

**REVISITING THE CONFLICT BETWEEN THE EUROPEAN
TRADE MARK RIGHTS AND PARALLEL IMPORTATION****AVRUPA MARKA HAKLARI İLE PARALEL TİCARET ARASINDAKİ
ÇATIŞMANIN YENİDEN DEĞERLENDİRİLMESİ****Dr. Özgür ARIKAN*****Abstract**

There are two crucial on-going developments regarding the European trade mark law. These are; the expansion of trade mark protection under the double identity clause by the case law of the CJEU and entry into force of the Trade Marks Directive (EU) 2015/2436 of the European Parliament and of the Council of to approximate the laws of the Member States relating to trade marks. This article aims to revisit the long-recognized conflict between the trade mark laws of the Member States, which provides exclusive rights for trade mark owners at a national level to prevent the unauthorized use of trade marks by third parties, and the free movements of goods principle of the EU, which creates intra-brand competition through allowing the parallel importation within the European Economic Area, in order to view the impact of the recent developments on the European exhaustion doctrine.

Key words: Trade Mark Protection, Parallel Importation, Intra-brand Competition, European Exhaustion, the Court of Justice of the European Union.

Özet

Avrupa marka hukuku alanında devam eden iki önemli gelişme bulunmaktadır. Bunlar; çifte ayniyet kuralı altında marka haklarının ABAD kararları ile genişletilmesi ve üye ülkelerin markalara ilişkin kanunlarını yakınlaştırma amacı taşıyan Avrupa Parlamentosu ve Avrupa Konseyi'nin 2015/2436 Avrupa Marka Direktifi'nin yürürlüğe girmesidir. Bu makale, söz konusu gelişmelerin Avrupa marka haklarının tükenmesi doktrinine olan etkilerini incelemek için, marka sahiplerine üçüncü kişilerin markalarını izinsiz kullanmasını önlemek için ayrıcalıklı haklar tanıyan üye ülkelerin marka hukukları ile Avrupa Ekonomik Alanı içerisinde paralel ticareti meşru kılarak marka içi rekabet yaratan Avrupa Birliği'nin malların serbest dolaşımı ilkesi arasındaki uzun süredir tanınan çatışmanın yeniden değerlendirilmesini amaçlamaktadır.

Anahtar kelimeler: Markanın Korunması, Paralel Ticaret, Marka İçi Rekabet, Avrupa Marka Haklarının Tükenmesi, Avrupa Birliği Adalet Divanı.

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INTRODUCTION

The European Union (EU) regulated a directive to approximate the laws of Member States relating to trade marks, which is known as the Trade Mark Directive (TMD).¹ According to Article 2 of the TMD, any sign which is capable of being represented graphically and of distinguishing the goods and services of one undertaking from those of other undertakings can be registered as trade mark.² Once, a sign has been registered as a trade mark by the authorised institutions, the exclusive rights are granted to the owner of trade mark.

The exclusive rights granted to trade mark owners are set out in Article 5 of the TMD.³ It defines what will amount to an infringement whereby the scope of the exclusive rights given to trade mark owners is outlined. According to Article 5(1)(a) of the TMD⁴, a registered trade mark will be infringed if a mark which is *identical* with the registered trade mark is used for products which are *identical* with those for which the trade mark has been registered. This rule is known as “double identity rule.”

This article aims to revisit the conflict between the trade mark rights and parallel importation within the European Economic Area (EEA). The exclusive right that a trade mark owner would apply in the case of parallel importation is likely to be the one given them under Article 5(1)(a); since parallel imports are the same products of the same registered trade mark imported from a different market. Therefore, this article will focus on the trade mark right provided under the double identity clause rather than the ones provided under the other subsections of Article 5.

¹ The DIRECTIVE 2008/95/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 22 October 2008 to approximate the laws of the Member States relating to trade marks. (It is repealed with effect from 15 January 2019). This Directive is referred as the “TMD” in this article. The DIRECTIVE (EU) 2015/2436 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 16 December 2015 to approximate the laws of the Member States relating to trade marks. (It came into force on 23 March 2016). This Directive is referred as the “new TMD” in this article.

² Article 2 of the TMD corresponds to Article 3 of the new TMD. It is important to note that “capable of being represented graphically” criterion for a sign to be registered as a trade mark removed from the new TMD. Instead, Article 3 of the new TMD requires a sign to be represented on the register in a manner which enables the competent authorities and the public to determine the clear and precise subject matter of the protection afforded to its proprietor. Recital 13 to the new TMD indicates that sign should be permitted to be represented in any appropriate form using generally available technology, and thus not necessarily by graphic means, as long as the representation offers satisfactory guarantees to that effect.

³ Article 5 of the TMD corresponds to Article 10 of the new TMD.

⁴ Article 5(1)(a) of the TMD corresponds to Article 10(2)(c) of the new TMD.

1. DOUBLE IDENTITY CLAUSE AND FUNCTION THEORY

The protection provided to a trade mark owner under the double identity clause is limited to cases in which the use of an identical mark in relation to the identical products by third parties is incompatible with the exclusive right which was granted to the trade mark owner through registration. This exclusive right was applicable for trade mark owners to prevent the use of the identical mark by third parties in cases where one of the functions that the trade mark is supposed to perform is adversely affected.⁵ Therefore, identifying the functions performed by trade mark plays a crucial role in drawing the scope of the protection provided under Article 5(1)(a) of the TMD.

The functions that a trade mark performs may be divided into three.⁶ The first one is the essential function of indicating origin (origin function) which identifies the commercial source of products bearing the trade mark. The second one is the quality guarantee function of trade mark which enables the owner to convey information about the unobservable quality features of the products bearing the trade mark. The third one is the communication, investment or advertising functions.⁷ However, we will use an umbrella definition, which is the “additional functions”⁸, for the quality guarantee function and the communication, investment or advertising functions of trade mark at some points of this article.

