Marks Under Common Market

An overview, including present status and development of trademark situation, with look at Commission proposal for group exemptions

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This paper is directed principally to three topics, all of which relate to trademarks in the European Economic Community: the EEC Commission's Memorandum on the Creation of an EEC Trademark; the decision of the EEC Court of Justice with regard to enforcement of national trademarks against imports of confusingly similar or identically trademarked goods, and the Commission's proposal for a group exemption for licenses which exclude certain categories of agreements from the notification provisions of Article 85 (3).

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I. THE COMMISSION'S MEMORANDUM ON THE CREATION OF AN EEC TM

The Objectives of the EEC Community and the Trademark for the Community

Last year the Commission of the European Communities published its views on the creation of a Community system of trademark law. The Commission considers that the creation of an EEC trademark for the entire Common Market is an essential step toward obtaining the objectives of the Community laid down in the EEC treaty. Article II of the Treaty calls for the unity to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion and an accelerated raising of the standard of living. Article III provides that the activity of the Community for this purpose shall include the abolition, as between Member States, of obstacles to the freedom of movement for goods and services and the institution of a system insuring that competition in the Common Market is not distorted. Regarding trademarks, no system reflecting internal market conditions in the Common Market has yet been set up, although a European Market may already have developed for other products, national markets on trademarked goods still predominate! There is not as yet a Common Market for trademarked goods, and this is to the disadvantage of distributors and manufacturers. For many reasons the Commisssion of the EEC also believes that the creation of an EEC trademark would facilitate and promote trade in consumer goods within the Community and with countries outside.

It is not so much the draft of the European Trademark Law which is of interest to us, but more so the relationship between that law with the laws regulating free movement of goods within the European Economic Community – under Articles 30-36 and the laws on competition – Article 85 and the Rules thereunder – and the effect of landmark decisions, such as EMI-CBS and Terrapin-Terranova, both 1976 decisions of the European Economic Community Court of Justice; Centrafarm-Winthrop; Advocat Zwart-Kip and Caffe Hag, all 1974 decisions; Sirena-Eda 1971 and Grundig-Consten, 1964, decisions which I will discuss later on.

Of importance too, are the Court of Justice decisions on the enforceability and validity of license agreements involving trademarks or other aspects such as patents and know-how. In that connection, this LES Regional Meeting has been held at a most propitious time.

Under Regulation 17 and others, and Court decisions, distributorship agreements, license agreements also those involving trademarks must under certain conditions be notified to the EEC Commission if the parties wish to avoid legal consequences, sometimes if invalidity and unenforceability and fines imposable by the Commission. However, the Commission has authority to enact legislation to exempt by groups or categories certain license agreements which involve the transfer of industrial property rights like trademarks (or patents, utility models or designs) from the notification provisions. The rationale is that such agreements contribute in general to improving the production of goods and technical progress as they increase the number of production facilities and the quantity of goods produced in the Common Market; this makes it possible for undertakings other than the patent holder to manufacture and distribute goods.

Just recently the Commission had made available a draft of group exemptions for agreements involving trademarks which categorize these agreements in those of a type for which notification is not necessary any longer and of another type, for those for which notification is not exempted. Later, I will discuss in detail some of the more pertinent provisions of these group exemptions.

**Weiser, Stapler & Spivak, Philadelphia, Pa.;* *paper delivered at LES U.S.A. Central Region Meeting, Chicago.*

Principles of Free Movement of Trademark Goods

An important consideration in the creation of an EEC trademark is the policy of the Commission that national laws on trademarks may prejudice the free movement of goods within the Common Market, thus be in conflict with one of its principal tenets. Steps therefore should be taken to remove whenever possible national barriers created by the existence of different industrial property laws, such as trademark laws.

A first step and perhaps a giant one, has already been taken in the judgment of the European Court of Justice, to which I referred above. In general, where trademark rights have been used in a manner incompatible with their main function and by using the territorial limits of national trademark law, by restricting the goods to the territory of that Member State with the object of preventing parallel imports of trademarked goods, whether marketed by the owner of the trademark or with his consent, the Court has condemned such behavior. To the extent that this practice has been condemned, the principle of the free movement of goods throughout the entire Common Market has already been established in these landmark decisions.

