JUDGMENT OF THE COURT

12 October 1999 *

In Case C-379/97,

REFERENCE to the Court under Article 177 of the EC Treaty (now Article 234 EC) by the Sø- og Handelsret, Denmark, for a preliminary ruling in the proceedings pending before that court between

Pharmacia & Upjohn SA, formerly Upjohn SA,

and

Paranova A/S

on the interpretation of Articles 30 and 36 of the EC Treaty (now, after amendment, Articles 28 EC and 30 EC) and of Article 7 of First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks (OJ 1989 L 40, p. 1),

* Language of the case: Danish.

THE COURT,

composed of: G.C. Rodríguez Iglesias, President, J.C. Moitinho de Almeida, D.A.O. Edward, R. Schintgen (Presidents of Chambers), P.J.G. Kapteyn, C. Gulmann (Rapporteur), G. Hirsch, P. Jann and M. Wathelet, Judges,

Advocate General: F.G. Jacobs,
Registrar: H. von Holstein, Deputy Registrar,

after considering the written observations submitted on behalf of:

— Pharmacia & Upjohn SA, by K. Dyekjær-Hansen and M. Eckhardt-Hansen, of the Copenhagen Bar,

— Paranova A/S, by E.B. Pfeiffer, of the Copenhagen Bar,

— the Netherlands Government, by J.G. Lammers, Acting Legal Adviser in the Ministry of Foreign Affairs, acting as Agent,

— the United Kingdom Government, by D. Cooper, of the Treasury Solicitor's Department, acting as Agent, and D. Alexander, Barrister,

— the Commission of the European Communities, by H.C. Støvlbæk, of its Legal Service, acting as Agent,

having regard to the Report for the Hearing,

after hearing the oral observations of Pharmacia & Upjohn SA, represented by K. Dyekjær-Hansen; Paranova A/S, represented by E.B. Pfeiffer; the Netherlands Government, represented by J.S. van den Oosterkamp, Deputy Legal Adviser in the Ministry of Foreign Affairs, acting as Agent; the United Kingdom Government, represented by S. Ridley, of the Treasury Solicitor's Department, acting as Agent, and D. Alexander; and the Commission, represented by H.C. Støvlbæk, at the hearing on 16 September 1998,

after hearing the Opinion of the Advocate General at the sitting on 19 November 1998,

gives the following

Judgment

1 By order of 31 October 1997, received at the Court on 6 November 1997, the Sø- og Handelsret (Maritime and Commercial Court) referred for a preliminary ruling under Article 177 of the EC Treaty (now Article 234 EC) three questions on the interpretation of Articles 30 and 36 of the EC Treaty (now, after amendment, Articles 28 EC and 30 EC) and of Article 7 of First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks (OJ 1989 L 40, p. 1) (hereinafter 'the Directive').

2 Those questions have arisen in a dispute between Pharmacia & Upjohn SA, formerly Upjohn SA (hereinafter 'Upjohn'), a Danish company belonging to the international Upjohn Group of companies (hereinafter 'the Upjohn Group'), and Paranova A/S (hereinafter 'Paranova') concerning the marketing of pharmaceutical products which were manufactured by the Upjohn Group and were the subject of parallel imports by Paranova into Denmark.

The legal framework

3 Under Article 30 of the Treaty, quantitative restrictions on imports and measures having equivalent effect are prohibited between Member States. Article 36 of the Treaty, however, authorises prohibitions and restrictions on imports between Member States which are justified on grounds of the protection of industrial and commercial property, on condition that they do not constitute a means of arbitrary discrimination or a disguised restriction on intracommunity trade.

4 Article 7 of the Directive, entitled 'Exhaustion of the rights conferred by a trade mark', provides as follows:

'1. The trade mark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that trade mark by the proprietor or with his consent.

2. Paragraph 1 shall not apply where there exist legitimate reasons for the proprietor to oppose further commercialisation of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market.'

