

European Court of Justice, 22 June 1994, Ideal Standard



TRADEMARK LAW

Free movement – exhaustion

- [Free movement of goods precludes the use of trade-mark rights in order to prevent the free movement of a product bearing a trade mark whose use is under unitary control](#)

Articles 30 and 36 thus debar the application of national laws which allow recourse to trade-mark rights in order to prevent the free movement of a product bearing a trade mark whose use is under unitary control.

- [No exhaustion of trade-mark rights when there are separate trade-mark owners having no economic links as a result of voluntary division](#)

The insulation of markets where, for two Member States of the Community, is a result that has already been accepted by the Court in HAG II. However, since that was a case where unitary ownership was divided following sequestration, it has been submitted that the same result does not have to be adopted in the case of voluntary division. There is no unlawful restriction on trade between Member States within the meaning of Articles 30 and 36 where a subsidiary operating in Member State A of a manufacturer established in Member State B is to be enjoined from using as a trade mark the name "Ideal Standard" because of the risk of confusion with a de-vice having the same origin, even if the manufacturer is lawfully using that name in his country of origin under a trade mark protected there, he acquired that trade mark by assignment and the trade mark originally be-longed to a company affiliated to the undertaking which, in Member State A, opposes the importation of goods bearing the trade mark "Ideal Standard".

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European Court of Justice, 22 June 1994

(O. Due, G.F. Mancini, J.C. Moitinho de Almeida and M. Diez de Velasco, C.N. Kakouris, R. Joliet, F.A. Schockweiler, G.C. Rodríguez Iglesias, M. Zuleeg, P.J.G. Kapteyn and J.L. Murray)
In Case C-9/93,

REFERENCE to the Court under Article 177 of the EEC Treaty by the Oberlandesgericht Duesseldorf

(Federal Republic of Germany) for a preliminary ruling in the proceedings pending before that court between IHT Internationale Heiztechnik GmbH,
Uwe Danziger

and
Ideal-Standard GmbH,
Wabco Standard GmbH

on the interpretation of Articles 30 and 36 of the EEC Treaty,

THE COURT,

composed of: O. Due, President, G.F. Mancini, J.C. Moitinho de Almeida and M. Diez de Velasco (Presidents of Chambers), C.N. Kakouris, R. Joliet (Rapporteur), F.A. Schockweiler, G.C. Rodríguez Iglesias, M. Zuleeg, P.J.G. Kapteyn and J.L. Murray, Judges,

Advocate General: C. Gulmann,

Registrar: D. Louterman-Hubeau, Principal Administrator,

after considering the written observations submitted on behalf of:

- Ideal-Standard GmbH and Wabco Standard GmbH, the company to which the former has entrusted the management of its business ("Ideal-Standard GmbH"), by Winfried Tilmann, Rechtsanwalt of Duesseldorf,

- IHT Internationale Heiztechnik GmbH and Uwe Danziger ("IHT"), by Ulf Doepner, Rechtsanwalt of Duesseldorf,

- the German Government, by Claus Dieter Quasowski, Regierungsdirektor at the Federal Ministry of the Economy, Alfred Dittrich, Regierungsdirektor at the Federal Ministry of Justice and Alexander von Muehlendahl, Ministerialrat at the Federal Ministry of Justice, acting as Agents,

- the United Kingdom, by John D. Colahan, Treasury Solicitor, acting as Agent, and Michael Silverleaf, Barrister,

- the Commission of the European Communities, by Angela Bardenhewer and Pieter Van Nuffel, of its Legal Service, acting as Agents,

having regard to the Report for the Hearing,

after hearing the oral observations of Ideal-Standard GmbH and Wabco Standard GmbH, IHT and Uwe Danziger, the German Government, the United Kingdom, represented by John D. Colahan and Stephen Richards, Barrister, and the Commission at the hearing on 5 October 1993,

after hearing the Opinion of the Advocate General at the sitting on 9 February 1994,

gives the following

Judgment

1 By order of 15 December 1992, received at the Court on 12 January 1993, the Oberlandesgericht (Higher Regional Court) Duesseldorf referred to the Court for a preliminary ruling under Article 177 of the EEC Treaty a question on the interpretation of Articles 30 and 36 of the EEC Treaty in order to assess the compatibility with Community law of restrictions on the use of a name where a group of companies held, through subsidiaries, a trade mark consisting of that name in several Member States of the Community and where

that trade mark was assigned, for one Member State only and for some of the products for which it had been registered, to an undertaking outside the group.

2 That question arose in a dispute between Ideal-Standard GmbH and IHT, both German companies, regarding the use in Germany of the trade mark "Ideal Standard" for heating equipment manufactured in France by IHT's parent, Compagnie Internationale de Chauffage ("CICH").

3 Until 1984 the American Standard group held, through its German and French subsidiaries ° Ideal-Standard GmbH and Ideal-Standard SA ° the trade mark "Ideal Standard" in Germany and in France for sanitary fittings and heating equipment.

4 In July 1984 the French subsidiary of that group, Ideal-Standard SA, sold the trade mark for the heating equipment sector, with its heating business, to Société Générale de Fonderie ("SGF"), a French company with which it had no links. That trade mark assignment related to France (including the overseas departments and territories), Tunisia and Algeria.

5 The background to that assignment was the following. From 1976 Ideal-Standard SA had been in financial difficulties. Insolvency proceedings were opened. A management agreement was concluded between the trustees and another French company set up by, inter alios, SGF. That company carried on Ideal-Standard SA's production and sales activities. The management agreement came to an end in 1980. The business of Ideal-Standard SA's heating equipment division remained unsatisfactory. In view of SGF's interest in maintaining the heating equipment division and its marketing in France under the device "Ideal Standard", Ideal-Standard SA assigned the trade mark and transferred the production plants for the heating division referred to in paragraph 4 to SGF. SGF later assigned the trade mark to another French company, CICH, which, like SGF, is part of the French Nord-Est group and has no links with the American Standard group.

6 Ideal-Standard GmbH brought proceedings against IHT for infringement of its trade mark and its commercial name by marketing in Germany heating equipment bearing the trade mark "Ideal Standard" manufactured in France by CICH. Ideal-Standard GmbH was still the owner of the trade mark "Ideal Standard" in Germany both for sanitary fittings and for heating equipment although it had stopped manufacturing and marketing heating equipment in 1976.

7 The action seeks an injunction against IHT from marketing in Germany heating equipment bearing the trade mark "Ideal Standard" and from using that trade mark on various commercial documents.

8 At first instance the proceedings were heard by the Landgericht (Regional Court) Duesseldorf which, by judgment of 25 February 1992, upheld the claim.

9 The Landgericht held first that there was risk of confusion. The device used ° the name "Ideal Standard" ° was identical. Moreover, the products were sufficiently close for the relevant users, seeing the same device on

the products, to be led to believe that they came from the same undertaking.

10 The Landgericht further held that there was no reason for it to avail itself of its power to refer a question to the Court of Justice under Article 177 of the Treaty on the interpretation of Articles 30 and 36 of the Treaty. It reviewed the judgments in Case 192/73 Van Zuylen v HAG [1974] ECR 731 (HAG I) and [Case C-10/89 CNL-SUCAL v HAG \[1990\] ECR I-3711 \(HAG II\)](#) and held that the reasoning of the Court in HAG II "suffices to show that there is no longer any foundation for the doctrine of common origin, not only in the context of the facts underlying that decision, that is cases of expropriation in a Member State, but also in cases of voluntary division of ownership of a trade mark originally in single ownership, which is the position in this case".

11 IHT appealed against that judgment to the Oberlandesgericht Duesseldorf which, referring to HAG II, considered whether this case should, as the Landgericht had held, be decided in the same way pursuant to Community law.

12 Accordingly, the Oberlandesgericht referred the following question to the Court of Justice for a preliminary ruling:

"Does it constitute an unlawful restriction of intra-Community trade, within the meaning of Articles 30 and 36 of the EEC Treaty, for an undertaking carrying on business in Member State A which is a subsidiary of a manufacturer of heating systems based in Member State B to be prohibited from using as a trade mark the name 'Ideal Standard' on the grounds of risk of confusion with a mark having the same origin, where the name 'Ideal Standard' is lawfully used by the manufacturer in its home country by virtue of a trade mark registered there which it has acquired by means of a legal transaction and which was originally the property of a company affiliated to the undertaking which is opposing, in Member State A, the importation of goods marked 'Ideal Standard'?"

13 It is common ground that a prohibition on the use in Germany by IHT of the name "Ideal Standard" for heating equipment would constitute a measure having equivalent effect to a quantitative restriction under Article 30. The question is, therefore, whether that prohibition may be justified under Article 36 of the Treaty.

14 It is appropriate first of all to review certain key features of trade-mark law and the case-law of the Court on Articles 30 and 36 of the Treaty in order to identify the precise legal context of the national court's question.

The similarity of the products and the risk of confusion

15 The HAG II case, whose bearing on the main proceedings is the point of the question put by the national court, related to a situation where it was not just the name that was identical but also the products marketed by the parties to the dispute. This dispute, by contrast, relates to the use of an identical device for different products since Ideal-Standard GmbH is relying on its

registration of the trade mark "Ideal Standard" for sanitary fittings in order to oppose the use of that device for heating equipment.

16 It is common ground that the right of prohibition stemming from a protected trade mark, whether protected by registration or on some other basis, extends beyond the products for which the trade mark has been acquired. The object of trade-mark law is to protect owners against contrivances of third parties who might seek, by creating a risk of confusion amongst consumers, to take advantage of the reputation accruing to the trade mark (see [Case 102/77 Hoffmann-La Roche v Centrafarm \[1978\] ECR 1139, paragraph 7](#)). That risk may arise from the use of an identical device for products different from those for which a trade mark has been acquired (by registration or otherwise) where the products in question are sufficiently close to induce users seeing the same device on those products to conclude that the products come from the same undertaking. Similarity of the products is thus part of the concept of risk of confusion and must be assessed in relation to the purpose of trade-mark law.

17 In its observations the Commission warned against taking the broad view of the risk of confusion and similarity of products taken by the German courts, since it is liable to have restrictive effects, not covered by Article 36 of the EEC Treaty, on the free movement of goods.

18 As regards the period before the entry into force of the First Council Directive (89/104/EEC) of 21 December 1988 to approximate the laws of the Member States relating to trade marks (OJ 1989 L 40, p. 1), which was postponed to 31 December 1992 by Article 1 of Council Decision 92/10/EEC of 19 December 1991 (OJ 1992 L 6, p. 35), that being the material period for the main dispute, the Court held in [Case C-317/91 Deutsche Renault v Audi \[1993\] ECR I-6227](#) that "the determination of the criteria allowing the conclusion to be drawn that there is a risk of confusion is part of the detailed rules for protection of trade marks, which ... are a matter for national law" (paragraph 31) and "Community law does not lay down any criterion requiring a strict interpretation of the risk of confusion" (paragraph 32).

19 However, as was held in the *Deutsche Renault* case, application of national law continues to be subject to the limits set out in the second sentence of Article 36 of the Treaty: there must be no arbitrary discrimination or disguised restriction on trade between Member States. There would, in particular, be a disguised restriction if the national court were to conduct an arbitrary assessment of the similarity of products. As soon as application of national law as to similarity of the products led to arbitrary discrimination or a disguised restriction, the obstacle to imports could not anyway be justified under Article 36. Moreover, if the competent national court were finally to hold that the products in question were not similar, there would be no obstacle to imports susceptible of justification under Article 36.

20 Subject to those reservations, it is for the court hearing the main proceedings to assess the similarity of the

products in question. Since that is a question involving determination of the facts of which only the national court can have direct knowledge and so, to that extent, is outside the Court's jurisdiction under Article 177, the Court must proceed on the assumption that there is a risk of confusion. The problem therefore arises on the same basis as if the products for which the trade mark was assigned and those covered by the registration relied on in Germany were identical.

The territorial nature and independence of national trade-mark rights

21 Since this case concerns a situation where the trade mark has been assigned for one State only and the question whether the solution in *HAG II* regarding the splitting of a mark as a result of sequestration also applies in the event of splitting by voluntary act, it should be noted first, as the United Kingdom pointed out, that national trade-mark rights are not only territorial but also independent of each other.

22 National trade-mark rights are first of all territorial. This principle of territoriality, which is recognized under international treaty law, means that it is the law of the country where protection of a trade mark is sought which determines the conditions of that protection. Moreover, national law can only provide relief in respect of acts performed on the national territory in question.

23 Article 36 of the EEC Treaty itself, by allowing certain restrictions on imports on grounds of protection of intellectual property, presupposes that in principle the legislation of the importing State applies to acts performed in that State in relation to the imported product. A restriction on importation permitted by that legislation will of course escape Article 30 only if it is covered by Article 36.

24 National trade-mark rights are also independent of each other.

25 The principle of the independence of trade marks is expressed in Article 6(3) of the Paris Union Convention for the Protection of Industrial Property of 20 March 1883, as last revised at Stockholm on 14 July 1967 (United Nations Treaty Series, Vol. 828, No 11851, p. 305) which provides: "A mark duly registered in a country of the Union shall be regarded as independent of marks registered in other countries of the Union ...".

26 That principle has led to recognition that a trade mark right may be assigned for one country without at the same time being assigned by its owner in other countries.

27 The possibility of independent assignments is first of all implicit in Article 6quater of the Paris Union Convention.

28 Some national laws permit the transfer of the trade mark without a concomitant transfer of the undertaking whilst others continue to require that the undertaking should be transferred with the trade mark. In some countries the requirement of the concomitant transfer of the undertaking was even interpreted as necessitating the transfer of the whole undertaking even if certain parts of it were situated in countries other than that for which the transfer was proposed. The transfer of a trade

mark for one country therefore almost necessarily entailed the transfer of the trade mark for other countries.

29 That is why Article 6quater of the Paris Union Convention provided: "When, in accordance with the law of a country of the Union, the assignment of mark is valid only if it takes place at the same time as the transfer of the business or goodwill to which the mark belongs, it shall suffice for the recognition of such validity that the portion of the business or goodwill located in that country be transferred to the assignee, together with the exclusive right to manufacture in the said country, or to sell therein the goods bearing the mark assigned."

30 By thus making possible the assignment of a trade mark for one country without the concomitant transfer of the trade mark in another country, Article 6quater of the Paris Union Convention presupposes that such independent assignments may be made.

31 The principle of the independence of trade marks is, moreover, expressly enshrined in Article 9ter(2) of the Madrid Agreement concerning the International Registration of Marks of 14 April 1891, as last revised at Stockholm in 1967 (United Nations Treaty Series, Vol. 828, No 11852, p. 389), which provides: "The International Bureau shall likewise record the assignment of an international mark in respect of one or several of the contracting countries only."

32 Unified laws, which bring the territory of several States into a single territory for purposes of trade-mark law, such as the Uniform Benelux Law on Trade Marks for Goods (annexed to the Convention Benelux en Matière de Marques de Produits, Bulletin Benelux, 1962-2, p. 57, Protocol of 10 November 1983, Bulletin Benelux of 15 December 1983, p. 72) or Council Regulation (EEC) No 40/94 of 20 December 1993 on the Community trade mark (OJ 1994 L 11, p. 1) render void transfers of trade marks for only one part of the territory to which they apply (see paragraphs 53 and 54 below). However, those unified laws do not, any more than national laws, make the validity of a trade-mark assignment for the territory to which they apply conditional on the concomitant assignment of the trade mark for the territory of third States.

