consultants, *Impediments to Parallel Trade in Pharmaceuticals within the European Community: Final Report Prepared for DGIV of the European Commission* (May 1991), EEC reference IV/90/06/01.

Such differences in funding can have a major impact on the level of parallel trade, which in Germany was estimated at around 1 per cent as compared to 5–10 per cent in the Netherlands and 8 per cent in the United Kingdom.

Finally, Member States are generally prohibited from limiting funding or reimbursement of expenses to those incurred within the Member State, unless there would otherwise be a risk of seriously undermining the financial balance of the social security system.[193] Therefore, funding or reimbursement schemes should not prohibit individual parallel imports by patients.

IV. PESTICIDES

Like pharmaceuticals, pesticides (also known as plant protection products) are normally subject to a requirement of authorisation due to the potential harm to health and the environment. Initially authorisation decisions were taken by each Member State independently. Directive 91/414[194] lays down a two-tier authorisation system in which authorisation for active ingredients takes place at Community level but authorisation for individual plant control products remains a question for national authorities following a harmonised process. At a Community level the risk assessment is carried out by the European Food Safety Authority and the risk management by the Commission. In the United Kingdom the authority is the Pesticides Safety Directorate which is an Executive Agency of the Department for Environment, Food and Rural Affairs. There is also a limited mutual recognition system, which takes into account differences between climates and agricultural practice. The Commission has proposed amending the current system, among other things to increase the participation of Member States in assessing active substances.[195] In the discussions in Council, certain Member States have indicated that the need for specific rules on parallel imports will require further examination.

In *Frans-Nederlandse Maatschappij voor Biologische Producten*,[196] a company was fined for importing a plant protection product which had been lawfully marketed in France but had not been approved in the Netherlands. The ECJ followed *De Peijper* (in the field of pharmaceutical products) and held that, in the absence of harmonisation, Member States were entitled under Article 30 'to decide what degree of protection of the health and life of humans they

[193] For instance, Case C–120/95 *Decker v Caisse de maladie des employés privés* [1998] ECR I–1831; Case C–158/96 *Kohll v Union des caisses de maladie* [1998] ECR I–1931; Case C–157/99 *Geraets-Smits v Stichting Ziekenfonds* [2001] ECR I–5473; Case C–385/99 *Müller-Fauré v Onderlinge Waarborgmaatschappij OZ Zorgverzekeringen* [2003] ECR I–4509; Case C–372/04 *R v Bedford Primary Care Trust, ex parte Watts* (16 May 2006). For broader discussion of the possibility of seeking health care in another Member State see T Hervey, 'The Current Legal Framework on the Right to Seek Health Care Abroad in the European Union' [2007] *Cambridge Yearbook of European Law* (forthcoming).

[194] Dir 91/414 [1991] OJ L230/1.

[195] COM(2006)388.

[196] Case 272/80 *Frans-Nederlandse Maatschappij voor Biologische Producten* [1981] ECR 3277.

intended to assure and in particular how strict the checks to be carried out were'. However, such measures would constitute a disguised restriction on trade if they unnecessarily required 'technical or chemical analyses or laboratory tests where those analyses and tests have already been carried out in another Member State and their results are available to those authorities, or may at their request be placed at their disposal'. Similarly, fees could not be charged for tests which were unnecessary. However, the fact that fees for necessary tests would constitute a heavier burden on those importing small quantities would not mean they were not justified under Article 30.

R v Ministry of Agriculture, Fisheries and Food, ex parte British Agrochemicals Association[197] concerned British provisions which authorised parallel imports which were identical to a product authorised in the United Kingdom. In order to be regarded as identical, both the active ingredient and the product had to be manufactured by the same company (or by an associated company or under licence) as the active substance and product authorised in the United Kingdom. Any differences in the active substance had to be within the variations permitted for the active substance in the United Kingdom and any differences in the nature, quality and quantity of the components of the product had to be deemed by the UK registration authority to have 'no material effect on the safety of humans, domestic animals, livestock, wildlife or the environment generally or on efficacy'. These provisions were challenged by an association of agrochemical manufacturers which argued that parallel imports should go through the full authorisation process.

The ECJ held that the rulings in *De Peijper* and *Smith & Nephew* in the field of pharmaceuticals also applied to plant protection products. Therefore, such products would not require specific authorisation where they were already authorised in the exporting and importing Member States and the authorities in the importing Member State confirmed that they had a common origin, had been manufactured according to the same formulation using the same active ingredient, would have the same effect (taking into account any differences in relevant conditions such as climate) and there were no other health or environmental provisions which should prevent them being used. If those criteria were fulfilled, the product could rely on the existing market authorisation in the importing Member State. The ECJ thus largely supported the UK's approach to parallel imports from within the Community (although the Commission subsequently threatened action against the UK for taking too strict an approach to the concept of identity, as a result of an Order by the High Court when the case returned to it).[198] However, the ECJ also held that, where products were imported from countries outside the EEA, the Directive applied and Member

[197] Case C–100/96 *R v Ministry of Agriculture, Fisheries and Food, ex parte British Agrochemicals Association* [1999] ECR I–1499.

[198] Press Release IP/01/1711; see *R v Ministry of Agriculture, Fisheries and Food, ex parte British Agrochemicals Association* [2000] EuLR 149 (English High Court) and [2001] EWCA Civ 1656 (English Court of Appeal).

States could not waive the requirement of obtaining a full marketing authorisation even if they considered the products identical.

In the light of these judgments the Commission services have produced a guideline on the simplified procedure required for parallel trade of pesticides.[199] This summarises the judgments and indicates the Commission's view on time and costs of the process. It also indicates that most of the case law on pharmaceuticals, such as that relating to repackaging, should also apply to pesticides.

The Commission has taken action against Member States for failure to introduce such a simplified procedure.[200] The Commission has also brought proceedings against Member States which have introduced such a procedure but impose unnecessary or disproportionate requirements. For instance, the Commission took action against Germany for restricting marketing authorisations for pesticides to those who owned the related intellectual property rights.[201] It subsequently brought proceedings in *Commission v Germany*[202] against the German practice of automatically withdrawing parallel import authorisations when the reference product authorisation was withdrawn. The ECJ confirmed that such withdrawals breached Article 28 and could be permitted only if justified, referring to the pharmaceutical cases of *Ferring* and *Paranova Läkemedel*. Even then, the failure to allow the importer a reasonable time to liquidate its stocks was disproportionate. There has also been some discussion of whether chemical testing of parallel imports is permitted.[203]

The Commission also took action against Belgium for requiring that every batch of parallel imported pesticides be checked to ensure that it was identical to the reference product in Belgium.[204] It took further action against Belgium for automatically withdrawing parallel import authorisations upon withdrawal of the authorisation for the reference product and for limiting parallel import authorisations to cases where the same product, manufactured by the same manufacturer, was authorised in Belgium.[205]

Finally, the Commission has taken action against Austria, for requiring that parallel importers provide details of the distributor in the other Member State from which they acquired the product and the place of storage in Austria,[206] and the Netherlands, for delaying parallel import authorisation for pesticides for up to two years while the Commission was of the view that they should be authorised within 45 days.[207] It has commenced action against France for requiring

[199] Sanco/223/2000 rev. 9, 'Guideline developed within the Standing Committee on Plant Health concerning Parallel Trade of Plant Protection Products within the EU and the EEA' of 6 Dec 2001, available at ec.europa.eu/food/plant/protection/evaluation/guidance/wrkdoc18_en.pdf.

[200] Commission Press Release IP/04/919 (Finland).

[201] Commission Press Release IP/95/209.

[202] Case C–114/04 *Commission v Germany* (14 July 2005, judgment not published and available only in French and German); see also Commission Press Releases IP/03/225 and IP/03/1762.

[203] Parliamentary Question H-0313/06.

[204] Press Release IP/97/708.

[205] Press Release IP/04/919.

[206] Press Release IP/00/12.

[207] Press Release IP/01/286.

that parallel imports have a 'common origin' with the product authorised on the national market.[208]

Despite the activity of the Commission and the ECJ in this field, in its decision on the *AstraZeneca/Novartis* merger in 2000 the Commission noted:

> there are still many practical difficulties for parallel importers, both in getting import permits and in finding reliable and stable sources of supply. In particular producers can and do establish systems so that they can trace Europe-wide the final destination of their product. The overall level of parallel imports is therefore quite low, and the wide price differences for identical products between the various Member States . . . show clearly that parallel imports do not effectively restrain producers from segmenting the European market for pricing purposes.[209]

The Commission took a similar view of the limited effect of parallel imports in *BASF/American Cyanamid (AHP)*.[210]

V. MOTOR VEHICLES

Before they can be registered for use in a Member State, for safety reasons motor vehicles are normally subject to prior authorisation. The normal procedure for this authorisation is that each type of vehicle is submitted for type approval. Once type approval has been given, manufacturers then issue certificates that the vehicles they sell conform to that type.

Requirements for type approval used to vary between Member States. As a result, manufacturers would have to incur the costs of the approval process in each Member State and might even have to produce slightly different versions of their cars for each Member State. To deal with this problem, a European-wide type approval, known as EC whole vehicle type approval (ECWVTA), was gradually introduced for cars under Directive 70/156.[211] Once the rules had been harmonised, ECWVTA became compulsory for new cars in 1996 and for existing cars in 1998. A similar Europe-wide approval for motorcycles became compulsory in June 2003[212] and for tractors in July 2005.[213] Under ECWVTA, approval can be sought in any Member State and then must be accepted by other Member States. In the United Kingdom, the national approval authority is the Vehicle Certification Agency, which is an Executive Agency of the Department for Transport. Thus, in contrast to pharmaceuticals, there is no centralised authorisation procedure for motor vehicles but rather a harmonised system with mutual recognition of the decisions of authorities in other Member States.

[208] Case C–201/06 *Commission v France* [2006] OJ C165/16.
[209] Dec 2004/310 *AstraZeneca/Novartis* [2004] OJ L110/1, paras 89–90.
[210] Dec in Case IV/M.1932–3 *BASF/American Cyanamid (AHP)* [2000] OJ C354/38, para 31.
[211] Dir 70/156 [1970–I] OJ Spec Ed 96.
[212] Dir 2002/24 [2002] OJ L124/1.
[213] Dir 2003/37 [2003] OJ L171/1.

As well as imposing unnecessary burdens on manufacturers, the different national type approvals restricted parallel trade, as a car which was approved in one Member State was not necessarily approved for use in other Member States. As with pharmaceuticals, these difficulties could be exacerbated when Member States failed to acknowledge the fact that the cars had been authorised in the exporting Member State. In some cases, Member States even introduced restrictions specifically designed to limit parallel imports.

For instance, in 1984 there was a surge of parallel imports of cars into Italy. In response, Italy tightened its requirements and would not register parallel imported cars without two documents which could only be obtained from the manufacturer: a certificate of origin of the vehicle and a technical specification document. The Italian government sought to justify these measures as necessary to ensure compliance with national safety standards and to prevent traffic in stolen vehicles. The Commission brought proceedings before the ECJ and in *Commission v Italy*[214] the Court, referring to *De Peijper* (in relation to pharmaceutical authorisations), held that the delays and additional costs resulting from the Italian measures breached Article 28. It therefore ordered that the measures be suspended and subsequently confirmed that they were not necessary for either purpose.

In *Schloh v Auto Contrôle Technique*,[215] an official working for the Council had bought a car in Germany and imported it into Belgium. He obtained from the manufacturer a certificate that the car conformed to a type of car approved in Belgium. Under Belgian law, before the car could be registered for use in Belgium he was required to submit it for two roadworthiness tests, paying a fee each time. The Council official brought an action to challenge the tests under Article 28 and the fees under Article 25. The ECJ confirmed that the tests breached Article 28 and that, where the car was new, they could not be justified under Article 30. Where the car had already been used before the application to register, the first test could be justified under Article 30, but only if vehicles of national origin would also have to be tested in such circumstances. The fee could be justified only if the test was justified and, under Article 90, if it was no greater than the fee charged in the same circumstances for vehicles of national origin.

In *Procureur de la République v Gofette*,[216] the car in question had been exported from Belgium to France. The owner was prosecuted for not registering the car in France and defended himself on the basis that the French registration requirements breached Article 28 by requiring a certificate of conformity which the manufacturer would provide only after testing and payment of a significant fee. The ECJ agreed that the French provisions breached Article 28

[214] Case 154/85 *Commission v Italy* [1985] ECR 1753 (Order), [1987] ECR 2717 (Judgment). See also Parliamentary Question 3309/97 [1998] OJ C117/170.

[215] Case 50/85 *Schloh v Auto Contrôle Technique* [1986] ECR 1855.

[216] Case 406/85 *Procureur de la République v Gofette* [1987] ECR 2525.

and, following *De Peijper* and *Schloh*, that such testing could be justified under Article 30 only if it 'does not entail unreasonable cost or delay'. Moreover, following *Frans-Nederlandse Maatschappij voor Biologische Producten* (in relation to plant control products), such testing would not be justified where the tests 'have already been carried out in another Member State and the results are available to [the French] authorities or may at their request be placed at their disposal'. Therefore, the French provisions had to allow the importer to provide documentation issued by the Belgian authorities insofar as that documentation provided the necessary information.

The Commission has also taken action against manufacturers which seek to rely on the authorisation process to restrict parallel trade, as discussed in Chapter 3, section II.D, although this does not mean that such problems no longer arise.[217]

In 1988, the Commission published a Notice relating to regulatory controls on the parallel trade of motor vehicles.[218] This Notice was based on the three judgments of the ECJ. It noted that, where motor vehicles had been approved in one Member State, other Member States were not entitled to rely upon mere failure to comply with their own national type approval to oppose parallel imports. Instead, Member States wishing to prevent importation or refuse registration under Article 30 would have to point to a specific safety concern with the vehicle. The Commission also said that, where a Member State required the provision of specification documents issued by the manufacturer, Member States must ensure that the manufacturers made such documents available without presentation of the vehicle or commercial documents relating to the vehicles, within a reasonable time and at a reasonable cost, which the Commission said could not exceed 100 Euros.

The Commission published a further interpretative communication in 1996, replacing the 1988 Notice.[219] As well as updating the 1988 Notice, this considered ECWVTA. The Commission noted that, under Directive 70/156 as amended, a Member State could not refuse to register vehicles which had been granted ECWVTA and which were accompanied by a valid certificate of conformity. Nor could a Member State require checks other than roadworthiness checks, and even then only where these were also required for cars already registered in that Member State. However, certain modifications may still be required. For instance, in the United Kingdom, cars may need changes to the lights, mirrors and speedometer to reflect the fact that cars in the United Kingdom drive on the left hand side of the road and distances are measured in miles and not kilometres.

[217] Parliamentary Question 2244/98 [1999] OJ C96/63.
[218] Commission Notice 88/C 281/08 [1988] OJ C281/9.
[219] Commission interpretative communication on procedures for the type-approval and registration of vehicles previously registered in another Member State [1996] OJ C143/4.

The Commission has continued to take action against various Member States in relation to restrictions placed on parallel imports of vehicles.[220] Related restrictions have also been challenged. In *Schmidt*,[221] the ECJ considered a French provision which provided that the 'model year' under which cars could be advertised was determined by the date of anticipated sale in France but that, where cars were parallel imported from another Member State, this date would normally be the date on which the cars had been registered in that other Member State. French manufacturers had relied on this difference in advertising campaigns. The ECJ confirmed that the French provisions breached Article 28 and could not be justified on the basis of consumer protection or the fairness of commercial transactions.

Similarly, in *Snellers Auto's*[222] rules in the Netherlands ascribed an earlier date of first registration to parallel imports which had been registered abroad for more than two days. This was important because that date would essentially determine the price at which a buyer might be able to resell the vehicle, so an earlier date reduced the value of the vehicle. The ECJ held that the provisions breached Article 28 and that it was for the national court to ascertain whether they could be justified on grounds such as road safety or the protection of the environment and, if so, whether they were proportionate to these objectives.

VI. LABELLING

Another area where differences between regulations can affect parallel trade is labelling. In particular, where Member States require labelling to be in their official language(s) this often means that parallel importers need to add the necessary labelling before selling in those Member States. Such a requirement constitutes a barrier to trade under Article 28 which must be justified if it is to be permitted, normally on the ground of consumer protection or public health.[223]

Labelling requirements for food and drink were harmonised by Directive 79/112,[224] which has now been replaced by Directive 2000/13.[225] Among other things this requires that labels indicate specific particulars such as the name under which the product is sold, the list of ingredients and the name and address of the manufacturer or packager.

[220] For instance, Press Release IP/97/708 (Spain); Press Release IP/03/225 (Italy); Press Release IP/04/919 (France); Press Release IP/06/885 (Austria, Czech Republic, Hungary, Luxembourg and Poland).

[221] Case C–240/95 *Criminal proceedings against Schmit* [1996] ECR I–3179.

[222] Case C–314/98 *Snellers Auto's v Algemeen Directeur van de Dienst Wegverkeer* [2000] ECR I–8633.

[223] See the discussion in P Oliver, *Free Movement of Goods in the European Community*, 4th edn (Sweet & Maxwell, London, 2003), paras 8.103 and 8.130–8.134.

[224] Dir 79/112 [1979] OJ L33/1.

[225] Dir 2000/13 [2000] OJ L109/29.

Despite this partial harmonisation, labels for food and drink can still vary between Member States because, although labels may contain the necessary information in more than one language, they do not need to do so as long as they contain the information in a language easily understood by purchasers in the Member State in which the products are finally sold.[226] Typically, for various reasons including the limited space available on the packaging, only one language (or a limited number) will be included. This presents a potential difficulty for parallel importers who wish to sell the products in countries where the language of the label is not 'easily understood by purchasers'. In practice, parallel traders normally stick a small additional label with the required information onto the product. Although some consumers are likely to remain suspicious of a product with largely foreign labelling, the relative cost of products and repackaging means that parallel importers will rarely seek to repackage food or drink in the same way as pharmaceuticals (and the necessity of such packaging would be open to dispute).

Piageme v Peeters[227] concerned the sale in the Flemish-speaking region of Belgium of imported mineral waters in bottles labelled only in French or German. Two associations of producers and three individual producers brought an action against the importer for breaching the Belgian implementation of Directive 79/112, which required that products sold in the Flemish-speaking region must include labels in Flemish. The case was referred to the ECJ, which held that the Belgian requirement breached Article 28 by precluding the possibility that labels could be in a language easily understood by purchasers or that purchasers could be informed by other measures.

The question returned to Belgium but, on appeal by the manufacturers, a further reference was made to the ECJ in *Piageme v Peeters II*.[228] The Brussels Court of Appeal noted that the Belgian rules required the use of Flemish but did not preclude the use of other languages. It also asked what circumstances would be taken into account in determining whether the information could be easily understood by or had otherwise been provided to purchasers. The ECJ began by clarifying that 'easily understood' did not mean only the official language of the Member State or region (which was the labelling required for pharmaceuticals) and so the Belgian rules could not require the use of Flemish. The ECJ went on to explain that the labelling requirements had to be met by the label on the product and could not be satisfied by advertising or information at the point of sale. However, the relevant information could be in another language or could use other measures such as designs, symbols or pictograms. In determining whether such information could be easily understood all the circumstances would have to be considered. Relevant factors would include the similarity of words in different languages, the knowledge of foreign languages among the population and any relevant advertising or widespread distribution of the product.

[226] Dir 79/112, above n225, Art 14; Dir 2000/13, above n226, Art 16.
[227] Case C–369/89 *Piageme v Peeters* [1991] ECR I–2971.
[228] Case C–85/94 *Piageme v Peeters II* [1995] ECR I–2955.

In *Goerres*,[229] criminal proceedings were brought in Germany against a shopowner who had sold products bearing labelling in French, Italian or English but not in German, contrary to national provisions which generally required labelling in German but permitted labelling in another language if this was easily intelligible. The shopowner argued that the information had been provided in German on a sign in his shop. The case was referred to the ECJ, which confirmed that the German provisions in question complied with Directive 79/112 and that the provision of information on a sign in the shop would not be sufficient.

In *Geffroy v Casino France*,[230] criminal proceedings had been brought in France against a hypermarket for selling bottles of COCA COLA, MERRY-DOWN cider and RED RAW ginger ale with labelling which was not in French. The hypermarket explained that the COCA COLA had been acquired in the United Kingdom, that it was a well-known product, that the English labelling could be easily understood and that a translation had been available in store but must have been knocked over by a customer. In relation to the cider and ginger ale he explained that the suppliers had been asked to provide adhesive stickers with the relevant information in French but had accidentally failed to do so. The ECJ reviewed the previous cases and confirmed that the French requirement that products be labelled in French breached Article 28 and Directive 79/112 by not allowing the information to be provided to purchasers in other languages or ways.

After the judgment in *Piageme v Peeters* the Commission issued a Communication summarising the judgment but stating that it considered that the use of a language other than the official language(s) of the Member State in question would be acceptable only as an exception rather than a rule.[231]

Moreover, Directive 79/112 was amended after the facts had arisen in *Geffroy v Casino France* to include the provision that '[w]ithin its own territory, the Member State in which the product is marketed may, in accordance with the rules of the Treaty, stipulate that those labelling particulars shall be given in one or more languages which it shall determine from among the official languages of the Community'.[232] This was not in the Commission's original proposal[233] but was based on a proposal by the Parliament.[234] The Commission indicated that the Parliament's proposal, which was to prohibit all sales where the information was not in the official language(s) of the Member State, would breach the Treaty, but suggested the watered down version which remains in Directive 2000/13.[235]

[229] Case C–385/96 *Goerres* [1998] ECR I–4431.
[230] Case C–366/98 *Geffroy v Casino France* [2000] ECR I–6579.
[231] COM(93)532 [1993] OJ C345.
[232] Dir 97/4 [1997] OJ L43/21, Art 1(8).
[233] COM(91)536 [1992] OJ C122/12.
[234] [1993] OJ C315/97, Art 1(5b).
[235] Dir 2000/13 [2000] OJ L109/29, Art 16(2).

However, given the finding in *Piageme v Peeters* that an absolute requirement to use the national language would breach Article 28, it is hard to see exactly how the amendment changes matters, as a Directive cannot derogate from the EC Treaty.

The strictness of the approach to languages used in labelling depends on the product.[236] For example, the ingredients of cosmetic products, like food and drink, need only be in a language easily understood by the consumer, although other particulars, such as precautions to be observed in use, can be required in the official language(s) of the Member State.[237] Similarly, the labelling and package leaflet for pharmaceuticals,[238] health warnings on tobacco products[239] and (rather peculiarly) the labelling for crystal glassware products[240] must be in the official language(s) of the Member State in which the product is placed on the market. Again, these Directives remain subject to the Treaty itself.

VII. UNFAIR COMPETITION AND CONSUMER PROTECTION

The final area of regulation where parallel imports may be restricted is the application of national rules on unfair competition or consumer protection.

As discussed in Chapter 2, section I.C.ix, where a manufacturer seeks to rely on unfair competition provisions these will be treated in a similar manner to intellectual property. Such provisions restrict trade under Article 28 and so must be justified (in this case as a mandatory requirement, as prevention of unfair competition does not appear in Article 30). Sale of a product which was originally put on the market in another Member State is not regarded as 'unfair' under the Treaty and so unfair competition provisions cannot be relied upon to prevent such parallel trade. However, provisions of national law which prevent unfair competition or otherwise protect consumers extend more broadly than this, and measures which do not directly restrict parallel trade or which are justified and proportionate may be permitted.

One example is *CMC Motorradcenter v Pelin Baskiciogullari*.[241] In that case Mrs Baskiciogullari bought a Yamaha motorcycle which had been parallel imported from France to Germany. She subsequently discovered that authorised German dealers generally refused to repair parallel imported motorcycles (a practice of which the seller was aware and which the German court indicated infringed Article 81). She therefore refused to accept delivery, relying on German law which required the seller to make her aware during pre-contractual

[236] Parliamentary Question P-3518/02 [2003] OJ C137E/221. See also Case C–169/99 *Hans Schwarzkopf v Zentrale zur Bekämpfung unlauteren Wettbewerbs* [2001] ECR I–5901.

[237] Dir 76/768 [1976] OJ L262/169, Art 7(2).

[238] Dir 2001/37 [2001] OJ L194/26, Art 5.

[239] Dir 2001/37 [2001] OJ L194/26, Art 5.

[240] Dir 69/493 [1969–II] OJ Spec Ed 599, Annex I col (c); see Case C–51/93 *Meyhui v Schott Zwiesel Glaswerke* [1994] ECR I–3879.

[241] Case C–93/92 *CMC Motorradcenter v Pelin Baskiciogullari* [1993] ECR I–5009.

negotiations of facts which it knew were of crucial importance to her in concluding the contract. The seller sought to enforce the contract and the case was ultimately referred to the ECJ, asking whether the German law in question infringed Article 28. The Commission indicated to the ECJ that the German law infringed Article 28 but was justified by the mandatory requirement of consumer protection. The German government similarly indicated that the German law should be justified on this basis. The ECJ agreed that 'the obligation to provide information prior to contract, imposed by the German law of contract, applies without distinction, at least as regards products coming from the Community, to all contractual relationships covered by that law and that its purpose is not to regulate trade'. However, turning to the risk of obstructing the free movement of goods, the ECJ held that 'it is in any event not the obligation to provide information which would cause such a risk, but the fact that certain authorized dealers of the brand in question refuse to perform services under the guarantee on motorcycles which have been the subject of parallel imports'. The risk of hindering trade was 'too uncertain and too indirect' to fall within the scope of Article 28, and there was no need to justify it on the basis of consumer protection. As a consequence, any remedy for the seller would have to be sought against the Yamaha dealers under Article 81.

Another example is the Swedish Alcohol Law[242] which bans consumers from using independent intermediaries to bring alcoholic drinks into Sweden from other Member States for their private use. Although consumers are free to bring alcohol into Sweden themselves, if they wish someone else to do so on their behalf then their only option is to request the national alcohol retail monopoly Systembolaget to do so. This is not a question of taxation control, as the prohibition applies even if the consumer is prepared to pay any excise duty which may be due.[243] The Commission has taken the view that this is a disproportionate obstacle to the free movement of goods and indicated that it would bring a case against Sweden before the ECJ.[244]

However, a reference on the same issue has been made to the ECJ by the Swedish Supreme Court in *Rosengren v Riksåklagaren*.[245] In that case, Mr Rosengren had ordered Spanish wine which was imported into Sweden by a private carrier engaged by Mr Rosengren without being declared at customs. It was confiscated in Gothenburg on the basis that such imports were prohibited by the Alcohol Law. This was upheld at first and second instance but the Swedish Supreme Court made a reference to the ECJ.

Advocate General Tizzano gave an Opinion which suggested that the Alcohol Law should be analysed under Article 31 of the Treaty, which relates to state

[242] Alkohollag, SFS 1994:1738.

[243] See sect II.C.ii.b (Transportation by Individual) above.

[244] Commission Case 2000/2267. See Parliamentary Question E-3570/02 [2003] OJ 137E/228 and Commission Press Releases IP/03/1417 and IP/04/896. See also Parliamentary Question H-0873/05.

[245] Case C–170/04 *Rosengren v Riksåklagaren* (Tizzano AG's Opinion of 30 Mar 2006; Mengozzi AG's Opinion of 30 Nov 2006; judgment awaited).

monopolies. Under Article 31, such monopolies must not put trade in goods from other Member States at a disadvantage compared to trade in domestic goods. The Advocate General suggested that this had been the case when Systembolaget had the discretion to refuse to import goods for private individuals but that, since that discretion had been abolished in January 2005, there was no longer a disadvantage to goods from other Member States. The Advocate General also suggested that, if the restriction were to be analysed under Articles 28 to 30, it would constitute a quantitative restriction, but that since January 2005 it would be justified in the interests of ensuring that those under the age of 20 do not purchase alcohol.

The case was then reassigned to a Grand Chamber of the ECJ and a further Opinion was delivered by Advocate General Mengozzi. He agreed with Advocate General Tizzano that the Alcohol Law should be analysed under Article 31. However, he then indicated that it was for the Swedish court to determine whether the law before 2005 in fact discriminated against goods from other Member States. The judgment is awaited.

Excessive or disproportionate restrictions will still be prohibited. In *Dassonville*[246] whisky was being parallel imported from France to Belgium. Belgian law prohibited the importation of goods bearing a designation of origin where the goods were not accompanied by an official document issued by the government of the exporting country certifying the right to such a designation and the parallel traders were prosecuted. It was much harder for parallel traders from France to meet the Belgian requirements than for direct importers from Scotland. The ECJ held that the requirements appeared to constitute 'a means of arbitrary discrimination or a disguised restriction on trade between Member States' which could not be justified.

[246] Case 8/74 *Procureur de Roi v Dassonville* [1974] ECR 837.

5

International Aspects

THE LAST THREE chapters have focussed on the restrictions which apply to parallel trade within the European Community. However, trade does not stop at the borders of the Community and this chapter is concerned with the factors which impact on parallel trade from outside the Community.

First, the principal topics of the last three chapters (intellectual property rights, competition law and regulation) are considered in relation to parallel trade from outside the Community. This is followed by a discussion of the impact of the Agreement on the European Economic Area [EEA] and other bilateral and multilateral treaties.

I. INTELLECTUAL PROPERTY RIGHTS

A. International Exhaustion under the EC Treaty

The first question to be addressed is whether the EC Treaty allows the use of intellectual property rights to prevent parallel imports from outside the Community or whether it imposes a rule of international exhaustion.

In the *EMI Records v CBS* cases[1] an American company, CBS, was manufacturing records in America bearing the COLUMBIA trade mark. It then began to import these records into the Community through its national subsidiaries. However, although CBS owned the mark in the United States, in the Member States the mark belonged to EMI Records, an unrelated English company. The marks had originally been owned by the same company, but there had been no legal, economic, financial or technical links between the owners for more than 40 years.

EMI Records therefore brought infringement actions against CBS' subsidiaries, and in the course of proceedings the Danish, English and German courts all referred similar questions to the ECJ. For example, the Copenhagen Admiralty and Commercial Court asked the ECJ whether the free movement of goods provisions should be:

[1] Case 51/75 *EMI Records v CBS United Kingdom* [1976] ECR 811; Case 86/75 *EMI Records v CBS Grammofon* [1976] ECR 871; Case 96/75 *EMI Records v CBS Schallplatten* [1976] ECR 913.

> interpreted as disentitling A from exercising its rights deriving from the national trade-mark law of the Member States to prevent the sale by B in the Member States of goods bearing trade-mark X, when such goods are manufactured and marked with the mark X outside the Community where B is entitled to use mark X

The ECJ held that 'the exercise of a trade-mark right in order to prevent the marketing of products coming from a third country under an identical mark . . . does not affect the free movement of goods between Member States' and therefore did not breach Article 28, since it 'does not in fact jeopardize the unity of the common market which Articles [28] et seq. are intended to ensure'.

Two attempts were made by CBS to avoid this conclusion. First, it was argued that the goods were in free circulation in the Community, having completed customs formalities, and so Articles 28 to 30 applied to them. Secondly, it was argued that the Treaty provisions on the Common Commercial Policy obliged the Member States to extend the effect of Articles 28 to 30 to their trade with third countries.

Exploring the first question, under Article 24 of the Treaty goods are treated as being in free circulation in the Community once import formalities have been complied with and custom duties have been paid. Under Article 23(1), Articles 28 to 30 apply to goods in free circulation. The ECJ held that these provisions 'cannot be interpreted as meaning that it would be sufficient for products bearing a mark applied in a third country and imported into the Community to comply with the customs formalities in the first Member State where they were imported in order to be able then to be marketed in the common market as a whole in contravention of the rules relating to the protection of the mark'.

As for the second question, the first sentence of Article 131 of the Treaty states that '[b]y establishing a customs union between themselves Member States aim to contribute, in the common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international trade and the lowering of customs barriers'. Not entirely surprisingly, the ECJ held that Article 131 does not oblige Member States to extent the Treaty provisions on the free movement of goods to trade with third countries.

The ECJ therefore concluded that the Treaty does not prevent a trade mark owner from exercising its rights to prevent the importation into and marketing within the Community of similar products bearing the same mark: in other words, although the Treaty requires Community exhaustion it does not require international exhaustion.[2]

Generics v Smith Kline & French[3] concerned transitional provisions which applied when the United Kingdom extended the term of patents from 16 to 20

[2] However, see the suggestion that the judgment may be more limited in J Jones, 'Does an Opportunity Still Exist for the Development of a Doctrine of International Exhaustion at a Community Level under Articles 28 and 30?' [2000] *European Intellectual Propoerty Review* 171.

[3] Case 191/90 *Generics v Smith Kline & French* [1992] ECR I–5335.

years. Under Schedule 1 to the Patents Act 1977, third parties had a statutory right to a licence of such patents during their four year extension, with terms to be settled by the Patents Comptroller if the parties failed to agree them.

In this case, SKF produced the raw material cimetidine in Ireland and imported it into the United Kingdom where it was used to produce a pharmaceutical product. Two generic pharmaceutical companies sought licences under SKF's UK patent to import the raw material and the finished product from outside the Community, and these were granted by the Patents Comptroller. However, the High Court then amended the licences to exclude importation of the finished product from outside the Community, on the basis that this was manufactured in the United Kingdom by SKF, but not importation of the raw material, on that basis that this was not. Both sides appealed to the Court of Appeal, which referred various questions to the ECJ.

The ECJ confirmed that its ruling in *EMI Records v CBS* meant that Articles 28 and 30 'apply only to restrictions on imports affecting trade between Member States'. However, it held that Member States could not apply discriminatory criteria, which affected trade between Member States, in determining whether to allow imports from non-member countries. In this case, it was clear that the UK practice gave preferential treatment to manufacturers who produced goods in the United Kingdom rather than importing from another Member State. This was held to constitute a measure having equivalent effect to a quantitative restriction on imports under Article 28.

Turning to Article 30, the ECJ noted that this would permit derogations from Article 28 'only in so far as such derogations are justified for the purpose of safeguarding rights which constitute the specific subject-matter' of the intellectual property in question, which in the case of patents was 'in particular, the exclusive right of the patent proprietor to use an invention with a view to manufacturing industrial products and putting them into circulation for the first time, either directly or by the grant of licences to third parties, and also the right to oppose infringements'. The ECJ held that the different treatment applied was not justified for that purpose, but rather by the desire to favour production within the United Kingdom.

Therefore, the UK approach breached Article 28 and was not permitted by Article 30. However, the ECJ left it to the United Kingdom to decide which of the non-discriminatory alternatives it would adopt (not allowing imports from non-member countries at all or always allowing such imports). The Court noted that 'it is national law which, in the present state of Community law and in the absence of approximation of national legislation, defines the extent of the protection conferred by a patent or in respect of each type of patent' and thus whether or not patent holders should have the right to prevent imports, subject to Articles 28 and 30. Therefore it is up to Member States to determine whether or not the rights of a patent holder should include the right to prevent imports in the absence of any European legislation one way or the other. The same applies to other forms of intellectual property.

B. International Exhaustion under Community Legislation

Given that the EC Treaty neither requires nor prohibits a doctrine of international exhaustion of intellectual property rights, but leaves the choice to Member States, the development of a Community approach has taken place through secondary legislation. It is worth considering this development in some detail, not only as an aid to construction of the legislation but also because it illustrates the changing views taken by Member States and the Community institutions to the question.

i. Initial Legislation

After much debate going back to the 1960s, a number of pieces of legislation were adopted in the 1980s and 1990s which dealt with the question of exhaustion of intellectual property rights. The Commission was generally in favour of international exhaustion in the 1980s, proposing it for trade marks in 1980 and again for computer programs in 1989. However, due to objections from Member States and the Parliament, all of the legislation adopted provided only for Community exhaustion and some explicitly prohibited international exhaustion.

a. Patents The proposals for a European patent, at least as far back as 1961,[4] have consistently required Community exhaustion and have said nothing explicitly about international exhaustion. During the negotiations which led to the Community Patent Convention in 1975 there was little discussion of international exhaustion, although industry groups made it clear that in their view it should be prohibited.[5] The Community Patent Conventions in 1975[6] and 1989[7] adopted Community exhaustion for both Community and national patents. However, neither of these Conventions ever entered into force. The proposed Community Patent would also adopt Community exhaustion (although it would not harmonise the exhaustion regime for national patents).[8] By way of example, the provision on exhaustion of Community patents in the 1975 Convention read as follows:

> The rights conferred by a Community patent shall not extend to acts covered by that patent which are done within the territories of Contracting States after that product

[4] 'Patents' Working Group, Proposals of the Benelux Delegations on Article 21 of the Preliminary Draft of the Convention relating to a European Patent Right, Doc IV/6365/61-F, at 2 and 5–6.

