

**THE REPUBLIC OF TURKEY  
BAHÇEŞEHİR UNIVERSITY**

**THE PROTECTION OF  
INDUSTRIAL AND  
COMMERCIAL PROPERTY AS  
A DEROGATION FROM FREE  
MOVEMENT OF GOODS**

**Master Thesis**

**PINAR KILIÇ**

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**THE REPUBLIC OF TURKEY  
BAHÇEŞEHİR UNIVERSITY**

**THE INSTITUTE OF SOCIAL SCIENCES**

**EUROPEAN UNION PUBLIC LAW AND EUROPEAN INTEGRATION  
MASTER PROGRAMME**

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## ABSTRACT

### THE PROTECTION OF INDUSTRIAL AND COMMERCIAL PROPERTY AS A DEROGATION FROM FREE MOVEMENT OF GOODS

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European Union Public Law and European Integration

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This study deals with the protection of industrial and commercial property as an exception to free movement of goods. The fundamental principle of free movement of goods is perhaps the most important concept in the European Union law in that it is the starting point for the common market. However, this principle has not been left without any exceptions, one of which is the protection of industrial and commercial property.

In the first part, the fundamental principle of free movement of goods has been examined supported by the significant ECJ decisions which gave direction to the development of the principle. In this part, the two restrictions - (i) duties charges and taxes and charges having equivalent effect and (ii) quantitative restrictions and measures having equivalent effect – have been examined.

In the second part, the derogations (other than protection of industrial and commercial property rights) from the principle of free movement of goods has been dealt with. These are public morality, public policy, public security, protection of health and life of humans, animals or plants which are introduced by Article 30 TEC itself and mandatory requirements developed by the ECJ decisions.

In the third part, the core of the study is examined, that is, the protection of industrial and commercial property as a derogation from free movement of goods. First, the nature of intellectual property rights has been dealt with. Later, this derogation has been explained by the principles recognized by the ECJ, which are mainly (i) existence – exercise doctrine, (ii) specific subject matter, (iii) exhaustion of rights doctrine and (iv) common origin.

**Keywords:** free movement of goods, industrial and commercial property rights, existence – exercise doctrine, specific subject matter, exhaustion of rights, parallel import.

## ÖZET

### MALLARIN SERBEST DOLAŞIMININ İSTİSNASI OLARAK SINAİ VE TİCARİ MÜLKİYET HAKLARININ KORUNMASI

Kılıç, Pinar

Avrupa Birliği Kamu Hukuku ve Entegrasyonu

Tez Danışmanı: Yard. Doç. Dr. Selin Özoğuz

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Bu çalışma, Avrupa Birliği'nde malların serbest dolaşımı ilkesinin bir istisnası olarak sınaî ve ticari mülkiyet haklarının korunması konusunu ele almaktadır. Malların serbest dolaşımı temel ilkesi, ortak pazarın başlangıcını teşkil etmesi sebebiyle, belki de Avrupa Birliği hukukundaki en önemli kavramdır. Ne var ki, bu ilke istisnasız bırakılmamıştır ki bu istisnalardan biri de sınaî ve ticari mülkiyet haklarının korunmasıdır.

İlk bölümde, malların serbest dolaşımı ilkesi, bu ilkenin gelişimine yön veren önemli Adalet Divanı kararları ile birlikte incelenmiştir. Bu bölümde iki yasak – (i) vergiler ve eş etkili kısıtlamalar ve (ii) kotalar ve eş etkili kısıtlamalar incelenmiştir.

İkinci bölümde, malların serbest dolaşımına getirilen, sınaî ve ticari mülkiyet haklarının dışında kalan istisnalar irdelenmiştir. Bunlar Antlaşmanın 30. maddesinde yer bulan kamu ahlakı, kamu düzeni, kamu güvenliği, insan ve hayvanların sağlık ve yaşamının korunması ile Adalet Divanı kararları ile geliştirilen mecburi gerekliliklerdir.

Üçüncü bölümde ise, çalışmanın esas kısmı yani malların serbest dolaşımının istisnası olarak sınaî ve ticari mülkiyet haklarının korunması incelenmiştir. Öncelikle fikri mülkiyet hakları irdelenmiş, ardından bu istisna Adalet Divanı tarafından tanınan ilkeler ile anlatılmıştır. Bunlar özellikle (i) hakların varlığı – korunması doktrini, (ii) hakkın özü ilkesi, (iii) hakların tüketilmesi ilkesi ve (iv) ortak menşeyidir.

**Anahtar Kelimeler:** Malların serbest dolaşımı, sınaî ve ticari mülkiyet hakları, hakların varlığı – korunması doktrini, hakların özü ilkesi, hakların tüketilmesi ilkesi, paralel ithalat.

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## ABBREVIATIONS

Agreement on Trade Related Aspects of Intellectual Property Rights	: TRIPs
Berne Convention for the Protection of Literary and Artistic Works	: Berne Convention
European Community	: EC
European Court of Justice	: ECJ
European Economic Area	: EEA
European Patent Convention	: EPC
European Union	: EU
General Agreement on Tariffs and Trade	: GATT
International Convention for the Protection of Industrial Property	: Paris Convention
Madrid Agreement for the International Registration of Marks	: Madrid Agreement
Measures Having Equivalent Effect to Quantitative Restrictions	: MEQR
Office of Harmonization in the Internal Market	: OHIM
Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks	: Madrid Protocol
The Patent Cooperation Treaty	: PCT
Treaty Establishing the European Community	: TEC
United International Bureaux for the Protection of Intellectual Property	: BIRPI
United Nations	: UN
World Intellectual Property Organization	: WIPO
World Trade Organization	: WTO



## 1. INTRODUCTION

Although the idea for establishing a “united” Europe arose as a consequence of political events and aimed a political unification at the end, the tools for the unification were mostly economic.

This study deals with the protection of industrial and commercial property as an exception to free movement of goods. The fundamental principle of free movement of goods is perhaps the most important concept in the European Union law in that it is the starting point for the common market. However, this principle has not been left without any exceptions, one of which is the protection of industrial and commercial property.

In the first part, the fundamental principle of free movement of goods has been examined supported by the significant ECJ decisions which gave direction to the development of the principle. In this part, the two restrictions - (i) duties charges and taxes and charges having equivalent effect and (ii) quantitative restrictions and measures having equivalent effect – have been examined.

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In the third part, the core of the study is examined, that is, the protection of industrial and commercial property as a derogation from free movement of goods. First, the nature of intellectual property rights has been dealt with. Later, this derogation has been explained by the principles recognized by the ECJ, which are mainly (i) existence – exercise doctrine, (ii) specific subject matter, (iii) exhaustion of rights doctrine and (iv) common origin.

Economic integration can take various forms and these can be ranged in a spectrum in which the degree of involvement of participating economies, one with another,

becomes greater and greater. The free trade area is the least onerous in terms of involvement. It consists in an arrangement between states in which they agree to remove all customs duties (and quotas) on trade passing between them. Each party is free, however, to determine unilaterally the level of customs duty on imports coming from outside the area. The next stage is the customs union. Here, tariffs and quotas on trade between member states are also removed but members agree to apply a common level of tariff on goods entering the union from without. The latter is called the common customs, or common external, tariff. Next comes the common market and this technical term implies that to the free movement of goods within the customs union is added the free movement of the factors of production- labour, capital and enterprise. Finally there is the economic union. This is a common market in which there is also a complete unification of monetary and fiscal policy. There would be a common currency which would be controlled by a central authority and in effect the member states would become regions within the union (Craig and De Burca 2003, p.580).

And the realization of the economic union begins with the free movement of goods. That is why, since the beginning of the European integration, free movement of goods has been the most important fundamental freedom in the European Community.

## **2. FREE MOVEMENT OF GOODS**

As explained above, the realization of the economic union can only begin with the goods moving freely within the market. However, as the “market” is the European Union, that is, several states having their own laws and regulations as to imports and exports, it has not been very easy to set up a system whereby goods circulate freely from one state to another.

Title I of Part Three of the Treaty Establishing the European Community (TEC) is concerned with the free movement of goods. Articles 25 and 28-31 are designed to ensure the removal of duties, quotas, and other quantitative restrictions on the movement of goods within the Community, while Articles 26-27 deal with the Common Customs Tariff. The fundamental objective of these provisions is to ensure that competition between goods coming from different Member States is neither prevented nor distorted by the existence of government provision with the amount of such goods which can be imported (quotas), or increase their price (tariffs).

### **2.1 DUTIES, CHARGES AND TAXES AND CHARGES HAVING EQUIVALENT EFFECT**

Article 25 TEC reads: “Customs duties on imports and exports and charges having equivalent effect shall be prohibited between Member States. This provision shall also apply to customs duties of a fiscal nature.”

The European Court of Justice (ECJ) has interpreted this article in a way that the *effect* of the duty and charges are important regardless of the *purpose* thereof. In Case 7/68, *Commission v. Italy*, Italy argued that it imposed duties on goods for the purpose of protecting artistic works, but not limiting the free movement of goods, however, the ECJ rejected these arguments saying that the duties and charges having the restricting effect on the free circulation of goods were not acceptable regardless of its purpose. It was sufficient that the charge was imposed on goods by reason of the fact that they had crossed a border.

Article 25 TEC prohibits not only customs duties, but also charges having equivalent effect. The reason is obvious. It is designed to catch protectionist measures that create a similar barrier to trade as customs duties *stricto sensu*. It is therefore unsurprising that the ECJ should have interpreted the term expansively (Craig and De Burca 2003, p. 586).

It was argued that a Member State might be imposing duties and charges for certain services it gives to the importer. However, a Member State could also do so, to hide its real intention of impeding imports. So, this argument was not acceptable for the ECJ. However, duties collected for mandatory inspections are not considered in this concept and it is lawful to impose duties and charges for such mandatory inspections<sup>1</sup>.

## **2.2 QUANTITATIVE RESTRICTIONS AND MEASURES HAVING EQUIVALENT EFFECT**

Article 28 TEC states that: “Quantitative restrictions on imports and all measures having equivalent effect shall be prohibited between Member States.” Article 29 TEC is a similar provision about exports. Article 30 sets forth the exceptions for certain cases in which a state is allowed to place restrictions on the free movement of goods.

The notion of quantitative restriction was defined in Geddo case<sup>2</sup> as follows: “measures which amount to a total or partial restraint of, according to the circumstances, imports, exports or goods in transit”.

However, it is not as easy to define measures having equivalent effect to quantitative restrictions (MEQR). Commission Directive 70/50/EEC of 22 December 1969 based on the provisions of Article 33 (7), on the abolition of measures which have an effect equivalent to quantitative restrictions on imports and are not covered by other provisions adopted in pursuance of the EEC Treaty (Directive 70/50), which was only applicable during the transitional period, still continues to give some idea of the

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<sup>1</sup> Case 18/87, Commission v. Germany

<sup>2</sup> Case 2/73, Geddo v. Ente Nazionale Risi

scope of the MEQR. Article 2 of the said directive makes a list of ways in which the importing state can discriminate against goods coming from outside. These include: specifying minimum or maximum prices for imported products; less favorable prices for imported products; lowering the value of the imported product by reducing its intrinsic value or increasing its costs; payment conditions for imported products which differ from those for domestic products; conditions in respect of packaging composition, identification, size, weight, etc., which apply only to imported goods or which are different and more difficult to satisfy than in the case of domestic goods; the giving of a preference to the purchase of domestic goods as opposed to imports, or otherwise hindering the purchase of imports; limiting publicity in respect of imported goods as compared with domestic products; prescribing stocking requirements which are different from and more difficult to satisfy than those which apply to domestic goods; and making it mandatory for importers of goods to have an agent in the territory of the importing state.

