country, the requirement that such third party must, for the purpose of his exports to the Community, obliterate the mark on the products concerned and perhaps apply a different mark forms part of the permissible consequences of the protection which the national laws of each Member State afford to the proprietor of the mark against the importation of products from third countries bearing a similar or identical mark.

In Case 51/75

Reference to the Court under Article 177 of the EEC Treaty by the High Court of Justice, London, for a preliminary ruling in the action pending before that court between

EMI RECORDS LIMITED, Middlesex,

and

CBS UNITED KINGDOM LIMITED, London,

on the interpretation of the provisions of the Treaty on the free movement of goods and on the rules on competition in the matter of the law on trade-marks,

THE COURT

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

Advocate-General: J.-P. Warner
Registrar: A. Van Houtte

gives the following

JUDGMENT

Facts

The order making the reference and the written observations submitted under Article 20 of the Protocol on the Statute of the Court of Justice of the EEC may be summarized as follows:

I — Facts and written procedure

1. In May 1887 the 'American Graphophone Company' was formed in the United States operating in the sphere

of the production and use of graphophones. In 1894 this company purchased the 'Columbia Phonograph Company General' which at the time was the subsidiary of another American company. In the course of the period prior to the First World War that company registered a certain number of trade-marks comprising (not exclusively) the world 'Columbia' in the United States of America, in the United Kingdom and other countries, *inter alia* with regard to gramophone records. In 1913 the Columbia Phonograph Company General changed its name to the 'Columbia Graphophone Company'.

On 13 February 1917 the Columbia Graphophone Company established a wholly-owned subsidiary in England named the 'Columbia Graphophone Company Limited' to which it entrusted the management of its business in the United Kindom and in Europe.

In the course of the same year the Columbia Graphophone Company transferred to this subsidiary its trade-mark rights in the United Kingdom and elsewhere in Europe, including the trade-marks containing the word 'Columbia'. The two agreements relating to this transfer, dated 27 April 1917, included an agreement for sale and an assignment of trade-marks. Under the assignment the Columbia Graphophone Company transferred to the Columbia Graphophone Company Limited its interest and goodwill in the business which it carried on directly through or from the London branch with the exclusive right to the name or style 'Columbia Graphophone Company' together with the trade-marks registered in several countries in Europe and elsewhere.

Article 2 of the agreement provides:

'The Vendors will not at any time hereafter so long as the Company exists and carries on business either solely or jointly with or as manager or agent for any other person or persons or company directly or indirectly carry on or be engaged or concerned or interested in carrying on within the territory of any part or parts thereof in which the business hereby assigned has hitherto been carried on (save and except Austria-Hungary) any business similar to or identical with the business hereby assigned except so far as the Vendors may as a shareholder of the Company be interested in or be employed by the Company in carrying on the business hereby assigned'.

Under the agreement for sale the Columbia Graphophone Company agreed to sell to the Columbia Graphophone Company Limited *inter alia* the goodwill and all the assets of business carried on until then by the company itself, or through its London branch, with the exclusive right to use the name 'Columbia Graphophone Company'. Article 8 of the agreement provides:

'The Vendors shall covenant with the Company that they will not at any time hereafter so long as the Company exists and carries on business either solely or jointly with as manager or agent for any other person or persons or company directly or indirectly carry on or be engaged or concerned or interested in any business similar to or identical with that hereby agreed to be sold within any territory or any part or parts thereof in which the said business has hitherto been carried on (except Austria-Hungary) save so far as the Vendors shall as a member of the Company be interested or be employed by the Company in the business of the Company'.

2. In December 1917 the Columbia Graphophone Manufacturing Company was formed in the United States. A transfer of shares was effected between this undertaking and the American Graphophone Company. The shares transferred are said to have included the holding of the American Graphophone

Company in the Columbia Graphophone Company Limited. It is probable that the Columbia Graphophone Company also became a subsidiary of the new undertaking. In 1920 the American Graphophone Company was wound up.

3. In 1922 the holding of the Columbia Graphophone Manufacturing Company in the Columbia Graphophone Company Limited was assigned to the English Company, Constructive Finance Company Limited, through a tripartite agreement concluded between the three companies on 16 November 1922. Pursuant to this agreement, which was supplemented by an agreement of 12 April 1923, the ownership of the American and European Columbia trade-marks was separated since there no longer existed any connexion between the two Columbia undertakings.

At a certain point between 1922 and 1925 the American marks containing the word 'Columbia' became the property of another American company, named the Columbia Phonograph Company Incorporated. In 1925 the Columbia Graphophone Company Limited acquired a controlling interest in this undertaking which thus became its subsidiary.

4. In 1931 a new company, named Electric and Musical Industries Limited, was formed in England. In the course of 1931 this undertaking, today known as EMI Limited, acquired the shares of the Columbia Graphophone Company Limited and the shares of another English company called the Gramophone Company Limited.

In accordance with the agreements relating to this transfer the Columbia Graphophone Company Limited divested itself of its holding in the Columbia Phonograph Company Incorporated which was transferred to an American company named Grigsby-Grunow.

