meaning is clearly discernible in other Member States, and even though the number 4 thereby designated plays a significant and varied role in automobile manufacturing and the automobile trade.

In the absence of unification or approximation of laws within the Community, the laying down of conditions for the protection of a designation such as 'Quattro' and the establishment of criteria making it possible to determine the existence of a risk of confusion between two designations — as to which Community law does not require a strict interpretation — are a matter for national law, subject to the limits laid down by the second sentence of Article 36 of the Treaty.

REPORT FOR THE HEARING
In Case C-317/91 *

I — Facts and procedure

1. *Legal background to the dispute*

(a) National law

The relevant provisions of the German trade-mark Law, the *Warenzeichengesetz* (hereinafter referred to as 'the WZG') in the version published on 2 January 1968 (Bundesgesetzblatt I, p. 29), as most recently amended by the Law of 7 March 1990 (Bundesgestzblatt I, p. 422), are as follows:

'*Paragraph 4 (Prohibited marks)*

(1) Freely available marks (*Freizeichen*, e. g. generic names) shall not be registered in the trade-mark register.

(2) In addition the following marks shall not be registered:

(i) those which are devoid of any distinctive character or contain exclusively numerals, letters or words designating the kind, time

* Language of the case: German.

or place of production, quality, intended purpose, price, quantity or weight of the goods.

...

(3) Registration shall however be permitted in cases referred to in subparagraph (2)1 where the mark has gained acceptance in the trade as a distinctive symbol of the applicant's products.

...'

'*Paragraph 16 (Limited effect of a mark)*

The registration of a trade mark shall not affect the right of any person to apply to goods, their packaging or wrapping, even in an abbreviated form, his name, trade name, address or indications regarding the kind, time or place of production, quality, intended purpose, price, quantity or weight of goods or to use similar indications in trade, provided that such use is not made by way of a trade mark.'

'*Paragraph 25 (Improper use of a get-up)*

(1) Where any person, in the course of trade activities, unlawfully provides goods, their packaging, wrapping, prospectuses, price lists, business letters, advertisements, invoices or similar documents with a get-up regarded in the trade circles concerned as the distinctive sign of the same or the like goods of another person, or who sells such goods so marked or offers them for sale, proceedings may be brought against him by that other person, requiring him to desist from such conduct.

(2) Any person who knowingly or negligently acts in the manner aforesaid shall be required to compensate the person injured for the injury caused thereby.

...'

'*Paragraph 31 (Risk of confusion)*

The application of the provisions of this Law shall not be excluded by reason of differences in the form of marks (pictorial or word marks) or by other differences in which marks, symbols, names, trade names or other distinctive signs of goods are reproduced in so far as, notwithstanding such differences, there is a risk of confusion in the trade.'

(b) Community law

In the observations submitted to the Court reference is made to Directive 89/104/EEC of 21 December 1988, the First Council Directive to approximate the laws of the Member States relating to trade marks (OJ 1989 L 40, p. 1) (hereinafter referred to as 'the First Directive'), to which the Member States were required to give effect by

31 December 1992.[1] The following provisions are relevant in this case:

'Article 2 — Signs of which a trade mark may consist

A trade mark may consist of any sign capable of being represented graphically, particularly words, including personal names, designs, letters, numerals, the shape of goods or of their packaging, provided that such signs are capable of distinguishing the goods or services of one undertaking from those of other undertakings.'

'Article 3 — Grounds for refusal or invalidity

1. The following shall not be registered or if registered shall be liable to be declared invalid:

...

(b) trade marks which are devoid of any distinctive character;

(c) trade marks which consist exclusively of signs or indications which may serve, in trade, to designate the kind, quality, quantity, intended purpose, value, geographical origin, or the time of production of the goods or of rendering of the service, or other characteristics of the goods or service;

(d) trade marks which consist exclusively of signs or indications which have become customary in the current language or the *bona fide* and established practices of the trade;.

3. A trade mark shall not be refused registration or be declared invalid in accordance with paragraph 1(b), (c) or (d) if, before the date of application for registration and following the use which has been made of it, it has acquired a distinctive character.

...'

'Article 5 — Rights conferred by a trade mark

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

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

(b) any sign where, because of its identity with, or similarity to, the trade mark and

1 — Council Decision 92/10/EEC of 19 December 1991 (OJ 1992 L 6, p. 35).

the identity or similarity of the goods or services covered by the trade mark and the sign, there exists a likelihood of confusion on the part of the public, which includes the likelihood of association between the sign and the trade mark.

...'

'Article 6 — Limitation of the effects of a trade mark

1. The trade mark shall not entitle the proprietor to prohibit a third party from using, in the course of trade,

...

(b) indications concerning the kind, quality, quantity, intended purpose, value, geographical origin, the time of production of goods or of rendering of the service, or other characteristics of goods or services;

...'

2. *Background to the dispute*

AUDI AG (hereinafter referred to as 'AUDI') is the proprietor of two trade marks 'Quattro', which have been registered for it in the trade-mark register for Class 12 (vehicles, equipment for transport by land, air or sea). Since 1980 it has been selling four-wheel-drive motor-cars under that designation. In mid-March 1988 Deutsche Renault AG (hereinafter referred to as 'Renault') introduced on to the German market a four-wheel-drive motor-car manufactured in France and already marketed in other European countries under the designation '*Espace Quadra*'.