On the other hand, with exceptions noted below, the principle of the free movement of goods has not yet been extended to goods which are brought into circulation in individual Member States by firms which have *no* legal, financial, technical or economic connection under the same or a similar trademark.

Landmark Case

In the landmark case of *Van Zuylen Freres v. Hag A.G.*, Case 192/73 Vol. 1974 page 731 (CCH para. 8230), the case nicknamed the Caffe Hag case, the European Court of Justice held that it was incompatible with the Rules for the free circulation of goods in the Common Market, to prohibit the marketing in one Member State of a product which lawfully bore the same trademark in another Member State, for the sole reason that there existed in the latter State an identical trademark of the same origin. However, the case deals with an exceptionally unusual situation confined to a limited number of instances, that in which legally independent and economically unrelated firms use identical trademarks which were originally owned by the same parties.

Far more numerous conflicts occur between national trademarks which originated *independently* of each other and are identical of confusingly similar. This calls for a fresh approach. There are over one and half million registrations of trademarks in the Member States of the Community. If in many of these cases different owners were committed to distribute their goods under the same of confusingly similar trademarks within the same area, it would not be possible to avoid confusion, merely by the addition of explanatory matter or other distinguishing features or by the use of a special packaging, as has been suggested in the Hag case. Indeed this would be inconsistent with the main function of a trademark, which is to indicate to the consumer that the products originate from a specific company.

Caffe Hag has recognized the value of these additional descriptions; but these apply only in rare and exceptional cases where a conflict cannot be resolved in any other way. The Commission had indicated that such situations would be in case of "honest concurrent users" (the United Kingdom in Ireland), in certain cases where family names are involved (as the law is in several Member States), or in the case of Caffe Verwirkunj (as in Germany). The judgment of the Hag case added the use of trademarks of the same origin to the list of such exceptions which do call for additional description or identifying features.

The Commission takes the position that this type of differentiating information is not to become the general rule. It would deter from the strength of the mark which could not fulfill its main function any longer. If supplementary information would include geographic origin of a product it would not necessarily prevent the public from erroneously assuming that though the other products originate from different origins, it is from the same company or group of companies, and other reasons. Thus, the Commission policy is against allowing two identical trademarks *not* having the same origin, to coexist.

EEC Trademark System

Therefore, the conflict between the principle of free movement of goods and the existence of conflicting national trademarks can only be resolved if national trademark laws are replaced by an EEC trademark system.

However, this cannot be accomplished overnight. Therefore, a system is being established which will promote:

a. The conversion of an increasing number of national trademarks, to EEC trademarks.

b. The registration of an increasing number of EEC trademarks.

c. A procedure to facilitate solving conflicts between national and Community trademark law by way of a Conciliation Board.

d. An interim period of 10 to 15 years during which national trademark rights in existence should be recognized.

These measures are to ease the conflicts between the national and the EEC trademarks and to accelerate the substitution of the latter for the former. It is to be expected that these views of the Commission will also have a significant impact and guidance of the free movements of goods within the Community involving identical or similarly confusing trademarks.

Fundamental Concepts of the Community's System of Trademark Law

I would like to spend a minute or two on these concepts, elaborating more specifically on the purpose of the Conciliation Board.

1. A first basic concept is that the trademark law must serve the interest of the consumers, manufacturers and distributors alike. Trademarks, servicemarks, collective marks and certification marks

shall be included. All companies irrespective of size or parties irrespective of size and economic importance shall be recognized. It is important that smaller and medium-sized companies be able to extend their economic activities to the fullest scope within the Common Market.

2. The marks must be unitary and autonomous.

3. Compulsory use of the EEC trademark is a fundamental part of the proposed rules.

4. The trademark law must be sufficiently attractive for the parties. Registration procedure must be simple, flexible and inexpensive to give within a reasonable time an effective and easily enforceable trademark.

5. An EEC Trademark Office providing all the necessary facilities and services shall be established.

6. Accessibility — Nonmember states which are signatories to the Paris Convention for the Protection of Industrial Property or provided that the guarantee reciprocity, would be entitled to apply for the registration of the EEC trademark.