In 1965 the Columbia Graphophone Company Limited assigned all its trade-marks, including the British Columbia mark together with its goodwill, to the Gramophone Company Limited, the other English company in the EMI Limited group, (hereinafter referred to as 'EMI' which changed its name in 1973 to EMI Records Limited. This latter company is the plaintiff in the main action.

EMI Records Limited (hereinafter referred to as 'EMI Records' is the proprietor of the trade-marks which form the subject-matter of the present proceeedings and of the other marks including or consisting of the name 'Columbia' in all the Member States of the Community except France where those marks are the property of another subsidiary of EMI Limited. Furthermore EMI Records manufactures records in the United Kingdom under various marks including the Columbia mark. Records bearing this mark are also manufactured by other subsidiaries of EMI Limited in most of the Member States of the Community.

5. In 1934 Grigsby-Grunow, the American undertaking which had in 1931 purchased the holding of Columbia Graphophone Limited in Columbia Phonograph Company Incorporated, sold by auction this holding which was first of all purchased by Sacro Enterprises Inc. and subsequently by the American Record Corporation. In 1938 Columbia Broadcasting System Inc. purchased the shares in the latter undertaking including its holding in the Columbia Phonograph Company Incorporated. Through a series of assignments effected over a number of years the Columbia Phonograph Company Incorporated divested itself of the American Columbia marks: in 1954 those marks became the property of Columbia Broadcasting System Inc. which has been known since 1974 as CBS Inc.

6. The proprietor of the Columbia marks in the United States, CBS Inc.

(which group including subsidiaries is hereinafter referred to as 'CBS'), also owns the Columbia marks in the countries of North and South American and in a number of other countries. Most records manufactured in the United States and elsewhere bear the Columbia mark.

Furthermore CBS sells in the Community records manufactured in factories which it owns in certain Member States. Those records are sold in the Community under a mark other than Columbia, in most cases the CBS mark.

A proportion of those records is manufactured from American Columbia recordings and then sold under the CBS mark. However, this is only so if the demand for an American recording reaches a certain figure. In a relatively limited number of cases when the demand in the United Kingdom for records originally manufactured in the United States did not appear to justify such reproduction the European subsidiaries of CBS Inc. and retailers imported them from the United States. For the purposes of those importations the Columbia mark was sometimes obliterated or concealed by a label stuck to the record and the sleeve but in other instances such obliteration, in particular that on the record, was not carried out.

CBS United Kingdom Limited, (hereinafter called 'CBS UK'), purchased in 1964 by CBS Inc., *CBS Grammofon A/S* (hereinafter called 'CBS Grammophon'), now known as 'CBS Records Aps' and *CBS Schallplatten GmbH,* (hereinafter called 'CBS Schallplatten') formed in 1970 and 1963 respectively, are the subsidiaries of CBS Inc. in the United Kingdom, in Denmark and in the Federal Republic of Germany. They are the defendants in the main action.

7. It is in fact the importation and sale of the abovementioned records on which the Columbia mark was visible which has given rise to the present proceedings. EMI Records maintains that the importation and sale in the United Kingdom, in Denmark and the Federal Republic of Germany of the records of CBS Inc. bearing the Columbia mark constitute an infringement of the trade-mark rights which it owns in those Member States as well as in the Community as a whole. In this connexion it has applied to the High Court of Justice, London, the Sø-og Handelsret, Copenhagen and the Landgericht Köln requesting those courts to order CBS to cease the production, importation and sale in the said Member States of records bearing the Columbia mark.

On the other hand CBS states that the principles of Community law, especially the provisions of the free movement of goods and on competition, prevent the plaintiff from exercising the right which it claims.

The marks referred to in the present case are as follows:

(a) a word-mark 'Columbia' registered in 1920 in the United Kingdom by the Columbia Graphophone Company Limited under No 402·839. This mark was used for the first time in the United Kingdom in 1900 by the Columbia Phonograph Company Limited;

(b) a word-mark 'Columbia' registered in 1928 in the United Kingdom by the Columbia Graphophone Company Limited under No 497·370

8. By an order of 22 May 1975 the High Court of Justice, London, requested the Court, in accordance with Article 177 of the EEC Treaty, to give a preliminary ruling on the following questions:

'Should the provisions of the Treaty establishing the European Economic Community and in particular the provisions laying down the principles of Community law and the rules relating to the free movement of goods and to competition be interpreted as disentitling

A from exercising its rights in the trade-mark under the appropriate national law in every Member State to prevent:

(i) the sale by B in each Member State of goods bearing the mark X manufactured and marked with the mark X by B outside the Community in a territory where he is entitled to apply the mark X, or

(ii) the manufacture by B in any Member State of goods bearing the mark X?'

