2. **An association such as that referred to in Article 2 (2) of Regulation No 803/68 is created by a contract whereby the foreign supplier of a product grants to the Community buyer distribution rights which are territorially defined against payment of royalties in the form of a percentage share of the proceeds of sales.**

3. **A contract by which, primarily, territorial distribution rights are transferred in return for royalties and, in addition, the right, assigned free of charge, to manufacture the imported product, falls within the provisions of Article 2 (1) (a) of Regulation No 1788/69 of the Commission.**

Kutscher Donner Pescatore Mertens de Wilmars Sørensen

Mackenzie Stuart O'Keeffe Bosco Touffait

Delivered in open court in Luxembourg on 17 February 1977.

A. Van Houtte
Registrar

H. Kutscher
President

OPINION OF MR ADVOCATE-GENERAL WARNER DELIVERED ON 3 FEBRUARY 1977

My Lords,

This case comes to the Court by way of a reference for a preliminary ruling by the Hessisches Finanzgericht. It raises questions of interpretation of the Community Regulations on the valuation of goods for customs purposes and, in particular, questions as to the interpretation of certain provisions of those Regulations about the circumstances in which, in making such a valuation, trade-mark rights should be taken into account.

The facts are these.

On 9th September 1970 the plaintiff in the proceedings before the Finanzgericht, the Firma Farbwerke Hoechst AG, of Frankfurt-am-Main, entered into an agreement with a well-known Swiss company, Hoffmann-La Roche (which I shall call 'HLR'). Under that agreement HLR granted to the plaintiff the exclusive right to distribute in the whole world except the USA a veterinary pharmaceutical preparation (which I shall call 'the preparation'), which had been

invented by HLR. Into the manufacture of the preparation there enter, essentially, two substances, sulfadoxin and trimethoprim. The agreement envisaged two possibilities. One was that the plaintiff (or any of its subsidiaries) should itself manufacture the preparation, in which case it must buy from HLR the two substances in question and such manufacture would be licensed under patents owned by HLR. The second possibility was that the plaintiff should buy the preparation itself from HLR. In either case the price and other terms of delivery would be agreed for each consignment between HLR and the plaintiff. In either case, however, the plaintiff would pay to HLR a royalty of 3 % of the profit from its sales of the preparation in the territory conceded to it, and, in either case, it would sell the preparation under its (the plaintiff's) own trade mark. The plaintiff was not to refer to HLR in its advertising without HLR's express consent.

In the events the plaintiff did not avail itself at all of the first possibility afforded to it by the agreement. It confined itself to buying the preparation from HLR.

Between 14 April 1971 and 12 September 1972 the plaintiff imported into Germany 10 batches of the preparation, manufactured by HLR. Those are the importations to which the proceedings before the Finanzgericht relate. The importations were effected in large packages. After the goods had arrived, the plaintiff caused them to be repacked into smaller packages, and its own trade-mark 'Borgal' to be affixed to them. It seems that this mark had been registered in Germany in 1950 by another German company, ADEFO-Chemie GmbH, as a 'reserve mark' and that the right to it was sold by 'ADEFO' to the plaintiff in 1967 for DM 3 000. The Court has not been told whether the mark is registered anywhere else than in Germany.

The essential question is whether under the relevant Regulations the value of the plaintiff's right to use its own trade-mark is to be included in the value of the imported goods for customs purposes.

Those Regulations are, first, Council Regulation (EEC) No 803/68 of 27 June 1968 (OJ L 148 of 28. 6. 1968) and, second, Commission Regulation (EEC) No 1788/69 of 10 September 1969 (OJ L 230 of 11. 9. 1969).

Regulation No 803/68, Your Lordships remember, was adopted in order to establish a uniform method of valuation of goods for customs purposes in all the Member States, so as to obtain a uniform application of the Common Customs Tariff. Its provisions are based on those of the Brussels Convention on the Valuation of Goods for Customs Purposes to which all the Member States are parties. Article 1 (1) of the Regulation provides:

'For the purposes of applying the Common Customs Tariff, the value for customs purposes of the goods imported shall be taken to be the normal price, that is to say, the price which they would fetch, at the time referred to in Article 5 [that is, in general, at the time of importation], on a sale in the open market between a buyer and a seller independent of each other.'