Prior to adoption of the function theory, the Court of Justice European Union (CJEU) had applied the essential function theory in determining the scope of the rights given to trade mark owners under Article 5(1)(a) of TMD. The essential function of trade mark can be defined as the ability of the trade mark to guarantee

⁵ This is referred as the “function theory” or the “functions doctrine.” SENFTLEBEN, M. (2014), “Function theory and international exhaustion-why it is wise to confine the double identity rule to cases affecting the origin function”, *European Intellectual Property Review*, No: 36(8), p. 518-524; KUR, A. (2014), “Trade marks function, don’t they? CJEU jurisprudence and unfair practices”, *International Review of Intellectual Property and Competition Law*, No: 45(4), p. 434-454.

⁶ This scheme of classification was mentioned in *Christian Dior v. Evora* (C-337/95) by AG Jacobs who drew it from CORNISH W.R. (1999), *Cases and Materials on Intellectual Property*, Third Edition, Sweet & Maxwell, London, UK before being picked up by CJEU in *L’Oreal v. Bellure* (C-487/07) [2009] E.T.M.R.55. For more information about the functions of trade mark see: ARIKAN, Ö. (2016), *Trade Mark Rights and Parallel Importation in the European Union*, Onikilevha, Istanbul, Turkey, p.21-65.

⁷ It is necessary here to note that the CJEU addressed the investment and advertising functions separately in the recent cases such as *Google France* (C-236/08 to C-238/08) and *Interflora v. Marks & Spencer* (C-323/09) although they have been mentioned all together in *L’Oreal v. Bellure* (C-487/07). In this article, they will be considered all together unless it needs to be considered separately.

⁸ For more information about the additional functions of trade mark see: GRIFFITHS, A. (2011), *An Economic Perspective on Trade Mark Law*, Edward Elgar, Cheltenham, UK.

the identity of the origin of the marked product to the consumers or end users by enabling them, without any possibility of confusion, to distinguish the products from others which have another origin.⁹ In order for a trade mark to be able to fulfil its essential function, it must offer a guarantee that all products bearing it have originated *under the control of a single undertaking that is responsible for their quality*.¹⁰ However, the CJEU case by case introduced the function theory and therefore expanded the scope of the protection provided under Article 5(1) (a) of the TMD.

The idea of providing protection to the functions of trade mark other the essential function of indicating origin was first suggested in *Arsenal Football Club v. Reed*.¹¹ In his opinion to the CJEU, AG Colomer raised an argument as to the traditional determination of the scope of trade mark rights by saying that “it seems to me to be simplistic reductionism to limit the function of the trade mark to an indication of trade origin” because a trade mark can indicate at the same time origin of the products, the quality of the products it represents and also the reputation of the firm. Thus, there is “...no reason whatever not to protect those other functions of the trade mark and to safeguard only the function of indicating the trade origin of goods and services.”¹²

As a result, the CJEU in its ruling hinted at the functions of trade mark by stating as follows:

“The exercise of that right (the exclusive right under Art.5(1)(a) of the Trade Mark Directive) must therefore be reserved to cases in which a third party’s use of the sign affects or is liable to affect *the functions of the trade mark*, in particular its essential function of guaranteeing to consumers the origin of the goods.[Emphasis Added]”¹³

The identification of those functions came with its judgment in *L’Oréal v. Bellure*¹⁴ where *quality guarantee* and *communication, investment or advertising functions* of a trade mark in addition to its origin function are found to merit protection under the provision of Article 5(1)(a) of TMD.¹⁵ However, the judgment of the CJEU, which expands the scope of exclusive trade mark rights to

⁹ *Hoffmann La Roche v. Centrafarm* (C-102/77) [1978] E.C.R. 1139 at [7].

¹⁰ *Hag II* (C-10/89) [1990] 3 C.M.L.R. 571 at [13]; *Arsenal v. Reed* (C-206/01) [2003] 1 C.M.L.R. 12 at [48].

¹¹ *Arsenal v. Reed* (C-206/01) [2002] E.T.M.R. 82.

¹² *Ibid.* at [46]- [47].

¹³ *Ibid.* at [54].

¹⁴ *L’Oréal v. Bellure* (C-487/07) [2009] E.T.M.R. 55.

¹⁵ *Ibid.*

protect the communication, investment or advertising functions that a trade mark performs, has been criticized on the ground that neither a clear explanation as to the concepts of them nor a detailed justification for their protection was given.¹⁶

The other judgment of the CJEU regarding to the protection of the additional functions under Article 5(1)(a) of TMD was in *Google France*.¹⁷ In relation to those functions, Advocate General Póiares Maduro, in his opinion to the CJEU, stated that the CJEU made an important clarification in *L'Oreal v. Bellure* which is that alongside the aim of preventing consumers from being misled, trade marks also serve to promote innovation and commercial investment. A trade mark protects the investment that the trade mark owner has made in the product associated with it and, in so doing, creates economic incentives for further innovation and investment. Advertising, investment and communication functions that a trade mark performs relate to that promotion of innovation and investment.¹⁸

However, the CJEU found only the origin function and the advertising function as the relevant functions to be examined under Article 5(1)(a) of the TMD in *Google France*. As regards the function of advertising, the CJEU held that use of a sign which is identical with another person's trade mark in a referencing service such as Ad Words is not liable to have an adverse effect on the advertising function of the trade mark although it acknowledged that trade mark owners do experience repercussions from that use.¹⁹

The explanation as to the investment function of trade mark in addition to its advertising function came later with judgment in *Interflora v. Marks & Spencer*²⁰. In *Interflora v. Marks & Spencer*, *Interflora* had brought trade mark infringement proceedings against a competitor company *Marks & Spencer* which used *Interflora* as a keyword in Google Ad Words referencing service to advertise its own flower delivery service, meaning that when internet users entered *Interflora* as a search term in the Google search engine an advertisement for *Marks & Spencer's* flower delivery service would appear.

