himself or with his consent. It is the same when the right relied on is the result of the subdivision, either by voluntary act or as a result of public constraint, of a trade-mark which originally belonged to one and the same proprietor.

Even where the rights in question belong to different proprietors the protection given to industrial and commercial property by national law may not be relied on when the exercise of those rights is the purpose, the means or the result of an agreement prohibited by the Treaty.

2. It is compatible with the provisions of the EEC Treaty relating to the free movement of goods for an undertaking established in a Member State, by virtue of a right to a trade-mark and a right to a commercial name which are protected by the legislation of that State, to prevent the importation of products of an undertaking established in another Member State and bearing by virtue of the legislation of that State a name giving rise to confusion with the trade-mark and commercial name of the first undertaking, provided that there are no agreements restricting competition and no legal or economic ties between the undertaking and that their respective rights have arisen independently of one another.
3. An allegation by one undertaking as to the similarity of products originating in different Member States and the risk of confusion of trade-marks or commercial names legally protected in these States may perhaps involve the application of Community law with regard in particular to the second sentence of Article 36 of the Treaty. It is for the court of first instance, after considering the similarity of the products and the risk of confusion, to enquire further in the context of this last provision whether the exercise in a particular case of industrial and commercial property rights may or may not constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States.

In Case 119/75

Reference to the Court under Article 177 of the EEC Treaty by the Bundesgerichtshof (Federal Court of Justice) for a preliminary ruling in the action pending before that court between

TERRAPIN (OVERSEAS) LTD., of Bletchley, Buckinghamshire (England)

and

TERRANOVA INDUSTRIE C. A. KAPFERER & CO., of Freihung, Oberpfalz (Federal Republic of Germany),

on the interpretation of the provisions of the EEC Treaty on the free movement of goods and in particular Articles 30 and 36 thereof with regard to trade-mark law,

THE COURT

composed of: R. Lecourt, President, H. Kutscher and A. O'Keeffe, Presidents of Chambers, J. Mertens de Wilmars, P. Pescatore, M. Sørensen and F. Capotorti, Judges,

Advocate-General: H. Mayras
Registrar: A. Van Houtte

gives the following

JUDGMENT

Facts

The facts, the procedure and the observations submitted under Article 20 of the Protocol on the Statute of the Court of Justice of the EEC may be summarized as follows:

I — Facts and written procedure

Terranova Industrie C. A. Kapferer & Co. (hereinafter referred to as 'Terranova') has manufactured and marketed for 75 years prepared plaster for façades. It is the proprietor of the following trade-marks registered at the German patents office: No 151654 word-mark 'Terra'; No 202309 word/device-mark 'Terra' with an emblem; No 455061 word-mark 'Terra Fabrikate'; No 359464 word/device-mark 'terranova' composed of a name and an emblem and No 431118 'Terranova' with a particular arrangement of letters. These marks are registered in respect of a range of building materials and auxiliary building materials. In the trade-marks register the objects of the company are given as 'Manufacture of dry prepared plaster, construction work and trade in building materials'.

Terrapin (Overseas) Ltd. (hereinafter referred to as 'Terrapin'), whose registered office is in England, manufactures and sells prefabricated houses which it markets under the trade-mark 'Terrapin'. These are generally two-storey buildings which are assembled on site from prefabricated components. In addition it also applies the name 'Terrapin' to units made up of such components and intended for the buildings in question.

In the Federal Republic of Germany Terrapin carries on business activities itself as well as through its subsidiary company 'Terrapin-Systembau Nord-europa GmbH', which has its registered office in Cologne.

Terrapin applied in 1961 to have the word-mark 'Terrapin' entered in the register kept by the German patents office. By decision dated 28 December 1962 the latter rejected an opposition by Terranova on the ground that the trade-marks 'Terra' and 'Terranova' on the one hand and the trade-mark 'Terrapin' were not similar.

On appeal by Terranova, the Bundespatentgericht (Federal Patent Court) by order dated 3 February 1967 annulled the decision of the patents office and prohibited the registration of the trade-mark 'Terrapin'. The products marketed under the trade-marks 'Terrapin' and 'Terranova' were said to be similar and the trade-mark 'Terrapin' gave rise to a risk of confusion with the trade-marks 'Terra and 'Terranova'.

Following this order by the Bundespatentgericht, Terranova brought an action before the Landgericht München (Munich Regional Court) and then the Oberlandesgericht München (Munich Higher Regional Court) against two licensees of Terrapin, Terrapin-Vertrieb Bischoff and Engelbert Regnauer KG. By judgments of the Oberlandesgericht München dated 11 July 1968 and 27 November 1969, these companies were prohibited from placing the word 'Terrapin' on certain components intended for the construction of prefabricated buildings and from marketing products so described.

In 1968 Terranova brought an action before the Landgericht München for an order prohibiting Terrapin from using the word 'Terrapin'.

Terrapin for its part asked the Landgericht Köln (Cologne Regional Court) to order Terranova to stop objecting to the use by Terrapin of the company's registered name and the trade-mark 'Terrapin' on prefabricated houses. This action was dismissed as inadmissible on the grounds of lack of territorial jurisdiction on the part of the court before which it was brought.

On appeal by Terrapin, the Oberlandesgericht Köln (Cologne Higher Regional Court), by judgment dated 19 September 1969 rejected the objection of lack of territorial jurisdiction and sent the case back to the Landgericht. With regard to the substance the Oberlandesgericht considered that there was no connexion between the branches to which the products manufactured and marketed by the parties belonged, nor serious risk of confusion between the trade-marks. The proceedings before the Cologne courts were stayed until the action pending in Munich was decided.

After a long hearing the action by Terranova before the Landgericht München was dismissed as unfounded by judgment of 27 November 1972. The Landgericht held that there was no risk of confusion between the trade-marks 'Terranova' and 'Terrapin'.

On appeal by Terranova, the Oberlandesgericht München, by judgment of 27 September 1973 reversed the judgment of the Landgericht. It restrained Terrapin from using in the territory of the Federal Republic of Germany the name 'Terrapin' as a trade-mark or company name and ordered it to make good all damage suffered or likely to be suffered by Terranova.

Terrapin brought an appeal against the judgment of the Oberlandesgericht München before the Bundesgerichtshof. By order dated 31 October 1975 the latter stayed the proceedings and referred the following question for a preliminary ruling by the Court of Justice under Article 177 of the EEC Treaty:

'Is it compatible with the provisions relating to the free movement of goods (Articles 30 and 36 of the EEC Treaty) that an undertaking established in Member State A, by using its commercial name and trade-mark rights existing there, should prevent the import of similar goods of an undertaking established in Member State B if these goods have been lawfully given a distinguishing name which may be confused with the commercial name and trade-mark which are protected in State A for the undertaking established there, if there are no relations between the two

undertakings, if their national trade-mark rights arose autonomously and independently of one another (no common origin) and at the present time there exist no economic or legal relations of any kind other than those appertaining to trade-marks between the undertakings?'