In order the better to clarify the scope of those questions the High Court of Justice supplied the following information:

'(1) An economic unit 'A' (comprising a parent company and its subsidiary companies) is the owner of a particular trade-mark ('X') in the United Kingdom and all the other Member States of the Community;

(2) A manufactures and sells on a large scale within the Community goods bearing the mark X;

(3) An economic unit 'B' having no connexion with A, owns the same trade-mark X in a country or countries not members of the Community and lawfully applies the mark X to similar goods in those countries;

(4) B comprises *(inter alia)* a parent company established outside the Community and one or more wholly-owned subsidiary companies established within the Community and manufactures and sells within the Community large quantities of similar goods under different trade-marks from the trade-mark X;

(5) B now sells and proposes to continue to sell in the Community similar goods but bearing mark X;

(6) For some years well prior to the Second World War the trade-mark X currently owned by A and B in their respective territories was held by the same interrelated undertakings (A having acquired its rights to the trade-mark X by virtue of arrangements made between its predecessors in title and the predecessors in title of B at a time when such predecessors in title were wholly-owned subsidiary and parent companies respectively), but ownership of the trade-mark X now owned by B has changed hands on a number of occasions;

(7) There is not now and never has been any legal, financial, technical or economic link between A and B as now constituted; and

(8) Under the appropriate national laws of the Member States of the Community (excluding Community law) A has the right to take proceedings for infringement of trade-mark so as to prevent the manufacture and/or sale in Member States of B's goods bearing the trade-mark X'.

9. Shortly afterwards the Sø-og Handelsret, Copenhagen (Case 86/75) and the Landgericht Köln (Case 96/75) submitted to the Court of Justice in accordance with Article 177 of the EEC Treaty similar questions in which allusion is made to the reference ordered in the meantime by the High Court of Justice, London.

10. A certified copy of the order for reference was received at the Court of Justice on 9 June 1975. In the two parallel cases 86/75 and 96/75 the orders for reference arrived at the Court on 1 August 1975 and 5 September 1975 respectively.

Written observations were submitted in accordance with Article 20 of the Protocol on the Statute of the Court of Justice of the EEC by the undertaking EMI Records Limited represented by Mr C. C. Marriott (Case 51/75), by Mr Kaj Holm-Nielsen (Case 86/75) and by Mr H. Rasner (Case 96/75); and by the undertaking CBS United Kingdom Limited represented by Mr F. P. Neill, Q. C, and Mr Antony Watson, instructed by Messrs McKenna & Co.; the undertaking CBS Grammofon A/S

represented by Mr Eskil Trolle; the undertaking CBS Schallplatten GmbH, represented by Mr Dietrich Ohlgart; the Belgian Government (96/75), the Danish Government, the Government of the Federal Republic of Germany, the French Government, the Irish Government, the Netherlands Government and the Government of the United Kingdom represented by their Agents; and the Commission of the European Communities represented by its Legal Advisers, Mr John Temple Lang and Mr Antony McClellan, (Case 51/75), Mr Sven Ziegler (Case 86/75 and Mr Erich Zimmermann (Case 96/75).

On 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.

By an order of 3 December 1975 it decided to join the three cases for the purposes of the oral procedure.

II — Written observations submitted under Article 20 of the Protocol on the Statute of the Court of Justice

Owing to the link between the present case and the two other parallel proceedings the statements lodged in the three cases may be summarized as follows:

A — Written observations submitted by EMI Records Limited

EMI Records recalls that the trade-mark relied upon in Case 86/75 is based upon a Danish trade-mark registered in 1960 and explains that none of the assignments which took place in 1917 and in 1923 concerned a Danish registration of this mark.

The rights of EMI in Denmark prior to 1960 comprised, *inter alia*, the registration in 1922 of a device-mark containing the name 'Columbia'. In the present case it is unnecessary to settle the question whether EMI had in Denmark an exclusive right to the 'Columbia' word-mark.

Furthermore, with regard to the Columbia marks relied on in Case 96/75, that is to say, the marks registered in Germany in 1924 and in 1931, EMI was not aware that at the time another mark existed in Germany under No 101.424. This mark was registered on 6 August 1907 by the Columbia Phonograph Co. mbH, Berlin, and expired definitively on 10 December 1937. The existence of this mark has no effect on the main action. The questions put, taking account of their wording, may also cover the assignment of this mark.

After setting out those statements of fact EMI Records observes on the one hand that there is no identity between CBS and the original assignor of the American Columbia marks, and on the other hand that the European marks in dispute have been used exclusively by the EMI group in all the Member States of the Community for many years so that thereafter consumers have come to associate them with a specific line of products.

The function of a mark is precisely to enable customers to distinguish amongst competing products the products to which it is affixed and in this connexion it is not essential that the customers know the name of the proprietor of the mark.

To refuse EMI the right to prohibit the imports in dispute amounts not only to restricting the exercise of the trade-mark rights which it owns in the Community but also to denying the very existence of those rights which can no longer fulfil their specific purpose.

EMI and CBS are engaged in fierce competition both on the European and American markets. The exercise by EMI

of its trade-mark right does not impede CBS' right to exploit in Europe the market which it has created using the mark under which it is known there (in the majority of cases the CBS mark). In reality CBS seeks to be released from the obligation to apply an adhesive label to records produced in the United States and sent to Europe to cover the demand which cannot be immediately met through local production, or indirectly, to be in a position to limit such production by substituting for it imports from the United States.