The case-law on Articles 30 and 36, trade-mark law and parallel imports

33 On the basis of the second sentence of Article 36 of the Treaty the Court has consistently held:

"Inasmuch as it provides an exception to one of the fundamental principles of the common market, Article 36 in fact only admits of derogations from the free movement of goods where such derogations are justified for the purpose of safeguarding rights which constitute the specific subject-matter of this property.

In relation to trade marks, the specific subject-matter of the industrial property is the guarantee that the owner of the trade mark has the exclusive right to use that trade mark, for the purpose of putting products protected by the trade mark into circulation for the first time, and is therefore intended to protect him against competitors wishing to take advantage of the status and

reputation of the trade mark by selling products illegally bearing that trade mark.

An obstacle to the free movement of goods may arise out of the existence, within a national legislation concerning industrial and commercial property, of provisions laying down that a trade mark owner's right is not exhausted when the product protected by the trade mark is marketed in another Member State, with the result that the trade mark owner can [oppose] importation of the product into his own Member State when it has been marketed in another Member State.

Such an obstacle is not justified when the product has been put onto the market in a legal manner in the Member State from which it has been imported, by the trade mark owner himself or with his consent, so that there can be no question of abuse or infringement of the trade mark.

In fact, if a trade mark owner could prevent the import of protected products marketed by him or with his consent in another Member State, he would be able to partition off national markets and thereby restrict trade between Member States, in a situation where no such restriction was necessary to guarantee the essence of the exclusive right flowing from the trade mark" (see [Case 16/74 Centrafarm v Winthrop \[1974\] ECR 1183, paragraphs 7 to 11](#)).

34 So, application of a national law which would give the trade-mark owner in the importing State the right to oppose the marketing of products which have been put into circulation in the exporting State by him or with his consent is precluded as contrary to Articles 30 and 36. This principle, known as the exhaustion of rights, applies where the owner of the trade mark in the importing State and the owner of the trade mark in the exporting State are the same or where, even if they are separate persons, they are economically linked. A number of situations are covered: products put into circulation by the same undertaking, by a licensee, by a parent company, by a subsidiary of the same group, or by an exclusive distributor.

35 There are numerous instances in national case-law and Community case-law where the trade mark had been assigned to a subsidiary or to an exclusive distributor in order to enable those undertakings to protect their national markets against parallel imports by taking advantage of restrictive approaches to the exhaustion of rights in the national laws of some States.

36 Articles 30 and 36 defeat such manipulation of trade-mark rights since they preclude national laws which enable the holder of the right to oppose imports.

37 In the situations described above (paragraph 34) the function of the trade mark is in no way called in question by freedom to import. As was held in HAG II: "For the trade mark to be able to fulfil [its] role, it must offer a guarantee that all goods bearing it have been produced under the control of a single undertaking which is accountable for their quality" (paragraph 13). In all the cases mentioned, control was in the hands of a single body: the group of companies in the case of products put into circulation by a subsidiary; the manufacturer in the case of products marketed by the

distributor; the licensor in the case of products marketed by a licensee. In the case of a licence, the licensor can control the quality of the licensee's products by including in the contract clauses requiring the licensee to comply with his instructions and giving him the possibility of verifying such compliance. The origin which the trade mark is intended to guarantee is the same: it is not defined by reference to the manufacturer but by reference to the point of control of manufacture (see the statement of grounds for the Benelux Convention and the Uniform Law, Bulletin Benelux, 1962-2, p. 36).

38 It must further be stressed that the decisive factor is the possibility of control over the quality of goods, not the actual exercise of that control. Accordingly, a national law allowing the licensor to oppose importation of the licensee's products on grounds of poor quality would be precluded as contrary to Articles 30 and 36: if the licensor tolerates the manufacture of poor quality products, despite having contractual means of preventing it, he must bear the responsibility. Similarly if the manufacture of products is decentralized within a group of companies and the subsidiaries in each of the Member States manufacture products whose quality is geared to the particularities of each national market, a national law which enabled one subsidiary of the group to oppose the marketing in the territory of that State of products manufactured by an affiliated company on grounds of those quality differences would also be precluded. Articles 30 and 36 require the group to bear the consequences of its choice.

39 Articles 30 and 36 thus debar the application of national laws which allow recourse to trade-mark rights in order to prevent the free movement of a product bearing a trade mark whose use is under unitary control.

The situation where unitary control of the trade mark has been severed following assignment for one or several Member States only

40 The problem posed by the Oberlandesgericht's question is whether the same principles apply where the trade mark has been assigned, for one or several Member States only, to an undertaking which has no economic link with the assignor and the assignor opposes the marketing, in the State in which he has retained the trade mark, of products to which the trade mark has been affixed by the assignee.

41 That situation must be clearly distinguished from the case where the imported products come from a licensee or a subsidiary to which ownership of the trade-mark right has been assigned in the exporting State: a contract of assignment by itself, that is in the absence of any economic link, does not give the assignor any means of controlling the quality of products which are marketed by the assignee and to which the latter has affixed the trade mark.

42 The Commission has submitted that by assigning in France the trade mark "Ideal Standard" for heating equipment to a third company, the American Standard group gave implied consent to that third company putting heating equipment into circulation in France bearing that trade mark. Because of that implied consent, it should not be possible to prohibit the marketing

in Germany of heating equipment bearing the assigned trade mark.

43 That view must be rejected. The consent implicit in any assignment is not the consent required for application of the doctrine of exhaustion of rights. For that, the owner of the right in the importing State must, directly or indirectly, be able to determine the products to which the trade mark may be affixed in the exporting State and to control their quality. That power is lost if, by assignment, control over the trade mark is surrendered to a third party having no economic link with the assignor.

44 The insulation of markets where, for two Member States of the Community, there are separate trade-mark owners having no economic links is a result that has already been accepted by the Court in HAG II. However, since that was a case where unitary ownership was divided following sequestration, it has been submitted that the same result does not have to be adopted in the case of voluntary division.

45 That view cannot be accepted because it is contrary to the reasoning of the Court in HAG II. The Court began by noting that trade-mark rights are an essential element in the system of undistorted competition which the Treaty seeks to establish (paragraph 13). It went on to recall the identifying function of trade marks and, in a passage cited in paragraph 37 above, the conditions for trade marks to be able to fulfil that role. The Court further noted that the scope of the exclusive right which is the specific subject-matter of the trade mark must be determined having regard to its function (paragraph 14). It stressed that in that case the determinant factor was absence of consent of the proprietor of the trade mark in the importing State to the putting into circulation in the exporting State of products marketed by the proprietor of the right in the latter State (paragraph 15). It concluded that free movement of the goods would undermine the essential function of the trade mark: consumers would no longer be able to identify for certain the origin of the marked goods and the proprietor of the trade mark could be held responsible for the poor quality of goods for which he was in no way accountable (paragraph 16).

46 Those considerations apply, as was rightly stressed by the United Kingdom and Germany and was held by the Landgericht Duesseldorf at first instance, whether the splitting of the trade mark originally held by the same owner is due to an act of public authority or a contractual assignment.

47 IHT in particular has submitted that the owner of a trade mark who assigns the trade mark in one Member State, while retaining it in others, must accept the consequences of the weakening of the identifying function of the trade mark flowing from that assignment. By a territorially limited assignment, the owner voluntarily renounces his position as the only person marketing goods bearing the trade mark in question in the Community.

48 That argument must be rejected. It fails to take account of the fact that, since trade-mark rights are territorial, the function of the trade mark is to be as-

essed by reference to a particular territory (paragraph 18 of HAG II).

49 IHT has further argued that the French subsidiary, Ideal-Standard SA, has adjusted itself in France to a situation where products (such as heating equipment and sanitary fittings) from different sources may be marketed under the same trade mark on the same national territory. The conduct of the German subsidiary of the same group which opposes the marketing of the heating equipment in Germany under the trade mark "Ideal Standard" is therefore abusive.

50 That argument cannot be upheld either.

51 First of all, the assignment was made only for France. The effect of that argument, if it were accepted, would, as the German Government points out, be that assignment of the right for France would entail permission to use the device in Germany, whereas assignments and licences always relate, having regard to the territorial nature of national trade-mark rights, to a specified territory.

52 Moreover, and most importantly, French law, which governs the assignment in question here, permits assignments of trade marks confined to certain products, with the result that similar products from different sources may be in circulation on French territory under the same trade mark, whereas German law, by prohibiting assignments of trade marks confined to certain products, seeks to prevent such co-existence. The effect of IHT's argument, if it were accepted, would be to extend to the importing State whose law opposes such co-existence the solution prevailing in the exporting State despite the territorial nature of the rights in question.

53 Starting from the position that assignment to an assignee having no links with the assignor would lead to the existence of separate sources within a single territory and that, in order to safeguard the function of the trade mark, it would then be necessary to allow prohibition of export of the assignee's products to the assignor's territory and vice versa, unified laws, to avoid creating such obstacles to the free movement of goods, render void assignments made for only part of the territory covered by the rights they create. By limiting the right to dispose of the trade mark in this way, such unified laws ensure single ownership throughout the territory to which they apply and guarantee free movement of the product.

54 Thus, the Uniform Benelux Law on Trade Marks for Goods, whose objective was to unify the territory of the three States for trade-mark purposes (statement of grounds, Bulletin Benelux, 1962-2, pp. 3 and 4), provided that, from the date of its entry into force, a trade mark could be granted only for the whole of Benelux (statement of grounds, Bulletin Benelux, 1962-2, p. 14). To that end it further provided that trade-mark assignments not effected for the whole of Benelux were void.

55 The regulation on the Community trade mark referred to above also creates a right with a unitary character. Subject to certain exceptions (see in this respect Article 106 on the prohibition of use of Community trade marks and Article 107 on prior rights

applicable to particular localities), the Community trade mark "shall have equal effect throughout the Community: it shall not be registered, transferred or surrendered or be the subject of a decision revoking the rights of the proprietor or declaring it invalid, nor shall its use be prohibited, save in respect of the whole Community" (Article 1(2)).

56 However, unlike the Benelux Law, "the Community law relating to trade marks ... does not replace the laws of the Member States on trade marks" (fifth recital in the preamble to the regulation on the Community trade mark). The Community trade mark is merely superimposed on the national rights. Undertakings are in no way obliged to take out Community trade marks (fifth recital). Moreover, the existence of earlier national rights may be an obstacle to the registration of a Community trade mark since, under Article 8 of the regulation, the owner of a trade mark in a single Member State may oppose the registration of a Community trade mark by the proprietor of national rights for identical or similar products in all the other Member States. That provision cannot be interpreted as precluding the assignment of national trade marks for one or more States of the Community only. It is therefore apparent that the regulation on the Community trade mark does not render void assignments of national marks which are confined to certain States of the Community.

57 That sanction cannot be introduced through case-law. To hold that the national laws are measures having equivalent effect which fall under Article 30 and are not justified by Article 36, in that, given the independence of national rights (see paragraphs 25 to 32 above), they do not, at present, make the validity of assignments for the territories to which they apply conditional on the concomitant assignment of the trade mark for the other States of the Community, would have the effect of imposing on the States a positive obligation, namely to embody in their laws a rule rendering void assignments of national trade marks made for part only of the Community.

58 It is for the Community legislature to impose such an obligation on the Member States by a directive adopted under Article 100a of the EEC Treaty, elimination of the obstacles arising from the territoriality of national trade marks being necessary for the establishment and functioning of the internal market, or itself to enact that rule directly by a regulation adopted under the same provision.

59 It should be added that, where undertakings independent of each other make trade-mark assignments following a market-sharing agreement, the prohibition of anti-competitive agreements under Article 85 applies and assignments which give effect to that agreement are consequently void. However, as the United Kingdom rightly pointed out, that rule and the accompanying sanction cannot be applied mechanically to every assignment. Before a trade-mark assignment can be treated as giving effect to an agreement prohibited under Article 85, it is necessary to analyse the context, the commitments underlying the assignment,

the intention of the parties and the consideration for the assignment.

60 In view of the foregoing, the answer to the Oberlandesgericht Duesseldorf's question must be that there is no unlawful restriction on trade between Member States within the meaning of Articles 30 and 36 where a subsidiary operating in Member State A of a manufacturer established in Member State B is to be enjoined from using as a trade mark the name "Ideal Standard" because of the risk of confusion with a device having the same origin, even if the manufacturer is lawfully using that name in his country of origin under a trade mark protected there, he acquired that trade mark by assignment and the trade mark originally belonged to a company affiliated to the undertaking which, in Member State A, opposes the importation of goods bearing the trade mark "Ideal Standard".

Costs

61 The costs incurred by the German Government, the United Kingdom and the Commission of the European Communities, which have submitted observations to the Court, are not recoverable. Since these proceedings are, for the parties to the main proceedings, a step in the action pending before the national court, the decision on costs is a matter for that court.

On those grounds,

THE COURT,

in answer to the question referred to it by the Oberlandesgericht Duesseldorf, by order of 15 December 1992, hereby rules:

There is no unlawful restriction on trade between Member States within the meaning of Articles 30 and 36 where a subsidiary operating in Member State A of a manufacturer established in Member State B is to be enjoined from using as a trade mark the name "Ideal Standard" because of the risk of confusion with a device having the same origin, even if the manufacturer is lawfully using that name in his country of origin under a trade mark protected there, he acquired that trade mark by assignment and the trade mark originally belonged to a company affiliated to the undertaking which, in Member State A, opposes the importation of goods bearing the trade mark "Ideal Standard".

Opinion of the Advocate-General

Mr President,

Members of the Court,

1. The Oberlandesgericht Duesseldorf has referred to the Court for a preliminary ruling the question whether Articles 30 and 36 of the EEC Treaty (now the EC Treaty) prevent the proprietor of a trade mark in a Member State from opposing the importation from another Member State of goods bearing an identical trade mark where the importation is effected by a subsidiary company of the proprietor of the identical trade mark in the other Member State and where the said proprietor has acquired the trade mark by agreement from a company affiliated to the undertaking opposing the importation.

A ° Background to the case and the question referred to the Court

2. American Standard is an American group of companies with subsidiaries in Germany and France amongst other places. Until 1976 the group engaged in the production and marketing of sanitary ware and heating installations. Part of the production of heating installations was concentrated in France, whence they were exported to the rest of Europe, particularly to Italy and Spain. In 1975-76 the group encountered economic difficulties in the field of heating installations and it was therefore decided to terminate the group's operations in that sector. These operations have not subsequently been resumed.

3. American Standard's German subsidiary Ideal-Standard GmbH has since 1951 been using the trade name "Ideal Standard" and is the proprietor of the German trade mark "Ideal Standard" which in 1976 was registered with priority as from 1972 for heating installations and sanitary ware inter alia. In accordance with the decision taken within the group Ideal-Standard GmbH has since 1976 traded in sanitary ware only.