[5] European Council, *Records of the Luxembourg Conference on the Community Patent 1975* (OPOCE, Luxembourg, 1982) at 101–2 (Union of Industries of the European Communities, UNICE) and 174–5 (the Standing Conference of the Chambers of Commerce and Industry of the European Economic Community, CPCCI).

[6] [1975] OJ L17/1, Arts 32 and 81(1).

[7] [1989] OJ L401/9, Arts 28 and 76(1).

[8] COM(2000)412, Art 10.

> has been put on the market in one of these States by the proprietor of the patent or with his express consent, unless there are grounds which, under Community law, would justify the extension of the rights conferred under the patent.

However, the question of international exhaustion has been debated in more detail in relation to other rights.

b. Trade marks (part I) In 1964, a preliminary draft of a Convention for a European Trade Mark was produced by a working party of representatives from the original six Member States.[9] The draft provided for broad international exhaustion for the new European Trade Mark, with Article 16 reading as follows:

> *Article 16 Limitation of rights attached to a European trade mark*
>
> 1. The European trade mark does not confer on its proprietor the right to oppose the use in commerce of the trade mark or of a similar mark for goods bearing this trade mark or a similar trade mark which have been marketed
>
> (a) by the proprietor of the European trade mark or with his consent or
>
> (b) by a person in a commercial relationship with the proprietor of a European trade mark or with the consent of such a person.
>
> 2. A person shall be deemed to be in a commercial relationship with the proprietor of a European trade mark if the person can exert a significant influence in respect of the trade mark on the proprietor of the trade mark or if the proprietor of the trade mark can do so on that person or if a third party can do so on that person and on the proprietor of the trade mark either directly or indirectly.
>
> 3. Paragraph 1 shall not apply if the condition of the goods is altered or impaired.

Article 17 of the draft also sought to apply international exhaustion to national trade mark rights when they were used in conjunction with a European trade mark.

Although there was no further discussion of international exhaustion in the Commission's 1976 Memorandum,[10] the Commission's original proposals for a Trade Mark Directive and Community Trade Mark Regulation in 1980 explicitly provided for international exhaustion of trade mark rights.[11] The Commission justified this approach on the basis that there would be distortion of competition in the common market:

> if the Commission were to propose rules laying down the principle that the proprietor of a Community trade mark had the right to use it in order to compartmentalize the world market. There is a real danger that undertakings whose principal place of business could well be in a non-member country would prevent their products from being

[9] Department of Trade and Industry, *Proposed European Trade Mark: Unofficial Translation of a Preliminary Draft of a Convention for a European Trade Mark* (HMSO, London, 1973).

[10] SEC(76)2462.

[11] COM(80)635, Art 6(1) of the proposed Dir and Art 11(1) of the proposed Reg.

> imported into the Community at more favourable prices, which would be detrimental to Community consumers.[12]

However, various Community bodies disagreed with that approach during the legislative process.

First, the Economic and Social Committee, although supporting international exhaustion, suggested in September 1981 that trade mark owners should have legitimate grounds to oppose importation 'where the marked goods to be imported into the Community differ in quality from goods which are marketed in the Community under the same mark' (product differentiation) or 'where the non-member country bans the import of comparable goods from the Community' (reciprocity).[13]

A broader limitation of exhaustion, where it would apply only to goods put on the market 'in the Community', was then proposed in September 1982 in the Opinion of the European Parliament's Committee on Economic and Monetary Affairs. This was again based on concerns about reciprocity on the basis that 'if non-Member States do not acknowledge the principle of international expiry of a trade mark, the Commission's proposal results in discrimination against Community industry'.[14] The discrimination would appear to be that Community industry would not be able to export to foreign markets at low prices without endangering prices in their domestic markets, while industry in countries which did not apply international exhaustion could do so.

The words 'in the Community' were then adopted by the Council Working Party of national experts in May 1983, with the support of the majority of Member States. However, as the amendment was opposed by Germany, the Working Party did so 'on the understanding that it would not prevent courts from applying a broader principle according to each individual case, if there were a reciprocity agreement or if the proprietor had misused his trade mark rights'.[15]

The same amendment was initially rejected by the European Parliament's Legal Affairs Committee in its June 1983 Report. However, when the Report was debated by the Parliament in October 1983 the wording was reintroduced by the chairman of the Committee on Economic and Monetary Affairs and was accepted by the Parliament, with the support of the Commission, despite being attacked by the Socialist Group as 'trade protectionism'.[16]

As a result of the approach taken by the Council and the Parliament, the Commission added the words 'in the Community' to its amended proposals for a Regulation in 1984[17] and Directive in 1985.[18] Nevertheless, the Commission's

[12] *Ibid*, 34.
[13] [1981] OJ C 310/22, 24 and 30.
[14] Parliament doc 1 611/83/Corr, at 61.
[15] Conclusions of the ninth meeting of the Working Party on Intellectual Property (Trade Mark), 3–4 May 1983, Council doc 7110/83.
[16] Debates of the European Parliament [1983] 1–304/104 and 153; [1983] OJ C 307/44 and 66.
[17] COM(84)470 final.
[18] COM(85)793 final.

explanatory memorandum stated that although 'the Commission has formed the opinion that the Community legislator should refrain from introducing [the principle of international exhaustion] and make do with the rule of Community-wide exhaustion', nevertheless 'the restriction to Community-wide exhaustion, however, does not prevent national courts from extending this principle, in cases of a special nature, in particular where, even in the absence of a formal agreement, reciprocity is guaranteed'.

At that stage the discussion moved away from trade marks and turned instead to rights over semiconductor products.

c. Semiconductor products In December 1985, the Commission adopted Community exhaustion in its proposal for a Semiconductor Products Directive.[19] As with the amended proposal for the Trade Mark Directive and Regulation, Member States were not explicitly prohibited from applying international exhaustion, but the Directive provided for exhaustion only where products had been put on the market in a Member State. The Commission's proposal explained that this simply applied the principle of Community exhaustion, on which basis the German delegation questioned the need for a provision on exhaustion at all in the light of the ECJ's existing case law.[20] Similarly, in a staff paper in April 1986, the Commission stated that the proposed Article simply 'retains the principle of free movement of goods in the [EC] already created by the Treaty' and that it was 'not therefore a legal innovation so far as trade between Member States is concerned'.[21]

During the discussions in the Council Working Party the Commission was asked about the possibilities of applying the principle of international exhaustion of rights. It responded that 'this had not been proposed because the Commission had been of the opinion that a majority of Member States would be opposed to such a principle' and that 'if such a principle were to be adopted it should be on the basis of reciprocity'. However, the Commission also indicated:

> If the principle of the Directive was limited to a Community exhaustion principle, it would allow Japanese and American firms to market their products in the [EC] at higher prices as the application of the more limited Community exhaustion principle could not prevent USA and Japanese firms from barring parallel imports to the [EC].[22]

The discussions therefore proceeded on the basis that the proposal simply adopted the ECJ's existing case law on Community exhaustion, and thus did not prohibit Member States from applying international exhaustion should they so wish. Indeed, if that had been the Commission's intention then its statements to the Council Working Party, and particularly those in its staff working paper,

[19] COM(85)775, Art 5(4)(a).

[20] Summary of Conclusions of the Working Party on Intellectual Property (Semi-conductor products) on 24–25 Feb 1986, Council doc 5439/86, at 12.

[21] SEC(86)668, at 5.

[22] Summary of Conclusions of the Working Party on Intellectual Property (semi-conductor products) on 24–26 Mar 1986, Council doc 6217/86, at 16.

were at the very least highly misleading. In any event, the Semiconductor Products Directive was adopted in December 1986 with the relevant words from the proposal unchanged and reading:[23]

> The exclusive rights to authorise and prohibit the acts specified . . . shall not apply to any act committed after the topography or the semiconductor product has been put on the market in a Member State by the person entitled to authorise its marketing or with his consent.

d. Trade marks (part II) The focus then returned to trade marks. In February 1987, Germany and the Commission suggested that the approach to exhaustion in the Trade Mark Directive could be clarified by way of a statement to be entered in the Council minutes. The German suggestion was to state that the Directive 'does not rule out the possibility that, in certain specific cases in which it is justified, the courts may grant [sic, this should presumably read 'refuse'] the proprietor of the trademark a right of prohibition where the goods were put on the market for the first time outside the Community, as, for example, in the case of identical original goods of the proprietor of the trade mark'. The Commission's suggestion was to state that '[n]otwithstanding the principle of Community exhaustion posited in Article 11, the Council and the Commission note that the Community retains the possibility of negotiating with trading partners bilateral or multilateral agreements, the provisions of which would impose international exhaustion of the right with regard to the co-signatories'.[24] However, both suggestions were rejected by the other Member States.[25]

Germany subsequently withdrew its objection to the exhaustion provisions,[26] and in December 1988 the Trade Mark Directive was adopted with the relevant provision stating that:[27]

> The trade mark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that trade mark by the proprietor or with his consent.

When the Community Trade Mark Regulation was adopted in December 1993 it followed the same approach.[28]

e. Computer programs The next rights to be considered were those over computer programs. In January 1989, the Commission adopted international

[23] Dir 87/54 [1987] OJ L24/36, Art 5(5).

[24] Outcome of proceedings of the ad hoc Working Party of Counsellors (Trade Mark) on 13 Feb, Council doc 4936/87, at 2–3.

[25] Summary of proceedings of the second meeting of the ad hoc Working Party of Counsellors on Trade Mark Law on 2 Mar 1987, Council doc 5451/87, at 1–2.

[26] Summary of conclusions of the 52nd meeting of the Working Party on Intellectual Property (Trade Mark) on 30–31 July 1987, Council doc 8117/87, at 6.

[27] Dir 89/104 [1989] OJ L40/1, Art 7.

[28] Reg 40/94 [1994] OJ L11/1, Art 13.

exhaustion in its proposal for the Computer Programs Directive.[29] The Economic and Social Committee supported this, noting in October 1989:

> The Commission has not placed any geographical restriction on exhaustion rights (such as a restriction to the Community). Whatever the merits of a geographical restriction the Committee considers this a matter of trade and not copyright legislation, i.e. Community copyright law would not be an appropriate vehicle to prohibit parallel importing from outside the Community. Consequently the Committee supports the object of this clause which makes clear in terms of copyright law that the position of EC individuals and companies taking licences of programs from copyright proprietors outside the Community is protected. However, the whole question of parallel importing of computer programs from outside the Community deserves further study by the Commission.[30]

Later that month, in the Council Working Party, the Dutch delegation disagreed and suggested that 'the right should not be exhausted until the first sale takes place within a Member State of the Community'.[31] However, this suggestion was rejected by the Working Party[32] and the Commission confirmed in January 1990 that Article 4(c) was intended to adopt international exhaustion.[33] Similarly, the European Parliament did not propose any amendments to the Article.[34]

Nevertheless, there was further discussion in the Council Working Party in July 1990 when the UK delegation queried whether Article 4(c) was to apply Community or international exhaustion. This time all the delegations agreed that it should be changed to Community exhaustion.[35] Although the Article was left unchanged in the Commission's amended proposal,[36] the Commission did not object to the change, and in October 1990 the Council Working Party amended the draft to limit the exhaustion provision to sales within the Community.[37] This was the version adopted in the final Directive in May 1991, reading in relevant part:[38]

The first sale in the Community of a copy of a program by the rightholder or with his consent shall exhaust the distribution right within the Community of that copy.

[29] COM(88)816 [1989] OJ C91/4, Art 4(c).

[30] [1989] OJ C329/4, para 3.5.3.2.

[31] Summary of Proceedings of Working Party on Intellectual Property (Computer Programs) on 30–31 Oct 1989, Council doc 9840/89, at 11.

[32] Summary of Proceedings of Working Party on Intellectual Property (Computer Programs) on 27–28 Nov 1989, Council doc 4344/90, at 10.

[33] Summary of Proceedings of Working Party on Intellectual Property (Computer Programs) on 25 Jan 1990, Council doc 4490/90, at 9–10.

[34] [1990] OJ C231/78.

[35] Summary of Proceedings of Working Party on Intellectual Property (Computer Programs) on 17–18 July 1990, Council doc 8216/90, at 15.

[36] COM(90)509 [1990] OJ C320/22.

[37] Summary of Proceedings of Working Party on Intellectual Property (Computer Programs) on 18–19 Oct 1990, Council doc 9664/90, at 5–6 and Report from Presidency to Permanent Representatives Committee of 25 Oct 1990, Council doc 9398/90, at 16.

[38] Dir 91/250 [1991] OJ L122/42, Art 4(c)

f. Plant variety rights The Commission's August 1990 proposal for a Community Plant Variety Rights Regulation suggested that Community exhaustion be adopted.[39] This was adopted in the final Regulation, which reads in relevant part:[40]

> The Community plant variety right shall not extent to acts concerning any material of the protected variety . . . which has been disposed of to others by the holder or with his consent, in any part of the Community, or any material derived from the said material.

The same approach was taken in Article 16 of the International Convention for the Protection of New Varieties of Plants, which was introduced when that Convention was modified in March 1991 and is considered further in section IV.D.i below.

Up to this point, therefore, all the legislation which had been adopted (patents, semiconductor product rights, trade marks, software rights and plant variety rights) had taken a similar form in requiring Community exhaustion but not expressly prohibiting international exhaustion. Any prohibition on international exhaustion would have to be implied from the fact that Member States were not permitted to provide further defences to infringement beyond those provided for in the Community legislation.

g. Rights related to copyright This approach of simply requiring Community exhaustion was taken again in the Commission's original proposal for the Rental Rights Directive in December 1990, which also harmonised the right of exclusive distribution for certain rights related to copyright.[41] The explanatory memorandum indicated that this provision simply implemented the established case law of the ECJ, as a result of which the Economic and Social Committee suggested that the provision could be deleted.[42]

However, after some criticism of the drafting, the proposal was amended by the Council Working Party in May 1991 to state explicitly that the distribution right should not be exhausted *except* by Community exhaustion.[43] This amended version did not appear in the Commission's amended proposal in April 1992[44] but appeared in the Council's common position in June 1992.[45] The

[39] COM(90)347 [1990] OJ C244/1, Art 15(1).

[40] Reg 2100/94 [1994] OJ L227/1, Art 16.

[41] COM(90)586 [1991] OJ C53/35, Art 7(2) and explanation at 57–8. A more nuanced approach had been suggested in a study produced for the Commission, where exhaustion would apply to copies produced abroad by the same legal entity as in the Community but not in other cases: A Dietz, *Copyright Law in the European Community* (Sijthoff & Noordhoff, Alphen aan den Rijn, 1978) 113–14.

[42] [1991] OJ C269/54.

[43] Note from Presidency to Working Party on Intellectual Property (Copyright) of 22 May 1991, Council doc 6360/91, at 6, following the Outcome of Proceedings of Working Party on Intellectual Property (Copyright) on 8 Apr 1991, Council doc 5746/91, at 8.

[44] COM(92)159 [1992] OJ C128/8, Art 7(2).

[45] Common position adopted by the Council on 18 June 1992, Council doc 6968/1/92, Art 9(2), at 15.

Commission did not even mention the change when it summarised the Council's common position for the Parliament,[46] and thus the Directive was adopted in November 1992 with the provision reading:[47]

> The distribution right shall not be exhausted within the Community in respect of an object as referred to in paragraph 1, except where the first sale in the Community of that object is made by the rightholder or with his consent.

b. Database rights However, this explicit approach was an aberration. In the next proposal, for the Database Directive in April 1992, the Commission simply followed the wording of the Computer Programs Directive.[48] There was no serious discussion on international exhaustion, and the proposal was eventually adopted in March 1996 with the relevant provision reading:[49]

> The first sale in the Community of a copy of the database by the rightholder or with his consent shall exhaust the right to control resale of that copy within the Community.

ii. Interpretation of the Legislation

By this stage, discussion had begun on the question whether Member States were still permitted to apply a regime of international exhaustion under the harmonised legislation or whether this had been prohibited.[50]

Member States had been explicitly prohibited from applying international exhaustion only for rights related to copyright (in the Rental Rights Directive). However, the Commission was by now strongly of the view that all the legislation implicitly prohibited international exhaustion and that such a prohibition was necessary for the internal market. A number of Member States had taken the same view of the legislation and had prohibited international exhaustion. Nevertheless, there was still a serious debate taking place in the European Parliament and in national courts as to whether such an interpretation was correct.

a. Commission In December 1993, the Commission was asked in the Parliament whether the Rental Rights Directive prohibited international exhaustion, and in April 1994 the Commission responded to say that both that Directive and the Trade Marks Directive did so.[51] The Commission extended this to the Computer Programs Directive in response to a further question in July 1995.[52] In this latter response, the Commission accepted that the wording

[46] SEC(92)1323, at 7.
[47] Dir 92/100 [1992] OJ L346/61, Art 9(2). Now Dir 2006/115 [2006] OJ L376/28, Art 9(2).
[48] COM(92)24 [1992] OJ C156/4, Art 5(d).
[49] Dir 96/9 [1996] OJ L77/20, Art 5(c).
[50] See F-K Beier, 'Industrial Property and the Free Movement of Goods in the Internal European Market' (1990) 21 *International Review of Industrial Property and Copyright Law* [IIC] 155, arguing for the former approach.
[51] Parliamentary Questions E-3482/93-3484/93 [1994] OJ C340/36.
[52] Parliamentary Question H-0436/95, Debates of the European Parliament (12 July 1995) 4-466/174.

was clearer in the Rental Rights Directive, but said that the Computer Programs Directive had the same effect implicitly because 'since no provision is made for [the distribution] right to be exhausted within the Community by a first sale outside the Community, Member States are not free to provide for such exhaustion in respect of computer programs'.

Similarly, in its 1995 Green Paper on copyright and related rights in the information society the Commission said that the clauses in the Computer Programs and Rental Rights Directives did not simply fail to adopt international exhaustion but actually precluded Member States from adopting such a system. It explained that such clauses were adopted 'because leaving Member States free to provide for international exhaustion might have had a damaging effect on the operation of the Internal Market'.[53] The Commission extended this interpretation to the Database Directive in its follow-up to the Green Paper in November 1996.[54]

b. National courts In July 1995 the District Court of The Hague held that the Computer Programs Directive prohibited international exhaustion in *Novell v America Direct*,[55] which concerned the parallel import of software from the United States. Similarly, in December 1995 the German Federal Supreme Court took the same approach under the German Trade Mark Act implementing the Trade Mark Directive in *Dyed Jeans*,[56] which concerned imports of Levi's jeans from the United States. Similar views had been taken by lower German courts.[57] However, the Brussels Commercial Court was reported to have reached the opposite conclusion in October 1996,[58] and there was clearly disagreement between the national courts.[59]

c. Silhouette The point was referred to the ECJ by the Austrian Supreme Court in October 1996 in *Silhouette*.[60] The facts of that case were as follows. In October 1995 Silhouette sold 21,000 out-of-fashion spectacle frames to a Bulgarian company, Union Trading. It delivered the frames to Union Trading in

[53] COM(95)382, at 46–7.

[54] COM(96)568, at 18.

[55] Case KG95/591 *Novell v America Direct* (Arrondissementsrechtbank, The Hague, 7 July 1995), *Intellectuele Eigendom & Reclamerecht* 1995, 30. See PB Hugenholtz, 'Chronicle of the Netherlands: Dutch Copyright Law' (1996) 169 *Revue Internationale du Droit d'Auteur* 128.

[56] Case I ZR 210/93 *Dyed Jeans* (Bundesgerichtshof, 14 Dec 1995) [1996] GRUR Int 726. See the discussion by A Ebert-Weidenfeller and H Goddar, 'International Exhaustion: The European Dimension' and R Winkler, 'International Exhaustion: The Worldwide Dimension', both in M Franzosi (ed), *European Community Trade Mark: Commentary to the European Community Regulations* (Kluwer Law International, The Hague, 1997) 223–34 and 235–42.

[57] *GT all Terra* (Oberlandesgericht, Munich, 12 Oct 1995) [1996] GRUR 137; *Adidas import* (Landgericht, Düsseldorf,, 4 July 1995) [1996] GRUR 66.

[58] See Parliamentary Question E-0219/97 [1997] OJ C319/40.

[59] See also the case comment on *Silhouette* by E Gippini-Fournier in (1999) 36 *CMLRev* 807 and H Norman, 'Parallel Imports from Non-EEA Member States: The Vision Remains Unclear' [2000] *European Intellectual Property Review* 159, both of which cite a number of other decisions.

[60] Case C–355/96 *Silhouette International Schmied v Hartlauer* [1998] ECR I–4799, para 31.

Bulgaria (which was not then a Member State) in November 1995. However, the frames were acquired by Hartlauer, a low price Austrian retailer, and by December 1995 they were being offered for sale in Austria. Silhouette brought an action for an interim injunction on the basis of trade mark infringement. This was rejected by the Steyr Regional Court and the Linz Higher Regional Court, but Silhouette appealed to the Supreme Court. The Supreme Court noted that the Austrian courts had traditionally applied international exhaustion and that 'the explanatory memorandum to the Austrian law implementing Article 7 of the Directive[61] indicated that it was intended to leave the resolution of the question of the validity of the principle of international exhaustion to judicial decision'. It therefore asked the ECJ whether Article 7(1) of the Trade Mark Directive meant that a trade mark owner has the right to prohibit a third party from using the mark for goods which have been put on the market outside the Community (ie whether it prohibited international exhaustion).

The Austrian, French, German, Italian and United Kingdom governments and the Commission all submitted that the Directive prohibited international exhaustion, while only the Swedish government argued to the contrary. In January 1998, Advocate General Jacobs gave his Opinion in the case in which he agreed with the majority.[62] He said that, based on its legislative history, the Trade Mark Directive did not require Member States to implement international exhaustion, and so the question was whether it prohibited international exhaustion or left it to Member States to decide. The Advocate General said that the language of Article 7(1) appeared to preclude international exhaustion but was not conclusive. He therefore considered the aims and scope of the Directive, focussing particularly on the argument that '[i]f some Member States practise international exhaustion while others do not, there will be barriers to trade within the internal market which it is precisely the object of the Directive to remove', later pointing out that price competition in the internal market would be distorted as consumers in Member States applying international exhaustion would benefit from lower prices than those in countries which did not. He also referred to 'concern about the possible lack of reciprocity if the Community were unilaterally to provide for international exhaustion'.

In July 1998, the ECJ handed down its judgment, confirming that the Trade Mark Directive prohibits Member States from applying international exhaustion and holding that 'national rules providing for exhaustion of trade-mark rights in respect of products put on the market outside the EEA under that mark by the proprietor or with its consent are contrary to Article 7(1) of [the Trade Mark Directive]'. It based this on the wording of Article 7(1) and a finding that 'Articles 5 to 7 of the Directive must be construed as embodying a complete

[61] 669 BlgNR 18 GP5.

[62] See criticism by W Cornish, 'Trade Marks: Portcullis for the EEA?' [1998] *European Intellectual Property Review* 172. However, see also the defence of the ultimate judgment in D Edward, 'Trade Marks, Descriptions of Origin and the Internal Market: The Stephen Stewart Memorial Lecture 2000' [2001] *Intellectual Property Quarterly* 135.

harmonisation of the rules relating to the rights conferred by a trade mark', supported by the argument that '[a] situation in which some Member States could provide for international exhaustion while others provided for Community exhaustion only would inevitably give rise to barriers to the free movement of goods and the freedom to provide services'. It noted that 'the Community authorities could always extend the exhaustion provided for by Article 7 to products put on the market in non-member countries by entering into international agreements in that sphere, as was done in the context of the EEA Agreement'.

The explanatory memorandum to the Commission's amended proposal was not discussed by the Advocate General (despite the fact that he explicitly referred to the explanatory memorandum to the original proposal) or by the ECJ (at all). Its possible impact did form part of a series of questions referred to the ECJ in *Calvin Klein*,[63] where the Copenhagen Maritime and Commercial Court asked whether it could apply international exhaustion where the goods had been put on the market by the owner in a third country which itself applied international exhaustion and, if so, whether the United States offered such a 'guarantee of reciprocity'.[64] However, that case was withdrawn from the Court, as were two other references from the Austrian Supreme Court in *Wrangler Germany v Metro SB-Großhandel*[65] and *Polo/Lauren v Jürgen Denz*[66] which had been in identical terms to *Silhouette*.

d. Sebago In *Sebago v G-B Unic*,[67] the ECJ confirmed its judgment in *Silhouette*. Sebago owned Benelux trade marks SEBAGO and DOCKSIDES. The case concerned a batch of DOCKSIDES SEBAGO shoes which had been put on the market in El Salvador, had been imported by a Belgian parallel importer and then sold to G-B Unic, a Belgian retailer. The principal question in the reference was whether the fact that Sebago had consented to other batches of identical or similar goods being marketed in the Community was relevant to the question of exhaustion. Unsurprisingly, both the Advocate General and the ECJ held that this was not relevant and that consent is required in relation to each individual product in respect of which exhaustion is pleaded. Indeed, the Advocate General noted:

[63] Case C–4/98 *Calvin Klein Trademark Trust v Cowboyland* [1998] OJ C72/10, removed from the register by order of 14 Jan 1999 [1999] OJ C86/14.

[64] See on this point J Rasmussen, 'The Principle of Exhaustion of Trade Mark Rights Pursuant to Directive 89/104 (and Regulation 40/94)' [1995] *European Intellectual Property Review* 174 and A Carboni, 'Cases Past the Post on Trade Mark Exhaustion: An English Perspective' [1997] *European Intellectual Property Review* 198.

[65] Case C–278/97 *Wrangler Germany v Metro SB-Großhandel* [1997] OJ C295/19, removed from the register by order of 7 Oct 1998 [1999] OJ C20/28.

[66] Case C–370/97 *Polo/Lauren v Jürgen Denz* [1997] OJ C387/9, removed from the register by order of 20 Oct 1998 [1999] OJ C20/29.

[67] Case C–173/98 *Sebago v. G-B Unic* [1999] ECR I–4103.

> The Court cannot . . . be expected to stand legislation on its head in order to achieve an objective, even were it to be considered desirable. If the Directive is found to have effects which are unacceptable, the correct remedy is to amend the Directive or, as the court observed in paragraph 30 of its judgment in Silhouette, to enter into international agreements in order to extend the principle of exhaustion to products put on the market in non-member countries, as was done in the EEA Agreement.

e. Davidoff In *Zino Davidoff v A&G Imports*[68] the ECJ was asked in three references by the English High Court to reconsider the approach taken in *Silhouette*, failing which it was asked whether English law on implied licences, considered further in section I.G.i below, could be applied when determining consent.

The first case concerned Davidoff, the proprietor of the trade marks COOL WATER and DAVIDOFF COOL WATER in the United Kingdom for use on toiletries and cosmetics. A&G Imports had acquired stocks of products bearing the trade marks which had been made in the EEA and marketed by or with the consent of Davidoff in Singapore. The products, packaging and marking were identical to those marketed in the EEA by Davidoff, except that the batch code numbers had been removed or obliterated at some stage. Davidoff claimed trade mark infringement by importation and sale under the Trade Marks Act 1994, which implements the Trade Mark Directive in the United Kingdom. A&G Imports argued consent by reason of the manner of sale in Singapore. Davidoff denied this and argued that in any event the removal or obliteration of the batch numbers would constitute 'legitimate reasons' under Article 7(2) of the Trade Mark Directive to oppose importation and sale.

The second two cases concerned Levi Strauss, the proprietor of various trade marks in the UK for LEVI'S and 501 which it used on its jeans. Tesco and Costco had acquired stocks of jeans bearing the trade marks marketed by or with the consent of Levi Strauss in the United States, Mexico and Canada. The jeans were identical to those marketed in the UK. Levi Strauss claimed trade mark infringement by importation and sale, which Tesco and Costco denied.

In each case the English High Court referred a number of questions to the ECJ, asking under what circumstances the manufacturer can be taken to have implicitly consented to resale within the Community of goods which are put on the market in a third country. Laddie J was particularly critical in *Davidoff*,[69] saying:

> the effect of *Silhouette* is to enable a trade mark proprietor to exclude the goods from the EEA, whatever mark they carry. The only option is for the importer to sell the goods with no trade mark at all. In many cases, and particularly where high margin fashion goods are concerned, this will make the goods virtually unsaleable. In my view

[68] *Zino Davidoff v A&G Imports* [2000] Ch 127; *Levi Strauss & Co v Tesco Stores* (orders of 22 July 1999, not reported); Joined Cases C–414/99 to 416/99 *Zino Davidoff v A&G Imports* [2001] ECR I–8691. There has been much commentary on this case: see, for instance, D Kallay, 'Levi Strauss v Tesco: At a Difficult Juncture of Competition, IP and Free Trade Policies' [2002] *European Competition Law Review* 193; case comment by D O'Keeffe and B Keane in (2002) 39 *CMLRev* 591;

[69] *Zino Davidoff v A&G Imports* [2000] Ch 127, para 36.

> this illustrates how *Silhouette* has bestowed on a trade mark owner the parasitic right to interfere with the distribution of goods which bears little or no relationship to the proper function of the trade mark right. It is difficulty to believe that a properly informed legislature intended such a result, even if it is the proper construction of Article 7(1).

Meanwhile, a stricter approach to consent had been taken by the Higher Regional Court in Frankfurt,[70] by the Benelux Court of Justice[71] and by the Outer House of the Court of Session in Scotland.[72]

In the light of these decisions, the ECJ noted that it was obliged 'to supply a uniform interpretation of the concept of "consent to the placing of goods on the market within the EEA" as referred to in Article 7(1) of the [Trade Mark] Directive'. The Court went on to hold:

> 45. In view of its serious effect in extinguishing the exclusive rights of the proprietors of the trade marks in issue in the main proceedings (rights which enable them to control the initial marketing in the EEA), consent must be so expressed that an intention to renounce those rights is unequivocally demonstrated.
>
> 46. Such intention will normally be gathered from an express statement of consent. Nevertheless, it is conceivable that consent may, in some cases, be inferred from fact and circumstances prior to, simultaneous with or subsequent to the placing of the goods on the market outside the EEA which, in the view of the national court, unequivocally demonstrate that the proprietor has renounced his rights.

The Court held that such consent 'must be expressed positively' and that 'it is for the trader alleging consent to prove it and not for the trade mark proprietor to demonstrate its absence'.

The possibility of consent being implied, albeit remote, has some support in the *travaux préparatoires*. At one stage the United Kingdom sought to replace the term 'consent' in what became Article 7(1) with 'express consent'.[73] However, this was rejected and the Directive simply retains the term 'consent'. The words 'express consent' did appear in the Community Patent Conventions of 1975 and 1989, but all the legislation adopted by the Community uses only 'consent'.

In considering the scope of implied consent, the ECJ gave a list of factors from which consent could not be inferred:

—'the mere silence of the trade mark proprietor';
—'the fact that a trade mark proprietor has not communicated his opposition to marketing within the EEA';

[70] *Parfums Christian Dior v dm-Drogerie markt* (Oberlandesgericht, Frankfurt, 18 Feb 1999).

[71] Case A 98/1 *Kipling v GB Unic* (Benelux Court of Justice, 6 Dec 1999) [2000] EIPR N79.

[72] *JOOP! v M&S Toiletries* [2000] ScotCS 92; *Zino Davidoff v M&S Toiletries (No.1),* 2000 SLT 683; *Zino Davidoff v M&S Toiletries (No.2)* [2000] ScotCS 220. See H MacQueen, 'International Exhaustion of Trade Mark Rights: A Scottish Contribution to the Debate' [2000] *Intellectual Property Quarterly* 357.

[73] Summary of Conclusions of 20th meeting of the Working Party on Intellectual Property (Trade Marks), Council doc 10887/84, at 7.

—'the fact that the goods do not carry any warning that it is prohibited to place them on the market within the EEA';
—'the fact that the trade mark proprietor transferred ownership of the goods bearing the mark without imposing contractual reservations'; or
—'the fact that, according to the law governing the contract, the property right transferred includes, in the absence of such reservations, an unlimited right of resale or, at the very least, a right to market the goods subsequently in the EEA'.

Moreover, it is irrelevant that:

—'the importer of goods bearing the trade mark is not aware that the proprietor objected to their being placed on the market in the EEA or sold there by traders other than authorised retailers';
—'the authorised retailers and wholesalers have not imposed on their own purchasers contractual reservations setting out such opposition, even through they have been informed of it by the trade mark proprietor'.

The owners of harmonised rights are therefore entitled to use those rights to block parallel imports from outside the Community unless, in the words of the ECJ, it can be 'unequivocally demonstrated' that they have previously consented to such imports.

Normally manufacturers will simply not consent to parallel imports. Where they do so, this is likely to be under highly restrictive conditions. For example, the Mechanical-Copyright Protecting Society (MCPS), a UK collecting society which represents music copyright owners, and the British Phonographic Industry (BPI), a UK collecting society which represents sound recording copyright owners, have a scheme to license imports of audio products (records, cassettes and CDs) from outside the Community. However, this scheme, known as the AP5 Joint Import Licence Agreement, excludes most products which are in the catalogues of BPI members and members can add non-catalogue products to a 'banned list'. It therefore effectively excludes most products which are available within the Community.

iii. Legislative Reconsideration

As the implications of these judgments began to sink in, the approach of the Parliament and some Member States began to change. There was a major debate in relation to trade marks, and at the same time questions about exhaustion arose in the discussion of design rights and copyright. Nevertheless, the existing legislation has not been amended and the design right and copyright legislation has ultimately followed the same approach as the previous legislation.

a. Trade marks (part III) In February 1997, the Commission was asked in the European Parliament whether the Trade Mark Directive had been intended to prohibit international exhaustion and (on the assumption that it had not)

whether the Commission would 'take steps to belatedly [sic] rectify this situation'. Commissioner Monti responded that prohibition had been the intention and that Member States were not free to determine the question themselves 'because that could create a new danger of segmentation of the internal market'. He went on to say that this position 'is supported by an examination of the preparatory work on the Directive, which shows that the initial version did make provision for international exhaustion. The Commission's proposal was subsequently amended to reflect the positions of the Council and Parliament, which explicitly called for Community exhaustion'.[74] As discussed above, this is a rather simplified version of events.

In March 1998 a more detailed question was asked in Parliament by Werner Langen, wanting to know how the Commission could 'justify the de facto dominance of the interests of branded goods producers over those of free world trade and the consumer'. In responding, Commissioner Monti stated:

> Current international economic relations being what they are, Community exhaustion is likely to have certain advantages for the consumers, depending on the product. In particular, it can guarantee the sustained quality of the products moving around the internal market and ensure continuity of after-sales service. Furthermore, the trade mark Directive has had the effect of heightening competition between producers within the internal market . . . Moreover, the principle of Community exhaustion is compatible with the rules of international law and it must be recognised that at present, none of the Community's main trading partners or its Member States apply the principle of the international exhaustion of industrial property rights.

He also said that '[i]n order to gain a full picture of the situation and at the request of several Member States, the Commission has decided to have an extensive economic study carried out on the consequences of the choice which was made in the trade mark Directive with regard to exhaustion. This study will be commissioned as soon as possible.'[75]

The exhaustion debate then arrived in the European Council in September 1998, when the Swedish delegation prompted an exchange of views on the *Silhouette* judgment. At the meeting Commissioner Monti said that a study was already underway on behalf of the Commission and that the Commission would examine the issue with an open mind once the outcome of the study became known.[76]

In November 1998, Werner Langen followed up on his earlier question and picked a number of holes in the response of the Commission.[77] First, he asked how far sustained quality depended on a prohibition of international exhaustion, on the basis that products sold by trade mark owners in the Community

[74] Written Question E-0219/97 [1997] OJ C319/40.

[75] Written Question P-0737/98 [1998] OJ C 304/153; [1998] OJ C 402/25.

[76] Press release of the 2117th Council Meeting (Internal Market), Council doc 11283/98.

[77] Written Question P-3726/98, answered by Commissioner Monti on 14 Jan 1999 [1999] OJ C 207/117, and Written Question E-0488/00, answered by Commissioner Bolkestein on 10 Apr 2000 [2000] OJ C330E/172.

are often produced outside the Community anyway and are identical to goods sold by the trade mark owners outside the Community. The Commission accepted that this will sometimes be the case, but nevertheless noted:

> The international exhaustion of trade mark rights could indeed pose some risks with regard to the quality of products sold in the Community. While it is not possible to apply this claim generally, it seems that some types of product sold under the same trade mark throughout the world can have differing characteristics as a result of the requirements of the local markets in which they are sold (e.g. because of the local climate). In such cases, international exhaustion of rights could mean that a consumer living in the Community might find that a parallel import of the product differs from that to which he is accustomed. In addition, there is a risk that the international exhaustion of rights may result in a certain number of counterfeit goods among the flow of unchecked imports, which would obviously be to the disadvantage of consumers.