The Bundesgerichtshof considers that the Oberlandesgericht München correctly applied the law in affirming the existence of the danger of confusion and the similarity of the goods. Under German law therefore the judgment appealed against must be confirmed; Terranova could therefore by exercising its rights to the trade-mark and the company name prohibit the importation into the Federal Republic of Germany of certain products which have lawfully been given the mark 'Terrapin' in another Member State.

A query however arises with regard to Community law: there is lack of clarity and certainty at the present time as to the interpretation of Articles 30 and 36 of the EEC Treaty in respect of their application to marks which do not have a common origin, for the Court of Justice has not yet decided this question.

The order of the Bundesgerichtshof was registered in the Court Registry on 5 December 1975.

In accordance with Article 20 of the Protocol on the Statute of the Court of Justice of the EEC written observations were submitted on 9 February 1976 by the Government of the Kingdom of Belgium, on 12 February by the Commission of the European Communities, on 16 February by Terranova, on 18 February by the Government of the Kingdom of the Netherlands, on 19 February by the Government of the Kingdom of Denmark, on 20 February by the Government of the French Republic, on 23 February by Terrapin and by the Government of the United Kingdom of Great Britain and Northern Ireland, on 27 February by the Government of the Federal Republic of Germany and on 3 March 1976 by the Government of Ireland.

The Court on hearing the report of the Judge-Rapporteur and the views of the Advocate-General decided to open the oral procedure without a preparatory inquiry.

II — Written observations submitted to the Court

Terrapin, the appellant, after stating the principal commercial characteristics of the two parties to the main action, the different proceedings to which the differences between them have already given rise, the objection which might be raised against Terranova that it is 'moribund' and is guilty of abusing its right to the trade-mark, stresses that an affirmative reply to the question put to the Court of Justice would confirm that it is not entitled to import and sell in Germany prefabricated houses either under the trade-mark 'Terrapin' or under its company name Terrapin (Overseas) Ltd. It would thus be faced with a total prohibition on import.

Article 30 of the EEC Treaty in principle prohibits measures having an effect equivalent to quantitative restrictions on imports between Member States; the exercise of a right based on national law to prohibit the marketing of certain products is, according to the case-law of the Court, contrary to the rules on the free movement of goods within the common market. It thus constitutes a measure having an equivalent effect within the meaning of Article 30.

Article 36 recognizes as exceptions to the prohibition on measures having an effect equivalent to quantitative restrictions only restrictions on imports 'justified' on grounds of the protection of industrial and commercial property. In this respect it appears from the case-law of the Court

of Justice that although Articles 36 and 222 do not affect the existence of rights to industrial and commercial property, their exercise may however fall within the prohibitions of the Treaty. Thus in the present case the existence of Terranova's rights to the commercial name or trade-mark 'Terranova' is guaranteed but it cannot rely on Article 36 to justify the exercise of these rights in violation of a provision or of a fundamental principle of the Treaty.

Since one of the fundamental principles of the Treaty is that products which are in free circulation in a Member State may be sold freely in all Member States, Article 36, as an exception to this principle, should be interpreted restrictively. The exemption which it establishes does not apply save in so far as it is justified by the protection of rights constituting the specific subject-matter of industrial and commercial property.

The use of a trade-mark is justified when it protects its legitimate proprietor against infringement on the part of persons without any legal title. The purpose of the trade-mark is on the one hand to prevent persons or undertakings which are not entitled to it from using it and thus creating confusion as to the origin of products and on the other hand to ensure that the legitimate proprietor aims only to prevent an error as to the origin and does not use his rights to achieve aims alien to the true objective of the right to the trade-mark or commercial name. The second sentence of Article 36 gives two examples of restrictions on imports which are not justified since they do not serve the specific objective of the right to industrial property: arbitrary discrimination and disguised restriction on trade between Member States.

In this respect it is right to observe in the present case that there is no serious risk of confusion between on the one hand the commercial name and the right to the trade-mark 'Terranova' and on the other hand the trade-mark 'Terrapin' and the company name 'Terrapin (Overseas) Ltd.'; a prohibition on imports applying to 'Terrapin' products cannot therefore be in accordance with the specific purpose of a right to the trade-mark within the meaning of Article 36.

Moreover Terranova is not taking action against Vereinigte Steinwerke of Essen-Kupferdreh which is in fact using an identical mark on identical products and thus infringes the specific objective of industrial property whereas in the present case it is alleging a risk of confusion in a situation concerned with the use of a very dissimilar name for a product of quite another kind.

Since more than one hundred undertakings or persons are using the mark 'Terra' in the building sector in the Federal Republic of Germany for company names or trade-marks, to act against the national of another Member State on the ground that it is using the commercial name or trade-mark which likewise involves the component 'Terra' constitutes arbitrary discrimination. In fact Terranova is in no way seeking to prevent confusion as to the origin of its own products with those of Terrapin, but to extend its trade by acquiring a general agency for Terrapin; this objective certainly does not come within the specific object of the trade-mark right. The fact that Terranova fears no confusion by people in the trade regarding the origin of prefabricated buildings produced by Terrapin is shown by the fact that it would accept the trade-mark in question being used by Terrapin if it could obtain from the latter the general agency for Germany or be given a licence; Terranova is thus guilty of a disguised restriction on trade between Member States.

The manner in which the question has been put by the Bundesgerichtshof to the Court does not properly reflect the principles of Community law applying to

the case Terranova v Terrapin. In order to decide whether the restrictions on import accord with Article 36 it does not matter whether under national law the products are similar and whether there is a risk of confusion between different names but only whether under Community law restrictions on import are justified, that is to say necessary, or whether one of the hypotheses referred to in the second sentence of Article 36 is fulfilled.

It is for the Court of Justice to develop the principles to be applied in deciding the question as to the conditions within the meaning of Article 36 of the EEC Treaty under which restrictions on import based on national laws of industrial property may be justified or not under Community law. The Bundesgerichtshof has lost sight of the fact that Article 36, as a provision of Community law, is jointly applicable with German law on trade-marks; it ought to have considered in particular the following points of Community law:

It is incompatible with the provisions on free movement of goods:

- for the proprietor of a trade-mark who authorizes in his country of origin the use of an identical trade-mark for an identical product to prohibit the import from another Member State of products which are not identical and on which a trade-mark or commercial name has been placed containing only one component corresponding to his own trade-mark or commercial name;
- for the proprietor of a trade-mark who tolerates in his country of origin the use of several trade-marks and commercial names involving as a component a word contained in its own trade-mark or company name and is a name current in the sector in question, to prevent another undertaking, established in another Member State, from using a trade-mark or commercial name involving as a component an identical word, assuming that the products in question are not identical but at most belong to a related sector of products;
- for the holder of a trade-mark to pursue his action, in the circumstances mentioned in the previous paragraph, when he is ready to accept the alleged risk of confusion if, as consideration for giving up his objections, he were to receive an interest, in his own country, in the trade of the foreign undertaking.

The order of reference envisages two alternative solutions reflecting the two extreme views confronting one another. There are however intermediate solutions.

The Bundesgerichtshof apparently considers that the import of products from Member State B must be prohibited when, according to the national court, the products to be imported are under the national law similar to those covered by a similar trade-mark registered in Member State A and the appellations cause confusion. Consideration of the principles of Community law is necessary only when parallel imports are involved in the widest sense of the word, that is, products bearing an identical trade-mark having a common origin.