In this case, the CJEU, for the first time, gave the definition of the investment function of trade mark in this case in order to explain the difference of it from

¹⁶ GANGJEE, D. and BURRELL, R. (2010), "Because You're Worth It: *L'Oreal* and the Prohibition on Free Riding", *The Modern Law Review*, No: 73(2), p. 282; HORTON, A. (2011), "The implications of *L'Oreal v Bellure*- a retrospective and a looking forward: the essential functions of a trade mark and when is an advantage fair?", *E.I.P.R.*, No:33(9), p. 555.

¹⁷ *Google France* (C-236/08 to C-238/08) [2010] E.T.M.R. 30.

¹⁸ *Ibid.* at AG [96].

¹⁹ *Ibid.* at [95]-[98]; Case Comment (2010), "Use of trade mark in internet search keywords examined", *EU Focus*, No: 274, p.28.

²⁰ *Interflora v. Marks & Spencer* (C-323/09) [2012] E.T.M.R. 1.

the advertising function. According to the CJEU, the investment function of trade mark can be defined as “to acquire or preserve a reputation capable of attracting consumers and retaining their loyalty.”²¹ However, a trade mark can be used to acquire or preserve reputation, not only through advertising, but also through various commercial techniques. Therefore, the investment function of a trade mark differs from its advertising function although it may overlap with the latter.²² The CJEU found in this case that the use by a competitor of a keyword, which is identical to the trade mark in relation to the identical goods and services, has an adverse effect on the investment function of the trade mark but it has no adverse effect on its advertising function.

The most crucial outcome of the CJEU’s judgment in this case was probably explanation of the difference between the general concepts of investment function and advertising function. The difference between the notions of those functions had not been clarified by the CJEU since they were identified in *L’Oréal v. Bellure*. Having said that, the concept of communication function and its difference from the concepts of the advertising and investment functions have not been clarified since it was found to merit protection under the provision of Article 5(1)(a) of the TMD.

To sum up, the idea that there might be functions, other than the origin function, which merit protection under Article 5(1)(a) of the TMD was first suggested in the rulings of the CJEU in *Arsenal Football Club v. Reed*. The most important development in relation to the functions theory came with the identification of those functions, named as the quality guarantee function and the advertising, investment or communication functions, in *L’Oréal v. Bellure*. However, the CJEU did not provide any ruling illustrating the differences between the advertising, investment or communication functions that a trade mark performs in the relevant cases until *Interflora v. Marks & Spencer*. In that case, the CJEU provided a ruling noting the difference between the investment function and the advertising function that a trade mark performs.

On one hand, it is possible to say that there has been a consistent improvement as to the clarification of the additional functions since the adoption of the function theory. The difference between the notions of the advertising and investment functions was clarified by the CJEU in *Interflora v. Marks & Spencer*.²³

On the other hand, I think it is not yet completely settled matter of the European Trade Mark Law. Since, the concept of the communication function

²¹ *Ibid.* at [60].

²² *Ibid.* at [61].

²³ *Ibid.*

and its difference from the notions of advertising and investment functions remain obscure.²⁴ Furthermore, the quality guarantee is identified as a distinct function in the CJEU's recent judgments. However, the quality guarantee was linked to the essential function of indicating origin, as it can be clearly understood from the definition of the essential function, which the CJEU applied in the interpretation of the scope of protection under the double identity rule prior to its *Arsenal* decision.²⁵

In my opinion, the fundamental issue with the expansion of the scope of the protection to cover the additional functions of trade mark is the uncertainty as to the scope of the absolute protection provided under the double identity clause. More specifically, the double identity clause was specially designated to provide trade mark owners an exclusive right so as to safeguard their marks against confusion. In other words, the protection provided under the double identity clause was designated to protect the origin function of trade mark. Therefore, Recitals to the TMD describes this type of protection as absolute. This means that the protection afforded by the registered trade mark should be absolute in the case of identity between the marks and the goods or services.

Nevertheless, the lack of clarity and certainty as to the concepts of additional functions creates difficulties to draw the scope of the absolute protection provided under the double identity clause. Hence, there was a negative view as to the function theory which expands the scope of the protection under the double identity clause.²⁶ As a result, the European Commission, in its proposed Directive, which was carried out in the light of the Max Planck Institute's report, sought to limit the protection under the double identity clause to cases affecting merely the essential function of indicating origin.²⁷ It is pointed out in the preamble that the provision shall serve legal certainty and clarity. This means that the Commission aimed to clarify the scope of the absolute protection by limiting the double identity clause to the origin function.

²⁴ KUR, A. (2015), "The EU Trademark Reform Package—(Too) Bold a Step Ahead or Back to Status Quo?", *Marquette Intellectual Property Law Review*, No:19(1), p. 32.

²⁵ *Hoffmann La Roche v Centrafarm* (C-102/77) [1978] E.C.R. 1139; *Hag II* (C-10/89) [1990] 3 C.M.L.R. 571 at [14] and [13], *Scandecor v Scandecor* (HL 4 APR 2001) [2001] E.T.M.R. 74 at [17].

²⁶ Kur 2014, p. 438; Senftleben 2014, p. 518.

²⁷ The European Commission commissioned a study to evaluate the current functioning of the European trade marks system to identify any needed improvements and to assess the need for further harmonization. The review was carried out by the Max Planck Institute and was published in 2011. In March 2013, the European Commission formally adopted its proposals to review the European trade marks Regulation and the Directive. The new TMD is currently in force.

However, the reasoning of the Commission was not satisfying for Trade Mark Associations and this proposal was met with some antagonistic reactions from them.²⁸ Undoubtedly, the expansion of the absolute protection under the double identity clause to cover the additional functions strengthens the hands of trade mark owners, in particular against parallel traders which we will consider in detail below.