Secondly, he queried whether the provision of after-sales service in the Community really depended on a prohibition of international exhaustion, noting newspaper reports that some firms 'urge their dealers to increase the price of spare parts and maintenance for owners of grey market products'. The Commission simply said it had no knowledge of such situations.

Thirdly, he suggested that Japan, the USA, Switzerland and South Korea apply the principle of international exhaustion, with exceptions in South Korea's case. The Commission responded that exceptions also applied in Japan, where exhaustion could be limited by contract, and in the United States, where exhaustion may not occur where goods are put on foreign markets by licensees or where the goods put on foreign markets are materially and qualitatively different from those sold domestically.

In March 1999 the study which the Commission had requested from National Economic Research Associates, SJ Berwin and IFF Research was published (the 'NERA study').[78] This is considered in more detail in section I.C.iv below.

The study was almost immediately criticised in the European Parliament, where Graham Watson suggested that NERA might have a conflict of interest given that it had a contract with the European Brand Owners' Association, and asked whether the Commission would request a second study. The suggestion and request were both rejected by the Commission. However, the Commission did say that it had held a hearing in April 1999 for 'interest groups which did not have the opportunity to express their views on the question of exhaustion of trade mark rights during the study'.[79]

The NERA study was then discussed by the Council in June 1999, at which time the Commission undertook to produce a working paper on the issue.[80]

[78] NERA, SJ Berwin and IFF Research, *The Economic Consequences of the Choice of a Regime of Exhaustion in the Area of Trademarks* (NERA, London, 1999).

[79] Written Question P-0852/99 [1999] OJ C341/146.

[80] Press release of the 2193rd Council Meeting (Internal Market), Council doc 9404/99.

This paper was duly put before the Council in December 1999.[81] The paper highlights a number of practical difficulties in adopting a rule of international exhaustion.

Meanwhile, in October 1999, Jens-Peter Bonde in the Parliament asked whether the Commission would 'propose a change in the law to improve the position of parallel imports'. He referred to a Swedish report in January 1999 and comments by the Danish Ministry for Trade and Industry which supported a change. The Commission simply indicated that it would consider its position based on the outcome of the discussions on the NERA study.[82] The Commission gave a similar response to a question from Phillip Whitehead, who also criticised the Commission's discussions with Member States as taking place 'behind closed doors' and without formal consultation of the Parliament.[83]

Further critical questions were asked in Parliament by Klaus-Heiner Lehne[84] and Werner Langen[85] in February 2000. First, they pointed out some of the problems of the prohibition of international exhaustion. They indicated potential difficulties for retailers which might want to provide branded goods to consumers via the Internet, whether directly from third countries or simply sourced from such countries in order to reduce prices. They also suggested that there might be difficulties within the internal market as businesses might not be able to tell whether goods had been put on the market inside or outside the Community.

Secondly, they questioned some of the claimed benefits and asked the Commission to provide evidence of any reduction in piracy. They also questioned the claim that international exhaustion would result in jobs being moved to third countries, suggesting that, to the contrary, 'the law as it stands at present is an inducement to shift production facilities abroad, with the loss of jobs in the EU'.

Thirdly, they asked whether the Commission was going to undertake any further research and whether it was going to pursue a change, either at a Community level or in the World Trade Organisation.

The Commission's response to the majority of these questions was non-committal. However, it did note that '[m]any other factors apart from trade mark rights have an impact on parallel imports, such as import duties, import quota and vertical relationships'. Meanwhile, another Council Working Party was considering the NERA study in detail, along with a Commission non-paper on the impact of e-commerce on the issue.[86] By April 2000, six of the 15 Member States (Denmark, Ireland, Luxembourg, the Netherlands, Sweden and the

[81] SEC(1999)2033.

[82] Written Question E-1804/99 [2000] OJ C203E/53.

[83] Oral Question H-0766/99, answered by written answer, Annex to the Debates of the European Parliament of 17 Dec 1999.

[84] Written Questions E-0362/00 and E-0362/00 [2000] OJ C330E/139.

[85] Written Question E-0488/00 [2000] OJ C330E/172.

[86] Commission non-paper, 'E-commerce and its Possible Impact on the Issue of Exhaustion of Trade Mark Rights', dated 7 Apr 2000.

United Kingdom) had decided that they now favoured a move to international exhaustion, four (Austria, France, Italy and Spain) were firmly opposed to such a change and the remaining five (Belgium, Finland, Greece, Germany and Portugal) were undecided.[87]

The issue then returned to the Council in May 2000, when Commissioner Bolkestein said that the Commission, 'having analysed the current situation on the international market, does not at this stage intend to present a proposal to change the present regime from Community exhaustion to international exhaustion of trade mark rights'.[88] By that stage, eight of the Member States were in favour of change with four continuing to oppose it.[89]

The Commission's decision not to change the trade mark exhaustion regime was supported by a unanimous own-initiative opinion of the Economic and Social Committee in January 2001 which stressed the dangers of a flood of counterfeit products if there were to be a switch away from the Community exhaustion regime.[90]

There was some further debate in Council in April 2001 when the Swedish Presidency held an informal seminar of Internal Market and Consumer Affairs Ministers in Lund, which considered parallel imports and prices on the basis of a new price study of branded goods in France, Germany, Sweden, the United Kingdom and the United States.[91]

However, the debate on trade mark exhaustion continued in the Parliament, and in November 2000 Hans-Peter Mayer produced a highly critical working document on the NERA study and the Commission's working paper, which asked whether the Parliament wanted 'to protect European manufacturers against parallel imports' or rather 'to open up markets, thereby generating more competition and securing better prices for consumers'.[92] After discussion of this document by the Committee, Mr Mayer was asked to produce a draft report, which he did in February 2001.[93] The main demand of this draft report was for the Commission to submit legislative proposals for 'a properly thought out

[87] Report from the Presidency to the Council (Internal Market) of 17 May 2000, Council doc 8619/00.

[88] Press release of the 2265th Council Meeting (Internal Market), Council doc 8829/00; Minutes of 2265th Council Meeting (Internal Market), Council doc 8991/00; BIO/00/110.

[89] Communiqué from Commissioner Bolkestein on the issue of exhaustion of trade mark rights, 7 June 2000, available on the Industrial Property section of the Europa website, ec.europa.eu/internal_market/indprop/index_en.htm. The Member States in question are not named in the Communiqué, although it has been suggested that those in favour included the 6 previously in favour of change together with Belgium and Finland, while those opposed remained Austria, France, Italy and Spain.

[90] [2001] OJ C123/28. This was reiterated in the Committee's Opinion on 'Counterfeiting' [2001] OJ C221/20, para 1.5.

[91] The Economist Intelligence Unit, *International price comparisons: A survey of branded consumer goods in France, Germany, Sweden the UK and the US* (The Economist Intelligence Unit, London, 2001). See sect I.C.vii below.

[92] Working document on the problem of the exhaustion of trade mark rights, Parliament doc PE 294.923.

[93] Draft report on the problem of exhaustion of trade mark rights, Parliament doc PE 298.407.

transition from Community-wide exhaustion to international exhaustion', with exemptions for pharmaceuticals on health grounds.

The Committee then held a public hearing of various experts in the field in April 2001 and Mr Mayer's draft report was heavily attacked in the Committee.[94] As a result, the report was substantially amended before being adopted by the Committee in September 2001[95] and by Parliament in October 2001.[96] The operative part of the final report[97] called for the Commission:

> —to produce a detailed study of the implications of a possible transition to the principle of international exhaustion for European manufacturers and consumers as well as for jobs;
> —to present a report on any cases of abuse of trade mark rights notified to the Commission, to explain how such cases of abuse have been addressed, including with regard to competition rules, and to identify possible deficiencies that may exist in current legal provision;
> —to examine the legal situation with regard to the exhaustion of trade mark rights in the most important trading nations;
> —to ascertain the prospects for the conclusion of an international agreement on harmonised rules on exhaustion of trade mark rights under the WTO or WIPO;
> —in the light of the most recent rulings by the Court of Justice, to examine the need for clarification of Directive 89/104/EEC, and in particular Article 7 thereof, in order to achieve a higher degree of legal certainty and legal clarity regarding the restrictions applying under competition law in respect of trade mark law, which is necessary above all for SMEs and consumers;
> —to examine whether clarification of trade mark law in respect of non-commercial imports of goods purchased by consumers via the Internet is needed;
> —to submit to Parliament, by 31 December 2002, a report on these points containing detailed proposals.

All but one of these demands had been suggested in a compromise amendment proposed by Mr Mayer.[98] However, the demand for the report on any abuses of trade mark rights was added as an oral modification by Marie-Françoise Garaud during the committee meeting at which the final report was adopted, based on a suggestion by the International Trademark Association (INTA). This was the only demand to which the Commission agreed to respond, and Commissioner Bolkestein said that the Commission was 'willing to share with Parliament our experiences concerning cases of possible abuse of trade mark rights but in order to make the report more useful and balanced the Commission intends to take all relevant elements into consideration'.[99]

[94] The attack was led by 6 of the Committee (Renato Brunetta, Bert Doorn, Francesco Fiori, Janelly Fourtou, Stefano Zappalà and François Zimeray), while Willy De Clercq pushed for a multilateral solution.

[95] Minutes of the meeting of 17–18 Sept 2001, Parliament doc PE 308.460.

[96] Minutes of the sitting of 3 Oct 2001, Parliament doc PE 309.499; [2002] OJ C87E/148.

[97] Parliament Report A5-0311/2001.

[98] Parliament doc PE 298.407, compromise amendment 16.

[99] Debates of the European Parliament (2 Oct 2001).

There was a short debate in the Parliament about the Commission's progress in September 2002,[100] during which Commissioner Bolkestein confirmed that the report would be limited to cases of possible abuse of trade mark rights, especially competition aspects. He said that a questionnaire on the issue had been sent out in July 2002 to over 60 companies and organisations representing small and medium-sized enterprises. The Commission's approach was criticised by three of the four parliamentarians who spoke.[101]

The Commission's working paper was produced in May 2003.[102] It commenced with an outline of the existing legal regime and background before considering the two dozen responses received to the Commission's questionnaire. The responses from trade mark owner organisations, by far the majority, were generally supportive of the current regime, highlighting the problems of international exhaustion (for example, in terms of consumer confidence, safety and counterfeiting) and noting that 'abuses' of trade mark rights can be dealt with under the competition provisions of the EC Treaty. The responses from six parallel trader organisations were critical of the current regime, highlighting the problems of Community-only exhaustion (for example, in terms of higher price levels in the EU) and claiming that the trade mark owners also restrict trade within the EU by using selective distribution systems and by tracking goods (for example by requiring parallel traders through litigation to reveal their sources to prove that the goods had been marketed in the EU, or by using number-based code systems and preventing removal of such numbers). The responses from two consumer organisations were described as 'rather sparse'.

Most of the paper considered how the exercise of trade marks is restricted by competition law and it concluded that there were no deficiencies in the current legislation. While the Commission had indicated that this would be the scope of the paper, it is somewhat tangential to the broader policy question whether international exhaustion should be permitted or prohibited.

The Commission noted, quoting the NERA study, that the economic role of trade marks is both 'to assist and protect the consumer in identifying the source of products and hence improving their ability to judge quality' and to allow 'trade mark holders to be rewarded for their investment in product development and quality and . . . in creating brand image or "branding" of a product' through the use of their exclusive rights. The NERA study had described these objectives as 'mutually dependent economic functions'.[103] However, the paper did not address the question whether trade marks should reward their holders in the same way in the case of parallel trade, where the use of trade marks to exclude products does not assist the consumer in identifying the source of the products,

[100] Oral Question O-0064/02; Minutes of the sitting of 25 Sept 2002, Parliament doc PE 323.024.

[101] Hans-Peter Mayer, Luis Berenguer Fuster and Malcolm Harbour spoke against the Commission, while Janelly Fourtou was supportive.

[102] SEC(2003)575.

[103] *Ibid*, 103.

and thus only the reward justification applies. This was rather unfortunate, as this issue does seem to be at the root of much of the objection to the current approach.

The Commission also briefly considered whether the exercise of trade marks might restrict free movement of goods within the EU. It summarised the approach taken by the ECJ in two cases balancing trade mark rights and the free movement of goods. The cases were *Christian Dior v Evora*,[104] which concerned the use of the trade mark to advertise parallel imported products, and *Loendersloot v Ballantine*,[105] which concerned the removal of identification numbers which had various uses, including tracking the goods. Both cases were primarily concerned with parallel trade within the Community. However, interestingly there was no discussion of *Van Doren + Q v lifestyle + sportswear*,[106] which had been decided the previous month and which, as discussed in section I.F below, remains the most important ECJ decision on how the prohibition on international exhaustion can affect free movement of goods within the Community. Nevertheless, the paper concluded that 'Community law provides an effective means to prevent [a restriction on the free movement of goods within the EU] while protecting the legitimate rights of the trade mark holder'.

Despite the fact that the working paper did not deal with the majority of the issues raised by the Parliament, there has not been any determined effort to make the Commission address these other points.[107]

b. Design rights The explicit prohibition of international exhaustion in the Rental Rights Directive was adopted in the proposals in March 1993 for the Community Design Regulation[108] and the Design Directive.[109]

In the discussions on the Design Directive in 1996, the delegations from Sweden and the Netherlands indicated that international exhaustion of rights should not be excluded, and the German delegation suggested that the exhaustion provision in Article 15 was not necessary.[110] Shortly afterwards, the German delegation recorded a statement which said, 'Germany's acceptance of Article 15 does not prejudice the German position concerning the exhaustion of other protection rights, in particular trade mark rights'.[111] The Dutch delega-

[104] Case C–337/95 *Christian Dior v Evora* [1997] ECR I–6013. See Ch 2, sect III (Advertising).

[105] Case C–349/95 *Loendersloot v Ballantine* [1997] ECR I–6227. See Ch 2, sect IV.B.iii (Necessity of Relabelling).

[106] Case C–244/00 *Van Doren + Q v lifestyle and sportswear* [2003] ECR I–3051.

[107] See C Stothers, 'Political Exhaustion: The European Commission's Working Paper on Possible Abuses of Trade Mark Rights Within the EU in the Context of Community Exhaustion' [2003] *European Intellectual Property Review* 457.

[108] COM(1993)342 [1994] OJ C29/20, Art 24.

[109] COM(1993)344 [1993] OJ C345/14, Art 15.

[110] Report from Presidency to Permanent Representatives Committee of 28 Oct 1996, Council doc 10890/96, at 10.

[111] Report from Presidency to Council of 13 Nov 1996, Council doc 11508/96, Annex II.

tion continued to oppose the Directive on this point[112] but ultimately gave way in February 1997[113] and the Directive was adopted with Article 15 reading:[114]

> The rights conferred by a design right upon registration shall not extend to acts relating to a product in which a design included within the scope of protection of the design right is incorporated or to which it is applied, when the product has been put on the market in the Community by the holder of the design right or with his consent.

In July 1999, during discussion on the Community Design Regulation, the Swedish delegation stated that 'its position on issues such as exhaustion of rights in the Regulation would depend on the outcome of similar discussions in other Community fora' and therefore reserved its position in relation to Article 24 of the proposal.[115] The Swedish delegation then proposed a Council declaration in November 2000 in relation to exhaustion, which was adopted and reads as follows:[116]

> The Council states that in cases where consistent rules at national and Community level are fundamental for the free circulation of goods in the internal market, Member States should act in good faith to achieve such consistency. Thus, a regime set at national level through a Directive should be followed by the same regime at Community level. Against this background, the Council has been able to agree on the application of Community exhaustion for the Community design (Article 24), although this regime does not correspond to the principal view of all Member States.

On this basis, the Community Design Regulation was adopted in December 2001 with its exhaustion provisions following those of the Design Directive.[117]

c. Copyright In its 1995 Green Paper on copyright and related rights in the information society, the Commission asked whether international exhaustion should be prohibited for copyright, having noted that it had been prohibited in relation to computer programs and rights related to copyright 'because leaving Member States free to provide for international exhaustion might have had a damaging effect on the operation of the Internal Market'.[118]

In response, the Economic and Social Committee[119] suggested that international exhaustion should be prohibited in general but should be required in relation to electronically distributed works 'in circumstances where a third country has adequate intellectual property right protection, and the intellectual

[112] Minutes of 1970th Council Meeting (Internal Market) on 26 Nov 1996, Council doc 11533/96, at 7; Council doc 11508/96, point 12.

[113] Note from Presidency to Permanent Representatives Committee of 26 Feb 1997, Council doc 5786/97, at 2

[114] Dir 98/71 [1998] OJ L289/28, Art 15.

[115] Summary of Proceedings of Working Party on Intellectual Property (Design) of 26–27 July 1999, Council doc 10545/99, at 2 and 10.

[116] Report from the Presidency to the Permanent Representatives Committee of 21 Nov 2000, Council doc 13641/00, at 3 and Annex II; in English in Council doc 12595/00 ADD 1, at 7.

[117] Reg 6/2002 [2002] OJ L3/1, Art 21.

[118] COM(95)382, at 47–8.

[119] [1996] OJ C97/9.

property right holder has authorized the distribution of products in electronic form'. It illustrated this with the example of 'downloading files and documents from a server in the USA to a computer in one of the Member States of the EU', suggesting that where the two criteria mentioned above were satisfied 'it is just that a downloader in an EU Member State should have exactly the same rights—no more and no less—as a downloader in the US'.

The European Parliament as a whole did not comment on the question of international exhaustion,[120] although its Committee on Economic and Monetary Affairs took the same approach as it had to trade marks in the early 1980s, opining that:

> the Commission rightly underscores that rightholders may prohibit the import of goods into the EU even if they accepted the first marketing of those goods in a non-EU country. This rule, by preventing individual member states from invoking the 'international exhaustion' of distribution rights, protects the integrity of the internal market. It also complements the principle of 'Community exhaustion', whereby the distribution right is exhausted in the EU for all goods placed on the market in the EU with the rightholder's consent.

In its follow-up to the Green Paper in November 1996,[121] the Commission reiterated the view that international exhaustion 'might entail major difficulties for the operation of the Single Market'. The Commission said that the Computer Programs, Rental Rights and Database Directives all prohibited international exhaustion, but that there was a range of approaches taken in Member States in relation to other rights. The Commission then went on to say:

> The absence of harmonised rules for most categories of work has a negative effect upon their distribution within the Community because there is no consistency in copyright protection across the Community and rightholders as well as rightusers are still not in a position to benefit fully from the potential of the Single Market. This is particularly true with respect to the application of the principle of international exhaustion of the distribution right by some Member States. The application of international exhaustion does not only affect the essence of the distribution right, as rightholders have no means of receiving any fair return for the sale of a copy of a work when being imported into such a Member State. The fact that the Member States applying international exhaustion act as channels for cheap parallel imports also create severe distortions in competition concerning copyright protected subject matter and provokes significant obstacles to the free movement of goods. Indeed, a rightholder in a country applying Community exhaustion would be entitled to block imports from another Member State which applies the rule of international exhaustion if in that Member State the product in question was put on the Community market by a third party without the rightholder's consent.

It is entirely understandable why, as the Commission found, copyright owners oppose international exhaustion. However, the suggestion that consumers were

[120] [1996] OJ C320/177
[121] COM(96)568, at 17–19.

being harmed by the fact that some Member States continued to apply international exhaustion as they were unable 'to benefit fully from the potential of the Single Market' is an intriguing one. It is not particularly supported by the fact that, as the Commission also found, consumers supported international exhaustion.

Nevertheless, the Commission found that 'most of the Member States who have made their views known believe that it should be stipulated that exhaustion takes place at Community level only [and that] . . . international exhaustion should be excluded in every context', while only 'a minority of Member States prefer to maintain domestic schemes providing for international exhaustion in special cases'. The Commission therefore indicated that it proposed to harmonise the distribution right for authors 'with respect to *all* categories of works. Such harmonisation should provide that only the first sale in the Community by or with the consent of the rightholder exhausts the distribution right'.

This approach was followed in the Commission's proposed Information Society Directive, which expressly prohibited international exhaustion for copyright in the same way as the Rental Rights Directive.[122] The Commission proposal for a Utility Model Directive, adopted the same month, also expressly excluded international exhaustion.[123]

In its explanatory memorandum for the Information Society Directive, the Commission explained that the application of international exhaustion by certain Member States 'may have profound consequences for the operation of the Internal Market and for users and rightholders within the Community'.[124] The Commission went on to explain that, if Member State A applies international exhaustion and Member State B does not:

> the rightholder may invoke his exclusive right on the territory of B and may prevent the parallel import of the good concerned. Discrepancies in applying the exhaustion principle by Member States lead therefore to repartitioning of the Internal Market into separate national markets and territories. Furthermore, due to the abolition of border controls inside the Community, the lawful restriction of intra-Community trade in goods would also meet with practical difficulties. As a consequence, distortions in trade of such goods and displacement of supply channels would occur.

The Commission also said:

> the EU's major trader partners either provide for separate importation rights or otherwise rule out international exhaustion. Consequently, a competitive disadvantage may occur if international exhaustion of the distribution right were to apply. Moreover, there are a number of questions about the impact on rightholders in third countries, which would need to be answered favourably before the imposition of a system of international exhaustion could be contemplated. A harmonized exclusion of international exhaustion with respect to all categories of works would put an end to

[122] COM(97)628 [1998] OJ C108/6, Art 4(2)
[123] COM(97)691 [1998] OJ C36/13, Art 21.
[124] COM(97)628, above n122, 21–2.

> existing distortions in trade of such goods and to a repartitioning of the Internal Market into separate national markets and territories.[125]

In the Working Party discussing the proposed Information Society Directive in March 1998,[126] five delegations (those of Denmark, Finland, the Netherlands, Portugal and Sweden) said that they were opposed to the Commission's proposal and in favour of international exhaustion. They suggested that the only Community instrument which had made the position clear to date was the Rental Rights Directive and that the proper functioning of the internal market did not require a prohibition on international exhaustion. They also indicated that they 'were not aware of any convincing arguments in favour of excluding international exhaustion in respect of works protected by copyright, and invited the Commission services to carry out a detailed analysis which would provide a sound basis for deciding whether the appropriate exhaustion regime for all areas of intellectual property should be regional or international exhaustion'.

By contrast, the Commission's proposal to prohibit international exhaustion was supported by six delegations (those of France, Germany, Greece, Italy, Spain and the United Kingdom), and provisionally by a further two (those of Belgium and Ireland). The Commission stated that the Rental Rights, Computer Programs and Database Directives all prohibited international exhaustion. It reiterated that:

> if Member States were allowed the freedom to choose whether or not to apply international exhaustion, the situation would arise where, although copies of a copyright work could be imported without the authorization of its author from a third country where they have been marketed with his consent into a Member State which applies international exhaustion, the author would be able to prevent the free movement of those copies from that Member State into another Member State which does not apply international exhaustion, thus partitioning the internal market.

The Commission also said that '[w]ith regard to the question whether convincing arguments had been put forward excluding international exhaustion in respect of works protected by copyright . . . a section of [the Commission's] 1995 Green Paper had been devoted to this question, and that Community rightholders had given a clear response that they were in favour of prohibiting international exhaustion of these rights'.

The Economic and Social Committee gave its view on the Information Society Directive and, despite noting that compact discs are frequently cheaper for consumers in the United States, accepted the Commission's approach. However, it also suggested that 'the expansion of the area of exhaustion could be considered, but only on a reciprocal basis and through negotiations designed

[125] COM(97)628, above n122, 27–8.

[126] Summary of Proceedings of Working Party on Intellectual Property (Copyright) on 5 Mar 1998, Council doc 7582/98, at 3–5.

to ensure fair and reciprocal treatment of works and copies of works originating in the Community'.[127]

The Parliamentary report on the proposed Information Society Directive was produced in January 1999 and includes the following explanatory statement on exhaustion:[128]

> As regards the right of distribution the proposed arrangement is on the whole acceptable. As far as the question of exhaustion is concerned, the relevant harmonisation process should take into account the global dimensions of the issue and should therefore not regard that right as being exhausted in international terms simply because there has been an initial sale or some other transfer of property within the European Union.

This suggests a serious misunderstanding by the Parliament. The Information Society Directive says nothing about whether copyright will be exhausted in third countries as a result of their sale within the Community, as that is a matter for the law of those countries. It is easy to see why it would be beneficial to both industry and consumers in the Community if international exhaustion could be prohibited in other countries. Nevertheless, that was the basis on which Parliament did not propose any changes in relation to exhaustion.[129] None were adopted in the Commission's amended proposal.[130]

After further discussions by the Council Working Party on the Information Society Directive, in March 2000 nine Member States (Austria, Belgium, France, Germany, Greece, Ireland, Italy, Spain and the United Kingdom) stated that they opposed international exhaustion, while the other six (Denmark, Finland, Luxembourg, the Netherlands, Portugal and Sweden) said that they supported it. The Presidency suggested a compromise whereby international exhaustion would be prohibited in the Information Society Directive 'in line with previous directives on copyright, on the understanding that the matter could be reviewed at a later stage in the context of more general discussions concerning exhaustion of intellectual and industrial property rights'.[131]

On the basis of that compromise, the Directive was adopted with the relevant provision reading:[132]

> The distribution right shall not be exhausted within the Community in respect of the original or copies of the work, except where the first sale or other transfer of ownership in the Community of that object is made by the rightholder or with his consent.

[127] [1998] OJ C407/30.
[128] Parliament Report A4-0026/99, at 27.
[129] [1999] OJ C150/171.
[130] COM(1999)250 [1999] OJ C180/6.
[131] Report from the Presidency to the Permanent Representatives Committee of 28 Mar 2000, Council doc 7179/00, at 2–3; Report from the Presidency to the Council (Internal Market) of 22 May 2000, Council doc 8647/00, at 8–9.
[132] Dir 2001/29 [2001] OJ L167/10, Art 4(2).

However, a Commission statement was also adopted which reads:[133]

> The Commission confirms that the regime on exhaustion as enshrined in Article 4(2) of this Directive corresponds to that established in the existing Directives on copyright and related rights. Any future work on this issue will take account of, and take place against the background of, reflections on this issue in the wider area of intellectual and industrial property.

In July 2004 the Commission again considered whether there should be a move to international exhaustion in its review of the copyright legislative framework.[134] The Commission said that it:

> has consistently argued that if any adjustment were to be considered, it would have to take place within a wider context of copyright and industrial property rights. Changing the exhaustion regime for copyright only would produce little effect given that many products are covered by a number of intellectual property rights. In this regard, it is worth pointing out that the reflections on the exhaustion regime in the field of trade marks have not brought up any new evidence in support of change in the regime. Rather, the conclusions have been almost the opposite. The exhaustion regime should be considered also from the viewpoint of its likely impact on creativity, investment and product range as well as on retail prices, all of which are important for the consumers. Without similarity of market conditions at an international level, however, [the] impact may be distorted by differences regarding trade conditions in different countries such as labour costs. As there are no developments regarding market conditions or other trade-distorting factors at international level, with a change in the regime EU right holders might face competitive disadvantage. From the perspective of the above-mentioned arguments, it would not be appropriate to propose changing the copyright exhaustion regime at this stage.

Very similar arguments about differences in trade conditions are relied upon by those who oppose free trade in general. Notably, such arguments have not led to a rejection of free trade.

The interpretation and validity of the Information Society Directive were considered in *Laserdisken v Kulturministeriet*,[135] where a case was brought against the Danish implementation of the Directive by Laserdisken, a Danish company which sold films which it imported from outside the Community (in particular from the United States). Some of the films sold were not or would not be available within the Community. Laserdisken, supported by the Polish government, argued that the Directive did not prohibit Member States from applying international exhaustion and, if that was wrong, advanced a range of reasons why the prohibition was invalid, including the legislative history, the principle of proportionality, competition, the freedom of expression, equal treatment and agreements with third countries.

[133] Note from the Secretariat to the Permanent Representatives Committee/Council with Statements for the Council minutes, Council doc 11375/00 ADD 1, at 3.

[134] SEC(2004)995; Press Release IP/04/955.

[135] Case C–479/04 *Laserdisken v Kulturministeriet* (12 Sept 2006, not yet reported).

Advocate General Sharpston rejected all these arguments. In particular she agreed that '[c]ompetition within the single market will indeed be enhanced by removing the market irregularities that arise when some Member States operate international exhaustion and others do not'. She also noted that 'the nub of this whole action is . . . the claimant's strongly held view that the Community legislator made the wrong policy choice in opting for regional exhaustion of rights rather than international exhaustion of rights. Whilst it is perfectly legitimate for the claimant to take that view and to seek to have it vindicated, the Court is not the appropriate forum in which to pursue the point'.

The ECJ agreed that the Information Society Directive prohibits Member States from allowing international exhaustion and also noted that '[a] situation in which some Member States will be able to provide for international exhaustion of distribution rights whilst others will provide only for Community-wide exhaustion of those rights will inevitably give rise to barriers to the free movement of goods and the freedom to provide services'. In finding that the prohibition of international exhaustion was not disproportionate, it again pointed to the fact that 'differences in the national laws governing exhaustion of the right of distribution are likely to affect directly the smooth functioning of the internal market'.

C. Studies on International Exhaustion

Given the legislative interest in this field a number of studies have been carried out on the impact of different exhaustion regimes. Many of these have been funded by groups on one side of the debate or the other and they have reached wildly differing conclusions. They do not provide a clear picture of the economic issues, which they generally intertwine with other policy arguments. Nevertheless, some of the most important of these are now considered.

i. UK Monopolies and Mergers Commission

In 1994 the UK Monopolies and Mergers Commission reported on the supply of music in the United Kingdom, which had been referred to it by the Director General of Fair Trading amid concerns that prices of compact discs were significantly higher in the United Kingdom than in the United States.[136]

One of the issues covered by the report was the impact of copyright restrictions on parallel trade. After a detailed analysis, the MMC found that reliance by record companies on copyright law to prevent or limit parallel imports from the United States had an effect on competition. However, it went on to find that the introduction of international exhaustion, even if permitted under the UK's

[136] Monopolies and Mergers Commission, *The Supply of Recorded Music* Cm 2599 (HMSO, London, 1994).

international obligations, would be unlikely to benefit consumers significantly in reducing price differentials. More broadly, it found that the monopoly position of the major record companies was not operating against the public interest.[137]

ii. Swedish Competition Authority

This report was commissioned by the Swedish Government in the light of the *Silhouette* judgment and was published by the Swedish Competition Authority in January 1999.[138] It was based on two consultancy studies carried out by PeHe Konsult and the Swedish Wholesale & Retail Research Institute, the first from a consumer-economic viewpoint and the second from a political-economic one.

The economic analysis suggested that allowing parallel imports, by restricting the possibility of price-discrimination, will increase overall consumer welfare worldwide if it results in an increase of production. For most normal markets, the analysis suggested that this would be the case. In addition, the consumer welfare benefit would be higher in high-price countries (where prices would fall and therefore more consumers would be able to acquire the goods in question) and there may be a detriment in low-price countries (where prices would rise and fewer consumers would be able to acquire the goods in question). Therefore, from a Community (and Swedish) perspective, there would be a consumer welfare benefit to allowing parallel trade. However, the analysis recognised that other factors might affect this conclusion, such as transaction costs of parallel trade (particularly if these were increased by manufacturers introducing differences between products) and increased costs for manufacturers (such as the costs of production and distribution and of the detection of counterfeit products).

The study considered the impact of the *Silhouette* decision on parallel trade in different sectors and produced some estimates of the impact on the Swedish market. It estimated that the judgment would lead to approximately 2,500 job losses (with a consequent increase in unemployment costs) together with a fall in taxation. It also estimated that prices would rise, both directly due to the prevention of parallel trade and indirectly due to the reduction of intra-brand competition. The average level of total price rise was estimated as 0.4 per cent, but the study noted that the price rise would be 'not insignificant' in certain sectors, such as clothing where price reductions for parallel traded products were normally around 30 per cent leading to a direct reduction in average prices of about 3 per cent.

The study also pointed out that the finding could be affected as consumers reacted to the prohibition of parallel imports, for instance by buying goods from

[137] Monopolies and Mergers Commission, *The Supply of Recorded Music* Cm 2599 (HMSO, London, 1994), paras 2.36–2.40, 2.90–2.98 and 2.182–2.187.

[138] Swedish Competition Authority, *Parallel Imports—Effects of the Silhouette Ruling*, Report Series 1999:1 (Swedish Competition Authority, Stockholm, 1999).

other countries on the Internet. Nevertheless, the ultimate conclusion was that in Sweden the consumer benefits of parallel trade outweighed the arguments against such trade.

iii. Danish Inter-Ministerial Working Group

Another review was carried out by an inter-ministerial working group in Denmark in 1998–9.[139] This review reached similar conclusions to those in Sweden, such as that typical price reductions of parallel traded clothing would be about 30 per cent.[140] As a result, the Danish Ministry of Trade and Industry stated that it would seek to have the restrictions on parallel trade from outside the Community removed.

iv. NERA

This was the study carried out for the Commission by National Economic Research Associates, SJ Berwin and IFF Research and which was produced in February 1999.[141] It was entitled 'The Economic Consequences of the Choice of a Regime of Exhaustion in the Area of Trademarks'. The Commission continues to place great reliance on this study to justify maintaining the prohibition of international exhaustion for trade marks.

The study reviewed some of the economic considerations relating to parallel trade and the legal position on exhaustion in a number of regions and countries (the European Community, the European Economic Area, the United States, Japan, Australia and New Zealand). It also considered other obstacles to parallel trade, including transport costs, technical barriers (such as health, safety, quality and labelling requirements) and trade barriers (such as quotas and tariffs).

The study considered 10 sectors, chosen mainly on the basis of their relative importance in relation to trade marks and international trade. These were confectionery; alcoholic drinks; soft drinks and mineral water; clothing; footwear and other leather goods; musical recordings; cosmetics and perfumes; domestic appliances; consumer electronics; and motor cars. It commented on price differences between the Community, Japan and the United States in these sectors and the likely economic consequences of more parallel trade, in the short and the long term, including the likely responses of manufacturers. For each area it went on to make qualitative and quantitative estimates of the impact of a change to international exhaustion on various areas including retail prices, sales volumes, profits, production volumes and employment. The average reduction in

[139] Danish Patent and Trademark Office, *Industry Policy in Denmark: New Trends in Industrial Property Rights* (The Danish Ministry of Trade and Industry, Copenhagen, 1999) 41–2.

[140] Swedish Competition Authority, *Parallel Imports—Effects of the Silhouette Ruling*, Report Series 1999:1 (Swedish Competition Authority, Stockholm, 1999), 43–4.

[141] NERA, SJ Berwin and IFF Research, *The Economic Consequences of the Choice of a Regime of Exhaustion in the Area of Trademarks* (NERA, London, 1999).

retail prices was generally estimated to be 2 per cent or lower, although it was estimated to be about 15 per cent for new pop releases and 30 per cent for premium cosmetics and perfumes. Sales and production volumes and employment were generally expected to increase slightly if international exhaustion were adopted, while profits were expected to fall by varying levels.

The study also reported on the views of interested parties on the impact of a change to international exhaustion. This was based on the results of 160 questionnaires from four groups (made up of 105 trade mark owners, 39 importer/exporter associations, nine consumer organisations and seven organisations of small and medium-sized enterprises) and a further 33 submissions from interested parties.

v. UK Select Committee on Trade and Industry

The result of the *Silhouette* case was immediately criticised in the UK House of Commons,[142] although the submissions made in that case by the United Kingdom (under the previous Conservative government) had supported the approach adopted by the ECJ. In January 1999 the House of Commons Trade and Industry Committee decided to undertake an inquiry into parallel trading.[143]

The Committee considered both written and oral evidence from a large number of organisations and individuals, and this resulted in a report published in July 1999.[144] The report criticised the legal uncertainty in this area, noting that Member States had interpreted the Trade Mark Directive differently, and also indicated that there was insufficient empirical evidence available.

Various sectors were considered and international exhaustion was seen as problematic in relation to two industries which are very strong in the United Kingdom: pharmaceuticals and the music industry.

The discussion of the pharmaceutical industry focussed on the problems of parallel trade within the Community, particularly in relation to state interference with pricing and patient information. However, the Committee indicated that international exhaustion could result in similar problems at a global level and thus could have 'severe consequences'.

The problems in the music industry were that foreign sales are often products manufactured by licensees (thus not identical) and sold at lower prices because those foreign markets would not support UK prices. Although recordings are covered by copyright too, producers often find it simpler to rely on trade marks and, if international exhaustion of trade marks were adopted, profits of music producers would be likely to fall because parallel trade would focus on the most profitable, top selling recordings (cherry-picking), producers would be discour-

[142] HC Debs, vol 316, cols 401–402W, 20 July 1998; HC Debs, vol 317, cols 551–553W, 30 July 1998; HC Debs, vol 328, col 314W, 31 Mar 1999.