In the other extreme view the proprietor of a trade-mark in Member State A can prohibit the import of products to which in Member State B an identical trade-mark has been applied only if the placing of the trade-mark on the goods in State B was illegal. This view avoids the risk of serious obstacles being created to the free movement of goods within the Community by too wide an interpretation by the national courts of the concepts of 'similar products' and 'risk of confusion'.

The Court of Justice in the present case is concerned for the first time with the problem arising from a conflict between

trade-marks which do not have a common origin, originate in different Member States and according to the national court are capable of giving rise to confusion.

In the present state of the law it is for the national courts to settle the question of risk of confusion. The decision however should not be based on national law alone: it should also take account of Article 36 of the EEC Treaty. To this extent the concept of risk of confusion is already a concept of Community law so as to be capable of being interpreted by the Court of Justice under Article 177 of the Treaty.

There are other means of ensuring that cases in which there is a risk of confusion between appellations and signs coming under the jurisdiction of different Member States but not having a common origin may be settled in accordance with the principles of Community law.

Thus in accordance with the case-law of the Reichsgericht (Imperial Court) it would be possible in the present case to find that there is no risk of confusion or that in any event this risk should be accepted by reason of the fundamental principle of freedom of economic activities in the common market as a whole.

The very diverse interpretation in the context of the Community of the concept of risk of confusion in trade-mark law makes harmonization by the national courts in this sphere urgently necessary.

A solution by way of analogy could be taken from the English principle of 'honest concurrent use' according to which the use of identical or very similar trade-marks long used in neighbouring territories by their respective proprietors and which by coming into conflict at a late stage have created a risk of confusion which did not exist at the beginning, cannot be prohibited. In the same way guidance may be drawn from the law of 30 June 1959 on the incorporation of the Saar in the Federal Republic of Germany which provided that in the event of conflict between trade-marks further distinguishing components should be added. In the Community context appropriate provisions could be adopted in accordance with Article 100 to 102 or Article 235.

It is for the Court of Justice to establish the principles according to which, in accordance with the EEC Treaty, the problems raised in the main action may be resolved by the national court. In particular it should point out to the Bundesgerichtshof that:

— In the case of a conflict between commercial names not having the same origin and being under the jurisdiction of different Member States, the prohibition of a commercial name because of a remote possibility of confusion is contrary to the principle of Community law according to which all persons and firms have the right freely to carry out commercial activities throughout the whole common market assuming that the use of the commercial name in question is not inspired by unfair reasons;

— When considering the question whether there is risk of confusion of the trade-marks or appellations at issue it is proper to bear in mind in addition to national law (for example, the question of the similarity of the products and the risk of confusion) the provisions of Community law resulting from Article 36 of the Treaty (for example, the concepts of arbitrary discrimination, disguised restriction on trade between Member States and interference with the specific object of the property right in question);

— If on considering the above-mentioned points the court before which the matter is pending

does not reach the conclusion that the restriction on the import of products from Member State B is unjustified and consequently infringes Article 36, it is necessary to consider whether the court before which the main action is pending should require distinguishing additions and, if so, of what kind. Such additions, in accordance with the principles of Community law would exclude all risk of confusion between the two appellations.

Terranova, respondent to the appeal, observes that for the first time the Court of Justice is confronted with the fundamental question of whether the rules of the EEC Treaty on the free movement of goods make it necessary to refuse the protection arising from national laws to trade-marks or company names, in principle guaranteed by Article 36 of the Treaty, in the numerous cases in which the undertakings of other Member States, legally and economically independent, market their products, under a name giving rise to confusion and not having the same origin, in the territory protected in favour of the national proprietor of the right to the trade-mark or company name. This type of case involves different considerations from the cases which the Court of Justice has hitherto decided. The grounds in the order of reference permit the assumption that the Bundesgerichtshof has used the occasion which the main action offered it to give the Court of Justice the opportunity of clarifying its case-law to the effect that at least in the sphere covered by the preliminary question the existence of national rights to protection is not affected by the provisions of Community law. Such clarification is urgent and necessary since certain decisions of the Court of Justice have given rise to criticism.

The question put by the Bundesgerichtshof defines unequivocally the objective of the reference for a preliminary ruling and as a result the legal questions which the Court of Justice has to decide.

Thus the case envisaged by the order of reference of an undertaking established in Member State A 'preventing' imports does not apply to the action of the proprietor of the trade-mark but to the prohibition by the national authorities on the undertaking established in Member State B from importing into Member State A similar products under a trade-mark giving rise to confusion. This fact alone is a 'measure having equivalent effect' within the meaning of Article 30 of the EEC Treaty.

Further, the Bundesgerichtshof assumes that the undertaking established in Member State A prevents the import by relying on its rights to the trade-mark and the company name in that country whereas as regards the undertaking established in State B it simply assumes that a trade-mark has been lawfully applied to its products there.

The Court of Justice is bound by the findings of fact of the court making the reference. These include the similarity of the products marketed by the two undertakings and the risk of confusion between the marks used by them.

Nor can the Court of Justice pronounce on the question whether and, if so, how the fact of upholding national rights to the trade-mark or to the company name may, as a result of the protection accorded to them by the interpretation of the concepts of 'similarity of the products' and of 'the risk of confusion' in the national statutory and case-law, affect the principles of Articles 30 to 36 of the EEC Treaty. These concepts depend exclusively on national law; they obviously have no Community content which might possibly allow the Court of Justice to establish general principles for their application and interpretation by the national courts.

In contrast to the cases which it has previously had to deal with, the Court of Justice in the present case has for the first time to consider the case of 'normal' infringement of the right to a trade-mark; it is a question in particular of the protection of rights to a trade-mark and company name in a Member State against the import and marketing of similar products put on to the market in question by a third person under a name giving rise to confusion. By protecting the proprietor of the trade-mark against such an act the national courts simply fulfil the purpose of the specific protection of the trade-mark; the restrictions on import which arise in this context are 'justified' under Article 36 of the Treaty by the protection of industrial property. The national laws on trade-marks and other signs are inspired by the idea of protection against mistakes as to the origin of products both in the interests of the proprietor of the trade-mark and consumers. This protection must always be given when, by reason of the use of similar names for similar products, there is a risk of confusion in trade. By finding in the main action the similarity of the products and the risk of confusion the national courts have not extended the protection of the trade-mark beyond the specific objective of industrial property. There is no conflict between the principle of free movement of goods and the national laws on industrial property: the scope of Article 30 of the Treaty does not extend to the essence, that is to say the specific objective, of industrial property and in particular the national right to the trade-mark.

Another way of approaching the problem is to determine, on the basis of a balance between interests protected by the law of trade-marks, the conditions under which the principle of free movement of goods conflicts with the protection of national trade-marks granted by Member State or, from another aspect, the conditions under which the national rights to trade-marks and company names prevent the complete achievement of free movement of goods in the Community.

In this context it is proper to observe that the absence of a common origin gives much stronger substance to the right of the proprietor of the trade-mark to identify his products than in the case where the proprietor of a single trade-mark has himself duplicated or dismembered it.