7. Coexistence of Community and National System of Trademark Laws — It is basic to the law that national trademarks in Member States will continue to coexist. It is recognized that there are companies which for many reasons do not need yet the far-reaching protection and are satisfied with the national or regional protection.

Moreover there is additional need for complementary protection of unregistered trademarks and other signs, which must still be guaranteed by national laws on trademarks, unfair competition, passing off, and the like.

Principles of Substantive Trademark Laws and Procedure

There are three salient provisions which I would like to discuss principally because of their immediate implications to us engaged in licensing and as a harbinger of things to come.

1. The Conciliation Board. The purpose of the Conciliation Board is to resolve conflicts between EEC and national trademarks. Noteworthy are the following points.

a. Experience in national trademark system suggests that a large number of case conflicts may be resolved in practice by an agreement amongst the parties about the manner of using the trademark in trade, for example by an agreement to use the trademark only for specific goods or only in a specific form such as different packaging. "The experience of these consent agreements in national system has been good and the principles should be applied to the Community Trademark System," the Commission has stated.

b. The board will be particularly active during the transitional period of 10 to 15 years where a large number of preexisting national trademarks will be converted into EEC trademarks. The Board is to help by proposing agreements which by reconciling the interests of the parties lead to the inclusion of many national marks in the Community Trademark System.

It is noteworthy that the Commission advocated that where the acquisition of an EEC trademark is precluded by the existence of prior trademark rights covering only a small part of the Common Market, it may also be in the interest of both parties, if the owner of the prior right is pursuaded to adopt a different trademark for which an application has been made, this possibly for a financial consideration. Here under this proposal the older national mark is to be abandoned for the substitution of the EEC mark.

c. For an interim period of 10 to 15 years the principle of lawfully acquired rights must be taken into consideration. After that interim period, registration of the EEC trademark would in principle have priority. In that connection the Examination section of the EEC Trademark Office is proposed to have the power to impose special terms of usage of a trademark to the extent to which the risks of deception regarding the origin of the goods can be removed.

2. Exhaustion of Trademark Rights — Articles 16 and 17 of the proposed European Trademark Act deal with that subject. The trademark owner's exclusive right to use the trademark does *not* extend to goods which have been placed on the market by himself or by a party with which he had commercial relations (such as a subsidiary, a licensee or the like). This principle is known as the exhaustion of trademark rights. This principle prevents attempts to use the trademark as an instrument of marketing policy and pricing policy aimed at the partitioning of the Common Market, since this will be inconsistent with the true function of the trademark. This principle has been reaffirmed unequivocably by the European National Court, as well as by the National Court. Article 17 is now superfluous in the light of the development of the law in the cases to be discussed.

Moreover, the exhaustion of trademark rights is to apply also where the goods marketed are of a different composition or quality under a same trademark.

On the other hand, it is within the legitimate interests of a trademark holder to be able to oppose the marketing under this trademark of goods which, are the result of a change or deterioration (as in the case of reconditioned goods) since they are no longer genuine goods under the trademark owner.

3. Assignment — Trademarks are to be freely assignable. The possibilities recognized of assigning a mark independently of the complete or partial transfer of a business, this to meet the commercial needs in a growing number of countries.

Transfer assignments of trademarks are to be recorded in an EEC trademark register.

4. Licensing — Article 24 provides for licensing of the European trademark. The following points are noteworthy.

a. The European trademark may be licensed for the whole *or* part of the goods for which the trademark is registered.

b. The licensing provisions are to include licensing between related companies.

c. To prevent deception of the public about the essential qualities of the goods the license agreement shall have to provide that the licensor exercise effective control over the quality of the goods and the manner in which a trademark is used by the licensee.

d. A licensing notice is to be provided to inform the purchasers of the true origin of the goods sold under the license and of the owner of the license or the owner

of the license trademark.

5. Partial licensing is called for in many cases on the basis of rationalization and specialization.

6. Licenses can be granted for less than the whole territory of the Common Market. This means that both the licensees and the trademark owner's goods can be on the market subject to the rules under free competition of goods. Recognition of the territorial limitation of licenses does not mean, the Commission notes, that clauses in licensing agreements are outside of Article 85.