In March 1988, Renault applied to the Deutsches Patentamt (German industrial property office) for the cancellation of the both marks registered for AUDI. It claimed in that respect that the designation 'Quattro', denoting a numeral, must be left free for general use and that in the absence of sufficient acceptance in the trade its registration should not have been allowed (cf. Paragraph 4(3) of the WZG). By decisions of 9 August and 11 October 1990 (that is, before the appeal court had given its judgment, which is itself the subject of *Revision* (appeal on a point of law) before the Bundesgerichtshof), the trade-mark division of the Deutsches Patentamt removed both 'Quattro' trade marks from the register. The Bundespatentgericht dismissed AUDI's objection to those decisions, but gave leave to enter a *Rechtsbeschwerde* (appeal).

In the dispute giving rise to this reference for a preliminary ruling AUDI claims that Renault should be ordered to cease to use the designation 'Quadra' in view of the risk of confusion with the designation 'Quattro' and to pay it compensation. AUDI based its action both on its two trade marks and on an alleged right under Paragraph 25 of the WZG. AUDI referred to market surveys according to which the designation 'Quattro' had gained wide acceptance in the trade and among the public in general and in particular among car buyers and holders of driving

licences. AUDI was successful at first instance and on appeal. The appeal court took the view that the claims relied upon by AUDI on the basis of Paragraph 25 of the WZG were justified, that the surveys had demonstrated the necessary market acceptance for the protection of the trade mark, that it was not necessary to leave the designation free for competitors and that there was a risk of confusion in view of the similarity of sound and the identity of meaning.

Renault applied to the Bundesgerichtshof (hereinafter referred to as 'the BGH') for *Revision*. The BGH took the view, contrary to the appeal court, that specialist circles in the automobile manufacturing industry had a substantial interest in having the numeral '4', which is significant in many respects in that sector, kept free for general use and that that applied also to the Italian form of the numeral in letters. The BGH therefore reached the provisional conclusion that protection of the designation 'Quattro' requires a finding of a degree of recognition greater than that so far established by the appeal court, though it does not exclude that possibility. Proof thereof would however require a reference back for further clarification of the facts.

In view of Renault's contention that any prohibition of its marketing its vehicles under the designation '*Quadra*' would constitute an unlawful restriction of intra-Community trade, the BGH decided to seek a preliminary ruling from the Court to determine the need for such a reference back to the court adjudicating on the facts, which would be unnecessary if the protection of the trade mark 'Quattro' as opposed to 'Quadra' were contrary to Community law.

3. *The question referred to the Court*

The Bundesgerichtshof (First Civil Senate) by order of 21 November 1991 referred the following question to the Court of Justice for a preliminary ruling:

'Is there an unlawful restriction of intra-Community trade for the purposes of Articles 30 and 36 of the EEC Treaty if a subsidiary trading in Member State A of an automobile manufacturer established in Member State B is prohibited from using as a mark in Member State A the designation "Quadra", which the manufacturer has hitherto used without restriction for a four-wheel-drive motor vehicle, both in its own State and elsewhere, on the ground that another automobile manufacturer in Member State A claims — validly under the internal law of Member State A a trade-mark right ("Warenzeichenrecht") and/or a right to a get-up ("Ausstattungsrecht") in the word "Quattro", even though that word denotes a numeral in another Member State and that meaning is clearly discernible in yet other Member States, and even though the number 4 thereby designated plays a significant and varied rôle in automobile manufacturing and the automobile trade?'

4. *Procedure before the Court of Justice*

The order for reference was lodged at the Court Registry on 9 December 1991.

In accordance with Article 20 of the Protocol on the Statute of the Court of Justice of the EEC, written observations were submitted on behalf of:

— Renault, by H. Kroitzsch, Rechtsanwalt at the Bundesgerichtshof, on 9 March 1992;

— AUDI, by M. Brandi-Dohrn, Rechtsanwalt, Munich, on 25 March 1992;

— the German Government, by J. Karl, of the Federal Ministry of Economic Affairs, and by A. von Mühlendahl and A. Dittrich, of the Federal Ministry of Justice, acting as Agents, on 26 March 1992;

— the United Kingdom, by S. Cochrane, of the Treasury Solicitor's Department, acting as Agent, on 6 April 1992;

— the Commission of the European Communities, by B. Langeheine, of its Legal Service, acting as Agent, on 24 March 1992.

Upon hearing the Report of the Judge-Rapporteur and the views of the Advocate General, the Court decided to open the oral procedure without any preparatory inquiry.

II — Written observations submitted to the Court

5. *Renault* first states that AUDI, by reason of its national trade mark, has obtained registration of the international trade mark 'Quattro' and has claimed protection of that mark in the following Member States: Belgium, the Netherlands, Luxembourg, Spain, France, Italy and Portugal.

The Régie Nationale des Usines Renault is the proprietor of the French trade mark 'Quadra'. It has obtained international registration of that mark and has claimed protection in the following Member States: the Federal Republic of Germany, Belgium, the Netherlands, Luxembourg, Spain, Italy and Monaco (sic).

Only in the Federal Republic of Germany has AUDI taken legal proceedings against it. Similarly AUDI allows other automobile manufacturers, both in Germany and the other Member States, to use the numeral '4', alone or in a combination, to designate a four-wheel-drive motor vehicle. In Italy and Spain however, this leads to total phonetic confusion as compared with AUDI's mark.