Article 1 (2) and Articles 2 to 8 of the Regulation are devoted to defining the concept thus introduced by Article 1 (1), by laying down in great detail the terms and other characteristics of the hypothetical sale there postulated.

Thus, Article 1 (2) prescribes the assumptions to be made as to place of delivery, as to which party to the sale is to bear the costs, charges and expenses incidental to it and to delivery, and as to which is to bear the burden of internal duties and taxes.
Article 2 requires the price to be the sole consideration and refines on what is meant by 'a buyer and a seller independent of each other'. Paragraph 1 of that Article provides *inter alia:*

'A sale in the open market between a buyer and seller independent of each other presupposes:
(a) ...
(b) that the price is not influenced by any commercial, financial or other relationship, whether by contract or otherwise, between the seller or any natural or legal person associated in business with him and the buyer or any natural or legal person associated in business with him (other than the relationship created by the sale itself);
(c) that no part of the proceeds of any subsequent resale, other disposal or use of the goods will accrue, either directly or indirectly, to the seller or any natural or legal person associated in business with him.'

Paragraph 2 provides:

'Two persons shall be deemed to be associated in business with one another if, whether directly or indirectly, either of them has any interest in the business or property of the other or both have a common interest in any business or property or some third person has an interest in the business or property of both of them.'

Article 3 relates to industrial property rights. Paragraph 1 of it provides, so far as material:

'When the goods to be valued
(a) ..
(b) are imported under a trade mark; or
(c) are imported for sale, other disposal or use under a foreign trade-mark,

the normal price shall be determined on the assumption that it includes the value of the right to use the ... trade-mark in respect of the goods.'

Paragraph 2 enables exceptions to the provisions of paragraph 1 to be determined 'where the rights referred to in that paragraph are held by a person established in a Member State'. (It was under this provision that Regulation No 1788/69 was adopted).

Paragraphs 3 to 6 apply 'where goods are imported for sale, other disposal or use, after further manufacture, under a foreign trade-mark'. Paragraph 4 provides in particular:

'The value of the right to use a foreign trade-mark shall be wholly included in the normal price of the goods to be valued when they are to undergo after their importation ... simple operations, such as application of the mark, breaking bulk, sorting or packing.'

Paragraph 7 defines 'a foreign trade-mark'. It does so in these terms:

'A trade-mark shall be treated as a foreign trade-mark for the purposes of this Article if it is the mark of;
(a) any person by whom the goods to be valued have been grown, produced, manufactured, offered for sale or otherwise dealt with, outside the customs territory of the Community; or
(b) any person associated in business with any person referred to in subparagraph (a); or
(c) any person whose rights in the trade mark are restricted by an agreement with any person referred to in subparagraph (a) or (b).'

As was explained to us by the Commission, the general principle of Article 3, in so far as it relates to trade-marks, is that, where goods are imported under a trade-mark, their 'normal price' (that is the price that would be payable for them on the hypothetical sale postulated by Article 1 of the Regulation) is to be determined on the footing that it includes the value of the right to use the trade mark in respect of the goods. The purpose of the provisions about 'foreign' trade marks is to prevent circumvention of that principle. Without them a foreign manufacturer of goods could, for instance, form a subsidiary in a Member State of the Community and arrange for its trade-mark to be registered in that

State in the name of the subsidiary. The subsidiary could then import the goods without the mark and affix it to them after importation. Owing to the variety and complexity of such possible devices it was necessary for the provisions in question to be worded in such a way as to cast their net wide. Experience proved however that in some respects they had cast their net too wide: cases were caught in it which should not have been. It was to except such cases that Regulation No 1788/69 was adopted.

The particular provision of that Regulation that is in question in the present case is Article 2 (1) (a), which reads as follows:

'In so far as the right to use a trade-mark treated as a foreign trade-mark within the meaning of Article 3 (7) of Regulation (EEC) No 803/68 does not entail the payment of any royalty, the value of such right shall not be included in the value for customs purposes where one or more of the following conditions are satisfied:

(a) The trade-mark is that of a sole agent or sole concessionaire established in a Member State, there is no business association between the agent or concessionaire and the supplier of the goods to be valued other than the relationship created by the agency or concession and the rights of the agent or concessionaire in the trade-mark are not restricted within the meaning of Article 3 (7) (c) of Regulation (EEC) No 803/68.'