Important implications can be derived from these provisions and the Commission's Memorandum On The Creation of An EEC Trademark Law, which have a bearing on present registration of trademarks in the Common Market countries, their use and license agreements.

To what extent the exercise of national trademark law has been fundamentally changed over the last 15 years will be reviewed in the next 15 minutes, which is obviously enough time for the treatment of that subject! These are decisions to which I referred to above.

II. DECISIONS OF THE EEC COURT OF JUSTICE WITH REGARD TO ENFORCEMENT OF NATIONAL TRADEMARKS AGAINST IMPORTS OF CONFUSINGLY SIMILAR OR IDENTICALLY TRADEMARKED GOODS

May I refer you to the Journal of the Licensing Executives Society *Les Nouvelles* of December 1976 Vol. XI, No. 4, page 217 entitled, "After 15 Years of EEC Antitrust Law." That note gives a bird's-eye view of decisions of the Court of Justice of the EEC dealing with license agreements including agreements involving conflicts of trademarks, particularly page 218.

1. Terrapin Overseas Ltd. v. Terranova Industry CA Kapfere and Co., Case 119/75 June 22, 1976 (CCH para. 8362).

The Court of Justice held that a manufacturer of a trademarked product has the right to prevent imports of similar products bearing a similar name. The German manufacturer of a line of building materials and supplies had registered the name Terranova, which was also its business name. A British firm manufacturing a similar line of products identified by the name of Terrapin had sought to register its brand in Germany but Terranova successfully opposed the registration. When the matter reached the Federal Court of Justice in Germany, it suspended proceedings pending a clarification by the European Court of Justice. The conflict raised was between two fundamental principles of Community law: the right of the freedom of movement of goods against the right to the protection of industrial and commercial property.

Holding

The court held that an industrial or commercial property right legally acquired in a Member State may be used to prevent imports of products marketed under a name that would create confusion where the rights have been acquired by different and independent owners under different national laws. In such case, the Court held if the principle of the free movements of goods were to prevail over the protection given under national law, the specific objective of industrial and commercial property rights would be undermined . The requirements of the free movements of goods and the safeguard of industrial and commercial property rights must be so reconciled that protection is insured for the legitimate use of the rights but denied for any improper exercise of the same rights if the exercise would bring about or preserve artificial market partitions within the Common Market. Thus in this case the Court of Justice held, a company established in the Member States, can prevent the importation of products of an undertaking from another Member State and bearing a name that would give rise to confusion with the trademark and tradename of the first company, provided that (1) there are no agreements restricting competition, (2) no legal or economic ties between them and (3) that the respective rights have arisen independently of one another.

This important rule of law with the three criteria allows us to predict at least one set of circumstances under which a national trademark may be used to enforce and prevent the importation of similar goods bearing the same or identical trademarks.

Terrapin v. Terranova establishes the three conditions under which the national law will be enforced and this case is distinguished from previous cases where these three conditions were not fulfilled.

These cases will now be discussed.

2. *Sirdar Ltd. v. Phildar*, Order of the Commission, March 11, 1976 (CCH para. 9821).

The British firm Sirdar and a French firm Louis Mulilliex had concluded in 1964 an agreement not to market their knitting yarns in the other country because the products bore similar tradenames. But when Britain joined the European Community, the French firm decided that the agreement was void in violation of the Treaty Rules of Competition and started selling its yarns in the British market under its Phildar tradename. The British firm sought to enjoin the importation into England. The Commission started its own proceedings subsequently and the case concluded with the cancellation of the 1964 agreement, the withdrawal of the British firm's opposition to the United Kingdom's registration of Phildar and the continuing importation of the French yarns into the British market. Hence, but for the agreement of division of the marked the situation was analogous to the Terrapin-Terranova case.

This territorial division of the marked was condemned by the Court in *Terrapin v. Terranova.*

3. *Sirena v. Eda*, Court of Justice, February 1971 (CCH para. 8101).