The first case to give the definition of measures having equivalent effect to quantitative restrictions is the Dassonville case<sup>3</sup> in 1974. Belgian law was requiring a certificate from the exporting state for goods bearing a designation for origin of the exporting country. Dassonville imported Scotch whiskey to Belgium from France without that certificate and it was prosecuted in Belgium for this. Dassonville argued that this requirement constituted a MEQR. The ECJ accepted its claim by saying “All trading rules enacted by Member States which are capable of hindering, directly or indirectly, actually or potentially, intra Community trade are to be considered as measures having an equivalent effect to quantitative restrictions.”

### **2.2.1 Discriminatory Barriers to Trade**

Import and export restrictions like requirement of licences, procedures and data requirements for imported goods are caught by Article 28 TEC.

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<sup>3</sup> Case 8/74, Procureur du Roi v. Dassonville

Another significant MEQR is the importing state's promotion or favouring of domestic products. In "Buy Irish" case<sup>4</sup>, the state was engaged in a campaign to promote the purchase of domestic as opposed to imported goods. ECJ held that Ireland has failed to fulfill its obligations under the Treaty by organizing a campaign to promote sale and purchase of Irish goods within its territory. In "Irish Souvenirs" case<sup>5</sup>, ECJ held that the rules on origin-marking of certain products are to be caught by Article 28. The ECJ also held in Du Pont case<sup>6</sup> that the reservation by a Member State of a proportion of its public supplies to products which were processed in a particular depressed region of the country impeded imports contrary to Article 30 (now Article 28). Similarly, in Campus Oil case<sup>7</sup> the ECJ said the obligation on importers into Ireland to buy a certain proportion of their supplies of oil from a national supplier was held to fall within Article 30 (now Article 28). Also, if the discrimination in favor of domestic goods is evident in administrative practice, like delay in replying to applications, refusing approval on the grounds of various alleged technical faults which prove to be inaccurate, these would also fall within Article 28, as in Case 21/84, Commission v. France.

Price fixing rules<sup>8</sup> and measures which make imports more difficult or costly<sup>9</sup> are also caught by Article 28.

### **2.2.2 Indistinctly Applicable Rules – Cassis De Dijon Case**

The removal of discriminatory trade barriers is undoubtedly a necessary condition for the attainment of single-market integration; however, it is not sufficient. There are many rules which do not discriminate between goods dependent upon the country of origin, but which nevertheless can create real barriers to the passage of products between Member States (Craig and De Burca 2003, p. 636).

In Cassis De Dijon case<sup>10</sup>, the applicant wanted to import the liqueur "Cassis De Dijon" from France to Germany. However, the German authorities did not accept the

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<sup>4</sup> Case 249/81, Commission v. Ireland

<sup>5</sup> Case 207/83, Commission v. United Kingdom

<sup>6</sup> Case C-21/88, Du Pont de Nemours Italiana SpA v. Unita Sanitaria Locale No.2 Di Carrara

<sup>7</sup> Case 72/83, Campus Oil Ltd. v. Minister for Industry and Energy

<sup>8</sup> Case 181/82, Roussel Laboratoria BV v. The State of The Netherlands

<sup>9</sup> Case 50/85, Schloh v. Auto Controle Technique

import because the alcohol percentage of the liqueur was not enough to be marketed as a liqueur in Germany. The applicant argued that the German rule was a MEQR.

In terms of *result*, the Court's ruling in Cassis affirmed and developed the Dassonville judgment. It affirmed one of the findings in Dassonville: Article 30 (now Article 28) could apply to national rules which did not discriminate against imported products, but which inhibited trade because they were different from the trade rules applicable in the country of origin. The fundamental assumption was that, once goods had been lawfully marketed in one Member State, they should be admitted into any other Member State without restriction unless the State of import could successfully invoke one of the mandatory requirements. The Cassis judgment encapsulated therefore a principle of *mutual recognition*. The Cassis ruling also built upon one of the findings of Dassonville, in which the ECJ had introduced the rule of reason: in the absence of Community harmonisation reasonable measures could be taken by a State to prevent unfair trade practices. Four matters were listed that could prevent a trade rule which inhibited the free movement of goods from being caught by Article 30 (now Article 28). This list is not exhaustive; it can be and has been added to by the ECJ. The *mandatory requirements* that constitute the rule of reason are taken into account within Article 30 (now Article 28), and separate from Article 36 (now Article 30) (*ibid*, p. 638).

The *reasoning* in Cassis is as significant as the result. The ECJ began by affirming the right of the States to regulate all matters that had not yet been the subject to Community harmonization. State regulation of such areas must be accepted, together with any obstacles to trade which may follow from disparities in national laws, but only in so far as these trade rules could be justified by one of the mandatory requirements (*ibid*, pp. 638-639).

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<sup>10</sup> Case 120/78, Rewe – Zentrale AG v. Bundesmonopolverwaltung für Branntwein

## **2.3 DEROGATIONS FROM ARTICLE 28**

The fundamental principle of free movement of goods has not been accepted without any exceptions. There are some cases where Article 28 should be put aside. These exceptions are listed in Article 30 TEC. Article 30 TEC reads: “The provisions of Articles 28 and 29 shall not preclude prohibitions or restrictions on imports, exports or goods in transit justified on grounds of public morality, public policy or public security; the protection of health and life of humans, animals or plants; the protection of national treasures possessing artistic, historic or archaeological value; or the protection of industrial and commercial property. Such prohibitions and restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States.”

As can be understood by the word of the article, the exceptions to free movement of goods are exhaustive. As the subject matter of this work, the exception of “protection of industrial and commercial property” shall be examined in detail below. In this section, the exceptions other than “protection of industrial and commercial property” shall be dealt with.

### **2.3.1 Public Morality**

In Henn and Darby case<sup>11</sup>, the defendants wanted to import some pornographic articles into UK contrary to UK law. UK argued that it concerned public morality. The ECJ considered this import restriction within article 30 (now Article 28) and went on to discuss whether this could be an exception of public morality as stated in Article 36 (now Article 30). Because UK imposed an absolute ban on imports of pornography, the ECJ found that UK could rely on Article 36 (now Article 30).

### **2.3.2 Public Policy**

The “public policy” concept is too broad but the ECJ did not interpret this in such a broad manner. For example, consumer protection was not considered to be within public policy. In Case 231/83, Cullet v. Centre Leclerc, the ECJ accepted the relying

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<sup>11</sup> Case 34/79, R v. Henn and Darby



on public policy exception. This case was about French legislation imposing minimum retail price for fuel. The Court found this to be a MEQR since imports could not benefit fully from lower cost prices in the country of origin. The ECJ said: “For the purpose of applying Article 36, the French Government has invoked the disturbances to law and order and public security caused by violent actions which should be expected from retailers affected by unrestricted competition. On this point it is sufficient to observe that the French Government has not shown that an amendment of the regulations in question in conformity with the principles set out above would have consequences for law and order and public security which the French Government would be unable to meet with the resources available to it.”

### **2.3.3 Public Security**

The Campus Oil case is a leading case. As already explained above, in this case, the ECJ said the obligation on importers into Ireland to buy a certain proportion of their supplies of oil from a national supplier was held to fall within Article 30 (now Article 28). The ECJ said: “It should be stated that petroleum products, because of their exceptional importance as an energy source in the modern economy, are of fundamental importance for a country’s existence since not only its economy but above all its institutions, its essential public services and even the survival of the inhabitants dependent upon them. An interruption of supplies of petroleum products, with the resultant dangers for the country’s existence, could therefore seriously affect the public security that Article 36 allows States to protect.” So this case was considered to be closely related to public security and the ECJ accepted the Irish State’s claims.

### **2.3.4 Protection Of Health And Life Of Humans, Animals Or Plants**

In Sandoz case<sup>12</sup>, Authorities in Holland refused to allow the sale of muesli bars that contained added vitamins, on the ground that the vitamins were dangerous to public health. The ECJ said, if there is uncertainty about the medical implications of some substance, the state can, in the absence of Community harmonization measures, apply

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<sup>12</sup> Case 174/82, *Officier van Justitie v. Sandoz BV*

an appropriate degree of protection for its citizens. This will, however, be subject to the principle of proportionality, as applied by the ECJ.

While Article 30 leaves a margin of discretion in the national authorities as to the extent to which they protect the interests listed therein, the discretion is limited by two important principles. First, that any discrimination between imports and domestic products must not be arbitrary. Secondly, that measures must not restrict trade any more than is necessary to protect the interest in question (Arnull et al. 2000, p. 346).

### **2.3.5 Mandatory Requirements**

Although the Court has stated repeatedly that the exceptions listed in Article 30 are exhaustive, it could be said that in effect it established further grounds upon which Member States may derogate from Article 28 in the Cassis case, in which it held that obstacles to the free movement of goods in the Community resulting from disparities between national marketing rules must be accepted in so far as they were necessary to satisfy mandatory requirements relating in particular to the effectiveness of fiscal supervision, the protection of public health, the fairness of commercial transactions, and the defense of the consumer (Ibid, p. 352).

### **3. PROTECTION OF INDUSTRIAL AND COMMERCIAL PROPERTY AS A DEROGATION FROM ARTICLE 28**

#### **3.1 CONCEPT OF INTELLECTUAL PROPERTY RIGHTS**

According to Article 2, paragraph viii, World Intellectual Property Organization (WIPO) Convention (1967) “intellectual property” includes “the rights relating to – literary, artistic and scientific works – performances and performing artists, photographs and broadcasts – invention in all fields of human endeavor – scientific discoveries – industrial designs, - trade marks, service marks, and commercial names and designations – protection against unfair competition and all other rights resulting from intellectual activity in the industrial, scientific literary or artistic fields.”

The term “intellectual property” has been used for almost one hundred and fifty years to refer to the general area of law that encompasses copyright, patents, designs and trade marks as well as a host of related rights. While there are a number of important differences between the various forms of intellectual property, one factor that they share in common is that they establish property protection over intangible things such as ideas, inventions, signs and information. While there is a close relationship between intangible property and the tangible objects in which they are embodied, intellectual property rights are distinct and separate from property rights in tangible goods (Bentley and Sherman 2004, p.1).

As explained, the concept of “intellectual property” covers in general all rights resulting from intellectual activity in the industrial, scientific literary or artistic fields. However, what Article 30 TEC takes under protection as regards free movement of goods is “industrial and commercial property” rights. That is, intellectual property rights embodied in goods that are subject to industry or commerce. These can be patents, trade marks, industrial designs, copyrights, related rights as well as artistic works that could be put into trade.

The subject of this work covers the industrial and commercial property rights as a derogation from Article 30 TEC.

