A COMPLEMENTARY EXISTENCE: AN ECONOMIC ASSESSMENT OF THE TRADEMARK AND COMPETITION LAW INTERFACE IN THE EUROPEAN COMMUNITY

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I. INTRODUCTION

When appropriately tailored, trademark and competition laws exist as complementary interests pursuing a single objective—the advancement of market competition as an economically meaningful regulatory system.[1] However, trademark and competition laws promote market competition through very different mechanisms. For their part, trademark laws seek to initiate market competition by creating monopoly rights. Competition laws, on the other hand, work to achieve the same goal, but by restricting the ability of economic actors to obtain and abuse monopoly power. The divergent approaches through which trademark and competition laws promote market competition has traditionally led to tension at their interface. This tension has been especially pronounced in Europe where national trademark laws have had to be reconciled with the free movement principles of the Treaty of Rome,[2] a task which has thus far fallen primarily on the European Court of Justice.[3]

This Article examines how the European Court of Justice has set the terms of the trademark and competition law interface in Europe.[4] The Article begins with an introduction to the economic character of

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1. *See* Michael Lehmann, *Property and Intellectual Property—Property Rights as Restrictions on Competition in Furtherance of Competition*, 20 IIC 1, 7 (1989).

2. *See generally* Articles 3(f), 30, 36, 85, 86, and 222 of the Treaty Establishing the Economic Community (Single European Act version), 1987 O.J. (L 169) [hereinafter EEC Treaty].

3. To date, the Community legislature has provided member states with only limited guidance as to the future status of the relationship between intellectual property rights and Community competition law. The Community Legislature has, however, undertaken two major initiatives relative to trademark law. The first initiative, Council Directive 89/104 of December 21, 1989, 1989 O.J. (L 40/1), directs Member States to approximate their national trademark laws. *See* James E. Rosini & Christopher C. Roche, *Trademarks in Europe 1992 and Beyond*, 19 AM. INTELL. PROP. L. ASS'N Q.J. 213, 214-20 (1991); *see also* Mario Franzois, *Report on the New Trademark Law in Italy*, 6 EUROPEAN INTELL. PROP. REV. 220, 220-22 (1993); Christopher J. Mesnooh, *France's New Trademark Law*, 20 INT'L BUS. LAW. 477, 477-79. The second initiative, the Council Regulation on the Community Trademark, 1984 O.J. (C 230/1), has not yet been adopted due, in large measure, to political posturing among the Member States. *See* Thomas A. Larkin, *Harmony in Disarray: The European Community Trademark System*, 82 TRADEMARK REP. 634, 647-50 (1992); Rosini & Roche, *supra* note 3, at 221-28. *See* Jan Corbet, *Symposium on U.S.-E.C. Legal Relations: The Law of the EEC and Intellectual Property*, 13 J. L. & COM. 327, 367 (1994) ("Under the proposed regulation, marks will be registrable for services and goods and the constitution of a mark will be defined in detail.").

4. In its First Report on Competition Policy, Comp/1, April 1972, the European Commission noted that the reconciliation of national property rights with Community competition law should be one of the priorities of the Court.

trademarks in contemporary markets and then turns to a consideration of competition law in the European Community. In Section Four, the parameters of the trademark and competition law interface debate are defined with a general overview of competing outlooks. In Section Five, the Article examines how the competing outlooks have fared under the scrutiny of the European Court of Justice. The Article then concludes with a critical assessment of the European Court of Justice's approach to the trademark and competition law interface by arguing that its future decisions should reflect a deeper appreciation for the pro-competitive effects of trademarks.

II. TRADEMARKS AND ECONOMIC THEORY

A "trademark" is commonly defined as a word, design, symbol, or other indicia that is used to distinguish the goods or services marketed and sold by one firm[5] from the goods or services marketed and sold by the firm's competitors.[6] Manufacturers, distributors, and merchants apply trademarks to their goods and services to represent them as their own. Consumers rely on the source and product information conveyed by trademarks to assist them in their efforts to identify those products and services that most closely approximate their needs and tastes. This market dynamic has made the trademark system one of the primary mechanisms—second possibly only to pricing strategies—through which competition manifests itself in market economies.[7] The following consideration of the market conditions that led to the commercial development of trademarks, their function, and a trademark system's competitive impact on a market economy provides

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5. I use the terms "firm" and "undertaking" interchangeably to refer to a manufacturer, distributor, or merchant of goods or services.

6. *See, e.g.*, W.M. Landes & Richard A. Posner, *Trademark Law: An Economic Perspective*, 30 J.L. & ECON. 265, 266 (1987).

7. *See* W.R. CORNISH, INTELLECTUAL PROPERTY: PATENTS, COPYRIGHT, TRADE MARKS AND ALLIED RIGHTS 393 (2d ed. 1989) (Trademarks are "nothing more nor less than the fundament of most market-place competition."), *quoted in* Opinion of the Advocate General, S.A. CNL-Sucal NV v. Hag GF AG, Case C-10/89, [1990] 3 C.M.L.R. 571, 583.

The central role trademarks play in the commercial development of market economies stands in marked contrast to their minor, almost imperceptible, impact on command and control economies. However, the importance of trademarks in socialist countries has increased as state management of industry and commerce has declined. *See* Vito Mangini, *Competition and Monopoly in Trademark Law: An EEC Perspective*, 11 IIC 591, 592 (1980).

a point of reference for subsequent discussion concerning the interface of trademark and competition law in the European Community.

A. *Historical Foundations*

The evolution of modern trademark systems, along with the other forms of intellectual and industrial property, coincided with the institutionalization of market economies in Europe and the United States during the eighteenth and nineteenth centuries.[8] However, the advent of market economies offers only a partial explanation for the economic importance presently associated with trademarks. For example, one can imagine a market economy in which trademarks would have slight social value and utility, or perhaps none at all.[9] In their search for additional clues, commentators turned their attention to the advances in technology and communication which followed the introduction of market economies in the West.[10] What they discovered is that

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8. For a comprehensive discussion of the historical foundations of trademark law, see F.I. SCHECHTER, THE HISTORICAL FOUNDATIONS OF THE LAW RELATING TO TRADEMARKS (1925) and Sidney A. Diamond, *The Historical Development of Trademarks*, 65 TRADEMARK REP. 265 (1975), *reprinted in* 73 TRADEMARK REP. 222 (1983).

9. Assume, for example, a self-contained economic system which has three firms each manufacturing a product produced by the same chemical formula. If the product distributed by each manufacturer is of equal quality, the legal protection provided to trademarks may produce unnecessary costs to society as one firm's efforts to increase its market share through advertising cancels out another's. In the alternative, if the advertising of one firm proves to be so effective that consumers irrationally choose to purchase that product over identical substitutes, the remaining firms may be forced out of the market leaving the firm which was successful in its advertising in a dominant position.