[143] Trade and Industry Committee, Press Notice 6 of Session 1998–99 (27 Jan 1999).

[144] Trade and Industry Committee, *Trade Marks, Fakes and Consumers*, Eighth Report of Session 1998–99 (HC 380, TSO, London, 1999).

aged from making foreign sales at all and there would be an increase in counterfeiting. The Committee indicated that this would be particularly damaging for independent music labels.

However, the Committee concluded:

> in the areas of clothing and shoes, perfumes and toiletries, and motor vehicles [areas where the UK industry is weaker], the potential consumer benefits of international exhaustion of trade mark rights outweigh the dis-benefits. In some sectors the consumer benefits may, however, be outweighed by problems that international exhaustion would bring with it; particularly in the pharmaceutical and music industries. Whilst a seamless approach to international exhaustion would be preferable, we do not see the justification for retaining EEA-wide exhaustion for trade mark rights for all sectors in order to protect one or two sectors. We recommend that the Government and the European Commission work towards adoption of a broad principle of international exhaustion of trade mark rights, allowing grey imports of goods but affording exceptional protection to those sectors where such a principle could be shown to have severe detrimental effects. Such a flexible approach would not only lead to cheaper goods for consumers, but would address the different needs of different sectors.

At the same time, the Committee recommended that 'the Government and Commission design procedures for those sectors where international exhaustion is to apply for labelling of grey goods which are materially different to those of the same brand on the domestic market' in order to inform consumers of such differences.

This report is quite obviously open to accusations that, in seeking to determine trade mark exhaustion on a sector-by-sector basis, the Committee took a protectionist approach towards UK industries. That is not a productive basis for discussions with other Member States and third countries, which may have strengths and weaknesses in different industrial sectors.

The UK Government responded in September 1999.[145] It agreed that the adoption of international exhaustion for trade marks could be beneficial, although it indicated that 'it would be imprudent to come to any final decision without further study, supported by empirical evidence, including the needs of particular market sectors'. The Government also followed the Committee's opinion that there should be no move towards international exhaustion of copyright, noting that those countries which advocate that approach generally 'have smaller copyright-based industries of their own and are more dependent on imports'.

[145] Memorandum from the Department of Trade and Industry, published as the appendix to Trade and Industry Committee, *Government Observations on Eighth Report of Session 1998–99*, Tenth Special Report of Session 1998–99 (HC 797, TSO, London, 1999).

vi. Irish Competition Authority

Two economists from the Irish Competition Authority produced a discussion paper in December 1999 which considered exhaustion of trade marks.[146]

After summarising the case law and the Swedish, NERA and UK reports, the paper suggested that, on an economic analysis, a prohibition of international exhaustion would lead to higher prices within the Community in two ways: by restricting parallel trade itself and by removing such parallel trade as a competitive restraint on prices within the Community. It also indicated that, as some other countries apply international exhaustion, to the extent that prices are currently lower in the Community than in these countries there will be pressure on Community prices to rise.

The paper also criticised various justifications put forward for prohibiting parallel trade. It indicated that the evidence to date did not suggest that counterfeiting had fallen as a result of the prohibition on parallel trade. In particular, it noted that production of many branded goods takes place in South East Asia (due to production costs), regardless of the fact that such countries mainly apply international exhaustion, and that the relevant location for exhaustion purposes is the country where the goods are first sold by the manufacturer and not the country where they were manufactured. It therefore stated that 'it is misleading for manufacturers of trademark goods to use scare tactics over the employment consequences of overturning *Silhouette*'.

The authors concluded:

> In terms of balancing any loss in employment in retailing (which many commentators would not see as appreciable) against the gain to consumers in the EU, the authors are of the opinion that the gains overwhelmingly outweigh any losses. The authors' view is that the Government should join the growing numbers of EU Member Governments and push for a system of global trademark exhaustion, as the current situation represents a large loss for EU consumers, and these losses are magnified by pursuing a policy of regional exhaustion policy in a world of global exhaustion.

vii. The Economist Intelligence Unit

A report was produced by the Economist Intelligence Unit at the request of the UK Department of Trade and Industry and the Swedish Ministry for Foreign Affairs.[147] This was based on a survey of branded consumer goods in France, Germany, Sweden, the United Kingdom and the United States in November 2000.

[146] P Kenny and P McNutt, *Competition, Parallel Imports & Trademark Exhaustion: Two Wrongs from a Trademark Right*, Discussion Paper No 8 (Irish Competition Authority, Dublin, 1999).

[147] The Economist Intelligence Unit, *International Price Comparisons: A Survey of Branded Consumer Goods in France, Germany, Sweden, the UK and the US* (The Economist Intelligence Unit, London, 2001).

The survey considered 133 products in eight different categories of goods: pre-recorded items (CDs, DVDs and videos); computer games and toys; cosmetics and fragrances; clothing and footwear; sports and leisure; electrical goods; household goods and furniture and accessories. The pricing patterns varied for different categories: for instance, pre-recorded items were generally expensive in the UK and cheap in Germany, while fragrances were generally expensive in the UK and cheap in France.

There was no analysis of parallel trade in this survey. However, various conclusions can be drawn from the results. For instance, a French submission to the Organisation for Economic Cooperation and Development (OECD) relied on the report as evidence that 'prices within the European Union vary enormously across Member States, despite the application of Community-wide exhaustion', noting that 'France, which has never practised international exhaustion, has the lowest prices of the four chosen European Union members for 57 of the 133 products studied, while the United Kingdom, Sweden and Germany, which have had international exhaustion in the past, are the lowest priced countries for respectively, 9, 18 and 49 of the 133 products studied'. By contrast, it noted that prices were cheapest in the United States for only 14 of the products for which there were figures.[148]

This could be taken to indicate that the prohibition of international exhaustion of trade marks has little impact on prices, as cheaper prices are generally available within the European Community than in the United States anyway. However, it is also clear that prices are frequently cheaper in the United States than in the United Kingdom or Sweden, but less often cheaper in the United States than in France or Germany. Therefore, the report may also suggest that the prohibition on international exhaustion affects British and Swedish consumers more than French or German consumers, given that Community exhaustion has not resulted in a harmonisation of prices across the Community.

viii. OECD

Following on from discussions by the OECD's Joint Group on Trade and Competition in 2000–1, a synthesis report was produced by the Competition Policy Division of the OECD's Directorate for Financial, Fiscal and Enterprise Affairs in June 2002.[149] As well as considering the studies discussed above, this report reviewed a number of other sources including studies from the United

[148] French Submission to the OECD Joint Group on Trade and Competition, electronic commerce discussion, 30 May 2001—COM/DAFFE/CLP/TD/RD(2001)68, para 34, as translated in OECD Joint Group on Trade and Competition, 'Synthesis Report on Parallel Imports', COM/DAFFE/COMP/TD(2002)18/FINAL (June 2002), 23.

[149] *Ibid*.

States,[150] New Zealand[151] and Australia.[152] The report criticises a number of shortcomings in the reports and studies, such as the fact that the Swedish study did not consider in detail the impact on trade mark owners of a return to international exhaustion and their likely response.

The report does not draw conclusions but rather identifies 'issues, arguments and some empirical work that governments might want to consider in designing policies on parallel imports'. It ends with the following summary observations:

—The less vigorous is competition among IPR holders and among those distributing pertinent goods, and the more bans on parallel imports reduce such competition, the higher the probability that bans on parallel imports reduce rather than increase economic welfare.
—Decisions to adopt or retain bans on parallel imports could, in some circumstances, amount to governments facilitating exclusive territories. In other situations they instead play the role of enforcing exclusive territories that would have existed in any event.
—The effects of international exhaustion policies could differ across countries.
—A multi-national rather than nation by nation approach to determining policies towards parallel imports could prove beneficial if bans on parallel imports would be globally efficient.
—There could be types of IPRs and particular sectors in which international exhaustion regimes might have considerably stronger positive or negative effects than in other sectors.
—There is a need for further empirical work about the effects of parallel imports.

D. Border Controls

In the late 1970s, there was growing concern at the high level of counterfeit goods in international trade. Although there was some effort to address this multilaterally, as discussed further in section IV.C.ii below, when this was unsuccessful the Community took unilateral action to introduce border controls to deal with counterfeits.

Under Regulation 3842/86,[153] trade mark owners were given the right to ask customs authorities to take action against the import into the Community of

[150] US Department of Commerce, *Economic Effects of Parallel Imports: a Preliminary Analysis* (US Patent and Trademark Office, Washington, DC, 1985) and D Tarr, *An Economic Analysis of Gray Market Imports* (Federal Trade Commission, Washington, DC, 1985).

[151] New Zealand Institute of Economic Research, *Report to the Intellectual Property and Competition Review Committee* (New Zealand Institute of Economic Research, Wellington, 2000).

[152] Intellectual Property and Competition Review Committee, *Review of Intellectual Property Legislation under the Competition Principles Agreement* (Commonwealth of Australia, Canberra, 2000).

[153] Reg 3842/86 [1986] OJ L357/1.

counterfeit goods, meaning 'any goods bearing without authorization a trade mark which is identical to a trade mark validly registered in respect of such goods in or for the Member State in which the goods are entered for free circulation or which cannot be distinguished in its essential aspects from such a trade mark and which thereby infringes the rights of the owner of the trade mark in question under the law of that Member State'. However, the Regulation specifically did not apply to 'goods which bear a trade mark with the consent of the owner of that trade mark but which are entered for free circulation without the owner's consent'. In other words, the Regulation did not cover parallel imports.

The Regulation was replaced by Regulation 3295/94,[154] which extended the protection to cover 'pirated goods', which infringe a copyright, neighbouring right or design right, but only where they were made 'without the consent of the holder of the copyright or neighbouring rights'. Again, the Regulation is very clear that it does 'not apply to goods which bear a trade mark with the consent of the holder of that right or which are protected by a copyright or neighbouring right or a design right and which have been manufactured with the consent of the holder of the right but are [imported or exported] without the latter's consent'. The Committee on External Economic Relations sought to extend the Regulation to cover parallel trade,[155] with little explanation. However, the amendment was rejected by the European Commission on the basis that customs offices are unable to check parallel imports and that it is not an appropriate task for customs.[156]

This second Regulation was then amended by Regulation 241/1999,[157] which in turn extended the protection to cover goods covered by a patent or a supplementary protection certificate in the importing Member State, and the title of the Regulation was changed to refer to 'goods infringing certain intellectual property rights'. However, once again the Regulation did not cover goods which had been manufactured with the consent of the holder of the patent or certificate, even if there was no consent to their import or export.

The Commission confirmed the exclusion of parallel imports in its proposal for Regulation 241/1999, despite calls from business circles for the extension of controls to such imports, justifying this on the following basis:[158]

> In the case of parallel imports, the goods cannot strictly speaking be termed counterfeit, given that, within the law of the exporting country, the goods have used an intellectual property right. Furthermore, the holder of an intellectual property right in the

[154] Reg 3295/94 [1994] OJ L341/8.

[155] Parliament Report A3-0037/94, amendment 11, and Parliament Res [1994] OJ C61/79; Parliament Report A4-0078/94, amendment 7 and explanation at 13, and Parliament Res [1995] OJ C18/426; Debates of the European Parliament 4-455/240 (15 Dec 1994), 241. See also A Clark, 'Parallel Imports: A New Job for Customs?' [1999] *European Intellectual Property Review* 1.

[156] Debates of the European Parliament 3-442/78 (8 Feb 1994), 81; COM(94)43, para 3; Parliament Report A4-0078/94, at 18; Debates of the European Parliament 4-455/240 (15 Dec 1994), 245.

[157] Reg 241/1999 [1999] OJ L27/1.

[158] COM(98)25, para 7.10.

> Community merely has the option of opposing their importation into the Community. Moreover, in this case the task of customs officials would be extremely difficult, since the goods are physically identical to approved imports.

This time the exclusion of parallel imports was grudgingly supported by the Committee on External Economic Relations in the European Parliament, although it indicated that similar instruments might be necessary in the future to deal with parallel imports.[159]

Regulation 1383/2003[160] then replaced the amended second Regulation, at the same time extending it to cover goods which infringe plant variety rights, designations of origin and geographical indications. However, although the preamble describes the Regulation as generally covering 'goods infringing an intellectual property right', Article 3(1) excludes from the scope of the Regulation goods which bear a trade mark or which have been manufactured with the consent of the owner of the relevant intellectual property right.

The Regulations therefore cover counterfeit products and not parallel imports. However, it would be incorrect to assume from this that parallel imports are entirely outside the effective scope of border controls. The Regulations do not prohibit Member States from applying customs controls to parallel imports. Moreover, the sanctions for relying on the Regulations if alleged counterfeits turn out to be genuine parallel imports are limited.

In terms of the first point, in the United Kingdom parallel imports from outside the EEA can also be seized under the Trade Mark Act 1994, section 89 and the Copyright, Designs and Patents Act 1989, section 111 (to the extent that these are infringing copies, as discussed further below). National legislation in other countries, such as the Czech Republic and Germany, also covers parallel imports.[161]

In terms of the second point, quite separately from the Regulation the right holder is likely to have the right to prevent parallel imports from outside the Community under the primary intellectual property legislation. Although under Article 6(1) of Regulation 1383/2003 the right holder must accept liability towards the importer for wrongful customs action, in many cases it will be hard to quantify what, if any, damage the parallel importer has suffered if the Regulation is wrongfully used to seize parallel imports which were infringing anyway. Under Article 19 of the Regulation, any such liability is governed by the law of the Member State where the action was taken.

However, equally not all activities covered by the Regulations constitute infringements of intellectual property rights. In particular, holding goods under certain customs procedures, such as the external transit procedure, will not necessarily be an infringing act.

[159] Report of the Committee of External Economic Relations dated 4 June 1998, document A4-0223/98, at 10.

[160] Reg 1383/2003 [2003] OJ L196/7.

[161] J Wagner and D Kappes, 'Pick and Mix: Choosing between European and German Customs Actions' (2006) 159 *Copyright World* 15.

This issue was considered by the ECJ in *Class International v Unilever*.[162] A container of genuine AQUAFRESH toothpaste was imported from outside the Community under the external transit procedure. The container was detained by customs in the Netherlands upon the application of the trade mark owner on the basis that the goods were counterfeit. It subsequently became clear that the goods were actually genuine and so the trade mark owner had no rights under the Regulation and instead had to claim that there was trade mark infringement. The importers brought an action for release of the toothpaste and damages, which was rejected at first instance. However, upon appeal the Regional Court of Appeal in The Hague made a reference to the ECJ, asking a number of questions relating to whether goods imported under the transit procedure could infringe a trade mark and, if so, under what circumstances.

The ECJ held that 'a trade mark proprietor cannot oppose the mere entry into the Community, under the external transit procedure or the customs warehousing procedure, of original goods bearing that mark which had not already been put on the market in the Community previously by that proprietor or with his consent'. There will be infringement only if they are released for free circulation in the Community, which is a prerequisite for the goods being put on the market within the Community. Offers to sell or actual sale of the goods can also constitute an infringing act, but only if this 'necessarily entails the putting of those goods on the market in the Community' and not simply where it is 'likely' that the buyer will put them on the market in the Community.

Owners can take action against counterfeit goods placed in such customs procedures under the Regulation. In *Polo/Lauren*[163] a consignment of 633 counterfeit T-shirts, bearing trade marks belonging to Polo/Lauren, were seized by customs in Austria on their way from an Indonesian company to a company based in Poland, which was at that time not a Member State. The Austrian Supreme Court asked whether such goods could be seized under the Regulation. The ECJ, rejecting the argument of the German government that goods merely in transit and not in free circulation were outside the scope of the Regulation, confirmed that they could. This was followed in *Criminal proceedings against X*.[164] However, in *Montex Holdings v Diesel*,[165] the ECJ held that this did not mean that counterfeit goods in transit would be regarded as infringing national trade marks. Therefore, any remedy against counterfeit goods in transit is only under the Regulation.

The exclusion of parallel imports from the Regulations has been criticised by intellectual property owners, who complain that those parallel importing from outside the Community are able to test the owners' monitoring procedures by

[162] Case C–405/03 *Class International v Unilever* [2005] ECR I–8389. See, criticising, O Vrins and M Schneider, 'Trade Mark Use in Transit: EU-phony or Cacophony?' (2005) 1 *Journal of Intellectual Property Law & Practice* 43.

[163] Case C–383/98 *The Polo/Lauren Company v PT Dwidua Langgeng Pratama International Freight Forwarders* [2000] ECR I–2519.

[164] Case C–60/02 *Criminal proceedings against X* [2004] ECR I–651.

[165] Case C–281/05 *Montex Holdings v Diesel* (9 Nov 2006, not yet reported).

bringing parallel imports into the Community under the external transit or customs warehousing procedures. If the owner takes action, the parallel importer argues that the goods have not been put on the market in the Community and so the owner has no remedy. If the owner does not take any action, the parallel importer quietly takes the goods out of the procedure and onto the Community market.

As a matter of principle, once it is accepted that parallel imports from outside the Community are infringing, there does not seem to be a strong basis for excluding them from the scope of the Regulations. The fact that such goods would not be infringing in other countries (such as those where they were marketed by the owner) is arguably irrelevant, as counterfeit products themselves will not be infringing in those countries where the owner has no registered or unregistered rights.

However, an extension of the Regulations to cover parallel imports would reduce the attractiveness of the Member States as transportation hubs. Parallel traded goods which could perfectly legitimately be sold in the exporting and importing countries would become liable for seizure if transported through the Community on the basis that, if put onto the Community market, they would be unlawful parallel imports. While that result may be regarded as acceptable in relation to counterfeit products, on the basis of raising general worldwide levels of intellectual property protection, it is somewhat harder to justify for parallel imports, where different countries take very different views on their lawfulness.

E. Internal Enforcement

In June 1997, the Council approved an Action Plan to combat organised crime, which among other things called on the Council and Commission to 'put in place common provisions to combat organised crime in the fields of economic and commercial counterfeiting'.[166]

This led in October 1998 to the Commission's Green Paper on combating counterfeiting and piracy in the single market.[167] This pointed out the harm caused to creators, investment, employment, consumers and the internal market by counterfeiting and piracy, and the major part of the paper was concerned with the problems caused by counterfeiting and piracy, which are defined in the TRIPS Agreement as follows:[168]

> 'counterfeit trademark goods' shall mean any goods, including packaging, bearing without authorization a trademark which is identical to the trademark validly regis-

[166] [1997] OJ C251/1.

[167] COM(98)569.

[168] Marrakesh Agreement Establishing the World Trade Organisation 1994, 1867 UNTS 154, Annex 1C, Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS), Art 51, n 14. See Press Release MEMO/03/20 which repeats these definitions in the context of the proposed Enforcement Directive.

> tered in respect of such goods, or which cannot be distinguished in its essential aspects from such a trademark, and which thereby infringes the rights of the owner of the trademark in question under the law of the country of importation
>
> 'pirated copyright goods' shall mean any goods which are copies made without the consent of the right holder or person duly authorized by the right holder in the country of production and which are made directly or indirectly from an article where the making of that copy would have constituted an infringement of a copyright or a related right under the law of the country of importation

Given that counterfeit and pirated goods are those made without 'authorization' or 'consent' of the intellectual property owner, the definitions do not cover parallel imports.

Nevertheless, the Green Paper also covered parallel imports from outside the Community. The paper defined 'counterfeiting and piracy' more broadly than the TRIPS Agreement to cover most forms of intellectual property infringement, although excluding 'acts covered by the principle of the Community exhaustion of rights'. The Commission confirmed that the terms would cover parallel imports from outside the Community. However, beyond noting that the situation is treated differently under the border control provisions, it did not provide any explanation for such a broad definition, or for including parallel imports within the scope of the Green Paper, beyond saying that it was 'appropriate'.

This was reflected in the responses to the Green Paper, where the Commission found that '[t]here is sharp disagreement as to whether parallel importing should be included in the ambit of the Green Paper' and that a number of respondents had stated that 'parallel importing (goods legitimately made but not licensed for sale in the particular country in question) is a different and separate issue from counterfeiting'. However, other respondents had indicated that 'counterfeit copies [of pharmaceutical products] are often distributed mixed with parallel imports', and more generally that 'there is a danger of counterfeit goods and parallel imports being mingled'. There were also calls for border controls to be extended to parallel imports.[169]

The Economic and Social Committee did not consider the distinction, and its opinion concentrated on counterfeiting and piracy.[170] By contrast, Parliament suggested in its response to the Green Paper that the Commission should produce a definition which 'distinguishes between various kinds of infringements' and noting that 'there is no connection between the exhaustion of rights and trademark piracy', picking up on the distinction drawn by its Committee on the Environment, Public Health and Consumer Policy.[171]

Meanwhile, the Commission had issued an action plan in November 2000 under which it would propose a directive to harmonise the means for enforcing

[169] Report on responses to Green Paper dated 12 June 1999, available at ec.europa.eu/internal_market/indprop/docs/piracy/piracy_en.pdf, paras 2.1.7, 3.3.6 and 14.1.1–14.1.4.

[170] Opinion of the Economic and Social Committee [1999] OJ C116/35.

[171] Report A5-0096/2000; Res of the European Parliament [2001] OJ C41/56.

intellectual property rights.[172] The proposal itself was published in January 2003.[173] Perhaps unsurprisingly, given the divided response to the Green Paper and the continuing debate over parallel trade from outside the Community, neither the action plan nor the proposal for the Directive discussed the question of exhaustion. Instead, both focussed on 'the scourge of counterfeiting'. The ECJ's judgment in *Javico*,[174] which considered the application of Article 81 of the EC Treaty to restrictions on parallel imports from outside the Community, was mentioned, but only in a footnote and in a different context.[175] Parallel trade within the Community was mentioned briefly, with the preamble stating that the use of technical protection measures 'must not be misused with a view to protecting markets and preventing parallel imports'[176] and a general statement in Article 3 that the enforcement measures 'shall be applied in such a manner as to avoid the creation of barriers to legitimate trade'.[177] Nevertheless, the proposal extended broadly to all infringement of intellectual property rights and proposed criminal as well as civil remedies.

The Economic and Social Committee did not discuss parallel trade in its Opinion on the proposal.[178] In the Parliament the Committee on Industry, External Trade, Research and Energy suggested that the Directive should be restricted to counterfeiting.[179] However, this suggestion was not adopted in the report of the Committee on Legal Affairs and the Internal Market, which simply suggested that judges should be entitled 'to use their powers of assessment when facing cases of infringement that are not properly acts of counterfeiting or piracy'. In the end, Parliament did not propose any major change and Directive 2004/48 was adopted in April 2004 still covering parallel trade from outside the Community, although no longer extending to criminal sanctions.[180]

In July 2005 the Commission adopted another proposal for criminal sanctions for intellectual property infringement.[181] Once again, the justification for this proposal focuses on the need to prevent counterfeiting and piracy, and there is no explanation of why it should extend further. However, it extends to 'all intentional infringements of an intellectual property right on a commercial scale' and so will also cover parallel imports from outside the Community. This

[172] COM(2000)789; Supplementary Opinion of the Economic and Social Committee [2001] OJ C221/20.
[173] COM(2003)46.
[174] Case C–306/96 *Javico v Yves Saint Laurent* [1998] ECR I–1983. See sect II.A (Article 81) below.
[175] COM(2003)46, at 17, n 59.
[176] COM(2003)46, rec 27 and Art 22(2).
[177] *Ibid*, Art 3.
[178] [2004] OJ C32/15.
[179] Report A5-0468/2003; Res of the European Parliament [2004] OJ C102E/33.
[180] Dir 2004/24 [2004] OJ L157/45.
[181] COM(2005)276; Press Release IP/05/906.

overly wide language has been criticised on the basis that it could also criminalise those involved in legitimate disputes.[182]

An amended proposal was published in 2006,[183] but this was only as a result of the judgment in *Commission v Council* which confirmed the Community's competence to take criminal law measures.[184] The amendments do not restrict the proposal to counterfeiting and piracy, but add further recitals which suggest that this is the basis for the proposal.

The Commission appeared to be very reluctant during the course of the legislative discussions to make it clear that the provisions would apply to parallel imports from outside the Community as well as to counterfeit and pirated goods. This was reflected in the fact that it began the process by defining 'counterfeiting and piracy' to include parallel trade rather than by using the term 'infringement'. However, rather than simply following the approach of the Border Control Regulation, the Enforcement Directive does cover parallel imports. As a result, the full range of enforcement provisions which the Directive requires will be available against parallel imports from outside the Community.

Although the Commission can be criticised for avoiding open discussion of the issue, from a political standpoint this was entirely understandable on the basis that Commission was unwilling to fight the battle over international exhaustion again. More broadly, once it is accepted policy that Community legislation makes parallel importation from outside the Community an infringement of certain intellectual property rights, it is natural that the enforcement regime for those rights should be the same for all types of infringement, at least in terms of civil sanctions.

F. Impact on the Internal Market

As can be seen from the discussion above, the prohibition on international exhaustion has frequently been justified on the basis of the need to protect the internal market. Although the question is left open by the EC Treaty, as decided in *EMI Records v CBS*, the basic argument is that permitting some Member States to apply international exhaustion while allowing others to prohibit it would lead to problems in trade between Member States.

However, the prohibition of international exhaustion also causes problems for the internal market. In practice, goods which incorporate intellectual

[182] C Chemcham, 'Harmonization of Criminal Sanctions in the European Union: How Far Can the European Commission Go?' (2005) 60(20) *INTA Bulletin* 1; Law Society of England and Wales, *Proposal for a Directive on Criminal Measures Aimed at Ensuring the Enforcement of Intellectual Property Rights* (Law Society of England and Wales, London, 2006).

[183] COM(2006)168; Press Release IP/06/532.

[184] Case C–176/03 *Commission v Council* [2005] ECR I–7879; see COM(2005)583 and Press Release MEMO/05/437.

property rights which were put on the market outside the Community are not all stopped at the border. Often it is impossible to tell from the goods themselves whether they were put on the market within the Community or outside. Therefore, a retailer who buys goods in the Community will always run the risk that, if the goods were in fact put on the market outside the Community, the manufacturer may be able to take action for infringement of the intellectual property rights covering the goods. In *Zino Davidoff v A&G Imports*,[185] the ECJ held that it was irrelevant to the question of exhaustion that 'the importer of goods bearing the trade mark is not aware that the proprietor objected to their being placed on the market in the EEA or sold there by traders other than authorised retailers'. Not only will the infringement action result in remedies in relation to the goods in question, but it will generally give rise to an injunction against future infringement, which could severely restrict the activity of the retailer in the future, including its ability to deal in goods which are parallel imported within the Community.

This issue arose in *Christian Dior v TUK Consultancy*,[186] where TUK had obtained genuine perfumes bearing various Christian Dior trade marks within the Netherlands. Although there was no way for TUK to tell from the perfumes themselves, some of them had in fact been put on the market outside the Community. In a provisional ruling in June 1998, the President of the Hague District Court refused to grant an absolute injunction against further infringement of the trade marks by selling the perfume brands in question but limited the injunction to cases where TUK 'did not obtain [the perfumes] from independent suppliers which confirmed to it in writing that they had obtained those products from within the EEA'. Although no questions relating to exhaustion were referred to the ECJ, it is an early example of a national court grappling with the question of how to deal with this problem.

The question of the scope of an injunction was also considered by the English High Court in *Sun v Amtec*.[187] In that case, Amtec had purchased computers from a Danish intermediary which had been supplied by a UK company. However, Sun was able to establish from the serial numbers that those computers had been put on the market outside the EEA (in Israel) and Amtec was unable to demonstrate Sun's consent to their import into the EEA. Therefore, infringement was accepted and the hearing related to remedies. Unusually, the judge granted a limited injunction, which Amtec would not breach so long as (a) Amtec believed the computers had been put on the market by Sun or with its consent within the EEA, (b) Amtec provided Sun with the serial numbers of computers it wished to deal in and (c) Sun did not inform Amtec that the computers had not been put on the market within the EEA. This is similar to the procedure laid down for repackaged pharmaceutical products, which was discussed

[185] Joined Cases C–414/99 to 416/99 *Zino Davidoff v A&G Imports* [2001] ECR I–8691.
[186] Joined Cases C–300/98 and 392/98 *Christian Dior v TUK Consultancy* [2000] ECR I–11307.
[187] *Sun Microsystems v Amtec Computer Corporation* [2006] EWHC 62 (Ch).

in Chapter 2. However, the judge made clear that such products would still be infringing: the protection was simply from the injunction.

Peter Prescott QC, sitting as a Deputy Judge in the High Court in *Glaxo Group v Dowelhurst*,[188] had granted a similarly limited injunction, and his approach was supported by the Court of Appeal. Subsequently, Lewison J in *Honda Motor Company v Neesam* indicated that he was inclined to follow the same approach.[189]

In *Van Doren + Q v lifestyle + sportswear*[190] the ECJ considered whether the burden of proof lies on the parallel importer to show that goods have been marketed within the EEA, as suggested in paragraph 54 of the judgment in *Davidoff*, or on the trade mark owner to show that they have not been so marketed. The ECJ held that, although national law may place the burden on the parallel importer, such a rule of evidence may be qualified by Community law, in particular where the rule 'would allow the proprietor of the trade mark to partition national markets and thus assist the maintenance of price differences which may exist between Member States'. Therefore:

> where a [parallel importer] succeeds in establishing that there is a real risk of partitioning of national markets if he himself bears that burden of proof, particularly where the trade mark proprietor markets his products in the EEA using an exclusive distribution system, it is for the proprietor of the trade mark to establish that the products were initially placed on the market outside the EEA by him or with his consent. If such evidence is adduced, it is for the [parallel importer] to prove the consent of the trade mark proprietor to subsequent marketing of the products in the EEA.

The ECJ thus recognised that the prohibition of international exhaustion could cause problems in the internal market and therefore imposed an additional evidentiary burden on intellectual property owners.

These internal market difficulties did exist before international exhaustion was prohibited, but only in those Member States which applied Community exhaustion only. In Member States which applied international exhaustion, retailers could buy genuine parallel traded goods within the Community without any risk of infringement. The prohibition on international exhaustion has therefore extended the problem to all Member States. By contrast, this problem would have been eliminated by requiring Member States to adopt international exhaustion. As a consequence, the reliance on the internal market to justify the prohibition of international exhaustion is not necessarily well placed.

[188] *Glaxo Group v Dowelhurst* [2003] EWHC 2015 (Ch); [2004] EWCA Civ 290
[189] *Honda Motor Company v Neesam* [2006] EWHC 1051 (Ch).
[190] Case C–244/00 *Van Doren + Q v lifestyle and sportswear* [2003] ECR I–3051.

G. International Exhaustion in the United Kingdom

In summary, Community exhaustion has been adopted in the secondary legislation harmonising trade marks,[191] copyright and related rights[192] and design rights[193] and has been proposed for a harmonised utility model.[194] It has also been adopted for Community trade marks,[195] plant variety rights[196] and design rights[197] and is proposed for Community patents.[198]

The application of the international exhaustion principles will now be considered in relation to patents, copyright, trade marks and passing off in the United Kingdom.

i. Patents

There has been no harmonisation in the Community of the approach to exhaustion of patent rights. The European Patent Convention simply states that patents granted by the European Patent Office shall confer on their proprietor 'the same rights as would be conferred by a national patent granted in that state'.[199] Although both the Community Patent Conventions sought to establish a rule of Community exhaustion these were never brought into force.

In the United Kingdom, patent infringement is principally dealt with in section 60(1) of the Patents Act 1977 which reads as follows:

> (1) Subject to the provisions of this section, a person infringes a patent for an invention if, but only if, while the patent is in force, he does any of the following things in the United Kingdom in relation to the invention without the consent of the proprietor of the patent, that is to say—
>
> (a) where the invention is a product, he makes, disposes of, offers to dispose of, uses or imports the product or keeps it whether for disposal or otherwise;
>
> (b) where the invention is a process, he uses the process or he offers it for use in the United Kingdom when he knows, or it is obvious to the reasonable person in the circumstances, that its use there without the consent of the proprietor would be an infringement of the patent;
>
> (c) where the invention is a process, he disposes of, offers to dispose of, uses or imports any product obtained directly by means of that process or keeps any such product whether for disposal or otherwise.

[191] Dir 89/104 [1989] OJ L40/1, Art 7.
[192] Dir 91/250 [1991] OJ L122/42, Art 4(c); Dir 2006/115 [2006] OJ L376/28, Art 9(2) (which replaced Dir 92/100 [1992] OJ L346/61, Art 9(2)); Dir 96/91 [1996] OJ L77/20, Arts 5(c) and 7(2)(b); Dir 2001/29 [2001] OJ L167/10, Art 4(2).
[193] Dir 98/71 [1998] OJ L289/28, Art 15.
[194] COM(1999)309, Art 21.
[195] Reg 40/94 [1994] OJ L11/1, Art 13.
[196] Reg 2100/94 [1994] OJ L227/1, Art 16.
[197] Reg 6/2002 [2002] OJ L3/1, Art 21.
[198] COM(2000)412, Art 10.
[199] Convention on the Grant of European Patents 1973, 1065 UNTS 199.

Section 60(4) of the Patents Act 1977 was intended to implement the exhaustion provisions of the Community Patent Convention 1975, stating that the infringement provisions 'shall not apply to any act which, under any provision of the Community Patent Convention relating to the exhaustion of the rights of the proprietor of a patent, as that provision applies by virtue of that section, cannot be prevented by the proprietor of the patent'. However, in line with the Convention itself, section 60(4) was never brought into force and was deleted as of January 2005 by the Patents Act 2004.[200] In addition, some commentary suggested that it would have done no more than require Community exhaustion and would not have prohibited international exhaustion.[201]

As a consequence there is no provision in the UK Patents Act 1977 which provides for exhaustion. However, this does not mean that parallel imports from outside the Community are prohibited. Instead, the English courts have long recognised a limited form of exhaustion based on an implied licence being granted when the patentee sells the article in question abroad.[202]

The basis for this approach was laid down in *Betts v Wilmott*.[203] Betts owned a English patent for making metallic capsules of tin and lead compressed together for covering the corks and necks of bottles. He had also owned a French patent for the same invention, which had expired. He brought a case for infringement of the English patent against Wilmott, a retail chemist, which had sold a bottle of Rimmel's Toilet Vinegar which used a similar capsule. Wilmott argued that the capsule had in fact been manufactured by Betts in France and Betts responded that, even if the capsule had been manufactured by his agents in France, this was no defence to infringement of the UK patent. The Court of Appeal in Chancery disagreed with Betts as follows:

> The point is this: Supposing a man to have a patent in *France* and a patent in *England*, and he establishes manufactories in each country, it is contended that if he sells the patented article in *France* it is for the French market, and it does not justify a person buying the article in *France*, and bringing it over to *England*, and using it here . . . where a man carries on the two manufactories himself, and himself disposes of the article abroad, unless it can be shewn, not that there is some clear injunction to his agents, but that there is some clear communication to the party to whom the article is sold, I apprehend that, inasmuch as he has the right of vending the goods in *France* or *Belgium* or *England*, or in any other quarter of the globe, he transfers with the goods necessarily the license to use them wherever the purchaser pleases. When a man has purchased an article he expects to have the control of it, and there must be some clear and explicit agreement to the contrary to justify the vendor in saying that he has not given the purchaser his license to sell the article, or to use it wherever he pleases as against himself.

[200] Patents Act 2004, s16 and Sched 2, para 13, brought into force by SI 2004/3205, para 2.

[201] Chartered Institute of Patent Attorneys, *CIPA Guide to the Patents Act,* 5th edn (Sweet & Maxwell, London, 2004), para 60.11.

[202] See on this S Thorley, R Miller, G Burkill and C Birss, *Terrell on the Law of Patents*, 16th edn (Sweet & Maxwell, London, 2005), paras 8-66 to 8-67 and 10-44 to 10-49.

[203] *Betts v Wilmott* (1870–71) LR 6 Ch App 239.

The court also indicated that, had the French or English patent been assigned to a third party, the situation would be different and that the owner of the English patent would be entitled to enforce that patent against an article which had been sold by the owner of the French patent. That was in line with an earlier decision in *Walton v Lavater*,[204] where the assignee of an English patent successfully asserted that patent against the original inventor, who had imported the patented products from France where he had retained his patent.

The judgment in *Betts v Wilmott* was distinguished in *Société Anonyme des Manufactures de Glaces v Tilghman's Patent Sand Blast Company*,[205] where the sale abroad had been by a licensee rather than by the patentee. Tilghman owned patents in England and Belgium for a process for cutting and grinding hard substances, which was used for frosting and ornamenting glass lamp globes and similar articles. Tilghman had granted Manufactures de Glaces a licence to manufacture glassware using the patented process at its factory in Belgium. Manufactures de Glaces began to sell the glassware not only in Belgium but also in England and Tilghman responded by issuing two circulars to persons involved in the trade, warning that the importation or sale of such glassware infringed the English patent and threatening legal proceedings. Manufactures de Glace sought an interim injunction to prevent further circulars while it sought to take the matter to arbitration under the licence agreement.