The dispute in the main proceedings

5 At the time of the facts in the main proceedings, the Upjohn Group marketed in the Community an antibiotic, clindamycin, in a variety of forms. For that purpose, it used the trade mark 'Dalacin' in Denmark, Germany and Spain, the trade mark 'Dalacine' in France and the trade mark 'Dalacin C' in the other Member States.

6 The existence of different trade marks can be explained, in particular, by an agreement concluded in 1968 between the Upjohn Group and American Home Products Corporation, under which, in return for American Home Products Corporation not objecting to the use by the Upjohn Group of the trade mark 'Dalacin' in Uruguay, the Upjohn Group undertook to restrict use of the trade mark 'Dalacin' to the form 'Dalacin' with an additional letter C or with other additions. As a result of the Upjohn Group's difficulties in securing registration of the trade mark 'Dalacin C' in a number of countries, American Home Products Corporation had authorised it to use the trade mark 'Dalacin' in those countries.

7 Paranova purchased clindamycin capsules in France, which were packaged in packets of 100 and placed on the market by the Upjohn Group under the trade mark 'Dalacine', in order subsequently to market them in Denmark under the trade mark 'Dalacin'. Paranova also purchased in Greece injection phials of clindamycin marketed by the Upjohn Group under the trade mark 'Dalacin C'. After repackaging by Paranova, this product was marketed in Denmark under the trade mark 'Dalacin'.

8 Upjohn applied to the Fogedret (Bailiff's Court) in Ballerup for an injunction prohibiting Paranova from placing on the market and selling those pharmaceutical products under the trade mark 'Dalacin'. The Fogedret dismissed that application. That decision was reversed on appeal by the Østre Landsret (Eastern Regional Court), which granted the application for an injunction.

9 In proceedings for confirmation of that injunction before the Sø- og Handelsret, Upjohn argued, in particular, that Paranova's replacement of one trade mark by another on the products of the Upjohn Group constituted an infringement of Upjohn's trade-mark rights under the Varemærkelov (Danish Law on Trade Marks) and that Community law does not preclude such an injunction in view of the fact that there are objective grounds justifying the use of different trade marks in different Member States where the pharmaceutical products in question are to be marketed.

10 Paranova's primary argument was that the different marks used in Greece, France and Denmark constitute in reality the same trade mark, with the result that the trade-mark rights of the Upjohn Group have been exhausted. It submits, in the alternative, that the marketing system operated by the Upjohn Group amounts to an artificial partitioning of the markets contrary to Community law.

11 In those circumstances, the Sø- og Handelsret decided to stay proceedings and refer the following questions to the Court for a preliminary ruling:

'1. Do Article 7 of Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks and/or Articles 30 and 36 of the EC Treaty preclude the proprietor of a trade mark from relying on its right under national trade-mark law as the basis for opposing a third party's purchasing a pharmaceutical product in a Member State, repackaging it in that third party's own packaging, to which it affixes trade mark X belonging to the trade-mark proprietor, and marketing the product in another Member State, in the case where the pharmaceutical product in question is marketed by the trade-mark proprietor or with its consent in the Member State of purchase under trade mark Y and an identical pharmaceutical product is marketed by the trade-mark proprietor or with its consent in the abovementioned second Member State under trade mark X?

2. Does it have any bearing on the reply to Question 1 whether the trade-mark proprietor's use of different trade marks in the country in which the importer purchases the product and in that in which the importer sells the product is attributable to subjective circumstances particular to the trade-mark proprietor? If the answer is yes, is the importer required to adduce evidence that the use of different trade marks is or was intended artificially to partition the markets (reference is made in this connection to the Court's judgment of 10 October 1978 in Case 3/78 *Centrafarm* v *American Home Products Corporation*)?

3. Does it have any bearing on the reply to Question 1 whether the trade-mark proprietor's use of different trade marks in the country in which the importer purchases the product and in that in which the importer sells the product is attributable to objective circumstances outwith the control of the trade-mark proprietor, including, in particular, requirements of national health authorities or the trade-mark rights of third parties?'

12 Since these questions, in substance, seek clarification of the Court's case-law on the replacement of trade marks by parallel importers, it is appropriate at the outset to review the relevant case-law.