4. American Standard's French subsidiary Ideal-Standard SA was until 1984 the proprietor of the French trade mark "Ideal Standard" for both heating installations and sanitary ware. The trade mark was registered for the first time in 1949. Following a composition with creditors in 1975 a management agreement was entered into, under the terms of which the company's production and marketing activities in the heating installation sector were taken over by the Société Nouvelle Ideal Standard, owned by the Société Générale de Fonderie (hereinafter referred to as "SGF") and the de Dietrich company and from 1979 by SGF alone. The management agreement was terminated in 1980. However, SGF wished to continue operations in the heating installation sector and to market the products in question under the trade mark "Ideal Standard". For that reason Ideal-Standard SA, by agreement of 6 July 1984, assigned its production facilities in the heating installation sector and its trade mark for such installations to SGF. (1) SGF is part of the French group Nord Est and subsequently assigned the trade mark to another company within the group, namely Compagnie Internationale du Chauffage (hereinafter referred to as "CICH"). (2) Ideal-Standard SA still owns the trade mark for sanitary ware.

5. CICH produces heating installations in France under the trade mark "Ideal Standard". Since 1988 it has sold its products in Germany through its German subsidiary Internationale Heiztechnik GmbH (hereinafter referred to as "IHT"). (3)

As a result Ideal-Standard GmbH (4) brought an action for infringement of trade mark against IHT (5) claiming an order forbidding IHT from marketing in Germany heating installations under the trade mark "Ideal Standard" and from using that description in advertisements, price-lists and the like. The Landgericht Duesseldorf found for Ideal-Standard GmbH. An appeal was entered against that judgment before the Oberlandesgericht Duesseldorf, which has

referred the following question to the Court for a preliminary ruling:

"Does it constitute an unlawful restriction of intra-Community trade, within the meaning of Articles 30 and 36 of the EEC Treaty, for an undertaking carrying on business in Member State A which is a subsidiary of a manufacturer of heating systems based in Member State B to be prohibited from using as a trade mark the name 'Ideal-Standard' on the grounds of risk of confusion with a mark having the same origin, where the name 'Ideal-Standard' is lawfully used by the manufacturer in its home country by virtue of a trade mark registered there which it has acquired by private contract and which was originally the property of a company affiliated to the undertaking which is opposing, in Member State A, the importation of goods marked 'Ideal-Standard'?"

B ° Summary of the most important questions raised by the case

6. The parties to the main proceedings, the United Kingdom and German Governments and the Commission submitted observations in the case.

7. In the observations submitted to the Court it is assumed that the provision in German trade-mark law authorizing prohibition of marketing of goods is a provision covered by Article 30 of the Treaty, which prohibits quantitative restrictions on exports and measures having equivalent effect in trade between Member States, and that the decisive question is therefore whether that provision can be justified by reference to Article 36 of the Treaty, which lists a series of grounds on which such prohibitions and restrictions may be justified, including that of industrial and commercial property rights.

8. The answer to the question raised therefore depends on an evaluation of two mutually exclusive considerations, namely on the one hand that of free movement of goods and on the other hand that of industrial and commercial property rights. IHT and the Commission contend that the consideration with regard to free movement of goods is the most important in a situation such as this, whilst Ideal-Standard GmbH and the German and United Kingdom Governments contend that that of commercial and industrial rights must carry most weight.

9. In the observations submitted, the point of departure is taken as the judgment of the Court in Case C-10/89 HAG II, (6) in which the Court interpreted Articles 30 and 36 of the Treaty in a situation in which a trade-mark right was divided amongst various proprietors following expropriation. There the balance between the two conflicting interests came down in favour of protection of industrial and commercial property rights. The Court decided that in such a situation any proprietor of a trade mark could oppose the importation, into a Member State in which he owned the trade mark, of goods produced by the other proprietor. In doing so the Court modified the decision it had given in the judgment in Case 192/73 HAG I. (7)

Ideal-Standard GmbH and the two governments contend that it follows from the grounds of the judgment

that the same result must apply in this case, whilst IHT and the Commission take the view that there are essential differences between the situation in HAG II, in which the trade mark was subdivided by expropriation, and the situation in this case, in which the trade mark was subdivided by a contract of assignment.

10. There are three main factors entailed in forming an opinion on the question referred to the Court. In the first place that of the importance to be attached to the assignor's consent to the assignee's marketing his products under the trade mark assigned, in the second place the importance of the specific subject-matter of the trade mark regarded in the light of its essential function, and in the third place the importance to be attached to the fact that the legal relationship between the two parties is also covered, at least potentially, by Article 85 of the Treaty. In addition it will be necessary to form an opinion on a series of other questions. I have decided to give my Opinion the following structure.

11. It is necessary, for two reasons, to consider whether Articles 30 and 36 of the Treaty are applicable at all.

12. The first is that it is contended that the question referred to the Court must be answered, not on the basis of Articles 30 and 36 of the Treaty, but on that of secondary Community legislation in this field. That question will be dealt with in Section C.

13. The second such reason is that there is a question in this case of prevention of free movement of goods based on a contract of assignment, which concerns the direct relationship between an assignor and an assignee, as to which see Section H. My survey of the case-law of the Court in Section D will show that the Court has hitherto decided such questions on the basis of Article 85 of the Treaty, which prohibits all agreements between undertakings which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the common market.

The observations submitted to the Court all agree that Article 85 of the Treaty may, according to the circumstances, be applicable to an agreement for the assignment of a trade mark. However, no doubts are expressed in the observations that Articles 30 and 36 of the Treaty are also applicable in the direct relationship between an assignor and an assignee. That point of view also forms the basis of the wording of the question, which relates only to Articles 30 and 36 of the Treaty, by the court of reference.

That idea seems correct, regard being had to the case-law of the Court. Even though the cause of the obstacle to trade is the contract of assignment which has been entered into, the obstacle itself consists in a national court's prohibiting importation under the authority of national trade-mark law, that is, a public measure covered by Article 30 of the Treaty. The following is an opinion on the case as put before the Court. In Section K I shall discuss the importance to be attached for the application of Article 30 to the fact that in my view Article 85 is an appropriate basis for a decision as to the legality in Community law of agreements for the as-

signment of trade marks giving the parties the opportunity to protect their respective markets in their mutual relations.

14. My survey of the case-law of the Court in Section D will lead me to consider whether the principles established by the Court as regards common origin and exhaustion contain the solution to the problem raised here. As will be seen from Sections E and F, that cannot be accepted.

15. Instead, an answer to the question referred to the Court will depend on a balancing of basic considerations against one another. Before forming a view with regard to such a balance I thought it appropriate on the one hand to give an account of the basic features of trade-mark law, in Section G, and on the other hand to consider the significance of the fact that in France the trade mark was assigned, not by Ideal-Standard GmbH, which wishes to oppose importation into Germany, but by that company's affiliated French company (see Section H).

16. My balancing of the basic considerations falls into three sections. In Section I, I give my view of the reasons which seem to me to be decisive for answering the question. In Section J I discuss a series of supplementary arguments raised during the case but which, in my view, have either a limited relevance or none at all. In Section K I give my view of the importance of Article 85 for settling the case.

It will emerge that there is some difficulty in striking a balance. If it is lawful under the Treaty to bring about a situation in relation to assignments of trade marks in which the parties, by means of actions for infringement of trade marks, may prevent the importation into their respective areas of goods lawfully produced and marketed under the trade mark by the other party, that will introduce a serious obstacle to free movement of goods and with it a partitioning of the internal market. If such a prohibition of importation is contrary to the Treaty, a proprietor of parallel trade marks in several Member States who wishes to undertake a separate assignment for certain Member States must accept that that will seriously affect the trade mark's capacity to guarantee to consumers that the goods have been produced under the control of a single undertaking with responsibility for the quality of the product.

17. My view on the striking of this balance and hence my proposal for an answer to the question referred to the Court is contained in Section M.

18. In the observations submitted to the Court it is contended that the circumstances in this case are so exceptional that a prohibition of importation ° irrespective of whether it might initially have been regarded as compatible with Community law ° cannot be justified under Article 36. I shall have regard to the importance of these circumstances in Section N.

It is primarily a matter of a series of circumstances concerning the conduct of the American Standard group, namely that the group does not itself produce heating installations, that in France the group has made a partial assignment of the trade mark and thereby accepted that an assignee may use the mark for heating

installations at the same time as the group's use of the mark for sanitary ware and that the group, according to IHT, has accepted that SGF and subsequently CICH have marketed heating installations in other Member States for a number of years (see Section N, point a).

It has further been claimed that a prohibition of importation may conflict with Articles 30 and 36 of the Treaty simply because sanitary ware and heating installations are not like products such as may give rise to confusion (see Section N, point b).

C ° The importance of the rules drawn up by the Community institutions

19. It may be seen from the case-law of the Court that a national measure may be evaluated in the light of Articles 30 and 36 of the Treaty only as long as there has been no harmonization of the laws of the Member States in the field in question in pursuance of provisions of Community law. (8)

20. The Council issued a first directive, 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks. (9) The directive does not undertake full-scale approximation of the laws of the Member States, but is limited to those national provisions which most directly affect the functioning of the internal market. (10) The directive was to be implemented by the Member States only by 31 December 1992 (11) and is therefore not applicable *ratione temporis* to the circumstances of this case. (12) The Council has also adopted Regulation (EC) No 40/94 of 20 December 1993 on the Community trade mark. (13) As the regulation was issued only after the procedure before the Court in this case, the observations submitted refer to the proposal for a regulation. (14) The regulation adopted corresponds in essentials to the proposal.

a. The trade mark directive

21. The German Government contends that it is possible to decide this case on the basis of the provisions of the trade mark directive. It relies in this respect on the purpose of the provisions of Article 5(1) in conjunction with Article 7.

22. According to the government, Article 7 covers all the cases in which there is exhaustion of the rights linked to trade marks,

namely where the goods are marketed by the proprietor himself or with his consent. (15) An extension of the field of application of that provision to cover also cases of assignment would mean that the limits laid down in the provision would be exceeded to such an extent that in practice it would be rendered nugatory. As Article 7, in the government's view, is not applicable in this situation, the assignor will be able to base his right directly on Article 5, which lays down the exclusive right linked to the mark and the resultant right to oppose the use of the mark by others. (16)

23. The German Government put forward similar arguments in its observations to the Court in the HAG II case, and in his Opinion Advocate General Jacobs expressed his view on them. (17) I can entirely agree with what he said there, which has been adopted in essentials by the Commission in this case: Article 7 of the

directive is in line with the Court's case-law as regards exhaustion, but cannot be regarded as settling exhaustively the question of when the proprietor of a trade mark loses his exclusive right. Most of the conflicts between intellectual property rights are due not to discrepancies between national laws but solely to the territoriality of national law. The directive in no way limits that territoriality and accordingly does not solve the resultant problems. National laws which give the proprietor of a trade mark the right to oppose importation from another Member State must therefore continue to be evaluated in the light of Articles 30 and 36 of the Treaty. That idea must also have been behind the Court's reasoning, when, in HAG II, it based its answer to the question referred to it on its view with regard to the provisions of the Treaty.

b. The regulation on the Community trade mark.

24. The Commission has stated that the regulation on the Community trade mark will not solve problems which, like this one, are connected with the territorial nature of trade marks, since the regulation assumes that the existing national trade marks will continue to exist side by side with the Community mark.

25. IHT has referred to the fact that a Community trade mark, according to Article 7 of the proposal for a regulation, now Article 8 of the regulation, will be excluded from registration when there are already corresponding national marks, unless there is a general agreement to relinquish the national mark and create a Community mark. According to IHT it must follow that proprietors of parallel national trade marks must avoid subdivision at national level.

26. As the Commission states, the provision referred to cannot lead to the far-reaching conclusion that proprietors of identical national trade marks must refrain from exercising their right to assign trade marks. The problem with regard to the division of trade marks must be solved on the basis of Articles 30 and 36 of the Treaty.

D ° The case-law of the Court

27. The following survey of the most important judgments of the Court in the field of intellectual property rights will make it possible to place these problems in the correct context. The first is a distinction between cases in which an intellectual property right in a Member State is infringed by a parallel importation by an independent third party and cases in which an intellectual property right is infringed by direct sale by the proprietor of the parallel right in another Member State.

28. In a series of cases the Court has given its views on parallel imports effected by independent third persons; these are above all the judgments of the Court in Cases 78/70 *Deutsche Grammophon*, (18) which concerned a right similar to copyright, 15/74 *Centrafarm v Sterling Drug*, (19) relating to patents, 16/74 *Centrafarm v Winthrop*, (20) on trade marks, and 144/81 *Keurkoop v Nancy Kean Gifts*, (21) on models and designs.

29. In those judgments the Court established that an authorization in national legislation to oppose parallel imports effected by an independent third party is a measure covered by Article 30 of the Treaty. The extent to which such a provision is lawful therefore

depends on whether it is justified under Article 36 of the Treaty on grounds of the protection of industrial and commercial property. In its judgments the Court has balanced considerations of free movement of goods against those of the protection of intellectual property rights by laying down the following two principles:

° Article 36 admits derogations from the fundamental principle of the free movement of goods within the common market only to the extent to which such derogations are justified for the purpose of safeguarding rights which constitute the specific subject-matter of the industrial and commercial property involved.

° The proprietor of an industrial or commercial property right protected by the legislation of a Member State cannot rely on that legislation to prevent the importation or marketing of a product which has been lawfully marketed in another Member State either by the proprietor himself or by a person economically or legally dependent on him (hereinafter referred to as "the exhaustion principle").

30. For the application of the exhaustion principle it is irrelevant that the product has been put on the market in a Member State in which the intellectual property right in question does not enjoy corresponding protection (see the judgment of the Court in Case 187/80 *Merck v Stephar and Exler*). (22) On the other hand there is no exhaustion simply because marketing in another Member State is lawful, where the marketing cannot be ascribed to the proprietor of the trade mark (see the Court's judgment in Case 341/87 *EMI Electrola v Patricia Im- und Export*). (23)

31. As regards trade marks in particular, the Court has declared that in certain situations the proprietor of a mark may oppose the importation of goods even where they are marketed in another Member State by him or with his consent, namely where a third party has re-packed the goods and re-applied the mark. But a prohibition of importation in such cases may constitute a disguised restriction on trade contrary to the second sentence of Article 36 if it is demonstrated that the third party has complied with certain conditions for such re-packing, for example that the re-packing has not affected the original condition of the product (see the judgments in Cases 102/77 *Hoffmann-La Roche v Centrafarm* (24) and 1/81 *Pfizer v Eurim-Pharm*). (25)

32. The Court has emphasized in a number of the judgments mentioned that the Treaty does not concern itself with the existence of intellectual property rights but that their exercise may be restricted in certain circumstances as a result of prohibitions laid down in the Treaty. (26) In his Opinion in HAG II Advocate General Jacobs referred to this distinction between the existence and the exercise of intellectual property rights as the first of the three fundamental principles worked out by the Court in the field of intellectual property. (27) The distinction was not however referred to by the Court in its judgment in that case. In my view that was correct. The distinction has so far as can be seen no independent significance for the solution of specific questions of delimitation.