Other forms of intellectual and industrial property which serve as an impetus to innovation, e.g. patents, may still deserve legal protection within an identical market structure. For instance, if a new and more efficient method of producing an already popular generic product could be developed with additional scientific research, firms would have little incentive to invest resources in the discovery of that process without being guaranteed a return on their investment. For in the absence of a patent right, "an improvement in a manufacturing process might occur by accident or by trial and error, but no 'research' would be undertaken as long as the benefits from such an improvement were immediately available to all other manufacturers and the costs of research were greater than that manufacturer's private gain from it." *See* Lehmann, *supra* note 1, at 9 n.17 (quoting D.C. NORTH, A NEW ECONOMIC HISTORY FOR EUROPE 154 (1968)).

10. Commentators have often cited the development of systems of mass production and distribution as the predominant, if not only, factor that led to the commercial expansion of trademarks. *See, e.g.*, David C. Wilkinson, *The Community Trade Mark Regulation and Its Role in European Economic Integration*, 80 TRADEMARK REP. 107, 107-08 (1990). The argument overlooks the importance of a market system with consumer sovereignty. In the absence of such sovereignty, systems of mass production and distribution would continue to

trademarks owe much of their success to the systems of mass production and distribution that characterized commercial development during the Industrial Revolution and altered the competitive environment in which firms had previously existed.[11]

Specifically, with increased standardization and consistency among products as well as increased competition from distant rivals, firms could no longer rely on their reputations, local patronage, or established buyer-seller relationships to maintain or increase their market shares.[12] Instead, it became necessary for firms to find ways by which they could differentiate the quality and product features of their goods from those of their competitors, as well as to provide consumers with a means of identifying their products in the future. Trademarks offered actors at each level of the competitive chain (manufacturers, distributors, and merchants) an efficient and relatively low-cost method of conveying this information and therefore became commercially relevant.

B. *A Trademark's Function in a Consumer-Oriented Economy*

To understand the importance of trademarks to market competition, it is also essential to consider a trademark's function: to impart to the consumer information about the commercial origin of the goods to which they are attached.[13] Historically, source information was thought to have economic value only if it identified the manufacturer of a product for the consumer.[14] This conception of trademarks was problematic because although some marks might convey information about the identity of a manufacturer, many provide information about their commercial origin by distinguishing the quality and product features of the goods to which they are attached. The

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exist, but trademarks would be irrelevant. *See supra* note 4 (discussing the role of trademarks in a command and control economy).

11. *See, e.g.*, Nicholas S. Economides, *The Economics of Trademarks*, 78 TRADEMARK REP. 523, 527 (1988); Lehmann, *supra* note 1, at 7-8; Mangini, *supra* note 7, at 591; Wilkinson, *supra* note 10, at 108.

12. *See* Basile, S.p.A. v. Francesco Basile, 899 F.2d 35, 37 (D.C. Cir. 1990).

13. The literature on trademarks displays a recent tendency among commentators to confuse the function of a trademark—to convey source information—with the economic impact of a trademark. Trademark functions have thus been described as including not only a source or origin function, but also, for example, a quality function and publicity function. *See, e.g.*, Wilkinson, *supra* note 10, at 109-10.

14. *See, e.g.*, Anti-Monopoly, Inc. v. General Mills Fun Group, Inc., 684 F.2d 1316 (9th Cir. 1982).

economist Nicholas Economides offers the following explanation for this dynamic:

> The economic role of the trademark is to help the consumer identify the unobservable features of the trademarked product. This information is not provided to the consumer in an analytic form, such as an indication of size or a listing of ingredients, but rather in summary form, through a symbol which the consumer identifies with a specific combination of features. . . . The trademark identifies both quality and variety features of the product, i.e., both features like freshness, more of which is desirable by all, and features like sweetness, over which consumers have varying preferences, some preferring little of it, and some desiring lots of it.[15]

The kind of information relevant to a consumer's purchasing decision is, in many instances, a function of the nature of the product being purchased.[16] Consumers will, for example, pay little regard to the source information conveyed by a trademark when they are purchasing goods that they have previously consumed. In these instances, the consumer is motivated to purchase a particular item not because it was made by a particular manufacturer but because he anticipates that the product's features will meet his personal requirements for quality and variety. On the other hand, a consumer who is contemplating the purchase of a product with which he has little or no experience cannot refer to his knowledge of the product for assistance. Instead, the consumer must turn to his knowledge about the manufacturer of the product under consideration.[17] Accordingly, as a consumer's experience with a product declines, the consumer will rely more heavily on the source information conveyed by the trademark.[18]

15. Economides, *supra* note 11, at 526-27.

16. *See id.* at 530-31.

17. *Id.*

18. Contrast, for example, the process of purchasing ice cream with the process of purchasing an automobile. Unlike ice cream, a consumer's experience with automobiles is, in most instances, limited to a relatively small number of makes or models. When considering the purchase of a new car, a consumer will rely heavily on whether he believes that a particular manufacturer has a reputation for the product qualities that he seeks. Thus a consumer interested in safety may regard automobiles manufactured by Volvo more favorably than cars manufactured by Ford, whereas a consumer interested in luxury may be more interested in

Consumers enjoy substantial economic benefits when sellers use trademarks to differentiate their products. First, and foremost, trademarks reduce the search costs for consumers by providing them with a simple method for identifying products that satisfy their needs and tastes.[19] Secondly, trademarks set the stage for vigorous competition among firms through effective competitive merchandising. The reduction in search costs and the development of competitive merchandising provide manufacturers with an incentive to maintain quality standards:

> In other words, trademarks have a self-enforcing feature. They are valuable because they denote consistent quality, and a firm has an incentive to develop a trademark only if it is able to maintain consistent quality. To see this, consider what happens when a brand's quality is inconsistent. Because consumers will learn that the trademark does not enable them to relate their past to future consumption experiences, the branded product will be like a good without a trademark. The trademark will not lower search costs, so consumers will be unwilling to pay more for the branded than for the unbranded good. As a result, the firm will not earn a sufficient return on its trademark promotional expenditures to justify making them. A similar argument shows that a firm with a valuable trademark would be reluctant to lower the quality of its brand because it would suffer a capital loss on its investment in the trademark.[20]

Similarly, a firm's investment in a trademark and the subsequent acquisition of goodwill provides the firm with an incentive to engage in innovative activity.

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manufacturers such as BMW or Mercedes Benz. Ice cream, on the other hand, affords a consumer many opportunities to experience the product, due to the frequency of purchases by the consumer.

19. *See* W.T. Rogers Co. v. Wendell R. Keene, 778 F.2d 334, 338 (7th Cir. 1985) ("The purpose [of a trademark] is to reduce the cost of information to consumers by making it easy for them to identify the products or producers with which they have had either good experiences, so that they want to keep buying the product (or buying from the producer), or bad experiences, so that they want to avoid the product or producer in the future.").