In the High Court, Pearson J indicated that he was bound by *Betts v Wilmott*. However, there was some evidence that the Belgian and English patents were in fact owned by different entities, and on that basis he distinguished the case from *Betts v Wilmott* and refused the injunction. By contrast, although the Court of Appeal upheld his refusal of the injunction, it did so on a different basis, namely that a licence under a Belgian patent was not a licence under the English patent, and so would not prevent the patentee from exercising its right under the English patent to prevent import and sale into England. Cotton LJ explicitly confirmed *Betts v Wilmott*, holding that, where a product is sold abroad without restriction by the patentee, the patentee cannot then use the English patent to prevent resale of that product in England. However, in the case before him the product was sold abroad by a licensee, not the patentee, and the licensee only had a licence to manufacture under the Belgian patent which could put the licensee 'in no better position than if they were grantees of the Belgian patent'.

The importation in *Tilghman* was being carried out by the licensee, who clearly knew the terms of its licence, and so, strictly speaking, the case was concerned with the geographical scope of a patent licence rather than parallel trade of products sold by the licensee. Therefore a question remained whether the purchaser from a licensee would also be bound by any restriction in the patent licence (on the basis that the licensee could not give better title to the goods than

[204] *Walton v Lavater* (1860) 8 CB (NS) 164.

[205] *Société Anonyme des Manufactures de Glaces v Tilghman's Patent Sand Blast Company* (1884) LR 25 Ch D 1.

he had himself) or whether the purchaser would be bound only if he had notice of the restriction (in line with the insistence on the purchaser's agreement in *Betts v Wilmott*). Notably, in *Thomas v Hunt*[206] the purchaser from a licensee had been held to have the right to resell the products without infringing the patent.

A number of cases followed which considered whether third parties would be bound by restrictive terms.[207] Although these cases were not concerned with parallel trade, *Tilghman* and particularly *Betts v Wilmott* were discussed in several of them. In most of the cases, the product had originally been sold by the patentee and the purchaser had notice of the restrictive terms.

However, purchase from a licensee without notice of restrictions was considered in *Badische Anilin und Soda Fabrik v Isler*, where the patent licence for manufacture and sale of certain dyes included a condition which allowed only sale to consumers but did not allow sale to dealers for resale. The patentee brought an action for patent infringement against a dealer who was acquiring the dyes and reselling them. Buckley J in the Chancery Division held that 'nothing . . . can turn on the question whether the purchaser from the licensee knew of the condition or not'. However, he also found that, notwithstanding the patent licence, there was an implied term that the dealer could resell and that the patentee was estopped by its conduct from arguing otherwise. Buckley J's comments were therefore technically *obiter dicta,* and as such were not commented upon by the Court of Appeal, but they indicated that purchasers from patent licensees might in general be bound by the terms of the licence.

Buckley J's approach was followed in a parallel trade case before the High Court of Kenya in 1968, *Beecham Group v International Products*.[208] The patentee, Beecham, had granted a licence to Bristol-Myers extending to the whole world except the British Commonwealth. The licence therefore excluded Kenya. The defendants, International Products, bought penicillin covered by the patents from Bristol-Myers in the United States and imported it into Kenya. Beecham brought an action for infringement of its Kenyan patents. The only English cases considered were *Betts v Wilmott* and *Tilghman*, and International Products sought to distinguish *Tilghman* on the basis that the product was being imported by a third party and not by the licensee. Rudd J rejected that distinction and held that the question whether patent rights can be exercised against someone who buys from a licensee 'must depend on the extent of the authority conferred on the licensee by the licensor under the licence or other agreements

[206] *Thomas v Hunt* (1864) 17 CB (NS) 183.

[207] *Heap v Hartley* (1889) LR 42 Ch D 461; *Incandescent Gas Light v Cantelo* (1895) 12 RPC 262; *Incandescent Gas Light v Brogden* (1899) 16 RPC 179; *British Mutoscope and Biograph Company v Homer* [1901] 1 Ch 671; *Badische Anilin und Soda Fabrik v Isler* [1906] 1 Ch 605 (High Court), [1906] 2 Ch 443 (Court of Appeal); *National Phonograph Company of Australia v Menck* [1911] AC 336; *The Scottish Vacuum Cleaner Company v The Provincial Cinematograph Theatres* 1915 1 SLT 389; *Gillette Industries v Bernstein* [1942] Ch 45; *Dunlop Rubber v Longlife Battery Depot* [1958] 1 WLR 1033.

[208] *Beecham Group v International Products* [1968] FSR 162.

between them'. He clearly distinguished this from cases where there was 'sale by the patentee or his agent or assignee'. Given that the licence was clear, he therefore granted an interim injunction. He did not mention whether or not International Products was aware of the restrictive scope of the licence, although based on his reasoning the implication would appear to be that this is irrelevant.

The cases therefore suggested that there was a distinction between sales by the patentee (where any restrictions would have to have been brought to the attention of the alleged infringer to prove infringement) and sales by a licensee (where the alleged infringer's knowledge was irrelevant). A few years later, this distinction was followed in two interim injunction judgments in the English High Court: *Sterling Drug v CH Beck*[209] and *Minnesota Mining & Manufacturing v Geerpres Europe*.[210]

In *Sterling Drug v CH Beck*, the patentee had sold the products in question to a wholesale chemist, with terms prohibiting export, and the defendant had acquired the products from the chemist. Graham J held that whether there was a prima facie case of patent infringement must 'depend on my being satisfied that adequate notice of such a restriction has been brought to the defendants' attention'. Given that the patentee had sent a letter to the defendant outlining the terms, and the chemist's invoice had made it clear that the manufacturer's terms would apply, he found that the restrictions had indeed been brought to their attention.

In *Minnesota Mining & Manufacturing v Geerpres Europe*, a licensee in the United States had sold the products in question to a third party which had resold them to the defendants, who imported them into the United Kingdom. The patent licence was restricted to the United States patent and did not cover the English patent. This time there was no discussion of the defendant's knowledge. Instead Graham J held that the licensee had no right to grant a licence under the English patent and that the licensee 'cannot pass on to [the third party] any rights which they have not got, and [the third party] equally cannot pass on any such rights to the defendants'.

A different approach was taken in Scotland by the Outer House of the Court of Session in *Christian Salvesen (Oil Services) v Odfjell Drilling and Consulting Co (UK)*.[211] The patentee had granted an exclusive licence to a company which he owned. Subsequently, he and his company granted an exclusive sub-licence covering a geographical area which included the United Kingdom and the North Sea to the petitioner (claimant). The respondents (defendants) had purchased products from the company and proposed to use them in the North Sea, saying that they had no notice of the exclusive sub-licence or any restrictions on their use of the products. The petitioner sought an interim interdict (injunction) to

[209] *Sterling Drug v CH Beck* [1972] FSR 529.
[210] *Minnesota Mining & Manufacturing v Geerpres Europe* [1973] FSR 133.
[211] *Christian Salvesen (Oil Services) v Odfjell Drilling and Consulting Co (UK)* 1985 SLT 397.

prevent such use, referring to *Minnesota Mining & Manufacturing v Geerpres Europe* for the proposition that notice was irrelevant. However, this was rejected by Lord Mayfield, who distinguished the present case on the basis that the patentee was the owner of the exclusive licensee and so 'in effect . . . the devices were sold to the respondents by the owner of the patents'. He therefore refused the interim interdict, suggesting that the petitioners' remedy might instead be against the patentee's company.

Nevertheless, the English Patents County Court stuck to the distinction in *The Wellcome Foundation v Discpharm*.[212] Prior to the end of the transitional period which applied when Spain joined the Community, the defendants had imported SEPTRIN tablets from Spain, where they had been manufactured and sold by a wholly owned subsidiary of the patentee, into the United Kingdom. The patentee brought an action for patent infringement and the defendants raised a number of possible defences, including arguing that they had an implied licence under *Betts v Wilmott*. Judge Ford held that that the initial sales of the tablets would have been made under Spanish law, where there was no implied licence. However, he also held that, even if English law was applicable, the defendants could not rely on *Betts v Wilmott* because the sale in Spain had not been by the patentee but by its wholly-owned subsidiary which had a licence limited to Spain. The judge referred to *Tilghman*, *National Phonographic Company of Australia v Menck*, *Beecham Group v International Products* and *Minnesota Mining & Manufacturing v Geerpres Europe,* and held that the facts of this case were closer to that line of cases than to *Betts v Wilmott*. He refused to take the view that the corporate group should be treated as an economic entity, as was done in *Revlon v Cripps* in relation to trade marks, noting that a different approach had been taken in *Polydor v Harlequin* in relation to copyright and that it did 'not seem to be appropriate here, in view of the very limited commercial scope permitted to the operations of [the wholly-owned subsidiary]'. In addition, even if *Betts v Wilmott* did apply, the defendants did not claim that they had no notice of the objection to parallel trade, given that 'official warnings had been issued through the Medicines Control Agency of the Department of Health, the [patentee] had caused warning notices to be published in the trade press and the matter had been the subject of much attention by the Association of Pharmaceutical Importers, of which the defendant companies are members'.

The English High Court returned to consider original sale by the patentee in *Roussel Uclaf v Hockley International*.[213] In this case, Roussel had manufactured an insecticide called deltamethrin in France and had supplied it to the

[212] *The Wellcome Foundation v Discpharm* [1993] FSR 433. See supportive comment in J Jones, 'Exhaustion of Rights: Pharmaceuticals Marketed in Spain—a Wellcome Exception' [1993] *European Intellectual Property Review* 107.

[213] *Roussel Uclaf v Hockley International* [1996] RPC 441. See criticism in D Wilkinson, 'Breaking the Chain: Parallel Imports and the Missing Link' [1997] *European Intellectual Property Review* 319.

Chinese market through a Chinese joint venture company owned by Roussel and a Chinese company. Roussel claimed that the drums of insecticide supplied in China had borne labels which read 'for use in PRC only, re-export forbidden'. Hockley had acquired some drums and was selling them in the United Kingdom and Roussel brought an action for patent infringement, seeking summary judgment. Jacob J held that Roussel had to show that they had 'brought home' the restriction to the relevant party. Based on evidence from Hockley that it had acquired a drum without a label, Jacob J held that it had not been established that the restrictions had been brought home to the Chinese joint venture company by labels. He then considered whether there was sufficient evidence that the restrictions had been brought home to the Chinese joint venture company in some other way, and held that there had not. Similarly, he held that there was no evidence that the restrictions had been brought home to the defendants, nor to the intermediate companies in the supply chain. Summary judgment was therefore refused.

In *Zino Davidoff v A&G Imports*,[214] the High Court had another chance to consider the scope of *Betts v Wilmott* and sale by the rightholder. Zino Davidoff was applying for summary judgment for trade mark infringement in relation to perfumes which had been parallel imported from Singapore. Davidoff had prohibited its distributor in Singapore from selling outside its territory, and required its distributor to prohibit its sub-distributors, sub-agents and retailers from doing the same. However, it was argued that there was no contractual requirement to ensure that such sub-distributors, sub-agents or retailers impose the same prohibition on their own buyers or further down the supply chain. It was also argued that there was no evidence that any such restriction was imposed on the defendants, either by marking or notice on the goods or by contract. On this basis, Laddie J held that it was arguable that Davidoff should be taken to have consented to the import on the basis of the earlier patent cases (even though the case in question related to trade mark infringement). Although the ECJ effectively found that Laddie J's approach conflicted with the Trade Mark Directive, the decision remains relevant in terms of patents, where there is no such harmonising Community provision.

In summary, therefore, in the United Kingdom there will be international exhaustion of patent rights where a product is sold overseas by the patentee, unless resale in the United Kingdom is prohibited and the alleged infringer is made aware of that prohibition. If the foreign sale is by a licensee, there is no such requirement that the alleged infringer be aware of the prohibition, although in Scotland such knowledge may be necessary where the licensee is part of the patentee's group of companies.

[214] *Zino Davidoff v A&G Imports* [2000] Ch 127.

ii. Copyright

In contrast to patents, the position in relation to exhaustion of copyright has largely been harmonised and therefore the old law will not be considered.[215]

Under section 16(1)(b) of the Copyright, Designs and Patents Act 1988 ('CDPA'), the owner of the copyright in a work has the exclusive right to issue copies of the work to the public in the United Kingdom. This is expanded upon in section 18 of the CDPA, and secondary infringement is dealt with in sections 22, 23 and 27. Similar provisions exist in relation to recordings of performances but these will not be considered further here.[216]

Section 18(1) reads as follows:

> (1) The issue to the public of copies of a work is an act restricted by the copyright in every description of copyright work.

However, the definition of 'issue to the public' in the subsequent subsections has changed since the CDPA was enacted. Initially, it read as follows:

> (2) References . . . to the issue to the public of the copies of a work are to the act of putting into circulation copies not previously put into circulation, in the United Kingdom or elsewhere, and not to—
>
> (a) any subsequent distribution, sale, hiring or loan of those copies, or
>
> (b) any subsequent importation of such copies into the United Kingdom.

This was then amended with effect from 1 January 1993 in order to implement the Computer Programs Directive,[217] with the result that the relevant subsections read:

> (2) References . . . .to the issue to the public of the copies of a work are except where the work is a computer program to the act of putting into circulation copies not previously put into circulation, in the United Kingdom or elsewhere, and not to—
>
> (a) any subsequent distribution, sale, hiring or loan of those copies, or
>
> (b) any subsequent importation of such copies into the United Kingdom.
>
> (3) References . . . to the issue to the public of the copies of a work where the work is a computer program are to the act of putting into circulation copies of that program not previously put into circulation in the EEA or any other member State, by or with the consent of the copyright owner, and not to—
>
> (a) any subsequent distribution, sale, hiring or loan of those copies, or
>
> (b) any subsequent importation of such copies into the United Kingdom . . .

According to the explanatory memorandum to the implementing regulations, this was intended to 'strengthen the distribution rights of copyright owners in

[215] For a discussion of that law, see H Laddie, P Prescott, M Vitoria, A Speck and L Lane, *The Modern Law of Copyright and Designs*, 3rd edn (Butterworths, London, 2000), para 32.27, n 3.

[216] Copyright, Designs and Patents Act 1988, ss182B, 184 and 197.

[217] The Copyright (Computer Programs) Regs 1992, SI 992/3233, reg 4.

the United Kingdom subject to exhaustion of rights inside the [European Community]'.

Section 18(3) in this form was considered in *Microsoft v Computer Future Distribution*,[218] where Microsoft software was being parallel imported from the United States into the United Kingdom. Although some of the software appeared to be have been acquired from a German company, and apparently therefore had previously been put into circulation within the EEA, in the light of section 18(3) the only question was whether Microsoft had consented to it being put into circulation within the EEA. The UK distributor argued that Microsoft's warranties contemplated sale outside North America, but this was rejected as constituting consent by the judge in the light of Microsoft's 'unambiguous injunction on the outside of its packaging that the goods were not for sale outside North America'.

The definition was amended again with effect from 1 December 1996 in order to implement the Rental Rights Directive, with the result that the relevant subsections now read:[219]

> (2) References . . . to the issue to the public of the copies of a work are to—
>
> (a) the act of putting into circulation in the EEA copies not previously put into circulation in the EEA by or with the consent of the copyright owner, or
>
> (b) the act of putting into circulation outside the EEA copies not previously put into circulation in the EEA or elsewhere.
>
> (3) References . . . to the issue to the public of copies of a work do not include—
>
> (a) any subsequent distribution, sale, hiring or loan of those copies previously put into circulation . . . or
>
> (b) any subsequent importation of such copies into the United Kingdom or another EEA state,
>
> except so far as [section 18(2)(a)] applies to putting into circulation in the EEA copies previously put into circulation outside the EEA.

According to the explanatory memorandum, the change was intended to 'modify an existing exclusive right to issue copies of a work to the public, in particular so as to provide an exclusive right of first distribution within the European Economic Area of copies which is not exhausted by the previous distribution of those copies outside that area'.

Section 18 is not easy to follow, particularly in its current form. There is some disagreement on whether a copy of a work is 'put into circulation' when it is transferred to another party by the manufacturer (or importer) or whether this does not occur until there is a retail sale to a consumer.[220] It is suggested that the

[218] *Microsoft v Computer Future Distribution* [1998] ETMR 597.

[219] The Copyright and Related Rights Regs 1996, SI 1996/2967, reg 9(1)–(3).

[220] For the arguments, and a more general discussion on the difficulties of s18, see L Bently and J Phillips, 'Copyright Issues: The Mysteries of Section 18' [1999] *European Intellectual Property Review* 133, terming the two approaches the 'disposition' and 'destination' theories.

former is a more natural reading of the section and one that is in line with the concept of 'putting on the market' for the purposes of Community exhaustion. Section 18(2), when read with the exception to section 18(3), then suggests that such 'putting into circulation' can occur only once in the EEA in relation to any particular copy of a work, after which subsequent dealing in that copy is not regarded as 'issuing to the public'.

The exact meaning of Section 18 is irrelevant if the copyright owner is seeking to prevent sale in the United Kingdom by the person who parallel imported the copy from outside the EEA. The copy has already been issued to the public under section 18(2)(b), but the exception to section 18(3) means that putting the copy into circulation in the United Kingdom will also be regarded as being issued to the public under section 18(2)(a) and thus an infringing act. Therefore the copyright owner can exercise its right to prevent that sale or to seek damages.

However, if the copyright owner instead seeks to bring an action against someone further down the supply chain, once the imported copy has already been put into circulation in the EEA by the original parallel importer then, under the strict wording of section 18, the position appears to be different. In this case, the product has already been issued to the public in the EEA under section 18(2)(a) as well as in a third country under section 18(2)(b). Therefore the exception to section 18(3) does not apply and the subsequent distribution or sale in the United Kingdom will not be regarded as issuing to the public, and thus not an act of primary infringement. This appears to reflect the general approach that liability for primary infringement under section 18 is aimed at the original distributor within the United Kingdom and not those down the supply chain, who may be liable only under the provisions on secondary infringement.

If interpreted in this way then section 18 would allow a limited form of international exhaustion. If so, the UK legislation may not comply with the Directive, which requires Member States to grant authors 'in respect of the original of their works or of copies thereof, the exclusive right to authorise or prohibit any form of distribution to the public by sale or otherwise' and does not state that Member States may limit this to the right of first distribution. This is important because the UK courts must interpret domestic legislation to give effect to Community legislation if possible.[221] As a consequence, it may be necessary to construe section 18 so that each resale of a product parallel imported from outside the Community is regarded as a fresh issue to the public unless the copyright owner has consented to an earlier issue in the Community.[222]

[221] Case C–106/89 *Marleasing v La Comercial Internacional de Alimentación* [1990] ECR I–4135.

[222] This interpretation is implicitly taken in K Garnett, G Davies and G Harbottle, *Copinger and Skone James on Copyright*, 15th edn (Sweet & Maxwell, London, 2005), paras 7-79 to 7-80, although it is said to be wrong where there is no cross-border element. By contrast, such an interpretation is said to be wrong in all cases in H Laddie *et al, The Modern Law of Copyright and Designs*, 3rd edn (Butterworths, London, 2000), paras 15.21 to 15.45.

Quite separately from the issue of primary infringement, the relevant provisions in relation to secondary infringement are laid down in sections 22 and 23. These provide that, where a person deals in certain ways with 'an article which is, and which he knows or has reason to believe is, an infringing copy of the work', this will constitute infringement of copyright if done without the licence of the copyright owner. The forms of dealing are:

—importation into the United Kingdom, otherwise than for the importer's private and domestic use (section 22);
—possessing in the course of business (section 23(a));
—selling or letting for hire, or offering or exposing for sale or hire (section 23(b));
—exhibiting in public or distributing in the course of a business (section 23(c)); and
—distributing otherwise than in the course of a business to such an extent as to prejudicially affect the owner of the copyright (section 23(d)).

Section 27 then defines what constitutes an 'infringing copy'. An article is regarded as an infringing copy if:

—its making constituted an infringement of the copyright of the work in question (section 27(2)); or
—it has been or is proposed to be imported into the United Kingdom and its making in the United Kingdom would have constituted an infringement of the copyright of the work in question, or a breach of an exclusive licence agreement relating to that work (section 27(3)).

However, under section 27(5), '[n]othing in subsection (3) shall be construed as applying to an article which may lawfully be imported into the United Kingdom by virtue of any enforceable Community right within the meaning of section 2(1) of the European Communities Act 1972'.

As of 1 January 1993,[223] 'a copy of a computer program which has previously been sold in any other member State, by or with the consent of the copyright owner' was explicitly excluded from the definition of an 'infringing copy' by section 27(3A). However, that specific exclusion was removed as of 1 December 1996.[224]

Again, this does not entirely prohibit international exhaustion because not all parallel imported articles will constitute 'infringing copies'. As we are talking about parallel trade, the making of the copy will not have been an infringement of copyright under section 27(2). Therefore, the question is whether 'its making in the United Kingdom would have constituted an infringement of the copyright of the work in question, or a breach of an exclusive licence agreement relating to that work' under section 27(3). Although section 27(3) does not specify who

[223] The Copyright (Computer Programs) Regs 1992, SI 992/3233, reg 6.
[224] The Copyright and Related Rights Regs 1996, SI 1996/2967, reg 9(4).

must be regarded as having made the copies in the United Kingdom for the purposes of this hypothetical test, it appears that this is the person who actually made them, and this was the interpretation taken by the English High Court in *The WHO Group v Stage One (Records)*,[225] *CBS United Kingdom v Charmdale Record Distributors*[226] and *Polydor v Harlequin Record Shops*.[227] These cases were concerned with the interpretation of the forerunner to section 27(3), namely section 16 of the Copyright Act 1956, under which an imported article could be infringing if its making 'would have constituted infringement . . . if the article had been made in [the United Kingdom]'.

In *CBS United Kingdom v Charmdale Record Distributors*[228] the High Court held that section 16 did not cover articles made and sold in the United States by the copyright owner, as the copyright owner would not be infringing its own copyright even if it was acting in breach of an exclusive licence. However, in *Polydor v Harlequin Record Shops*,[229] the High Court and Court of Appeal held that section 16 did cover articles made and sold by licensees under a copyright licence which extended to Portugal but not the UK. This was so regardless of the fact that the Portuguese licensees were members of the same group as the copyright owner and its exclusive licensee in the UK.

The particular distinction in *CBS v Charmdale* is no longer relevant, given that the definition of 'infringing copy' under section 27(3) extends to articles which, if made in the United Kingdom, would have been in breach of an exclusive licence. Nevertheless, if a parallel imported article was made by the exclusive licensee for the UK, or by the copyright owner where there is no such exclusive licensee, it will not be regarded as an infringing copy.[230]

The High Court of New Zealand cast doubt on these decisions when interpreting a similar provision of New Zealand law in *Barson Computers (NZ) v John Gilbert and Company*,[231] holding that the test must be applied on the basis that the articles had been made in New Zealand by the person who imported them. Australia had already adopted express provisions to this effect,[232] and the New Zealand legislation was amended to explicitly follow *Barson Computers (NZ) v John Gilbert and Company*.[233] These legislative prohibitions were

[225] *The WHO Group v Stage One (Records)* [1980] FSR 268 (although this was accepted by the parties for the purposes of the hearing).

[226] *CBS United Kingdom v Charmdale Record Distributors* [1981] Ch 91.

[227] *Polydor v Harlequin Record Shops* [1980] FSR 26; [1980] FSR 194; [1980] FSR 362. This case also resulted in the reference to the ECJ, discussed in sect IV.B (Bilateral Free Trade Agreements) below.

[228] *CBS United Kingdom v Charmdale Record Distributors* [1981] Ch 91. This had previously been accepted as the position in *The WHO Group v Stage One (Records)* [1980] FSR 268.

[229] *Polydor v Harlequin Record Shops* [1980] FSR 26; [1980] FSR 194; [1980] FSR 362.

[230] K Garnett *et al*, *Copinger and Skone James on Copyright*, 15th edn (Sweet & Maxwell, London, 2005), para 8-05.

[231] *Barson Computers (NZ) v John Gilbert and Company* [1985] FSR 1984, interpreting s10(2) of the New Zealand Copyright Act 1962.

[232] Australian Copyright Act 1968, s37, which was applied in *Time-Life International (Nederlands) v Interstate Parcel Express Co Pty Ltd* [1978] FSR 21.

[233] New Zealand Copyright Act 1994, s12(3)(b).

subsequently amended to allow international exhaustion of copyright in certain cases.[234] Nevertheless, the interpretation used by the English High Court appears to be a more natural one, which would avoid the words 'without the licence of the copyright owner' being redundant in sections 22 and 23, and is likely to be followed in England.[235] This was also the interpretation adopted by the UK Monopolies and Mergers Commission in 1994.[236]

In most cases this will be of little importance, as any well-advised copyright owner will ensure that the exclusive licensee in the United Kingdom is a separate legal entity from the licensees in other countries, even if they are all members of the same corporate group, so that all copies made abroad will constitute infringing copies. However, this may not be the case for smaller or less sophisticated copyright owners. In addition, if the articles distributed abroad were actually made in the United Kingdom with the consent of the corporate group, then, regardless of the licensing structure, these would not appear to constitute 'infringing copies'. Finally, given that sections 22 and 23 do not apply strict liability but require that the person 'knows or has reason to believe' that the articles are infringing copies, a parallel importer may be able to raise an arguable case that he had no reason to believe that the articles had not been made by the person entitled to do so in the United Kingdom.

One further issue arises for parallel imported computer software. Under section 16(1)(a), the owner of copyright has the exclusive right to copy the work. Under section 17(6), this includes 'the making of copies which are transient or are incidental to some other use of the work' which will typically occur when the software is used. Although an exception is provided under section 50C(1) which allows a lawful user to copy a computer program where this 'is necessary for his lawful use', this applies only where 'it is not prohibited under any term or condition of an agreement regulating the circumstances in which his use is lawful'. Therefore, even if the computer program itself is not an infringing copy under section 27, its use could constitute an infringement. By contrast, the mere use of most copyright works is not an infringing act.

This was accepted by Jacob J in *Sony Computer Entertainment v Owen*,[237] where he held that the use of Sony PlayStation 2 computer games imported from Japan, where they were sold '[f]or Japan only', would be infringing. Moreover, in *Sony Computer Entertainment v Ball*,[238] Laddie J held that the use of UK Sony PlayStation 2 computer games on consoles imported from outside the Community (using non-PAL television systems) would be infringing, as the UK

[234] Australian Copyright Act 1968, ss10AA–10DD, 44A–44F, 112A–112DA; New Zealand Copyright Act 1994, s12(5A) and (6).

[235] However, see the criticism of this approach in H Laddie *et al*, *The Modern Law of Copyright and Designs*/ 3rd edn (Butterworths, London, 2000), paras 32.28 to 32.38, in essence suggesting that the question should be whether there was consent to the parallel import at any stage.

[236] Monopolies and Mergers Commission, *The Supply of Recorded Music* Cm 2599 (HMSO, London, 1994), paras 4.22–4.29.

[237] *Sony Computer Entertainment v Owen* [2002] EWHC 45 (Ch), at 9.

[238] *Sony Computer Entertainment v Ball* [2004] EWHC 1738 (Ch), paras 11–18 and 31–33

games stated that they were 'only compatible with the PlayStation®2 computer entertainment system displaying the PAL logo'. He also held that the random access memory (RAM) of the Sony Playstation 2 would constitute an 'infringing copy' when used to run a game imported from outside the Community.

There is a separate question whether section 18, 22 or 23 would be infringed by a company operating outside the United Kingdom which supplied parallel imported copies directly to consumers in the United Kingdom The terms and conditions of such companies' websites generally seek to take their sales outside the sections. For instance, the cd-wow.com Terms and Conditions specify that the consumer will 'become the owner of [his] purchases once we have received your full payment for such purchases' and that the goods are 'for personal use only and are not to be sold or offered for re-sale'.[239] The play.com Terms and Conditions state that '[e]very purchase you make shall be deemed performed in Jersey' and that the goods are for customers' 'own private and domestic use only'.[240] The amazon.co.uk Amazon Jersey terms and conditions state that '[a]ll ownership, title and risk of loss and/or damage in the product you have purchased shall pass to you at the point and time at which such product leaves our premises in Jersey' and that the person to whom the goods are delivered in the UK 'will be the importer of record'.[241]

The effect of these provisions was due to be considered in *Independiente v Music Trading On-Line (HK)*, the latter company running the cd-wow.com website, but the case subsequently settled before trial.[242] However, in *Sony Computer Entertainment v Pacific Game Technology (Holding)*,[243] the English High Court rejected the construction of the website operators in relation to a website selling PlayStation Portable consoles from Hong Kong to the United Kingdom, indicating that the relevant question was 'where is it intended by the website proprietor that business should take place?'. The judge found that the website was directed at the UK, noting in particular that the default language of the website was English, manuals were available on the website in English, prices were quoted in pounds sterling, the website had testimonials from UK customers, the retailer ran a free shipping promotion until the day before PlayStation Portables were launched in Europe and that a spurious EC Certificate of Conformity was included with the product shipped to Europe. The judge took a very practical approach, stating that 'it would make no sense if intellectual property rights in the EEA could be avoided merely by setting up a website outside the EEA crafted to sell within it'.

[239] www.cd-wow.com/tac.php, as at 30 Dec 2006.

[240] www.play.com/AboutUs.html?page=terms, as at 30 Dec 2006, terms 24 and 27.

[241] www.amazon.co.uk/gp/help/customer/display.html?nodeId=13378011, as at 30 Dec 2006, terms 4 and 5.

[242] See *Independiente v Music Trading On-Line (HK)* [2003] EWHC 470 (Ch) for an outline of the issues. See also the discussion of the terms of the settlement in *Independiente v Music Trading On-Line (HK)* [2006] EWHC 3081 (Ch).

[243] *Sony Computer Entertainment v Pacific Game Technology (Holding)* [2006] EWHC 2509 (Pat); see also the earlier judgment on jurisdiction [2006] EWHC 640 (Pat).

In summary, it appears that parallel importation from outside the Community is likely to be an act of primary infringement where it is direct to the United Kingdom, even if the end consumer is the importer under the contract, but possibly not if importation is indirect and the product has been sold in another Member State. Where there is such indirect importation, or where the product is sold by someone other than the original importer into the United Kingdom, there may be liability for secondary infringement, but only if the product was not manufactured by the UK copyright owner or exclusive licensee and this was known to the retailer.

iii. Design Rights

UK unregistered design is treated in a similar way to copyright. Although a parallel importer will not be liable for primary infringement, the entire supply chain may be liable for secondary infringement under section 227(1) of the Copyright, Designs and Patents Act 1988, which reads as follows:

> (1) Design right is infringed by a person who, without the licence of the design right owner—
>
> (a) imports into the United Kingdom for commercial purposes, or
>
> (b) has in his possession for commercial purposes, or
>
> (c) sells, lets for hire, or offers or exposes for sale or hire, in the course of a business,
>
> an article which is, and which he knows or has reason to believe is, an infringing article.

The term 'infringing article' is then defined in section 228. The relevant subsections read as follow:

> (2) An article is an infringing article if its making to that design was an infringement of design right in the design.
>
> (3) An article is also an infringing article if—
>
> (a) it has been or is proposed to be imported into the United Kingdom, and
>
> (b) its making to that design in the United Kingdom would have been an infringement of design right in the design or a breach of an exclusive licence agreement relating to the design.
>
> . . .
>
> (5) Nothing in subsection (3) shall be construed as applying to an article which may lawfully be imported into the United Kingdom by virtue of any enforceable Community right within the meaning of section 2(1) of the European Communities Act 1972.

As with copyright, this is likely to be interpreted as referring to the person who actually made the article, and so the question whether it is infringing will be determined by the corporate structure of the owner of the design right and its manufacturing operation.

By contrast, UK registered design right is treated in a similar way to patent rights, save that it has been harmonised under the Design Directive. Under Article 7(1) of the Registered Designs Act 1949, the registered proprietor of a design has 'the exclusive right to use the design and any design which does not produce on the informed user a different overall impression'. Under section 7(2), 'use' includes 'the making, offering, putting on the market, importing, exporting or using of a product in which the design is incorporated or to which it is applied' or 'stocking such a product for those purposes'. Under section 7A(1), the right in a registered design is infringed by anyone doing something which is the exclusive right of the proprietor without the proprietor's consent.

However, in contrast to the Patents Act 1977, the Registered Designs Act 1949 has a provision on exhaustion in section 7A(4), which reads '[t]he right in a registered design is not infringed by an act which relates to a product in which any design protected by the registration is incorporated or to which it is applied if the product has been put on the market in the European Economic Area by the registered proprietor or with his consent'. This is likely to be interpreted to preclude international exhaustion.

iv. Trade Marks

Section 12 of the Trade Marks Act 1994 deals with exhaustion by following the wording of Article 7 of the Trade Mark Directive and therefore, as interpreted by the ECJ, prohibits international exhaustion.

However, the approach under earlier legislation was very different. As this forms the background to the reluctance to accept the result of the Trade Mark Directive and *Silhouette* by the English courts, and as it may be relevant to questions of exhaustion in other fields, this is considered in outline.

a. The old law Section 3 of the Trade Marks Registration Act 1875 provided that a person's registration as the first proprietor of a trade mark should be 'prima facie evidence of his right to the exclusive use of such trade mark'. Similarly, section 39 of the Trade Marks Act 1905 provided that the proprietor of a validly registered trade mark would have 'the exclusive right to the use of such trade mark upon or in connection with the goods in respect of which it is registered'.

In *Dunlop Rubber v AA Booth & Co*,[244] the English High Court considered the latter provision in relation to the parallel import of tyres bearing the DUNLOP trade mark from France to England. It held that the tyres could have been imported if they had been made by the same undertaking, Dunlop UK, but not where the trade mark had been applied by a different undertaking, Dunlop France (even though they were associated companies).

[244] *Dunlop Rubber v AA Booth & Co* (1926) 43 RPC 139.

By contrast, in *Champagne Heidsieck v Buxton*,[245] the manufacturer was the same but produced two different types of CHAMPAGNE DRY MONOPOLE, one for the English market and a sweeter version for the French market. The latter had a slightly different label which bore the word BRUT. Some of the champagne intended for the French market found its way into England where the defendants planned to sell it. The manufacturer brought an action for trade mark infringement. Clauson J in the English High Court held that section 3 of the Trade Marks Registration Act 1875 and section 39 of the Trade Marks Act 1905 both meant that 'the proprietor of a registered mark is to have the right exclusively to use such trade mark in the sense of preventing others from selling wares which are not his marked with the trade mark' but not 'a right to control dealings with the goods'. Therefore the threatened sales did not constitute trade mark infringement.

Section 4(1) of the Trade Marks Act 1938 similarly gave the proprietor of a validly-registered trade mark in respect of certain goods 'the exclusive right to the use of the trade mark in relation to those goods'. However, section 4(3)(a) of the Trade Marks Act 1938 stated:

> The right to the use of a trade mark . . . shall not be deemed to be infringed by the use of any such mark as aforesaid by any person (a) in relation to goods connected in the course of trade with the proprietor . . . of the trade mark if, as to those goods, or a bulk of which they form part, the proprietor . . . had applied the trade mark and has not subsequently removed or obliterated it, or has at any time expressly or impliedly consented to the use of the trade mark.

This section was considered in *Revlon v Cripps & Lee*.[246] The case concerned shampoos and hair conditioners sold by the Revlon group under the trade mark REVLON FLEX. In the United States, they were manufactured and marketed by Revlon US, which also owned the US trade mark. In the United Kingdom, they were manufactured by one wholly-owned subsidiary (Revlon Overseas) and marketed by another (Revlon International), while the UK trade mark was owned by a third (Revlon Suisse). Revlon US briefly launched an anti-dandruff variety in the United States before discontinuing it the following year. Although the variety was never launched in the United Kingdom, some of the bottles found their way to the United Kingdom. The four Revlon companies brought an action for trade mark infringement.

In the High Court, Dillon J began by indicating that he was not bound by *Champagne Heidsieck* or *Dunlop Rubber*, given the changes in the language of the legislation. He also said that, if Revlon US had owned the UK trade mark, section 4(3)(a) would have applied and there would have been no infringement. Therefore, the question was whether it made a difference that the UK trade mark was owned by another member of the Revlon group and not Revlon US. Dillon J considered a range of factors, including the fact that the subsidiaries

[245] *Champagne Heidsieck v Buxton* [1930] 1 Ch 330.
[246] *Revlon v Cripps & Lee* [1980] FSR 85.

were wholly-owned, that there were common directors, that the group put itself forward as an international trading organisation and that the mark was used as a group mark. In this light, he held that the US anti-dandruff products were connected in the course of trade with Revlon Suisse and that, although Revlon Suisse had not applied the mark to those goods, it had implicitly consented to their initial use by Revlon US. Therefore, there was no trade mark infringement.