From the beginning the registration of the national trade mark 'Quattro' has been contrary to the rules. Words taken from a living foreign language are, as a general rule, excluded from registration by reason of a risk of deception (Paragraph 4 of the WZG). In addition, AUDI could not have obtained protection for the numeral '*Vier*' because of the great importance of that numeral in the

automobile industry (Renault produces a list of vehicle components in which the use of the numeral '4' is customary). Consequently, such marks cannot be internationally protected either.

Next Renault deals with barriers to trade. In its view, the fact that it cannot produce uniformly throughout Community territory the documents relating to vehicles sold (prospectuses and instruction manuals) constitutes such a barrier. The process of production in fact makes it possible to retain the same layout for the photographs in all language versions of a publication whilst changing only the text.

As a result of AUDI's action and in view of the expense of producing a special layout for Germany (which, again, could not be used in Austria or Switzerland), Renault has had to remove from all language versions of its publications on the Espace model all illustrations of the Espace 'Quadra' and consequently to abandon all publicity for that vehicle. AUDI has thus obtained, *de facto*, protection in countries where it either has no international trade mark protection for 'Quattro' (United Kingdom, Ireland, Denmark and Greece) permits the use of 'Quadra' (Belgium, the Netherlands, Luxembourg, France, Spain, Italy and Portugal).

Renault regards that as a serious barrier to intra-Community trade. It emphasizes the consequences of prohibiting the use of the designation 'Quadra' in the Federal Republic, resulting from the decision of the appeal court (elimination of all illustrations containing the designation 'Quadra' and printing of new instruction manuals).

AUDI is therefore unlawfully obstructing intra-Community trade by:

— improperly obtaining and asserting rights relating to the protection of the numeral '4' as 'Quattro' in Italian, whereas that numeral is indispensable in the automobile manufacturing sector;

— initiating only in the Federal Republic proceedings against use by Renault of the designation 'Quadra' in that country, whereas it permits use of the numeral '4' by other manufacturers and the use of the designation 'Quadra' by Renault in other Member States;

— obliging Renault to produce two versions of the German-language edition of prospectuses and instruction manuals, one for Germany and the other for Switzerland and Austria;

— preventing in practice, regard being had to production costs, use by Renault of the designation 'Quadra', thus making it impossible for Renault to make full use either of its French or international trade marks 'Quadra'.

6. *AUDI* has submitted to the Court written observations and nine legal opinions. Eight of the opinions deal with the question of whether numerals expressed in figures or words are entitled to protection in French, Italian, Spanish, Portuguese, Danish, Greek and English law or in the uniform Benelux law. The ninth opinion, drawn up by Professor Dr. G. Schricker, Director of the Max-Planck Institute in Munich on foreign and international law on patents, copyright and competition law, relates to German and Community law relevant to this case.

AUDI also produces surveys showing that the designation 'Quattro' is widely known to the general public, among persons interested in buying a car and among holders of driving licences. Moreover that designation is attributed to a specific automobile manufacturer. It follows that the trade mark 'Quattro' is an established proprietory name.

Both courts adjudicating on the facts sustained AUDI's claim and had no doubts, unlike the BGH, that the trade mark 'Quattro' could be protected. However, the BGH has referred the matter to the Court of Justice in case the designation 'Quattro' could be protected in German law. That is the background against which the Court of Justice must reach its decision.

AUDI next summarizes Professor Schricker's opinion and the opinions concerning the various national systems.

Those systems appear to be as follows:

In France, numerals and letters may be protected unless they are devoid of any distinctive character. AUDI produces a list of French and foreign numerical marks which are registered in France.

In Italy, all numerals may be registered as trade marks. AUDI produces a list of numerical trade marks registered in Italy.

In Spain numerals may be registered unless they are purely descriptive. AUDI produces a decision of the Juzgado de Primera Instancia de Madrid of 24 April 1991, rejecting the application of Fabricación de Automóviles Renault de España and of the Régie Nationale des Usines Renault for cancellation of the trade mark 'Quattro' on the ground that it is a coined designation, neither generic nor descriptive. AUDI also produces a list of numerical trade marks registered in Spain.

In Portugal, numerals may be registered if their effect is not descriptive.

In the *Benelux* countries, the uniform Law on trade marks permits numerals as trade marks.

In Denmark there is no express prohibition of letters or numerical trade marks, but the requirements laid down as to distinctiveness amount to a prohibition. 'Quattro' is nevertheless registered in Denmark because it is regarded as a coined word.

In Greece numerals and letters are not in principle entitled to protection, but in practice the courts protect them where the numeral does not describe a quality.

In the United Kingdom numerals are legally permissible as trade marks, but it is not accepted in principle that they may have the required distinctiveness. Distinctiveness may however be acquired as a result of use, as has been the case for 'Quattro'.

From that list it may be concluded that the majority of Member States regard the protection of numerical trade marks as possible and that consequently the Federal Republic cannot be required to refuse protection on grounds of freedom of movement. The need to leave a designation free must be appraised in the same manner everywhere.