33. Independent third parties also have the opportunity to avail themselves of Article 85 of the Treaty as the basis for a right to effect parallel imports in situations in which there is an agreement restricting competition between proprietors of parallel rights in different Member States. The Court has declared that the protection granted in national law to industrial and commercial property rights may not be relied upon where the exercise of such rights is the subject, the means or the consequence of an agreement prohibited by Article 85 of the Treaty (see the judgments in Joined Cases 56 and 58/64 Consten and Grundig v Commission (28) and in Case 28/77 Tepea v Commission). (29)

34. The Court has given its views in a number of cases on direct sale by proprietors of intellectual property rights on one another's territory. Such cases may be divided into three groups.

35. The first group concerns cases in which parallel rights have been created independently of one another in different Member States. The extent to which the proprietor of an intellectual property right may rely on his rights under national legislation conferring an exclusive right in order to oppose marketing by the proprietor of a corresponding right in another Member State depends on a balance between mutually conflicting rights in accordance with Articles 30 and 36 of the Treaty.

In its judgment in Case 119/75 Terrapin v Terranova (30) the Court decided that an opportunity to oppose marketing in such cases was necessary for the purpose of safeguarding rights which constituted the specific subject-matter of the industrial and commercial property. The judgment concerned trade marks and the Court declared that the proprietor of a trade mark could legitimately oppose the importation of similar products when the products bore either a similar mark or one which could be mistaken for it. (31)

36. The second group of cases concerns situations in which parallel rights in several Member States originally had the same proprietor but have been divided between different proprietors by an event over which the original proprietor has had no influence.

In its judgment in Case 19/84 Pharmon v Hoechst (32) the Court gave its view on situations in which a patent had been subdivided amongst several proprietors by a compulsory licence and in its judgment in Case C-10/89 HAG II dealt with cases in which a trade mark had been divided between several proprietors by expropriation.

The Court decided that in such cases the original proprietor may in his own territory oppose marketing by the proprietor of the exclusive parallel right in the same manner as when the rights have arisen independently of one another.

37. The third group of cases concerns situations in which parallel rights in several Member States have originally had the same proprietor but have been subdivided between different proprietors by an agreement, whether by licence or by assignment.

38. As far as can be seen, the Court has not as yet had to deal with a situation in which one of the parties to a

licence agreement seeks to oppose direct sale by the other party. But in the case of applications for a declaration that a decision of the Commission under Article 85 is void, the Court has had occasion to decide as to the legality under Article 85 of certain provisions as to territorial protection in licence agreements (see in particular the judgment in Case 258/78 Nungesser v Commission). (33) In addition, the Commission has adopted a series of group exemption regulations under Article 85(3) of the Treaty, the effect of which is that in certain circumstances it is lawful inter partes to agree to territorial protection. (34)

39. In its judgments in Cases 40/70 Sirena (35) and 51/75 EMI v CBS United Kingdom (36) the Court dealt with situations in which parallel trade-mark rights had been subdivided between several proprietors by a contract of assignment. In those cases the Court took as its starting-point the agreements concluded and assessed their legality under Article 85 of the Treaty. (37) Those cases will be discussed in Section K below. If an agreement is incompatible with Article 85 because it gives the proprietors of an exclusive right the opportunity to oppose direct sale in one another's territories, the intellectual property rights acquired by the agreement may not be relied upon to prevent such a sale.

40. As mentioned, the case before the Court belongs to the last-mentioned group of cases and as may be seen this will be the first time the Court has been called upon to deal with such a case on the basis of Articles 30 and 36 of the Treaty. I shall first of all consider whether the principles with regard to common origin and exhaustion hold the solution to the question now referred to the Court.

E ° The principle of common origin

41. In its judgment in HAG I the Court declared that "to prohibit the marketing in a Member State of a product legally bearing a trade mark in another Member State, for the sole reason that an identical trade mark having the same origin exists in the first State, is incompatible with the provisions providing for free movement of goods within the common market".

42. That decision was confirmed in an obiter dictum in Case 119/75 Terrapin v Terranova. The Court stated in that judgment that the proprietor of an industrial or commercial property right cannot rely on that right to prevent the importation of a product which has lawfully been marketed in another Member State, "... when the right relied on is the result of the 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" (my emphasis).

43. As I mentioned, the Court's decision in HAG I was amended by its decision in HAG II, which was based on the same facts. (38) In that judgment the Court ruled that "Articles 30 and 36 of the EEC Treaty do not preclude national legislation from allowing an undertaking which is the proprietor of a trade mark in a Member State to oppose the importation from another Member

State of similar goods lawfully bearing in the latter State an identical trade mark or one which is liable to be confused with the protected mark, even if the mark under which the goods in dispute are imported originally belonged to a subsidiary of the undertaking which opposes the importation and was acquired by a third undertaking following the expropriation of that subsidiary".

44. As may be seen from the operative part of the judgments quoted, the Court formulated its ruling in HAG I as a general statement with regard to the situation in which trade marks have the same origin, whilst in HAG II it expressly restricted its decision to the case in which a trade mark has been subdivided by expropriation. It may be added that in HAG II the Court did not mention, much less expressly discuss, its declaration in *Terrapin v Terranova*, which linked the principle of common origin to that of the voluntary assignment of trade marks.

45. In these circumstances it is a matter for debate whether the principle of common origin continues to play any part in connection with the voluntary assignment of trade marks. For a number of reasons, I think that it does not.

In the first place the limited scope of the Court's answer in HAG II can scarcely be ascribed to anything other than a desire to restrict its decision to what was necessary in the specific case before it. (39) In the second place, as I mentioned, the Court's statement in *Terrapin v Terranova* was merely an obiter dictum, inasmuch as the case concerned trade-mark rights which had arisen independently of one another and may therefore be regarded as a subsequent attempt to justify the decision in HAG I, which had been severely criticized. (40) In the third place the Court's arguments in HAG II amount in my view to saying that no importance can be attached to the fact, in itself, that trade marks have a common origin.

It therefore seems to me wrong to draw independent conclusions from the fact that it may be found that parallel trade marks have a common origin. The common origin is not in itself an argument for a conclusion either way. A refusal to attach any importance to the principle of common origin in deciding a case does not however amount to saying that parallel rights which originally had the same proprietor but have afterwards been subdivided must always be regarded as if they had been created independently of one another. A specific decision must be taken as to whether the rights have been subdivided in such a way as to mean that they are subsequently to be treated as rights which have arisen independently of one another. An assessment of the basic reasons which may be put forward as arguments for possible solutions will be decisive.

F ° The exhaustion principle

46. All the observations submitted start from the exhaustion principle formulated by the Court. Reference is made in this respect to HAG II in which the Court declared:

"For the purpose of evaluating a situation such as that described by the national court in the light of the fore-

going considerations, the determinant factor is the absence of any consent on the part of the proprietor of the trade mark protected by national legislation to the putting into circulation in another Member State of similar products bearing an identical trade mark or one liable to lead to confusion, which are manufactured and marketed by an undertaking which is economically and legally independent of the aforesaid trade-mark proprietor" (paragraph 15).

47. In this case it is undisputed that between the companies in the American Standard Group on the one hand and SGF, CICH and IHT on the other there is no form of economic or legal dependence which extends beyond the contract of assignment itself and might lead to exhaustion of the mark.

48. The decisive factor for an application of the exhaustion principle is therefore whether a product is put on the market in another Member State with the consent of the trade-mark proprietor.

49. *Ideal-Standard GmbH* and the German and United Kingdom Governments contend that the voluntary element in a contract of assignment cannot be assimilated to consent to put on the market goods bearing the mark assigned. The decisive factor for an application of the exhaustion principle is whether it is a question of goods produced by the proprietor of the trade mark himself or under his control. The rights connected with a trade mark in one Member State are therefore not exhausted with assignment of a trade mark in another Member State as the trade-mark proprietor has in that situation relinquished any form of control over the products.

50. IHT and the Commission contend that assignment of a trade mark confers a consent which has the effect of exhausting the exclusive right, but they describe the consent somewhat differently. IHT claims that there is mutual consent between the assignor and the assignee to accept exportation from the other's territory. The Commission contends that a contractual assignment is the expression of indirect consent for goods provided with the mark assigned to be marketed both in the country concerned and in the rest of the Community. With consent to the assignment, therefore, control over the goods is, according to IHT and the Commission, relinquished.

51. The exhaustion principle, as it has been developed in the Court's case-law, does not, in my view, hold the solution to this problem. The assignment undeniably authorizes the assignee to market products bearing the mark in the territory for which the trade mark is assigned. But that fact does not make it possible to draw conclusions with regard to the assignor's opportunities for protecting his mark in the territory or territories in which assignment has not taken place. To decide this case on the basis of one concept or another of the legal effect of the "consent" involved in the assignment would be to express a purely formal decision.

At all events it is decisive in this connection that the exhaustion of the trade-mark right which, according to the Court's case-law, is a consequence of the fact that the product has been brought into circulation in another Member State with the proprietor's consent, pre-

supposes that there is consent for the marketing of "genuine" goods in the sense that they must be goods produced by the proprietor of the trade mark himself or under his control. The exhaustion principle is not applicable in a situation in which trade-mark proprietors in various Member States each market their own products and in which there is no form of legal or economic link between them. (41)

52. The fact that it is not possible to agree with the Commission and IHT that the solution to the case may be found in the exhaustion principle as laid down in the Court's case-law does not however imply that the conception of the law contended for by Ideal-Standard GmbH and the two governments is necessarily correct. The Court is called upon to state the consequences of the Treaty's requirement for free movement of goods where a separate assignment of parallel trade marks may lead to serious restrictions on the movement of goods. That must be decided on the basis of factual considerations and not on the basis of an assumption as to the consequence of an assignment and the consent to marketing implied thereby.

53. It is not impossible that in a situation in which the subdivision of trade-mark rights has been voluntary, such special considerations will apply as to justify reaching a different conclusion from that in HAG II. When the Court decided HAG II as it did, and thereby accepted serious restrictions to free movement of goods, that was because it was necessary in order to protect the specific subject-matter of the trade mark in the light of its essential function. The specific subject-matter and function of trade marks must therefore in this case too form the basis for deciding the case.

G ° Trade-mark rights

54. The legal basis of trade marks is to be found in national trade-mark laws. They must meet the conditions (registration or use) contained in the individual national trade-mark law, that is, the relevant trade-mark law which lays down the legal effects linked to the mark in the State concerned. In that sense trade marks are territorial. Since, as described above, no complete harmonization of national trade-mark laws has been carried out, various legal effects may be linked to trade marks in the various Member States.

55. Trade marks differ from other intellectual property rights *inter alia* inasmuch as in principle they are unlimited in time. (42) That was emphasized by the Court in HAG I in which it stated: "The exercise of a trade-mark right tends to contribute to the partitioning off of the markets and thus to affect the free movement of goods between Member States, all the more so since ° unlike other rights of industrial and commercial property ° it is not subject to limitations in point of time" (paragraph 11).

a. The subject-matter and function of the rights

56. In its judgment in HAG II the Court repeated, clarified and developed its case-law with regard to trade marks, emphasizing the essential significance to be attached to the protection of trade marks for fair competition, without which an open market economy cannot operate. The Court declared that trade-mark

rights "are ... an essential element in the system of undistorted competition which the Treaty seeks to establish and maintain" (paragraph 13).

57. Important, indeed very important economic interests may be bound up with trade marks, which for those engaged in trade are an asset whose value depends on its protection against misuse by competitors. In HAG II the Court stated that in a system of undistorted competition "an undertaking must be in a position to keep its customers by virtue of the quality of its products and services, something which is possible only if there are distinctive marks which enable customers to identify those products and services" (paragraph 13).

58. The most important of the general rights of the proprietor of a trade mark are his "right to use that trade mark for the purpose of putting a product into circulation for the first time". By this means he receives protection "against competitors wishing to take advantage of the status and reputation of the trade mark by selling products illegally bearing that mark" (paragraph 14). That right constitutes the "specific subject-matter" of the trade-mark right and its protection may therefore justify an encroachment upon free movement of goods.

59. The Court further declared in HAG II that "in order to determine the exact scope of this right exclusively conferred on the owner of the trade mark, regard must be had to the essential function of the trade mark, which is to guarantee the identity of the origin of the marked product to the consumer or ultimate user by enabling him without any possibility of confusion to distinguish that product from products which have another origin" (paragraph 14). The capacity of the trade-mark right to represent for consumers a link between origin and quality is sometimes described as a distinguishing function. The application of the mark makes it possible for the proprietor to allow the consumer consciously to distinguish between his goods and those of his competitors.

A trade mark's economic value and its importance for fair competition are closely linked to the trade mark's capacity to perform this distinguishing function. (43) The Court emphasized in HAG II that "for the trade mark to be able to fulfil this rôle, it must offer a guarantee that all goods bearing it have been produced under the control of a single undertaking which is accountable for their quality" (paragraph 13).

b. The assignability of trade marks

60. The proprietor of a trade mark may *inter alia* make use of his exclusive right by transferring the use of the mark to a licensee. According to Article 8 of the trade mark directive, "a trade mark may be licensed for some or all of the goods or services for which it is registered and for the whole or part of the Member State concerned. A licence may be exclusive or non-exclusive."

61. The basis is also that a trade mark, like other property, may be assigned by agreement between the proprietor and another trader. However restrictions may be laid down in the assignment.

62. The position in certain countries is that an assignment may take place only for the whole of the territory for which protection has been obtained under the na-

tional trade-mark law, whilst in other countries that does not apply.

63. In certain countries the trade mark may be assigned only together with the relevant means of production, whereas in others, and as far as I know in most Member States, a trade mark may be assigned separately.

64. Finally, in some countries a trade mark may be assigned only for all the goods for which protection has been obtained. In other countries there are no such restrictions and in yet others the right of partial assignment is restricted only in so far as it might result in misleading the consumer.

65. It has been claimed in this case, and rightly, it seems to me, that the trend is in the direction of ever greater opportunity for the proprietor to assign his trade mark.

66. According to the Council Regulation on the Community trade mark, the Community mark may be assigned with or without the undertaking, in respect of some or all of the goods for which it is registered. (44) On the other hand it may be assigned only for the whole of Community territory. (45)

H ° The importance of the group link between Ideal-Standard GmbH and Ideal-Standard SA

67. This Opinion is based on the idea that the situation in which the Court is called upon to give its ruling is actually a situation in which the assignor of the trade mark is seeking to prevent direct sale by the assignee on the territory for which the assignor has retained his trade mark. However, as may be seen from Section A and from the question referred to the Court, the characteristic situation here is that in France the trade mark was assigned not by Ideal-Standard GmbH, which is seeking to oppose importation into Germany, but by the latter's French affiliate.

68. In my view it is correct, as contended by IHT and the Commission, that the group connection between Ideal-Standard GmbH and its French affiliate means that the companies are assimilated one to another, so that the assignment is to be ascribed to Ideal-Standard GmbH as if it had been effected by that company itself. Contrary to the claim of Ideal-Standard GmbH, it must suffice that undertakings within the same group have the opportunity to coordinate their marketing policy in the common interest of the group. It cannot be a determinant factor whether that opportunity is in practice taken up. (46)

69. In the event of the Court's coming to the conclusion that an assignment of a trade mark is a transaction which in a given case leads to the trade-mark proprietor's losing his exclusive right in the Member States in which the mark is retained, it will, in other words, make no difference that that transaction is not effected by the proprietor himself but by a company within the same group.