The Court of Appeal upheld his decision. Buckley LJ, with whom Bridge LJ agreed, placed some reliance in reaching this conclusion on the fact that the purchasers of the US product had not been prohibited from exporting the product in finding implied consent. He said that this did not 'constitute what is sometimes called "piercing the corporate veil"' but rather 'recognises the legal and factual position resulting from the mutual relationship of the various companies'. However, Templeman LJ went further, suggesting that the application of the mark by Revlon US should simply be treated as the application by Revlon Suisse and that 'section 4(3)(a) cannot be avoided by substituting the monkey for the organ grinder'.

A different approach was taken by the High Court in *Castrol v Automotive Oil Supplies*.[247] In this case, Castrol GTX motor oil was manufactured in the UK by Castrol, which owned various trade marks in the UK and in Canada. In Canada the oil was manufactured and produced by Burmah-Castrol Canada under a licence agreement with Castrol. Both Castrol and Burmah-Castrol Canada were wholly-owned subsidiaries of Burmah Oil Co and were therefore associated companies. However, the judge focussed on the fact that the Burmah-Castrol Canada's licence was limited to Canada, that the application of the trade marks in Canada could not be regarded as an application of the (identical) UK trade marks and that the oil sold in Canada bore a clear statement that there was no implied licence under any patent, trade mark or copyright outside Canada. Therefore, he held that section 4(3)(a) did not apply as there had been no consent, whether express or implied, to the use of the trade mark except within Canada, distinguishing it on this basis from *Revlon*. He also noted that there were differences in quality, as the Canadian motor oil had a different viscosity suited to the different climatic conditions, and that this supported his finding.

Notwithstanding the distinctions raised, this appears to take a radically different approach from that of the Court in *Revlon* in relation to the question of consent to the use of the mark. However, the defendant did not appear at trial, and so the arguments were not fully ventilated and some caution should be taken in relying on this judgment.

The issue returned to the High Court and the Court of Appeal a few years later in *Colgate-Palmolive v Markwell Finance*.[248] In that case, Colgate owned a number of trade marks covering toothpastes. It operated in the United

[247] *Castrol v Automotive Oil Supplies* [1983] RPC 315.
[248] *Colgate-Palmolive v Markwell Finance* [1989] RPC 497.

Kingdom and in Brazil through wholly-owned subsidiaries to which it licensed its trade marks. Two types of Brazilian toothpaste were imported into the United Kingdom and Colgate brought an action for trade mark infringement. Export of the goods was not prohibited in the Brazilian trade mark licence, due to Article 90 of the then Brazilian Patent Law,[249] although in practice the Brazilian subsidiary exported directly only to Bolivia and Paraguay, and through export trading companies to countries where Colgate had no subsidiaries, such as Nigeria. Six of the seven consignments in question had been acquired in Brazil expressly for export to Nigeria. In addition, the Brazilian toothpaste was of an inferior quality to the toothpaste sold in the United Kingdom as it used cheaper raw materials.

In the High Court, Falconer J held that the application of the trade marks by the Brazilian subsidiary could not be regarded as application of the UK marks (even though these were identical). Moreover, he held that there had been no consent to the use of the marks in the UK, given that they were effectively sold for export only to Nigeria. He reconciled this with the approach of the Court of Appeal in *Revlon* by referring to Buckley LJ's reliance on the fact that the shampoo had been put on the market in the United States without any restriction as to export, contrasting that to the restriction in this case.

In the Court of Appeal, Slade and Lloyd LJJ both agreed that the application of the marks in Brazil did not constitute the application of the identical UK trade marks for the purposes of section 4(3)(a), expressly agreeing with the judgment in *Castrol v Automotive Oil Supplies* and rejecting the suggestion of Templeton LJ in *Revlon*. Even if this did constitute the application of the UK trade mark, Slade LJ said that this had not been done by Colgate itself, which owned the UK trade mark, but only by its Brazilian subsidiary, and that there was no reason to pierce the corporate veil (Lloyd LJ left the point open). Both judges rejected the argument that Colgate had implicitly consented to such use on the basis that (a) the Brazilian trade mark licence did not prohibit exports but nor did it give consent to such exports and (b) the trade mark owner could not be deemed to have consented where such use would involve a misrepresentation as to the quality of the goods.

b. Trade Marks Act 1994 In *Northern & Shell v Condé Nast & National Magazines Distributors*,[250] Jacob J in the High Court suggested that the reasoning in *Revlon* and *Colgate* would not apply under the Trade Mark Act 1994 and that '[i]t may well be that the result reached is that trade marks will not be a machinery whereby a multinational can divide markets'.

However, this was not to be the case. As already discussed, in *Silhouette* and *Sebago* the ECJ held that Article 7 the Trade Mark Directive, which is implemented by section 12 of the Trade Marks Act 1994, prohibits international

[249] Law No 5772 of 21 Dec 1971; Art 90 dealt with trade mark licences.
[250] *Northern & Shell v Condé Nast & National Magazines Distributors* [1995] RPC 117.

exhaustion. Laddie J's suggestion in *Zino Davidoff v A&G Imports*[251] that consent could be interpreted in the light of *Betts v Wilmott*, such that there would be consent unless there was a clear and explicit agreement passed down the supply chain not to sell in the UK, was rejected by the ECJ.[252]

The ECJ's approach has subsequently been accepted by the English courts, albeit grudgingly at first, which have gone on to consider other arguments about consent and other attempts to avoid the result of *Silhouette* and *Davidoff*.[253]

Glaxo Group v Dowelhurst[254] concerned the diversion of various pharmaceutical products sold at significantly reduced prices which were intended for use in Africa. Peter Prescott QC, sitting as a Deputy Judge in the High Court, made various critical comments about the fact that the products were supplied in their normal European packaging, including the number of the Community marketing authorisation issued by the EMEA, and that the tablets had not been dyed a different colour to make it clear that they were not for sale in the EEA. He did not focus on this point in his refusal of summary judgment. However, the Court of Appeal took the point further. One of the defendants had given evidence that the EMEA licence number was:

> considered a clear indication that the goods were placed on the market in the EEA by Glaxo or with this consent. It is common knowledge that where an originator wishes to sell products outside of the EEA, they either adopt a different pack design to [sic] that used by them in Europe, apply a non-EEA product licence number to them and/or attach stickers to the packaging stating that they are not for sale within the EEA.

On this basis, the Court of Appeal held that there was an arguable case in relation to all of the batches that Glaxo had implicitly consented to their sale in the EEA. As the case subsequently settled it is unclear whether this would have succeeded at trial, although it seems unlikely under *Davidoff* that unequivocal consent could be demonstrated based on 'common knowledge'.

In *Quiksilver v Trago Mills* the English High Court suggested that consent could perhaps be implied where a manufacturer sold goods 'to a purchaser which it knows operates only or perhaps even principally within the EEA', but rejected the suggestion that this could extend to the party financing the trade, who would take possession of the goods only if the buyer defaulted on payment.[255]

Then, in *Hewlett-Packard Development Company v Expansys UK*,[256] the English High Court rejected suggestions that consent could be implied from 'the language of the instruction leaflets supplied with the products, the shape of the electric plugs attached to them and the alleged deliberate oversupply of the products to the Malaysian and Pakistan markets' in a case where the defendants

[251] *Zino Davidoff v A&G Imports* [2000] Ch 127.
[252] Joined Cases C–414/99 to 416/99 *Zino Davidoff v A&G Imports* [2001] ECR I–8691.
[253] As well as the cases below, see also *Levi Strauss v Tesco Stores* [2002] EWHC 1625, rejecting a free speech argument, and *Adidas Salomon v Microhaven* [2003] EWHC 840 (Ch).
[254] *Glaxo Group v Dowelhurst* [2003] EWHC 2015 (Ch); [2004] EWCA Civ 290.
[255] *Quiksilver v Trago Mills* [2004] EWHC 2010 (Ch).
[256] *Hewlett-Packard Development Company v Expansys UK* [2005] EWHC 1495 (Ch).

were perfectly aware that the manufacturer objected to the parallel imports from outside the Community. Nevertheless, Laddie J was quoted as saying of *Davidoff* during the hearing '[t]his sounds to me just like a judgment of mine that they shredded. I had made a very good judgment. It just happened to be wrong. If you've found a way around *Davidoff*, I will personally give you a medal'.[257]

In *Sony Computer Entertainment v Nuplayer*,[258] the English High Court considered the parallel import of Sony PlayStation Portable (PSP) consoles from Japan, where they had been launched in December 2004, into the United Kingdom, where they were not due to be launched until September 2005. Although the products were not being sold cut-price, Sony complained that the parallel imports would undermine the launch of the product and that product safety testing for the European market had not yet been completed. Rather than seeking to argue consent, the defendants indicated that they would obliterate all the trade marks on the products and so there could be no trade mark infringement. They complained that, if such deletion constituted trade mark infringement or passing off then this would put them into an inequitable and intolerable 'no-win' situation. In response, Sony pointed out that they had a number of other rights, including copyright and design rights, which they could assert if this raised a triable case on trade mark infringement.

On the facts, the judge found that this offer was probably not genuine. However, even if it were, he said that it would not constitute a defence as 'Nuplayer has indicated that it will inform consumers that it has obliterated the marks, and why it has done so: this will be an offending use of the marks'. More broadly, although obliteration of the marks is a possible remedy for trade mark infringement, the judge found that this 'cannot possibly found an argument that products which would otherwise be infringing cease to be so when the marks are erased or obliterated'. He therefore granted summary judgment for trade mark infringement.

In *Sony Computer Entertainment v Electricbirdland*,[259] the High Court again considered the parallel import of Sony PSP consoles before their official launch in Europe. This time the defendants simply sought to raise an arguable case of consent on the basis of allegations that various Sony companies and employees had consented to the sale of PSPs other than those at issue. This was rejected by Pumfrey J, holding that '[a]t best these are what I suppose could be called *Sebago* cases in which there has been specific consent, but no inference of a general consent can be drawn from them'. Therefore, summary judgment was again granted.

In *Sun v Amtec*,[260] Warren J in the English High Court noted that '[i]t is not a defence for the trader to show that he took all reasonable steps open to him to

[257] S Moss, 'A law unto himself', *Guardian*, 24 June 2005.
[258] *Sony Computer Entertainment v Nuplayer* [2005] EWHC 1522 (Ch).
[259] *Sony Computer Entertainment v Electricbirdland* [2005] EWHC 2296 (Ch).
[260] *Sun Microsystems v Amtec Computer Corporation* [2006] EWHC 62 (Ch).

establish that goods were put on the market by, or with the consent, of the trade mark proprietor'.

In *Roche Products v Kent Pharmaceuticals*,[261] Lewison J in the English High Court considered whether the fact that product packaging included the European CE safety mark and three European languages could serve as a basis for implied consent. He rejected this argument, refusing to accept that the CE mark indicated that the goods could be imported into the Community without being subject to an action for trade mark infringement (as opposed to regulatory control) and accepting that there were good reasons to use CE marks on goods sold outside the Community, for instance as a worldwide mark of quality. He also distinguished the case from *Glaxo Group v Dowelhurst* on the basis that here a different packaging had been used on the European market. That judgment was upheld on appeal.

In *Mastercigars Direct v Hunters & Frakau*,[262] cigars which had been imported from Cuba were seized upon allegations that they were counterfeit. When the importers brought an action for a declaration that they were not counterfeit, the trade mark owner brought an action for trade mark infringement. Judge Fysh, sitting as a High Court Judge, confirmed that the burden was on the importers to prove consent. He accepted that, as export of around US$27,000 worth of cigars was permitted, this suggested that there was consent to subsequent commercial disposal of the cigars (commenting that the idea of an individual 'puffing his way through 8000 cigars before they deteriorated has about it more the quality of a domestic eruption of Mt Etna than of the quiet enjoyment of an occasional *habano*'). However, he rejected the argument that this indicated consent to the sale of the cigars within the EEA for the purposes of *Davidoff*. He also rejected on the evidence the argument that the Cuban retailer and the Cuban manufacturer and trade mark owner, which were separate legal entities, must be regarded as economically linked simply because Cuba has a socialist economy. Therefore, he rejected as irrelevant the allegations that individuals within the retailer had given their consent to the import of the cigars into the United Kingdom.

In *Honda Motor Company v Neesam*,[263] Lewison J in the English High Court considered an application for summary judgment in relation to the parallel import of motorbikes from the United States and Australia. He approved Kerly's view that

> the issue raised by parallel imports into the EEA has nothing to do with the essential function of a trademark, or whether a trademark should confer the ability to interfere with this type of activity. It is purely a matter of economic policy of the EU and the EEA. A trademark proprietor is entitled to stop parallel imports even though the

[261] *Roche Products v Kent Pharmaceuticals* [2006] EWHC 335 (Ch); [2006] EWCA Civ 1775.

[262] *Mastercigars Direct v Hunters & Frakau* [2006] EWHC 410 (Ch). See R Mills, 'Disappointment for Cigar Enthusiasts: No Implied Consent to Imports of Cuban Cigars' (2006) 1 *Journal of Intellectual Property Law & Practice* 505.

[263] *Honda Motor Company v Neesam* [2006] EWHC 1051 (Ch).

> trademark is applied to the genuine goods, and the function of the trademark as a guarantee of origin and quality is not impaired. Put bluntly, as the law has developed, the trademark proprietor is entitled to keep up prices in the EEA by use of his rights in the trademark.

Nevertheless, despite this criticism of the policy, Lewison J held that, on the basis of *Davidoff*, there was no arguable case that consent could be given by an authorised distributor or dealer who is contractually prohibited from exporting. However, he did accept that it was arguable, on the evidence before him, that Honda Australia had consented to certain imports and so refused summary judgment in relation to those imports. He rejected the broader argument that Honda was generally facilitating parallel imports. Finally, he also confirmed the approach in *Sun v Amtec*[264] that innocence is no defence: in one of the cases, the motorcycle had been imported from an authorised Honda dealer within the Community, but this was held to be irrelevant. Leave to appeal was refused by the Court of Appeal, where Jacob LJ said that 'the suggestion that a distributor has authority on behalf of its supplier to give consent is unarguably wrong'.[265]

v. Passing Off

As discussed in Chapter 2, the five requirements for passing off were laid down by Lord Diplock in *Erven Warnink v J Townend & Sons (Hull)*[266] as:

(1) a misrepresentation,
(2) made by a trader in the course of trade,
(3) to prospective customers of his or ultimate consumers of goods or services supplied by him,
(4) which is calculated to injure the business or goodwill of another trader (in the sense that this is a reasonably foreseeable consequence) and
(5) which causes actual damage to the business or goodwill of the trader by whom the action or brought or (in a *quia timet* action) will probably do so.

Of these five requirements, the most important for parallel trade cases is whether there is in fact any misrepresentation. In general, the misrepresentation relied upon is a misrepresentation as to quality, which was recognised as a basis for passing off in *Spalding v Gamage*.[267] In that case, the plaintiffs had disposed

[264] *Sun Microsystems v Amtec Computer Corporation* [2006] EWHC 62 (Ch).

[265] See N Cordell and J Wilks, 'Looking for Loop-holes: the Issue of Consent and Parallel Imports' (2006) 190 *Trademark World* 28.

[266] *Erven Warnink v J Townend & Sons (Hull)* [1978] RPC 79, 99. More generally on passing off see C Wadlow, *The Law of Passing-Off: Unfair Competition by Misrepresentation*, 3rd edn (Sweet & Maxwell, London, 2004), in particular paras 3-141 to 3-142 and 7-57 to 7-64, and D Kitchin, D Llewelyn, J Mellor, R Meade, T Moody-Stuart and D Keeling, *Kerly's Law of Trade Marks and Trade Names*, 14th edn (Sweet & Maxwell, London, 2005), paras 15-135 to 15-137. See also L Cohen, 'Warding Off the Foe: How Trade Marks Can Still Offer Some Protection Against Parallel Imports' [1990] *European Intellectual Property Review* 369.

[267] *AG Spalding & Bros v AW Gamage* (1915) 32 RPC 273.

of some faulty moulded ORB footballs to waste rubber merchants and were selling improved sewn footballs under the mark IMPROVED SEWN ORB. The plaintiffs successfully brought a passing off action against a store which was advertising the old balls by imitating the advertisements for the new ones.

In *Champagne Heidsieck v Buxton*,[268] the champagne producer had brought an action for passing off seeking to prevent the sale of the sweeter French BRUT version of its champagne in England in competition with its English version of the champagne. This was not accepted by the High Court, which rejected the suggestion that the defendants could be accused of deception simply by virtue of selling 'the Brut type of the plaintiffs' article under the very marks which the plaintiffs themselves think proper to use to distinguish that type'. The plaintiffs knew that the bottles intended for the French market made their way to the England and so 'if, with this knowledge, they placed on the brand a mark insufficient to distinguish it in England, the fault is theirs, and theirs alone'.

Similarly, in *Revlon v Cripps & Lee*,[269] the High Court and the Court of Appeal held that there was no serious question of passing off as there was no misrepresentation. First, there was no misrepresentation as to the source of the goods. The judge noted that 'the bottles of shampoo and conditioner manufactured and sold by the plaintiffs under the market REVLON FLEX are all labelled "REVLON/New York-Paris-London." The plaintiffs have thus shown the international Revlon business as the source of their goods and that is indeed the true source of the anti-dandruff Revlon products which the defendants desire to market'. The Court of Appeal agreed, noting that there was no evidence that retailers or consumer knew or cared which member of the group owned the trade mark or manufactured the products, or where this occurred.

Secondly, there was no misrepresentation as to the quality or composition of the goods, the High Court rejecting the argument that the UK products were 'beauty' products while the US anti-dandruff product was 'medicated'. The Court of Appeal agreed, noting that the labelling of the US product made it quite clear that it was an anti-dandruff product and that there was no evidence that the quality of the product was lower. The Court of Appeal also said that the fact that the US products were being sold at a cheaper price and through less prestigious outlets could not form the basis for a passing off action.

However, these cases were distinguished by the High Court in *Wilkinson Sword v Cripps & Lee*.[270] In that case, a passing off action was brought in relation to the parallel import of WILKINSON SWORD razor blades from the United States. The defendants sought to have the claims struck out as disclosing no reasonable cause of action in the light of the previous cases. However, this was rejected by Falconer J on the basis that in those cases the imported goods were not of inferior quality but that in this case the imported blades were. Therefore, the claims were not struck out.

[268] *Champagne Heidsieck v Buxton* [1930] 1 Ch 330.
[269] *Revlon v Cripps & Lee* [1980] FSR 85.
[270] *Wilkinson Sword v Cripps & Lee* [1982] RPC 16.

This was followed in *Colgate-Palmolive v Markwell Finance*,[271] where Falconer J held that there was a misrepresentation that the toothpaste imported from Brazil was the same as the UK toothpaste, was produced by Colgate UK and was of the same quality. Again, he distinguished the case from *Revlon v Cripps & Lee* on the basis of the difference in quality between the Brazilian toothpaste and the UK toothpaste. In the Court of Appeal, the defendants sought to rely on *Champagne Heidsieck v Buxton* and *Revlon v Cripps & Lee*, arguing that it was Colgate's own responsibility that the Brazilian toothpaste was not sufficiently differentiated from the UK toothpaste by its packaging. However, the court distinguished the situation on the basis that, in the circumstances of sale in those cases, there was no misrepresentation as to the characteristics or quality of the goods.

Courts in Australia and Canada have similarly found misrepresentations in relation to the suitability of products for use with the power supply in the importing country[272] or compliance with domestic regulatory requirements.[273]

In *Microsoft v Computer Future Distribution*,[274] the distributor was selling software which had been parallel imported from the United States. The outer packaging, which made it clear that the software was sold for use only in North America, had been removed. In some cases the new packages contained only the End User Licence Agreements [EULAs], without the software, while in other cases they contained insufficient EULAs. Although the focus of the judgment was on copyright and trade mark infringement, the judge also held that there was passing off, the misrepresentation arising because the distributor 'has sold software which was falsely represented as licensed for use by Microsoft and has sold licences which were falsely represented as licensing the use of Microsoft's software'.

In *Zino Davidoff v A&G Imports*,[275] the English High Court noted that, if a parallel importer 'removes the proprietor's mark and applies another mark instead, he lays himself open, at least under English law, to an action for passing off'.[276] The court implied that if no new mark was added then there would be no passing off, although indicated that this would often be commercially infeasible, particularly in relation to 'high margin fashion goods'.

[271] *Colgate-Palmolive v Markwell Finance* [1989] RPC 497.

[272] *Star Micronics v Five Star Computers* (1998) 18 IPR 225 (Fed Ct Aust).

[273] *Sharp Electronics of Canada v Continental Electronic Info* (1988) 23 CPR (3d) 330 (Sup Ct BC); *Pioneer Electronics v Lee* [2000] FCA 1936 (Fed Ct Aust). See also L Ederer and A Bernstein, 'Canada: How to Stop Grey Goods' [2004] *Managing Intellectual Property—Supplement—Brand Management Focus*.

[274] *Microsoft v Computer Future Distribution* [1998] ETMR 597.

[275] *Zino Davidoff v A&G Imports* [2000] Ch 127.

[276] *Ibid*, para 36, referring to *Bristol Conservatories v Conservatories Custom Built* [1989] RPC 455.

II. COMPETITION LAW

The basics of Articles 81 and 82 of the EC Treaty have already been discussed in Chapter 3 in relation to parallel trade within the Community. Most measures restricting parallel trade, including contractual restrictions, are capable of being caught by these provisions.

However, where the parallel trade is from outside the Community this is subject to the jurisdictional limitations of Articles 81 and 82. Neither Article will be breached unless there is an effect on competition 'within the common market' which 'may affect trade between Member States'.

Although these jurisdictional thresholds will normally be satisfied when dealing with parallel trade within the Community, the answer is far less clear-cut where conduct restricts the entry of imports into the Community, including parallel imports. In making this assessment, all the circumstances which impact on the possibility of such parallel trade must be considered, such as the costs of transportation and customs duties. Measures restricting parallel trade from outside the Community will be prohibited only where there is an appreciable impact on competition 'within the common market' and where there is an appreciable effect on trade between Member States.

As discussed in the previous section, the owners of intellectual property rights will often be able to enforce their rights to prevent parallel imports from outside the Community. Enforcement of such rights is unlikely in itself to be regarded as breaching competition law, regardless of whether the rights in question are unharmonised, harmonised or Community rights.[277] However, the ownership of intellectual property rights does not exclude the owners from competition law scrutiny, nor do such rights give their owners *carte blanche* to take other measures to restrict parallel trade. Therefore, although the existence of the intellectual property will be taken into account when assessing whether the restriction or effect on trade is appreciable, the ownership of intellectual property will not justify, for instance, excessive pricing in the Community or punitive action against an overseas distributor whose products are found on the Community market. Equally, however, the fact that the manufacturer may be breaching Community competition law in other ways is unlikely to give a parallel importer a defence to an action for infringement of the intellectual property right.

A. Article 81

The Commission initially took the view that it had a broad jurisdiction under Article 81 to take action against restrictions on direct imports into the

[277] T Heide, 'Trade Marks and Competition Law After *Davidof*" [2003] *European Intellectual Property Review* 163. However, see the contrary view in T Hays, 'Anticompetitive Agreements and Extra-Market Parallel Importation' (2001) 26 *ELRev* 468.

Community. For instance, in 1972 the Commission published a notice concerning imports of Japanese goods into the Community.[278] This made it clear that where Japanese industries took measures to restrict such imports or to regulate quantities, prices or quality, whether independently or after consultation with their European counterparts, such measures might infringe Article 81. This possibility was considered in the long-running dispute *Asia Motor France v Commission*,[279] where the CFI and ECJ ultimately upheld a decision of the Commission that there had been no agreement between importers of Japanese cars to limit the levels of imports, but rather that the levels had been imposed on each importer separately by the French government, and thus there had been no breach of Article 81.

However, in *Kodak*[280] a prohibition on exports to countries outside the Community was regarded as not breaching Article 81 because it would not affect trade between Member States. The Commission said that 'reimportation into the Common Market of Kodak products previously exported by the resellers would be very unlikely because of the accumulation of profit margins and transport costs and of the obstacle of the common customs tariff of the European Communities'. Moreover, even if such reimportation occurred it would be unlikely to result in further trade between Member States, because the reimportation would be likely to be directly to the Member State in which the goods would be sold. A very similar approach was taken in *Omega*[281] and in *Goodyear Italiana/Euram Italia*.[282]

By contrast, in its preliminary decision in *Sirdar-Phildar*,[283] the Commission considered an agreement entered into between a French company and an English company before the accession of the United Kingdom to the Community. As the result of a trade mark dispute concerning knitting yarn, the parties had entered into a settlement agreement whereby, among other things, the English company agreed not to use its trade mark in France and vice versa, effectively preventing trade in their respective products. The Commission held that agreement had breached Article 81 even before the United Kingdom joined the Community, noting that 'it was intended to prevent [knitting yarn bearing the English company's trade mark] being imported into France, either direct from the United Kingdom or via other Member States'. In contrast to the previous cases, this concerned restrictions on imports into the Community rather than on exports from the Community.

[278] [1972] OJ C111/13.

[279] Case C–72/90 *Asia Motor France v Commission* [1990] ECR I–2181 (Order); Case T–28/90 [1992] ECR II–2285; Case T–7/92 [1993] ECR II–669; Case T–387/94 [1996] ECR II–961; Case T–154/98 [1999] ECR II–1703 (Order), [2000] ECR II–3452; Case C–1/01 [2001] ECR I–6349 (Order).

[280] Dec 70/332 *Kodak* [1970] OJ L147/24, [1970] CMLR D19.

[281] Dec 70/488 *Omega* [1970] OJ L242/22, [1970] CMLR D49.

[282] *Goodyear Italiana/Euram Italia, Fourth Report on Competition Policy* (1974), point 98.

[283] Dec 75/297 *Sirdar-Phildar* [1975] OJ L125/27.

This broad interpretation of the requirement that an agreement affect trade between Member States was restricted when it came before the European Court of Justice. In the *EMI Records v CBS* cases,[284] which have already been considered in relation to intellectual property, the ECJ was also asked to consider the application of European competition rules to the division of ownership of the COLUMBIA mark more than 40 years earlier. In three very similar judgments, the ECJ analysed the position as follows:

> A restrictive agreement between traders within the common market and competitors in third countries that would bring about an isolation of the common market as a whole which, in the territory of the Community, would reduce the supply of products originating in third countries and similar to those protected by a mark within the Community, might be of such a nature as to affect adversely the conditions of competition within the common market.
>
> In particular if the proprietor of the mark in dispute in the third country has within the Community various subsidiaries established in different Member States which are in a position to market the products at issue within the common market such isolation may also affect trade between Member States.
>
> For Article [81] to apply to a case, such as the present one, of agreements which are no longer in force it is sufficient that such agreements continue to produce their effects after they have formally ceased to be in force.
>
> An agreement is only regarded as continuing to produce its effects if from the behaviour of the persons concerned there may be inferred the existence of elements of concerted practice and of coordination peculiar to the agreement and producing the same result as that envisaged by the agreement.
>
> This is not so when the said effects do not exceed those flowing from the mere exercise of the national trade mark rights.

The issue was considered again in *Tepea*,[285] where a UK manufacturer (Watts) had allowed its exclusive distributor in the Netherlands (Theal, later renamed Tepea) to register the trade marks for its products in the Netherlands, again prior to the United Kingdom joining the Community. The exclusive distributor then successfully relied on these rights to bring actions against retailers selling parallel imports from the United Kingdom. Watts also prohibited its customers in the UK from exporting and stopped supplying one customer which breached this prohibition.

The Commission took a similar approach to the one it had taken in *Sirdar-Phildar*, holding that this conduct had breached Article 81 even before the United Kingdom joined the Community as it affected 'the free flow of trade between the Netherlands and the United Kingdom and between the Netherlands and the other Member States thereby interfering with the objective of establishing a single market between Member States'.

[284] Case 51/75 *EMI Records v CBS United Kingdom* [1976] ECR 811; Case 86/75 *EMI Records v CBS Grammofon* [1976] ECR 871; Case 96/75 *EMI Records v CBS Schallplatten* [1976] ECR 913.

[285] Dec 77/129 *Theal/Watts* [1977] OJ L39/19; Case 28/77 *Tepea v Commission* [1978] ECR 1391.

The ECJ disagreed, stating that 'as long as the United Kingdom was not a Member State the restrictions on competition arising out of the implementation of the Watts/Theal agreements only in fact affected trade within the Netherlands and nothing in the Court's file justifies the assertion that the partitioning of this domestic market appreciably interfered with the pattern of trade between Member States in Watts products before 1 January 1973, the date of the United Kingdom's accession to the common market'. However, the ECJ did accept that the agreement affected trade between Member States after that date.

In *Distillers*,[286] the Commission considered whether a contractual prohibition on the export of spirits outside the Community would breach Article 81 by preventing the products being exported to a third country and then reimported into another Member State. The Commission noted that such a prohibition 'is capable of restricting competition within the common market and of affecting trade between Member States when, for example, the level of prices, of customs duties and transportation costs in respect of the goods in question would allow reimports into [EC] countries to take place'. However, in the market in question 'the application of customs duties borne by spirits crossing the external frontiers of the [European Community] tends to make such reimports improbable' and therefore the prohibition was not likely to restrict competition or appreciably to affect trade between Member States.

In *Rolled Zinc Products*[287] the Commission and Court considered a case where prices for rolled zinc sheets were higher in Germany than in Belgium. A parallel trader in Belgium attempted to obtain sheets from one manufacturer but was refused on the basis that the size of sheets requested were not used in Belgium, although they were used in Germany. The parallel importer therefore claimed that it wished to export the sheets to Egypt, at which stage the manufacturer agreed to supply them. On discovering that the goods were in fact being diverted to Germany the manufacturer ceased supply, claiming breach of contract. The parallel trader used the same stratagem in relation to a second manufacturer which again ceased supply on discovering the diversion.

The Commission held that the requirement to export to Egypt constituted a restriction on competition which 'limits the freedom of the subsequent seller to market the goods where he wishes and is designed to enable the two producers to prevent any parallel imports within the common market'. The Commission noted that the prices for sales to Egypt were virtually the same as those for sales in Belgium, and so 'the export-to-Egypt clause was thus essentially a means of protecting the producers' respective markets and above all the German market'. The Commission therefore found that the clause breached Article 81. On appeal, the ECJ upheld this part of the decision, stating that, given this background, 'the conclusion cannot be avoided that the export clauses were

[286] Dec 78/163 *The Distillers Company, Conditions of Sale and Price Terms* [1978] OJ L50/16; Case 30/78 *The Distillers Company v Commission* [1980] ECR 2229.

[287] Dec 82/866 *Rolled Zinc Products and Zinc Alloys* [1982] OJ L362/40; Joined Cases 29/83 and 30/83 *Compagnie Royale Asturienne des Mines and Rheinzink v Commission* [1984] ECR 1679.

essentially designed to prevent the re-export of the goods to the country of production so as to maintain a system of dual prices and restrict competition within the common market'.

In *Metro- SB-Großmärkte v Cartier*, Cartier was refusing to provide guarantees for watches sold by Metro, a cash and carry chain which was not an authorised dealer and which was parallel importing the watches from Switzerland (where Cartier was not permitted to enforce a selective distribution system). Metro sought a declaration from the German courts that Cartier was obliged to provide guarantees for such watches. The case was ultimately referred to the ECJ, which held that, so long as Cartier's selective distribution system was valid under Article 81, it was entitled to restrict its guarantee to watches sold by retailers within that system.

In *Tretorn*[288] the Commission held that action to prevent parallel exports from the Community to Switzerland and to prevent parallel imports from the United States into the Community would affect trade between Member States. In the former case, the Commission held that it did so because 'it prevented Swiss dealers from buying from one Member State and re-exporting to a second Member State'. In the latter case, it did so because 'the price structure in Europe and in the USA made re-exportation into the Community highly probable'.

In *Tekimex*,[289] the French Competition Council was asked to consider whether Sandoz had breached French competition law by stopping supplies of pharmaceutical products to Tekimex, which had been exporting them to Cambodia. The Competition Council noted that Tekimex exclusively exported the products to Cambodia (it was not alleged that the products were reimported into France) and Tekimex continued to export other products after supplies were cut off by Sandoz. As a result, Sandoz's conduct did not have the object or effect of preventing, restricting or distorting competition in France and the Competition Council therefore rejected the complaint by Tekimex.

In *Javico*[290] a manufacturer of luxury cosmetics, Yves Saint Laurent Parfums, had entered into two contracts with a German company to distribute its products in Russia and Ukraine and in Slovenia respectively (before Slovenia was a Member State). The distributor agreed to sell the products only within the respective territories.

Subsequently, the contractual products were found on sale in Belgium, the Netherlands and the United Kingdom. The manufacturer therefore terminated the contracts and sought damages in the French courts. Although the manufacturer was successful at first instance, the distributor appealed and the French Court of Appeal referred two questions to the ECJ asking whether the contractual restrictions were permissible under Article 81.

[288] Dec 94/987 *Tretorn and others* [1994] OJ L378/45; Case T–49/95 *Van Megen Sports Group v Commission* [1996] ECR II–1799.

[289] Dec 97-D-37 *Tekimex* (Conseil de la Concurrence, 20 May 1997), available at www.conseil-concurrence.fr.

[290] Case C–306/96 *Javico v Yves Saint Laurent Parfums* [1998] ECR I–1983.

The ECJ held that it was necessary to determine first whether the object or effect of the restriction was 'to restrict to an appreciable extent competition within the common market' and, secondly, 'whether the ban may affect trade between Member States'.

In respect of the first question, the ECJ held that the object of the restrictions must not be regarded as being to prevent parallel imports into the Community but rather 'to enable the producer to penetrate a market outside the Community by supplying a sufficient quantity of contractual products to that market'. In support of this, the Court pointed out that the restrictions also prevented parallel trade to other countries outside the Community.

The ECJ then held that it was for the national court to determine whether or not the contractual restrictions would have the effect of appreciably restricting competition within the Community. The ECJ instructed the national court to consider two factors in determining this question, noting that either factor may be sufficient.

First, the national court had to consider 'whether the structure of the Community market in the relevant products is oligopolistic, allowing only limited competition within the Community network for the distribution of those products'. If competition within the Community were already limited then restrictions on imports from outside the Community would be more likely to have a restrictive effect within the Community.

Secondly, it had to consider 'whether there is an appreciable difference between the prices of the contractual products charged in the Community and those charged outside the Community', taking into account the levels of customs duties and transport costs involved in exporting the product to a non-member country and then reimporting it into the Community. If there were no appreciable difference then the restrictions would not be liable to affect competition within the Community.

Turning to the second question, assuming that competition was found to be affected within the Community, the national court would also have to determine whether there was 'any risk of an appreciable effect on the pattern of trade between the Member States such as to undermine attainment of the objectives of the common market'. In doing so, it had to consider the manufacturer's 'position on the Community market and the extent of its production and its sales in the Member States'. The ECJ noted that 'intra-Community trade cannot be appreciably affected if the products intended for markets outside the Community account for only a very small percentage of the total market for those products in the territory of the common market'.

Finally, the ECJ indicated that the restrictions in question were outside the scope of the manufacturer's individual exemption under Article 81(3)[291] and the

[291] Which had been granted in Dec 92/33 *Yves Saint Laurent Parfums* [1992] OJ L12/24 and was largely upheld in Case T–19/92 *Groupement d'achat Edouard Leclerc v Commission* [1998] ECR II–1851.

block exemption for distribution agreements,[292] in both cases because the exemptions were limited to distribution within the Community.

In *Micro Leader*[293] a wholesaler had been importing copies of Microsoft products from Canada and selling them to distributors in France. However, Microsoft stated in information bulletins that such parallel imports constituted 'unfair competition' and 'illegal imports' and that it was taking measures to reinforce the ban on the sale of products from Canada in France.

Micro Leader complained to the Commission that it had lost significant orders as a result of Microsoft's conduct, which it said infringed Articles 81 and 82. The Commission issued a decision rejecting this complaint and Micro Leader appealed to the CFI.

In relation to Article 81, the Commission had said that there was no evidence of any agreement or concerted between Microsoft and its dealers in Canada or France to fix resale prices. It also noted that Microsoft's action to enforce its copyright in France, which under Directive 91/250[294] had not been exhausted by the sale of the Microsoft products in Canada, was also unilateral. The CFI agreed that there was therefore no evidence of any breach of Article 81.