The case-law of the Court

13 According to consistent case-law, as reflected in Article 7(1) of the Directive, the proprietor of a trade mark protected by the legislation of a Member State cannot rely on that legislation to prevent the import or marketing of a product which has been put on the market in another Member State by him or with his consent (see, in particular, Case 16/74 *Centrafarm* v *Winthrop* [1974] ECR 1183, paragraphs 7 to 11; Case C-10/89 *CNL-SUCAL* v *HAG GF* [1990] ECR I-3711, paragraph 12; and Joined Cases C-427/93, C-429/93 and C-436/93 *Bristol-Myers Squibb and Others* v *Paranova* [1996] ECR I-3457, paragraph 31).

14 In its case-law on those situations in which parallel importers purchase products placed on the market in a Member State by the trade-mark proprietor, repackage them and reaffix the original trade mark in order to market them in the Member State of import, the Court has held that Article 36 of the Treaty allows derogations from the fundamental principle of the free movement of goods in the common market only to the extent to which such derogations are justified in order to safeguard the rights which constitute the specific subject-matter of that property (see Case 102/77 *Hoffmann-La Roche* v *Centrafarm* [1978] ECR 1139, paragraph 6, and *Bristol-Myers Squibb*, paragraph 42).

15 With regard to the right in a trade mark, its specific purpose is in particular to guarantee the proprietor the exclusive right to use that trade mark for the purpose of putting a product on the market for the first time and therefore to protect him against competitors wishing to take advantage of the status and reputation of the trade mark by selling products which bear it unlawfully (see *Hoffmann-La Roche*, paragraph 7, and *Bristol-Myers Squibb*, paragraph 44).

16 With respect to the question whether this exclusive right includes the power to oppose the reaffixing of the original trade mark after the product has been repackaged, the Court has held that account must be taken of the essential function of the trade mark, which is to guarantee to the consumer or end user the identity of the trade-marked product's origin by enabling him to distinguish it without any risk of confusion from products of different origin. That guarantee of origin means that the consumer or end user can be certain that a trade-marked product offered to him has not been subject at a previous stage of marketing to interference by a third party, without the authorisation of the trade mark proprietor, in such a way as to affect the original condition of the product (see *Hoffmann-La Roche*, paragraph 7, and *Bristol-Myers Squibb*, paragraph 47).

17 Having regard to those considerations, the Court interpreted Article 36 of the Treaty as meaning that a trade mark proprietor may rely on his rights as proprietor to prevent an importer from marketing a product put on the market in another Member State by the proprietor or with his consent, where that importer has repackaged the product in new packaging to which the trade mark has been reaffixed (see *Hoffmann-La Roche*, paragraph 8, and *Bristol-Myers Squibb*, paragraph 49). However, the Court has also held that the exercise by the proprietor of his trade-mark right may constitute a disguised restriction under Article 36 of the Treaty if it is established that reliance on the trade-mark right by the proprietor, having regard to the marketing system which he has adopted, would contribute to the artificial partitioning of the markets between Member States, and that, in the event of repackaging, the protection of certain legitimate interests of the trade-mark proprietor is assured, in particular that the repackaging cannot adversely affect the original condition of the product and that the presentation of the repackaged product is not such as to be liable to damage the reputation of the trade mark (see *Hoffmann-La Roche*, paragraph 10, *Bristol-Myers Squibb*, paragraph 49, and Case C-349/95 *Loendersloot* v *Ballantine* [1997] ECR I-6227, paragraph 29).

18 With regard to the condition that there be artificial partitioning of the markets, the Court pointed out in paragraph 57 of *Bristol-Myers Squibb* that the requirement of artificial partitioning of the markets does not imply that the importer must demonstrate that, by putting an identical product on the market in varying forms of packaging in different Member States, the trade mark proprietor deliberately sought to partition the markets between Member States.