Thus, Trade Mark Associations opposed the limitation of the double identity clause into the origin function in the proposed Directive on the ground that it could cause uncertainty in a situation where there is contrary statements avoiding confusion as to commercial origin of products.²⁹ This is the case occurred in aforementioned *Arsenal v Reed*.³⁰

In this case, *Reed* contested the infringement argument of Arsenal by claiming that there was no use in the course of trade because the products were not official were prominently displayed on the signpost and signs, which are the registered trademarks of Arsenal, were only used as badges of support, loyalty or affiliation to the Arsenal football club. Therefore, the CJEU expanded the scope of the protection to safeguard the further functions of trade mark. It can be argued whether the expansion of trade mark protection to safeguard the further functions of trade mark can be a solution to prevent defences on the ground that there was a contrary statement avoiding confusion as to commercial origin of products. However, it is possible to say that limiting the scope of the protection to the origin function of trade mark does not provide a solution to the cases where it is obvious that there is no likelihood of confusion as to the origin of goods or services.³¹ This can be because of a contrary statement avoiding confusion like the *Arsenal* case or significant price differences between the luxury products and their counterfeits.

²⁸ For more information, see Kur 2014, p. 434; GRUR (2013), “Opinion of the German Association for the Protection of Intellectual Property regarding the European Commission proposal for a recast of the Trade Mark Directive”,

<http://www.grur.org/uploads/tx_gstatement/2013-07-01_GRUR_Opinion_Recast_TM_Directive-summary_01.pdf>, Data Accessed:15.06.2016;

INTA (2013), “International Trademark Association Comments on the Proposed Revisions to the EU Community Trade Mark Regulation and Trade Marks Directive”,

<<http://www.inta.org/advocacy/documents/june2013intacommentseutmsystemsreview.pdf>>, Data Accessed:15.06.2016.

²⁹ INTA (2013), p. 15.

³⁰ *Arsenal v. Reed* (C-206/01) [2001] 2 C.M.L.R. 23.

³¹ SENFTLEBEN, M. (2011), “Trade Mark Protection – A Black Hole in the Intellectual Property Galaxy?”, *International Review of Industrial Property and Competition Law*, No: 42(4), p. 387.

Moreover, imitation of the luxury branded products which could not be confused with the actual brand due to massive price difference between them.³² For instance, if a *Louis Vuitton* handbag is on sale at 10\$, it is so obvious for consumers that the handbag is counterfeit product. Therefore, it is unlikely for consumers to be confused as to the commercial origin of product.

Similarly, Adword and keyword cases which would often be reduced to trade mark with a reputation.³³ This is the case occurred in *Interflora v. Marks & Spencer*.³⁴ In this case, *Interflora*, which is not a well-known trade mark, had brought trade mark infringement proceedings against a competitor company *Marks & Spencer* which used *Interflora* as a keyword in Google Ad Words referencing service to advertise its own flower delivery service, meaning that when internet users entered *Interflora* as a search term in the Google search engine an advertisement for *Marks & Spencer's* flower delivery service would appear.

Also, parallel import cases where original products have been sold with the consent of the trademark owner only outside the EU. In the case of limiting the double identity protection into the origin function, it could not be justified why the importation of original products into the EU is an infringement. This is because; the origin function in these cases is not affected as the products originated from the trademark owner.³⁵

As a result those criticisms, the European Parliament as well as the Council suggest deleting the restriction.³⁶ There is no mention as to the limitation of the scope of trade mark protection to origin function under the double identity clause in the new legislation. In other words, “detriment to origin function” requirement has been removed from double identity clause of the proposed Directive and it has been approved and published by the European Council and Parliament without this requirement.

However, the recital 16 of the new TMD clearly states that the origin function of a trade mark is absolute in cases of double identity. This means that detriment to origin function under the double identity clause of the new TMD is absolute but the double identity clause is not limited to the protection of the origin function. Therefore, the case law of the CJEU regarding the expansion of protection under the double identity clause remained as a crucial guidance under the new TMD.

³² INTA (2013), p. 15.

³³ *Ibid.* p. 15.

³⁴ *Interflora v. Marks & Spencer* (C-323-09) [2012] E.T.M.R. 1.

³⁵ GRUR (2013), p. 6.

³⁶ Kur 2014, p. 32.

Undoubtedly, this last minute revision change prior to the entry into force of the new TMD strengthened the hands of trade mark owners against the parallel importers which we will consider below. Firstly, the protection provided under the double identity clause remains absolute. This means that trade mark owners do not have to prove the likelihood of confusion under the double identity clause as it is presumed. Secondly, the trade mark owners may seek to protect the additional functions of their trade mark under the double identity rule. We will consider the impact of those developments on the exhaustion principle below.

2. PARALLEL IMPORTATION AND INTRA-BRAND COMPETITION

Parallel importation occurs when a trade mark owner or his licensee sells protected products in one national market under such circumstances that those products can be purchased there for export and imported into another country for sale against the wishes of the trade mark owner and in competition with identical products enjoying equivalent protection in the country of import.³⁷

Parallel importing occurs in practice only if it is an economically logical activity for firms to engage in. The parallel traders have an incentive to do this only if they can import and sell trade marked products at a lower price in the country of import and still make a profit after paying all the costs, tariffs and other charges. However, the trade mark owners in the country of import would not like the idea of the parallel importation; because parallel imports will create intra-brand competition, competitive situation between identical products, in the country of import.

There might be several reasons why same products of a particular trade mark may be sold at different prices in different countries.³⁸ The most obvious reason for price difference is currency fluctuations between countries.³⁹ However, monetary unions such as Euro-zone sometimes might not be enough to eliminate the price differences of the same trade marked products between the countries. In other words, the price difference and parallel importation between Germany and Greece cannot be explained by currency fluctuations.

Having said this, price discrimination might be the reason for different prices of the same trade mark products on different markets. Firms may charge different prices for the identical products that have same costs of production, based solely on different consumers' willingness to pay in different markets. In

³⁷ HAYS, T. (2004), *Parallel Importation under European Union Law*, Sweet & Maxwell, London, UK, p. 1.