### **3.1.1 Protection of Intellectual Property Rights Internationally**

One of the defining characteristics of intellectual property rights is that they are national and territorial in nature. That is, they do not ordinarily operate outside of the national territory where they are granted. The territorial nature of intellectual property rights has long been a problem to rights holders whose works, inventions and brands are the subject of transnational trade. Throughout the nineteenth century, a number of countries that saw themselves as net exporters of intellectual property began to explore ways of protecting their authors, designers, inventors, and trade mark owners in other jurisdictions. Initially this was done by bilateral treaties, whereby two nations agreed to allow nationals of the other country to claim protection of their respective laws (ibid, p.5). Towards the end of the nineteenth century, a number of countries started to enter into multilateral agreements for the protection of intellectual property rights.

Here are the most important international treaties and international organizations that took as objective the protection of intellectual property in the international arena:

#### **- World Intellectual Property Organization (WIPO)**

The World Intellectual Property Organization (WIPO) is a specialized agency of the United Nations (UN). It is dedicated to developing a balanced and accessible international intellectual property system, which rewards creativity, stimulates innovation and contributes to economic development while safeguarding the public interest (<http://www.wipo.int/about-wipo/en/what/>, last visited 06.09.2008).

The need for international protection of intellectual property became evident when foreign exhibitors refused to attend the International Exhibition of Inventions in Vienna in 1873 because they were afraid their ideas would be stolen and exploited commercially in other countries.

1883 marked the birth of the Paris Convention for the Protection of Industrial Property, the first major international treaty designed to help the people of one

country obtain protection in other countries for their intellectual creations in the form of industrial property rights, known as:

- a. inventions (patents)
- b. trade marks
- c. industrial designs

The Paris Convention entered into force in 1884 with 14 member States, which set up an International Bureau to carry out administrative tasks, such as organizing meetings of the member States.

In 1886, copyright entered the international arena with the Berne Convention for the Protection of Literary and Artistic Works. The aim of this Convention was to help nationals of its member States obtain international protection of their right to control, and receive payment for, the use of their creative works such as:

- a. novels, short stories, poems, plays;
- b. songs, operas, musicals, sonatas; and
- c. drawings, paintings, sculptures, architectural works.

Like the Paris Convention, the Berne Convention set up an International Bureau to carry out administrative tasks. In 1893, these two small bureaux united to form an international organization called the United International Bureaux for the Protection of Intellectual Property (best known by its French acronym BIRPI). Based in Berne, Switzerland, with a staff of seven, this small organization was the predecessor of the World Intellectual Property Organization of today - a dynamic entity with 184 member States, a staff that now numbers some 938, from 95 countries around the world, and with a mission and a mandate that are constantly growing.

As the importance of intellectual property grew, the structure and form of the Organization changed as well. In 1960, BIRPI moved from Berne to Geneva to be closer to the United Nations and other international organizations in that city. A decade later, following the entry into force of the Convention Establishing the World

Intellectual Property Organization, BIRPI became WIPO, undergoing structural and administrative reforms and acquiring a secretariat answerable to the member States.

In 1974, WIPO became a specialized agency of the United Nations system of organizations, with a mandate to administer intellectual property matters recognized by the member States of the UN.

In 1978, the WIPO Secretariat moved into the headquarters building that has now become a Geneva landmark, with spectacular views of the surrounding Swiss and French countryside.

WIPO expanded its role and further demonstrated the importance of intellectual property rights in the management of globalized trade in 1996 by entering into a cooperation agreement with the World Trade Organization (WTO).

The impetus that led to the Paris and Berne Conventions - the desire to promote creativity by protecting the works of the mind - has continued to power the work of the Organization, and its predecessor, for some 120 years. But the scope of the protection and the services provided have developed and expanded radically during that time.

In 1898, BIRPI administered only four international treaties. Today its successor, WIPO, administers 24 treaties (three of those jointly with other international organizations) and carries out a rich and varied program of work, through its member States and secretariat, that seeks to:

- a. harmonize national intellectual property legislation and procedures,
- b. provide services for international applications for industrial property rights,
- c. exchange intellectual property information,
- d. provide legal and technical assistance to developing and other countries,
- e. facilitate the resolution of private intellectual property disputes, and
- f. marshal information technology as a tool for storing, accessing, and using valuable intellectual property information.

(<http://www.wipo.int/treaties/en/general/>, last visited 06.09.2008)

### **- Paris Convention**

Drafted in 1880, the International Convention for the Protection of Industrial Property (Paris Convention) was ratified by 11 states in 1883 and came into effect in 1884. The Convention establishes a “union” of states responsible for protecting industrial property rights. Among the members’ duties is the obligation to participate in regular revisions. Three basic principles are incorporated in the Paris Convention: (1) national treatment, (2) right of priority, and (3) common rules. National treatment is the requirement that each member state must grant the same protection to the nationals of other states that it grants to its own nationals. The right of priority gives an applicant who has filed for protection in one member country a grace period of 12 months in which to file in another member state, which then must treat the application as if it were filed on the same day as the original application. The principle of common rule sets minimum standards for the creation of intellectual property rights. These are as follows: (a) a member state may not deny protection to industrial property because the work incorporating an invention was not manufactured in that state; (b) member states must protect trade names without requiring registration; (c) member states must outlaw false labeling (i.e., any indication that falsely identifies the source of goods, or the trader or manufacturer); and (d) each member state is required to take “effective” measures to prevent unfair competition. Beyond these common rules, the Convention leaves to each member the right to make rules governing the application, registration, scope, and duration of patents, trade marks, and other forms of industrial property (August 2000, p. 508).

### **- Berne Convention**

Adopted in Paris in 1886, Berne Convention for the Protection of Literary and Artistic Works (Berne Convention) came into force in 1887. The Convention establishes a “union” of states that is responsible for protecting artistic rights. Four basic principles underlie the members’ obligation: (1) The principle of national treatment requires each member state to extend to nationals of other member states treatment no less favorable than that which it gives its own nationals. (2)

Nonconditional protection is the requirement that member states must provide protection without any formalities. A country of origin may, however, condition protection on the author's first making an application for registration, or registering the work, or reserving rights in a contract of sale, or a similar condition. (3) The principle of protection independent of protection in the country of origin allows authors who are nationals of nonmember states to obtain protection within the Berne Union by publishing their works in a member state. (4) The principle of common rules establishes minimum standards for granting copyrights common to all member states (ibid, p. 505).

#### **- Madrid Agreement and Protocol**

According to Article 19 of the Paris Convention, Member States can enter into treaties for the protection of intellectual property rights without contravening the provisions of the Paris Convention. Relying on this article, Madrid Agreement for the International Registration of Marks (Madrid Agreement) was signed in 1891. The main objective of this treaty was to establish a common international procedure for the application for registration of trade marks in the member states. According to the Madrid Agreement, in order to have a trade mark registered in more than one member state, it was enough to make a single application in a single language in one of the member states, if the applicant is a national of or established in that member state. The application is made to the national intellectual property office.

Despite the important procedural advantages, the Madrid Agreement has not been ratified by many countries due to certain reasons. First, the international registration is dependent on the home registration and consequently it was automatically disadvantageous for the national of the states where national registration is time consuming and costly compared to the national of the other states. Secondly, the 12 months period foreseen for the refusal of protection was too short for some countries. Another reason was that the central attack of 5 years was unacceptable. Also the only language being French was not acceptable for English speaking countries. And lastly, in some countries the fees were less compared to domestic applications. All these critics made WIPO take action at the end of which the Protocol Relating to the



Madrid Agreement Concerning the International Registration of Marks (Madrid Protocol) adopted in 1989. Although it is named the “Protocol to the Madrid Agreement”, it is an independent treaty and has been ratified by both most of the Madrid Agreement contracting parties and also other states that have never ratified the Madrid Agreement. The international registration system provided by the Madrid Agreement and the Madrid Protocol is called the Madrid System.

#### **- General Agreement on Tariffs and Trade (GATT)**

GATT 1947 was a multinational treaty that set out the principles under which its contracting states, on the basis of “reciprocity and mutual advantage” were to negotiate “a substantial reduction in customs tariffs and other impediments on trade”. With the addition of other states in subsequent years, GATT 1947 came to govern almost all of the world’s trade (August 2000, p.357).

The main principles of GATT 1947 were as follows: (1) Trade discrimination was forbidden. Each contracting state had to accord the same trading privileges and benefits (or most-favored-nation status) to all other contracting states equally; and, once foreign trade goods were imported into one contracting state from another, the foreign goods had to be treated (according to the national treatment principle) the same as domestic goods. (2) With some exceptions, the only barriers that one contracting state could use to limit the importation of goods from another contracting state were customs tariffs. (3) The trade regulations of contracting states had to be “transparent”, that is, published and available to other contracting states and their nationals. (4) Customs unions and free trade agreements between contracting states were regarded as legitimate means for liberalizing trade so long as they did not, on the whole, discriminate against third-party states that were also parties to GATT. (5) GATT contracting states were allowed to levy only certain charges on imported goods: (a) an import tax equal in amount to internal taxes, (b) “antidumping” duties to offset advantages obtained by imported goods that were sold below the price charged in their home market or below their actual cost, (c) “countervailing” duties to counteract foreign export subsidies, and (d) fees and other proper charges for services rendered. (ibid, p.357)

The legal framework established at Geneva in 1947 remained essentially unchanged until the creation of the World Trade Organization (WTO) in 1994. Even under that agreement, the substantive provisions of GATT 1947 live on, becoming one of the annexes to the Agreement Establishing the WTO (under the name of GATT 1994)

**- Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs)**

The Agreement on Trade Related Aspects of Intellectual Property Rights, which is an annex to the Agreement Establishing the World Trade Organization (WTO), came into effect with the WTO in 1995. As is the case for the WTO Agreement's other multilateral annexes, all of the WTO member states are automatically members of the TRIPs Agreement (August 2000, p. 503)

The TRIPs Agreement covers all the main areas of intellectual property. For the most part, it requires members of the WTO to recognize the existing standards of protection within the Bern and Paris Conventions. It also demands substantive protection for rights neighboring copyright, trade marks, geographical indications, designs, patents, topographies of integrated circuits and undisclosed information. Prior to TRIPs matters of procedure, remedies and criminal sanctions had largely been left to the national law (Bently and Sherman 2004, pp. 7-8).

**- Patent Cooperation Treaty**

The Patent Cooperation Treaty (PCT), agreed to in 1970, establishes a mechanism for making an international application whose effect in each member state is the same as if a national patent had been filed for. Applications are submitted to a member state's patent office, which forwards them to one of several international searching authorities, where an international search is made to determine novelty. The goal of the treaty is the elimination of unnecessary repetition by both patent offices and applicants (August 2000, p.508).

**- European Patent Convention**

It is important to note that there are a number of European initiatives that are independent of the European Community / Union which relate to intellectual property law. One of the most important is the 1973 European Patent Convention (EPC). The EPC established a single central office for the granting of bundles of national patents in Munich. The EPC is a treaty independent of the European Union, and includes all the member states of the EU, the EEA, as well as a number of non-EEA countries such as Switzerland and Turkey (Bentley and Sherman 2004, p. 25).