In view of the fact that German law is more restrictive than the directive (see the opinion of Professor Schricker below), inasmuch as it refuses registration of a numeral, whereas the directive authorizes it, AUDI relies on the judgment of the Court of Justice in Case 80/86 *Kolpinghuis Nijmegen* [1987] ECR 3969, to the effect that national courts must adjust their case-law in conformity with the directive, even though the period allowed for transposition has not yet elapsed. The German legislation on trade marks, as regards protection of numerals, cannot be applied, to AUDI's detriment, more severely than is required by the directive.

To avoid barriers to trade it is necessary to aim at the most uniform protection possible. Although it is not for the Court, but for the legislative authorities, to bring about that uniformity, the Court may nevertheless suggest that national courts should use the margin of discretion allowed to them by the various national laws so as to bring about harmonization at Community level. National protection should thus be applied as nearly as possible in conformity with the harmonization directive or the standards of protection most frequently applied in the Community.

Professor Schricker's opinion, produced by AUDI may be summarized as follows.

The opinion points out first of all that the question referred to the Court by the BGH is restricted to examining the effects of German law on importation of vehicles manufactured in France and not on vehicles manufactured by Renault in Germany. Nor does it deal with the question whether AUDI may oppose imports from Italy under a designation identical to, or which may be confused with, 'Quattro'. The only question raised is whether reliance upon the trade mark 'Quattro' against vehicles imported from France under the designation 'Quadra' infringes Articles 30 and 36 of the EEC Treaty.

The Court of Justice has elaborated in its case-law the principle of Community exhaustion of a trade mark. This case does not relate to that problem, but to a dispute between two independent undertakings, each of which is the proprietor of a trade-mark right and neither of which has approved the use of the other's mark. It is a question of the essential function of the trade mark,

namely the guarantee of origin for the ultimate user (judgment in Case C-10/89 *HAG GF* [1990] ECR I-3711 (the 'HAG II' judgment), paragraph 14). For that function to be performed, the proprietor must be able to defend his mark against competitors wishing to take advantage of his status and reputation. National trade-mark rights may thus be defended against infringement by unauthorized third parties even when it stems from another Member State and the third party relies on a right which is protected in that other Member State.

The doubts of the BGH in this case come from the fact that 'Quattro' means '4' in the language of one Member State not involved in this case, namely Italy, and from the fact that that meaning is clearly recognizable in other Member States and that the numeral '4' is important in the automobile manufacturing sector.

It contends that this is therefore a new problem in trade-mark law, which the Court has not so far had to decide. The BGH is raising the question whether the protection of an individual trade mark — 'Quattro' — may be refused by reason of its semantic implications.

The problem of the scope of the powers of national courts when they have to decide as to a risk of confusion between two trade marks has already been raised in the *Terrapin v Terranova* case (judgment in Case 119/75 [1976] ECR 1039) in which the existence of a risk of confusion between the two marks in dispute (Terrapin and Terranova) was at issue; however, the Court did not consider that aspect of the question (paragraph 4).

As regards designs and models, the Court decided, in its judgment in Case 144/81 *Keurkoop* [1982] ECR 2853, that the detailed arrangements and conditions for protection were a matter for the relevant national legislation.

As regards patent law, the Court decided that 'since the existence of patent rights is at present a matter solely of national law, a Member State's patent legislation ... is covered in principle by the derogations from Article 30 which are provided for in Article 36' (judgment in Case 35/87 *Thetford Corporation* v *Fiamma* [1988] ECR 3585, paragraph 15). That case-law was subsequently confirmed (judgments in Case 53/87 *CICRA and Others* v *Renault* [1988] ECR 6039 and in Case 238/87 *Volvo* [1988] ECR 6211).

From these decisions it follows that in the absence of unification or harmonization of laws, the conditions and detailed arrangements for protection are matters for national laws. It is not for the Court to undertake such harmonization. An appraisal of the designation 'Quattro' is entitled to protection and of the risk of confusion with 'Quadra' must therefore be effected by the German authorities and courts on the basis of German law. Their findings in this respect cannot be called in question before the Court of Justice. Consequently the examination under Community law is concentrated on the question of arbitrary discrimination or a disguised restriction on trade within the meaning of Article 36 of the EEC Treaty.

The opinion next sets out in detail the German law applicable to this case. Paragraph 4 of the WZG excludes numerals from protection in view of the need to leave them free

and of their lack of any distinctive character. The prohibition of registration applies to numerals written both in figures or letters and, in principle, to foreign words for numerals. However, there is a different opinion to the effect that in the latter case it is appropriate to make a distinction according to whether or not the foreign language is a familiar one and is sufficiently known in Germany. Italian is said to meet that condition. In this case the Deutsches Patentamt has treated the designation 'Quattro' as if it were the German word for a numeral, and has prohibited registration.

In German law the fact that a sign has gained acceptance in the trade means that people have become accustomed to relate the goods bearing a given mark to a given undertaking. The degree of market acceptance of a sign necessary for the fact that it is not entitled to protection to be disregarded increases in proportion to the importance of the need to leave that sign free. Paragraph 16 of the WZG expressly leaves free the descriptive use, notwithstanding any marks already registered, of a designation as an indication of the special characteristics of a product; however, such use must not create the impression that it constitutes a trade mark; it must not be applied 'by way of a trade mark', that is to say as an indication of the origin of a product. The same rules apply to designations in foreign languages. Thus the BGH has decided that the proprietor of the trade mark '*Champion du monde*' for bicycles, must permit the use of the designation '*Campione del Mondo 1973-74*' as it is a descriptive designation; similarly the proprietor of the mark '*Pralindt*' must permit the use of '*praliné*' by a competitor.