³⁸ For more information about the reasons of parallel importing see: Arıkan 2016, p. 171.

³⁹ CORNISH, W. R. (1998), "Trade marks: portcullis for the EEA?", *European Intellectual Property Law*, No: 20(5), p. 173.

other words, the difference between consumers' willingness to pay for the same product might let firms to divide their customers into two or more separate groups and charge whatever the market bears. This is known in economic literature as price discrimination.⁴⁰ Therefore, the reason of the price difference between the Germany and Greece, despite using the same currency, might be the result of this marketing policy of firms. Moreover, some national markets may have strict government price controls on specific products such as drugs. For instance, Greece and Spain have lower prices in the pharmaceutical products due to the legislative power of health authorities while the wealthier countries of the EU such as Germany may have higher prices in the pharmaceutical products of the same brand.⁴¹

As a result, consumers can find the same branded products which have come from different channels on the market at different prices. Resale of parallel imports on a national market, where they have already been marketed by the normal distribution channels at a higher price, can create some pressure on the retail price of the product. More specifically, the existence of parallel imports stimulates the competition between the same trademarked products supplied by different distribution channels. This is known as "intra-brand competition" in economics.⁴²

Intra-brand price competition between the suppliers might play a role in preventing the normal distributors from charging unnecessary high prices. In other words, parallel importers benefit consumers by providing them the same trademarked products at prices which are lower than the retail price set by the normal distribution system. Hence, it can be said that parallel importing encourages economic efficiency by stimulating the "intra-brand competition" between normal distributors and parallel traders.⁴³

However, trade mark right holders struggle with parallel importing to prevent traders to jeopardise their profits and set obstacles on their effort to control their

⁴⁰ PIGOU, A.C. (1952), *The Economics of Welfare*, Fourth Edition, Macmillan & Co, London, UK, p. 279; HIRSHLEIFER, J. (1998), *Price Theory and Applications*, Fourth Edition, Prentice-Hall, New Jersey, US, p. 240; SCHMALENSEE, R. (1988), 'Output and welfare implications of monopolistic third-degree price discrimination', *The American Economic Review*, No: 71(1), p. 242; CHARD J.S. and MELLOR C.J. (2007), 'Intellectual property rights and parallel imports', *The World Economy*, No: 19890 12 (1), p. 76.

⁴¹ FEROS, A. (2010), "Free movement of pharmaceuticals within the EU-should rights be exhausted regionally?", *European Intellectual Property Law*, No: 32(10), p. 489; Cornish 1998, p. 173.

⁴² OECD (1990), "Glossary of Industrial Organisation Economics and Competition Law", <http://www.oecd.org/regreform/sectors/2376087.pdf>, Data Accessed: 08.06.2016.

⁴³ HORNER, S. (1987), *Parallel Imports*, Collins Professional Books, London, UK, p.4.

distribution channels. They argued that parallel traders often maintain significantly higher gross profit margins because they not only take away market share of the authorised retail channels, but also free-ride on the marketing communication performed and customer services provided by them.⁴⁴ The recent developments under the European trade mark law seem to strengthen the hands of the trade mark owners against to the parallel traders within the EEA. We will detail it below.

3. THE EUROPEAN EXHAUSTION DOCTRINE

According to the “free movement of goods” principle of the EU, trademarked products which has been put on a national market by the trade mark right owner or with his consent within the EEA (the European Union member states plus Iceland, Liechtenstein and Norway) can be imported and resold by traders without the authorisation of the right holder on another national market within the EEA.⁴⁵ Article 34 and 35 of the Treaty on the Functioning of the European Union (TFEU) prohibit both quantitative restrictions on imports and exports and measures having equivalent effect to quantitative restrictions. In other words, parallel trade became an entirely lawful channel of trade within the EEA with these provisions of the TFEU.

However, the following provision of the TFEU constitutes an exception to the general “free movements of goods” principle. Article 36 of the TFEU states that the provisions of Article 34-35 shall not preclude prohibitions or restrictions on imports, exports or goods in transit where they may be justified on the grounds of the protection of industrial and commercial property. This is on the proviso that such prohibitions or restrictions do not constitute a means of arbitrary discrimination or disguised restriction on trade between the member states of the EEA. In other words, a trade mark owner can apply to his exclusive rights for prohibiting parallel importation of his protected products if the enforcement of those rights is justifiable within the meaning of Article 36.

However, which prohibitions or restrictions constitute a means of arbitrary discrimination or disguised restriction on trade between the member states of

⁴⁴ AVGOUSTIS, I. (2012), “Parallel imports and exhaustion of trade mark rights: should steps be taken towards an international exhaustion regime?”, *European Intellectual Property Law*, No: 34(2), p. 110; CHEN, H. (2009), “Gray Marketing: Does It Hurt the Manufacturers?”, *Atlantic Economic Journal*, No: 37(1), p. 24.

⁴⁵ BARNARD, C. (2010), *The Substantive Law of the EU: the four freedoms*, Oxford, UK, p. 33; EC (2014), “History of the Single Market”, http://ec.europa.eu/internal_market/20years/singlemarket20/facts-figures/history_en.htm, Data Accessed: 06.05.2014; UK GOVERNMENT (2013), “Review of the Balance of Competences between the United Kingdom and the European Union The Single Market”, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/227069/2901084_SingleMarket_acc.pdf, Data Accessed: 06.06.2016.

the EEA was not detailed in the provision. In other words, the boundaries of the derogation from the principle of free movements of goods were not very clear under Article 36 of the TFEU. Therefore, the conflict between the enforcement of exclusive rights granted to the trade mark holders and the principle of the free movement of goods became the main dispute in many cases. The CJEU had, in its role as interpreter of the TFEU, developed a jurisprudence relating to the conflict between the enforcement of trade mark rights and free movements of goods principle.⁴⁶