It is thus incorrect and exaggerated to state that the exercise by EMI of its trade-mark rights affects CBS adversely so far as competition is concerned. Any trader using trade-marks to which he has no title in the market to which he exports his products can also complain that he does not have free access to this market. Furthermore, although it is true that EMI distributes *inter alia* American CBS records it is none the less true that for the purposes of such distribution EMI ensures that the Columbia mark is obliterated and that the records in question are sold under another mark. Cases in which an indirect subsidiary has distributed records under the Columbia mark applied by CBS in the United States are rare and were contrary to the instructions of the management. Besides, under German law they do not entail an 'exhaustion' of the rights of EMI. Likewise, the very fact that EMI could for its part win an important part of the American market, by obliterating the Columbia mark on its own records and using other marks, proves that such an argument is far-fetched.

Finally, it is incorrect to state that the use by EMI of Columbia marks is liable to mislead consumers. First, this is a problem falling within the scope of national law and does not concern the present dispute. Secondly the argument, according to which the name 'Columbia' also forms part of the name or style 'Columbia Broadcasting System', abbreviated to 'CBS' and also conjures up for consumers the idea of an American product, fails to take account of the fact that CBS had the said name or style even before it acquired the rights to the mark in question.

EMI Records then considers the legal aspects of the questions put in the light of the provisions of the Treaty on the free movement of goods and on competition, interpreted with regard to the case-law of the Court and of the various decisions of the Commission. In particular it makes the following observations:

1. On the rules of the Treaty relating to the free movement of goods

(a) The provisions of the Treaty on the free movement of goods have as their objective the abolition of quantitative restrictions and measures having equivalent effect but only with regard to 'trade between Member States'. This interpretation is corroborated not only by the very wording of these rules and by the 'Preamble' and by the 'Principles' of the Treaty but also by the case-law of the Court.

It is consequently clear that the provisions of Articles 30 to 36 of the Treaty do not exclude the right of EMI to prohibit the importation of the products in dispute. Furthermore, by exercising its right in the trade-mark for the purpose of obtaining this prohibition, EMI is merely inferring from the very existence of the right, which the Treaty cannot affect, the consequences laid down by the national legislation of the Member States. EMI is not creating 'an arbitrary discrimination or a disguised restriction on trade between Member States' within the meaning of the second sentence of Article 36 of the Treaty. Nor is it partitioning the markets within the Community since it owns the disputed trade-mark rights in all the Member States.

The argument that EMI has endeavoured and is endeavouring to impede trade between Member States or to divide up markets within the Community is quite unfounded for, at the latest from the years 1922/1923, when the American predecessor of CBS finally severed its ties with its English subsidiary, the marks and the commercial organization surrounding them in all the States which today make up the Community became the property of the predecessors of EMI and subsequently the property of EMI.

(b) In those circumstances only the provisions on the common commercial policy could possibly call for consideration. However, those provisions do not contain any prohibition against the establishment by the Community of barriers to trade with third countries. In any case Article 18 of the Treaty provides that barriers to trade with third countries shall be lowered by entering into international agreements on a basis of reciprocity.

(c) Finally, CBS is not justified in invoking Article 10 of the Treaty in order to provide a basis for its claim. Article 10 of the Treaty relates solely to discerning the conditions under which products coming from a third country may be considered, with regard to customs, to be in free circulation in the Community and may obtain the same treatment as that of products coming from the Community. This provision in no way concerns the private rights of third parties. If this were not so any undertaking whatsoever, having no right to the Columbia mark in any country, could infringe the trade-mark right of EMI by obtaining customs clearance in the Community for records imported under this mark.

2. On the rules on competition

(i) On Article 85 of the Treaty

(a) For its application this provision requires the existence of 'agreements' or 'concerted practices' between undertakings. If no agreement or concerted practice presently exists Article 85 is inapplicable. The English court is correct in its statement on this point in Case 51/75 as to the absence of connexions between CBS an EMI in so far as the word 'connexion' indicates relations other than normal commercial relations. If this word must be understood as indicating any contractual relation whatsoever, apart from an isolated sale, there certain contractual connexions between the relevant undertakings until 1970 at the latest. At all events whatever interpretation is adopted there is at present no connexion in the widest sense of the word between the two undertakings.

Moreover, the prohibition by EMI against the distribution of the disputed products within the common market by CBS stems solely from the very existence of the trade-mark right recognized by the national legislation of the Member States and protected by Community law. This is particularly clear regarding the Danish trade-mark which was acquired by EMI in 1960 and has never been assigned by CBS or its predecessors to EMI. The mere exercise of this right in order to prevent third parties distributing products bearing the same mark in the common market may be restricted, if necessary and as an exception, by Community law only if it jeopardizes one of the basic principles of the common market. This would be the case in the situations referred to in Article 30 and in the second sentence of Article 36 of the Treaty or if the unity of the common market had to be protected. If, as in the present case, no basic principle of the Community is called in question the exercise of the trade-mark right, even if it had been acquired under an assignment, could not fall under the prohibition set out in Article 85 of the Treaty. In such a case protection of the trade-mark rights comes within the scope of national law.