The contention of the Hauptzollamt Frankfurt-am-Main/West, which is the defendant before the Finanzgericht, is that, in the present case, HLR is a person falling within subparagraph (a) of Article 3 (7) of Regulation No 803/68, in that it manufactured and dealt with the goods outside the customs territory of the Community; that the plaintiff is 'associated in business' with HLR by reason of the agreement between them and so within subparagraph (b) of that provision, which is to be interpreted in the light of the definition of 'associated in business' contained in Article 2 (2); that the plaintiff's mark must therefore be treated, for the purposes of Article 3, as 'a foreign trade-mark'; and that, accordingly, by virtue of Article 3 (4), the value of the right to use the mark must be included in the 'normal price' of the imported goods. The defendant denies that Article 2 (1) (a) of Regulation No 1788/69 applies, its ground for doing so being, as I understand it, that the grant to the plaintiff by HLR of a licence to manufacture under its patents created between them a 'business association ... other than the relationship created by the agency or concession'.

What in fact happened was that initially the plaintiff paid duty on the goods on the basis of a valuation which took no account either of the royalties payable by the plaintiff to HLR or of the value of its trade-mark. Subsequently, during an inspection of the plaintiff's books, the existence of its agreement with HLR came to light and the defendant served on the plaintiff a notice of assessment to additional duty. This included an element, which is no longer in dispute, for the royalties and an element for the value of the trade-mark.

Before the Finanzgericht the plaintiff argued, in the first place, that the terms of its agreement with HLR were not such as to make it a 'person associated in business' with HLR within the meaning of that phrase in Article 3 (7) (b) and that the extended definition of 'associated in business' contained in Article 2 (2) was not applicable for the purposes of Article 3 (7) (b). Alternatively the plaintiff argued that it was excepted from the provisions of Article 3 by those of Article 2 (1) (a) of Regulation No 1788/69. Thirdly the plaintiff submitted that, in any case, the defendant had estimated the value of the use of its trade-mark on the wrong criteria.

The case thus raises three main problems, of which the first is as to the

interpretation of Articles 2 (2) and 3 (7) (b) of Regulation No 803/68. Of the nine questions referred to the Court by the Finanzgericht, the first four relate to this problem. They are:

'1. Is Article 2 (2) of Regulation (EEC) No 803/68 of the Council on the valuation of goods for customs purposes under which two persons shall be deemed to be associated in business *inter alia* if either of them has any interest in the business or property of the other, also applicable to the business association mentioned in Article 3 (7) (b) of the same regulation?

2. If the answer to this question is in the negative, by what criteria is a business association within the meaning of Article 3 (7) (b) of Regulation No 803/68 to be determined?

3. If Question 1 is answered in the affirmative, is such a business association established (Article 2 (2) of Regulation No 803/68) by an agreement, the primary object of which is the grant to the domestic purchaser by the foreign supplier of goods of selling rights in a specific territory against payment of royalties and under which in addition the said purchaser is granted, free of further charges, the right to manufacture the imported product under the patented process from two active substances patented by and to be procured from the undertaking supplying the goods?

4. If the answer is in the affirmative, does it also apply if the purchasing firm does not make use of its manufacturing rights?'

As to question 1, the doubt arises because Article 2 (2) is positioned in the Regulation and numbered in such a way as to look like an appendage to Article 2 (1) and that only. It is arguable that, had the provisions of Article 2 (2) been intended to apply in the interpretation also of subsequent Articles of the Regulation, they would have been contained in a separate Article. But, on the other hand, had those provisions been intended to apply only in the interpretation of Article 2 (1) one would have expected them to be qualified by the words 'for the purposes of this Article', as are the provisions of Article 3 (7). Moreover it seems improbable that the authors of the Regulation, having defined 'associated in business', without such a restriction, in Article 2 (2), did not intend the definition to apply when they used the same phrase in Article 3. It appears that, before the Finanzgericht, the plaintiff put forward an argument based on the absence from Article 3 (7) (b) of the words 'deemed to be'. That argument seems to me beside the point. Those words are absent from Article 2 (1) also; yet there is no doubt that the definition applies there. In my opinion, Article 2 (2) does apply in the interpretation of Article 3 (7) (b). This is the opinion also of the Commission and of the Customs Valuation Committee — see the latter's Commentary on Regulation No 1788/69 (in the booklet 'European Communities — Customs Valuation' at p. B 26). I would therefore answer question 1 in the affirmative.