I shall therefore assume for the remainder of this Opinion that it is both correct and appropriate to treat the matter as concerning the question of the direct legal relationship between an assignor and an assignee.

I ° Evaluation of the basic considerations ° including in particular the specific subject-matter of the trade mark and its essential function

70. Ideal-Standard GmbH and the German and United Kingdom Governments contend in particular that in the case of the voluntary assignment of a trade mark, in the same way as with a compulsory transfer, a situation arises in which the assignor has no influence on the quality of the products marketed by the assignee with the use of the mark assigned. After an assignment the trade marks become independent of one another. If in this situation the proprietor loses his exclusive right, the essential function of the trade mark is undermined, inasmuch as the trade mark can no longer serve as a guarantee to consumers of the product's origin and quality and the proprietor of the mark may risk being blamed for a poor quality of the goods for which he has no responsibility. The pre-condition for enabling every trade mark to fulfil its function of guaranteeing that the branded goods have one given origin is that each proprietor may within his own geographical territory rely upon his trade-mark rights as against products manufactured by the other proprietor.

71. IHT claims that it would be an exaggeration of the importance of the function of the trade mark as a guarantee of the product's origin and quality to accept that it constitutes an obstruction to free movement of goods in the situation now before the Court. IHT has stated that the primary purpose of a trade mark is to protect the proprietor against competitors who may take wrongful advantage of his reputation, whilst the function of a guarantee for consumers is rather the corollary of that purpose. The proprietor of the mark may relinquish control of the quality of the product, which is linked to the guarantee function, for example in connection with the conclusion of a licence agreement, which, according to IHT, frequently happens in practice, or when a trade mark is assigned without restriction.

72. The Commission argues that the fact that the subdivision of the trade mark has been effected by a voluntary transaction is the decisive factor. According to the Commission the most important function of a trade mark is to give the proprietor the right to determine which products shall bear the mark and in that way attach the customers to his product. In the case of an assignment however the proprietor consents to others applying the mark to their product and marketing them both in the country concerned and in the rest of the Community. The proprietor of the trade mark is voluntarily relinquishing, knowingly and for consideration, the exercise of control over the quality of the product. He relinquishes control over the goodwill linked to the trade mark when he is compelled to share the market with a competitor, but that is what he has consented to and he must bear the consequences of his choice. In such a situation it is not necessary, in order to protect the trade mark's essential function, to allocate a protected territory within the Community.

According to the Commission the consumer-protection aspect is sufficiently safeguarded even if the trade-

mark proprietor loses his exclusive right upon assignment. The Commission argues, in the same way as IHT, that the primary purpose of the trade-mark right is not to protect consumers. It is meant rather to guarantee to the proprietor of the trade mark that the products bearing the mark are manufactured under his control and that he is therefore responsible for their quality, which thus has consequences for consumers. That is demonstrated *inter alia* by the fact that the proprietor is free to choose whether or not to use his mark when he markets goods.

73. In my view there are good grounds for thinking that Articles 30 and 36 do not prevent the trade-mark proprietor from imposing a ban on the assignee's marketing goods bearing the trade mark in the territory in which the assignor has retained it. If the assignor loses his exclusive right in assigning the parallel mark in another Member State that will mean:

- that neither trade mark can any longer, within its own geographical territory, fulfil the function of guaranteeing that the product has been manufactured under the control of one specific undertaking which is responsible for the quality of the product, since goods produced either by the assignor or by the assignee may be put on sale on the same market;

- that the proprietor of the mark has no influence on what products the assignee puts on the market and may risk taking the blame for poor quality of the goods for which he has no responsibility;

- that consumers are no longer in a position, without risk of confusion, to distinguish the goods from goods of different origin.

74. Those reasons were of decisive significance for the decision reached by the Court in HAG II. It may at first sight seem obvious to conclude that those reasons are also sufficient to make it necessary to accept, where there is an assignment, a partitioning of national markets contrary to the basic purposes of the Treaty.

75. However, it must not be overlooked that, in accordance with the case-law of the Court, the trade-mark proprietor may lose his exclusive right also in cases where that means that the mark will no longer be able to fulfil completely its distinguishing function. Thus that applies in connection with licence agreements. It follows from the exhaustion principle that a licensor must accept that on his market he will have to compete with goods produced by the licensee and imported in parallel by third persons. Ideal-Standard GmbH and the German and United Kingdom Governments stress that in such a situation the products are being marketed by an undertaking which is subject to the trade-mark proprietor's control. But exhaustion does not depend on whether in the licence agreement the licensor has ensured that the licensee will maintain a given quality of the goods. The licensor's opportunity to lay down requirements as to quality is sufficient. If the licensor omits to lay down such requirements as to quality, he must take the consequences of his choice. It is not the distinguishing function as such which is protected, but the trade-mark proprietor's opportunity to preserve it.

76. The question is whether there is not, in the very fact that HAG II dealt with a compulsory subdivision, whereas in this case we are dealing with a voluntary subdivision, a sufficiently important basis for a conclusion other than that arrived at by the Court in HAG II. The answer to this question depends on a more detailed analysis of the interests protected by the trade mark.

77. Two basic considerations may be deduced from HAG II, namely that relating to the trade-mark proprietor who, by means of his mark, is put in a position to compete with regard to the quality of the product and therefore has an interest in protecting himself against competitors' unlawful use of the mark, and that relating to the consumer, who has an interest in being able to establish the origin of the product without risk of confusion, since that allows him to count in the product's having a given quality.

78. In a situation in which a trade mark has been subdivided as the result of an event on which the proprietor of the mark has had no influence, it is clear that the interests of the proprietor carry great weight. It was possibly in order to stress this point that the Court emphasized in HAG II the "absence of any consent on the part of the proprietor" to putting similar products into circulation in another Member State (paragraph 15; my emphasis). (47)

79. The interests of the trade-mark proprietor are not so marked in the case of an assignment. The proprietor of parallel trade marks in several Member States has a number of options. He can naturally altogether omit to assign the mark. If he chooses to assign it the assignment may be entire, that is, it may be valid in all the Member States in which the mark is protected. But he can also opt, as in the case before us, to assign the mark separately, that is, for certain only of the Member States in which it is protected.

80. The question is whether a trade-mark proprietor operating on a single market has a sufficiently important interest in being able to partition that market by entering into a separate assignment for individual Member States and at the same time preserving his exclusive right in the Member States in which the mark is retained.

81. If the Court were to decide that a consequence of a separate assignment of the mark was that the proprietor lost his exclusive right, the trader concerned would have to consider whether that drawback could be offset by the consideration received. The trade-mark proprietor would have to take account where necessary of the following consequences.

82. The trade mark would not be able to perform its distinguishing function completely since the consumer would not be able to distinguish the proprietor's products from those marketed under the assignee's parallel mark.

83. That implies that the trade-mark proprietor would not be able to protect himself against sales on his market by the assignee's taking advantage of the investment made by the proprietor in creating and maintaining the goodwill linked to the mark.

He would only to a limited extent be able to protect himself against the assignee's damaging the reputation of the trade mark by selling products of an inferior quality, that is, to the extent to which he had the opportunity to exercise a form of control by his choice of the undertaking to which the mark was to be assigned and his opportunity to include in the contract of assignment conditions for re-purchase. (48) However, it cannot be assumed that the assignor of the mark can, as the Commission claims, retain his control of the quality of the products by including in the contract of assignment conditions for revocation with a view to guaranteeing the maintenance of a minimum quality. As the Commission itself has recognized, an agreement to that effect would in fact be a licence agreement. The United Kingdom Government in particular has pointed out that from a practical business point of view it is unrealistic to imagine that the assignee of a trade mark would accept continued control by the assignor. The contract of assignment is chosen precisely so as to effect a complete assignment of the rights connected with the mark.

84. The consequences described for the trade-mark proprietor of such a judgment would therefore be serious. It is not impossible that he may nevertheless choose to undertake a separate assignment. But there is scarcely any doubt that in practice he will normally choose either not to assign the mark at all or to assign it entire for all the Member States in which it is protected. Such a judgment will therefore de facto have the effect of limiting his opportunities to assign the mark.

85. Against this background Ideal-Standard GmbH and the German and United Kingdom Governments have advanced a series of arguments based on the principle of the free assignability of trade marks. They may be summarized as follows:

Trade marks continue to be national and thus geographically partitioned, so that they may have different proprietors in different Member States. It is a question of property rights regulated independently of one another by the laws of the individual Member States, which the Treaty states that it seeks to protect. The possibility of freely assigning a mark is a basic entitlement in the case of a trade-mark right and forms part of the specific subject-matter of the mark. If the proprietor of a mark loses his exclusive right by assignment, that basic entitlement will apply only in theory. In actual fact identical trade marks protected in various Member States can accordingly only be sold in their entirety.

86. In my view it cannot be accepted that such a de facto restriction of the proprietor's opportunity to assign his trade mark would represent an encroachment on the specific subject-matter of the mark.

87. There are various reasons why it is not possible to speak of an essential restriction of the rights of the proprietor.

88. As mentioned, the field of application of the restriction is a narrow one. The proprietor can still opt for a separate assignment if he thinks that that is an economically acceptable solution, even if he will not be in a position to protect the mark on his own market. And he still has the possibility of concluding a full assign-

ment ° which, as already mentioned, will normally be the most appropriate solution.

89. Moreover it has not been suggested in this case that the possibility of concluding a separate assignment constitutes a very significant part, economically or otherwise, of the rights which a trade mark confers upon its proprietor. No arguments have been advanced, for example, in support of the view that in the period between the delivery of the Court's judgments in HAG I and HAG II there were serious drawbacks for traders who had to accommodate themselves to the fact that a separate assignment would lead to a loss of their exclusive right in the Member States in which the right is retained.

90. The explanation presumably is that the proprietor of a valuable trade mark who really wishes to protect the value of the mark will in all circumstances opt only to assign the mark in its entirety for all the Member States in which it is protected. There are good reasons for that.

91. A separate assignment for certain Member States would mean that on the internal market there were goods bearing the same trade mark but produced by different proprietors. The internal market is a market without internal frontiers in which not only goods but also consumers may move freely, and a market in which advertisements for the relevant products are spreading ever more widely beyond the borders of the national markets.

92. Moreover even if Articles 30 and 36 were to be interpreted as meaning that the assignor retains his exclusive right and may therefore by means of an import ban protect the trade mark's distinguishing function on his own market, the separate assignment will weaken that function as regards the consumer who chooses to avail himself of his right to freedom of movement and subsequently seeks out the same branded goods in various Member States. It was perhaps with that in mind that the Court declared in *Terrapin v Terranova* that "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" (paragraph 6).

The subdivision of a trade-mark right within an internal market, with consumers who move across national borders, will mean that the assignee whose products compete in this way with the assignor's products may take advantage of the assignor's investment in maintaining the goodwill linked to the mark and may damage the reputation of the mark by selling goods of an inferior quality. It is reasonable to assume that such a weakening of the trade mark's distinguishing function in practice restrains the proprietor of parallel marks within the Community from resorting to subdivision.

93. Contrary to the United Kingdom Government's contention, I do not think that restrictions on a trade-mark proprietor's opportunity to subdivide his mark will be contrary to the Community's interests. It is not without significance in this connection that the proprietor is simply placed in the same position as would be legally binding for him if his mark were a Community trade mark with the legal effects referred to in the

Regulation on the Community trade mark, that is, that the mark may be assigned only in its entirety for the whole Community territory.

94. It cannot in my view reasonably be claimed that the limitation of the proprietor's opportunities for assignment here referred to prevents trade marks from fulfilling their role within the system of undistorted competition which according to the Treaty is to be instituted and maintained. Trade marks will continue to be the means enabling undertakings to build up a firm clientele on the basis of the quality of their goods or services.

95. Against that background I do not think that the proprietor of a trade mark has such a compelling interest in being able to conclude a separate assignment of a mark for certain Member States and at the same time to preserve the distinguishing function of the mark in the Member States in which it is retained as to justify the serious restriction on free movement of goods which such a legal situation would involve.

96. However, as has been said, it is not sufficient to assess the problem in this case in the light of the interests of the trade-mark proprietor. It is appropriate to investigate how far consideration of the consumer's interest in being able to establish the origin of the branded product can in itself be the basis for protection of the proprietor's exclusive right. (49)

97. It is incontestable that in practice the trade mark appears to consumers as a guarantee that goods bearing a given mark are produced by or under the control of the same undertaking and may therefore be regarded as being of the same quality. This essential function of a trade mark puts the proprietor in a position to compete on the basis of the quality of the product and he therefore has, as already described, a significant interest in protecting the capacity of the mark to make it possible for consumers without risk of confusion to distinguish the product from those having a different origin.

But the question is whether the rules of national trade-mark laws which provide the proprietor with the opportunity to protect his exclusive right are based on an independent regard for the protection of consumers. There are good grounds for thinking that concern to prevent confusion and disappointment amongst consumers, as is claimed by IHT and the Commission, is only the corollary of concern for the proprietor's interest in enabling consumers to identify his product and therefore not an independent interest such as may in itself be a reason for protection of the proprietor's exclusive right.

98. As Advocate General Jacobs points out in his Opinion in HAG II, (50) it may be accepted that the trade mark does not give an absolute guarantee of the quality of the product, if only because it is open to the proprietor to change the quality. If a proprietor chooses to adapt the quality of his goods to different national markets, it will moreover follow from the exhaustion principle that such goods may move freely between the markets in question. The so-called quality guarantee is only an expectation on the part of consumers that products bearing a certain mark are manufactured by the

same producer and thus have the same quality as other goods bearing it.

99. It may also be accepted that the trade mark offers no absolute guarantee of origin. There are several reasons for that. As I have already described, it is a consequence of the exhaustion principle that products bearing the same mark but produced by two different undertakings, namely the licensor and the licensee, may be marketed in one Member State and may, according to circumstances, be of a different quality. Nor is there anything to prevent an undertaking from assigning its trade mark in certain Member States whilst at the same time it is expressly accepted that the assignee may export to the Member States in which the mark is retained.

The fact that protection of the trade-mark proprietor's exclusive right and thus his right to oppose the marketing of goods bearing the same mark does not in itself safeguard the consumer^o and is therefore hard to justify independently on that ground^o may be seen finally from the fact that the proprietor, as far as can be seen, is not required in any of the Member States to take action against competitors' unauthorized use of the mark with a view to preventing consumers from being misled.

100. That is not the same thing as saying that an import ban on goods bearing trade marks which may have the effect of misleading consumers may not be lawful in certain circumstances. But such an obstruction to the free movement of goods must be justified where necessary on the basis of a specific assessment as to whether that is a measure which is inescapably necessary for the protection of consumers. (51) In any case, in certain Member States there are provisions in the national legislation on trade marks which take account independently of the interests of consumers inasmuch as they give the authorities of the Member States the opportunity to take action against a use of trade marks which are misleading for consumers. (52) As the Commission points out, consumers will also be protected by means of legislation on unfair competition. (53)

101. Irrespective of the fact that certain rules of trade-mark law may have regard to the interests of consumers, it may be concluded in view of the foregoing that the rules which give the trade-mark proprietor the opportunity to protect his exclusive right by means of actions for infringement are not so intended. The scope of the proprietor's exclusive right must not therefore be determined on the basis of what is necessary for the protection of the consumer but only of an assessment of whether it is necessary to protect the trade-mark proprietor's interest in the mark's performing its essential function of enabling consumers to distinguish the product from those of a different origin without risk of confusion.