In *Saviex France*,[295] the French Competition Council was asked whether manufacturers of car spare parts were in breach of French or EC competition law by demanding higher prices from Saviex than from other exporters for export to certain countries in Africa. The Competition Council simply noted that there was no basis for suggesting that the parts might be reimported into France or more broadly the Community, and that therefore there could be no breach of Article 81 or 82 or the equivalent French provisions. No further guidance was given in the Commission's Vertical Restraints Guidelines in 2000, which merely refer to the judgment in *Javico*.[296]

In *Days Medical Aids v Pihsiang Machinery Manufacturing Co*,[297] the English High Court held that an exclusive distribution agreement which extended to the whole of the Community did not have an anti-competitive object or effect. There was no real discussion of parallel trade from outside the Community, although on the evidence the Court rejected the argument that the manufacturer's 'hidden agenda' was to block parallel trade within the Community.

In *Topps*,[298] Pokémon cards were being parallel imported into Finland, but it was unclear whether they were coming from the United Kingdom or the United States. Topps sought to justify its action against the parallel importer on the

[292] Reg 1983/83 [1983] OJ L173/1. This has now been replaced by Reg 2790/1999 [1999] OJ L336/21.

[293] Dec in Case IV/36.219 *Micro Leader/Microsoft* (15 Oct 1998, unreported); Case T–198/98 *Micro Leader Business v Commission* [1999] ECR II–3989.

[294] Dir 91/250 [1991] OJ L122/42.

[295] Dec 99-D-52 *Saviex France* (Conseil de la Concurrence, 14 Apr 1999) BOCCRF 17/1999.

[296] Commission Notice—Guidelines on Vertical Restraints [2000] OJ C291/1, para 46.

[297] *Days Medical Aids v Pihsiang Machinery Manufacturing Co* [2004] EWHC 44 (Comm).

[298] Dec 2006/895 *Souris/TOPPS* [2006] OJ L353/5 (full decision available at ec.europa.eu/comm/competition/).

basis of protection of intellectual property rights. However, the Commission found that Topps had taken action against the parallel importer without determining the source of the parallel imports and that Topps' complaint was not limited to imports from the United States. As Topps was not entitled to rely on intellectual property rights to prevent parallel trade from the United Kingdom, the justification was rejected. However, it appears equally clear that, if the complaint had been solely about parallel imports from the United States, this would probably not have infringed Article 81 (following the approach in *Micro Leader*).

The Commission considered another complaint about restrictions on parallel trade in *Haladjian Frères*.[299] The manufacturer, Caterpillar, had taken steps to restrict the parallel trade of spare parts for its earthmoving equipment from the United States to the Community. It maintained a list of parallel traders and it required such traders to provide the names of their ultimate customers when purchasing spare parts in the United States. It also required its dealers in the United States to inform Caterpillar of such sales and to pay Caterpillar a price about 10 per cent higher than the usual list price. However, the dealers were otherwise free to determine the price at which they sold the spare parts to the parallel traders. Such restrictions would clearly have breached Article 81 if they had applied to sales between Member States. However, the Commission (upheld by the CFI) followed *Javico* and held that Caterpillar's actions had not isolated the Community market nor prevented (in law or in fact) competition from parallel imports from the United States. It did not have an appreciable effect on competition within the Community, nor did it have an effect on trade between Member States. As the CFI held, 'the mere fact that conduct produces certain effects, whatever they are, on the economy of the Community does not constitute by itself a sufficiently close link on which to base Community competence. To be taken into account, this effect must be substantial, that is to say appreciable and not negligible'.[300]

Finally, the issue of parallel trade from outside the Community has also arisen in block exemptions. In 1989 the block exemption for know-how licences considered restrictions on parallel trade from outside the Community. Under that block exemption, where the owner of know-how granted an exclusive licence for the whole of the Community, the possibility of parallel imports from outside the Community was regarded as an important factor in ensuring that competition was not eliminated and thus that the block exemption would be available.[301] This had not been considered under the patent licence block exemption adopted in 1984.[302] However, it has not been discussed in the combined techno-

[299] Dec in Case F-1/33.690 *Haladjian Frères* (1 Apr 2003, unreported); Case T–204/03 *Haladjian Frères v Commission* (27 Sept 2006, not yet reported).

[300] Dec in Case F-1/33.690, above n299, para 7.2; Case T–204/03, above n299, para 167 (author's translation).

[301] Reg 556/89 [1989] OJ L61/1, rec 9.

[302] Reg 2349/84 [1984] OJ L219/15, rec 15.

logy transfer block exemptions, which have simply focussed on restrictions on parallel trade within the Community.[303]

In summary, therefore, restrictions on parallel trade into or out of the Community have generally been found not to breach Article 81 on the basis that there is no effect on trade between Member States and, often, no prevention, restriction or distortion of competition within the common market.

B. Article 82

The question of abuse of a dominant position has arisen less frequently and generally in relation to the question whether prices charged in the Community are excessive.

In *Micro Leader*[304] the complaint had also related to Article 82. The Commission had responded that, regardless of whether Microsoft was dominant in the relevant market, '[f]or Microsoft to be guilty of having unlawfully maintained prices at a higher level on the EEA market than on the Canadian market, it would have to be shown that Microsoft was charging lower prices on the Canadian market than on the European market for equivalent transactions and that the European prices were excessive'. It then held that it had no evidence of such conduct.

The CFI, however, disagreed, holding that the evidence put forward by Micro Leader was 'at the very least, an indication that, for equivalent transactions, Microsoft applied lower prices on the Canadian market than on the Community market and that the Community prices were excessive'. In particular, the CFI pointed to a Microsoft bulletin relied upon by Micro Leader which stated that the parallel imported products were 'marketed at markedly lower prices than those generally found and adversely affected distributors who used the usual Microsoft sales network'. This indicated that 'products imported from Canada were in direct competition with the products marketed in France and that their resale price in France was significantly lower, despite the expense of importing them into the Community from a third country'.

Although accepting that Microsoft had not exhausted its copyright in the Community by marketing its products in Canada, the CFI went on to hold that 'whilst, as a rule, the enforcement of copyright by its holder, as in the case of the prohibition on importing certain products from outside the Community in to a Member State of the Community, is not in itself a breach of Article [82] of the

[303] Reg 240/96 [1996] OJ L31/2, rec 17 and Arts 3(3) and 7(3); Reg 772/2004 [2004] OJ L123/11, rec 15 and Art 4(1)(c) and (2)(b). See also Technology Transfer Guidelines [2004] OJ C101/2, para 98 and n 45.

[304] Dec in Case IV/36.219 *Micro Leader/Microsoft* (15 Oct 1998, unreported); Case T–198/98 *Micro Leader Business v Commission* [1999] ECR II–3989.

Treaty, such enforcement may, in exceptional circumstances, involve abusive conduct', basing itself on the ECJ's decision in the *Magill* case.[305]

The CFI therefore annulled the Commission's decision. Shortly afterwards, the Commission stated that it was re-examining the case and that Microsoft would 'have to provide information on its pricing-policy and provide reasons for any possible differences in prices for prima facie identical products'.[306] However, there do not appear to have been any further developments in this case.

In *Hewlett-Packard Development Company v Expansys UK*,[307] the English High Court considered an allegation that the manufacturer, HP, was abusing a dominant position by fixing the price of its iPAQ personal organisers and that this was facilitated by relying on its trade mark rights to prevent cheap imports from outside the EEA. Therefore, claimed Expansys, HP should not be allowed to enforce its trade mark rights. This was rejected as unarguable by Laddie J, who said that, even if the allegation was true, there was no nexus between the allegation and the trade mark action, and so it would not provide a defence to the action for trade mark infringement but merely the grounds for an action for breach of Article 82. Laddie J therefore gave summary judgment on the trade mark action.

Therefore, although the jurisdictional limitations of Article 82, like those of Article 81, mean that restrictions on parallel trade are unlikely to breach competition law themselves, the fact that such parallel imports are commercially viable may be evidence of discriminatory or excessive pricing.

III. REGULATION

Under the EC Treaty, state-imposed barriers to trade such as quantitative restrictions (quotas), customs duties (tariffs) and measures having equivalent effect have been abolished between Member States. However, in the absence of agreement between the countries or regions in question, such trade barriers can still apply to trade flows and can restrict parallel trade from outside the Community just as much as other forms of trade. Although barriers have been reduced by various free trade agreements, in particular under the World Trade Organization, these do not abolish such barriers to the same extent as the EC Treaty and often permit barriers to be retained for transitional periods or to be introduced to deal with specific trade problems (in particular, anti-dumping, anti-subsidy and safeguard measures).

[305] Dec 89/205 *Magill TV Guide/ITP, BBC & RTE* [1989] OJ L78/43; Case T–69/89 *RTE v Commission* [1991] ECR II–485; Case T–70/89 *BBC v Commission* [1991] ECR II–535; Case T–76/89 *ITP v Commission* [1991] ECR II–575; Joined Cases C–241/91P and 242/91P *RTE and ITP v Commission* [1995] ECR I–743. See Ch 3, sect II.B.i (General Case Law).

[306] Press Release IP/00/141.

[307] *Hewlett-Packard Development Company v Expansys UK* [2005] EWHC 1495 (Ch).

More generally, Member States are not required by the EC Treaty to remove regulation which may hamper trade with third countries, much less parallel trade. Given that there is no internal market imperative, those wishing to engage in parallel trade must find some way to overcome such barriers themselves. One possibility is to seek to rely on the provisions of other treaties, and this is considered in greater depth below.

A. Quotas and Import Licences

The general rule under the Community's Common Import Regime[308] is that quotas are no longer applied except to certain textile products from certain countries.[309] Similarly, products may generally be exported without quotas.[310]

However, surveillance in the form of import licences may be introduced 'where the interests of the Community so require' and where, in relation to WTO countries, 'the trend in imports of a product originating in a third country . . . threatens to cause injury to Community producers'.[311] In addition, import quotas may be introduced as safeguard measures where a particular product is being 'imported into the Community in such greatly increased quantities and/or on such terms or conditions as to cause, or threaten to cause, serious injury to Community producers'.[312] Similar protective measures may be applied to exports.[313]

As a result, quantitative restrictions can have an impact on parallel trade from countries outside the European Community, although this will be the case only in limited circumstances.

B. Taxation

i. Customs Duties

Although the use of quotas is greatly restricted, tariffs often apply to goods imported from outside the customs territory of the Community under the Community Customs Code.[314] Under Article 3 of the Community Customs Code, the customs territory of the Community comprises all Member States, although a number of territories are excluded or added. By way of example, it covers the Isle of Man and the Channel Islands.

[308] Reg 3285/94 [1994] OJ L349/53 (WTO Members) and Reg 519/94 [1994] OJ L67/89 (non-WTO members).
[309] Reg 517/94 [1994] OJ L67/1.
[310] Reg 2603/69 [1969–II] OJ Spec Ed 590.
[311] Reg 3285/94, above n308, Arts 11–15; Reg 519/94, above n308, Arts 9–14.
[312] Reg 3285/94, above n308, Arts 16–24; Reg 519/94, above n308, Arts 15–18; Reg 427/2003 [2003] OJ L65/1, Arts 1–19 (transitional measures for China).
[313] Reg 2603/69, above n310, Arts 6–9.
[314] Reg 2913/92 [1992] OJ L302/1; Reg 2454/93 [1993] OJ L253/1.

Customs duties will apply to commercial parallel imports and, subject to any relief available, to parallel imports by individuals.

ii. Retaliatory Import Duties

Additional import duties may be imposed as retaliatory countermeasures for breaches of international trade rules. For instance, they may be used to respond to imports which have been subsidised in the country of production or export.[315] They may also be imposed to respond to dumping, where the export price to the Community is less than the price paid by independent customers in the exporting country or the export prices charged to a third country.[316]

Such countermeasures can result in large additional import duties. For example, in retaliation for the United States' tax treatment of foreign sales corporations[317] the Community was authorised to impose countermeasures up to a level of US$4 billion in the form of 100 per cent duties on certain products originating in the United States.[318] Duties of up to 14 per cent were applied in the course of 2004 and threatened in 2006 until the United States took the steps necessary to bring its legislation into compliance with WTO rules.[319]

iii. Excise Duty and Value Added Tax

In addition, internal taxation in the form of excise duty[320] and Value Added Tax (VAT)[321] applies to imports from outside the Community. The provisions on excise duty and VAT again apply to all Member States with the addition or exclusion of certain territories. For instance, they again extend to the Isle of Man but, in contrast to the customs territory, not to the Channel Islands.[322] As with customs duties, these will apply to commercial parallel imports and, subject to any relief available, to parallel imports by individuals.

iv. Travellers

Just as with travel within the Community, travellers entering the Community from third countries benefit from certain beneficial treatment when it comes to goods which they import in their personal luggage and which have no commer-

[315] Reg 2026/97 [1997] OJ L288/1.
[316] Reg 384/96 [1996] OJ L56/1.
[317] WT/DS108 *US—Tax Treatment for 'Foreign Sales Corporations'*; for discussion of the early stages of this case, see case comment by C Stothers and P Marsden [2002] V-9 *International Trade Law Reports* 989.
[318] Dec of the Arbitrator of 30 Aug 2002.
[319] Reg 2193/2003 [2003] OJ L328/3; Reg 171/2005 [2005] OJ L28/31; Commission Notice [2006] OJ C104/16; Reg 728/2006 [2006] OJ L127/1; Notice [2006] OJ C126/7.
[320] Dir 92/12 [1992] OJ L76/1.
[321] Dir 77/388 [1977] OJ L145/1.
[322] Dir 92/12, above n320, Art 2 and Dir 77/388, above n321, Art 3.

cial character. However, unlike in respect of travellers within the Community, such relief remains capped.

Under Directive 69/169[323] and Regulation 918/83,[324] travellers are entitled to import certain goods in their personal luggage without having to pay customs duty, excise duty or VAT in the Community. Each traveller has the following allowances for goods subject to excise duty:[325]

Cigarettes/ Cigarillos/ Cigars	Tobacco	Spirits / Intermediate alcoholic drinks	Still wine Toilet Water	Perfume/ Tea	Coffee/
200/100/50	250g	1 litre /2 litres	2 litres	50g/250ml	500g/100g

These are the limits which were initially applied to travellers within the Community in 1970 and have not been increased.

Those travelling by car can import the fuel in the car's tank and up to 10 litres in a portable container free of duty.[326]

In addition, travellers can import other goods up to a specified financial limit. In 1970 this limit was 25 Euros, which Member States could reduce to 10 Euros for children.[327] However, these limits have risen over the years and have been 175 and 90 Euros respectively since 1994.[328] In the United Kingdom, the limit is the same for adults and children and has been £145 since 1996.[329]

Even if the value of goods imported by travellers is above the limit, where the import is non-commercial it is possible to pay a capped rate of 3.5 per cent customs duty on goods up to a maximum value of 350 Euros (thus customs duty of up to 12.25 Euros).[330]

Member States are permitted to waive customs duty where it would amount to less than 10 Euros.[331] Similarly, Member States are allowed to waive excise duty and VAT where it would amount to less than 5 Euros.[332]

The Commission has proposed various changes to this regime.[333] If adopted, a limit of 16 litres for beer would be introduced, the limit for still wine would be

[323] Dir 69/169 [1969–I] OJ Spec Ed 232, Art 1.
[324] Reg 918/83 [1983] OJ L105/1, Art 47.
[325] Dir 69/169, above n323, Art 4; Reg 918/83, above n324, Art 46.
[326] Dir 69/169, above n323, Art 3(3); Reg 918/83, above n324, Art 112.
[327] Dir 69/169, above n323; Reg 1544/69 [1969–II] OJ Spec Ed 349.
[328] Reg 355/94 [1994] OJ L46/5; Dir 94/4 [1994] OJ L60/14.
[329] Travellers' Allowances Amendment Order 1995, SI 1995/3044.
[330] Reg 2658/87 [1987] OJ L256/1, Annex, Part One, Sect IID (as most recently replaced by Reg 1719/2005 [2005] OJ L286/1). These rates were introduced by Reg 866/97 [1997] OJ L124/1. They are converted into other currencies under Reg 2913/92 [1992] OJ L302/1, Art 18.
[331] Reg 2454/93 [1993] OJ L253/1, Art 868.
[332] Dir 69/169, above n323, Art 7a.
[333] COM(2006)76. See also the European Parliament Report A6-0361/2006, which was adopted without debate on 14 Nov 2006 as Res T6-0475/2006, and the compromise suggested by the Council Presidency, Council document 15382/2/06, which was adopted by the Council at its 2766th meeting on 28 Nov 2006, Council document 15502/06.

increased to four litres, Member States would be able to lower the limits for tobacco and the limits for perfume, coffee and tea would be abolished. The financial limits would be raised significantly for air travellers, to 500 Euros, and would be raised to 220 Euros for other travellers. The limit up to which Member States would be permitted to waive excise duty and VAT would increase to 10 Euros, the same as for customs duty. These proposals are still under discussion, with both the Council and Parliament having suggested amendments.

v. Parcels

a. Non-commercial consignments Non-commercial consignments sent from outside the Community are exempt from customs duty, excise duty and VAT up to a financial limit of 45 Euros.[334] Where they contain certain goods subject to excise duty, they are also subject to the following quantitative limits:

Cigarettes/ Cigarillos/ Cigars	Tobacco	Spirits / Intermediate alcoholic drinks	Still wine	Perfume/ Toilet Water
50/25/10	50g	0.25 litres / 1 litres	2 litres	50g/250ml

Unlike the provisions for travellers, where the financial limit is in addition to the quantitative limits, non-commercial parcels must satisfy both limits. Member States are permitted to withdraw the relief from excise duty and VAT from such goods, although not the relief from customs duty.

As with travellers, if the value of goods in a non-commercial parcel is above the limit, it is possible to pay a capped rate of 3.5 per cent customs duty on goods up to a maximum value of 350 Euros.[335] In addition, Member States are permitted to waive customs duty where it would amount to less than 10 Euros.[336]

b. Commercial consignments Low value commercial consignments may also be exempted from VAT and customs duty, although not excise duty.

Since 1984 the Community has allowed Member States to exempt commercial consignments from VAT up to a value of 22 Euros.[337] The UK initially implemented the VAT exemption at a value of £6,[338] although this rose over time, and since 1996 has been £18.[339]

In addition, in 1984 the Community introduced a mandatory exemption from customs duty for commercial consignments up to a value of 10 Euros,[340] which

[334] Dir 78/1035 [1978] OJ L366/34, Arts 1–3; Reg 918/83 [1983] OJ L105/1, Arts 29–31.
[335] Reg 2658/87 [1987] OJ L256/1, Annex, Part One, Sect IID.
[336] Reg 2454/93 [1993] OJ L253/1, Art 868.
[337] Reg 918/83 [1983] OJ L105/1; Dir 83/181 [1983] OJ L105/38.
[338] Value Added Tax (Imported Goods) Relief Order 1984, SI 1984/746, Sched 2, Group 8, Item 8.
[339] Value Added Tax (Imported Goods) Relief (Amendment) Order 1995, SI 1995/3222.
[340] Reg 918/83 [1983] OJ L105/1, Arts 27 and 28.

was increased to 22 Euros in 1992.[341] As the UK does not charge customs duty where the duty would be less than £7, most commercial consignments of this size would not be liable for customs duty in any event.

The VAT exception is particularly relevant where companies sell relatively small value goods into another Member State. This includes both regular and parallel trade. One case where this was considered was *Dollond & Aitchison*.[342] There, an optician provided a service under which disposable contact lenses were dispatched to its customers by post for a monthly payment, which included the cost of all professional services. The court considered the example of a customer who paid £25 per month. The contact lenses were subject to VAT but the professional services were not. In 1998 the contact lenses were distributed from Scotland but in 1999 the optician moved its warehousing operation to Jersey, among other things to take advantage of cheaper postal services. Jersey is one of the Channel Islands, which are inside the Community for the purposes of the free movement of goods and customs duty but not for the purposes of VAT, and as no VAT is charged there this effectively allows companies to supply goods to UK customers free of VAT if they keep below the £18 threshold. The British tax authorities took the view that the whole £25 was subject to VAT. The optician appealed, claiming that only the proportion relating to the goods should be subject to VAT and that, as this took the total below £18, the imports should not be subject to VAT at all. The VAT Tribunal made a reference to the ECJ which indicated that the entire amount was subject to VAT.

A similar scheme was being operated in Denmark, where magazines and periodicals were being sent to subscribers in Denmark from territories outside the scope of the VAT Directive, in particular the Åland islands and Norway. Denmark was granted authorisation to apply VAT to such supplies until 2010[343] and is seeking a longer-term change in the system.[344]

Many UK companies have set up operations in Jersey to sell CDs and DVDs into the UK in packages the value of which is below £18. A body known as the Forum of Private Business has been lobbying for the exemption to be changed which has led to continuing discussion in the UK Parliament.[345] In February 2006 the All-Party Parliamentary Shops Group recommended that the UK lower the VAT exemption for commercial parcels to £7.[346]

[341] Reg 3357/91 [1991] OJ L318/3.

[342] Dec 18469 *Dollond and Aitchison* (VAT Tribunal, 27 Nov 2003); Case C–491/04 *Dollond and Aitchison v Commissioners of Customs and Excise* [2006] ECR I–2129.

[343] Council Dec 2005/258 [2005] OJ L78/47. This followed a statement by the Council and Commission in 2003 noting broader concern about the issue: Council document 11034/03, ADD 1, REV 1.

[344] National Audit Office, *VAT on e-commerce* (HC 1051, TSO, London, 2006) at 15.

[345] HC Debs, vol 436, cols 438–439W, 6 July 2005; HC Debs, vol 451, cols 141–148WH, 1 Nov 2006.

[346] House of Commons All-Party Parliamentary Small Shops Group, *High Street Britain: 2015* (All Party Parliamentary Small Shops Group, London, 2006) at 38–40 and 73; HL Debs, vol 679, col 1406, 16 Mar 2006.

Jersey has also been looking at the issue, commissioning a report from Oxera which was produced in April 2005.[347] In July 2005 Jersey's Economic Development Committee announced that it would crack down on UK companies using Jersey simply to avoid VAT, which did not particularly contribute to the Jersey economy.[348] In February 2006 it announced plans to discourage pure logistics or distribution companies from operating in Jersey. However, it indicated that it would still encourage whole chain companies, which would buy in goods to sell to the UK, particularly where these were beneficially owned by Jersey residents.[349]

The tax revenues at stake are not insignificant. For instance, the Danish Tax Authority found that some 3.5 million magazines had been imported from the Åland islands in the first nine months of 2003, resulting in a VAT loss of around £4.5 million. The National Audit Office found that around 45 million small commercial consignments were imported by post into the UK each year.[350] The total amount of VAT in dispute in *Dollond & Aitchison* was approximately £3.5 million over two years. In the evidence given to the House of Commons Treasury Committee in its investigation into excise duty fraud in February 2005, it was said that reliance on such relief by retailers was leading to a reduction in VAT receipts for the Government of £80 million per year,[351] of which the Government subsequently said £40 million was attributable to imports from Jersey.[352] Some change to the legislation is therefore likely.

C. Marketing Authorisations

The need for marketing authorisations of pharmaceuticals and pesticides was considered in detail in Chapter 4. The main point is that such products, including parallel imports, cannot be placed on the market unless they have been authorised by the relevant authorities.

Taking the case of pharmaceuticals first, where parallel trade occurs within the Community the authorities are required to apply a simplified authorisation procedure (or, where products are marketed under a Community authorisation, the parallel trader is simply required to notify the EMEA).

However, where pharmaceutical products are parallel imported from third countries there is in general no simplified authorisation or notification proced-

[347] Oxera Consulting, *What is the Contribution of the Fulfilment Industry to Jersey's Economy?* (Oxera Consulting, Oxford, 2005).

[348] States of Jersey Economic Development Committee Media Release, 'Jersey announces new policy on the sale of VAT-free goods into the UK' (22 July 2005).

[349] States of Jersey Economic Development Committee, *Policy for the Fulfilment Industry* (Feb 2006), available at www.gov.je/EconomicDevelopment/.

[350] National Audit Office, *VAT on e-commerce* (HC 1051, TSO, London, 2006) at 6.

[351] Treasury Committee, *Excise Duty Fraud*, Fourth Report of Session 2004–05 (HC 126, TSO, London, 2005), Ev 57, questions 489–491.

[352] HC Debs, vol 438, col 310W, 25 Oct 2005.

ure available, and so the importer must obtain a marketing authorisation for the product. This will require the parallel importer to provide the results of pre-clinical tests and clinical trials which have been carried out by the manufacturer (and which results the parallel importer will almost certainly not have). Although the national authorities already have a copy of the data, Directive 2001/83[353] and Regulation 726/2004[354] provide for a number of years of 'data exclusivity' under which the national authorities cannot rely on such data without the consent of the manufacturer.[355] As a result of these provisions, parallel imports from outside the Community will be effectively prevented for 10 years after the manufacturer is granted the marketing authorisation.

However, it is possible that a simplified authorisation procedure may be available where there is a free trade agreement in place between the Community and the third country in question. In *Eurim-Pharm v Bundesgesundheitsamt*,[356] the German authorities had refused to authorise parallel imports of ADALAT R from Austria. At that time, Austria was not a Member State but had a free trade agreement with the Community.[357] Although Articles 13 and 20 of the free trade agreement mirrored Articles 28 and 30 of the EC Treaty, the UK and Italian governments and the Commission argued that they should be interpreted differently in the context of a free trade agreement which made 'no provision either for harmonization of legislation or for administrative cooperation in the pharmaceutical sector'. However, that argument was rejected by the ECJ which said that, as the German authorities already had all the information they needed in their files and did not need any cooperation from the Austrian authorities, it would be contrary to Articles 13 and 20 of the free trade agreement for the German authorities to require the parallel importer to produce documents which they already had.

There are similar data exclusivity provisions for pesticides under Directive 91/414.[358] The application of these provisions was considered in *R v Ministry of Agriculture, Fisheries and Food, ex parte British Agrochemicals Association*.[359] The authorities in the United Kingdom applied a simplified authorisation procedure for parallel imports of identical products from third countries, justifying their action on the basis of the ECJ's judgment in *De Peijper*.[360] This was challenged in the English High Court by an organisation representing agrochemical manufacturers, which argued that the parallel importer should have to obtain a full marketing authorisation, and the court referred the question to the ECJ. The ECJ held that there was no harmonisation at international level of the

[353] Dir 2001/83 [2001] OJ L311/67.
[354] Reg 726/2004 [2004] OJ L136/1.
[355] Dir 2001/83, above n353, Arts 8(3)(i), 10 and 10d; Reg 726/2004, above n354, Arts 3(3) and 6.
[356] Case C–207/91 *Eurim-Pharm v Bundesgesundheitsamt* [1993] ECR I–3723.
[357] Reg 2836/72 [1972] OJ Spec Ed L300/4.
[358] Dir 91/414 [1991] OJ L230/1, Art 13.
[359] Case C–100/96 *R v Ministry of Agriculture, Fisheries and Food, ex parte British Agrochemicals Association* [1999] ECR I–1499.
[360] Case 104/75 *Criminal proceedings against De Peijper* [1976] ECR 613.

conditions in which pesticides could be placed on the market nor 'any general principle of the free movement of goods comparable to that prevailing within the Community and endorsed by the latter'. Although the ECJ accepted that simplified authorisations were available for parallel imports from the European Economic Area, it rather briefly rejected the argument of the UK government that such an approach would be discriminatory or constitute a technical barrier to trade under the Agreement on Technical Barriers to Trade (part of the WTO). Therefore, the UK was required to apply the full provisions of the Directive when considering marketing authorisations for pesticides.

As a result, the rules on marketing authorisations constitute a significant barrier to parallel imports of pharmaceutical products and pesticides from outside the Community, except where there is a sufficiently strong free trade agreement in place.

D. Diversion of Pharmaceutical Products

i. Tiered Price Medicines

As discussed throughout this book, price differentiation in the pharmaceutical sector often makes it a key target for parallel trade, both within the European Community and elsewhere.

The risk of such parallel trade was raised by pharmaceutical companies as a barrier to their providing reduced-price medicines to developing countries. This risk is not purely theoretical. In one of the *Glaxo v Dowelhurst* cases in the United Kingdom,[361] various pharmaceuticals intended for certain countries in Africa resurfaced on the UK market. The Commission therefore issued a Communication in 2001 suggesting that it might introduce a mechanism to prevent the re-importation of medicines made available to developing countries at lower prices.[362] This eventually resulted in Regulation 953/2003.[363]

The Regulation provides a scheme for specific protection against the import or export of key medicines which have been provided to specific third countries at reduced prices. Key medicines are those which are used in the prevention, diagnosis or treatment of HIV/AIDS, malaria, tuberculosis or related opportunistic diseases. The reduced prices must be either no more than 25 per cent of the manufacturer's weighted average ex factory price in OECD markets or no more than 15 per cent more than the manufacturer's direct production costs.

The provisions of the Regulation are similar to the border controls which apply against counterfeit and pirated products. The Regulation applies irrespective of whether the pharmaceutical products are covered by intellectual

[361] *Glaxo Group v Dowelhurst* [2003] EWHC 2015 (Ch); [2004] EWCA Civ 290. See Ch 2, sect II.B.i (Sale).

[362] COM(2001)96.

[363] Reg 953/2003 [2003] OJ L135/5.

property rights and is without prejudice to any such rights or the marketing authorisation procedures. However, parallel imports by travellers for personal use are permitted, up to the limits laid down in respect of relief from customs duty.

To date, GlaxoSmithKline is the only company to take advantage of the Regulation, in relation to TRIZIVIR, EPIVIR, RETROVIR, COMBIVIR and ZIAGEN.[364] All of these products are targeted at HIV infection. The lack of wider use was said to be regrettable in the Commission's first annual report on the Regulation.[365]

ii. Compulsory Licences

Regulation 953/2003 is concerned with the parallel trade of medicines which have been sold to developing countries by the manufacturer at reduced prices. Although not concerned with parallel trade, Regulation 816/2006 deals with medicines which have been produced by third parties under compulsory licences for supply to such countries, and introduces similar measures to prevent diversion of such medicines.[366]

Under Article 31(f) of the TRIPS Agreement, which is part of the WTO Agreement, where a compulsory licence is granted under a patent this must predominantly be for the supply of the country granting the licence. However, this was criticised on the basis that there may be insufficient manufacturing capacity in certain countries to take advantage of such compulsory licences.

In response to this criticism, a declaration was adopted at the WTO Ministerial Conference in Doha in November 2001, paragraph 6 of which read:

> We recognize that WTO members with insufficient or no manufacturing capacities in the pharmaceutical sector could face difficulties in making effective use of compulsory licensing under the TRIPS Agreement. We instruct the Council for TRIPS to find an expeditious solution to this problem and to report to the General Council before the end of 2002.[367]

Paragraph 6 was implemented by a Decision of the WTO General Council in August 2003, which permitted compulsory licences for export in certain cases but required other Members to take action to prevent the diversion of medicines produced under such compulsory licences into their territories.[368] A permanent amendment to the TRIPS Agreement, introducing an Article 31*bis*, was adopted in December 2005 subject to ratification by two-thirds of the WTO Members.[369]

[364] Reg 1662/2005 [2005] OJ L267/19, replacing Reg 1876/2004 [2004] OJ L326/22.

[365] Annual Report (2003/2004) on the application of [Reg 953/2003], SEC(2005)896.

[366] Reg 816/2006 [2006] OJ L157/1.

[367] WTO Doha Ministerial Declaration on the TRIPS agreement and public health of 14 Nov 2001, WT/MIN(01)/DEC/2, para 6.

[368] WTO General Council Decision on Implementation of para 6 of the Doha Declaration on the TRIPS Agreement and public health of 30 Aug 2003, WT/L/540 and Corr.1.

[369] WTO General Council Decision on Amendment of the TRIPS Agreement of 8 Dec 2005, WT/L/641.

Regulation 816/2006 implements the Decision in the Community by providing a scheme for the grant of compulsory licences. Products made under such licences can normally be sold only in the country or countries cited in the application. Importation of such products into the Community is prohibited save where the products are to be re-exported to the country cited in the application. Again, a border control procedure similar to that applied against counterfeit and pirated products can be applied to such products. Imports of such medicines by travellers for personal use are again permitted, up to the limits of relief from customs duty.

IV. INTERNATIONAL TREATIES

Up to this point the discussion has focussed on the approach taken to parallel trade under the EC Treaty, secondary Community legislation and domestic law. This section now considers the impact of free trade agreements with third countries and other international treaties.[370] The most important of these is the Agreement on the European Economic Area.[371] Among other things, this is the only agreement where the Community has required the exhaustion of intellectual property rights.

Other bilateral free trade agreements entered into by the Community do have free movement and competition provisions, although it is questionable to what extent these permit parallel trade.

Three multilateral agreements are also considered: the World Trade Organisation and the TRIPS Agreement, the International Convention for the Protection of New Varieties of Plants and the WIPO Copyright Treaty.

A. Agreement on the European Economic Area

The European Economic Area (EEA) today comprises the 27 Member States of the Community and three other Contracting Parties which are not Member States: Iceland, Liechtenstein and Norway.[372] These three countries make up the European Free Trade Association (EFTA) with Switzerland, which is not a Contracting Party to the EEA. In the context of the EEA Agreement, EFTA States is used to refer to the three EFTA countries which are Contracting Parties to the EEA (ie not Switzerland).

The EEA Agreement contains various provisions on the free movement of goods, intellectual property and competition, which are similar to those in the EC

[370] This section is based on a paper presented at the Society of Legal Scholars Annual Conference in Sept 2005 and an article published as C Stothers, 'Parallel Trade and Free Trade Agreements' [2006] *Journal of Intellectual Property Law & Practice* 578.

[371] Agreement on the European Economic Area [1994] OJ L1/3.

[372] Iceland and Norway since 1 Jan 1994 and Liechtenstein since 1 May 1995.

Treaty and are considered in greater detail below. Moreover, Article 6 requires that the EEA Agreement is interpreted uniformly with the EC Treaty as interpreted by the ECJ prior to the signature of the EEA Agreement on 17 March 1993:

> Without prejudice to future developments of case law, the provisions of this Agreement, in so far as they are identical in substance to corresponding rules of the Treaty establishing the European Economic Community and the Treaty establishing the European Coal and Steel Community and to acts adopted in application of these two Treaties, shall, in their implementation and application, be interpreted in conformity with the relevant rulings of the Court of Justice of the European Communities given prior to the date of signature of this Agreement.

In addition, Community secondary legislation is extended to the EFTA States by Article 7:

> Acts referred to or contained in the Annexes to this Agreement or in decisions of the EEA Joint Committee shall be binding upon the Contracting Parties and be, or be made, part of their internal legal order as follows :
>
> (a) an act corresponding to an EEC regulation shall as such be made part of the internal legal order of the Contracting Parties;
>
> (b) an act corresponding to an EEC directive shall leave to the authorities of the Contracting Parties the choice of form and method of implementation.

The EEA can normally be regarded as an extension of the Community, and most of the provisions discussed in the previous chapters are likely to apply in the same way to the EEA. However, the EFTA States are not Member States of the Community, and so it is always necessary to check that the relevant provisions have in fact been extended to the EEA. Even where they have, the provisions may not always be interpreted in the same way.[373]

i. Free Movement of Goods

Articles 11 to 13 of the EEA Agreement are in the same form as Articles 28 to 30 of the EC Treaty. However, Article 23(2) of the EC Treaty states that '[t]he provisions of Article 25 and of [Articles 28 to 31] shall apply to products originating in Member States and to products coming from third countries which are in free circulation in Member States'. By contrast, under Article 8(2) of the EEA Agreement, Articles 11 to 13 apply only to products originating in the Contracting Parties unless otherwise specified. Given that many products which may be parallel traded within the EEA originate outside the EEA, in some cases this distinction may be important.[374]

[373] See in this regard Opinion 1/91 on the Draft agreement between the Community and the EFTA countries relating to the creation of the EEA [1991] ECR I–6079.

[374] See the dispute on this point between M Abbey, 'Exhaustion of Intellectual Property Rights Under the EEA Agreement Does Not Apply to Third Country Goods' [1992] *European Competition Law Review* 231 and F Prändl, 'Exhaustion of IP Rights in the EEA Applies to Third-Country Goods Placed on the EEA Market [1993] *European Competition Law Review* 43.

ii. Intellectual Property

Measures relating to intellectual property are extended to the Contracting Parties by Article 65(2), which states that 'Protocol 28 and Annex XVII contain specific provisions and arrangements concerning intellectual, industrial and commercial property, which, unless otherwise specified, shall apply to all products and services'. Annex XVII lists various Directives, Regulations and Decisions on intellectual property which are extended to the EEA, together with various specific amendments. This list is regularly updated by decisions of the EEA Joint Committee.