The rule that the CJEU developed in an attempt to resolve the conflict between the free movement of goods principle and trade mark protection was that of there being a distinction between the existence and the exercise of the intellectual property rights.⁴⁷ The origin of this rule appeared the CJEU's judgment in *Consten and Grundig v. EEC Commission*.⁴⁸

However, this rule was criticised on the ground that it is impossible in legal theory to draw the line between existence and exercise of rights, except to extremes. The existence of a right consists of all the ways in which it may be exercised. With the adoption of the principle of the existence and exercise rights, the CJEU created a very flexible instrument enabling it to develop the law and reduce the possibilities of dividing the single market through the use of trade mark rights. Since, the differentiation between the existence and exercise of rights is ambiguous and contributes little to resolving the conflict between the principle of free movement of goods and the protection of intellectual property.⁴⁹

The CJEU elaborated on the general concept of European exhaustion doctrine in *Centrafarm v. Winthrop*⁵⁰ as follows:

“the specific object of commercial property is *inter alia* to ensure to the holder the exclusive right to utilise the mark for the first putting into circulation of a product, and to protect him thus against competitors who would take advantage of the position and reputation of the mark by selling goods improperly bearing the mark.”⁵¹

⁴⁶ GROSS, N. (2001), “Trade mark exhaustion: the U.K. perspective”, *European Intellectual Property Law*, No: 23(5), p. 227.

⁴⁷ Hays 2004, p. 19.

⁴⁸ *Etablissements Consten S.A. and Grundigverkaufs –GmbH. v. E.E.C. Commission* (C-54/64) [1966] C.M.L.R. 418.

⁴⁹ KORAH, V. (2007), *An Introductory Guide to EC Competition Law and Practice*, Ninth Edition, Hart Publishing, Oxford, UK, p. 337; BEIBER, F. (1990), “Industrial Property and the free movements of goods in the internal European market”, *International Review of Industrial Property and Copyright Law*, No: 2 (131) , p. 147.

⁵⁰ *Centrafarm v. Winthrop* (C-16-74) [1974] 2 C.M.L.R. 480.

⁵¹ *Ibid.* at [8].

The exercise of trade mark rights to prohibit the parallel importation of the protected products between member states is allowed only if the exercise is part of the specific object of trade mark itself. It is important to note that the CJEU amended the terminology that it used. The “specific subject-matter of trade mark” took the place of the “specific object of trade mark” in the subsequent cases.⁵²

According to the definition of the CJEU, the specific subject-matter of a trade mark has got two elements. First, the specific subject-matter of trade mark gives the holder an exclusive right to put his protected products into circulation for the first time. However, the right of trade mark holder on the products are exhausted within the all member states after putting them into circulation in one of the member states. Second, the specific subject-matter of trade mark involves the exclusive right that provides the holder a defence against traders wishing to take advantage of the status and reputation of the mark by selling products illegally bearing that trade mark.⁵³

However, the CJEU generated another rule, which is the “essential function of a trade mark”, to illustrate the scope of the specific subject-matter of trade mark in *Hoffmann-la Roche v. Centrafarm*,⁵⁴ which was the leading case in the field of European Exhaustion doctrine before the adoption of the Trade Mark Directive.⁵⁵

In this case, *Centrafarm* imported pharmaceutical products from the United Kingdom into Germany via Holland. Prior to putting the products on the market in Germany, *Centrafarm* changed the containers of the products but affixed the same British version of the trade mark to the new containers with a note saying that they are marketed by *Centrafarm*. However, German *Roche* claimed that the repackaging of products by *Centrafarm* is an infringement of the trade mark rights of the undertaking from which it has obtained a licence. Upon the appealing of *Centrafarm*, the German High Court (Oberlandesgericht Karlsruhe) referred questions to the CJEU for preliminary rulings regarding to this issue.

The CJEU held that the right attributed to the trade mark owner of preventing any use of the trade mark which is likely to impair *the guarantee of origin is part of the specific subject-matter of the trade mark right*. It is accordingly justified under the first sentence of Article 36 to recognise that the trade mark owner is entitled to prevent an importer of a trade-marked product, following repackaging of that product, from affixing the trade mark to the new packaging without the

⁵² *Hoffmann-La Roche v. Centrafarm* (C-102/77) [1978] 3 C.M.L.R. 217; *Centafarm, BV v. American Home Products* [1979] 1 C.M.L.R. 326.

⁵³ *Centafarm, BV v. American Home Products* [1979] 1 C.M.L.R. 326.

⁵⁴ *Hoffmann-La Roche v. Centrafarm* (C-102/77) [1978] 3 C.M.L.R. 217.

⁵⁵ For more information about the essential function of trade mark see: Arkan 2016, p. 21.

authorisation of the owner. However, it is necessary to consider whether the exercise of such a right may *constitute a disguised restriction on trade between member states* within the meaning of the second sentence of Article 36.⁵⁶

The CJEU emphasised the role of *the essential function* of origin indicating, which was related back to *the specific subject-matter of trade mark*, in justifying the exercise of trade mark rights against the parallel traders who has repackaged the protected products before marketing them in the country of import.

It is said that the specific subject-matter of trade mark defines the exclusive rights given to trade mark owners while the essential function of a trade mark covers the role that those rights play from the consumers' point of view. Although the CJEU seems to regard the proprietor-focused specific subject-matter and the consumer-focused essential function doctrines as two different concepts, Advocate General Jacobs in his opinion to the CJEU in *Bristol-Myers v. Paranova* views them as two sides of the same coin.⁵⁷

However, it was argued that, this approach is a traditional one, with both the specific subject-matter and the essential function focusing on the trade mark as an indicator of origin, and as such, preventing consumers from being confused and allowing the trade mark owner to maintain control over the physical properties of the products.⁵⁸ The specific subject-matter rule focuses on safeguarding the origin function of trade mark and disregards the protection of additional functions so long as its scope illustrated by the essential function theory. With the introduction of legitimacy by the TMD, the CJEU commenced to consider the protection of the additional functions of trade mark as well as the protection of the essential function in the relevant disputes.