20. Landes & Posner, *supra* note 6, at 270.

C. *Trademarks and Market Competition*

From an economic perspective, the legal protection provided to trademark owners is justified only to the extent that it promotes overall competition. For trademarks to serve their competitive function, a trademark owner must have the ability to preclude his competitors from using the same or a confusingly similar mark on their goods.[21] Without a perpetual monopoly, free-riding competitors would be able to capture a portion of the profits associated with strong trademarks because consumers will assume (at least in the short run) that the products distributed by the free riders were, in fact, distributed by the trademark holder.[22] In the long run, trademarks would lose their value altogether as consumer awareness of the inability of trademarks to convey reliable information increased. Firms would then quickly abandon their trademarks because the costs of developing, promoting, and maintaining them would outweigh their economic return. The existence of trademarks thus presupposes an enforceable property right.[23] Nonetheless, while conceding that trademarks provide some welfare gain by reducing consumer search costs, trademark critics argue that the monopolistic character of a trademark offsets any pro-competitive effects derived from their use.[24] Prior to considering the European Court of Justice's treatment of the trademark and competition law interface, it is therefore necessary to consider the possible anticompetitive effects of trademark protection.

1. Trademarks as a Source of Market Power

Economists theorize that scarce resources are allocated most efficiently in a competitive market where consumption demands dictate production. When a single firm, or a firm acting in concert with others, is able to raise prices above those that would exist in a competitive market, consumers will arguably suffer a welfare loss as scarce resources are redeployed without regard for consumer preference.[25] A

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21. *Id.*
22. *Id.* at 269-70.
23. *See* Friedrich-Karl Beier, *Trademark Conflicts in the Common Market: Can They Be Solved by Means of Distinguishing Additions?*, 9 IIC 221 (1978).
24. *See, e.g.*, Mangini, *supra* note 7, at 595.
25. *But see* F.M. SCHERER, INDUSTRIAL MARKET STRUCTURE AND ECONOMIC PERFORMANCE 470-71 (3d ed. 1990).

course of conduct that does not take account of competitive restraints can occur over a nontransitory period only if a firm or combination of firms exercises market power. Thus, in assessing the competitive impact of trademark protection, the debate has properly focused on the extent to which a trademark can be used as a device for obtaining market power.

Some critics argue that trademarks distort competition and create monopoly prices by providing trademark owners with the means through which they can regulate the circulation of their products on specific terms.[26] Proponents of this view point to: (1) the policing function that trademarks serve in manufacturer-distributor contracts where the distributor's ability to consume a product is restricted;[27] (2) the restrictions on intrabrand competition and the free movement of goods that arise from such contracts; and (3) the fact that under certain circumstances, reductions in intrabrand competition can facilitate cartel-like behavior among manufacturers and merchants.[28]

The appeal of this argument depends, in large measure, upon the values accorded the economic effects of vertical price and nonprice restraints. The United States Supreme Court, for example, supports the position that the increased interbrand competition and the discouragement of free-riding that follows from vertical nonprice restraints offset any competitive distortions created by a reduction in intrabrand competition and limitation on the free movement of goods.[29] Vertical price restraints, on the other hand, have been received less favorably. The Supreme Court has reasoned that such restraints present a greater danger to overall competition by increasing the ease with which firms can engage in cartel-like behavior. This approach to vertical price and nonprice restraints reflects antitrust value assessments in favor of preventing output restraints and promoting profit maximization and against, for example, the free movement of goods. Setting aside the merits of such value preferences, it is worth noting that value choices are an issue properly considered as a matter of competition law and bear only tangentially on trademarks. In

26. *See* Mangini, *supra* note 7, at 597-99.

27. These contracts commonly take the form of price maintenance agreements, exclusive dealing agreements, and agreements against parallel imports.

28. The likelihood of collusion among manufacturers is thought to increase because, at least with vertical price restraints, a manufacturer will have little incentive to cheat since its retailers could not pass on lower prices to consumers.

29. *See, e.g.*, Business Electronics Corp. v. Sharp Electronics Corp., 485 U.S. 717 (1988).

other words, the ability of trademarks to generate vertical price and nonprice restraints is too insignificant to offer a persuasive argument against trademarks generally.

A second concern commonly expressed by trademark critics is that trademarks lead to perception advertising. According to proponents of this argument, perception advertising distorts competition by deflecting sales from lower-priced substitutes of equal or greater quality by differentiating products in the eyes of a target audience solely on the basis of a perception.[30] Proponents further argue that perception advertising can, at best, lead to a loss in consumer welfare through excessive competition and, at worst, monopoly rents.[31] In a closely related debate, trademarks are also blamed for distorting competition by creating barriers to entry through brand loyalty.[32] Under this theory, trademarks are equated with market power in that brand loyalty may become so persuasive that new entry into the market is deterred because of the difficulties associated with promoting a new trademark in an effort to attract market shares.

The two arguments carry the greatest weight when viewed in the context of specific market structures and conditions. For example, the danger of perception advertising undoubtedly increases in the context of goods produced by an identical formula that can be readily repeated by all manufacturers in the product market (e.g. bleach). However, even in this context, the argument is not overly persuasive:

> The fact that two goods have the same chemical formula does not make them of equal quality to even the most coolly rational consumer. That consumer will be interested not in the formula but in the manufactured product and may therefore be willing to pay a premium for greater assurance that the good will actually be manufactured to the specifications of the formula.[33]

Stated plainly, for perception advertising to be successful, there must be a measure of truth in the perception.

30. *See* Economides, *supra* note 11, at 532-35.
31. *Id.*
32. *Id.*
33. Landes & Posner, *supra* note 6, at 275.

Similarly, the argument that trademarks create barriers to entry has some validity when applied in the context of an oligopolistic market. Indeed, many economists accept the notion that strong trademarks in an oligopolistic market structure may allow the market structure to remain oligopolistic for a longer period of time than it would if trademarks did not exist.[34] However, it is unlikely that the structure of the market itself can be attributed to trademarks rather than a general market failure. Moreover, in a relatively competitive market, the argument carries little weight because goods are subject to competition from all sides.[35]

2. A Critical Assessment of the Anti-Competitive Effects of Trademarks

Proponents and critics alike accept the proposition that trademarks have the capacity to reduce consumer search costs. It is also generally accepted that mere ownership of a trademark will not lead to market power or dominance.[36] The arguments proffered against trademark protection are thus most persuasive when considered in the context of specific market structures or conditions. When an oligopolistic market structure exists, for example, trademarks have the potential to fortify that structure by discouraging new entrants. Also, trademarks, when used in connection with a vertical price or nonprice restraint, make enforcement of such contracts easier. However, outside the context of specific market conditions, the potential anticompetitive effects of trademarks are limited. Trademarks should therefore be viewed as a secondary consideration within the broader issue of how to correct or regulate specific market distortions through competition laws. With these lessons of trademark economics in mind, it is appropriate to consider the competition law backdrop in which trademarks operate in the European Community.

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34. *See, e.g.*, Economides, *supra* note 11, at 535-37.

35. *See* C.W.F. Baden Fuller, *Economic Issues Relating to Property Rights in Trademarks: Export Bans, Differential Pricing, Restrictions on Resale and Repackaging*, 6 EUROPEAN L. REV. 162, 164-68 (1981).

36. *Id.* As Professor Fuller notes, the one exception may be Realemon for artificial lemon juice.

III. COMPETITION LAW IN THE EUROPEAN COMMUNITY

Competition is valued in market economies because it is thought to provide society with productive and allocative efficiencies. However, for a variety of reasons,[37] a state of perfect competition is no more than an ideal towards which market economies strive. Competition laws were developed, in part,[38] to correct or at least minimize the competitive distortions and restrictions that are inherent in all real-world markets. They accomplish this task by defining "the rules of the game by which competition takes place."[39] Competition laws thus have an obvious impact on how trademark rights are exercised.