The achievement of the objectives of Article 30 of the EEC Treaty on the one hand and the maintenance of national industrial property rights on the other are subject to the principle of proportionality and the prohibition against excessive measures in relation to the objective aimed at. The assumption must not therefore be made that the principle of free movement of goods within the common market necessarily prevails over the interests of proprietors of trade-marks and the interests of consumers.

Likewise in the present case to accord priority to the principle of free movement of goods would in particular deprive consumers of any guarantee as to the origin or quality of the products. The identification and distinguishing of products would become almost impossible if trade-marks giving rise to confusion could be used in one and the same country by several undertakings. Competition in the common market would be distorted. Case-law which favoured the free movement of goods at the expense of the protection of competition would not be in accordance with the EEC Treaty: the two objectives are of equal standing and must be reconciled.

Moreover Terrapin is not in any way prevented from importing its products into the Federal Republic of Germany and marketing them there, but only from using a name giving rise to confusion. Article 30 of the Treaty aims at ensuring the free movement of goods; it does not

give the right to market products in the Community under any name. In the present case the conflict between names giving rise to confusion and current in different Member States does not lead to a restraint on the free movement of goods. The right of the proprietor of a trade-mark to prevent names giving rise to confusion on similar products is not a protective right specifically against foreign products; it applies to nationals and aliens alike. To require a person contravening national statutory and case-law to place on his products a name removing all risk of confusion with domestic products does not constitute an additional obstacle to the free movement of products.

The question whether the infringer is misusing the name or using it in an unlawful manner can be decided only in accordance with the law of the State of the proprietor whose right is infringed. Community law in its present state affords no criterion of the misuse or unlawful use of a trade-mark; until the setting up of a Community system of trade-marks the courts of the Member States must refer to their own national legal systems for a decision. The Court of Justice cannot claim to infer solely from Articles 30 to 36 of the Treaty, from the objectives of the Treaty or even from the legal principles common to the Member States the conditions under which by virtue of Community law there is a risk of confusion between similar names originating from different Member States.

The facts which are at the origin of the main action come under the sphere in which the case-law of the Court of Justice has already recognized that reliance on the national protection of the trade-mark is permitted and justified by Article 36 of the Treaty; case-law restricting further the scope of this provision would give rise to serious and insurmountable objections.

It is right therefore to reply in the affirmative to the question put by the Bundesgerichtshof.

The *Government of the Kingdom of Belgium* is of the opinion that Article 36 of the Treaty allows the proprietor of a trade-mark to prevent the import of similar products of an undertaking established in another Member State where the latter is the proprietor of a similar trade-mark if there are no relations between the two undertakings, if their trade-mark rights arose independently of one another and if there is no commercial or legal subordination between the undertakings alien to the sphere of trade-marks.

The case-law of the Court in no way excludes the possibility for the proprietor of a trade-mark of preventing imports originating from persons having an independent legal title from the beginning. There is in such a case no situation where a single market has been split up as a result of some private or public measure: the law of trade-marks is not being used to break an existing unit.

The essential function of the trade-mark is to certify that the products covered by the mark originate from the proprietor's establishment. Save for certain exceptions it is incompatible with this specific objective for more than one person to be authorized to use the same trademark in the same territory; the trade-mark right is an exclusive right.

There are certain exceptions to this rule laid down either by Community law or international trade-mark law. Such is the case where the trade-mark right is split up as a result of assignment or a licence. The Court of Justice has likewise recognized that in the absence of concerted action between undertakings products originating from proprietors between whom there is no legal, financial, technical or economic link may be sold in the same territory on the ground that the trade-marks covering them had the same origin; this doctrine however cannot be extended to the case of trade-marks which have been independent from the beginning. There

is another exception arising from Article 5 C3 of the Paris Convention for the Protection of Industrial Property; this provision lays down very strict limits as to the conditions in which identical trade-marks may coexist on the same market.

Competition implies that a consumer may choose with full knowledge between different products available on the market; hence the necessity for 'means of identification' of products or services competing on the market to enable the public to recognize the products and to trace the qualities or defects to the undertaking from which they come. For the trade-mark to play its part among these means of identification it is essential for the law to guarantee to the public that only those products originating from the proprietor of the trade-mark should be sold under such trade-mark. If the distinctive mark ceased to be unique, its very purpose of identifying the product would be frustrated thus distorting competition between undertakings and creating confusion for the public. To extend the present case-law of the Court of Justice to trade-marks without a common origin would involve not only an infringement of the rights which the national law guarantees proprietors of a trade-mark but also serious disturbance in the functioning of the market.

The requirements of legal certainty, the protection of the public and natural justice make it necessary to maintain the right of the proprietor to take action against those who infringe his trade-marks.

The *Government of the Kingdom of Denmark* takes the view that since it is a question of the legality of a prohibition on importation based on a trade-mark right, it is necessary to pay particular attention to the fundamental purpose of the trade-mark: to distinguish the various producers in the market. The protection which national laws afford the trade-mark concerns both consumer and producer; it is in the interests not only of industry and commerce but also the general public. By reason of the specific content of the trade-mark Article 36 of the EEC Treaty must necessarily allow reliance on the trade-mark right to prevent imports originating from a Member State in so far as the maintenance of the trademark's function of distinguishing requires that imports should be prohibited. To deprive the individual proprietor of the trade-mark of the right to prevent the import of products originating from an undertaking with which he has no legal or economic link and which have been lawfully provided in another Member State with an identical trade-mark or a trade-mark capable of giving rise to confusion would very seriously jeopardize the function of distinguishing, that is to say the very *raison d'être* of the trade-mark right.

In the same way as the basic function of the trade-mark is to distinguish the various producers in the market, the objective of the commercial name is to distinguish the various undertakings in the mind of the consumers; the reason justifying the protection of the trade-mark is thus at the basis of the protection which national law accords the commercial name.

The question put by the Bundesgerichtshof should therefore be answered in the affirmative.

The *Government of the Federal Republic of Germany* stresses that the question of risk of confusion is not the subject of the reference for a preliminary ruling made to the Court of Justice; moreoever it is right to reply in the affirmative to the question whether Articles 30 and 36 of the EEC Treaty must in the general context of the Treaty be interpreted as meaning that an undertaking established in Member State A may in the abstract conditions referred to in the reference for a preliminary ruling prevent the import of products marked by an undertaking established in Member State B.

There is not in the present case a measure having an effect equivalent to quantitative restrictions on imports within the meaning of Article 30 of the EEC Treaty. With regard to the Commission Directive No 70/50 of 22 December 1969 (OJ, English Special Edition, 1970 (I), p. 17) based on Article 33 (7) of the Treaty, it is appropriate to observe that the rights which the proprietor of a trade-mark has with regard to imported products do not constitute by reason of their very nature 'measures, other than those applicable equally to domestic or imported products' within the meaning of Article 2 of the Directive, or 'measures governing the marketing of products ... where the restrictive effect of such measures on the free movement of goods exceeds the effects intrinsic to trade rules' within the meaning of Article 3: these effects are not 'out of proportion to their purpose' and the objective of the trademark (or of the commercial name) of distinguishing or identifying cannot be 'attained by other means which are less of a hindrance to trade'.