102. A trade-mark proprietor who concludes a separate assignment for certain Member States has voluntarily relinquished the right to be the only one to market on Community territory products bearing the mark in question. In doing so he has in any case weakened the

mark' s distinguishing function for the consumer who travels across national borders, and his interest in being able to conclude a separate assignment for certain Member States whilst preserving the exclusive right to market within his own territory is not sufficiently compelling to justify in itself a partitioning of national markets contrary to one of the most essential purposes of the Treaty ° the merging of the national markets into a single market.

J ° Additional arguments

103. As I mentioned, a number of further arguments have been advanced both for an affirmative and for a negative answer to the question whether an import ban in conjunction with a separate assignment of a trade mark for certain Member States is contrary to Articles 30 and 36 of the Treaty.

104. The German Government has contended, in arguing for a negative answer to the question that the assignee, in the Member States in which the assignor continues to own the mark, will obtain rights similar to those of a licensee of the mark. The German Government points to the fact that the assignee will be able to take advantage of the assignor' s investment in maintaining the status and reputation of the mark, without having provided any consideration and without being subject to the normal duties of a licensee with regard to the quality of the goods in question.

In this connection it only needs to be stated that, as already mentioned, the proprietor of a trade mark must, in concluding a contract of assignment, which includes the fixing of the consideration, take account of the legal effects of such a contract in the light of Community law, and correspondingly such effects must also be assumed to be included in the assignee' s expectations.

105. It might perhaps be claimed, as was stated by the Court in HAG I, that it is possible for the assignor to give consumers notice of the product' s origin in other ways less detrimental to the free movement of goods than by an import ban. That is not a very compelling point of view. I agree in this respect with Mr Advocate General Jacobs, who drew the conclusion in his Opinion in HAG II that

"here are circumstances in which it might be practical to distinguish between conflicting trade marks by means of additional markings, but that such circumstances constitute the exception rather than the rule. I doubt whether that method would ever be effective in the case of identical trade marks used for identical products. Above all, it must be stressed that it is not a panacea to all the problems posed by trade mark conflicts, as the Court seemed to imply in HAG I" (Paragraph 45).

106. In support of an affirmative answer to the question, IHT has claimed that it is a question of the assignment of a right which is exhausted, since in consequence of the exhaustion principle Ideal-Standard GmbH could not, before the assignment of the mark in 1984, avail itself of its trade-mark rights against products marketed in Community territory under the "Ideal Standard" mark and that the voluntary subdivision of

the mark must be regarded in Community law as a continuation of that previous legal situation.

That is a purely formal argument and is not based on the essential considerations which must necessarily determine the answer to the question.

107. The German Government has emphasized that consideration should be given to the question of the extent to which the assignee' s opportunity to oppose on his own market the marketing of the assignor' s goods may influence the answer to the question.

108. The Court stated in HAG II that "each of the trade-mark proprietors must be able to oppose the importation and marketing, in the Member State in which the trade mark belongs to him, of goods originating from the other proprietor" (paragraph 19). The German Government has pointed out that with that statement the Court omitted to attach importance to the fact that the assignee obtained the expropriated right in full knowledge of the fact that outside his territory it belonged to a third party. The government' s view is that, seen from the assignee' s point of view, there is no decisive difference between situations in which a trade mark is acquired after it has previously been expropriated and those in which there has been no such prior expropriation, and those situations should therefore be treated in the same way. The German Government thinks it may be deduced from that that the original proprietor of a trade mark must be treated in the same way, whether it is a matter of expropriation or of assignment.

109. No compelling arguments can be deduced from the Court' s judgment in HAG II to the effect that the assignee' s legal position must be the same whether he acquires the mark after expropriation or direct from the original proprietor.

110. In my view the judgment of the Court is only an expression of a wish to ensure parallel treatment for the legal situation of both trade-mark proprietors. (54) The Court wished to avoid a legal situation with free movement of goods in only one direction, that is, from the original trade-mark proprietor' s territory to that of the assignee of the expropriated right.

111. The arguments advanced regarding the legal situation of the assignee therefore count neither for nor against a result according to which a trade-mark proprietor who concludes a separate assignment for certain Member States cannot oppose the assignee' s marketing of products in the Member States in which the mark is retained. On the other hand from the Court' s statement in HAG II arguments may be deduced to the effect that in such a situation the assignee must correspondingly accept the assignor' s marketing in his territory.

112. The question referred to the Court concerns only the assignor' s opportunity to oppose the importation of products manufactured by the assignee, but as is shown by the Court' s judgment in HAG II, where the question was similarly limited, the Court is not thereby precluded from giving an express view as to the legal position of the assignee.

K ° Article 85 of the Treaty

113. Ideal-Standard GmbH and the German and United Kingdom Governments contend that it is not necessary to interpret Article 30 and 36 to the effect that an import ban in a situation like that before the Court is contrary to the Treaty, since the rules of competition law offer sufficient protection against contracts for the assignment of trade marks leading to partitioning of the market contrary to the aims of the Treaty. But at the same time it is claimed that there is nothing in the order for reference which gives any grounds for assuming that the assignment in this case conflicts with Article 85 of the Treaty. IHT states that any subdivision by agreement of trade marks and the exercise of the national trade-mark rights prolonging such subdivision constitute an agreement restricting competition contrary to Article 85 but does not seem to have based on that any arguments concerning the interpretation of Articles 30 and 36.

114. It was mentioned in Section B that the legality of obstructions to trade, which are a consequence of an import ban imposed under the authority of national trade-mark law must always be assessed on the basis of Articles 30 and 36 of the Treaty and consequently the question referred to the Court concerns only the interpretation of those provisions. But that does not preclude the possibility that Article 85 may also be of significance for assessing the legality of the import ban or that the existence of Article 85 may therefore also be relevant for the interpretation of Articles 30 and 36.

115. This case concerns the direct relationship between two parties to an agreement. It follows from the survey of the Court's case-law in Section D that a proprietor may not rely on his trade-mark rights under national law when the exercise of such rights is the subject, the means or the consequence of an agreement prohibited under Article 85. It is therefore possible that the legality in a situation such as this of imposing an import ban on the basis of national trade-mark law may depend also on an assessment of the legality of the assignment under Article 85 of the Treaty.

116. In that light it is appropriate to consider to what extent Article 85 is relevant for an assessment of the legality of an assignment.

It may be a question of the parties to the agreement having taken a decision with regard to their chances of obtaining territorial protection as against one another.

117. If an agreement is to be interpreted in such a way that the parties may export freely to one another's territory, then by that agreement they have precluded themselves from obstructing, by means of actions for infringement, exportation effected by the other party. A claim by IHT that the contract of assignment concluded with Ideal-Standard SA really has that content will be discussed in Section N a, below.

118. If an agreement expressly or by implication contains a ban on the parties' marketing products in one another's territory, the possibility of prohibiting, on the basis of the agreement, importation into the protected territory by an action for breach of contract will depend upon a decision as to the legality of that condition under Article 85 of the Treaty. If the condition in the

contract is legal under Article 85, the import prohibition may be imposed as a direct consequence of the breach of contract. (55) If on the other hand the condition conflicts with Article 85, it cannot be enforced by an action either for breach of contract or for infringement of trade mark.

119. However, it is also necessary in this connection to decide whether Article 85 has any significance for a "pure" contract of assignment of a trade mark, that is, an agreement intended simply to make it possible for the assignee to acquire the rights which national trade-mark law grants to the proprietor of a mark and which are not accompanied by other contractual conditions detailing the possibilities for the parties to use the mark outside their respective territories.

120. It is possible for a pure contract of separate assignment of parallel marks under national law to be supplemented by a declaratory rule to the effect that the parties may not market goods bearing the mark on one another's territory. In such a case one party may base his right on the contract with a view to preventing the other party's exporting to his territory. In that situation the party's chance of using his trade-mark rights with a view to enforcing the contract concluded must depend on the legality of the agreement under Article 85 in the same way as when the agreement expressly or by implication contains an export ban.

121. It is also possible that the pure assignment under national law may be regarded as "neutral", so that one party has no opportunity to bring an action for breach of contract but must fall back on his trade-mark rights with a view to preventing, by means of an action for infringement of trade mark, exportation by the other party to his territory. In that situation it is doubtful whether Article 85 is relevant or whether the legality of such an obstruction of trade under Community law can be assessed only under Article 30 and 36.

122. It may be maintained that the possibility of using the trade-mark rights has its origin in the assignment and that the partitioning of the market therefore really springs from the agreement concluded, the legality of which must be assessed under Article 85.

123. It may also be maintained that the partitioning of the market does not spring from the assignment which has been entered into but only from an exercise of national trade-mark rights. Where the agreement cannot form the basis of an action for breach of contract, it is not the agreement as such which partitions the market. The partitioning effect of the agreement arises only when the owners of parallel rights choose to make use of their rights under national law to prevent importation by means of actions for infringement.

124. The question which of these two possibilities is the correct one has not been discussed during the case so that it seems to me inappropriate and moreover not strictly necessary to come to a decision on the point. But it has a certain significance for this case to state that the pure assignment of a trade mark, if it is understood in line with Community law as last mentioned, cannot conflict with Article 85 and that the question of the extent to which it is compatible with the common

market to impose an import ban as a consequence of infringement of trade marks in such a case can be determined only on the basis of Articles 30 and 36.

125. That is the basis on which the argument by Ideal-Standard GmbH and the German and United Kingdom Governments that Article 85 gives sufficient protection against partitioning of the internal market contrary to the aims of the Treaty should be assessed.

126. That idea pre-supposes that Article 85 may be used to test the legality of all agreements for separate assignment of trade marks. As I have said, that supposition is not necessarily correct.

127. However, what is decisive is that that idea may be rejected even if it were to be accepted that Article 85 may be used to test also pure contracts of assignment which are neutral under national law.

128. It will in fact be seen that the point of view on which that idea is based may be reversed. It may with equal correctness be claimed that a more appropriate state of law may be attained by stating that Articles 30 and 36 prevent the parties to a contract of assignment from using their trade-mark rights with a view to preventing exportation to one another's territory. If the parties are prevented in this way from making independent use of their right under national law to prohibit importation by means of actions for infringement of trade marks, they will be able to obtain mutual territorial protection only by enforcement of their agreement to the extent to which it may be interpreted or supplemented in such a way as to prohibit direct sale in one another's territory and to the extent to which the condition of the agreement thus laid down is not considered on closer examination as conflicting with Article 85(1) or has received a specific exemption under Article 85(3). The advantage of such a basis is that it requires the parties to make clear in their relationship what their rights are on one point. That is appropriate as regards both the relationship between the parties and the correct operation of the internal market.

129. Against that background importance cannot be attached to the existence of Article 85 as an argument against interpreting Articles 30 and 36 to the effect that they prevent import prohibitions laid down by means of actions for infringement of trade mark in cases such as the one before us.

130. If for that reason only, there is no occasion to consider how Article 85 is to be interpreted for the purpose of a decision as to the legality of assignments of trade marks. Moreover that is a difficult question. As mentioned in Section D, the Court has given its views on the question in two references for a preliminary ruling, both of which concerned separate assignments of trade marks prior to the entry into force of the Treaty.

131. The first judgment was delivered in Case 40/70 *Sirena v Eda* on 18 February 1971. An American company had sold its trade mark for Italy to an Italian company and its parallel mark for Germany to a German company. In that case the Court was called upon to decide whether the Italian company could prevent the importation into Italy of goods produced by the German company and bearing that mark.

The Court declared that "if the combination of assignments to different users of national trade marks protecting the same product has the result of re-enacting impenetrable frontiers between the Member States, such practice may well affect trade between States and distort competition in the common market" (paragraph 10). The Court continued by referring to the possibility that agreements concerning the use of national rights in respect of the same trade mark might be effected in such conditions as not to lead to partitioning of the market and concluded that "Article 85 ... is applicable to the extent to which trade-mark rights are invoked so as to prevent imports of products which originate in different Member States, which bear the same trade mark by virtue of the fact that the proprietors have assigned it, or the right to use it, whether by agreements between themselves or by agreements with third parties" (paragraph 11).

132. The Court's judgment in Case 51/75 *EMI Records v CBS United Kingdom*, delivered on 15 June 1976, concerned a situation in which an American company sold its trade mark for all Community Member States to its British subsidiary, whilst retaining it for the United States. By means of successive assignments in the United States and in the United Kingdom, the British company EMI became the proprietor of the mark for the whole Community and the American company CBS became the proprietor of the mark for the United States. A question was referred to the Court as to whether it would be contrary to the Treaty for EMI on the basis of national trade-mark law to prevent CBS from exporting to Community territory products bearing the mark.

The Court first declared that Article 30 of the Treaty was not applicable, as importation from a third country was involved. The Court next stated that for Article 85 to apply to a case of agreements no longer in force it was sufficient that such agreements continued to produce their effects after they had formally ceased to be in force. The Court then declared that "An agreement is only regarded as continuing to produce its effects if from the behaviour of the persons concerned there may be inferred the existence of elements of concerted practice and of coordination peculiar to the agreement and producing the same result as that envisaged by the agreement. This is not so when the said effects do not exceed those flowing from the mere exercise of the national trade-mark rights" (Paragraphs 31 and 32).

133. As regards these judgments I shall simply remark that in my view it cannot be deduced from the Court's judgment in *Sirena* that a contract for the assignment of a mark represents in itself a restriction of competition. (56) Conversely it cannot be deduced from the Court's judgment in *EMI Records v CBS United Kingdom* that a pure agreement for the assignment of a mark may never be contrary to Article 85. It is not impossible that the Court decided that case on the basis of a specific assessment that the territorial protection acquired as a result of the contract was compatible with the common market, *inter alia* because there was no question of a partitioning but simply of an insulation of that market.

L ° The trade-mark proprietor' s opportunity to prevent parallel importation

134. Most of the cases referred to the Court in the field of intellectual property rights have originated in an attempt by the proprietor of an exclusive right to prevent parallel imports, that is, importation of goods by undertakings which have bought the goods in another Member State where they had already been marketed by the person entitled.

135. If the Court finds that Article 30 prevents the assignor from prohibiting, by means of an action for infringement of trade mark, the export to his market by the assignee of goods bearing the mark, the proprietor will be all the more precluded from opposing parallel imports.

136. If the Court finds that Articles 30 and 36 do not prevent the assignor from opposing, by an action for infringement of trade mark, exportation to his market by the assignee of the mark, the question arises whether the same result applies as far as parallel imports are concerned. When it is considered that in a given case the result will undoubtedly be based on considerations of protecting the specific subject-matter of the mark seen in the light of the mark' s essential function and that such considerations naturally also apply in relation to parallel imports, Articles 30 and 36 will not prevent an import ban in the case of parallel imports either. Such a result will therefore lead to a complete partitioning of national markets.