19 The Court also held, in paragraph 52 of *Bristol-Myers Squibb*, that reliance on trade-mark rights by their proprietor in order to oppose marketing under that trade mark of products repackaged by a third party would contribute to the partitioning of markets between Member States, in particular where the proprietor has placed an identical pharmaceutical product on the market in several Member States in various forms of packaging and the product may not, in the condition in which it has been marketed by the trade mark proprietor in one Member State, be imported and placed on the market in another Member State by a parallel importer. In this context, the Court pointed out, in paragraph 56 of *Bristol-Myers Squibb*, that the power of the proprietor of trade-mark rights should be limited only in so far as the repackaging undertaken by the importer is necessary in order to market the product in the Member State of import.

20 Whereas the judgments in *Hoffmann-La Roche* and *Bristol-Myers Squibb* concern the case where the parallel importer repackages a trade-marked product and reaffixes the original trade mark thereon, the judgment in Case 3/78 *Centrafarm BV* v *American Home Products Corporation* [1978] ECR 1823, to which reference is made in the second question, concerns the case where the parallel importer replaces the original trade mark used by the proprietor in the Member State of export by the trade mark which the proprietor uses in the Member State of import.

21 In paragraphs 14, 17 and 18 of that judgment, the Court held, first, that the essential function of the trade mark, namely the guarantee of origin of the trade-marked product, would be jeopardised if it were permissible for a third party to affix the mark to the product, even the original product, and, second, that the right granted to the proprietor of the trade mark to prohibit any unauthorised affixing of that mark to his product accordingly comes within the specific subject-

matter of the trade mark. The proprietor was accordingly justified, pursuant to the first sentence of Article 36 of the Treaty, in preventing the parallel importer from so acting.

22 The Court also held, however, in paragraphs 22 and 23 of *American Home Products*, that prohibition by the proprietor of unauthorised use of the mark by a third party would constitute a disguised restriction on trade between Member States within the meaning of the second sentence of Article 36 of the Treaty if it were established that the practice of using different trade marks for the same product had been adopted by the proprietor of those trade marks for the purpose of artificially partitioning the markets.

The questions submitted for a preliminary ruling

23 In the order for reference, the national court has, by means of a number of observations, defined the subject-matter of the questions submitted.

24 Thus, it points out that, in *American Home Products*, the Court expressed itself in such a way as to suggest that Community law precludes the prohibition of the marketing of products which have been the subject of parallel importing only if the proprietor has used different trade marks for the same product with the intention of artificially partitioning the markets. In the view of the national court, the judgment in *Bristol-Myers Squibb*, even though it related to situations in which products were repackaged and had the original trade mark reaffixed, henceforth implies that Community law precludes a prohibition, based on national law, on replacing trade marks in circumstances such as those described in the first question, and that, in order to assess the lawfulness of such a prohibition, it is unnecessary to ascertain whether the use of different trade marks by the proprietor in the Member State of export and in the Member State of import is attributable either to subjective circumstances or to objective circumstances outwith his control.

25 In light of these considerations, the national court is in substance asking whether the condition that the markets between Member States be artificially partitioned, as laid down in *Hoffmann-La Roche* and *Bristol-Myers Squibb*, means that, in order to determine whether the proprietor of trade marks may, under national law, prevent a parallel importer of pharmaceutical products from replacing the trade mark used by the proprietor in the exporting Member State by the mark the proprietor uses in the importing Member State, it is necessary to take into consideration:

— circumstances which explain the existence and use of different trade marks in those Member States, and in particular the fact that the proprietor uses his different trade marks with the intention of partitioning the markets;

or

— circumstances prevailing at the time of marketing in the importing Member State which make it necessary to replace the original trade mark by the mark used in the importing Member State in order that the pharmaceutical product in question may be marketed in that Member State by the parallel importer.

26 The national court also asks if the question whether the opposition of the trade-mark proprietor is in accordance with Community law falls to be assessed by reference to Article 7 of the Directive or to Articles 30 and 36 of the Treaty.

27 With regard to the applicable provisions of Community law, there is, under Article 7(1) of the Directive, exhaustion of the rights conferred by the trade mark only in relation to goods which have been put on the market in the Community 'under that trade mark' by the proprietor or with his consent.