### **3.1.2 Protection of Intellectual Property Rights in the European Union**

#### **- Patents**

Community involvement with intellectual property can be divided into four stages. In the 1970, the focus of attention was on the establishment of Community patent system, that is a system in which a single patent would be granted for the whole of the Community, enforceable in Community patent courts. To this end, in 1975 the Community Patent Convention was agreed to at an intergovernmental level between the (then nine) member states. However, the political will to introduce the scheme never materialized. In part this was because in 1973 a separate instrument for the granting of patents, the European Patent Convention (EPC) had been agreed to between states (a number of which were then outside the EC). As such, there was little urgency to implement the distinct (though linked) Community patent. Despite attempts to revive the Treaty through a 1989 Protocol in Luxemburg (Luxemburg Agreement of 15.12.1989 relating to Community Patents), it is only in the last couple of years that a real will for a single Community patent regime has emerged. This has taken shape in the form of a Commission proposal to introduce a Community patent by way of a Community Regulation. In the meantime, the existence of the European Patent Convention has limited the ability of the Community to harmonize national patent laws. The reason for this is that all member states are parties to and therefore bound by the EPC. At the same time, they cannot amend the Convention without the assent of the non-EC participants. In the two fields where Community action has taken place, the proposals have been made to appear as if they leave the EPC untouched. The two Regulations on Supplementary Protection Certificates are

worded so as to avoid appearing to be extensions of the patent term. Similarly, the Directive of the European Parliament and Council on the Legal Protection of Biotechnological Inventions, which attempts to harmonize patent law for biological inventions, is presented as a Directive to harmonize the ‘interpretation’ of existing provisions of the EPC, rather than amending or modifying those provisions (Bentley and Sherman 2004, p.19).

### **- Trade Marks**

In the 1980s, attention turned to the harmonization of trade mark law. The first part of a two-pronged strategy was to approximate national trade mark laws. This was eventually completed by way of a directive (Trade Marks Directive). The second prong was the establishment of a single office that granted Community trade mark enforceable in the courts of member states designated as Community Trade Mark Courts. The Community trade mark was introduced by way of a Council Regulation, and in 1996 the Office of Harmonization in the Internal Market (OHIM) was established in Alicante, Spain. As the substantive rules of the Regulation are virtually identical to those of the Directive, appeals of decisions of the Office of Harmonization to the OHIM’s Boards of Appeal, the Court of First Instance and the ECJ offer valuable guidance to national authorities (ibid, p.19).

### **- Copyrights**

At the end of the 1980s, the third wave of harmonization began when the Commission set out to harmonize a number of aspects of copyright law. The need for action arose because the different levels of copyright protection in different member states was seen to constitute a potential barrier to trade. In contrast with the approach taken to trade marks, the Community passed a series of seven directives each harmonizing particular aspects of copyright law (especially relating to areas of technological change) (ibid., p.19).

## **- Others**

The 1990s also witnessed Community intervention in relation to a number of the so-called *sui generis* intellectual property rights. A Community Plant Variety Regulation established a Community Office in Angers, France. In contrast to the strategy in relation to trade marks, no harmonization directive was passed regulating national law. A directive was also passed relating to the harmonization of the law relating to designs which was followed by a Regulation introducing a Community Registered Design (to be issued by OHIM), and a Community Unregistered Design Right. The latter, available since April 2002, is the first Europe-wide, unitary right to be granted automatically, rather than after application to an office.

### **3.2 PRINCIPLES RECOGNIZED BY THE ECJ**

#### **3.2.1 Specific Subject Matter**

As mentioned above, Article 295 TEC says that the Treaty shall in no way prejudice the rules in Member States governing the system of property ownership. In parallel with this article, we have the first sentence of Article 30 TEC saying that free movement of goods can be restricted on the grounds of protecting industrial and commercial property. In addition, the said industrial and commercial property is to be determined by the national laws of each Member State.

However, the second sentence of Article 30 TEC limits this protection introduced by the first sentence. We have seen that it states “Such prohibitions and restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States”. This means, the protection of industrial and commercial property shall be recognized, not generally but only to a certain extent.

Consequently, a new question that should be answered appears, which is “to what extent shall the industrial and commercial property be protected?” or in other words, “what does the first sentence of Article 30 TEC intend to protect?”

The ECJ has answered this question in many of the cases, which shall be mentioned below, by introducing a new concept, which it named the *specific subject matter* of the right.

The ECJ has first mentioned the specific subject matter doctrine in the Deutsche Grammophon vs. Metro case<sup>13</sup>. This case concerned the copyright to the Polydor record label, which was owned in Germany by Deutsche Grammophon, and in France by a subsidiary of Deutsche Grammophon. Polydor records were more expensive in Germany than in France. As a result, a firm called Metro bought Polydor records in France, and imported them into Germany for resale. However, resale of the imports involved an infringement of Deutsche Grammophon's German copyright. In effect, German copyright law, by giving Deutsche Grammophon the exclusive right to market Polydor records in that Member State, allowed Deutsche Grammophon to put up a barrier between national markets, and prevent lower priced imports of Polydor records. The ECJ held that it would breach Article 30 TEC to allow Deutsche Grammophon to assert its copyright in this way (Horspool 2003, p. 361). The ECJ said:

Amongst the prohibitions or restrictions on the free movement of goods which it concedes article 36 refers to industrial and commercial property. On the assumption that those provisions may be relevant to a right related to copyright, it is nevertheless clear from that article that, although the treaty does not affect the existence of rights recognized by the legislation of a member state with regard to industrial and commercial property, the exercise of such rights may nevertheless fall within the prohibitions laid down by the treaty. **Although it permits prohibitions or restrictions on the free movement of products, which are justified for the purpose of protecting industrial and commercial property, article 36 only admits derogations from that freedom to the extent to which they are justified for the purpose of safeguarding rights which constitute the *specific subject-matter of such property*.**

Also in the Terrapin vs. Terranova case<sup>14</sup>, the ECJ said:

...it is clear from that same article, in particular the second sentence, as well as from the context, that whilst the treaty does not affect the existence of rights recognized by the legislation of a member state in matters of industrial and commercial property, yet the exercise of those rights may nevertheless, depending on the circumstances, be restricted by the prohibitions in the treaty. **Inasmuch as it provides an exception to one of the fundamental principles of the common market, article 36 in fact admits exceptions to the free**

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<sup>13</sup> Case 78/70 Deutsche Grammophon vs. Metro

<sup>14</sup> Case 119/75 Terrapin vs. Terranova

**movement of goods only to the extent to which such exceptions are justified for the purpose of safeguarding rights which constitute the *specific subject-matter of that property*.**

The same has been repeated in the Centrafarm vs. Sterling Drug Inc. case<sup>15</sup>

These decisions mean, the first sentence of Article 30 TEC shall not protect the industrial and commercial property rights *as a whole* but it shall protect only the *specific subject matter* of that property. This means, one cannot claim that his/her industrial and commercial property rights have been infringed by the free circulation of the goods in the Community unless the infringed is the specific subject matter of that property.

Although it permits prohibitions or restrictions on the free movement of products, which are justified for the purpose of protecting industrial and commercial property, Article 30 TEC only admits derogations from that freedom to the extent to which they are justified for the purpose of safeguarding rights, which constitute the specific subject matter of such property (Barnard 2004, pp. 158-159).

The derogation in Article 30 TEC has been confined to rights which, the ECJ considers, constitute the essential core of the property in question. The exercise of the “specific subject matter” of such right is permitted by Community law, even if it impedes trade or competition, because it would no longer be possible to say that the property was receiving protection (Arnull et al. 2000, p. 363).

So, what does this specific subject matter of the property mean? This has been defined specifically for each kind of industrial and commercial property right by the ECJ.

#### **- Specific Subject Matter of Patents**

A patent is granted to protect an invention, which contains some scintilla of inventiveness over what is previously known. Patents are granted not only to reward and encourage invention but also to ensure that inventors disclose information about their inventions (which might otherwise be withheld), thereby encouraging

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<sup>15</sup> Case 15/74 Centrafarm vs. Sterling Drug Inc.

innovation by others in an attempt to circumvent the protected invention. Patents last for a fixed, relatively short period, during which time the patent holder can prevent all others – not just imitators but also independent devisers of the same idea – from using the invention. The conditions and procedure under which a patent is granted are a matter of national law in which the ECJ will not intervene, since this relates to the question of the existence, and not the exercise, of the intellectual property right (Barnard 2004, p. 162).

In *Centrafarm vs. Sterling Drug Inc.* case the ECJ identified the specific subject matter of a patent. This case concerned drugs manufactured by Sterling Drug Inc. and patented by them in different Member States. The drugs were more expensive in the Netherlands than in the UK and Germany. Centrafarm bought supplies of the drugs in the UK and Germany, and imported them into the Netherlands. Sterling Drug Inc. invoked the Dutch patent to the drugs to prevent resale of the imports. The ECJ held that exercising the Dutch patent in this way infringed Article 30 TEC (Horspool 2003, p. 361).

The ECJ said:

4. This question requires the court to state whether, under the conditions postulated, the rules in the EEC treaty concerning the free movement of goods prevent the patentee from ensuring that the product protected by the patent is not marketed by others.
5. As a result of the provisions in the treaty relating to the free movement of goods and in particular of article 30, quantitative restrictions on imports and all measures having equivalent effect are prohibited between member states.
6. By article 36 these provisions shall nevertheless not include prohibitions or restrictions on imports justified on grounds of the protection of industrial or commercial property.
7. Nevertheless, it is clear from this same article, in particular its second sentence, as well as from the context, that whilst the treaty does not affect the existence of rights recognized by the legislation of a member state in matters of industrial and commercial property, yet the exercise of these rights may nevertheless, depending on the circumstances, be affected by the prohibitions in the treaty.
8. 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.



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

The essential function of a patent is here acknowledged to be the rewarding of (and hence encouragement of) creative effort. The reward comes from the patentee's ability to earn a monopoly profit through an exclusive right to manufacture the protected product and put it in the circulation for the first time. The right may be exploited directly or by appointing licensees. It has as a corollary, a right to oppose manufacturing or first marketing of the product by third parties (Arnull et al. 2000, p. 364).

### **- Specific Subject Matter of Trade Marks**

Trade marks are intended to protect the goodwill associated with the trade marked product and to inform the customer that the product is of a specific kind and not a copy. Trade marks serve three functions: (i) an *origin function*, indicating the trade source from which goods or services come; (ii) a *quality or guarantee function*, symbolizing qualities associated by consumers with goods or services which guarantee that the goods or services measure up to expectations; and (iii) an *investment or advertising function*, where marks are cyphers around which investment in the promotion of a product is built (Barnard 2004, p. 166).

One of the cases in which the ECJ has defined the specific subject matter of trade marks is *Centrafarm vs. Winthrop* case<sup>16</sup>. In this case, the ECJ said:

5. By article 36 these provisions shall nevertheless not include prohibitions or restrictions on imports justified on grounds of the protection of industrial or commercial property.

6. Nevertheless, it is clear from this same article, in particular its second sentence, as well as from the context, that whilst the treaty does not affect the existence of rights recognized by the legislation of a member state in matters of industrial and commercial property, yet the exercise of these rights may nevertheless, depending on the circumstances, be affected by the prohibitions in the treaty.

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<sup>16</sup> Case 16/74 *Centrafarm vs. Winthrop*

7. 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.

**8. 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.**

As one can see, there are two separate rights in the specific subject matter of a trade mark. One is the right to put the trade marked product on the market for the first time (origin function) (as in the specific subject matter of patents); and the second one is the right to protect the status and reputation of that trade mark (quality function).