(b) Moreover the assignment of a mark does not itself constitute an agreement in

restraint of competition and prohibited by the Treaty. In accordance with the case-law of the Court and with various decisions of the Commission Article 85 is only applicable if such an assignment forms part of or constitutes the implementation or the confirmation of an agreement to share markets within the common market. In the present case:

— since the agreements of 1917 were concluded between a parent company and a subsidiary they do not constitute agreements in restraint of competition. Furthermore they have not established a division of markets 'within the common market';
— those agreements and the subsequent agreements of 16 November 1922, 5 May 1923 and 5 January 1932 were terminated in 1946;
— the clauses on the exchange of catalogues contained in the agreements of 1917, 1922/23, 1946 and 1962 cannot be considered as being in restraint of competition since their principal purpose was to promote the CBS catalogue;
— in the nineteen fifties the two companies terminated all their previous agreements and EMI initiated a commercial policy, subsequently pursued by CBS, of producing records independently in the United States and in Europe;
— the agreements of 1962 and 1966 did not relate to countries which were then members of the Community and in addition such agreements are no longer in force.

It is clear from the provisions of all those agreements subsequent to 1946 considered more particularly by CBS Schallplatten that the CBS and EMI groups at no point maintained agreements in restraint of competition to which Article 85 of the Treaty could have been applicable. All the agreements still in force in the course of the nineteen sixties were, furthermore, terminated by those companies towards the end of this period or at the beginning of the nineteen seventies.

(c) Moreover, even supposing that the assignment of the mark had originally formed part of a much wider agreement, Article 85 is not to this extent applicable to the exercise of the exclusive right since the contract of assignment and the agreements whereby the assignment was effected were implemented in the meantime and have no further legal effect.

This is precisely the case in the present proceedings, since the agreements of 1917, of 1922/23 and all the other agreements between EMI and CBS or their predecessors have long since ceased to produce effects, as has already been indicated. From 1922/23 the various proprietors of the American Columbia mark were unable to invoke any right in the Member States. The EMI and CBS groups were thenceforth engaged in active competition within the common market and EMI merely exercises its trade-mark right solely in order to protect the special role assigned to it by national law. Nevertheless CBS is at liberty to distribute in the said States records manufactured in Europe or its American records provided that EMI's trade-mark rights are respected.

In any event, even supposing that an agreement continued to produce effects, such effects are lawful with regard to the Treaty since they only constitute the exercise of the trade-mark right in the most limited sense of the expression.

(d) In addition there are no grounds in this case for invoking the principle of the 'exhaustion' of the right recognized by the Court in certain judgments. The application of this principle in fact supposes:

— that the products in dispute have been lawfully marketed by the proprietor of the right, or with his consent, on the same market from which they originated,
— that such products come from the same factories or at least from factories controlled by the same group,

— that the proprietor of the right has already obtained his profit from such marketing.

In the present case the goods were of a different manufacture and there was no agreement between the two undertakings regarding their marketing.

(e) Nor may the objection be made regarding EMI's right that since the products in dispute were legally covered by the same mark in the country of origin they might, in accordance with the case-law of the Court, move freely in the common market. First of all the judgments from which such a principle is deduced relate solely to cases regarding the preservation of the unity of the common market, whereas in this case the disputed exercise of the trade-mark right scarcely jeopardizes the freedom of trade between Member States. Secondly the principle stated by the Court cannot be recognized as an absolute and general rule that 'what is lawful in any country is also lawful within the Community'. The general application of this rule would in fact have very serious consequences for the undertakings of the common market: it would jeopardize the protection afforded by the trade-mark right, it would render them liable to considerable financial expense in order to develop and protect their marks and would at the same time pave the way for the uncontrolled supply of spurious products. In addition it would imply an infringement of the obligations undertaken by the Member States within the framework of the Paris Convention on the protection of industrial property.

(f) Likewise it is impossible to transpose to the present case the principle laid down by the Court in the *Hag* judgment ([1974] ECR 731) and derived from the concept of the 'common origin' of various identical marks. The expression 'common origin' which the Court employed on this occasion is only meaningful if it relates to an instance where parallel rights are created following the distribution of goods, after a certain period, within the same market by the same economic entity under one and the same mark: in other words two identical marks are of a 'common origin' for the purposes of the Treaty only if the markets for the products bearing the mark also have a common origin.

None of those conditions is met in this case. Ultimately, any consideration regarding the 'common origin' of the marks is only of limited relevance in this case since the provisions of the Treaty on the free movement of goods in the context of which this principle was laid down in the *Hag* judgment does not apply to trade with third countries.

(g) Finally, in all the cases where the Court has prohibited the proprietor of the mark from preventing the importation of goods bearing the same mark, it has not only restricted this prohibition to the case where the imports came from 'another Member State' but also applied the principle of 'reciprocity' for the benefit of the two proprietors of the mark. This principle is nowhere to be found in the present case since CBS prevents EMI from using the Columbia mark in the United States.