In any event the right given to the undertaking established in Member State A to prevent, in the circumstances referred to in the reference for a preliminary ruling, the import of products marked by undertaking B, assuming that Article 30 can be applied to it, is justified within the meaning of Article 36 on grounds of the protection of industrial and commercial property.

The principle of the free movement of goods, the achievement of which is the reason for prohibition by Article 30 of measures having an effect equivalent to quantitative restrictions on imports, is certainly one of the fundamental principles of the Treaty; the rights which the national law of Member States accords holders of industrial property rights are however compatible with this principle in so far as they relate to 'the existence' of these rights and constitute 'the specific object' of them. In the present case the right accorded to the undertaking established in Member State A arises from the basic function of the right to the commercial name — to ensure distinguishing the undertaking — and from the right to the trade-mark — to ensure distinguishing the products. The maintenance of this basic function prevents the simultaneous existence of trade-marks capable of giving rise to confusion in the territory covered by the right to the mark both as regards manufactured products marked and put into circulation within the country and products provided by a similar mark imported from abroad. Moreover the national law on the protection of marks constitutes a privileged instrument for ensuring fair and practicable competition and for contributing to the creating of a single market ensuring freedom of trade.

The power of preventing the import of products having an identical sign is part of the very 'existence' of the national right to the sign in that it ensures equality of treatment for national and imported products.

Nor does this power exceed the scope of this right: it has regard to the principle of proportionality in respect of the number of cases and their importance for the law on the protection of trade-marks, from the point of view of the proprietor of the right to the mark and from the point of view of consumers, in respect of the duration of the protection granted and in respect of the harmonious economic development of the Community; finally it is indispensable since the same objective cannot be attained by other means which are less of a hindrance to trade.

It thus arises from the existence and the specific objective of the right to the mark and is as a result justified within the meaning of the first sentence of Article 36 of the Treaty on grounds of the protection of industrial and commercial property; nor does it constitute a means of arbitrary discrimination or a disguised

restriction on trade between Member States within the meaning of the second sentence of Article 36.

A study of comparative law shows that since it is a question of the unitary economic territory of a State, the principle of the unity of the market does not require the abolition or weakening of the prerogatives of the proprietors of regional rights to a mark; *a fortiori* it should not necessarily result in weakening regional rights in the context of a Community which has not yet reached the stage of a unitary state. The example of the Benelux trade-marks law shows that even the implementation of a uniform trade-marks law between States united within an economic union does not necessarily mean the restriction of existing national rights.

From the point of view of the future creation of a uniform European law of trade-marks, the gradual process of unification on the basis of the initiative of the undertakings concerned, should prevail over a radical measure which would affect the existence of national rights.

In its reply the Court of Justice should not go beyond the assessment of the facts and questions of law by the Bundesgerichtshof to which the following reply might be given.

'The provisions on the free movement of goods (Articles 30 and 36 of the EEC Treaty) must be interpreted as meaning that an undertaking established in Member State A, by using its commercial name and trade-mark rights existing there, may prevent the import of similar goods coming from an undertaking established in Member State B if those goods have been lawfully provided in Member State B with a name to which, although the undertaking established in State B is the proprietor of the trade-mark or commercial name, nevertheless is capable of giving rise to confusion in Member State A with the commercial name of the undertaking which is established there, it being understood that there is no link of any kind between the two undertakings and their national trade-mark rights arose autonomously and independently of one another.

The *Government of the French Republic* states that the present case differs from preceding cases in two essential ways: the trade-marks are not identical but only capable of giving rise to confusion as has been found by the court hearing the main action, whose finding cannot be challenged, and above all they have been quite independent from the date of their creation. The judgment of the Court of Justice could have repercussions on the existence of national systems of trade-mark protection and thus anticipate the conception of the European trade-mark; the problem of the conflict between two legal concepts, the law of trade-marks and the rule of free movement, brings into question the economic function of the trade-mark.

As regards the content of the trade-mark right the problem from the legal point of view is whether the trade-mark right involves the right of preventing any use of the trade-mark in the territory in question and in particular the putting into circulation of the marked product or whether it is limited to the right to prevent the application of the trade-mark in that territory. The Court of Justice has already recognized that the use of the trade-mark right does not necessarily constitute a disguised restriction to free movement; this interpretation must be maintained subject to the query whether this title must exist in the country where the trade-mark has been applied or in that where the product so-marked has been put into circulation. The first interpretation cannot be accepted: to exclude from this scope of infringement the import of a product to which a trade-mark has been lawfully applied abroad, but without the consent of the proprietor of the trade-mark in the

importing country would mean seriously cutting down the protection to which the proprietor of the trade-mark is entitled. It is true that the principle of free movement must be applied in the case of genuine trade-marks placed on corresponding genuine products, but to go further would undermine the national systems of trade-mark protection and compromise the guarantee of rights which they confer.

The function of the trade-mark is in the first place to enable the products or services of an undertaking to be identified, to trace them to a manufacturing or marketing source and to distinguish them from those of competitors. This function is in the interests both of proprietors and consumers; the co-existence on a market of products of the same kind bearing identical or similar trade-marks risks undermining the competitive function of the trade-mark and its function as a guarantee to the consumer.

The interests of the unity of the common market could prevail and the co-existence of trade-marks be recognized if their proprietor is one and the same or if there are between different proprietors an economic link of such a kind as to permit proper control of the characteristics of the product. In the absence of such a link free movement is likely to harm industrialists and traders for whom the trade-mark is a means for penetrating the markets and also to bewilder consumers.

To hold that the lawful application of a trade-mark in one of the countries of the Community would stultify an action for infringement in the others would lead in practice to the destruction of trade-mark law. Such a system would encourage fraud both within the common market and without; if the trade-mark no longer conferred satisfactory protection it would lead to progressive disenchantment and to recourse to the simple protection of the action for unfair competition (passing off) which would be a retrograde step legally and a limitation of commercial security. Such a retrograde step could only harm the work on the European trade-mark and involve the risk of giving to this work a direction which is not generally desired.

It thus appears that Articles 30 and 36 cannot be interpreted as depriving an undertaking established in Member State A of the right, by using its trade-mark and company name, to prevent the import of similar products originating in country B to which a trade-mark has been lawfully applied in country B capable of giving rise to confusion with the company name and trade-mark protected in country A, if there is no link between the two undertakings and the rights in question arose separately and independently of one another.

The *Government of Ireland* takes the view that the question referred to the Court should be answered as follows:

'It *is* compatible with the provisions relating to the free movement of goods (Articles 30 and 36 of the EEC Treaty) that an undertaking established in Member State A, by using its commercial name and trade-mark rights existing there, should prevent the import of similar goods of an undertaking established in Member State B if these goods have been lawfully given a distinguishing name which may be confused with the commercial name and trade-mark which are protected in State A for the undertaking established there, if there are no relations between the two undertakings, if their national trade-mark rights arose autonomously and independently of one another (no common origin) and at the present time there exist no economic or legal relations of any kind other than those appertaining to trade-marks between the undertakings.