### **- Specific Subject Matter of Copyrights**

Copyright is the right given against the copying of defined types of cultural, informational, and entertainment productions, typically literary and artistic works. Copyright is rather different from the other types of intellectual property rights in that it includes moral rights (e.g. the right of the author to claim authorship of the work and to object to any distortion, mutilation, or other alteration of the work) as well as commercial rights. In *Gema case*<sup>17</sup> the ECJ recognized the functional differences between copyright and the other intellectual property rights but said that, given the economic aspect of copyright (e.g. the right to exploit the marketing of the protected work commercially), there was no reason to make a legal distinction between copyright and other intellectual property rights. Despite this, the ECJ has experienced more difficulty defining the specific subject matter of copyright than for patents and trade marks because of the different uses of to which it can be put. Nevertheless, in *Warner Brothers case*<sup>18</sup> it said that the specific subject matter of copyright contained two essential rights of the author – the exclusive rights of reproduction and of performance (Barnard 2004, p. 186).

In the *Warner Brothers case* the ECJ said:

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<sup>17</sup> Joined cases 55 & 57/80 *Musik-Vertrieb Membran vs. GEMA*

<sup>18</sup> Case 158/86 *Warner Bros. vs. Christiansen*

...literary and artistic works may be the subject of commercial exploitation, whether by way of public performance or of the reproduction and marketing of the recordings made of them, and this is true in particular of cinematographic works. The two essential rights of the author, namely the exclusive right of performance and the exclusive right of reproduction, are not called in question by the rules of the Treaty.

### - Specific Subject Matter of Designs

Design rights protect the particular features of a product, such as its shape, pattern, or design, and evolved in response to demands for protection of the design elements in mass produced articles. They contain elements of both copyright (but last for a much shorter period) and patents in that they involve technical skill (Barnard 2004, p. 190).

In *Keurkoop v Nancy Kean Gifts* case<sup>19</sup> the ECJ said:

14. By way of a preliminary observation it should be stated that, as the court has already held as regards patent rights, trade marks and copyright, the protection of designs comes under the protection of industrial and commercial property within the meaning of article 36 inasmuch as its aim is to define exclusive rights which are characteristic of that property.

In *Volvo vs. Veng* case<sup>20</sup> it said:

7. It must first be observed, as the Court held in its judgment of 14 September 1982 in Case 144/81 *Keurkoop v Nancy Kean Gifts* ((1982)) ECR 2853 with respect to the protection of designs and models, that, as Community law stands at present and in the absence of Community standardization or harmonization of laws, the determination of the conditions and procedures under which protection of designs and models is granted is a matter for national rules. It is thus for the national legislature to determine which products are to benefit from protection, even where they form part of a unit which is already protected as such

8. It must also be emphasized that **the right of the proprietor of a protected design to prevent third parties from manufacturing and selling or importing, without its consent, products incorporating the design constitutes the very subject-matter of his exclusive right.** It follows that an obligation imposed upon the proprietor of a protected design to grant to third parties, even in return for a reasonable royalty, a licence for the supply of products incorporating the design would lead to the proprietor thereof being deprived of the substance of his exclusive right, and that a refusal to grant such a licence cannot in itself constitute an abuse of a dominant position.

The ECJ made a similar decision in *CICRA and Maxicar vs. Renault* case<sup>21</sup>:

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<sup>19</sup> Case 144/81 *Keurkoop vs. Nancy Kean Gifts*

<sup>20</sup> Case 238/87 *Volvo vs. Veng*

<sup>21</sup> Case 53/87 *CICRA and Maxicar vs. Renault*

10. It must first be stated that, as the Court held in its judgment of 14 September 1982 in Case 144/81 *Keurkoop v Nancy Kean Gifts* (( 1982 )) ECR 2853, with respect to the protection of designs and models, in the present state of Community law and in the absence of Community standardization or harmonization of laws the determination of the conditions and procedures under which such protection is granted is a matter for national rules. It is for the national legislature to determine which products qualify for protection, even if they form part of a unit already protected as such.

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

### **3.2.2 Existence – Exercise of Rights Doctrine**

As already mentioned above, Article 30 TEC accepts the protection of industrial and commercial property as an exception to the free movement of goods. It further states in the second sentence that such prohibitions and restrictions should not constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States.

It is obvious that while on one hand the Treaty aims to protect industrial and commercial property even at the cost of one of the fundamental freedoms of the Community, perhaps the most important one, the free movement of goods; on the other hand it desires that such protection does not harm the trade between Member States or is held by an arbitrary discrimination.

Bearing in mind the importance of free movement of goods to the Community, the second sentence of Article 30 TEC does not look unreasonable. However, the Treaty contains another article as regards property ownership, which would in some ways seem conflicting with the second sentence of Article 30 TEC at first sight.

Article 295 (ex Article 222) TEC reads: “This Treaty shall in no way prejudice the rules in Member States governing the system of property ownership.”

Doesn't this “property ownership” include what the Article 30 TEC calls “industrial and commercial property” and what the second sentence of Article 30 TEC is trying

to limit? If so, how could these two relatively conflicting provisions live together in one Treaty? How did the ECJ interpret these two provisions and what has been the effect of this interpretation to first of all free movement of goods and secondly the protection of industrial and commercial property?

Article 295 TEC could simply be read as a provision designed to take national property rights outside the reach of Community law. However, if it were to be interpreted in this way, it would undermine the effectiveness of Community law. Firms and individuals can exercise their property rights in a way that frustrates Community objectives. It would be surprising if the draftsmen of the Treaty intended to give national property law immunity from Community law (Horspool 2003, p. 359).

In fact, the reason for introduction of the Article 295 TEC was simple. The Member States to the Community all have their own domestic private law which the Community is not directly interested in and each domestic law system may have differences. A property ownership right recognized by one Member State may not be as recognized in the other. Or a property ownership right recognized by two Member States can be considered in two different categories. As such, domestic law issues are not to be - moreover cannot be - determined by the Community, Article 295 TEC simply said that the Treaty shall not prejudice the rules in Member States governing the system of property ownership.

The interpretation of Article 295 TEC by the ECJ has first come in the *Consten & Grundig vs. Commission* case<sup>22</sup>. This case does not directly relate to free movement of goods but the provisions on competition; however, it is important for this work as this is the first case that the ECJ has ever mentioned the *existence - exercise* distinction.

In the *Consten & Grundig vs. Commission* case, the owner of Grundig trade mark claimed that the application of Article 81 (ex Article 85) TEC to trade marks would constitute a breach of Article 295 TEC. The ECJ said that following Article 295

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<sup>22</sup> Case 56&58/64 *Consten & Grundig vs. Commission*

TEC, Community law did not affect the *existence* of an intellectual property right recognized by the law of a Member State, but it did regulate its *exercise*. This means that the Treaty rules do not affect the conditions and procedures under which the intellectual property right is granted in the Member State because this relates to the *existence* of the right. However, if there is an agreement, decision or concerted practice between the intellectual property right holder and those economically or legally dependant on the holder (e.g. licensees), this involves the *exercise* of the intellectual property right (Barnard 2004, p. 158).

The first case where the ECJ mentioned the existence - exercise distinction as to the free movement of goods is the *Deutsche Grammophon vs. Metro* case<sup>23</sup>. In this case, it is stated:

7. If, however, the exercise of the right does not exhibit those elements of contract or concerted practice referred to in article 85 (1) it is necessary, in order to answer the question referred, further to consider whether the exercise of the right in question is compatible with other provisions of the treaty, in particular those relating to the free movement of goods.

8. The principles to be considered in the present case are those concerned with the attainment of a single market between the member states, which are placed both in part two of the treaty devoted to the foundations of the community, under the free movement of goods, and in article 3 (g) of the treaty which prescribes the institution of a system ensuring that competition in the common market is not distorted.

9. Moreover, where certain prohibitions or restrictions on trade between member states are conceded in article 36, the treaty makes express reference to them, providing that such derogations shall not constitute "a means of arbitrary discrimination or a disguised restriction on trade between member states".

10. It is thus in the light of those provisions, especially of articles 36, 85 and 86, that an appraisal should be made as to how far the exercise of a national right related to copyright may impede the marketing of products from another member state .

11. Amongst the prohibitions or restrictions on the free movement of goods which it concedes article 36 refers to industrial and commercial property. On the assumption that those provisions may be relevant to a right related to copyright, it is nevertheless clear from that article that, **although the treaty does not affect the existence of rights recognized by the legislation of a member state with regard to industrial and commercial property, the exercise of such rights may nevertheless fall within the prohibitions laid down by the treaty.** Although it permits prohibitions or restrictions on the free movement of products, which are justified for the purpose of protecting industrial and commercial property, article 36 only admits derogations from that freedom to

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<sup>23</sup> Case 78/70 *Deutsche Grammophon vs. Metro*

the extent to which they are justified for the purpose of safeguarding rights which constitute the specific subject-matter of such property.

In the Terrapin vs. Terranova case<sup>24</sup>, the ECJ said:

as a result of the provisions in the treaty relating to the free movement of goods and in particular of article 30, quantitative restrictions on imports and all measures having equivalent effect are prohibited between member states. By article 36 these provisions nevertheless do not preclude prohibitions or restrictions on imports justified on grounds of the protection of industrial or commercial property. **However, it is clear from that same article, in particular the second sentence, as well as from the context, that whilst the treaty does not affect the existence of rights recognized by the legislation of a member state in matters of industrial and commercial property, yet the exercise of those rights may nevertheless, depending on the circumstances, be restricted by the prohibitions in the treaty.** Inasmuch as it provides an exception to one of the fundamental principles of the common market, article 36 in fact admits exceptions to the free movement of goods only to the extent to which such exceptions are justified for the purpose of safeguarding rights which constitute the specific subject-matter of that property.

In parallel with the above mentioned decisions, the ECJ said the following in the Keurkoop vs. Nancy Kean Gifts case<sup>25</sup>:

On that issue the court can only state that in the present state of community law and **in the absence of community standardization or of a harmonization of laws the determination of the conditions and procedures under which protection of designs is granted is a matter for national rules** and, in this instance, for the common legislation established under the regional union between Belgium, Luxembourg and The Netherlands referred to in article 233 of the treaty.

Again, in the Centrafarm vs. Sterling Drug Inc. case<sup>26</sup>, the ECJ said:

... Nevertheless, it is clear from this same article, in particular its second sentence, as well as from the context, that **whilst the treaty does not affect the existence of rights recognized by the legislation of a member state in matters of industrial and commercial property, yet the exercise of these rights may nevertheless, depending on the circumstances, be affected by the prohibitions in the treaty.**

The distinction drawn by the ECJ between the existence of rights and their exercise is evidently inspired by a wish to remain at least within the letter of Article 295 TEC. (Arnall et al. 2000, p. 362)

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<sup>24</sup> Case 119/75 Terrapin vs. Terranova

<sup>25</sup> Case 144/81 Keurkoop vs. Nancy Kean Gifts

<sup>26</sup> Case 15/74 Centrafarm vs. Sterling Drug Inc.

The conceptual foundations of the exercise – existence distinction may be shaky: it is hard to see how Community law can curtail the exercise of a property right without making incursions into its fundamental subject matter (Horspool 2003, p. 360). If a right cannot be exercised, its existence would mean nothing (Bozkurt et al. 2006, p. 228).

Possibly because the ECJ has also recognized this, it did not repeat the *existence-exercise* distinction in the later decisions like Magill cases<sup>27</sup> and Ideal Standard case<sup>28</sup>.