On that footing question 2 does not call for an answer. It would not, I think, have been an easy question. To answer it might have required a careful scrutiny of the wording of Article 3 (7) (b) in the different official languages of the Community. For instance the phrase 'associated in business' in the English text would clearly be wide enough of itself to encompass the relationship between the plaintiff and HLR. On the other hand the phrase in the French text 'associée en affaires' may cover only something in the nature of a partnership.

I would answer question 3 in the affirmative too. Indeed it seems that the plaintiff accepts that if Article 2 (2) applies this must follow. The phrase an 'interest in the business or property of' used in Article 2 (2) does not appear to have, in any of its official language versions, any technical meaning in the

legal system of any of the Member States, though Swinfen Eady J. did say, in *Gophir Diamond Co.* v *Wood* [1902] 1 Ch. 950, at p. 953, that, if a person's remuneration in any way depended on the profits or gross returns of a business, that person would be 'interested' in that business; and the phrase 'interest in property' can, in English law, have a technical meaning in certain contexts, mostly the contexts of interests arising under trusts or under the law of succession. The Customs Valuation Committee, in the Commentary to which I have referred, says:

'The concept of business association mentioned in paragraph 7 (b) ... interpreted in accordance with Article 2 (2) of Regulation (EEC) No 803/68 ... is extremely broad and covers all situations where trading or financial connections, direct or indirect, are established between the parties to a transaction.

Such connections may be established —
(a) by the existence of agreements granting exclusive dealing rights, a licence, or conceding any privilege whatsover;
(b) by the existence of a joint interest, direct or indirect, in a business, including certain situations such as when loans have been granted to both parties by a third person.'

I see no reason to differ. In my opinion, the Commission was right when it submitted that, in the present case, the circumstance that HLR is entitled to a royalty of 3 % of the profits derived by the plaintiff from its sales of the preparation is enough to give HLR an 'interest' in the plaintiff's 'business'.

That being so, question 4 seems to me irrelevant. The agreement between the plaintiff and HLR would have been sufficient to make them 'associated in business' even if it had contained no grant of manufacturing rights to the plaintiff. So, pace the Commission, it cannot matter for present purposes whether the plaintiff did or did not make use of those rights. I would accordingly answer question 4 in the affirmative too.

I turn to the second problem, i.e. that of the interpretation of Article 2 (1) (a) of Regulation No 1788/69. As to this the Finanzgericht asks three questions, which are:

'5. If the answer [to question 4] is in the affirmative, are the concepts "sole agent" and "sole concessionaire" in Article 2 (1) (a) of Regulation (EEC) No 1788/69 of the Commission two expressions having the same meaning?
6. If the answer is in the negative, does the expression "sole concessionaire" also include a person who has been granted the right by the proprietor of a patent to manufacture the goods under the patent?
7. If Question 5 is answered in the affirmative, does an agreement under which in the first place selling rights within a specific territory are granted for consideration and in addition a right to manufacture the imported goods free of charge is granted but has not been used fall outside the definition of a sole agency relationship?'

I think it convenient to deal with those questions together rather than seriatim.

Here again, it appears that the expressions 'sole agent' and 'sole concessionaire' do not have, in any of their official language versions, a technical meaning in the law of any of the Member States. If one looked only at the English text of Regulation No 1788/69 one might be tempted to interpret the word 'agent' in its legal sense, of one who acts on behalf of another, but a glance at the texts in other languages shows that this would be a mistake. For instance in the French text the equivalent word is not 'mandataire' but 'représentant'; in the Italian text it is not 'agente' but 'rappresentante'; and in the German text 'sole agent' is rendered

in one word 'Alleinvertreter'. There have been attempts in Belgian legislation to define cognate expressions such as 'représentation commerciale' and 'concession de vente exclusive', but nothing that seems directly in point here. I conclude that the Commission is right when it says, in effect, that the phrase 'a sole agent or sole concessionaire' should be interpreted as a whole and in the broad sense in which it would be interpreted by the commercial man-in-the-street.