4. LEGITIMACY

The CJEU has developed case law in relation to the European exhaustion after the TMD came into force, in which the legitimacy was introduced.⁵⁹ The doctrine that the CJEU developed before the adoption of the TMD⁶⁰ was carried forward

⁵⁶ *Hoffmann-La Roche v. Centrafarm* (C-102/77) [1978] 3 C.M.L.R. 217, at [7]-[9].

⁵⁷ *Bristol-Myers v Paranova* (C-427/93) [1996] F.S.R. 225 at [72]; SIMON, I. (2005), "How does "essential function" doctrine drive European trade mark law?", *International Review of Intellectual Property and Competition Law*, No: 36(4), p. 404; KEELING, D.T. (2003), *Intellectual Property Rights in EU Law-Volume 1*, Oxford University Press, p. 156.

⁵⁸ FHIMA, I.S. (2012), "The role of legitimacy in trade mark law", *Current Legal Problems*, No: 65, p. 494.

⁵⁹ For more information about the legitimacy rule see: Arıkan 2016, p. 196.

⁶⁰ The DIRECTIVE 2008/95/EC OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 22 October 2008 to approximate the laws of the Member States relating to trade marks.

to Article 7 of the TMD.⁶¹ Article 7(1) of TMD limits the exercise of the exclusive rights given to the trade mark owners if their protected products put in the circulation within the EEA with their consent due to the free movements of goods principle. However, the trade mark owner does not completely loose the right to control further commercialisation of his protected products. In the following paragraph of Article 7, it is stated that “paragraph 1 shall not apply where there exist legitimate reasons for the proprietor to oppose further commercialisation of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market.”

There might be a legitimate reason for trade mark owners to oppose the further commercialisation of their protected products if the condition of the products have been changed or impaired. However, the use of word “especially” in Article 7(2) of TMD indicates that legitimate reasons to oppose the further commercialisation of protected products are not limited to situations “where the condition of the goods has been changed or impaired after they have been put on the market.” Therefore, Article 7(2) of TMD led the CJEU to develop case law as to the legitimacy in order to balance free movement of goods principle and the trade mark owner’s interest in the protection of the position and reputation of his/her trade mark.⁶²

On one hand, it was argued that the legitimacy rule does not itself provide any objective criterion for determining what is legitimate or abusive. Classification of some use of trade mark as legitimate or abusive may be result of an analysis but it cannot be the instrument of the analysis.⁶³ On the other hand, it was argued that the term “legitimate” does not provide the acceptable extent of the trade mark rights that the owner can exercise against parallel importing. However, it is also the fact for the concepts of the “specific-subject matter” and the “essential function of trade mark.” the CJEU has guided us as through the more complicated concepts of the “specific-subject matter” and the “essential function of trade mark.” Therefore, there is increasing willingness of the CJEU to talk in terms of the legitimate interests of trade mark owners and the decline in the use of “specific-subject matter” terminology.⁶⁴

After the adoption of the Trade Mark Directive, the CJEU took its ruling in *Hoffmann-la Roche v. Centrafarm*, which solely considers the essential function

⁶¹ Article 7 of the current TMD corresponds to Article 15 of the new TMD.

⁶² OHLY, A. (1999), “Trade marks and parallel importation-recent developments in European law”, *International Review of Intellectual Property and Competition Law*, No: 30 (5), p. 515.

⁶³ JULIET, R. (1991), “Trade mark law and the free movements of goods: the overruling of the judgment in Hag “, *International Review of Industrial Property and Copyright Law*, No: 22 , p. 315.

⁶⁴ Fhima 2012, p. 495.

of trade mark, a step further and established detailed guidelines in its judgment in *Bristol-Myers v. Paranova*⁶⁵, which takes into account the reputation of trade mark as well as its essential function. Another important development regarding the legitimacy doctrine came with the judgment of the CJEU in *Christian Dior v. Evora*.⁶⁶ In this case, the CJEU went one step further and expanded the European exhaustion doctrine to the uses of a trade mark by parallel trader in advertising.⁶⁷

The CJEU held in *Christian Dior v. Evora* that where a parallel trader makes use of a trade mark in order to bring the public's attention to further commercialisation of products, a balance must be struck between the legitimate interest of the trade mark owner in being protected against traders using his trade mark for advertising in a manner which could damage the reputation of the trade mark and the traders' legitimate interest in being able to resell the products in question by using advertising methods which are customary in his sector of trade. In the case of the prestigious, luxury products, the parallel trader must not act unfairly in relation to the legitimate interests of the trade mark owner. Hence, the parallel trader must endeavour to prevent his advertising from affecting the value of the trade mark by detracting from the allure and prestigious image of the products and from their aura of luxury.⁶⁸

The CJEU, in its judgments in *Christian Dior v. Evora*, indicated that the trade mark owners may exercise their exclusive rights to oppose the use of their trade mark by parallel traders in advertising when such action is justified by the need to safeguard the brand image of trade mark. In *O2 v. Hutchinson*, the English High Court viewed this judgment of the CJEU as follows:

“ It seems to me that the CJEU is recognizing that a trade mark may have functions beyond simply guaranteeing a trade origin ... As the CJEU recognized ... the ‘ image’ of a trade mark is something that the proprietor is entitled to protect.”⁶⁹

In fact, the CJEU identified the additional functions of trade mark so as to apply them in the interpretation of the scope of the rights under Article 5(1)(a) of the TMD in *L'Oréal v. Bellure*.⁷⁰ It was argued that the process of determining the scope of the legitimacy has been used to expand trade mark rights.⁷¹ I agree

⁶⁵ *Bristol-Myers Squibb v. Paranova* (C-427/93) [1996] E.T.M.R. 1.