This case must be distinguished from *Terrapin v. Terranova* because the Court found an agreement to divide the German from the Italian market by preventing the importation of the product.

4. *Van Zuylen Freres v. Hag A.G.*, Court of Justice, July 3, 1974 (CCH para. 8230).

The mark Hag, applied to coffee, had originally been

owned by the German manufacturer. Expropriation proceedings during the Second World War, caused the Belgian counterpart of the mark to be legitimately owned by the Belgian party. Where two identical marks originated from the splitting or serving of a single trademark, although the owners at the time of the suit are legally and economically independent, an injuction to prevent the importation, was not sustained. Because as the Court in *Terrapin v. Terranova* stated "The respective rights did not arise independently of one another."

A similar case is noteworthy. On May 1, 1967 the Supreme Court of Ireland held that Sterling Winthrop which had acquired the Irish subsidiary of Bayer and the trademark Bayer under circumstances similar to that of Van Zuylen with regard to the trademark Hag, could not obtain an injunction prohibiting the German company from selling in Ireland the products covered by the trademark. The Court held that there was no risk of confusion in the mind of the public between the products of the American company marked Bayer and those of the German company marked Bayer, Germany in view of the fact that the latter qualification was clearly shown and the packaging was different.

Note that this case as the Hag case, falls into the exception discussed above of "additional description supplementing the trademark."

5. *Centrafarm v. Winthrop*, Court of Justice, October 31, 1974 (CCH para. 8247).

Where the trademarked product has lawfully been marketed in another Member State by the owner himself or with his consent as by a subsidiary, no injunction will be granted. This is where the exhaustion of the trademark right comes into play. Thus in *Centrafram v. Winthrop* the Dutch company could not enjoin the importation of the drug into Holland.

Thus from the above cases the factual setting emerges under which (1) a national court will not enjoin the importation of trademarked goods on same or similar goods, under the same or similar trademark and (2) those circumstances such as in *Terrapin v. Terranova*, where the Court would enjoin such importation. This is the law as it applies between the Member States.

What if the import is from a third country such as the United States into the Common Market. A landmark decision has defined the conditions under which such imports will be enjoined.

6. *EMI Records v. CBS Schallplatten GmbH*, Court of Justice, June 15, 1976, case 96/75, (CCH para. 8352); *EMI Records v. CBS United Kingdom*, case 51/75, (CCH para. 8350); and EMI Records v. CBS Grammofon AS, case 86/75 (CCH para. 8351).

The Court of Justice held that the owner of the mark Columbia in *all* the Member States can prevent the importation by another party of products bearing the same mark which is owned in a country outside the EEC.

The Court found that Articles 30 and seq. dealing with the elimination of quantitative restriction and measures having equivalent effect do not apply, because these trade articles are limited to restrictions on trade "between Member States." Thus, even if the exexercise of the trademark right constitutes a measure having equivalent effect to a quantitative restriction, if it does not affect the free movement of goods *between* Member States it does not come under the prohibition of Article 30 and seq.

Noting that there was a common origin for the mark, the Court held this factor is only relevant with respect to whether there are opportunities for partitioning the Community market.

Distinguishes Hag

Implicitly adopting the position of the Commission, the Court distinguished Hag on the following grounds:

a. If there were common owners when the mark was created, one of them is outside the Community; too, Articles 30 to 37 only apply to trade between the Member States unless the goods are lawfully manufactured within the Community under the mark, that mark is not exhausted; there is no reciprocity or correspondence between the laws in the United States and the Common Market.

Two findings in this decision are significant.

(a) Contrary to the Commission's position the Court did not find Article 85 violated though the Court recognized that agreements need not be in existence any longer. Their conduct may come within the prohibition of Article 85 if the anticompetitive effect still persists. Yet here the Court found that such effects do not exist since they do not exceed those flowing from the mere exercise of the national trademark rights. And, perhaps more significantly (b) the Court found that the importer can obtain access to the Common Market without using the mark either with the mark obliterated or under a different mark as they did. Thus, the public was not prejudiced by the injunction.

The EMI-CBS cases together with those discussed above, have considerably clarified the law regarding the exercise of trademarks within the Community for goods within the Community and for goods imported into the Community.