(ii) On Article 86 of the Treaty

This provision is not applicable in the present case for the simple reason that EMI does not enjoy a dominant position either within the national market of each Member State or within the common market considered as a whole. In fact EMI is exposed to strong competition not only from the CBS group in the Community but also from other important groups such as Philips, Deutsche Grammophon, Teldec, ACA and several other smaller undertakings. This also holds good with regard to retail trade in the Member States where EMI owns retail undertakings for in such States the records of all those producers, including CBS, are distributed under all the existing marks, although, naturally,

only in so far as they do not infringe marks protected there.

On the basis of those observations EMI suggests that a negative reply should be given to questions put in Case 51/75. More explicitly it suggests that the reply in Case 96/75 should be:

'The principles of Community law neither prevent the application of the trade-mark right based on national law nor the right to prohibit B from marketing in the Member States goods bearing the distinctive mark X.'

and in Case 86/75 the following:

'The provisions of the Treaty establishing the European Economic Community, especially those relating to the free movement of goods cannot be interpreted as disentitling the owner of a national trade-mark right from invoking his trade-mark right in order to prevent the sale within the subject country of goods produced and affixed with a mark in a country outside the common market by an undertaking which in such country is entitled to use the trade-mark. Article 85 of the Treaty cannot apply where there are no agreements or concerted practices in force between the undertakings in question. The Treaty does not affect national trade-mark rights, and the exercise of such rights does not in itself restrict competition. Similary Article 85 cannot apply to the mere assignments of trade-mark rights. The proprietor of a trade-mark does not hold, merely by reason of his right as proprietor, a dominant position under Article 86 of the Treaty.'

B — Written observations submitted by CBS United Kingdom Limited, CBS Grammofon A/S and CBS Schallplatten GmbH

CBS UK considers first of all the history relating to the transfers of the ownership of the various companies which, before the companies which are presently the proprietors of the disputed marks in the United States and in the common market, owned after 1877 the Columbia device — and word-marks. After describing the situation currently obtaining in this sphere it produces a series of agreements made between 1917 and 1967 between American and English Columbia undertakings, in order to prove the existence of technical and economic links between those undertakings.

CBS UK observes furthermore that whilst the two relevant marks were never actually owned by an American Columbia company, none the less, when they were registered (in 1920 and 1928), there was a close relationship between the English Columbia company which carried out the registration (Columbia Graphophone Company Limited) and the American Columbia companies (the Columbia Graphophone Company in 1920 and the Columbia Phonograph Company Inc. in 1928).

CBS Grammofon for its part recalls that on 15 June 1922, that is to say, at a time before the Constructive Finance Company Limited acquired the shares in Columbia Graphophone Company Limited (16 November 1922) the latter company registered another Columbia device-mark for records. This registration is still valid today. The mark in question was assigned on 7 February 1966 to EMI Records, which is thus the proprietor of it.

In 1960 EMI Records finally registered the 'Columbia' word-mark relied on in the present proceedings. The registration of this mark, however, required previous use of it since the word 'Columbia' is also the name of a state. Owing to the employment of the devicemark of 1922 including the word 'Columbia' such use has in fact taken place.

This indicates the interdependence between the disputed mark and the said device-mark, the proprietor of which (the Columbia Graphophone Company Graphophone Company.

CBS Grammofon states in addition that according to the information it obtained in 1972 the various EMI subsidiaries sold on a number of occasions CBS records bearing the Columbia mark without covering this mark by an adhesive label within the common market (in Denmark, one instance in 1972; in the Federal Republic of Germany, five instances in 1972 and 11 instances in 1973). However, since EMI on the one hand claims that CBS should respect its trade-mark whilst on the other it permits its own subsidiaries to sell CBS records bearing the Columbia mark without adhesive labels over it, it is clear that the subsidiaries of EMI enjoy a competitive advantage in marketing. These subsidiaries are in fact able to be the first to distribute new CBS issues originating from the United States without, however, being obliged in their capacity as proprietors of the Columbia mark to apply an adhesive label.

CBS Schallplatten also provides information on the marks referred to in this dispute. The two marks registered in Germany in 1924 by the Columbia Graphophone Company Limited are identical with those which were registered in 1906 and 1910 in England in the name of the Columbia Phonograph Company General (subsequently named 'the Columbia Graphophone Company') and assigned in 1917 to the Columbia Graphophone Company Limited. Those marks, including the mark in dispute, which was also registered in Germany in 1931 by the Columbia Graphophone Company Limited, were assigned in 1965 by the latter company to the English company now named EMI Records Limited.

CBS UK then recalls that the CBS group possesses factories in various Member States of the Community and that the records produced by those factories are sold in the common market under marks other than the Columbia mark, the majority under the CBS mark. A substantial number of those records are produced from American CBS recordings, very often bearing the Columbia mark but for economic reasons they are only produced if the demand for them exceeds 2 000 copies of each recording.