A. *The Market Integration Ideal*

The substantive provisions of competition law in the European Economic Community are embodied in its founding treaty. The Community, itself, was established to promote economic development and integration, forge political links, and to solidify newly established democratic institutions among the nation states of Western Europe.[40] Prior to the EEC Treaty, trade and economic development inside Western Europe after World War II had been hampered by artificial government barriers and private restraints on competition. Similar market distortions led to the economic and political balkanization of Europe prior to World War II and were considered among the major contributing factors which prompted that conflict. Market integration was considered a practical, though controversial, solution.

To attain their goal of market integration, participating nations agreed that goods, services, capital, and people would be free to travel

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37. Among the most often cited reasons for imperfect competition are: irrational consumers; imperfect information exchange; government intervention; rapidly changing technology; shifting consumer preference; as well as the costs imposed by other values considered important by society. *See* PHILLIP AREEDA & LOUIS KAPLOW, ANTITRUST ANALYSIS: PROBLEMS, TEXT, CASES 13 (4th ed. 1988).

38. *See* LOUIS B. SCHWARTZ ET AL., FREE ENTERPRISE AND ECONOMIC ORGANIZATION: ANTITRUST 40 (6th ed. 1983) ("The question whether the antitrust laws should serve only the goal of economic efficiency . . . , or should encompass a broader range of objectives . . . , is a fundamental one in antitrust jurisprudence.") (and citations therein); *see also* Eleanor M. Fox, *The End of Antitrust Isolationalism: The Vision of One World*, 1992 U. CHI. LEGAL F. 221, 225-27 (1992).

39. AREEDA & KAPLOW, *supra* note 37, at 13.

40. *See* GEORGE A. BERMANN ET AL., CASES AND MATERIALS ON EUROPEAN COMMUNITY LAW 838 (1993).

across borders and gain access to markets free from public and private restraints or coercion.[41] The Member States further agreed that, in order to secure the free movement of goods, services, capital, and people, governments would have to obligate themselves to eliminate public barriers to trade[42] and to adopt a common competition policy.[43]

B. The Legal Framework

In light of its unique economic and political history, the European Community sets the terms of competition from a different perspective than antitrust law in the United States. The Common Market's focus on the fundamental principle of free movement of goods and services and its willingness to use competition law as a direct, rather than indirect, method of social regulation fundamentally distinguish its approach to competition law from that of the United States.[44] Whether this approach is the most effective method of achieving market integration or even an effective way of structuring competition is a matter of much dispute and beyond the scope of this discussion. However, to appreciate the European Community's approach to trademarks, it is necessary to examine the substantive provisions of its competition policy.

The yardsticks for determining whether a particular course of conduct is acceptable under Community competition policy are contained in Articles 85 and 86 of the EEC Treaty. Although addressing different legal issues, the two provisions are complementary; they pursue a common objective and are undergirded by the free movement principles in Articles 30 to 34 of the EEC Treaty. Qualifying the competition rules are Articles 36 and 222 of the EEC Treaty, which both address the right of Community law to modify property rights recognized under national law.

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41. *See* Fox, *supra* note 38, at 222-23.

42. Specifically, member states were obligated "to eliminate '[q]uantitative restrictions on imports and all measures having the equivalent effect' . . ., not [to] discriminate on grounds of nationality . . ., [to] report all subsidies they grant and eliminate subsidies that distort competition except as justified by, for example, the need to promote economic development in regions suffering from below normal living standards." *Id.* at 224.

43. *See infra* Section III.B.

44. *See* Eleanor M. Fox, *Monopolization and Dominance in the United States and the European Community: Efficiency, Opportunity and Fairness*, 61 NOTRE DAME L. REV. 981, 985-86 (1986).

C. *Concerted Practices*

Article 85 of the Treaty of Rome prohibits agreements and concerted practices affecting trade between Member States which have as their object or effect the prevention, restriction, or distortion of competition. Subsection (1) of Article 85 prohibits agreements that limit or control production, partition markets, discriminate between parties in commercial transactions, or tie together the purchase of products or services.[45] However, if an agreement falls within the confines of subsection (1), it may still be exempt under subsection (3) of Article 85 when it objectively contributes to the improvement of production or distribution of goods, promotes technical or economic progress, and allows consumers a fair share of the resulting benefits.[46] The exemption further requires that the agreement be the least restrictive method of obtaining these advantages. Nor can the agreement enable the parties to eliminate competition within the relevant product market. Any agreement that falls within the ambit of subsection (1), and which is not exempt under subsection (3), is void and may expose the parties to the agreement to civil actions and fines.[47]

In the application of Article 85, the European Court of Justice has been guided by the notion that the free flow of goods and the creation of an internal market is paramount to other economic considerations, such as firm efficiency gains or free riders. Thus, absent an Article 85(3) exemption, agreements that distort competition by inhibiting a party from exporting goods to another member-State are contrary to Article 85 even if they promote competition on the interbrand level. This is true whether

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45. Article 85, however, is only applicable to agreements that affect trade between Member States. An agreement which is intrastate in character and effects or one between a single Member State and non-EEC Trading partner does not fall within the provision. Moreover, the effect on trade must be significant.

46. The Community's consideration of consumer welfare—in the sense of a consumer's well-being in relation to a product—is a substantial deviation from United States antitrust law which is sympathetic to agreements that enhance overall economic welfare even if the gains are not realized by the consumer directly. *See* Fox, *supra* note 44, at 1019 n.138.

47. If the exemption status of an agreement under Article 85(3) is unclear, Regulation 17, promulgated by the EEC Commission, delineates procedures through which parties to an agreement can seek the assent of the Commission as to the legality of the agreement. Notification procedures, however, have proved in some instances to be time consuming, expensive, and may in the end substantially delay a transaction. To provide further guidance to businesses, the Commission has created block exemptions, pursuant to Regulation 19/65, which exempt entire classes of agreements.

the restraint is characterized as a price or nonprice restraint or whether the parties to the agreement stand in a horizontal or vertical relationship with one another.

D. Dominance

Article 86 of the EEC Treaty forbids a firm from abusing a dominant position within the entire or a substantial part of the Common Market.[48] A dominant position is defined as "a position of economic strength enjoyed by an undertaking that enables it to . . . behave to an appreciable extent independently of competitors, its customers and ultimately of its consumers."[49] Although this definition approximates United States antitrust law's conception of market power, dominance is a more flexible concept and has been found to exist in circumstances where the courts of the United States would, if presented with similar facts, be unlikely to find monopoly power.

Article 86 lists four examples of when an abuse of dominance may occur. Specifically, Article 86 states that an abuse may consist in:

> (a) directly or indirectly imposing unfair purchase or selling prices or other unfair conditions;
> (b) limiting production, market or technical development to the prejudice of consumers;
> (c) applying dissimilar conditions to equivalent transactions with other trading partners, thereby placing them in 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.[50]

This list is not exclusive. To the contrary, an abuse of dominance occurs whenever a firm adopts "strategies that unnecessarily exclude competitors from markets, deprive entrepreneurs of access to inputs, and deprive buyers [, including distributors and other intermediate

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48. To fall within the Article, there must be a causal connection between the firm's dominance and abusive conduct.