The BGH takes the view that Paragraph 16 cannot apply to this case because the designation 'Quadra' is not descriptive but on the contrary used by way of a trade mark.

The risk of confusion is present when there is a danger that people may be misled as to the origin of a product, either because they regard the undertakings concerned as identical (risk of direct confusion) or because there is an impression that there are commercial, economic or structural relations between the undertakings (risk of confusion in the wider sense). Foreign signs are treated like German signs: everything depends on how people perceive and understand the sign in question. In this case the courts adjudicating on the facts have taken the view that there was a danger of confusion of sound.

The same principles apply to the protection of a get-up under Paragraph 25 of the WZG; designations in a foreign language are no differently treated.

The opinion then compares German law as so described with the First Council Directive. It points out that the directive contains no provisions relating to the protection of a get-up so that that the comparison can relate only to the system of registered trade marks.

Unlike German law, the directive does not necessarily regard numerals as descriptive

signs. Moreover it authorizes the protection of descriptive signs where they have acquired a distinctive character following the use which has been made of them. It does not deal with descriptive designations in a foreign language. Article 3(1)(c) of the directive relates to *national* trade, since the proposal for a regulation on the Community mark (OJ C 351 of 31 December 1980, p. 5, as amended in OJ C 230 of 31 August 1984, p. 1), takes account of obstacles to registration existing only in part of the Community. There is in the directive no corresponding rule, under which Member States might be required to take into account the meaning of foreign words.

The German courts have treated this case in accordance with the directive. It has in fact been expressly stated that the numeral '4' plays an important role as a descriptive designation in the automobile industry, which would also lead to a refusal of registration under the system laid down by the directive.

The directive also authorizes the protection of a trade mark which has acquired a distinctive character following the use which has been made of it. However, the extent of the use required is not defined. The requirement in German law of a very high degree of market acceptance is not contrary to the directive, since the directive is binding only as to the result to be achieved: the possibility of obtaining protection by acquiring a distinctive character following use.

Hence the opinion reaches the conclusion that the possibility envisaged by the BGH of protecting the designation 'Quattro' by reason of the distinctive character acquired by use is in accordance with the directive. The refusal to extend to the designation 'Quadra' the privileged treatment intended for purely descriptive indications by Paragraph 16 of the WZG is also in accordance with the directive, Article 6(1)(b) of which must be interpreted in the light of Article 2, and its definition of a trade mark.

As regards the risk of confusion, the observations of the German courts falls within the framework of the definition in the directive: in particular it comes within the concept of the notional connection between the two designations if in this case the assumption of cooperation between the undertakings concerned has been regarded as relevant for the risk of confusion.

The opinion concludes that the protection of the trade mark 'Quattro' against the designation 'Quadra' is in conformity with the directive.

It next considers the existence of arbitrary discrimination or a disguised restriction, which would mean that the derogation from Article 30 laid down by Article 36 would be illegal.

In view of the fact that the German courts have treated a foreign numeral on the same basis as a German numeral and have taken into account the interests of foreign competitors in the continued availability of that numeral, there can be no question of discrimination against foreigners. It would rather be possible to speak of discrimination to the detriment of nationals, since German law, contrary to the legal systems of other

Member States, does not authorize protection for numerals. Such discrimination against national interests is not contrary to Community law (judgment in Case 355/85 *Cognet* [1986] ECR 3231).

Nor is there any discrimination in the manner in which the designation 'Quadra' has been described by the German courts. That designation is not descriptive either in French or in German.

Nor can discrimination be established with regard to the appraisal of the risk of confusion. That appraisal may, of course, differ from country to country, but such differentiation is not arbitrary but objective, as it is made from the point of view of the national public (judgment in *HAG II*, previously cited, at paragraph 14, and Article 4(1)(b) of the First Council Directive).

Moreover the exclusive right conferred by the German legal system may operate against both imports and goods produced on national territory.

As regards any disguised restriction on trade between Member States, the protection granted to trade marks by German law applies in the same manner both to national trade and to imports. Article 36 of the EEC-Treaty makes it necessary to determine whether there are any additional circumstances allowing the conclusion that the protection of the trade mark is being used only to disguise a restriction on trade between Member States. No such circumstances can be discerned in this case.

AUDI therefore proposes that the answer to be given to the BGH should be that there is no unlawful restriction on trade between the Member States for the purposes of Articles 30 and 36 of the EEC Treaty.

7. The *Federal German Government* first of all describes the position in domestic German law. To qualify for protection, a sign must have a distinctive character, that is, it must be understood in the relevant trade circles as an indication of the origin of the goods from a specific business undertaking.

In this case the BGH took the view that the designation 'Quattro' could not at first sight be regarded as qualifying for protection. That is correct, because that designation refers to the Italian numeral '4', so that it does not represent an indication of the origin of the goods and because, moreover, there is in general a substantial need to keep numerals free.

However, even a sign which is not entitled to protection, like 'Quattro', may be registered as a trade mark under Paragraph 4(3) of the WZG if it has gained acceptance in the trade as a distinctive sign of goods coming from the undertaking which is the proprietor of the mark.