### 3.2.3 Exhaustion of Rights Doctrine

The exhaustion of rights doctrine is maybe the most important doctrine in the intellectual property rights area. This doctrine provides that, subject to certain exceptions, the owner of an intellectual property right loses its control over such right in the given market once it is put in the market by itself or with its consent. In other words, the owner of the intellectual property right cannot object the circulation of the relevant product within that market once it is put on that market by himself or with his consent. By putting the product into the market, the proprietor of the intellectual property right exhausts its right as regards that intellectual property right.

In the Deutsche Grammophon case<sup>29</sup> the ECJ meant this for the first time by saying:

12. If a right related to copyright is relied upon to prevent the marketing in a member state of products distributed by the holder of the right or with his consent on the territory of another member state on the sole ground that such distribution did not take place on the national territory, such a prohibition, which would legitimize the isolation of national markets, would be repugnant to the essential purpose of the treaty, which is to unite national markets into a single market .

That purpose could not be attained if, under the various legal systems of the member states, nationals of those states were able to partition the market and bring about arbitrary discrimination or disguised restrictions on trade between member states.

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<sup>27</sup> Cases T-69/89; T-70/89; T-76/89 Independent Television Publications Ltd v. Commission

<sup>28</sup> Case C-9/93 IHT Internationale Heiztechnik GmbH and Uwe Danzinger v Ideal-Standard GmbH and Wabco Standard GmbH

<sup>29</sup> Case 78/70 Deutsche Grammophon vs. Metro



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

As mentioned above, the *specific subject matter* of the property, to protect which property rights may be legitimately exercised under EC law, was expressed in Centrafarm BV vs. Sterling Drug Inc. case<sup>30</sup> and Centrafarm BV vs. Winthrop BV case<sup>31</sup>, in the context of a claim for infringement of patents and trade marks respectively, as a guarantee that the owner of the trade mark or patent has the exclusive right to use that trade mark or patent, for the purpose of putting into circulation in the EC products protected by the trade mark or patent *for the first time*; either directly, or by the grant of licenses to third parties. Once the protected product has been put on the market in a particular Member State by or with the consent of the owner, or by a person economically or legally dependent on him, such a licensee, a parent company or an exclusive distributor, he can no longer rely on national property right to prevent its import from that State into other Member States. His rights have been exhausted (Steiner et al. 2003, p. 247).

In the Centrafarm vs. Sterling Drug Inc. case, the ECJ said:

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

... the exercise, by a patentee, of the right which he enjoys under the legislation of a member state to prohibit the sale, in that state, of a product protected by the patent which has been marketed in another member state by the patentee or with his consent is incompatible with the rules of the EEC treaty concerning the free movement of goods within the common market.

The basis of the ruling was not made altogether clear. On the one hand, it might be thought that the existence of parallel patents was a crucial factor: a right to oppose the importation of protected products could be regarded as superfluous, because the

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<sup>30</sup> Case 15/74 Centrafarm BV vs. Sterling Drug Inc.

<sup>31</sup> Case 16/74 Centrafarm BV vs. Winthrop BV case

patentee would already have received the monopoly profit, which was due, in the Member State where the products were first put on the market. On the other hand the general terms in which the ruling was expressed, strongly suggested the principle of exhaustion would apply, even where the initial marketing occurred without the benefit of patent protection. If that were so, then the explanation could only lie in the patentee's consent to the marketing (Arnull et al. 2000, p. 365).

The rationale of this principle is to be found in the limitation of the exception in Article 30 TEC by reference to the case law derived notion of the specific subject matter of the intellectual property in question. Where exhaustion occurs, it is because the right to exclude import originally marketed in another Member State is not seen as part of the specific subject matter of the property in question. The exercise of the right would, therefore, not be "justified" within the meaning of Article 30 TEC as being necessary for the protection of the industrial and commercial property in question. The principle of exhaustion has been applied by the ECJ to most of the important forms of intellectual property (ibid., 363).

In order to better understand the doctrine of exhaustion of rights within the European Union, the elements of it should be examined which consist of in general (i) the existence of an intellectual property right and (ii) its marketing within the European Union (iii) by the proprietor or (iv) with his consent.

### **3.2.3.1 Existence of an Intellectual Property Right**

In order to talk about the exhaustion of a right, first there must exist an intellectual property right that should be protected over a product that is subject to circulation in a given market.

As already mentioned above, the Treaty has left the "existence" matter of an intellectual property right to the domestic law of each of the Member States. Article 295 TEC provides this by saying "This Treaty shall in no way prejudice the rules in Member States governing the system of property ownership." Therefore, each Member State is free to determine what should be protected as intellectual property right and the Treaty just respects this determination. Thus, in order to claim that an

intellectual property right over a product is exhausted in a given Member State, first there should be a legitimate right over that product that should be protected in that Member State.

So, would a right be exhausted if the product was marketed in a Member State where such right is not recognized at all? In the Merck I case, such a situation was at stake.

The plaintiff in the national proceedings, Merck and Co. Inc., was the holder in The Netherlands of patents relating to a drug used mainly in the treatment of high blood pressure. The proceedings arose because Stephar BV had imported the drug into the Netherlands from Italy where, although it was not patentable, it has been put into circulation by Merck. On Merck's behalf, it was argued that the function of rewarding an inventor's creative effort would not be fulfilled if, owing to the impossibility of patenting a product, its sale in the Member State in question did not take place under monopoly conditions. The ECJ said:

9. ... It must be stated that in accordance with the definition of the specific purpose of the patent, which has been described above, the substance of a patent right lies essentially in according the inventor an exclusive right of first placing the product on the market.

10. That right of first placing a product on the market enables the inventor, by allowing him a monopoly in exploiting his product, to obtain the reward for his creative effort without, however, guaranteeing that he will obtain such a reward in all circumstances.

11. It is for the proprietor of the patent to decide, in the light of all the circumstances, under what conditions he will market his product, including the possibility of marketing it in a member state where the law does not provide patent protection for the product in question. **If he decides to do so he must then accept the consequences of his choice as regards the free movement of the product within the common market , which is a fundamental principle forming part of the legal and economic circumstances which must be taken into account by the proprietor of the patent in determining the manner in which his exclusive right will be exercised.**

### **3.2.3.2 Marketing within the European Union by the Proprietor or with His Consent**

Exhaustion of rights can only be claimed concerning the circulation of products in a given market. So, what do we mean by "market"? It can be defined as an area within which products are freely circulated. For the purposes of European Union law,

market means the European Union. Therefore, once a proprietor puts his goods bearing the intellectual property rights on the European Union territory, he will be exhausted his rights.

There are certain law systems, which recognize *international* exhaustion of rights. For example in Austria a trade mark owner's rights are exhausted in respect of a particular product once this product has been placed on any market in the world.

However, according to the ECJ, if the relevant product is marketed outside the European Union, we cannot talk about the exhaustion of rights in the European Union. European Union only recognizes exhaustion of rights in respect of a product that is put on the market in one of the Member States. That is, if a product is marketed in one of the Member States of the European Union, then the intellectual property rights attached to that product shall be exhausted in all the other Member States, which means, marketing in only one Member State shall be enough for a right to be exhausted within the EU. The ECJ does not recognize international exhaustion. The ECJ very well underlined this in the Silhouette case.

Silhouette, an Austrian company, produced "top quality fashion spectacles". It sold 21.000 out-of-fashion frames to Union Trading a Bulgarian (then non-member state) company, on condition that these glasses were sold only in the former eastern bloc countries. The glasses were then bought by Hartlauer, an Austrian discount retailer, which Silhouette would not supply directly on the ground that Hartlauer would harm Silhouette's high class image. Hartlauer then parallel imported the glasses into Austria; Silhouette invoked its trade mark to stop this. The question for the ECJ was whether Silhouette had exhausted its rights by putting the glasses on the market outside the EEA. The ECJ answered this question with reference to the Trade Mark Directive 89/104. It said:

26. ... The Directive cannot be interpreted as leaving it open to the Member States to provide in their domestic law for exhaustion of the rights conferred by a trade mark in respect of products put on the market in non-member countries.

...

31 In the light of the foregoing, the answer to be given to the first question must be that **national rules providing for exhaustion of trade-mark rights in respect of products put on the market outside the EEA under that mark by the proprietor or with his consent are contrary to Article 7(1) of the Directive, as amended by the EEA Agreement.**

The ECJ found that there was no doctrine of international exhaustion of rights. It held that national rules of a European Union Member State providing for exhaustion of trade mark rights for products put on the market outside the EEA with the consent of the trade mark proprietor were incompatible with the terms of the Trade Mark Directive. From the wording of Article 7 (1), exhaustion would take place only if the goods had been put on the market within the EEA (Steiner et al. 2003, p. 252).

As already examined above, the marketing of the products subject to protection has been mentioned as one of the *specific subject matters* of the intellectual property rights.

In order to speak about the exhaustion of rights, the right should be exhausted within the given market by the proprietor or with his consent. Normally the proprietor of an intellectual property right has the right to put the goods on the market himself. However, it is also possible that the proprietor gives licence to third parties for the use of the intellectual property rights, the limits of which shall be determined in the licence agreement.

If the products bearing the intellectual property rights are marketed by other persons without the consent of its proprietor, then this will be a breach of the proprietor's intellectual property rights and such use shall not be protected. Moreover, as it was not the intention of the proprietor to put the goods on the market, his rights shall not be exhausted by such a use because he did not intend to exhaust his rights within that certain market.

As it is the proprietor of an intellectual property who has the right to use that intellectual property right, the marketing of a product bearing the intellectual property right shall be done by the proprietor or with his consent.

Consent is assumed where the owner markets the goods himself, where he does so through a subsidiary company or where the owner and the undertaking responsible for the first marketing are under common control (Vincenzi and Fairhurst, p.391). The limits of consent were explored in *Pharmon B.V. vs. Hoechst A.G.* case<sup>32</sup>.

Hoechst owned patents for the drug Frusemide in Germany, the Netherlands, and the United Kingdom. In the United Kingdom, a compulsory licence was awarded for manufacture of the drug under the Patents Act. Under a compulsory licence a patentee is deprived for exclusivity by a state act, which permits the grant to third parties of a licence to exploit the patent provided a reasonable royalty is paid the patent holder. The compulsory licence aims both to reward the inventor and to make more readily available to society the fruits of the invention. Therefore, Hoechst retained the patent but the drug was made by third parties licenced not by Hoechst but by the state. Pharmon, following Centrafarm's example, bought stocks of the drug made in the United Kingdom by DDSA, the licensee, and exported them to the Netherlands. Hoechst sought to exclude the imports by relying on the Dutch patent. The ECJ held that exercise of Hoechst's Dutch patent was permissible. This decision favours national protection over free trade and gives a narrow interpretation of the consent required before rights are exhausted. Hoechst had not manufactured the drug in the United Kingdom and so had not consented to its marketing there. Its choice to patent the drug in the United Kingdom did not amount to adequate consent, even though one might have anticipated that the initial consensual registration should be taken to encompass consent to all that might happen thereafter, including compulsory licencing. The ECJ however held that exhaustion of rights occurs only on consensual marketing, with the result that Hoechst had not exhausted its rights under national patent law.