49. Hoffmann La Roche & Co. AG v. Commission, Case 85/76, [1979] E.C.R. 461, 520.

50. EEC Treaty art. 86.

buyers,] of freedom of choice."[51] Article 86 thus acts not only to preserve free market conditions but to regulate dominant firm performance. United States antitrust law does not take this view, but it is consistent with the Community's preference for fairness.[52]

E. Industrial and Commercial Property

Although Member States intended to create an internal market within Europe, they were sufficiently concerned with national property rights to adopt two articles which guarantee the continued existence of such rights. Article 222[53] of the EEC Treaty "provides a property guarantee akin to those found in many national constitutions, with the result that Community law cannot threaten the existence of intellectual property rights."[54] More relevant to our present discussion, however, is Article 36 of the EEC Treaty, which provides in pertinent part that:

> The provisions of Articles 30 to 34 shall not preclude prohibitions or restrictions on imports, exports or goods in transit justified on grounds of ... 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.

In *Deutsche Grammophon v. Metro*,[55] the European Court of Justice used Article 36 to define the relationship between intellectual

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51. Fox, *supra* note 44, at 1017. The Court of Justice summarized the concept of abuse in the following manner:

> Article 86 covers practices which are likely to affect the structure of a market where, as a direct result of the presence of the undertaking in question, competition has already been weakened and which through recourse to methods different from those governing normal competition in products or services based on traders' performance, have the effect of hindering the maintenance or development of the level of competition still existing on the market.

NV Nederlandsche Banden-Industrie Michelin v. European Commission, Case 322/81, [1983] E.C.R. 3461, *cited in* BERMANN ET AL., *supra* note 40, at 838.

52. *See* Fox, *supra* note 44.

53. Article 222 of the EEC Treaty provides that: "This Treaty shall in no way prejudice the rules in Member States governing the system of property ownership."

54. Hag GF AG, Case C-10/89 1990 3 C.M.L.R., Opinion of the Advocate General, at 581.

55. Case 78/70, [1971] E.C.R. 487, [1971] C.M.L.R. 631.

property rights protected under national law and the free movement of goods principle contained in Article 30 of the EEC Treaty.[56] The Court initially focused its attention on whether the EEC Treaty modified intellectual property rights protected under national law. Relying on the limitation contained in the second sentence of the Article, (which by its terms precluded nation-states from using intellectual or commercial property rights as a means of arbitrary discrimination or as a disguised restriction on trade), the Court concluded that although Article 36 guarantees the continued *existence* of national laws protecting intellectual property, there are circumstances in which the *exercise* of those rights may be restricted under the Treaty.

Next, the Court considered what circumstances would justify competitive restrictions under Community law. Such a determination, according to the Court, could only be made after the subject matter of the property right at issue has been defined. The Court then held that Article 36 exempts competitive restrictions from the free movement principles only if they are necessary for the purpose of safeguarding the specific subject matter of the property right in question. This holding set the stage for the interface between trademark and competition law in the European Community.

IV. THE TRADEMARK AND COMPETITION LAW INTERFACE

In the European Community, the trademark and competition law interface is marked by the Community's concern for the free movement of goods, on the one hand, and its concern for the protection of national trademark rights, on the other. The interface arises most frequently when a trademark owner in one jurisdiction attempts to enjoin the importation of goods bearing a trademark confusingly similar or identical to its own from a second jurisdiction. The trademark owner's right to oppose the importation of such goods may rest either on national trademark law, in which case it is subject to scrutiny under Article 36, or on a contractual restraint, in which case it is subject to scrutiny under Article 85. If the trademark owner has a dominant position, its conduct may also be scrutinized under Article 86 whether the action rests in law or contract. In any instance, however, *Deutsche Grammophon* requires that analysis

56. Article 30 of the EEC Treaty provides that: "Quantitative restrictions on imports and all measures having equivalent effect shall, without prejudice to the following provisions, be prohibited between Member States."

begin with a determination of whether the right to oppose the importation of goods bearing a confusingly similar or identical mark (hereinafter referred to as the territoriality principle[57]) is a necessary component of the subject matter of a trademark.[58] But this is only the starting point of the analysis. If the right to exclude goods bearing infringing trademarks is accepted as part of the specific subject matter of a trademark, the question then arises as to whether a right that is in principle within the specific subject matter of a trademark can ever be exercised in such a way as to create an unacceptable obstacle to the free movement of goods. Prior to surveying the relevant case law, it is helpful to consider the circumstances in which competing firms can acquire rights in an identical or confusingly similar trademark and the arguments for and against a strict application of the territoriality principle.

Two firms from different jurisdictions may come to use the same or confusingly similar marks through any number of scenarios. However, the factual circumstances leading to the concurrent use of such marks will more or less fall within one of the following categories:

> (1) The firms created, developed, and promoted the trademark independently of one another;
> (2) One firm created, developed, and promoted the trademark, and the second firm appropriated the trademark for its own use in a second jurisdiction;
> (3) One of the two firms owns the trademark, but has licensed its use to the second firm;
> (4) The trademark is owned by a third party, who has licensed its use to both firms;
> (5) The trademark was once owned by a single firm, but was later divided by contractual agreement or through state intervention.

The important distinctions between the scenarios outlined above are the presence or absence of an existing economic relationship and the common or uncommon origin of the trademark. In the first scenario, the concurrent users have no economic ties and the trademark does not have a common origin. The third and fourth scenarios, on the other hand,

57. *See generally* H.W. Wertheimer, *The Principle of Territoriality in Trademark Law of the Common Market Countries*, 58 TRADEMARK REP. 230, 248 (1968).

58. *See* Radio Telefis Eireann v. European Commission, Cases 241-242/91, [1995] ECR 416.

describe situations in which the trademark has a common origin and the two firms have an existing direct or indirect economic link to one another. Finally, in the second and fifth scenarios, the trademark has a common origin, but the firms do not have an existing economic relationship.

Why should the relationship between the firms or the origin of the trademark matter? Some, in fact, argue that the relationship of competing users of a trademark and the origin of the mark are irrelevant and that the territoriality principle should be strictly applied. Others, however, contend that, if the principle of the free movement of goods is to create exceptions to the territoriality principle, those exceptions must be justified by demonstrating that they do not impose undue costs on the economic nature of trademarks. Under this view, whether the economic nature of a trademark will be harmed by an exception to the principle of territoriality can only be determined in the light of a mark's genealogy.

Legal commentators have taken various positions on whether exceptions to the principle of territoriality are justified under Community law.[59] Some argue that exclusive trademark rights are exhausted in relation to the products in question after the goods are placed in commerce. From this point of view, a trademark proprietor cannot rely on his exclusive rights to oppose the importation of a product bearing the same mark if he, or a person legally or economically dependent on him, has consented to the use. Proponents of this view advocate an exception to the territoriality principle when there is an existing economic link, either in the form of a contract or parent-subsidiary relationship, between the undertakings using the mark. Others, however, argue that the existence of an economic relationship between the trademark proprietors is irrelevant so long as the marks originate from a single source. Finally, there are also observers who argue that exceptions to the territoriality principle are unjustified under any circumstances.[60] Community jurisprudence reflects consideration of each of these views.