According to the case-law of the BGH, the degree of market acceptance required depends on the circumstances of the individual case and in particular on whether there is a need to keep the designation in question available. The greater the need to keep the designation in question available for general use, the stricter are the requirements as to the degree of market acceptance. In this case the BGH took the view that there was a significant interest among specialist circles in the automobile manufacturing industry in

keeping the numeral '4' free, in view of its importance in many respects (4 wheels, 4 doors, 4 seats, 4 cylinders, 4 valves and the like), and that the degrees of market acceptance established by the lower courts were insufficient.

The Federal Government agrees with that view, regard being had to the imports from other Member States of vehicles with designations in the language of their country of origin. It emphasizes that to take account of the foreign equivalents of German expressions or concepts is to respect the needs of free movement of goods.

The foregoing considerations with regard to registered trade marks apply also to the right to a get-up based on Paragraph 25 of the WZG. Such a right to a get-up confers, in essentials, the same legal protection as a registered trade mark. It is distinguished from a trade mark only by the fact that is not obtained by registration but by market acceptance by the use of the sign. The degree of market acceptance must be very high, in view of the considerable need for the sign to be kept free.

If AUDI succeeds in demonstrating that high degree of acceptance, its claims will be justified provided that there is a risk of confusion between the designations 'Quattro' and 'Quadra' and that Renault uses the latter as a distinctive sign. The BGH regards these conditions as satisfied. The Federal Government points out that in German law there is a risk of confusion when a significant part of the circles which may constitute trade outlets for the products in question is unable, in spite of such differences as there may be, to distinguish between the two signs and mistakenly assumes that the products originate in the same undertaking (risk of confusion in the narrower sense) or that there are economic or structural relations between the undertakings (risk of confusion in the broader sense).

The question referred to the Court by the BGH really concerns two distinct problems: the legitimacy under Community law of the protection of the designation 'Quattro' (as a trade mark or as a get-up) and the permissibility under Community law of prohibiting on that basis the use of the trade mark 'Quadra'.

According to the case-law of the Court of Justice, the proprietor of an industrial property right existing in a Member State may oppose the introduction of goods from other Member States in infringement of the right to protection where the protection in question is justified to safeguard the specific subject-matter of the national industrial property right.

As in the case of the '*HAG II*' judgment, the German Government's view is that German law must be examined on the basis of secondary Community law, particularly on the First Council Directive. After reviewing the provisions of the directive, the Federal Government comes to the conclusion that German law is in accordance with the aims of the directive, so that any infringement of Article 30 of the EEC Treaty is excluded

from the outset. It is true that the directive does not deal with the right to a get-up acquired through use, although the fourth recital authorizes Member States to protect rights of that kind.

The possibility of protecting the designation 'Quattro'

The Federal Government, relying on the *Keurkoop* judgment, previously cited, thinks that in the absence of harmonization it is for the national legislature to lay down the conditions for the recognition of an industrial property right.

In addition the condition of a high degree of market acceptance required by the BGH, is fully in conformity with the findings of the Court of Justice on the '*specific subject-matter*' of the right to the trade mark. Protection in that case would benefit not only the proprietor of the mark but also consumers, since the essential purpose of a trade mark is to guarantee that the goods bearing it have been produced under the control of a single undertaking (judgment in *HAG II*, previously cited, at paragraph 13).

The Federal Government reaches the conclusion that recognition that the designation 'Quattro' qualifies for protection is not open to criticism under Community law.

The extent of the protection enjoyed by the designation 'Quattro'

The German Government observes that the Court has not so far decided whether Community law imposes restrictions on the extent of the protection provided for existing trade marks registered under the national law of the Member States. Thus in the judgments in the *Terranova* case (previously cited, at paragraph 4) and in Case 35/83 *BAT* ([1985] ECR 363 at paragraph 35), the Court did not expressly decide as to the risk of confusion.

The Federal Government thinks that this question is a matter for national legislatures since Community law affects only those cases envisaged in the second sentence of Article 36 of the EEC Treaty. Reference cannot be made to the aforesaid directive, since it contains no indication as to the interpretation of the concept of risk of confusion.

The designation 'Quadra' is a coined designation which merely suggests the numeral '4' and is thus not made up of any term which must be kept available.

The application of the second sentence of Article 36 of the EEC Treaty

According to the German Government, there is nothing in the proceedings to show that this is a case for the application of that provision.

8. The *United Kingdom* starts with the observation that this case differs from the majority of earlier cases involving intellectual property rights which have come before the Court inasmuch as it is not simply about the exercise of a right in a trade mark but also the creation of a right at national level.

It considers that the question referred to the Court, as drafted, is incomplete and needs to be reformulated in order to bring to the fore the question of principle which underlies it. Thus it thinks that the part relating to the designation as a numeral and to the rôle played by the numeral '4' in automobile manufacture is clearly concerned with questions of fact.

In the United Kingdom the designations 'Quattro' and 'Quadra' have both been registered in the United Kingdom trade-marks register, which implies that the registrar of trade marks has found that there was no conflict between them. In the absence of Community rules such differences of interpretation between the Member States may legitimately exist (judgment in Case 158/86 *Warner Brothers and Others* [1988] ECR 2605).