The legislation of Member States relating to the rights of proprietors of

trade-marks has as its purpose not merely the creation of rights in relation to trade-marks but also the protection of the public. This end has been achieved by granting exclusive rights to trade-mark proprietors and prohibiting the use of trade-marks likely to deceive or cause confusion. Beneficial results flow to the whole Community and in interpreting the Treaty provisions in relation to trade-marks it is reasonable to assume that this was the view of its signatories.

The exercise of rights granted to the proprietors of trade-marks does not in any way restrict the free movement of goods in relation to which a trade-mark is used. In the present case the exercise of trade-mark rights by Terranova does not in any way restrict Terrapin from importing into the Federal Republic of Germany prefabricated buildings, but only from using the word 'Terrapin' in relation to them.

The facts of the present case do not disclose abuse of rights recognized by the Treaty, or any acts contrary to the objectives of the Treaty. On the other hand an answer to the question raised which would restrict the exercise of Terranova's rights would be contrary to those objects. Previous decisions of the Court in relation to the free movement of goods and the rights of proprietors of trade-marks cannot be relied on for such a restriction.

An answer in the negative to the question raised could only proceed from an interpretation of the Treaty which was not intended.

The *Government of the Kingdom of the Netherlands* also takes the view that the decision of the Court of Justice could be of decisive importance for the maintenance of trade-mark law from the point of view of its social function which is important for both the producer and the consumer.

The essence of the exclusive right to a trade-mark is according to the case-law of the Court the fact that the trade-mark shows the origin of the product so that the proprietor is in a position to protect against third persons the economic position which he has achieved by reason of his financial, technical and commercial efforts, and the consumer has the opportunity of recognizing the product to the qualities of which he attaches importance. In the circumstances of the present case the exercise of the right to the trade-mark is thus justified by the guarantee of the rights which are the specific objective of industrial property and, according to the interpretation which the Court of Justice has given to Article 36, the rules on the free movement of goods do not prevent this.

To accord absolute priority to the unity of the market would unwarrantably prejudice the interests of proprietors of trade-marks and consumers, which would not be a reasonable way of achieving the free movement of goods and the unity of the market. On the contrary, the foreseeable result of adopting such a tenet would be to distort competition and mislead the public.

The exercise of trade-mark rights could no doubt constitute a certain restraint on the free movement of goods within the common market. The only remedy would be a Community system of trade-marks although this could not offer a solution which would be satisfactory in every respect.

As regards the exercise of the rights which the proprietor of a commercial name enjoys it is proper to observe that when products bear a mark which gives rise to confusion with the commercial name to which a third party is entitled in that territory, the free movement of products in the territory is capable of affecting the distinguishing quality of the commercial name and as a result directly threatening the right to the name. The

proprietor of the commercial name may under Article 36 exercise his rights in the way described in the question from the Bundesgerichtshof.

The *Government of the United Kingdom* considers that the provisions of the Treaty should in general be interpreted so as to entitle the proprietor of a trade-mark right under the law of a Member State to exercise it in order to prevent the marketing in that Member State of a product which bears a trade-mark that is identical to his trade-mark, or so like it as to be capable of being confused with it, even though such mark may have been lawfully applied to the product in its country of origin.

The purpose of trade-marks is to distinguish one trader's goods from another and not to effect a division of the market; the trade-mark then becomes of value to both the trader and the consumer.

The question whether two given trade-marks are confusable in Germany is a matter which can only be decided by the German courts. The question of discrimination or disguised restriction within the meaning of the last sentence of Article 36 can arise only if the German law is inherently discriminatory against non-German nationals, an issue which has not been raised in this reference to the Court of Justice.

The case-law of the Court has drawn a distinction between the existence of rights and their exercise. To prevent the exercise of the trade-mark right against imports from a totally independent source, even from another Member State, would damage the right itself. In the present case there is no valid reason why a foreign competitor should be able to effect the entry of goods bearing a trade-mark into a country where it is protected. The goods themselves are in no sense denied entry. The exercise of the trade-mark right necessary to maintain the substance of the industrial property is possible without necessarily imposing a measure having equivalent effect to a quantitative restriction on the import of the goods in question.

An answer in the negative would cause difficulties for the national authorities seeking to ensure fairness of trading within their respective territories: the value of trade-marks would be in question, long-established trading conditions would be upset and consumers would be likely to be deceived and confused. The only way in which a trader could ensure that he got the exclusivity of use of a trade-mark would be to register it in every Member State. This would be pointless and expensive. An adverse decision in the present case would effectively destroy a very large number of existing rights at a time when no Community alternative exists and might prejudice the establishment of the European Convention on trade-marks.

It is equally in the public interest that Member States should remain entitled to exercise full control over corporate and business names, and that entreprises should retain the ability to take action at civil law against other enterprises which pass themselves off as having their legal identity. These rights are necessary and wholly compatible with Articles 30 and 36. The only restraints on the public law powers and rights should be that they are exercised without discrimination on grounds of nationality.

The question referred to the Court of Justice should be answered affirmatively to the effect that the exercise of an undertaking's commercial rights in a commercial name and trade-mark existing in Member State A to prevent the import of similar goods of an undertaking established in Member State B bearing a confusingly similar distinguishing name lawfully applied in Member State B is not precluded under Articles 30 and 36 of the Treaty.

The *Commission of the European Communities* after referring to the facts in the main action, the basic points of the question put by the Bundesgerichtshof, the relevant provisions of German law on trade-marks and company names and the case-law of the Court of Justice regarding industrial and commercial property rights, stresses that Article 36 of the Treaty, in so far as it derogates from the prohibition on quantitative restrictions on imports and measures having equivalent effect contained in Article 30, allows only such restrictions on the free movement of goods as are justified by the protection of the rights which constitute the specific object of commercial and industrial property.

At the root of the question raised is the disputed relationship between the national industrial property rights, limited territorially, and Community law which prevails over national law and the uniform application of which in every Member State guarantees its effectiveness. It is a question of balancing three kinds of general interests, represented by the principle of the unity of the common market, the interest of proprietors of trade-marks which are similar or give rise to confusion and the interest of consumers in being informed and not misled by trade-marks.

The principle of the unity of the common market is fully vindicated if proprietors of trade-marks which are identical or capable of being confused but which do not have the same origin are denied the power of prohibiting the import of products legally bearing the contested mark in another Member State. In this case the limitation of national rights to the trade-mark is compensated by the extension of the economic scope made available to proprietors of trade-marks which are identical or give rise to confusion.

An example of this type of solution is offered by the British law on trade-marks. This applies not so much the principle of priority as that of 'honest concurrent use' which in certain circumstances allows the co-existence within the same legal system of trade-marks which are identical or give rise to confusion.

However, the existence of such a rule, uniformly applied in a national legal system, is one thing; to make it obligatory in nine different national legal systems by means of Community law is another.

To settle the question raised by the order of reference it is necessary to refer to Article 36 of the Treaty. It is for the Court of Justice to determine cases in which the restriction on free movement of goods arising from the territorial exclusiveness conferred by trade-marks is necessary to guarantee protection of the very existence or of the specific objective of the trade-mark.