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59. *See, e.g.*, Friedrich-Karl Beier, *Industrial Property and the Free Movement of Goods in the Internal European Market*, 21 IIC 131, 151 (1990); Gerd F. Kunze, *Waiting for Sirena II—Trademark Assignment in the Case Law of the European Court of Justice*, 22 IIC 319 (1991); René Joilet, *Trade Mark Law and the Free Movement of Goods: The Overruling of the Judgment in Hag I*, 22 IIC 303 (1991); Mangini, *supra* note 7, at 591; Fuller, *supra* note 35, at 174-76.

60. Although my research did not reveal any advocates of the position that the territoriality principle should be dispensed with in its entirety, this is an option which could be adopted. As the

V. THE EVOLUTION OF TRADEMARK JURISPRUDENCE IN THE EUROPEAN COMMUNITY

The evolution of trademark jurisprudence in the European Community has been marked by substantial changes in outlook. In its earliest opinions, the European Court of Justice adopted an approach that complemented the economic value of trademarks as well as the free movement principles of the Community. This approach, however, quickly gave way to a series of decisions that severely restricted the rights of trademark owners, thereby placing the economic value of trademarks at risk. Whether on its own or in response to public pressure, the Court later retreated from these decisions by moderating its restrictions on the exercise of trademark rights within the Community. In recent years, the Court's position has gone through yet another change. This latest trend reflects a deeper appreciation of trademarks and their economics. The various stages of the legal development of the trademark and competition law interface are examined below.

A. *The Early Years*

From the beginning, the European Court of Justice sought to ensure that the free movement principles incorporated within the EEC Treaty were not hindered by private courses of conduct. The Court has thus consistently opposed efforts by industry to create absolute territorial protection for their products and distributors by restricting parallel imports. The judgments issued in the early years of the Common Market reflect these issues and set the stage for later developments.

1. *Grundig*

The Court of Justice began the process of defining the relationship between trademark law and Community competition law in *Consten S.A. & Grundig-Verkaufs GmbH v. Commission*.[61] Grundig, a manufacturer of electronic appliances, appointed the French corporation, Consten, as its exclusive distributor in France for radios,

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discussion proceeds, the difficulty of this position will become obvious because it is in every sense an endorsement of doing away with modern trademark systems altogether.

61. Cases 56 & 58/64, [1966] 5 C.M.L.R. 418.

televisions, and related equipment. Grundig and Consten further agreed that Consten would apply for and own the French rights to the trademark "GINT," which was attached to all Grundig products. Under the contract, Consten also agreed not to supply or market Grundig products outside French borders and to convey ownership of the mark to Grundig if their relationship terminated. Although bound by a similar agreement, Consten's counterparts in Germany soon disregarded the territorial restrictions of their contract by distributing Grundig products bearing the GINT trademark within France. Consten moved for a court order against the customer of the German wholesalers' to enforce its rights in the GINT trademark as provided for under French law. The German wholesalers responded by filing a complaint against Grundig and Consten with the European Commission. The Commission, in turn, ruled that neither Consten nor Grundig could exclude the importation of "GINT" goods into France by resorting to French law because the territorial restraints of Grundig's standard agreement with distributors interfered with the free movement of goods and thus violated Article 85 of the EEC Treaty.

Grundig appealed to the Court of Justice where it argued that the distributor agreement with the German wholesalers was exempt under subsection (3) of Article 85. Specifically, Grundig argued that the restriction on parallel imports was necessary to maintain the brand's reputation within a highly competitive French product market. In a judgment affirming the Commission's ruling, the Court of Justice ruled that once it is shown that the purpose of an agreement is to prevent, restrict, or distort competition, on either the intrabrand or interbrand level, then the concrete effects of the agreement need not be considered. The Court further ruled that it was not a defense under Article 85(3) to prove the existence of vigorous interbrand competition within the relevant product market.

The Court's decision was important to the development of the trademark and competition law interface. First, the ruling established that trademark rights conferred under national law cannot be exercised in a manner that frustrates the Community's competition laws. Secondly, the decision established the Court's position (a position it continues to hold) that restrictions on parallel imports between Member States isolate markets and can rarely, if ever, be justified under subsection (3) of Article 85.

Although not considered by the Court in *Grundig*, the decision also provided the foundation for the first recognized exception to the principle of territoriality under Community law. Under this exception, where there are economic links between two firms exploiting a single trademark, neither firm can resort to its rights under national law to prevent the import of goods bearing the trademark. The exception follows from the application of what is commonly known as the exhaustion principle.

2. The Exhaustion Principle

The exhaustion principle was first developed by the Court of Justice in *Deutsche Grammophon v. Metro*.[62] As previously noted, the Court ruled in *Deutsche Grammophon* that although the Treaty of Rome does not nullify intellectual property rights, there are circumstances in which it modifies a firm's ability to exercise those rights. This qualification of property rights guaranteed by Articles 36 and 222 of the EEC Treaty was justified, according to the Court, under Article 36 which provided an exception to the free movement principles only to the extent that such restrictions were necessary for the purpose of safeguarding the rights that constitute the specific subject matter of the type of intellectual property at issue.[63]

The Court of Justice applied these principles to trademark rights for the first time in *Centrafarm B.V. v. Winthrop B.V.*[64] In that case, the Court held that a Dutch trademark owner could not rely on the exercise of national trademark rights to prevent the importation of goods previously marketed in the United Kingdom by a company associated with the trademark owner. To reach this conclusion, the Court defined the specific subject matter of a trademark right as the guarantee of the proprietor's good will and the avoidance of consumer confusion and deception. In the Court's view, a trademark owner receives adequate protection for these

62. Case 78/70, [1971] E.C.R. 487, [1971] C.M.L.R. 631.

63. The formula allows subtle distinctions to be made depending on the type of intellectual property at issue.

64. Case 16/74, [1974] E.C.R. 1183, [1974] 2 C.M.L.R. 12.

twin functions if he or she has the exclusive right to use the trademark "for the purpose of putting a product into circulation for the first time."[65]

B. A Hostile Vision

The Court's ruling in *Grundig* and the subsequent development of the exhaustion principle in *Deutsche Grammophon* did not in themselves threaten the economic value of trademarks in the European Community.[66] Firms remained free to exercise their exclusive right in a trademark against third parties who used their mark without consent. Firms were also free to impose quality restrictions on their licensees. Under this system, the goodwill associated with a particular mark could thus be preserved with sufficient oversight. The Court, however, soon displayed a willingness to restrict trademark rights to an even greater degree in the name of the free movement principles.