Renault's view is that the words used to designate numbers in any of the official languages should never be registrable as trade marks in any of the Member States.

However, numerals may have a distinctive character, as is accepted by the First Council Directive.

The question from the BGH relates in fact to the division between the right of Member States to control and legislate, in the absence of common rules, for the existence of intellectual property rights and the right of the Community to control exercise of those rights and, in particular, the compatibility with Community law of divergences between the laws of Member States in the existence, scope and meaning of the concept of '*distinctiveness*'.

Until such time as the laws of the Member States are harmonized under the directive it is for each State to determine what elements are required in order to create a valid trade mark and a valid registration thereof, which implies a definition of the expression '*distinctiveness*'.

It is for national legislatures to specify the conditions and rules for protection of intellectual property rights (judgments in Case 24/67 *Parke, Davis and Co.* [1968] ECR 81 and in Case 341/87 *EMI Electrola* [1989] ECR 79 at paragraph 11).

As may be seen from the judgment in *HAG II*, previously cited, the essential function of the trade mark, namely to guarantee to the consumer or ultimate user the identity of the marked product by enabling him without any possibility of confusion to distinguish that product from those having another origin, is possible only if there are distinctive marks, an essential element of a trade mark.

There is nothing in the case-law of the Court making it possible to deny the application of that concept simply because it is a mark of a particular nature such as a numeral.

The directive clearly prohibits Member States from excluding numerals from consideration as trade marks.

Once the directive takes effect, the interpretation of its provisions, including those concerning distinctiveness, will become a matter of Community law, and thus a question for the Court. However, that moment has not yet arrived.

It is therefore for the German courts to determine in accordance with German law whether the trade mark belonging to AUDI has been validly registered in Germany and whether the trade mark belonging to Renault is likely to be confused with AUDI's marks.

The United Kingdom therefore invites the Court to reply in the following terms to the question referred to it:

'There is no unlawful restriction of intra-Community trade for the purposes of Articles 30 and 36 of the EEC Treaty if a subsidiary trading in Member State A of an automobile manufacturer established in Member State B must be prohibited from using as a mark in Member State A the designation "Quadra", which the manufacturer has hitherto used without restriction for a four-wheel-drive motor vehicle, both in its own State and elsewhere, on the ground that another automobile manufacturer in Member State A claims — validly under the internal law of Member State A — a trade-mark right and/or a right to a get-up in the word "Quattro", even though that word denoted a numeral in another Member State, *whether that meaning is clearly discernible in yet other Member States or not provided that in Member State A the trade mark is distinctive in fact of the owner of the trade mark, and has not become customary in the current language or the bona fide* and established practices of the automobile trade and the importation of automobiles bearing the mark "Quadra" into that State is liable to lead to confusion with automobiles bearing the mark "Quattro".'

9. The *Commission*'s view is that the question amounts to asking to what extent account should be taken of the situation in the other Member States in order to determine the protection which may be extended to a word such as 'Quattro'.

The protection of that word constitutes a measure having an effect equivalent to a quantitative restriction within the meaning of Article 30 of the EEC Treaty in so far as it permits the proprietor of the trade mark to oppose the marketing of products from other Member States under a trade mark which might lead to confusion. Article 36 permits derogations from the prohibition of such measures on condition that they do not constitute either a means of arbitrary discrimination or a disguised restriction on trade between the Member States.

The Court has decided that the EEC Treaty does not fundamentally affect the existence of industrial property rights recognized by the national legislation of a Member State (judgment in Case 16/74 *Centrafarm* [1974] ECR 1183 at paragraphs 4 to 7) in the absence of unification or an approximation of laws at Community level (judgments in *Keurkoop*, previously cited, at paragraph 18, and in *Thetford*, previously cited, at paragraph 12).

The Commission then considers the Community's legislative measures in the field of trade-mark law. As regards the First Council Directive, the Commission states that, apart from Article 4(4)(g), which provides for a declaration of invalidity or a refusal to register in the event of risk of confusion with a mark used abroad, it contains no provision specifying how far the competent national authorities are to take account of the situation in other Member States. On the other hand, the aforementioned proposal for a regulation on the Community trade mark prohibits the registration of a designation which is generic or descriptive, even if only in a part of the common market.

Thus in the present state of Community law there is no express general requirement for the competent national trade-mark authorities to take account of the situation in other Member States.

However, the legitimate use of the rights conferred by national laws must not, according to the second sentence of Article 36 of the EEC Treaty, make it possible to maintain or create artificial partitions within the common market (judgments in *Terranova*, previously cited, at paragraph 7, and in *Keurkoop*, previously cited, at paragraph 24).

The risk of such an effect cannot be excluded, regard being had to the special features of this case:

— The designation 'Quattro' is the Italian word for the numeral '4', which is very widely understood in Germany, according to the findings of the BGH.

— That designation, or similar designations, are used in the Member States speaking a Romance language, with a meaning which is frequently descriptive, since it denotes a numeral.

— The numeral '4' plays an important part in the description of the technical characteristics of products in the automobile sector; thus AUDI uses the designation 'Quattro' for all the four-wheel-drive vehicles it manufactures. The designation at issue is thus somewhat similar to purely descriptive designations such as '*turbo*' or '*injection*'.

Protection for the designation 'Quattro' under trade-mark law is therefore excluded in numerous Member States in the production sector in question.