The only other question, then, is whether, in a case such as the present, the grant by 'the supplier of the goods' to his 'sole agent or sole concessionaire' of the right to manufacture such goods under the former's patents creates between them a 'business association ... other than the relationship created by the agency or commission'.

The Commission pressed upon us the view that such would not be the result of the grant of that right so long as the grantee did not exercise it. The Commission's view to that effect is supported by an opinion of the Customs Cooperation Council which the Commission annexed to its observations. (The Commission in fact introduced that opinion in connexion with question 4 asked by the Finanzgericht. In that, the Commission was, I think, clearly mistaken. The opinion of the Customs Cooperation Council rests, expressly, on its own recommendation of 6 June 1972. This is the instrument adopted under the Brussels Convention of which the provisions correspond to those of Regulation No 1788/69. Indeed the recommendation mirrors the terms of that Regulation and one may suspect that it was adopted at the Community's instance. At all events it manifestly cannot be prayed in aid of the interpretation of Regulation No 803/68. The Brussels Convention provisions corresponding to this – so far as they relate to trade-marks – are Article III of Annex I to the Convention itself and Notes 2 and 3 of the Addendum to that Article in Annex II to the Convention).

The Commission's view is, in a way, attractive. It would make a legal relationship that existed only on paper, and to which no effect had ever been given in fact, irrelevant for the purposes of Article 2 (1) (a) of Regulation No 1788/69. The Commission justified that view by saying that, in such a situation, the legal relationship in question could not affect the true value, the 'normal price', of the imported goods. That of course is right.

The reason why, however, at the end of the day, I cannot accept the Commission's view is that it implies that, if, in the present case, the plaintiff had exercised its right to manufacture the preparation under HLR's patents, the value of its right to use its trade-mark would have become relevant in computing the true value of the two basic substances that it would then have bought from HLR and imported. I can quite see that, in that case, the value of the patent rights secured by the plaintiff from HLR would become relevant: without those rights the sulfadoxin and the trimethoprim would have very little value to the plaintiff, because it could not effectively use them. But we are not here concerned with the value of the patent rights. We are concerned with the value of the use by the plaintiff of its own trade-mark, and I cannot see that this would have any more relevance to the true value of sulfadoxin and trimethoprim imported by the plaintiff if it exercised its option to manufacture than it has to the true value of the finished preparation, which the plaintiff has imported hitherto.

To my mind, in the present case, the agreement between the plaintiff and HLR created between them a single indivisible relationship, that of, to use the terminology of Article 2 (1) (a), 'supplier' and 'sole agent or sole concessionaire'. The essence of that relationship was that

the plaintiff would become the sole distributor of the preparation everywhere in the world, except the USA. The plaintiff could acquire the preparation either by buying it direct from HLR or by buying the basic substances from HLR and manufacturing it under HLR's patents. But the existence of that option went only to the method whereby the plaintiff could exploit its concession. It did not create, as between the plaintiff and HLR, a 'business association ... other than the relationship created by the agency or concession'.

I am therefore of the opinion that the plaintiff is entitled to the benefit of Article 2 (1) (a), but for reasons differing from those suggested by the Commission.

In the result I would answer the Finanzgericht's questions 5, 6 and 7 compendiously, as follows:

The phrase 'a sole agent or sole concessionaire' in Article 2 (1) (a) of Regulation (EEC) No 1788/69 is to be interpreted as connoting a single broad concept apt to include a person who has been granted, for a consideration, exclusive selling rights within a specific territory and, in addition, the right to manufacture, under patents owned by the grantor, the goods comprised in the agency or concession, whether or not that person in fact exercises that right.

On that footing, questions 8 and 9 asked by the Finanzgericht do not, as their formulation makes clear, call for any answer. They relate to the criteria according to which, if the value of the right to use the plaintiff's mark had to be included in the 'normal price' of the imported goods, such value should be computed. As to this I will say only that the material placed before the Court to enable it to answer those questions is scanty. Had I thought it necessary for Your Lordships to answer them I would have suggested that information should first be obtained, under Article 21 of the Statute of the Court, at least as to what the relevant practice is in each Member State.