M ° Résumé

137. An answer to the question referred to the Court pre-supposed a clarification of the considerations to which the Court must, in my view, attach importance. It will have become apparent that a decision on the question depends primarily on the importance attached to the specific subject-matter of the trade mark regarded in the light of its essential function and to the fact that in accordance with national law the trade-mark proprietor is entitled to assign his rights.

138. My reflections have led me to suggest to the Court that the question referred to it should be answered to the effect that Article 30 and 36 prevent an import ban in situations such as this. That suggestion is based primarily on the following considerations:

- ° the assignor is not reduced to a situation in which he must accept that the distinguishing function of the trade mark cannot be completely upheld;
- ° the possibility for the trade-mark proprietor to conclude separate assignments will de facto be restricted, but is scarcely an essential part of the rights linked to his mark, inter alia because the proprietor of a mark must be expected to take into account in all circumstances the fact that a separate assignment means that the distinguishing function of the mark is weakened as regards the consumer who travels across national borders within a single market;
- ° a full assignment for all the Member States in which the mark is protected conforms better with the basic principle of the Treaty relative to a single market (cf. in this connection the Council Regulation on the Community trade mark);

° as regards actions for infringement of trade mark, there is no independent interest on the part of consumers which might justify a right on the part of the proprietor to protect the distinguishing function by means of import prohibitions in connection with separate assignments also;

° if it is accepted that separate assignments may, by means of actions for infringement of trade mark, lead to territorial protection, which in principle may apply without limitation of time, they will imply an essential obstruction to free movement of goods and a consequent partitioning of the internal market contrary to the aims of the Treaty.

N ° Whether there are special circumstances in this case such as may be of importance for its assessment under Community law

139. The court of reference has only requested the Court to interpret Articles 30 and 36 with regard to a decision on the abstract question dealt with above, namely whether an import prohibition imposed under the authority of national legislation on trade marks in conjunction with a separate assignment of a trade mark conflicts with those provisions. However, the facts of the case and a series of observations and arguments put before the Court give the impression that there may in this case be such special circumstances that a prohibition of IHT' s marketing of heating installations in Germany cannot be justified under Article 36 of the Treaty. In case the Court does not agree with the opinion I have just given I shall put forward the following points.

a. The specific circumstances connected with the relationship between the parties

140. IHT claims that the cumulative effect of various circumstances means that in this case an import prohibition will constitute a misuse of rights and will therefore be incompatible with Community law. IHT refers in this respect to the Court' s judgment in *Keurkoop v Nancy Kean Gifts*, according to which "Article 36 is intended to emphasize that the reconciliation between the requirements of the free movement of goods and the respect to which industrial and commercial property rights are entitled must be achieved in such a way that protection is ensured for the legitimate exercise, in the form of prohibitions of imports which are 'justified' within the meaning of that article, of the rights conferred by national legislation, but is refused, on the other hand, in respect of any improper exercise of the same rights which is of such a nature as to maintain or establish artificial partitions within the common market". (57)

141. IHT has claimed that the American Standard group decided in 1976 to withdraw definitively through the world from the heating installation sector, that Ideal-Standard GmbH must accept the consequences of the voluntary subdivision of the trade mark "Ideal Standard", decided upon by the parent company and implemented in France by the subsidiary company, that with that assignment there was in fact a subdivision of the mark between sanitary ware and heating throughout the whole Community and that the agreement con-

cluded must therefore be interpreted as meaning that it authorizes IHT to export heating installations under the "Ideal Standard" mark to the other Member States of the Community. In this connection IHT has stated that:

- ° the contract of assignment related to the whole field of heating, including the goodwill and including therefore customers outside France, since at the time the assignment was concluded heating installations bearing the "Ideal Standard" mark were already exported to other Member States and no form of restrictions on exportation was envisaged in the agreement;

- ° since 1976, that is, for more than 15 years, SGF and then CICH have been manufacturing heating installations in France under the "Ideal Standard" mark and exporting them to other Member States, namely Italy, Spain, the Benelux countries and Greece and, since 1988, Germany; and

- ° those exports were accepted by the American Standard group, which protested against them only in 1991 in Germany and since then has brought an action for infringement of trade mark only in Italy but not in the other countries to which exports were made.

142. Against that Ideal-Standard GmbH claims that:

- ° the contract effected an assignment of trade-mark rights only in France, Tunisia and Algeria and in no way gave any authorization to use for export the marks registered in other Member States, since that would have assumed that the subsidiaries, which are the proprietors of the parallel trade marks, were parties to the agreement and that those marks were mentioned therein, and since the consideration paid in that case would have been considerably more;

- ° the American Standard group withdrew only provisionally from the heating installation sector and reserved the right to resume such activities in so far as air-conditioning systems (cooling and heating) were concerned; (58)

- ° the group at no time agreed to the exportation of heating installations from France to other Member States but took action in the countries in which it was aware of such exports, namely in Germany and Italy; and

- ° the group possibly tolerated exportation to Italy for a number of years, but the reason for that must be sought in the Court's judgment in HAG I and the actions for infringement of trade mark were brought in Germany and Italy precisely after the Court's decision in HAG II.

143. All these circumstances are in my view relevant in connection with an interpretation of the assignment entered into between Ideal-Standard SA and SGF. It is possible that the agreement must be interpreted as actually involving a subdivision of the trade mark for the whole Community territory since it allows SGF to export heating installations to the other Member States. It is possible that for the interpretation of the contract importance may be attached to the action of the American Standard group thereafter and it is also possibly significant for understanding the agreement that the Court had delivered the HAG I judgment in the period before the agreement was concluded and that that judgment might have led undertakings to expect that they would be un-

able to rely in any circumstances on a trade mark to prohibit the marketing of goods bearing an identical mark where the marks had the same origin.

144. But the question of how the contract of assignment entered into is to be interpreted is a matter for the national authorities and courts.

145. IHT and the Commission contend more particularly, however, that an authorization in German trade mark legislation to impose a prohibition on IHT's marketing of heating installations in circumstances such as these is not compatible with Community law. They point out that the American Standard group in Germany opposes marketing of heating installations under the "Ideal Standard" mark even though the group itself does not manufacture heating installations, even though the group has concluded a partial assignment of the trade mark in France and has thereby accepted that an assignee may use the mark for heating installations simultaneously with the group's use of the mark for sanitary ware and even though the group has not taken any action in other Member States as regards the sale of heating installations bearing the mark.

My observations on that are as follows.

146. As regards the American Standard group's possible ° and moreover contested ° failure to take action by using the trade-mark rights to which it was entitled in certain Member States, such a failure cannot affect the assessment under Community law of an authorization to use trade-mark rights in other Member States.

147. Nor is the fact that in France Ideal-Standard SA assigned its trade mark for only a part of the products for which it was registered such as to make German legislation incompatible with Community law. It cannot be a consequence of Community law that the proprietor of a trade mark is required to dispose of his mark in the same way in all Member States. Nor can it be a consequence of Community law that the fact that the proprietor chooses to dispose of the mark in different ways is in itself regarded as such a serious matter that it involves extending to the whole Community the legal effects of the arrangements which he makes in one Member State. The German courts cannot, in other words, be obliged under Community law to regard the fact that the American Standard group has expressly accepted in France, by means of the partial assignment, the simultaneous use of the trade mark for heating installations as meaning that in Germany the group cannot oppose such simultaneous use.

148. That is no less true because the opportunities of making such arrangements differ according to the various national laws. In certain Member States there are provisions in national trade mark legislation which prevent the proprietor of a trade mark from assigning it for only a part of the goods for which it is registered. The German Government has stated that that is in fact the position in Germany. (59)

149. If the Court does not find that an assignment of a trade mark in one Member State means that the proprietor loses his exclusive right in the Member States in which it is retained, the fact that an undertaking takes advantage of its opportunity in pursuance of a country'

s legislation in order to make only a partial assignment of its mark cannot lead to such a result either.

150. Finally, as regards the question of the extent to which it may be incompatible with Articles 30 and 36 to prohibit marketing of products on the basis of a trade mark which is not in use, that is irrelevant in this case because, as will be apparent in the next section, it is common ground that Ideal-Standard GmbH does not use its mark for heating installations, but does use it for sanitary ware, as it is claimed that heating installations and sanitary ware are similar goods.

b. The risk of confusion

151. The proprietor of a trade mark may rely on his exclusive right in order to oppose the importation of goods bearing identical marks or marks which may be confused with them only where the products are the same as, or similar to, those for which the relevant mark is protected. Only in that situation, in fact, is there a risk of confusion. The observations submitted to the Court discuss how far sanitary ware and heating installations are similar goods such as may give rise to a risk of confusion.

152. The reasons why this problem arises are not very clear. It is quite correct that Ideal-Standard GmbH markets only sanitary ware, but according to the evidence in the case that company continues to own the "Ideal Standard" trade mark for heating installations too, (60) and must therefore at first sight be able to oppose IHT's marketing of heating installations, as it claims that those are products of the same nature as those for which the mark is registered. The reason for the problem may perhaps be that the German trade mark for heating installations risks being struck out for non-use and could not therefore be relied upon in an action for infringement. (61) In any event the Landgericht Duesseldorf in its judgment in the case thought it necessary to go into the question whether sanitary ware and heating installations were similar products and answered the question in the affirmative. (62)

153. Ideal-Standard GmbH claims that the company's products are frequently confused with the products marketed in Germany by IHT under the trade mark "Ideal Standard". IHT contends that in view of the technical and economic developments which have taken place there is no longer such a connection between heating and sanitation that any confusion can arise. (63) The Commission contends that it is necessary to give a strict interpretation to the concepts of similar products and of risk of confusion so as to ensure that free movement of goods is not obstructed further than is necessary for the protection of the mark. Both the Commission and IHT think that in this connection essential significance must be attached to the fact that a French company in the same group did not think there were problems involved in assigning the mark for heating installations in France and retaining it for sanitary ware.

154. The extent to which sanitary ware and heating installations are similar products is a matter for national law. It follows from the consistent case-law of the

Court that in the absence of uniformity or an approximation of laws within the Community the laying down of conditions and more detailed rules for the protection of intellectual property rights is a matter for national rules. (64) In an extension of that case-law the Court stated in its judgment in *Deutsche Renault* that "the determination of criteria allowing the conclusion to be drawn that there is a risk of confusion is part of the detailed rules for protection of trade marks, which ... are a matter for national law" and that "Community law does not lay down any criterion requiring a strict interpretation of the risk of confusion" (paragraphs 31 and 32).

155. However, national law is subject, on this point too, to the limits arising from the second sentence of Article 36 of the Treaty to the effect that restrictions on trade must not constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States. (65)

156. In my view there is no reason for the Court to consider in this case whether German trade-mark law is compatible with the conditions in the second sentence of Article 36 in so far as it makes it possible to determine that sanitary ware and heating installations are similar products, in the first place because, as the German Government also points out, no question on that point has been referred to the Court, and in the second place because it seems to me obvious that the limits which may be read into the second sentence of Article 36 in this respect have not been overstepped in this case. (66)

Conclusion

On the basis of the foregoing considerations I shall propose that the Court should answer the question which has been referred to it as follows:

Articles 30 and 36 of the EEC Treaty preclude national legislation from allowing an undertaking which is the proprietor of a trade mark in a Member State to oppose the importation from another Member State of similar products lawfully bearing in the latter State a mark which is identical or may be confused with the protected mark, where the mark under which the disputed products are imported originally belonged to a company affiliated to the undertaking which is opposing the importation and was acquired by the new proprietor by means of a contract concluded with the affiliated company.

* Original language: Danish.

(1) - According to point 1(a) of the agreement, Ideal-Standard SA assigned all its rights in the trade mark Ideal Standard in France, including the overseas departments and territories, and in Algeria and Tunisia, as regards production, marketing and sale of heating installations.

(2) - It was stated during the case that Ideal-Standard SA had brought an action before the Tribunal de Grande Instance, Paris, claiming that the assignment of the trade mark from SGF to CICH was void, the reason being that the agreement between Ideal-Standard SA and SGF contained a clause granting Ideal-Standard SA

an option of re-purchase in the event of re-assignment, which SGF is alleged to have disregarded.

(3) - IHT has since July 1992 been the successor in title to Ideal Heizungstechnik GmbH, which was entered in the companies registry on 31 October 1988.

(4) - The respondent in the main proceedings, in addition to Ideal-Standard GmbH, is Wabco Standard-GmbH, which took over the management of Ideal-Standard GmbH as from 1 January 1991.

(5) - The appellant in the main proceedings, in addition to IHT, is Mr Uwe Danzinger, engineer, who until 1975 was employed by Ideal-Standard GmbH and later by IHT.

(6) - SA CNL-SUCAL v HAG GF [1990] ECR I-3711.

(7) - Van Zuylen v HAG [1974] ECR 731.

(8) - See inter alia the judgment in Case 35/87 Thetford and Another v Fiamma and Others [1988] ECR 3585.

(9) - OJ 1989 L 40, p. 1.

(10) - See the third recital to the directive.

(11) - See Council decision of 19 December 1991, OJ 1992 L 6, p. 35.

(12) - Cf. the judgment of the Court in Case C-317/91 Deutsche Renault [1993] ECR I-6227 at paragraph 14.

(13) - OJ 1994 L 11, p. 1.

(14) - See the proposal for a first Council Regulation on the Community trade mark of 25 November 1980, OJ 1980 C 351, p. 1, as amended by the amended proposal for a Council Regulation on the Community trade mark of 9 August 1984, OJ 1984 C 230, p. 1.

(15) - Article 7 provides:

1. The trade mark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that trade mark by the proprietor or with his consent.

2. Paragraph 1 shall not apply where there exist legitimate reasons for the proprietor to oppose further commercialization of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market.

(16) - Article 5(1) provides:

1. The registered trade mark shall confer on the proprietor exclusive rights therein. The proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade:

(a) any sign which is identical with the trade mark in relation to goods or services which are identical with those for which the trade mark is registered;

(b) any sign where, because of its identity with, or similarity to, the trade mark and the identity or similarity of the goods or services covered by the trade mark and the sign, there exists a likelihood of confusion on the part of the public, which includes the likelihood of association between the sign and the trade mark.

(17) - See paragraphs 51 to 57 of the Opinion, delivered on 13 March 1990, [1990] ECR I-3711.

(18) - [1971] ECR 125.

(19) - [1974] ECR 1147.

(20) - [1974] ECR 1183.

(21) - [1982] ECR 2853.

(22) - [1981] ECR 2063. See the corresponding judgments in Case 144/81 *Keurkoop v Nancy Kean Gifts* [1982] ECR 2853 and Case 35/87 *Thetford v Fiamma* [1988] ECR 3585.

(23) - [1989] ECR 79.

(24) - [1978] ECR 1139.

(25) - [1981] ECR 2913. It would also be incompatible with the conditions in the second sentence of Article 36 for a producer who markets the same goods in various Member States under different trade marks to oppose parallel importation of goods by a third party who removes the mark for the State of export and replaces it with that for the import State if it can be demonstrated that the proprietor of the trade mark has applied various marks for the purpose of partitioning the markets (see the judgment in Case 3/78 *Centrafarm v American Home Products* [1978] ECR 1823).