National authorities cannot in all cases close their eyes to the requirements of the provisions of the EEC Treaty on fundamental freedoms but in a situation such as that in the main proceedings they are required to take account of any circumstances prevailing in other Member States and to appraise any possible need for a designation to be kept free, regard being had to the existence of the Community and to the requirements of free movement of goods. That obligation might possibly follow also from Article 5 of the EEC Treaty.

In support of its argument the Commission quotes numerous judgments of the Court according to which the competent national authorities were required to take into account criteria from other Member States.

For example, it is necessary to consider whether the products imported are legally produced and marketed in the Member State of export (judgments in Case 120/78 *REWE-Zentral* [1979] ECR 649 (the 'Cassis de Dijon' case) at paragraph 14; in Case 16/83 *Prantl* [1984] ECR 1299 at paragraph 35). Controls effected in other Member States must also be taken into account (judgments in Case 272/80 *Biologische Producten* [1981] ECR 3277 at paragraph 14; and in Case 188/84 *Commission* v *France* [1986] ECR 419 at paragraph 16).

As regards industrial property rights, the competent national authorities are required to consider whether a given product has been put on the market in another Member State with the consent of the proprietor of the right (judgments in *Centrafarm*, previously cited, at paragraphs 9, 10 and 11, in Case 19/84 *Pharmon* [1985] ECR 2281 at paragraph 22 et seq.; and in *HAG II*, previously cited, at paragraph 12). They must also consider whether a given patent has been applied in another Member State (judgment in Case C-30/90 *Commission* v *United Kingdom* [1992] ECR I-829).

The Commission's view is that in the special circumstances of this case the granting by the competent national authorities of a trade mark or a right to a get-up for the designation 'Quattro' goes further than is authorized by the provisions of Article 36 of the EEC Treaty as regards rules for the protection of industrial property rights.

These were also obviously the considerations which led the Deutsches Patentamt to cancel both 'Quattro' trade marks registered for AUDI.

In the Commission's view the observations with regard to a trade-mark right in the formal sense (that is, obtaining the right to a trade mark by registration) must also apply to a factual trade-mark right (protection of a get-up, that is protection resulting from the use made of a given designation under Paragraph 25 of the WZG). The Commission therefore takes the view that the granting of

protection of a get-up relating to the designation 'Quattro' cannot lead to a result different from that produced by an appraisal of the protection which may be granted in the context of a registration.

It follows that the granting of protection under trade-mark law to the designation 'Quattro' in the sphere of the automobile industry constitutes a barrier to the free movement of goods which is not covered by the derogations in Article 36 of the EEC-Treaty.

Even if that argument is not accepted by the Court, the Commission thinks that the enforcement of the right to a trade mark or get-up in the word 'Quattro' raises problems with regard to the provisions of Community law. Article 36 allows of restrictions to the free movement of goods only to the extent to which they are justified for the purpose of safeguarding rights which constitute the specific subject-matter of the industrial or commercial property in question (judgments in *Terranova*, previously cited, at paragraph 5, and in *HAG II*, previously cited, at paragraph 12).

To determine the exact scope of the exclusive right of the proprietor of the trade mark, regard must be had to the essential function of the mark, which is to guarantee the identity of the origin of the marked product to the consumer or ultimate user by enabling him without any possibility of confusion to distinguish that product from products which have another origin (judgments in Case 102/77 *Hoffmann-La Roche* [1978] ECR 1139 at paragraph 7; in Case 3/78 *Centrafarm* [1978] ECR 1823 at paragraphs 11 to 14; in Case 1/81 *Pfizer* [1981] ECR 2913 at paragraph 8; and in *HAG II*, previously cited, at paragraph 14).

Although strictly speaking the concept of the risk of confusion cannot be regarded as a concept of Community law in the narrower sense except on the expiry of the period allowed for transposition of the First Council Directive, the competent national authorities are already required to take into consideration the requirements of Community law when they appraise the risk in the national context, since too broad an interpretation of that concept might have repercussions on the free movement of goods which are no longer covered by Article 36 of the EEC Treaty (see the Opinion of Advocate General Jacobs in the *HAG II* case, previously cited, at paragraphs 36 and 48).

Hence the concepts of similarity of trade marks, products or services and of the actual risk of confusion should be strictly interpreted in order not to obstruct freedom of movement more than is necessary for the protection of the trade marks.

Moreover, trade marks composed of several elements must be considered in their entirety in order to appraise a risk of confusion. The Commission refers to the definition of the concept of risk of confusion in the First Council Directive.

Accordingly it must be taken into account that Renault markets its vehicles under the composite designation 'Espace Quadra', whereas the designation 'Quattro' is always used with the trade mark AUDI.

The Commission therefore suggests that the question referred to the Court for a preliminary ruling should be answered as follows:

'Articles 30 and 36 of the EEC Treaty preclude national rules under which a subsidiary established in Member State A of an automobile manufacturer established in Member State B must be prohibited from using as a trade mark in Member State A the designation "Quadra" which that manufacturer has hitherto used freely in his country of origin and elsewhere, to denote a four-wheel-drive motor-vehicle, on the ground that another automobile manufacturer is enforcing in that Member State (A) a right to a trade mark and/or a right to a get-up in the word "Quattro".'

G. C. Rodríguez Iglesias
Judge-Rapporteur