According to the case-law of the Court, the specific objective of a trade-mark is to distinguish products of one manufacturer from those of another manufacturer and to draw the attention of consumers to the origin of products: the function of trade-marks is to make possible this distinction and to provide this information on origin. When this function of the trade-mark is not prejudiced or when the circumstances prevent its being ensured, the Court logically refuses to take into account the argument on the territorial nature of the protection and asserts the precedence of the principle of free movement of goods.

In the light of this case-law it is necessary to answer affirmatively the question whether Article 36 justifices the imposition, to protect the specific objective of a trade-mark, of a restriction on the free movement of goods when the proprietor of a trade-mark not having the same origin claims to prevent the import from another Member State of goods to which in such State a trade-mark capable

of being confused with its own trademark has been lawfully applied. In such a situtation the conditions which have led the Court in previous judgments not to apply the derogation in Article 36 are not fulfilled. It is right and necessary to accord decisive importance to the function of distinction and indication of origin which constitutes the specific objective of the trade-mark. Proprietors of trade-marks giving rise to confusion would be justified in observing that they have built up quite independently the clientèle interested in the products bearing their trade-mark; consumers for their part are entitled not to be misled as to the origin of the goods. These interests, directly associated with the function of the trade-mark, should prevail over the interests of the Community in the free movement of goods. The derogation provided for by Article 36 has anticipated the result of this balancing of the requirements of free movement and the protection of national trade-marks.

This conclusion may not appear very satisfactory. In fact in the sphere of trade-mark law the unity of the common market is attained only incompletely so long as only national trade-mark laws exist side by side. This fact emphasizes the necessity of creating a trade-mark law valid for the whole of the common market.

The Court has likewise to answer the question whether having regard to the circumstances of the case the provisions of the Treaty on the free movement of goods prevent the exercise of rights pertaining to the company name.

The action of Terranova based on its rights to its company name is important of itself only if the provisions on the free movement of goods prevent the exercise of its right to the trade-mark; since in the view of the Commission this is not so consideration of the action based on the right to the company name does not appear necessary.

In any event the right to the trade-mark and the right to the company name are exclusive rights having largely comparable protective functions. The national provisions on the protection of commercial names or rights to the company name are subject to the same criteria of assessment as those which the Court has laid down in respect of other industrial and commercial property rights and in particular the trade-mark right. Since the problem is to determine whether the restriction on free movement of goods is justified by the need to guarantee the existence or the specific objective of the exclusive right, and since rights as close to one another as the right to the company name and the trade-mark right are involved, such assessment can only lead to a uniform conclusion when the trade-marks, as in the present case, are also part of the company name.

It is important to point out that as formulated in the order of reference the question referred to the Court for a preliminary ruling does not exhaust the problems of interpretation of Community law to which the findings of fact by the Bundesgerichtshof give rise. The Bundesgerichtshof states in particular that the products manufactured and marketed by the parties to the main action are similar and that their company names and their trade-marks 'Terra' and 'Terranova' on the one hand and 'Terrapin' on the other give rise to confusion. The question arises whether this concept is in fact in accord with Community law; in particular grave reservations must be expressed to the notion that the principles of the right to a trade-mark and the right to a company name in relation to risks of confusion and similarity of products are defined exclusively in terms of the laws of Member States. The risk of confusion and similarity of products are fundamental concepts involved in the right to a trade-mark and the right to a company name; they are the very essence of such rights. The principles applied in

the national legal systems of Member States to define them and to determine the scope of the protection given by national laws on trade-marks have direct effects on the free movement of goods; in so far as they affect trade in goods within the Community they must be considered from the point of view of Community law. There can be no question of applying without reservation national laws which might differ considerably *inter se:* this would be failing to guarantee rights protected in accordance with the objectives and legal principles of the common market and hazarding the uniform application of Community law. The determination and consideration of these principles cannot be the business of the legislature, authorities or courts of each Member State; on the contrary this must be done on the basis of criteria laid down by Community law with regard to which it is for the Court of Justice to rule in terms of the interpretation of Article 36. It is true that it is not for the Court to consider whether company names or trade-marks must or must not be regarded in practice as causing confusion but it must define the principles governing such consideration.

In this context it is necessary to consider that the question whether trade-mark rights give rise to confusion or relate to similar products acquires a new dimension at the Community level. A not inconsiderable number of conflicts is likely to arise in a common market characterized by trade in goods between several Member States and the existence of nine different trade-mark laws side by side. In Community law the principles defining the risk of confusion must be reduced to the strict minimum necessary to guarantee the protection of national trade-mark rights.

The main action provides an example of the considerable scope of the protection granted in the Federal Republic of Germany in the sphere of trade-marks and other designations. In particular the criteria which have been developed there by case-law with regard to the risk of confusion and the similarity of products have meant considerable strengthening of the protection given by the right to a trade-mark and the right to a company name; in the legal systems of the other Member States these criteria do not always obtain or do so to a lesser extent.

Community law for its part protects rights to trade-marks and to company names in so far as their specific objective requires it; there is nothing to say that such wide protection as that provided by German law is essential in this respect.

In the present case it may be observed that the products to be compared differ so much in their nature that the basic objective of trade-mark law, which is to protect proprietors against confusion and to prevent the public from being misled as to the origin of goods, would not be compromised if a lack of similarity were found.

It is right therefore to reply to the question raised by the Bundesgerichtshof to the effect that the provisions of the EEC Treaty on the free movement of goods (Articles 30 and 36) do not prevent the exercise of the right to the trade-mark and the right to the company name in the case the facts of which the Bundesgerichtshof has set out; it is however appropriate to observe that the criteria for determining whether trade-mark rights and rights over the company name give rise to confusion and whether products are similar must be considered in terms of Community law and that the risk of confusion and the similarity of products can be recognized by Community law only in so far as they are necessary for the protection of the specific objective fo these exclusive rights.

III — Oral procedure

At the hearing on 5 May 1976 the appellant, Terrapin, represented by Martin Röttger, Rechtsanwalt in Cologne,

the respondent to the appeal, Terranova, represented by Oliver C. Brändel, Rechtsanwalt in Karlsruhe, and by Professor Friedrich-Karl Beier, the Government of the Federal Republic of Germany, represented by Erich Bülow, Ministerialdirigent in the Federal Ministry of Justice, and the Commission of the European Communities, represented by its Legal Adviser, Erich Zimmermann, submitted oral observations and their replies to the questions raised by the Court.

The Advocate-General delivered his opinion at the hearing on 25 May 1976.

Law

1 By order dated 31 October 1975, received at the Court Registry on the following 5 December, the Bundesgerichtshof referred to the Court for a preliminary ruling under Article 177 of the Treaty the following question on the relation between the provisions of the Treaty on the free movement of goods and the protection given by national laws to the right to a trade-mark and to a commercial name:

'Is it compatible with the provisions relating to the free movement of goods (Articles 30 and 36 of the EEC Treaty) that an undertaking established in Member State A, by using its commercial name and trade-mark rights existing there, should prevent the import of similar goods of an undertaking established in Member State B if these goods have been lawfully given a distinguishing name which may be confused with the commercial name and trade-mark which are protected in State A for the undertaking established there, if there are no relations between the two undertakings, if their national trade-mark rights arose autonomously and independently of one another (no common origin) and at the present time there exist no economic or legal relations of any kind other than those appertaining to trade-marks between the undertakings?'