III. THE COMMISSION'S PROPOSAL FOR A GROUP EXEMPTION FOR LICENSES WHICH EXCLUDE CERTAIN CATEGORIES OF AGREEMENTS FROM THE NOTIFICATION PROVISIONS OF ARTICLE 85 (3) AND THE RULES THEREUNDER

This is a new regulation which has been proposed to exempt as a group from the notification provisions, certain types of agreements. During the last two days here in Chicago the Board of Trustees and Delegates of LES U.S.A. and of LES International have actively discussed this new law proposal. A committee of which I am a member, has sought to define a position for presentation to suitable authorities both here in the States and to the Commission in Brussels. We have spent many hours on this regulation because it is of great importance to American corporations doing business in the Common Market.

Although the regulation is not expected to become law until some time later this year, it provides useful guidance in that it enumerates "good" clauses, clauses which are permissible in a license agreement without causing the agreement to be subject to the notification

provisions and lists "objectionable" clauses, clauses which if present, do subject the agreement to the notification provisions.

May I give you some background. The Commission is responsible pursuant to Regulation 19/65 to apply Article 85(3) of the Treaty to certain categories of bilateral agreements and concerted practices coming within Article 85 which include restrictions imposed with respect to the acquisititon or use of industrial property rights — in particular patents, utility models, designs or trademarks — or rights arising out of contracts for assignment of, or the right to use, a method of manufacture or knowledge relating to the use of the application of industrial processes.

The Commission has gained enough experience on the basis of individual decisions to define a category of agreements and concerted practices which normally satisfy the conditions of Article 85(3).

Patent licensing agreements contribute in general to improving the production of goods and to the promotion of technical progress as they increase the number of production facilities and the quantity of goods in question produced in the Common Market and make it possible for the parties other than the patent holder to manufacture goods using the latest techniques and to further develop them. This expansion of production at an improved level of technology, represents in the opinion of the Commission, a benefit in which the consumers share, as a rule, given the increase in quantity and quality of the goods available. The Commission has therefore drafted an exemption for groups of license agreements which would exempt certain agreements and confirm that others are subject to the notification provisions.

Significant in this context is that for the first time trademarks when in conjunction with patents, are included in this exemption, this is a recognition by the Commission that numerous patent agreements do include a provision for trademark licensing. The regulation also includes know-how for the first time when ancilliary to a patent license. For years, groups working in this field have sought to convince the EEC Commission of the necessity of not excluding from a group exemption, agreements which included provisions involving trademarks or know-how. This has now been achieved!

There is not enough space here to analyze the Commission's proposal for group exemption thoroughly. It will be the subject of additional papers. However, I would like to note briefly the general organization of the group exemption regulation and its statutory basis.

Five Articles

The regulation is organized into essentially five articles; the article lists the acceptable provisions, 16 of them; article 2 lists limitations on the permissible clauses, a total of 8 limitations; article 3 lists the non-permissible restrictions or obligations, a total of 20, which if any is present in an agreement removes the agreement from the exemption; article 4 provides for the first time a procedure for notification to the Commission with automatic approval after a statutory six month period of inaction by the Commission and article 5 lists another four limitations on the applicability of the exemption.

The regulation is predicated on Regulation 19/65 of the Council of the EEC. That basis regulation had already withstood a test of annulment on various grounds,[1] in short that it was violative of various articles of the Treaty of Rome.

Article 4 of the proposed Regulation is noteworthy. It is the one that gives automatic exemption for notified agreements if no action is taken by the Commission within six months from the notification. This article is similar to a provision in the German law of which provides for registration of certain agreements. Whether this article is valid under Regulation 19/65 still remains to be examined at greater length.

The group exemption will be finalized into a second draft and at that time will be analyzed more in detail in this and other forums.

I hope I may have given you an overall view of the situation of trademarks in the Common Market, its present status and development, by looking at the Commission's proposal for group exemptions, a brief look into the future of the licensing of trademarks when ancilliary to patents.

[1]Court of Justice of the European Communities, Case 32/65, July 13, 1966, Recueil, Vol. XII — 4, page 563.