Pharmon argued that, following *Merck I*, Article 28 and the principle of exhaustion of rights should prevail because Hoechst knew the consequences of entering the British market (namely, that a compulsory licence could be granted to a third party if the patent holder did not use its patent). Pharmon also argued that compulsory licences were similar licences freely granted because reasonable compensation was

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<sup>32</sup> Case 19/84 *Pharmon B.V. vs. Hoechst A.G.*

paid to the patent holder. Hoechst disagreed, arguing that there was a difference between compulsory licence and a licence freely granted because there were no real negotiations between the compulsory licensee and the patentee. It also argued that a licence freely granted was a means of exploitation, which went to the heart of the specific subject matter of the intellectual property right. Compulsory licenses, by contrast were intended to meet the special needs of the Member State. The ECJ agreed with Hoechst. It said that the theory of the exhaustion of rights presupposed that the product had been marketed freely and voluntarily by the patent proprietor or by a third party with the proprietor's consent. This theory did not apply to compulsory licences and so Hoechst could use its Dutch patent to prevent Pharmon from selling its Frusemide in the Netherlands.

The ECJ said that a compulsory licence is different from a licence freely granted. In the case of a compulsory licence, there is no direct or indirect consent of the patent proprietor because:

1. There are no real negotiations between the compulsory licensee and the patentee.
2. Objectives of a compulsory license and a freely granted license are different in that a compulsory license is intended to meet the special needs of a member state whereas a freely granted license is a means of exploitation, which goes to the specific subject matter of the patent right.

The ECJ also added that, in accordance with the principle of the territoriality of the acts of the public authorities of a member state, a compulsory licence cannot confer on its holder rights in the territories of the other member states.

After these findings, ECJ continued:

**25. It is necessary to point out that where, as in this instance, the competent authorities of a member state grant a third party a compulsory licence which allows him to carry out manufacturing and marketing operations which the patentee would normally have the right to prevent, the patentee cannot be deemed to have consented to the operation of that third party. Such a measure deprives the patent proprietor of his right to determine freely the conditions under which he markets his products .**

26. As the court held most recently in its judgment of 14 July 1981 (merck v stephar, cited above), the substance of a patent right lies essentially in according the inventor an exclusive right of first placing the product on the market so as to allow him to obtain the reward for his creative effort. It is therefore necessary to

allow the patent proprietor to prevent the importation and marketing of products manufactured under a compulsory licence in order to protect the substance of his exclusive rights under his patent.

**27. Consequently, in reply to question 1 it must be stated that articles 30 and 36 of the EEC treaty do not preclude the application of legal provisions of a member state which give a patent proprietor the right to prevent the marketing in that state of a product which has been manufactured in another member state by the holder of a compulsory licence granted in respect of a parallel patent held by the same proprietor.**

The ECJ went further in the IHT Internationale Heiztechnik GmbH vs. Ideal Standard GmbH case<sup>33</sup>, holding that action by an assignee under contract (as opposed to a subsidiary in another Member State) could not be regarded as carried out with 'consent' of the assignor in relation to the use of a trade mark on goods imported into another Member State, and the import could be restrained under the property justification in Article 30 TEC. The decision is surprising because it could be said that the assignment itself included a right to deal generally with the trade mark and the assignment would therefore exhaust the rights of the assignor. The ECJ, however, stressed that the free movement of 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 the goods for which he is in no way accountable. In this case, at least, the ECJ's concern for the proprietorial interest of the patentee seems to have outweighed its concern to secure the free movement of goods (Vincenzi and Fairhurst, p. 392).

The problem 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"). 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. 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

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<sup>33</sup> Case C 9/93 IHT Internationale Heiztechnik GmbH vs. Ideal Standard GmbH



had no links. That trade mark assignment related to France (including the overseas departments and territories), Tunisia and Algeria.

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 alia, 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 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.

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.

The ECJ said:

**60. ... 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".**

In the *Ideal Standard* case, the ECJ also decides on whether the implied consent would be regarded as consent within the meaning of exhaustion of rights. The ECJ said:

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.

So, the ECJ does not accept implied consent as the consent necessary to exhaust one's rights.

This issue of implied consent was repeated in the joined cases *Zino Davidoff vs. A&G Imports* case and *Levi Strauss vs. Tesco Stores* case.

The first case *Levi Strauss vs. Tesco Stores* related to whether or not express consent needed to be given by a brand owner to the importation of his branded goods into the European Union from outside, or whether consent is implied if there is no express prohibition to importation and subsequently re-sale. Secondly, in the case of *Zino Davidoff SA vs. Imports Ltd.*, Davidoff authorised the sale of its perfumes in Singapore with a prohibition on the distributor against re-sale outside Singapore. There was no requirement, however, that the Singapore distributor impose a similar restriction on subsequent purchasers and re-sellers. The English High Court held that it was arguable that re-sellers down the chain were free to market wherever they wanted, including the European Union.

The problem was whether, having regard to the facts of the disputes in the main proceedings, implied consent may be inferred: (i) from the fact that the proprietor of the trade mark has not communicated to all subsequent purchasers of the goods placed on the market outside the EEA his opposition to their being marketed within

the EEA; (ii) from the fact that the goods carry no warning of a prohibition on their being placed on the market within the EEA; (iii) from the fact that the trade mark proprietor has transferred the ownership of the products bearing the trade mark without imposing any contractual reservations and that, according to the law governing the contract, the property right transferred includes, in the absence of such reservations, an unlimited right to resell or, at the very least, a right to market the goods subsequently within the EEA.

In reply to the above questions, the ECJ said:

**55. Consequently, implied consent to the marketing within the EEA of goods put on the market outside that area cannot be inferred from the mere silence of the trade mark proprietor.**

**56. Likewise, implied consent cannot be inferred from the fact that a trade mark proprietor has not communicated his opposition to marketing within the EEA or from the fact that the goods do not carry any warning that it is prohibited to place them on the market within the EEA.**

**57. Finally, such consent cannot be inferred from the fact that the trade mark proprietor transferred ownership of the goods bearing the mark without imposing contractual reservations or from the fact that, according to the law governing the contract, the property right transferred includes, in the absence of such reservations, an unlimited right of resale or, at the very least, a right to market the goods subsequently within the EEA.**

If two undertakings are legally and economically independent of each other, one undertaking can rely on a national intellectual property right to block imports by the other. This is because, in this situation, the imports are not taking place with the consent of the intellectual property right owner. In contrast, if one undertaking licenses another undertaking to produce or distribute a product, or if the two undertakings are members of the same group (as in a parent – subsidiary relationship, for example), then they are not legally and economically independent of each other: sales by one are made with the consent of the other, leading to exhaustion (Horspool 2003, p. 363). The ECJ pointed out this matter in the *Ideal Standard* case as follows:

**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.**

So, the putting on the market of the product by an economically linked undertaking would also result in the exhaustion of the right according to the ECJ.

As to exhaustion of rights in copyrights, it should be noted that, copyright is the right given against the copying of defined types of cultural, informational, and entertainment productions, typically literary and artistic works. Copyright is rather different from the other types of intellectual property rights in that it includes moral rights (e.g. the right of the author to claim authorship of the work and to object to any distortion, mutilation, or other alteration of the work) as well as commercial rights.

The exhaustion of rights doctrine has not only remained in the ECJ's decisions, but also has been introduced in certain legislative measures of the European Union. The 89/104 Trade Mark Directive and 40/94 Council Regulation on the Community Trade Mark includes similar expressions used by the ECJ to define the doctrine of exhaustion of rights. The first sentence of Article 7 of the 89/104 Trade Mark Directive, the title of which is "exhaustion of the rights conferred by a trade mark", which expressly recognizes exhaustion of rights doctrine reads:

"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."

The first sentence of Article 13 of the 40/94 Council Regulation on the Community Trade Mark also contains the same provision.

There are two significant results of introduction of the exhaustion of rights doctrine in the European Union. The first one is the removal of the differences arising from the domestic laws of the Member States. For instance, the legal incompatibility between the Member States who recognize the principle of "international exhaustion of rights" and those who do not recognize has been removed. According to this, the principle of "international exhaustion of rights" shall be valid *within the European*

*Union* instead of an “absolute international exhaustion of rights” which can be found in the domestic laws of certain Member States. The second significant result is, a binding decision has been taken for the Member States who do not apply this principle, by making the exhaustion of rights doctrine a positive legal rule. (Özcan 1999)

### **3.2.3.3 Parallel Imports**

Parallel imports are defined as goods which are authorized by the owner of intellectual property rights for sale in one country, but which are then subsequently imported into another country without its authorization. Traders who engage in such activities are known as parallel traders. (Chard, Mellor 2007, p. 69)

Parallel imports are the subject of considerable debate and controversy in the international trade policy arena. The global system of intellectual property rights, as established in the Agreement on Trade – Related Aspects of Intellectual Property Rights (TRIPS) in the World Trade Organization, permits each country to establish its own legal regime. However, advocates of strong global international rights support a global policy of national exhaustion as a natural extension of the right to control distribution. Those who are concerned about the potential for market segmentation to support monopoly pricing and distribution activities prefer a policy of international exhaustion. (Maskus 2002, p. 1269)

The situation in EU is that the prevention of parallel import through the use of intellectual property rights is forbidden. Competition law defends the viewpoint that it is a requirement of the free market economy that parallel import be unrestricted. The judgments based on the “principle of exhaustion of rights” developed by the ECJ are considered by the Commission to be the most important elements in ensuring the protection of parallel import as balance against regional restrictions. (Özoğuz 2005, p. 49)

All of the above said about exhaustion of rights doctrine support that parallel import is allowed in the EU.

As the ECJ has accepted that the “market” is the EU, that is, rights of the proprietor of an intellectual property right are exhausted by putting the goods on the market in any of the member states, then there is no tool for stopping a third party to import goods into the EU after the rights on that good is exhausted. This means that once goods are put on the market in any of the member states, any third party can import goods into the EU from a non-member state country (outside the EU market), where goods are legally put on the market. So, parallel import is allowed in the EU.

### **3.2.4 Common Origin**

The free movement of goods has, at least until relatively recently, taken precedence over national industrial property rights by reason of another doctrine by the ECJ (Steiner et al. 2003, p. 249).

According to this doctrine, different trade mark holders in different Member States owning similar or identical trade marks having a common origin cannot invoke their trade mark to prevent the import of goods lawfully marketed under the trade mark by its proprietor in another Member State.

This doctrine was first introduced by the ECJ in the HAG I case<sup>34</sup>. HAG I concerned a trade mark (HAG) which was originally held by one company in Germany and Belgium until the ownership was separated by the Belgian authorities expropriating the Belgian company as enemy property at the end of World War II. The company was then sold to the Van Oevelen family, which in turn assigned the trade mark to Van Zuylen Freres. In 1972, HAG Germany tried to sell its coffee on the Belgian and Luxembourg markets under the name Decofa. When this failed, it started selling its coffee under the more familiar name of HAG. Van Zuylen Freres (“HAG Belgium”) then sued HAG Germany for infringement of its trade mark rights. The question for ECJ was whether HAG Belgium could invoke its Benelux trade mark to stop the sale of HAG coffee originating from HAG Germany. The court said no.

In this case the ECJ said:

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<sup>34</sup> Case 192/73 Van Zuylen vs. HAG

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

This decision was seriously criticized. A problem with HAG I was that the ECJ did not explain why the fact that a trade mark had a common origin led to this conclusion. The two brand owners in this case were quite distinct companies, not linked legally or commercially. HAG Belgium had not consented to HAG Germany marketing “Hag” coffee. Another problem raised by HAG I was whether the principle set down in it was intended to apply to forms of intellectual property right other than trade marks (Horspool 2003, p. 367).