Furthermore, within the Community there is also a substantial and often very urgent demand for American CBS records which do not appear in European catalogues. To meet this demand many record importers import such records directly from the United States where they are mostly marketed under the Columbia mark. EMI Limited itself has for some years participated in the distribution of those records through its subsidiaries and retail dealers. It is neither technically possible nor commercially conceivable, for those relatively modest sales within the common market, to print stickers designed to obliterate the name 'Columbia' appearing on those records, or record sleeves which do not bear this name.

If it were held that EMI is entitled to prohibit CBS from importing such records into the common market and distributing them under the Columbia mark CBS would no longer be in a position to satisfy the demand for American records on the said market.

Such a disadvantage is all the more serious in the field of quadraphonic recordings which represents a new and very recent stage in the technical development of sound recordings. At present two basic systems are used for such recordings: the system known under the 'SQ' mark employed by CBS and EMI and that named 'CD-4' developed by RCA. Records manufactured in accordance with one of those systems cannot be used on reproducing equipment designed for the other system so that owners of reproducing equipment are obliged to buy only recordings manufactured by a particular system. CBS has manufactured such quadraphonic records for

approximately three years essentially for the American market but some months ago it also began to produce them in the Netherlands for the common market. Nevertheless for practical reasons they are only produced if the demand in the Member States amounts to 1 200 copies at least for each record although the pressing of 1 200 copies does not cover the costs of the operation. Since in most cases the demand in the Community for CBS quadraphonic records does not attain this minimum figure the persons concerned are obliged to rely for those records too on imports from the United States. If, following the action by EMI records, CBS were required to cease such imports to the common market owners of SQ reproducers in the common market would in future only be able to obtain records manufactured by EMI. This would considerably impair the competitive capacity of CBS in the Community as compared to EMI. The disappearance within the common market of an important producer of SQ records would also appreciably reduce the supply there of such records: it thus would endanger the commercial and technical development of the system in question and could confer a decisive competitive advantage on the CD-4 system employed by RCA.

Furthermore the use by EMI of its Columbia trade-marks is, as is clear from an opinion poll carried out in Germany by CBS, capable of misleading consumers. By reason of the word 'Columbia' also appearing in the title 'Columbia Broadcasting System Inc.', nowadays abbreviated to 'CBS Inc.', those marks tend to conjure up a vision of an American product rather than a product of EMI. They have lost their particular function which is to indicate the specific origin of the product. This is further borne out because the quality of CBS recordings by all accounts meets the highest standards.

Having set out this information the three CBS companies consider the legal aspect of the problem on the basis of the provisions of the Treaty on the free movement of goods and competition interpreted in the light of the case-law of the Court and the various decisions of the Commission. In particular they make the following observations:

1. On the provisions of the Treaty relating to the free movement of goods

(a) Although the provisions of the Treaty on the free movement of goods refer directly to trade between Member States this does not, however, preclude the principles relating to the exercise of the trade-mark right from also applying by analogy to imports from third countries. In fact Articles 30 and 36 of the Treaty pursue the same objective as that referred to by Article 85: the unity of the common market and the abolition of obstacles to trade between Member States. The judgments of the Court and several dicisions of the Commission in this sphere have recognized that trade may also be affected within the meaning of Article 85 of the Treaty by measures impeding imports from third countries. Since this article runs parallel to the said provisions it may thus be conceded that impediments placed in the way of such imports may also be constituted by obstacles to 'trade between Member States' with which the second sentence of Article 36 of the Treaty is concerned.

(b) Furthermore, once products coming from a third country have been imported into the Community and all relevant charges paid they must be regarded as being in free circulation in the Community within the meaning of Article 10 of the Treaty and are thereby subject to the provisions on the free movement of goods on the same basis as products originating in Member States.

(c) Nor is there anything to preclude the application by analogy of the principle laid down by the Court in the *Hag* judgment ([1974]) ECR 741)

according to which reliance on a mark to prohibit the importation of products to which an identical mark, having the same origin, has been legally applied in another Member State cannot be justified for the purpose of safeguarding rights constituting the specific subject-matter of the trade-mark. It is of little importance that the mark is invoked against imports from third countries and not from another Member State. Whilst the provisions on the free movement of goods reflect the basic interest of the Community in free trade between Member States it is by no means in the interest of the Community that barriers to trade with third countries should be created by private persons in so far as it cannot be claimed that they are necessary for the protection of lawful private interests.

Furthermore when a mark which originally had a single proprietor belongs, as the result of an assignment, to two or more separate proprietors the individuality of the mark is affected since it is no longer possible to state on the international level that the mark exclusively indicates the products of a specific undertaking. Instances of this indeed seldom occur in practice but the judgment delivered by the Court in the *Hag* case provides an appropriate precedent for dealing with them. In applying this judgment to the present case the Court does not threaten the 'existence' of the mark in dispute. The EMI group is attempting to increase for its own benefit the individuality of the marks in dispute and such an endeavour is not covered by Article 36 of the Treaty.

(d) It is also not disputed that interests protected by other industrial and commercial property rights very often have a higher status than those protected by a trade-mark and the use of the latter is particularly liable to contribute to the partitioning of the market and to affect adversely the free movement of goods. If there is a conflict between the absolute protection of a trade-mark right and the free movement of goods the trade-mark right must thus give way before the reguirements of the common market.