28 It follows, as the Commission has pointed out, that Article 7 of the Directive is applicable where, after repackaging of the product, the original trade mark is reaffixed. In contrast, that article does not apply where the parallel importer replaces the original trade mark with a different one. In the latter case, the respective rights of the proprietor of the trade marks and of the parallel importer are determined by Articles 30 and 36 of the Treaty.

29 In the present case, it is clear from the order for reference, and in particular from the wording of the questions, that the national court is proceeding on the assumption that the Upjohn Group has used different trade marks in Denmark, France and Greece for the marketing of clindamycin-based pharmaceutical products. It is thus in the light of Article 36 of the Treaty that the legality of the trade-mark proprietor's opposition to the replacement of the trade mark falls to be assessed.

30 Moreover, according to the Court's case-law, Article 7 of the Directive, like Article 36 of the Treaty, is intended to reconcile the fundamental interest in protecting trade mark rights with the fundamental interest in the free movement of goods within the common market: it follows that those two provisions, which pursue the same result, must be interpreted in the same way (see *Bristol-Myers Squibb*, paragraph 40).

31 As regards the question referred, as set out in paragraph 25 of this judgment, according to the Court's case-law on the repackaging of products with reaffixing of the original trade mark or replacement of that trade mark by the trade mark used by the proprietor of both in the importing Member State, the capacity of the trade-mark proprietor to oppose such acts under national law is regarded as justified in the light of Article 36 of the Treaty, unless it is established, in particular, that such opposition contributes to the artificial partitioning of the markets between Member States.

32 That condition cannot be applied differently depending on whether the original trade mark is reaffixed after repackaging or replaced, unless separate rules are justified by objective differences between the two situations.

33 Upjohn argues that there are indeed such differences and that, for this reason, no exceptions should be made to the right of the proprietor to oppose replacement of the trade mark, unless, in accordance with the judgment in *American Home Products*, evidence is adduced of a subjective intention on the part of the proprietor to partition the markets. The right to alter a trade mark and, consequently, to affix a trade mark which the original producer never affixed on the product in question is identical to the substance of the protection in trade-mark matters. It is therefore logical and proper to draw a distinction between the two situations, with the result that it would be quite exceptional for a parallel importer to be entitled to affix on the product in question a new trade mark without the consent of the proprietor.

34 Paranova argues that the subjective circumstances of the proprietor of a trade mark cannot be decisive where the trade mark has been altered. It takes the view that it is no longer necessary to draw a strict distinction between the case where there is repackaging with reaffixing of the original trade mark and that in which the trade mark is replaced, and that these two situations must be regulated according to the same principles.

35 The Netherlands and United Kingdom Governments take the view that the proprietor of a trade mark can rely on his property rights in order to prevent an importer from marketing a product under an altered version of the trade mark used by the proprietor or with his consent in another Member State, unless it is

necessary for the importer to use the amended version of the trade mark in order to allow the products in question to be marketed in the Member State of import without adverse consequences. Such a condition of necessity, it is argued, corresponds to the principles laid down in *Bristol-Myers Squibb*.

36 The Commission submits that there is no direct reason for maintaining the subjective condition that there must be an intention on the part of the proprietor of trade marks to partition the markets in the case where one trade mark is replaced by another and not in the case where pharmaceutical products have been repackaged or the labelling has been changed. The determining factor ought to be whether the essential function of the trade mark, which is to guarantee the identity of origin, is jeopardised by the replacement of one trade mark by another.

37 The view expressed by Paranova, by the Netherlands and United Kingdom Governments, and by the Commission, in this respect is correct: there is no objective difference between reaffixing a trade mark after repackaging and replacing the original trade mark by another which is capable of justifying the condition of artificial partitioning being applied differently in each of those cases.

38 In the first place, the practice of using different packaging and that of using different trade marks for the same product, in contributing similarly to the partitioning of the single market, adversely affect intracommunity trade in the same way; secondly, the reaffixing of the original trade mark on the repackaged product and its replacement by another trade mark both represent a use by the parallel importer of a trade mark which does not belong to him.