1. *Sirena*

Shortly before it issued the *Centrafarm v. Winthrop B.V.* decision, the European Court of Justice indicated that it was going to take a hostile view toward trademarks generally:

> The exercise of trademark rights is particularly liable to contribute to the division of markets, and therefore to prejudice the free movement of goods between States which is essential for the Common Market. Trademark rights are distinguished from other industrial and commercial property rights insofar as the object of the latter is often more important and worthy of greater protection than the object of the former.[67]

65. *Id.*; *see also* Centrafarm v. American Home Products Corp., Case 3/78, [1978] E.C.R. 1823, 1840, [1979] 1 C.M.L.R. 326, 342; Hoffman-La Reche & Co. AG v. Centrafarm, Case 102/77, [1978] E.C.R. 1139, 1143.

66. From a competition policy perspective, the rulings may be subject to greater criticism depending on how one views the value preferences of the European Community. For example, if one endorses the view that the distortive effects of intrabrand restriction on competition outweigh the efficiency gains of producers and any increase in overall competition, the rulings might be viewed favorably. On the other hand, if one adopts the opposite view, such as that expressed by courts in the United States, the rulings would be viewed as failing to consider the specific competitive benefits of intrabrand competitive restrictions.

67. Sirena v. Eda, Case 40/70, [1971] E.C.R. 69, 87, [1971] C.M.L.R. 260, 273.

The minimization of trademark rights contained in this statement foretold the Court's decision in *Sirena v. Eda*.[68] In *Sirena*, a firm had subdivided its trademark rights prior to the signing of the EEC Treaty by selling its right to use the mark within certain territories. The conveyance was made with the proviso that neither firm would attempt to use the trademark within the territory of the other firm. However, one of the firms subsequently challenged the territorial restriction under Article 85.

In its assessment of the subdivision under Article 85, the Court held that "the proprietor of a trademark may not use it to erect 'impenetrable frontiers between the Member States by assigning the mark in different persons in different Member States.'"[69] From the Court's perspective, it was irrelevant that the mark had been subdivided prior to the enactment of the EEC Treaty because the effect of the contractual assignment persisted. Consideration was given neither to the specific subject matter of a trademark right as required under *Deutsche Grammophon* nor to the economic effects of having two legally independent firms use identical marks within the same geographical area. The ruling thus represented a significant step towards calling into question the legality of excluding confusingly similar marks based on the territoriality principle; it would not be the Court's last.

2. The Origin Principle

In *Van Zuylen Freres v. Hag AG (Hag I)*,[70] the Court of Justice extended its ruling in *Sirena* to include a trademark that had been subdivided, not by contractual assignment, but by governmental appropriation. The facts of the case began at the turn of the century when a German Company, Hag, perfected a process for decaffeinating coffee. Shortly thereafter, Hag registered trademarks in Germany and Belgium. The essential element of each registered mark was the word "Hag." In 1932, Hag created a wholly owned subsidiary in Belgium named Café Hag SA and assigned to the subsidiary its ownership interest in the Belgian trademarks. In 1944, the assets of the Belgian subsidiary were confiscated as enemy property and sold to the Van Zuylen family. In 1971, Café Hag SA assigned its rights in the "Hag"

68. *Id.*
69. *Id.*
70. Case 192/73, [1974] E.C.R. 731, [1974] 2 C.M.L.R. 127.

trademark to the Van Zuylen Company. In 1972, Hag AG, the German company, commenced a marketing campaign of its decaffeinated coffee in Belgium under the trademark "Hag." The Van Zuylen Company responded by filing an infringement action against Hag AG in the National Tribunal of Luxembourg. The Luxembourg court subsequently referred the issue of whether the infringement action constituted a violation of the free movement principles to the European Court of Justice.[71]

Applying Articles 30 and 36 of the EEC Treaty, the Court of Justice responded to the inquiry with the following preliminary ruling:

> [T]o prohibit the marketing in a Member State of a product legally bearing a trademark in another Member State, for the sole reason that an identical trademark having the same origin exists in the first State, is incompatible with the provisions providing for free movement of goods within the Common Market.[72]

The Court further explained that:

> Such a prohibition, which would legitimize the isolation of national markets, would collide with one of the essential objects of the Treaty, which is to unite national markets in a single market. Whilst in such a market the indication of origin of a product covered by a trademark is useful, information to consumers on this point may be ensured by means other than such as would affect the free movement of goods.[73]

The Court's ruling in *Hag* was not in itself surprising in light of its decision in *Sirena*. The Court, however, failed to offer an explanation for why the common origin of a mark owned by two corporations with no economic ties was a sufficient basis to find an exception to the territoriality principle. Its failure to do so, coupled with the broad language of the decision, placed at issue the continued viability of that principle under Community law. Indeed, if strictly applied, the origin principle would preclude a trademark owner from enjoining the use of

71. Courts of national jurisdiction refer questions, particularly relevant to Community law, to the European Court of Justice for a preliminary ruling under article 177(3) of the EEC Treaty.

72. *Hag I*, Case 192/73, [1974] E.C.R. at 744.

73. *Id.*

its own trademark by firms that had simply appropriated it for their own use. Accordingly, immediately after the decision was issued, many inferred that at least between enterprises within the Common Market, the principle of territoriality could no longer be used as a basis for excluding goods carrying a confusingly similar mark, irrespective of whether there was an economic relationship between the firms.[74] This prospect met with critical public opinion and placed the Court under public pressure to reverse course.

C. Moderation: E.M.I. Records *and* Terrapin

Within two years, the Court began the process of limiting the reach of the *Hag I* decision. First, in *E.M.I. Records Ldt. v. CBS United Kingdom Ldt.*,[75] the Court faced facts nearly identical to those in *Sirena*. The only distinction was that the contractual subdivision of the trademark rights at issue was between a Common Market firm and a noncommon market firm. The Court held that the exercise of a trademark right to prevent the importation of goods into the Common Market from a third country was not an abrogation of the principles of free movement even when there was a common origin.[76]

A decision with far more import was issued only a few months later in *Terrapin (Overseas) Ltd. v. Terranova Industrie C.A. Kapferer & Co.*[77] *Terrapin* presented the Court with the issue of whether application of the territoriality principle to two trademarks of independent origin but which were confusingly similar would violate the principles of free movement. The Court ruled in favor of the continued effectiveness of trademarks by holding that the territoriality principle could be used to prevent the importation of products bearing a trademark held by a national manufacturer "provided there are no agreements restricting competition and no legal or economic ties between the undertakings and that their respective rights have arisen independently of one another."[78]

The Court, however, gave the following justification for its ruling in *Hag I*:

74. *See* Mangini, *supra* note 7, at 604.
75. Case 51/75, [1976] E.C.R. 811, [1976] 2 C.M.L.R. 235.
76. *Id.*
77. Case 119/75, [1976] E.C.R. 1039, [1976] 2 C.M.L.R. 482.
78. *Id.* at 1062.

> [T]he proprietor of an industrial or commercial right protected by the law of a Member State cannot rely on that law to prevent the importation of a product which has lawfully been marketed in another Member State by the proprietor himself or with his consent. It is the same when the right relied on is the result of subdivision either by voluntary act or as a result of public constraint, of a trade-mark right which originally belonged to one and the same proprietor. In these cases, the basic function of the trade-mark to guarantee to consumers that the product has the same origin is already undermined by the subdivision of the original right.[79]

Years later, the Advocate General would offer the following criticism of the Court's explanation for its decision in *Hag I*:

> It is true that the essential function of a trade mark is 'to guarantee to consumers that the product has the same origin.' But the word 'origin' in this context does not refer to the historical origin of the trademark; it refers to the commercial origin of the goods. The consumer is not, I think, interested in the genealogy of trade marks; he is interested in knowing who made the goods that he purchases.[80]

Nevertheless, the Court's decision in *Terrapin* alleviated fears that the Court would undermine national trademark systems further and marked the beginning of the end for the origin principle.