The ruling in HAG I was reconsidered by the ECJ in HAG II case<sup>35</sup> in a reverse fact situation, HAG Belgium having changed hands and HAG Germany seeking to restrain import of the former’s coffee into Germany. The ECJ held that in the absence of an element of consent on the part of the trade mark owner to the product being manufactured or marketed in another Member State the owner was entitled to protect its product against imported goods which could be confused with his but for which he was not responsible. The decision, which was carefully reasoned, was based on the purpose of the trade mark protection, which is to guarantee the identity and origin of the marked products to the consumer and ultimate user, and avoid the possibility of confusion. As Advocate General Jacobs pointed out, the word “origin” did not refer to historical origin, but to the commercial origin of the goods, as a guarantee of uniform quality. The determining factor, as the ECJ pointed out, was the absence of consent on the part of the proprietor to the putting into circulation in another Member State of similar products bearing an identical mark or one leading confusion, manufactured by an undertaking, which is legally and economically independent of the proprietor (Steiner et al. 2003, p. 250).

In the HAG II case, the ECJ said:

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<sup>35</sup> Case C-10/89

18. From the date of expropriation and notwithstanding their common origin, each of the marks independently fulfilled its function, within its own territorial field of application, of guaranteeing that the marked products originated from one single source.

19. It follows from the foregoing that in a situation such as the present case, in which the mark originally had one sole proprietor and the single ownership was broken as a result of expropriation, 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, in so far as they are similar products bearing an identical mark or one which is liable to lead to confusion .

20. Consequently the answer to the first question must be 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 .

After HAG II case, today, the doctrine of common origin is no longer used.

### **3.2.5 Similar Trade Marks**

There may arise conflicts between the producers of different goods having similar trade marks. The owner of a trade mark would wish to protect its trade mark against trade marks that are confusingly similar to its trade mark.

In *Terrapin v. Terranova* case<sup>36</sup>, a British building material was registered in the United Kingdom under the trade mark “Terrapin”. A similar product was registered in Germany as “Terranova”. The producers were totally separate. The question arose whether the British product could be excluded from the German market by the owner of the Terranova mark. Had these been Terranova’s own products, bought in the United Kingdom and reimported to Germany, there would have been no scope for the trade mark. Rights would have been exhausted. However, because the products were different, the trade mark merely similar, the Court ruled that reliance on the trade mark was permissible provided there was a real risk of confusion that would justify the exclusion of the similar products. It was for the national court in the

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<sup>36</sup> Case 119/75, *Terrapin v. Terranova*



context of an Article 234 (ex 177) reference to decide on the depth of the risk of confusion.

In *Deutsche Renault AG v. Audi AG* case<sup>37</sup>, the alleged confusion was between Audi's German trade mark "Quattro", applied to four-wheel drive vehicles, and Renault's "Espace Quadra", also used for a four-wheel drive vehicle made in France. The European Court ruled that the determination of the criteria for deciding on the risk of confusion was a matter of the national system.

The Court was a little bit more forthcoming in *IHT Internationale Heiztechnik GmbH v. Ideal Standard GmbH*<sup>38</sup> where, although it confirmed that it was for national law to determine the criteria relevant to assessment of the risk of confusion, the Court added that the national court must comply with the prohibition against arbitrary discrimination and disguised restrictions on trade between Member States found in the second sentence of Article 30 (ex 36). The court observed that this proviso prevents a national court from conducting an arbitrary assessment of the similarity of products.

### **3.2.6 Repackaging**

Article 7(2) of the First Directive 89/104/EEC of the Council, of 21 December 1988, to Approximate the Laws of the Member States Relating to Trade Marks, provide that the owner of a trade mark may oppose the further commercialization of products where there is a legitimate reason for doing so, especially where the condition of the products has been changed or impaired since they were put on the market.

In *Hoffmann – La Roche v. Centrafarm* case<sup>39</sup> the Court held that:

the proprietor of a trade mark right which is protected in two Member States at the same time is justified pursuant to the first sentence of Article 36 of the EEC Treaty in preventing a product to which the trade mark has lawfully been applied in one of those States from being marketed in the other Member State after it has been repackaged in new packaging to which the trade mark has been affixed by a third party.

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<sup>37</sup> Case C-317/91, *Deutsche Renault AG v. Audi AG*

<sup>38</sup> Case C-9/93, *IHT Internationale Heiztechnik GmbH v. Ideal Standard GmbH*

<sup>39</sup> Case 102/77, *Hoffmann – La Roche v. Centrafarm*

The Court concluded that the Article 30 (ex 36) must be interpreted as meaning that a trade mark owner may rely on his rights as owner to prevent an importer from marketing a product put on the market in another Member State by the owner or with his consent, where that importer has repackaged the product in new packaging to which the trade mark has been affixed, unless: (i) it is established that the use of the trade mark right by the owner, having regard to the marketing system which he has adopted, will contribute to the artificial partitioning of the markets between Member States; (ii) it is shown that the repackaging cannot adversely affect the original condition of the product; (iii) the owner of the mark receives prior notice before the repackaged product is put on sale; (iv) it is stated on the new packaging by whom the product has been repackaged.

### **3.3. COMPARISON WITH THE SITUATION IN TURKEY**

#### **3.3.1 Principle**

In Turkey, the exhaustion of rights doctrine appears to have been accepted through Patent Decree No. 551, Article 76 which reads: “Any actions related to the patented products sold in Turkey by the patent owner or with its consent, remain outside the scope of the patent right. (Özoğuz 2005, p. 59)

Trademark Decree No. 556, Article 13 states that: “after the trademarked goods have entered the market by either the trademark owner or with its consent, the trademark owner cannot forbid the use of the trademark in connection with the use of the trademark in connection with the use these products”. This is known in practice and in legal arrangements as the exhaustion of trademark rights. In order to apply this principle, the goods bearing the officially registered trademark must be offered to the market in Turkey by the trademark owner or with his consent. (Özoğuz 2005, p. 57)

This principle is applied for all kinds of intellectual property rights in Turkey. As we can see, this principle is almost exactly the same as the principle recognized in the EU. This is because of the harmonization of Turkish laws with EU law.

With the EC - Turkey Association Council decision of 1/95 which entered into force on 31<sup>st</sup> December 1995, Turkey has entered the customs union. This decision governs the circulation of products other than agricultural products between Turkey and EC.

According to Article 4, import and export duties and charges having equivalent effect shall be wholly abolished between the Community and Turkey. The Community and Turkey shall refrain from introducing any new customs duties on imports or exports or any charges having equivalent effect.

Articles 5 to 11 regulate the elimination of quantitative restrictions or measures having equivalent effect. These provisions are all in line with the TEC regulations.

Although Association Council Decision No. 1/95, Annex 8, Article 10(2) states that the principle of exhaustion of rights was not envisioned between the Community and Turkey, it is accepted by many authors that this is contrary to joint council primary law and constitutes a diminishment of the jurisdiction of this primary law. Consequently the application of the decision would be impossible. So it is generally concluded that exhaustion of rights that is valid according to Community law becomes valid when the borders of Turkey are included in the resulting wider region. This determination makes parallel import of goods according to appropriate Turkish marketing procedures possible for Community member states. (Özoğuz 2005, p. 55)

So, with the entry into force of the EC – Turkey Association Council Decision 1/95, exhaustion of rights doctrine recognized by the EU shall also be applied for the goods subjected to the said decision with the “market” including Turkey. That is, for the mentioned goods, an intellectual property right owner shall be exhausted its rights on that good within the EU, once it puts the goods on the Turkish market. And vice versa, when such a good is put on the market in any of the Member States, an intellectual property right owner shall be exhausted its rights on that good within Turkey.

### 3.3.2. Case Law

There have been cases before the Turkish Court of Cassation regarding the exhaustion of rights and parallel imports. Here are some examples:

1. Turkish company Sesa Dış Tic. Ltd. Şti. (Sesa) acquired exclusive sale license from the Italian company De Rigo Spa, who has officially registered the trademarks that Sesa is authorized to sell in Turkey. Another company, Hekim Optik İt. İh. Ltd.Şti. (Hekim) imported the same and genuine trademarked goods into Turkey without the authorization of neither De Rigo Spa, nor Sesa. Sesa argued that Hekim infringed its rights by such importation.

2. In the Lancome case, the plaintiff claimed that the defendant had no licence agreement with the plaintiff, therefore, the defendant was infringing the plaintiff's rights by selling the same products in Turkey. The defendant said that it was lawfully purchasing the products and the plaintiff had no right to stop the defendant from selling those products.

In all these cases, the Turkish Court of Cassation held that the sale of parallel imported goods in Turkey cannot be stopped. It relied on the following legal grounds:

1. Article 13 of the Trademark Decree No. 556 cited above, saying that after the trademarked goods have entered the market by either the trademark owner or with its consent, the trademark owner cannot forbid the use of the trademark in connection with the use of the trademark in connection with the use these products. In all these cases, the trademarked goods have entered the market by either the trademark owner or with its consent.

2. Secondly, The Turkish Court of Cassation relied on a principle of law of obligations: It said, according to the principle of proportionality of contracts, exclusive sale contracts cannot impose any obligations on third parties, because the right of monopoly of the exclusive seller in a given region is only the responsibility

of the owner. These contracts cannot oblige third parties to act or not to act in order to keep the exclusive seller in its monopoly state.

Since 1992, The Turkish Court of Cassation gives decisions in line with the above explanations.

## 4. CONCLUSION

Article 30 TEC brings the exception of protection of industrial and commercial property rights to free movement of goods. In case of an infringement of industrial and commercial property rights, the free movement of goods can be stopped so as not to cause damage to the proprietor of the right. For instance, the ECJ held that the principle of free movement of goods shall not be applied to goods bearing a confusingly similar trade mark to a trade mark that is under protection in the EU.

However, this exception has not been interpreted very broadly. Even though the letter of Article 30 TEC seems to favor industrial and commercial property rights to free movement of goods, the interpretation of Article 30 TEC by the ECJ has not always been that favoring. The ECJ interpreted the scope of protection of industrial and commercial property rights in a narrow manner. Because if the protection is interpreted in a broad manner, it had the risk of legitimizing the isolation of national markets and it would be conflicting with the essential purpose of the Treaty, which is to unite national markets into a single market.

One reason how the protection of industrial and commercial property has been narrowly applied is the exhaustion of rights doctrine being valid not only within each Member State, but also for the whole of the Community, because the “market” is the European Union.

In the beginning, this was introduced as if it only invalidated the exercise of intellectual property rights, while their existence was preserved. Later the concept of the existence of the right was refined in terms of its ‘specific subject matter’ and the ‘essential function’ of the right. The doctrine of exhaustion is best seen as a judicial and political compromise that allows the free movement of goods within the Community, despite the fact that national intellectual property rights enable intellectual property right owners to interfere with the free movement of goods.

As a result, we can say that free movement of goods principle is so important to the realization of the economic union of Europe that this principle is sometimes favoured against the protection of industrial and commercial property, although the protection

of these rights is indispensable for international trade and consequently trade within the European Union. Nevertheless, necessary measures in order to protect the proprietor of the industrial and commercial property rights, are taken either by the TEC itself or by the rulings of the ECJ as explained in detail in this work.

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