2 It appears from the order of reference that the plaintiff in the main action, the respondent to the appeal, is the proprietor in the Federal Republic of Germany of the trade-marks 'Terra', 'Terra Fabrikate' and 'Terranova', registered at the German patents office, the last of these names being simultaneously used as a commercial name. The plaintiff manufactures and markets finished plaster for façades and other construction materials under these names. The defendant in the main action and appellant in the appeal is an English company specializing in the production of prefabricated houses

and components for the construction of such houses which it sells under the name 'Terrapin', which is at the same time the defendant's commercial name. The defendant applied to the German patents office to register the trade-mark 'Terrapin', but Terranova lodged an opposition and by order of the Bundespatentgericht of 3 February 1967 registration was refused on the ground of the risk of confusion with the trade-marks 'Terra' and 'Terranova'. Subsequently Terranova brought an action before the Landgericht München to prohibit the defendant from using the name 'Terrapin' on its products. This action was dismissed by judgment dated 27 November 1972, since the Landgericht considered that the names in question did not cause any real risk of confusion. Terranova brought an appeal before the Bayrisches Oberlandesgericht, Munich, which reversed the judgment of the Landgericht and by judgment dated 27 September 1973 held that there was a risk of confusion and as a result prohibited the defendant from using the name 'Terrapin' and declared that in principle the defendant was bound to make good any damage caused to the plaintiff by the use of the name in question. Terrapin brought an appeal against this judgment before the Bundesgerichtshof.

3 The Bundesgerichtshof considers that the first appellate court rightly found similarity between the products of the two parties and risk of confusion between the names in question with the result that according to German law the judgment of the appellate court and the injunction which it issued against Terrapin must be confirmed.

4 Although this finding has been questioned during the oral procedure the Court does not have to rule on this point since no question has been put to it with regard to the matter. It is right however to stress that the answer given below does not prejudge the question whether an allegation by one undertaking as to the similarity of products originating in different Member States and the risk of confusion of trade-marks or commercial names legally protected in these States may perhaps involve the application of Community law with regard in particular to the second sentence of Article 36 of the Treaty. It is for the court of first instance, after considering the similarity of the products and the risk of confusion, to enquire further in the context of this last provision whether the exercise in a particular case of industrial and commercial property rights may or may not constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States. It is for the national court in this respect to ascertain in particular whether the rights in question are in fact exercised by the proprietor with the same strictness whatever the national origin of any possible infringer.

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. 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 movment 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.

6 It follows from the above that the proprietor of an industrial or commercial property right protected by the law of a Member State cannot rely on that law to prevent the importation of a product which has lawfully been marketed in another Member State by the proprietor himself or with his consent. It is the same when the right relied on is the result of the subdivision, either by voluntary act or as a result of public constraint, of a trade-mark right which originally belonged to one and the same proprietor. In these cases the basic function of the trade-mark to guarantee to consumers that the product has the same origin is already undermined by the subdivision of the original right. Even where the rights in question belong to different proprietors the protection given to industrial and commercial property by national law may not be relied on when the exercise of those rights is the purpose, the means or the result of an agreement prohibited by the Treaty. In all these cases the effect of invoking the territorial nature of national laws protecting industrial and commercial property is to legitimize the insulation of national markets without this partitioning within the common market being justified by the protection of a legitimate interest on the part of the proprietor of the trade-mark or business name.

7 On the other hand in the present state of Community law an industrial or commercial property right legally acquired in a Member State may legally be used to prevent under the first sentence of Article 36 of the Treaty the import of products marketed under a name giving rise to confusion where the rights in question have been acquired by different and independent proprietors under different national laws. If in such a case the principle of the free movement of goods were to prevail over the protection given by the respective national laws, the specific objective of industrial and commercial

property rights would be undermined. In the particular situation the requirements of the free movement of goods and the safeguarding of industrial and commercial property rights must be so reconciled that protection is ensured for the legitimate use of the rights conferred by national laws, coming within the prohibitions on imports 'justified' within the meaning of Article 36 of the Treaty, but denied on the other hand in respect of any improper exercise of the same rights of such a nature as to maintain or effect artificial partitions within the common market.

8 It is appropriate therefore to reply to the question referred to the Court that it is compatible with the provisions of the EEC Treaty relating to the free movement of goods for an undertaking established in a Member State, by virtue of a right to a trade-mark and a right to a commercial name which are protected by the legislation of that State, to prevent the importation of products of an undertaking established in another Member State and bearing by virtue of the legislation of that State a name giving rise to confusion with the trade-mark and commercial name of the first undertaking, provided that there are no agreements restricting competition and no legal or economic ties between the undertakings and that their respective rights have arisen independently of one another.

Costs

9 The costs incurred by the Government of the Kingdom of Belgium, the Government of the Kingdom of Denmark, the Government of the Federal Republic of Germany, the Government of the French Republic, the Government of Ireland, the Government of the Kingdom of the Netherlands, the Government of the United Kingdom and by the Commission of the European Communities, which have submitted observations to the Court, are not recoverable, and as these proceedings are, in so far as the parties to the main action are concerned, a step in the action pending before the Bundesgerichtshof, costs are a matter for that court.

On those grounds,

THE COURT

in answer to the questions referred to it by the Bundesgerichtshof by order of that court dated 31 October 1975, hereby rules:

It is compatible with the provisions of the EEC Treaty relating to the free movement of goods for an undertaking established in a Member State, by virtue of a right to a trade-mark and a right to

a commercial name which are protected by the legislation of that State, to prevent the importation of products of an undertaking established in another Member State and bearing by virtue of the legislation of that State a name giving rise to confusion with the trade-mark and commercial name of the first undertaking, provided that there are no agreements restricting competition and no legal or economic ties between the undertakings and that their respective rights have arisen independently of one another.

Lecourt Kutscher O'Keeffe

Mertens de Wilmars Pescatore Sørensen Capotorti

Delivered in open court in Luxembourg on 22 June 1976.

A. Van Houtte
Registrar

R. Lecourt
President

OPINION OF MR ADVOCATE-GENERAL MAYRAS DELIVERED ON 25 MAY 1976 [1]

Mr President,
Members of the Court,

The problem caused by conflicts arising from the co-existence within the common market of the principle of free movement of goods with the territorial nature of the national titles protecting industrial and commercial property in one or more Member States, and in particular the trade-mark right, has appeared only gradually with the interpenetration of markets. All the authorities, anxious to abolish distortions so caused, have found themselves sooner or later confronted with this problem. They have attempted to resolve it in different ways either by means of provisions of positive law or leaving it to the courts to do so.

At the Community level work has been going on for some years to create a 'European' system of patents and trade-marks. This shows that the establishment of such a system is inseparable from the achievement of the objectives of the Treaty. But unlike the concept of public policy and public health that of the protection of industrial

1 — Translated from the French.