(26) - See inter alia the judgments in Cases 24/67 *Parke, Davis v Centrafarm* [1968] ECR 55 and 78/70 *Deutsche Grammophon* [1971] ECR 125.

(27) - See paragraph 11 of the Opinion.

(28) - [1966] ECR 299.

(29) - [1978] ECR 1391. In this connection see also the Court's conclusion in the judgments in Cases 119/75 *Terrapin v Terranova* [1976] ECR 1039 and 40/70 *Sirena* [1971] ECR 7.

An agreement prohibiting exportation between two parties will not however affect the right of a third party based on Articles 30 and 36 of the Treaty to make parallel imports (see the judgment in Case 58/80 *Dansk Supermarked v Imerco* [1981] ECR 181).

(30) - [1976] ECR 1039.

(31) - See, as regards the interpretation of the concepts of similar goods and trade marks likely to lead to confusion, the judgment in Case C-317/91 *Deutsche Renault AG v Audi AG* [1993] ECR I-6227.

The proprietors of independent trade marks may choose to enter into so-called delimitation agreements seeking to delimit, in the mutual interests of the parties, the spheres within which their respective trade marks may be used so as to avoid confusion or conflict. Such agreements may conflict with Article 85 of the Treaty in so far as they have the aim of dividing up the market or restricting competition in other ways (see judgment in Case 35/83 *BAT v Commission* [1985] ECR 363).

(32) - [1985] ECR 2281.

(33) - [1982] ECR 2015. That case concerned an agreement for assignment in respect of Germany of plant-breeders' rights for certain products and the exclusive right to deal in such products in Germany. The Court found that an open exclusive licence, that is, a licence concerning only the contractual relationship between the proprietor and the licensee, regard being had to the specific nature of the products in question, was not in itself incompatible with Article 85(1) of the Treaty. On the other hand, as regards exclusive licences granting absolute territorial protection in favour of a licensee with a view to controlling and preventing parallel imports by third parties, the Court declared that in accordance with its consistent case-law that was incompatible with Article 85 of the Treaty.

(34) - See in particular Commission Regulation (EEC) No 2349/84 of 23 July 1984 on the application of Article 85(3) of the Treaty to certain categories of patent licensing agreements (OJ 1984 L 219, p. 15) and Commission Regulation (EEC) No 4087/88 on the application of Article 85(3) of the Treaty to certain categories of franchise agreements (OJ 1988 L 359, p. 46).

(35) - [1971] ECR 7.

(36) - [1976] ECR 811.

(37) - Agreements concluded between undertakings which, being owned by parent company and subsidiary, belong to the same group will not be covered by Article 85 in the event of the undertakings' forming an economic unit within which the subsidiary has no real freedom to determine its course of action on the market and where the agreements or practices are concerned merely with the internal allocation of tasks as between the undertakings (see the judgments in Cases 15/74 *Centrafarm v Sterling Drug* [1974] ECR 1147 and 16/74 *Centrafarm v Winthrop* [1974] ECR 1183).

(38) - In 1907-1908 the German company HAG GF registered the trade mark HAG for decaffeinated coffee in Germany, Belgium and Luxembourg. In 1935 the Belgian and Luxembourg trade marks were assigned to the wholly-owned subsidiary in Belgium. In 1944 all the subsidiary's assets including the Belgian and Luxembourg trade marks were confiscated as enemy property and sold to the Van Oevelen family. In 1971 the trade marks were assigned to the Belgian limited partnership Van Zuylen Frères. As HAG GF in 1972 began to export coffee to Luxembourg under the trade mark Kaffee HAG, Van Zuylen Frères brought an action for trade-mark infringement. Those proceedings led to the preliminary ruling of the Court in HAG I.

In 1979 Van Zuylen Frères was purchased by a Swiss company and converted into a wholly-owned subsidiary under the style of CNL-SUCAL NV. When in 1985 that company began to export coffee to Germany under the HAG trade mark, HAG GF brought an action for trade-mark infringement. Those proceedings led to the preliminary ruling of the Court in HAG II.

(39) - See in this connection paragraph 73 of Advocate General Jacobs' s Opinion in HAG II, in which he states that one of the criticisms which might be levelled against the ruling in HAG I is that it was considerably wider than necessary and that a repetition of that mistake should be avoided in drawing up the judgment in HAG II.

(40) - See in that connection section VII of Advocate General Jacobs' s Opinion in HAG II.

(41) - The Court has thus precisely established and applied the exhaustion principle in connection with parallel imports by third parties, but it has declared the principle inapplicable to direct sales undertaken by independent proprietors of parallel rights within one another' s territory (see Section D above).

(42) - It follows, however, from Articles 10, 11 and 12 of the directive on trade marks that a trade-mark proprietor may forfeit his rights if he has not made genuine

use of the trade mark in a Member State for a period of five years.

(43) - This was expressed as follows by Advocate General Jacobs in his Opinion in HAG II: whereas patents reward the creativity of the inventor and thus stimulate scientific progress, trade marks reward the manufacturer who consistently produces high-quality goods and they thus stimulate economic progress. Without trade-mark protection there would be little incentive for manufacturers to develop new products or to maintain the quality of existing ones. Trade marks are able to achieve that effect because they act as a guarantee, to the consumer, that all goods bearing a particular mark have been produced by, or under control of, the same manufacturer and are therefore likely to be of similar quality.

...

A trade mark can only fulfil that role if it is exclusive. Once the proprietor is forced to share the mark with a competitor, he loses control over the goodwill associated with the mark. The reputation of his own goods will be harmed if the competitor sells inferior goods. From the consumer' s point of view, equally undesirable consequences will ensue, because the clarity of the signal transmitted by the trade mark will be impaired. The consumer will be confused and misled. (Paragraphs 18 and 19).

(44) - See Article 17(1) of the regulation, which provides: A Community trade mark may be transferred, separately from any transfer of the undertaking, in respect of some or all of the goods or services for which it is registered.

(45) - See Article 1(2) of the regulation, which provides: A Community trade mark shall have a unitary character. It shall have equal effect throughout the Community: it shall not be registered, transferred or surrendered or be the subject of a decision revoking the rights of the proprietor or declaring it invalid, nor shall its use be prohibited, save in respect of the whole Community. This principle shall apply unless otherwise provided in this regulation.

(46) - This point of view finds support in the Court' s judgments on the exhaustion principle. Thus there will be exhaustion if a product is put on the market in another Member State by or with the consent of a company legally or economically dependent on the proprietor (cf. *inter alia* the judgment in Case 144/81 *Keurkoop v Nancy Kean Gifts* [1982] ECR 2853) and it seems irrelevant in this respect whether companies related in this way have also taken advantage in practice of their opportunity to coordinate their policy as to quality and marketing.

(47) - The same idea is expressed in the judgment in *Pharmon v Hoechst*, in which the Court mentioned that by the grant of a compulsory licence to a third party, a patentee is deprived of his right to determine freely the conditions under which he markets his product.

(48) - This case provides a precise illustration. *Ideal-Standard GmbH* has explained that the contract of assignment was concluded only on the basis of the special situation in France, where the assignee had

managed Ideal-Standard SA for a considerable period and thus was fully acquainted with the company's policy on quality and where it was therefore a question of entrusting the quality of the trade mark to a company on which reliance could be placed, whilst at the same time the company was forbidden to assign the mark to others.

(49) - In this connection it is of interest that the Landgericht Duesseldorf, in interpreting the Court's judgment in HAG II, stated: Such priority for the free movement of goods cannot be justified, either, on the ground that it is not necessary to protect a trade-mark proprietor who voluntarily assigns his rights to a third person in one or more Member States. That does not take into consideration the fact that the mark's distinguishing function cannot be assessed solely from the proprietor's point of view, but that consideration must also be given to the protection of consumers, who are entitled to be able to establish with certainty the origin of the goods protected by a trade mark so that they can distinguish them from goods from another undertaking. In that respect there is no relevant legal difference between the compulsory and the voluntary subdivision of a mark.

(50) - See paragraph 18 of the Opinion, in which, inter alia, Advocate General Jacobs stated: The guarantee of quality offered by a trade mark is not of course absolute, for the manufacturer is at liberty to vary the quality; however, he does so at his own risk and he ° and not his competitors ° will suffer the consequences if he allows the quality to decline. Thus, although trade marks do not provide any form of legal guarantee of quality ° the absence of which may have misled some to underestimate their existence ° they do in economic terms provide such a guarantee, which is acted upon daily by consumers.

(51) - This idea finds a certain support in particular in the judgment in Case 16/74 Centrafarm v Winthrop [1974] ECR 1183, in which the Court stated, in paragraphs 19 to 23:

This question requires the Court to state whether the trade-mark owner is authorized to exercise the rights conferred on him by the trade mark, notwithstanding Community rules concerning the free movement of such goods, for the purpose of controlling the distribution of a pharmaceutical product with a view to protecting the public against the risks arising from defects therein. The protection of the public against risks arising from defective pharmaceutical products is a matter of legitimate concern, and Article 36 of the Treaty authorizes the Member States to derogate from the rules concerning the free movement of goods on grounds of the protection of health and life of humans and animals. However, the measures necessary to achieve this must be such as may properly be adopted in the field of health control, and must not constitute a misuse of the rules concerning industrial and commercial property. Moreover, the specific considerations underlying the protection of industrial and commercial property are distinct from the considerations underlying the protection of the public and any responsibilities

which that may imply. The question ... should therefore be answered in the negative. (My emphases).

(52) - There may for example be rules prohibiting the assignment of a mark for only a part of the products for which it is protected. In this connection see Section N a, below.

See also Article 3(1)(g) of the trade-mark directive, according to which trade marks may be excluded from registration or if registered may be declared invalid if they are of such a nature as to deceive the public, for instance as to the nature, quality or geographical origin of the goods or service, and Article 4(1) according to which a trade mark may be excluded from registration or may be declared invalid if it is identical with an earlier trade mark or if there exists a likelihood of confusion on the part of the public or of association with the earlier trade mark.

(53) - See in this respect the sixth recital to the trade-mark directive which states that this directive does not exclude the application to trade marks of provisions of law of the Member States other than trade-mark law, such as the provisions relating to unfair competition, civil liability or consumer protection .

See in this connection also the judgment in Case 58/80 Dansk Supermarked v Imerco [1981] ECR 181 concerning partly the Danish rules with regard to protection of copyright and trade marks and partly rules on marketing dealing inter alia with consumer protection. With regard to the latter category of rules the Court ruled that the importation into a Member State of goods lawfully marketed in another Member State cannot as such be classified as an improper or unfair commercial practice, without prejudice however to the possible application of legislation of the State of importation against such practices on the ground of the circumstances or methods of offering such goods for sale as distinct from the actual fact of importation

(54) - In his Opinion on the case Advocate General Jacobs had expressed himself as follows: If HAG Bremen had voluntarily assigned the Belgian and Luxembourg marks to Van Oevelen, it would be easy to say that HAG Bremen had consented to the use of the mark by Van Oevelen in another Member State and had therefore exhausted its rights. HAG Bremen would not therefore be able to rely on its German trade mark in order to prevent imports of Van Oevelen's products into Germany. But would the same principle apply in reverse? Logically it should, even though the assignee of the subdivided mark could hardly be said to have exhausted his right; it would be more accurate to say that he acquired a right that was already exhausted (Paragraph 63).

(55) - An interpretation of Articles 30 and 36 to the effect that it is contrary to those provisions to use actions for infringement of trade marks to partition the internal market in continuation of separate assignments of parallel trade marks does not prevent its being accepted that it may be possible in national law to use the penalties attached to infringements of trade marks to penalize breaches of contracts.

(56) - In this connection see in particular paragraph 9 of the judgment in which the Court stated: When a trade-mark right is exercised by virtue of assignments to users in one or more Member States, it is necessary to establish in each case whether such use leads to a situation falling under the prohibitions of Article 85 (my emphasis).

(57) - Case 144/81 [1982] ECR 2853 at paragraph 24. IHT has also referred to Advocate General Tesaurò's Opinion delivered on 9 June 1993 in Case C-317/91 *Deutsche Renault v Audi* [1993] ECR I-6227, which refers in point 7 to the paragraph quoted above.

(58) - Ideal-Standard GmbH added that considerable importance is still attached within the group to the Ideal-Standard trade mark for heating installations since the group intends to use it commercially, for example by licence or sale (as happened in France).

(59) - The German Government has stated that partial assignments of registered trade marks cannot be effected but it is proposed to amend the law so as to make such a step possible.

(60) - The Oberlandesgericht Duesseldorf explained in its order for reference that the German mark was registered for heating installations, steam heating, refrigerating, drying, ventilating, water and sanitary installations including parts for such products, particularly washbasins, w.c. basins, bidets, douches (non-medical) and fittings for such installations with steel and cast-iron radiators and boilers.

(61) - IHT has stated that in April 1993 an action was brought against American Standard for cancellation of the German trade mark for heating installations for non-use.

(62) - In the course of that assessment the court attached importance to the fact that for a long time past joint trade fairs had been held for the two sectors, that both were represented by the same national trade organization and that there had been a number of actual cases of confusion between IHT's and Ideal-Standard GmbH's products. Finally the Court attached decisive importance to the fact that until 1976 the American Standard group carried on business in heating installations and that the Ideal Standard mark continues to be known in that sector, so that marketing of heating installations under that mark would almost inevitably lead to the conjecture that the American Standard group had resumed its operations in that sector. The court added that in addition IHT launched its products under the slogan *Come-back d' une marque mondiale ... IDEAL STANDARD*.

(63) - IHT in its observations submitted to the Court disputes the statement in the judgment of the Landgericht Duesseldorf that there have been a number of cases of actual confusion or that the American Standard group's operations in heating installations, which ceased more than 15 years ago, continue to be known. Next IHT mentions that after the Second World War an almost total separation took place at the production stage between the heating and sanitary sectors and that that separation had to a large extent repercussions on the retail trade and installation businesses. IHT men-

tions that a third of undertakings in the gas, water, central heating, ventilation, air-conditioning and plumbing sectors have nothing to do with the sale or installation of sanitary equipment. IHT further explains that a number of special-interest groups have grown up within the two sectors and that industrial and commercial interests within each branch are represented by two independent organizations.

(64) - See most recently the judgment in Case C-317/91 *Deutsche Renault v Audi* [1993] ECR I-6227, at paragraph 20.

(65) - See in this connection paragraph 19 of the judgment in *Deutsche Renault*, in which the Court declared: ... the purpose of the second sentence of Article 36 is to prevent restrictions on trade based on the grounds set out in the first sentence from being diverted from their purpose and being used in such a way as to introduce discrimination against goods originating in other Member States or to provide indirect protection for certain national products.

(66) - See in this connection paragraph 33 of the judgment in *Deutsche Renault*, in which the Court declared: It should however be recalled that national law is subject to the restrictions set out in the second sentence of Article 36 of the Treaty. There is, however, nothing in the documents before the Court to indicate that those restrictions have been exceeded. In particular there is nothing to suggest that the German courts make a broad interpretation of the concept of confusion where the protection of the trade mark of a German producer is at issue, but make a strict interpretation of the same concept where the protection of the trade mark of a producer established in another Member State is concerned.