D. A New Understanding: Hag II

In 1989, the European Court of Justice was asked to re-examine its ruling in *Hag I* within the context of the same parties but in the reverse set of circumstances. Since the Court's ruling in *Hag I*, the Van Zuylen Company had been acquired by a leading Swiss coffee producer and converted into a wholly owned subsidiary under the corporate name SA CNL-Sucal. In 1985, CNL began to market decaffeinated coffee in Germany under the "Hag" trademark. Hag AG brought an infringement

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79. *Id.* at 1061.

80. Hag GF AG, Case C-10/89, 1990 3 C.M.L.R., Opinion of the Advocate General, at 586.

action against CNL in the German national courts. Although successful in its efforts to obtain an injunction in the first instance and on appeal, the *Bundesgerichtshof* referred the matter to the European Court of Justice for a preliminary ruling on the following question:

> May a German company rely on its trade mark in order to oppose imports into Germany of products bearing the trade mark which have been placed on the market by a Belgian company that has no economic link with the German company, where the Belgian company acquired the trade mark in Belgium as a result of the sequestration in Belgium of the assets of the German Company's Belgian subsidiary?[81]

The Court began its analysis of this issue by restating the established rule of law regarding the exhaustion of trademark rights which followed from Article 36. The Court continued its analysis with the following observation:

> With regard to trade mark rights, it should be observed that such rights constitute an essential element of the system of undistorted competition which the Treaty aims to establish and maintain. In such a system, enterprises must be able to gain customers by the quality of their products or services, which can be done only by virtue of the existence of distinctive signs permitting identification of those products and services.[82]

The Court's characterization of trademarks in this portion of its opinion was the first time in which the Court explicitly recognized the true economic value of trademarks. Its analysis continued with the observation that if a trademark is to fulfill its function, it must "constitute a guarantee that all goods on which it is used were produced under the control of a single undertaking to which responsibility for their quality can be attributed."[83] To do so, the Court ruled, the trademark proprietor must be able to exercise its right to enforce the exclusive nature of the trademark within a given territory. In the end, the Court overruled its decision in *Hag I* and held that where a

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81. Bundesgerichtshof, 1989 GRUR Int. 409-411, *quoted in* Joilet, *supra* note 59, at 305.
82. Hag GF AG, Case C-10/89, [1990] 3 C.M.L.R. at 607-08.
83. Joilet, *supra* note 59, at 311.

trademark originally owned by a single enterprise but which was divided by the expropriation of a member-State, "with the result that in that Member State the mark was acquired by a person having no legal or economic link with the original proprietor, each proprietor may, in the State in which the mark belongs to him, oppose the importation and marketing of goods on which the mark has been affixed by the other proprietor."[84]

VI. CONCLUSION

From this survey of the European Court of Justice's treatment of trademarks under the competition rules, one can deduce the following prevailing principles relevant to the trademark and competition law interface:

(1) Article 85 precludes trademark proprietors from using their trademarks as part of a contractual provision which has its object of effect the isolation or partitioning of markets within the Community. *Consten and Grundig-Verkaufs GmbH v. Commission*; *Sirena v. Eda*; *E.M.I. Records v. CBS United Kingdom.*

(2) Article 36 permits a trademark proprietor to exercise his exclusive territorial rights in a trademark to prevent the importation of goods bearing a confusingly similar mark. *Terrapin v. Terranova.*

(3) Articles 30 and 36, when viewed together, permit an exception to the territoriality principle where there are economic ties either between the firms claiming rights in the trademark or economic ties between the disputing firms and the trademark owner. *Centrafarm B.V. v. Winthrop B.V.*

(4) Articles 30 and 36, when viewed together, do not permit an exception to the territoriality principle in the absence of an economic tie among or between the respective firms. *S.A. CNL-Sucal NV v. Hag GF AG.*

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84. *Id.* at 312.

In reviewing these principles and their development, it is apparent that while developing and refining the application of Articles 30 and 36 to trademark issues by recognizing the economic nature of trademarks, the Court has been less willing to refine its approach in the same manner with respect to Article 85. The European Commission has likewise been slow to give due deference to the pro-competitive effects of trademarks within the context of Article 85. However, there is some evidence of change.[85]

Most significantly, in *In re Agreement Between Moosehead Breweries Ltd. and Whitebread & Co.* (*Moosehead*),[86] the Commission addressed one of the critical arguments against trademarks posited earlier in this discussion—specifically, the issue of whether trademarks provide a firm with market power by creating barriers to entry. In *Moosehead*, the Canadian brewer granted Whitebread the exclusive right to make and sell Moosehead lager within the United Kingdom. Recognizing that Moosehead would be unlikely to enter the United Kingdom beer market on its own, given the size of U.K. breweries and the structure of the market, the Commission granted the contract an exemption under Article 85(3).

More relevant though is the Commission's discussion of a trademark nonchallenge clause that was contained within the agreement. The trademark nonchallenge clause contained two provisions: First, under the clause, Whitebread acknowledged Moosehead as the owner of the trademarks which formed part of the licensing agreement; second, Whitebread agreed not to challenge the validity of the trademark registration. The Commission ruled that neither aspect of the clause violated Article 85(1). However, its reasoning with respect to the second issue has greater implications.

In discussing whether Whitebread's agreement not to challenge the validity of Moosehead's trademark registration, the Commission acknowledged that such an agreement could constitute a violation of Article 85(1) if it helped to maintain an unjustified barrier to entry by leaving a mark that should be in the public domain within the exclusive province of its original holder. The Commission further ruled that for the restrictive covenant to constitute a violation of Article 85(1), the trade

85. *See* Warwick A. Rothnie, *EC Competition Policy, the Commission, and Trademarks*, 19 INT'L BUS. LAW. 495 (1991).

86. Case IV/32.736, [1991] 4 C.M.L.R. 391.

restriction had to be appreciable. To determine if the nonchallenge clause represented an appreciable restriction on trade, the Commission began its analysis with the proposition that trademarks generally do not in themselves confer market power. Despite earlier decisions in which similar restrictions were found to be appreciable,[87] the Commission then held that in the absence of a market structure that required possession of a well-known trademark to successfully compete, trademark nonchallenge clauses did not constitute an appreciable restriction on competition.

Trademarks thus appear reasonably secure in the environment of the European Community. Whether the European Court of Justice or the European Commission will continue to follow this course and how far the expansion of legitimate exercises of trademark rights may go is a matter inextricably linked to their conception of competition policy and the values it protects. With market integration increasing, the Court and Commission should be more willing to rely on competitive values which at least facially conflict with the free movement of goods.

87. Rothnie, *supra* note 85, at 496.