⁶⁶ *Christian Dior v. Evora* (C-337/95) [1998] E.T.M.R. 26.

⁶⁷ Ohly 1999, p. 518.

⁶⁸ *Christian Dior v. Evora* (C-337/95) [1998] E.T.M.R. 26, at [44].

⁶⁹ *O2 v. Hutchinson* (C-16-74) [2006] EWCA Civ 1656 at [101].

⁷⁰ *L'Oreal v. Bellure* (C-487/07) [2009] E.T.M.R. 987.

⁷¹ Fhima 2012, p. 495.

with this argument. The legitimacy doctrine let the CJEU to interpret the interests of trade mark owners broadly and allow them to seek protection not only for the origin function but also the additional functions of their trade mark.

Moreover, the expanded protection under the double identity clause created confidence for trade mark owners to seek protection for their interests relating to the additional functions under the legitimacy rule. With the judgments which came after *L'Oréal v. Bellure*, such as *L'Oréal v. eBay*, *Portakabin v. Primakabin* and *Viking Gas v. Kosan Gas*, the CJEU consistently ruled that there is a legitimate interest of the trade mark owner in being protected against the removal of packaging of parallel imports where the consequence of that removal is that essential information, such as information relating to the identity of the manufacturer or the person responsible for marketing the cosmetic product, is missing. Since, the missing of essential information could adversely affect *the essential function of trade mark*. The CJEU also ruled that there is a legitimate interest of the trade mark owner in being protected against the removal of the packaging by trader if it is established that the removal of the packaging has damaged the image and reputation of trade mark. Since, damage to the image and reputation of trade mark could adversely affect *the additional functions of trade mark*.⁷² This means that the legitimate interests of trade mark owner have become concrete with the identification of the additional functions in the CJEU relating to the double identity rule. Hence, it may be said that there is a “cycle impact” between the double identity and legitimacy rules. However, the lack of clarity and certainty as to the additional functions of trade mark under the double identity clause may cause difficulties to determine the scope of the legitimate interests of trade mark owners against parallel traders. The uncertainty as to the scope of protection given to trade mark owners may undermine the intra-brand competition with the EEA as it will give undefinable and uncontrolled power to trade mark owners.

CONCLUSION

The recent developments in relation to the European trade mark protection are examined above. The CJEU had applied to “the essential function” theory in determining the scope of the protection under the double identity clause. According to the essential function theory, trade mark owner could apply to protection provided under the double identity clause in cases only where the origin function of trade mark has been damaged. With its judgment in *Arsenal v. Reed*, the scope of the protection under the double identity clause has been expanded to cover the additional functions of trade mark which was later on identified in

⁷² *L'Oréal v. eBay* (C-324/09) [2011] E.T.M.R. 52 at [83]; *Portakabin v. Primakabin* (C-558/08) [2010] E.T.M.R. 52; *Viking Gas v. Kosan Gas* (C-46/10) [2011] E.T.M.R. 58 at [37].

L’Oreal v. Bellure as the quality guarantee and the advertising, investment or communication functions. The issue with these judgments of the CJEU was that there was not a clear explanation of those functions. The subsequent judgments of the CJEU regarding the scope of the protection under the double identity clause defined the general concept of the advertising and investment functions and pointed out the difference between them. However, it is still unclear what the CJEU means with the communication function and the quality guarantee function and how the communication function differs from the investment or advertising functions and how the quality guarantee function differs from the essential function of indicating origin. Identifying the general concepts of the additional functions plays a crucial role in determining the scope of the protection under the double identity clause.

Therefore, the proposed TMD of the European Commission aimed to narrow the protection under the double identity clause down to the origin function, the idea did not see acceptance by the European Parliament and Council and the TMD came into force without restriction. As a result, the double identity clause under the new TMD safeguards the additional functions of trade mark and the CJEU’s case law remained as an important guidance in the interpretation of the scope of the protection under the double identity rule. One of the areas which had a direct impact with these developments under the double identity rule was the European exhaustion doctrine. With the introduction of legitimacy rule by the TMD, the CJEU commenced to consider the protection of the additional functions of trade mark as well as the protection of the essential function in the relevant disputes. It was argued that the process of determining the scope of the legitimacy under exhaustion of the rights, regulated under Article 7 of the current TMD, has been used to expand the scope of trade mark protection under the double identity clause.⁷³

If we pay a closer attention to the CJEU’s case law after the adoption of the function theory in determining the scope of the protection under the double identity clause, it can be clearly seen that there is an increasing importance to safeguard the trade mark owners’ interest on the additional functions of their trade marks. In the cases of *Portakabin v. Primakabin*, *L’Oréal v. eBay* and *Viking Gas v. Kosan Gas*, the CJEU interpreted the trade mark owner’s legitimate interests to include not only the protection of the trade mark’s guarantee of the origin but also the trade mark owner’s ability to protect the trade mark’s reputation which is usually acquired through the additional functions that the trade mark perform. In my opinion, there is a kind of “cycle impact” between the trade mark protection and European exhaustion doctrine. While the legitimacy rule was used to expand

⁷³ Fhima 2012, p. 495.

the scope of trade mark protection under the double identity rule, the expansion of the trade mark protection might be used to determine the legitimate interests of the trade mark owners against parallel traders broadly. This means that trade mark owners strengthen their hands against parallel traders within the EEA.

The issue is that the uncertainty and lack of clarity as to the concepts of additional functions creates difficulties about the scope of the protection under the double identity clause. Owing to the direct impact of it on the legitimacy rule, the protected interests of trade mark owners against parallel traders are defined broadly but unclearly. The uncertainty as to the scope of protection given to trade mark owners under the legitimacy rule may undermine the free movements of goods principles of the EU and in turn the intra-brand competition with the EEA as it may give undefinable and uncontrolled power to trade mark owners.

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