Protocol 28 to the Agreement lays down further provisions on intellectual property. Exhaustion is specifically dealt with by Article 2 of Protocol 28, which states:

> 1. To the extent that exhaustion is dealt with in Community measures or jurisprudence, the Contracting Parties shall provide for such exhaustion of intellectual property rights as laid down in Community law. Without prejudice to future developments of case-law, this provision shall be interpreted in accordance with the meaning established in the relevant rulings of the Court of Justice of the European Communities given prior to the signature of the [EEA] Agreement.
>
> 2. As regards patent rights, this provision shall take effect at the latest one year after the entry into force of the [EEA] Agreement.

In general, intellectual property issues relating to parallel imports into a Member State from an EFTA State have been treated in the same way as those relating to imports from another Member State. However, there have been a few decisions on intellectual property under the EEA Agreement which are of particular interest to parallel trade. The first of the decisions discussed below gives an indication of how EFTA case law may differ from Community case law on the question of international exhaustion, while the second two decisions, although not binding on the ECJ, indicate how certain issues related to parallel trade of pharmaceuticals may be decided.

The first decision concerned international exhaustion. In *Mag Instrument v California Trading Company Norway*,[375] the manufacturers of MAGLITE torches brought an action against a company which was parallel importing those torches from the United States into Norway. The defendant claimed that the manufacturer's rights had been exhausted by the sale in the United States, and the Fredrikstad City Court referred two questions to the EFTA Court, asking in essence whether Article 7(1) of Directive 89/104 precluded it from applying international exhaustion (thus the same question considered by the ECJ in *Silhouette*).

The Court accepted that Article 7(1) did not make the position clear. However, it proceeded to reject the arguments from France, Germany, the

[375] Case E–2/97 *Mag Instrument v California Trading Company Norway* [1997] EFTA Court Reports 127.

United Kingdom and the European Commission against international exhaustion based on the internal market. Instead, it followed the arguments of Liechtenstein and the EFTA Surveillance Authority, noting that the EEA Agreement created a free trade area but, unlike the EC Treaty, not a customs union. In particular, the EEA Agreement did not entail a common commercial policy towards third countries or otherwise abrogate the right of the EFTA States to determine their own foreign trade policy, and so Article 7(1) could not oblige the EFTA States to prohibit international exhaustion. The Court also noted that the products in question had not originated within the EEA but in the United States, and so they were not subject to the EEA free movement provisions. Therefore, in contrast to the decision of the ECJ (which was delivered the following year), the EFTA Court held that the EFTA States remained free under Article 7(1) to decide whether or not to allow international exhaustion of trade marks.

This judgment was considered in *NGK Spark Plug Co v Biltema Sweden*,[376] which concerned spark plugs which had been imported from the United States to Norway and then into Sweden. The manufacturer brought an action for trade mark infringement, but an interim injunction was refused by the District Court. However, the Court of Appeal overturned this decision, following *Silhouette* and *Sebago* and holding that it was for the defendant to show that the spark plugs had been put onto the market in the EEA by or with the consent of the manufacturer.

The Swedish Court of Appeal also suggested that the judgment in *Mag Instrument* was wrong. However, this appears to have been based on the erroneous assumption that the EFTA States were bound to follow ECJ judgments handed down after the signature of that agreement. The Court also assumed that goods imported into the EEA from third countries would be subject to the free movement provisions. By contrast, it was clear from the judgment in *Mag Instrument* that parallel imports which originated outside the EEA would not be subject to the free movement provisions at all. If they did (for instance, if they had been manufactured within the Community and then exported by the manufacturer and sold in a third country), they could be imported into the EFTA States but could be blocked from entering the Community.[377]

Given the careful decision of the EFTA Court in *Mag Instrument*, there is little basis for the suggestion that, simply because goods were subject to the free movement provisions, rights owners in the Community would not be entitled to bring infringement actions against those goods. Although this is a barrier to trade, such barriers potentially exist within the Community whenever intellectual property protection is not Community-wide. There is therefore a strong

[376] *NGK Spark Plug Co v Biltema Sweden* [2000] European Trade Mark Reports 507.

[377] See also A Carboni, 'Cases about Spectacles and Torches: Now, Can We See the Light?' [1998] *European Intellectual Property Review* 470 and A Toutoungi, 'EFTA: Fortress Europe's Soft Underbelly?' [2006] *European Intellectual Property Review* 110.

case that the judgment in *Mag Instrument* remains good law despite the judgments in *Silhouette*, *Sebago* and *Davidoff*.[378]

The second decision concerned possible barriers to the parallel trade of pharmaceuticals. In *Norway v Astra Norge*,[379] the Norwegian Medicines Control Agency had notified pharmaceutical manufacturers that it would allow parallel importers to use the Summaries of Product Characteristics (SPCs) submitted by the manufacturers when seeking initial authorisation for their products. Astra Norge brought an action against the Norwegian government before the Oslo City Court, arguing that it owned the copyright in its SPCs. The Oslo City Court agreed but, on appeal, the Borgarting Court of Appeal referred to the EFTA Court the question whether this would breach Article 11 or Directive 65/65 on marketing authorisations.[380]

The EFTA Court agreed that a requirement that parallel importers draw up their own SPCs unless the manufacturer consented to them using the manufacturer's SPC would constitute a measure having an effect equivalent to a quantitative restriction, and so would breach Article 11. The Court went on to find that this would lead to an artificial partitioning of the market in the EEA and a disguised restriction on trade between the Contracting Parties, which would be disproportionate to the aim of protecting the copyright in the SPC. Therefore, the requirement could not be justified under Article 13.

The third judgment was *Paranova v Merck & Co*,[381] where Paranova was repackaging pharmaceutical products in new boxes in Denmark and reselling them to wholesalers in Norway. The new boxes initially included both Merck's trade marks for the products and Paranova's own trade mark and logo (a multicoloured pentagram), together with coloured stripes on the edges of the packaging which were reminiscent of the colours used by the manufacturer for its products in Norway.

Merck successfully brought an action before the Asker and Bærum County Court, complaining that Paranova was employing its own livery and that this blurred the distinction between manufacturer and parallel importer and the distinctiveness of Merck's trade marks. As a result, Paranova removed its trade mark and logo from the boxes but changed the colours of the stripes to mimic Merck's colours more closely. However, Paranova also appealed to the Borgarting Court of Appeal, before which Merck & Co opposed the new colour scheme too. The Court of Appeal found in favour of Merck on both scores and Paranova therefore changed its boxes again, this time to white packaging with black writing. The Norwegian Medicines Control Authority then objected to

[378] However, see the discussion in D Kitchin, D Llewelyn, J Mellor, R Meade, T Moody-Stuart and D Keeling, *Kerly's Law of Trade Marks and Trade Names*, 14th edn (Sweet & Maxwell, London, 2005), paras 16-096–16-099.

[379] Case E–1/98 *Norway v Astra Norge* [1998] EFTA Court Reports 140.

[380] Extended to the EEA by EEA Agreement, Annex II, Ch XIII, point 1. For discussion of marketing authorisations see Ch 4, sect III.A (Regulatory Structure).

[381] Case E–3/02 *Paranova v Merck & Co* [2003] EFTA Court Reports 101.

such packaging on the ground it could lead to increased confusion and incorrect usage of pharmaceuticals. However, as it had no power to require the use of colour on the packaging, it authorised Paranova to use the new packaging. It also proposed an amendment to the rules to give it the power to require the use of colour in the future.

Meanwhile, Paranova had appealed again to the Norwegian Supreme Court, which referred two questions to the EFTA Court asking whether the use of coloured stripes on the boxes would constitute 'legitimate reasons' for Merck to oppose the repackaging under Directive 89/104 on trade marks[382] and whether the requirement of 'necessity' applies only to the need to rebox or also to the design of the new box. The EFTA Court held that the requirement of 'necessity' applies only to the question whether reboxing is necessary. Once that was established, as in this case, it would be a disproportionate restriction on the free movement of goods to subject the parallel importer's market conduct and 'in particular . . . its strategy of product presentation, such as advertising or packaging design' to a requirement of necessity. Instead, the EFTA Court held that Merck might have a 'legitimate reason' to object to the use of the coloured stripes if this would (a) damage the reputation of the trade mark, (b) give rise to the impression of a commercial connection between Merck and Paranova, (c) create a risk of degeneration of the trade mark or (d) create a risk of confusion as to the identify of the manufacturer. Although these were questions for the national court, the EFTA Court strongly hinted that it did not believe that any of them applied on the facts before it. This hint was followed by the Norwegian Supreme Court in due course.[383]

iii. Competition

As with the free movement provisions, the competition provisions in Articles 81 and 82 of the EC Treaty are mirrored in Articles 53 and 54 of the EEA Agreement. These Articles are enforced both by the European Commission and the EFTA Surveillance Authority. Which authority should handle a particular case is determined under Article 56, but this will generally be the European Commission unless the principal impact is upon trade between EFTA States. Where a case is being handled by one authority, the other has rights to co-operate in the handling of the case.

There are few reported competition cases considered by the EFTA Surveillance Authority which relate to parallel trade. However, in 1995 the Authority rejected a request for interim measures under Article 54 where a Danish parallel importer and its Norwegian subsidiary were refused the supply of pharmaceuticals, allegedly on the basis that the pharmaceuticals were going

[382] Extended to the EEA by EEA Agreement, Annex XVII, point 4.
[383] Case 2002/282 *Paranova v Merck & Co* (Norges Høyesterett, 4 June 2004).

to be exported.[384] In 1999, two exclusive trade mark licensing agreements entered into between a Norwegian chocolate producer and a Norwegian ice cream producer were cleared once the degree of territorial protection was limited.[385]

iv. Regulation

Finally, the approach to regulations which restrict parallel trade is likely to be the same under the EEA Agreement as under the EC Treaty. Apart from the free movement provisions already discussed, the EEA Agreement prohibits customs duties between the Contracting Parties (Article 10) and discriminatory taxation (Article 14). Much of the secondary Community legislation on regulatory matters is extended to the EEA.

For instance, parallel imports of pharmaceutical products from the EFTA States can be notified to the EMEA where the products are the subject of a Community marketing authorisation and the products in the exporting EFTA State have been harmonised with that authorisation.[386] Similarly, simplified authorisations are available from the MHRA in the United Kingdom for parallel imports from the EFTA States as well as from other Member States.

In *R v Ministry of Agriculture, Fisheries and Food, ex parte British Agrochemicals Association*,[387] the ECJ confirmed that Article 28 of the EC Treaty precluded the application of the full authorisation procedure for pesticides to parallel imports from other Member States and laid down a series of simplified checks which the UK authorities would have to make. It then proceeded to take the same approach under Article 11 of the EEA Agreement, noting that Directive 91/414, which laid down the harmonised Community requirements for authorisation, had been extended to the EEA.[388]

B. Bilateral Free Trade Agreements

The Community has also entered agreements with many other countries which include provisions on the free movement of goods and/or competition law which to some extent follow the language of the EC Treaty. For instance, these include:

[384] *EFTA Surveillance Authority Annual Report* (EFTA Surveillance Authority, Brussels, 1995) at 98; *EFTA Surveillance Authority Annual Report* (EFTA Surveillance Authority, Brussels, 1996) at 86.

[385] *EFTA Surveillance Authority Annual Report* (EFTA Surveillance Authority, Brussels, 1999) 69–70

[386] EMEA, 'Post-Authorisation Guidance on Parallel Distribution' EMEA/Ho/2368/04 (Draft Rev.4, 2006) at 22. See also Dec 74/99 of the EEA Joint Committee [2000] OJ L284/65.

[387] Case C–100/96 *R v Ministry of Agriculture, Fisheries and Food, ex parte British Agrochemicals Association* [1999] ECR I–1499.

[388] EEA Agreement, Annex II, Ch XIV, point 12a (introduced by Dec 7/94 of the EEA Joint Committee [1994] OJ L160/1).

(a) the Free Trade Agreement with Switzerland;[389]
(b) the Customs Union with Turkey;[390]
(c) the Stabilisation and Association Agreements;[391]
(d) the Euro-Mediterranean Association Agreements;[392] and
(e) other Partnership and Cooperation Agreements.[393]

However, the fact that these agreements often contain free movement provisions worded similarly to the EC Treaty does not necessarily mean they will be interpreted in the same way as regards parallel trade. In *Polydor v Harlequin*,[394] the ECJ was asked to determine whether the UK copyright in certain sound recordings was exhausted by their sale by the copyright owner's licensee in Portugal. Although Portugal was not then a Member State, it had entered into an agreement with the Community which contained free movement provisions mirroring Articles 28 and 30 of the EC Treaty.[395]

The ECJ noted that the EC Treaty 'seeks to unite national markets into a single market having the characteristics of a domestic market'. By contrast, although the agreement with Portugal 'makes provision for the unconditional abolition of certain restrictions on trade between the Community and Portugal, such as quantitative restrictions and measures having equivalent effect', it did not seek to create a single market and had no instruments to achieve the uniform application of law and to abolish legislative disparities. Accordingly the considerations leading to the establishment of the principle of Community exhaustion did not apply to the agreement, so the enforcement of UK copyright could be justified under the equivalent of Article 30.

However, over a decade later a different approach was taken in *Eurim-Pharm v Bundesgesundheitsamt*.[396] As discussed above, this concerned the question whether the German authorities could refuse to apply a simplified authorisation procedure for parallel imports from Austria, which was then not a Member State but had entered into a free trade agreement with the Community.[397]

[389] [1972] OJ Spec Ed L300/191.

[390] Dec 1/95 of the EC–Turkey Association Council [1996] OJ L35/1.

[391] [2004] OJ L84/13 (the Former Yugoslav Republic of Macedonia); [2005] OJ L26/3 (Croatia); Council doc 8164/06 (Albania).

[392] [1998] OJ L97/2 (Tunisia); [2000] OJ L70/2 (Morocco); [2000] OJ L147/3 (Israel); [2002] OJ L129/3 (Jordan); [2004] OJ L304/39 (Egypt); [2005] OJ L265/2 (Algeria); [2006] OJ L143/2 (Lebanon); [1997] OJ L187/3 (Palestinian Authority, Interim Agreement). An agreement with Syria has been initialled but not yet signed (see COM(2004)808 and European Parliament Report A6-0334/2006 and Res T6-0459/2006).

[393] [1997] OJ L327/3 (Russia); [1998] OJ L49/3 (Ukraine); [1998] OJ L181/3 (Moldova); [1999] OJ L196/3 (Kazakhstan); [1999] OJ L196/48 (the Kyrgyz Republic); [1999] OJ L205/3 (Georgia); [1999] OJ L229/3 (Uzbekistan); [1999] OJ L239/3 (Armenia); [1999] OJ L246/3 (Azerbaijan); [1999] OJ L311/3 (South Africa); [2000] OJ L276/45 (Mexico); [2000] OJ L317/3 (African, Caribbean and Pacific (ACP) Group of States); [2002] OJ L352/3 (Chile).

[394] Case 270/80 *Polydor v Harlequin Records Shops* [1982] ECR 329.

[395] [1972] OJ Spec Ed L301/167.

[396] Case C–207/91 *Eurim-Pharm v Bundesgesundheitsamt* [1993] ECR I–3723. See sect III.C (Marketing Authorisations) above.

[397] Reg 2836/72 [1972] OJ Spec Ed L300/4.

Articles 13 and 20 of that free trade agreement mirrored Articles 28 and 30 of the EC Treaty. However, the agreement did not seek to create a single market, nor did it have the instruments for doing so. Nevertheless, the ECJ proceeded to hold as follows:

> 24. Even on the assumption that the Court's case-law on Articles [28] and [30] of the Treaty cannot be applied to the interpretation of Articles 13 and 20 of the Agreement, it is sufficient to note that, since the German health authority already possessed all the necessary information about the medicine and there was no dispute that the imported medicine and the authorized medicine were identical, the authority had no need to secure cooperation of any kind from the Austrian authorities.
>
> 25. In those circumstances, to hold that Articles 13 and 20 of the Agreement do not preclude rules of the kind at issue here would be to deprive those articles of much of their effectiveness.

It therefore proceeded to hold that it would be contrary to Articles 13 and 20 of the free trade agreement for the German authorities to require the parallel importer to produce documents which they already had.

On this basis it is not entirely clear when free trade agreements entered into by the Community will remove barriers to parallel trade. They certainly will if they involve duties of consistent interpretation, as in the EEA Agreement, or if they seek to create a single market, as required by the ECJ in *Polydor v Harlequin*. However, on the basis of the judgment in *Eurim-Pharm v Bundesgesundheitsamt* there may be scope for arguing that the Community's free trade agreements apply more broadly to prohibit barriers to parallel trade.[398]

One agreement other than the EEA Agreement does require that its free movement provisions be interpreted consistently with the decisions of the ECJ, namely the Customs Union with Turkey. Article 66 of Decision 1/95 of the EC–Turkey Association Council states that '[t]he provisions of this Decision, in so far as they are identical in substance to the corresponding provisions of the Treaty establishing the European Community shall be interpreted for the purposes of their implementation and application to products covered by the Customs Union, in conformity with the relevant decisions of the Court of Justice of the European Communities'. Articles 5 to 7 then mirror the wording of Articles 28 to 30 of the EC Treaty.

However, there is a derogation in Article 10(2) of Annex 8 to the Decision: '[t]his Decision does not imply exhaustion of intellectual, industrial and commercial property rights applied in the trade relations between two Parties under this Decision'. Therefore, in this case it is absolutely clear that there is no exhaustion of intellectual property rights by virtue of the agreement (although the free movement provisions may apply to other aspects of parallel trade).

There is a separate question whether the competition provisions of these agreements prohibit barriers to parallel trade between the signatory countries.

[398] See D Keeling, *Intellectual Property Rights in EU Law: Volume I: Free Movement and Competition Law* (OUP, Oxford, 2003) at 119–28.

For instance, in many of its agreements the Community has declared that it will interpret the competition provisions in line with Articles 81 and 82.[399] As a result, restrictions on parallel trade from these countries to the Community may be prohibited in the same way as restrictions on parallel trade within the Community, as the jurisdictional limitations discussed in section II of this chapter will not apply. However, this remains untested.

C. World Trade Organization

The World Trade Organization[400] (WTO) has approximately 150 members, including all Member States of the Community, and the agreements annexed to the WTO Agreement therefore have a very wide scope. These include provisions on the free movement of goods, intellectual property and regulation, although not on competition.[401]

However, the impact of the WTO on parallel trade has not been particularly profound to date in comparison to that of the European Community. One reason for this may be that the WTO envisages a far shallower degree of integration than the Community, where the single market imperative has been a strong driver towards parallel trade. However, from a more practical perspective, an important reason is that the responsibility for enforcement of the WTO agreements lies in the hand of the Members, who can bring one another before trade Panels, rather than an independent enforcement body (such as the European Commission) or individual undertakings.

As a matter of policy, Members may well seek to encourage parallel imports into their own territory in order to benefit consumers, at least in the short term. Equally, they may restrict parallel imports into their territory for the benefit of manufacturers and, potentially in the long run, consumers. However, these goals can normally be achieved by the Members themselves without taking action against one another. Members may also seek to encourage other countries to impose restrictions on parallel trade through trade discussions.

By contrast, there is little political advantage to Members in taking action against other Members which restrict parallel imports, as any benefits are likely to accrue to consumers in the other Member. At the same time there may be political damage in the Member that takes the action, as its own consumers may

[399] Such as those with Algeria, Croatia, Egypt, Jordan, Lebanon, the Former Yugoslav Republic of Macedonia, Morocco, South Africa, Switzerland, Tunisia and Turkey.

[400] Marrakesh Agreement Establishing the World Trade Organisation 1994, 1867 UNTS 154.

[401] Attempts to introduce competition provisions into the WTO system have so far failed. Most recently, possible negotiations on the Interaction between Trade and Competition Policy, discussed in the Doha Ministerial Declaration of 14 Nov 2001, WT/MIN(01)/DEC/1, paras 23–25, were dropped from the Doha Round of negotiations in the WTO General Council's Dec of 1 Aug 2004, WT/L/579, para 1(g). However, see B Conde Gallego, 'The Principle of Exhaustion of Rights and Its Implications for Competition Law' (2003) 34 *International Review of Industrial Property and Copyright Law* [IIC] 473.

face price rises or shortages due to parallel exports and its own manufacturers may face reduced profitability if they are unable to price differentiate.

i. Free Movement of Goods

The WTO's free movement provisions are contained in the General Agreement on Tariffs and Trade 1947,[402] which was brought within the WTO by Annex 1A to the WTO Agreement (GATT 1994).

Article XI(1) of GATT 1947 mirrors Articles 28 and 29 of the EC Treaty, stating:

> No prohibitions or restrictions other than duties, taxes or other charges, whether made effective through quotas, import or export licences or other measures, shall be instituted or maintained by any contracting party on the importation of any product of the territory of any other contracting party or on the exportation or sale for export of any product destined for the territory of any other contracting party.

Article XX then provides a range of exclusions, mirroring Article 30 of the EC Treaty:

> Subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade, nothing in this Agreement shall be construed to prevent the adoption or enforcement by any contracting party of measures:
>
> . . .
>
> (d) necessary to secure compliance with laws or regulations which are not inconsistent with the provisions of this Agreement, including those relating to . . . the protection of patents, trade marks and copyrights, and the prevention of deceptive practices . . .

ii. Intellectual Property

Although it is well known that Article 6 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) leaves open the question of exhaustion of rights, for the Community lawyer the logically prior question is whether Articles XI(1) and XX of GATT themselves require a doctrine of exhaustion of intellectual property rights in trade between WTO Members. However, this appears to be unlikely.[403] Although the provisions mirror Articles 28 to 30 of the EC Treaty, the aim of the single market was a very important factor in the establishment of exhaustion within the Community in *Deutsche Grammophon v Metro*. That said, the question has not been considered directly by a GATT or WTO Panel, and so there remains an outside possibility that such

[402] The General Agreement on Tariffs and Trade 1947, 55 UNTS 194.

[403] See M Slotboom, 'The Exhaustion of Intellectual Property Rights: Different Approaches in EC and WTO Law' [2002] *Journal of World Intellectual Property Law* 421.

a Panel might follow the lead of the ECJ. If so, this would clearly have a major impact on the approach to exhaustion within the Community.[404]

Two GATT Panels have considered the application of section 337 of the United States Tariff Act of 1930.[405] Under that section the United States International Trade Commission (ITC) can investigate claims of intellectual property infringement and issue exclusion orders, directing the United States Customs to stop infringing imports from entering the country.

The dispute in *United States—Imports of Certain Automotive Spring Assemblies*[406] arose when the ITC issued an order excluding automotive spring assemblies which it had found to infringe two US patents. The assemblies had been supplied to General Motors and Ford in the United States by a Canadian company, Wallbank. The order remained in place pending various appeals. Canada argued that this breached Article XI(1), among other Articles, while the United States argued that if it did it was justified under Article XX(d). The Panel began by considering Article XX(d). In finding that the exclusion order in that case was not 'applied in a manner which would constitute . . . a disguised restriction on international trade', the Panel noted that 'the exclusion order would not prohibit the importation of automotive spring assemblies produced by any producer outside the United States who had a licence from [the patent owner] to produce those goods'. Therefore, although the particular point on parallel imports was not before it, the Panel implied that a restriction on parallel imports might constitute a disguised restriction on international trade and thus mean that a measure was not justified under Article XX(d).

In *United States—Section 337 of the Tariff Act of 1930*,[407] although the Panel found that certain provisions of section 337 could not be justified under Article XX(d), it did not consider the question of a disguised restriction on trade.

However, although parallel trade was not in issue in those cases, section 337 can also be used against parallel imports where these breach substantive intellectual property law in the United States. For instance, the Court of Appeals for the Federal Circuit approved the use of the section against parallel imports of Deere forage harvesters in *Bourdeau Bros v International Trade Commission*,[408]

[404] See T Cottier, 'Implications of WTO Law for the Exhaustion Issue and Parallel Imports' and R Quick, 'Parallel Imports in Europe', both papers given to the LES France Conference, 'Consequences of a Possible International Exhaustion of Rights on Business' (Paris, 12 May 1998). See also KJ Kuilwijk, 'Parallel Imports and WTO Law: Some Thoughts After *Silhouette*' [1999] *European Competition Law Review* 292.

[405] 19 USC 1337.

[406] *United States—Imports of Certain Automotive Spring Assemblies*, GATT doc L/5333 (11 June 1982). See also GATT docs C/W/396 (14 Oct 1982), C/W/400 (2 Nov 1982) and C/M/168 (14 June 1983) at 10–12.

[407] *United States—Section 337 of the Tariff Act of 1930*, GATT doc L/6439 (16 Jan 1989). See also GATT docs C/M/237 (28 Nov 1989), at 23–6, C/M/248 (3 Apr 1991) at 30 and C/M/249 (22 May 1991) at 18–20 and WTO doc WT/DS186/1 (18 Jan 2000).

[408] *Bourdeau Bros v International Trade Commission* 444 F 3d 1317 (Fed Cir 2006), following *Gamut Trading v International Trade Commission* 200 F 3d 775 (Fed Cir 1999) and *SKF USA v International Trade Commission* 423 F 3d 1307 (Fed Cir 2005).

on the basis that the European versions being imported were materially different from those sold in the United States, and thus infringed the United States trade marks under the Trademark Act 1946 (Lanham Act).[409]

In the light of the comments of the Panel in *United States—Imports of Certain Automotive Spring Assemblies*, the use of section 337 against parallel imports may not be justifiable under GATT Article XX(d). More broadly, the Panel's comments suggest that prohibitions on parallel trade might be impermissible.

The General Agreement on Tariffs and Trade did not contain any provisions which required Contracting States to protect intellectual property, although limited requirements were contained in Article IX(6) (on the protection of geographical indications of origin) and Articles XII(3)(c)(iii) and XVIII(10) (which seek to avoid restrictions on imports preventing compliance with patent, trade mark, copyright or similar procedures). However, for a number of years some of the GATT Contracting Parties pressed for provisions on intellectual property to be introduced.

In 1978, the United States proposed an agreement on commercial counterfeiting, to cover trade marks and trade names.[410] Article II of this proposal stated that '[n]othing in this Agreement shall require the parties to the agreement to consider parallel imports as counterfeit'.

An amended proposal was circulated by the United States the following year, this time extending to cover copyright, designs and models.[411] This time Article I(B) stated that '[n]othing in this Agreement shall require, or necessarily permit, the parties to the Agreement to consider parallel imports as counterfeit'.

This was further modified and recirculated by the United States and the European Community,[412] with Article I(4) reading '[n]othing in this Agreement shall require or permit the parties to the Agreement to treat parallel imports as counterfeit'. This appears to recognise the possibility that restrictions on parallel imports may be prohibited by Articles XI(1) and XX of GATT.

In 1982, a further draft was circulated,[413] with Article 1.2.1 reading '[t]his Agreement shall not apply to imported goods which have been produced or marketed under a protected trademark by the owner of the trademark right, or with his consent, or to goods bearing an authorized trademark which are imported in contravention of a commercial arrangement.'

The Contracting Parties agreed to examine the question[414] and did so in the course of 1985,[415] resulting in a report to the Contracting Parties.[416] These dis-

[409] 15 USC, Ch 22.
[410] GATT doc MTN/NTM/W/204 (11 Dec 1978).
[411] GATT doc MTN/NTM/W/255 (9 Mar 1979).
[412] GATT doc L/4817 (31 July 1979).
[413] GATT doc L/5382 (18 Oct 1982).
[414] GATT doc L/5424 (29 Nov 1982) at 11 and GATT doc L/5758 (20 Dec 1984).
[415] GATT docs MDF/W/19 (10 Jan 1985), MDF/W/25 (5 Mar 1985), MDF/8 (10 Apr 1985), MDF/9 (7 May 1985), MDF/11 (11 June 1985), MDF/14 (17 July 1985), MDF/W/43 (18 June 1985), MDF/19 (20 Sept 1985) and MDF/22 (21 Oct 1985).
[416] GATT doc L/5878 (9 Oct 1985).

cussions generally took the view that parallel imports would be excluded from any action, although the issue was raised whether parallel imports might make control of counterfeit goods more difficult.[417]

There was then further discussion of counterfeiting in various GATT meetings.[418] As a result, when the Uruguay Round of Multilateral Trade Negotiations was launched in 1986 it included a mandate for negotiations on '[t]rade-related aspects of intellectual property rights, including trade in counterfeit products'.[419]

The main negotiations took place between 1987 and 1990.[420] It was noted at an early stage that Contracting Parties had different rules on parallel imports of trade marked products.[421] Several Contracting Parties called for international exhaustion of trade marks (Austria,[422] Brazil,[423] the European Community[424] and India,[425] together with a group of 14 developing countries[426]). Others believed that international exhaustion should apply to copyright (Australia[427]) or semiconductor topography rights (Canada[428]). The United States suggested that international exhaustion should be prohibited for trade marks[429] and copyright and related rights.[430]

Ultimately it was agreed to leave the question of exhaustion to each Contracting State.[431] In the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), which appears as Annex 1C to the WTO Agreement, Article 6 deals with exhaustion as follows:

> For the purposes of dispute settlement under this Agreement, subject to the provisions of Articles 3 and 4 nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights.

Article 3 requires national treatment and Article 4 requires most-favoured-nation treatment.

[417] GATT doc MDF/W/19 (10 Jan 1985) at 29, citing WIPO, *The Role of Industrial Property in the Protection of Consumers* (WIPO, Geneva, 1983).

[418] GATT docs SR.SOG/6 (22 Nov 1985) at 11–17, C/M/194 (22 Nov 1985) at 9–12, SR.41/2 (10 Jan 1986) at 9–12, SR.41/3 (10 Jan 1986) at 11, PREP.COM(86)SR/3 (11 Apr 1986) at 9–14, PREP.COM(86)W/20 (28 Apr 1986), PREP.COM(86)SR/6 (16 July 1986) at 28–30, PREP.COM(86)W/46 (8 July 1986) and PREP.COM(86)SR/9 (26 Aug 1986) at 7–9.

[419] GATT doc GATT/1396 (25 Sept 1986) at 7–9.

[420] The principal documents of the Negotiating Group are contained in the GATT doc series MTN.GNG/NG11/*.

[421] GATT doc MTN.GNG/NG11/W/12/Rev.1 (5 Feb 1998) at 31.

[422] GATT doc MTN.GNG/NG11/W/55 (8 Dec 1989) at 3.

[423] GATT doc MTN.GNG/NG11/W/57 (11 Dec 1989) at 7.

[424] GATT doc MTN.GNG/NG11/W/26 (7 July 1988) at 8.

[425] GATT doc MTN.GNG/NG11/W/37 (10 July 1989) at 15.

[426] GATT doc MTN.GNG/NG11/W/71 (14 May 1990) at 9.

[427] GATT doc MTN.GNG/NG11/16 (4 Dec 1989) at 25.

[428] GATT doc MTN.GNG/NG11/W/47 (25 Oct 1989) at 10.

[429] GATT doc MTN.GNG/NG11/W/14/Rev.1 (17 Oct 1988) at 5.

[430] GATT doc MTN.GNG/NG11/W/70 (11 May 1990) at 4–5. See also the United States' criticism of Australia for failing to give copyright owners the right to prevent parallel imports: GATT doc C/RM/M/43 (6 Apr 1994) at 47.

[431] GATT doc MTN.TNC/W/35 (26 Nov 1990), Art 6.

Article 6 was reaffirmed in the Doha Ministerial Declaration on the TRIPS Agreement and Public Health:

> The effect of the provisions in the TRIPS Agreement that are relevant to the exhaustion of intellectual property rights is to leave each member free to establish its own regime for such exhaustion without challenge . . ..[432]

Notably, Article 6 does not say that exhaustion is permitted under GATT. It simply states that the position is not affected either way by TRIPS. This also means that TRIPS does not prevent Members from prohibiting international exhaustion of intellectual property rights, as has occurred in the Community and in some of the bilateral free trade agreements entered into by the United States.[433]

iii. Regulation

As well as the provisions of the General Agreement on Tariffs and Trade, there are specific agreements which seek to remove particular barriers, such as the Agreement on the Application of Sanitary and Phytosanitary Measures and the Agreement on Technical Barriers to Trade.

Although the application of the Agreement on Technical Barriers to Trade was rejected by the ECJ in *R v Ministry of Agriculture, Fisheries and Food, ex parte British Agrochemicals Association*,[434] it is likely that arguments will increasingly be run that barriers to parallel imports from outside the Community breach these agreements.

D. Intellectual Property Treaties

The exhaustion provisions of TRIPS have already been discussed. Most other intellectual treaties do not deal with the issue explicitly. However, the two which do so are now considered.

i. International Convention for the Protection of New Varieties of Plants

The International Convention for the Protection of New Varieties of Plants (UPOV) was initially adopted in 1961. In 1991 it was amended at a Diplomatic Conference in Geneva, which, among other changes, introduced a provision on exhaustion of rights to read as follows:

[432] Doha Ministerial Declaration on the TRIPS agreement and public health of 14 Nov 2001, WT/MIN(01)/DEC/2, para 5(d).

[433] C Stothers, 'Parallel Trade and Free Trade Agreements' [2006] 1 *Journal of Intellectual Property Law & Practice* 578.

[434] Case C–100/96 *R v Ministry of Agriculture, Fisheries and Food, ex parte British Agrochemicals Association* [1999] ECR I–1499. See sect III.C (Marketing Authorisations) above.

> Article 16
>
> (1) [Exhaustion of rights] The breeder's right shall not extend to acts concerning any material of the protected variety, or of a variety covered by the provisions of Article 14(5), which has been sold or otherwise marketed by the breeder or with his consent in the territory of the Contracting Party concerned, or any material derived from the said material, unless such acts
>
> (i) involve further propagation of the variety in question or
>
> (ii) involve an export of material of the variety, which enables the propagation of the variety, into a country which does not protect varieties of the plant genus or species to which the variety belongs, except where the exported material is for final consumption purposes.
>
> . . .
>
> (3) ["Territory" in certain cases] For the purposes of paragraph (1), all the Contracting Parties which are member States of one and the same intergovernmental organization may act jointly, where the regulations of that organization so require, to assimilate acts done on the territories of the States members of that organization to acts done on their own territories and, should they do so, shall notify the Secretary-General accordingly.

These provisions clearly prohibit international exhaustion, save where regional exhaustion is permitted under Article 16(3).

The background to this provision is less clear. The prohibition of international exhaustion in Article 16(1) was already in the initial proposal of the UPOV Council, which was drafted after discussions with international non-governmental organisations, the World Intellectual Property Organization and various national discussions.[435] Although the Canadian representative briefly queried whether Contracting Parties should be free to adopt international exhaustion, he did not have instructions on the issue, which was not pursued further.[436] Article 16(3), on which there was far more discussion, was introduced following a proposal from the Netherlands delegation in order to permit Community exhaustion.[437]

In the light of its murky provenance, this is unlikely to constitute a strong precedent for other intellectual property treaties to prohibit international exhaustion, particularly given the apparently limited discussion on the international exhaustion issue when at a similar time there was stalemate on the issue in the WTO negotiations for TRIPS.

ii. WIPO Copyright Treaty

Under the auspices of the World Intellectual Property Organization (WIPO), the WIPO Copyright Treaty was adopted in 1996 and entered into force in 2002.

[435] UPOV, *Records of the Diplomatic Conference for the Revision of the International Convention for the Protection of New Varieties of Plants* (UPOV, Geneva, 1991) at 98 and 165.
[436] *Ibid*., 451.
[437] *Ibid*., 142, 154–6, 376–7, 449–53, 460–2, 467–71 and 474–5.

Although it has been signed by the Community and all Member States except Malta, at the time of writing it has been ratified only by the Member States which joined in 2004 and 2007 (except Estonia) together with Belgium.

The Treaty takes the same approach as under TRIPS. Article 6 covers the right of distribution and reads:

> (1) Authors of literary and artistic works shall enjoy the exclusive right of authorizing the making available to the public of the original and copies of their works through sale or other transfer of ownership.
>
> (2) Nothing in this Treaty shall affect the freedom of Contracting Parties to determine the conditions, if any, under which the exhaustion of the right in paragraph (1) applies after the first sale or other transfer of ownership of the original or a copy of the work with the authorization of the author.

There was an agreed statement on Article 6 which read:

> As used in these Articles, the expressions 'copies' and 'original and copies,' being subject to the right of distribution and the right of rental under the said Articles, refer exclusively to fixed copies that can be put into circulation as tangible objects.

The right of distribution is separate from the right of rental and the right of communication to the public, which are covered by Articles 7 and 8. Neither of these rights has an exhaustion provision, which corresponds to the approach taken within the Community.

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