39 Consequently, where the trade-mark rights in the importing Member State allow the proprietor of the trade mark to prevent it being reaffixed after repackaging of the product or being replaced, and where the repackaging with reaffixing or the replacement of the trade mark is necessary to enable the products to be marketed by the parallel importer in the importing Member State, there are obstacles to intracommunity trade giving rise to artificial partitioning of the markets between Member States within the meaning of the case-law cited, whether or not the proprietor intended such partitioning.

40 The condition of artificial partitioning of the markets between Member States, as defined by the Court in *Bristol-Myers Squibb*, thus applies where a parallel importer replaces the original trade mark by that used by the proprietor in the Member State of import.

41 Furthermore, as the Advocate General notes in paragraphs 40 to 42 of his Opinion, this solution also has the practical advantage that it does not require national courts to assess evidence of intention, which is notoriously difficult to prove.

42 The view that the condition of market partitioning defined in *Bristol-Myers Squibb* applies to the case where a trade mark is replaced also implies, contrary to what Paranova argues, that this replacement of the trade mark must be objectively necessary within the meaning of that judgment if the proprietor is to be precluded from opposing it.

43 It follows that it is for the national courts to examine whether the circumstances prevailing at the time of marketing made it objectively necessary to replace the original trade mark by that of the importing Member State in order that the product in question could be placed on the market in that State by the parallel importer. This condition of necessity is satisfied if, in a specific case, the prohibition imposed on the importer against replacing the trade mark hinders effective access to the markets of the importing Member State. That would be the case if the rules or practices in the importing Member State prevent the product in question from being marketed in that State under its trade mark in the exporting Member State. This is so where a rule for the protection of consumers prohibits the use, in the importing Member State, of the trade mark used in the exporting Member State on the ground that it is liable to mislead consumers.

44 In contrast, the condition of necessity will not be satisfied if replacement of the trade mark is explicable solely by the parallel importer's attempt to secure a commercial advantage.

45 It is for the national courts to determine, in each specific case, whether it was objectively necessary for the parallel importer to use the trade mark used in the Member State of import in order to enable the imported products to be marketed.

46 In light of the foregoing, the answer to the questions submitted is that the condition of artificial partitioning of the markets between Member States, as laid down in the judgments in *Hoffmann-La Roche* and *Bristol-Myers Squibb*, means that it is necessary, in order to determine whether the proprietor of a trade mark may, under national law, prevent a parallel importer of pharmaceutical products from replacing the trade mark used in the Member State of export by that which

the proprietor uses in the Member State of import, to assess whether the circumstances prevailing at the time of marketing in the Member State of import make it objectively necessary to replace the original trade mark by that used in the Member State of import in order that the product in question may be marketed in that State by the parallel importer.

Costs

47 The costs incurred by the Netherlands and United Kingdom Governments and by the Commission, which have submitted observations to the Court, are not recoverable. Since these proceedings are, for the parties to the main proceedings, a step in the action pending before the national court, the decision on costs is a matter for that court.

On those grounds,

THE COURT,

in answer to the questions referred to it by the Sø- og Handelsret by order of 31 October 1997, hereby rules:

The condition of artificial partitioning of the markets between Member States, as laid down in the judgments in Case 102/77 *Hoffmann-La Roche* v *Centrafarm* [1978] ECR 1139 and in Joined Cases C-427/93, C-429/93 and C-436/93

Bristol-Myers Squibb and Others v *Paranova* [1996] ECR I-3457, means that it is necessary, in order to determine whether the proprietor of a trade mark may, under national law, prevent a parallel importer of pharmaceutical products from replacing the trade mark used in the Member State of export by that which the proprietor uses in the Member State of import, to assess whether the circumstances prevailing at the time of marketing in the Member State of import make it objectively necessary to replace the original trade mark by that used in the Member State of import in order that the product in question may be marketed in that State by the parallel importer.

Rodríguez Iglesias Moitinho de Almeida

Edward Schintgen Kapteyn Gulmann

Hirsch Jann Wathelet

Delivered in open court in Luxembourg on 12 October 1999.

R. Grass G.C. Rodríguez Iglesias

Registrar President