2. On the rules on competition

(i) On Article 85 of the Treaty

(a) According to the case-law of the Court and the practice of the Commission an agreement which only provides for an assignment of a trade-mark may have restrictive effects on competition and thus fall under Article 85 of the Treaty so that the mark assigned cannot be invoked in order to impede the import into a Member State of products to which that mark has been applied. Every assignment of a mark results in a partitioning of markets and thereby constitutes a restriction of competition if the exclusive right is exercised to impede the import of goods originating either from the original proprietor of the mark or from a third party who has purchased the mark from the said proprietor.

(b) Furthermore, the transfer of the mark referred to in the present case forms part of a vast system of contracts set up by the American and English Columbia companies in order to divide the markets and restrict competition between these companies on partitioned markets: this constitutes one of the principal factors in this division which EMI Records endeavours to perpetuate through its trade-mark.

An express provision providing for the division of the market is contained not only in the agreement of 1917 under which the European marks were assigned; corresponding provisions on the territorial division of the markets were for a long period (until 1952) repeated in the agreements concluded between the proprietor of the mark both after its assignment and after the dissolution of the group connexions between those companies.

It is thus clear from the clauses on the partitioning of the markets and restriction of competition contained in the agreements of 1917, 1922/23, 1932 and 1962 that the situation in dispute resembles that in the *Grundig-Consten case* where the Court held that both the agreement on the prohibition of exports and that relating to the filing and registration of an identical mark for all dealers were contrary to Article 85 of the Treaty ([1966] ECR 299).

(c) It is furthermore of little importance whether the agreements to share the markets concluded between CBS and EMI or their predecessors were terminated in 1956 or 1968. The application of Article 85 does not necessarily require that at the time when the trade-mark right is asserted its proprietor should still maintain contractual relationships. When the mark was assigned as part of an agreement the aim of which was to share markets the fact that the mark is later relied on to prevent imports such as those in dispute must be considered as a permanent effect of the agreement and prohibited by Article 85 of the Treaty.

(d) It is true that the agreements of 1917 were concluded between a parent company and its subsidiary. However, when the Court and the Commission held that Article 85 of the Treaty is not applicable to cases of this nature, they stated that such agreements do not escape the said article unless the subsidiary has no real independence from the parent company and so that all that is involved is the internal allocation of tasks within the group. On the other hand it thus follows that once the links between the parent company and its subsidiary are severed Article 85 is applicable. This is precisely the situation in the present case. The agreement concerning the assignment of the European marks concluded in 1917 between the American parent company and its English subsidiary formed part of an agreement on the territorial partitioning of markets. Since the group connexions between the two companies have ceased to exist — initially in the course of the years 1922 to 1925 and subsequertly and definitively from 1931 — there is no longer any question of an internal allocation of tasks between companies on the division of markets and in this connexion the exclusive right to use the Columbia mark in each area covered by the contract played an important role.

(e) Furthermore the fact that in the present case the mark in dispute is invoked to impede imports from a 'third country' is not sufficient to prevent the application of Article 85 (1) of the Treaty. Agreements having as their object or effect the prevention of imports from third countries may also involve a restriction on competition within the common market and affect trade between Member States. Consequently the creation of hindrances to these imports may likewise result in obstacles to the 'trade between Member States' with which the second sentence of Article 36 of the Treaty is concerned.

(f) Finally the fact that under American law CBS can prohibit EMI from importing its Columbia records into the United States is irrelevant in this case. The application of Article 85 of the Treaty is not subject to a condition of 'reciprocity'. The competition policy intended by the Treaty does not depend as regards its objectives and its basis on whether the same policy is pursued in countries outside the Community.

(ii) On Article 86 of the Treaty

For its part *CBS Grammofon* states that the sections of the whole-sale and retail markets held by EMI in Denmark show that the latter enjoys a dominant position on the Danish market in the relevant products. The assertion, by the proprietor of a mark who enjoys a dominant position of his exclusive right to prevent importation does not necessarily imply

that this constitutes abuse of such position: for there to be such an abuse the exercise of the right must occur in the context of conduct which is abusive in nature. Such an abuse may occur if, as in the present case, the person enjoying a dominant position, whilst asserting his trade-mark right in order to prevent imports — including imports from third countries — of goods to which an identical mark has been legally applied in another country, himself markets, or allows his subsidiaries to market, within the Community the same goods under the said mark. This is why, if the Court finds in favour of EMI, it ought at least to state that the exercise of the trade-mark right in dispute is only permissible to the extent that EMI ensures that its own subsidiaries cease such marketing.

On the basis of those observations *CBS UK* concludes that the following reply should de given to the questions put:

The exercise by EMI of its right to the mark 'Columbia' (1) so as to prevent CBS from importing into one or more Member States of the EEC records manufactured by it outside the EEC and bearing the mark 'Columbia' and (2) so as to prevent CBS from applying the mark 'Columbia' to records manufactured by CBS outside the EEC is in contravention of the provisions of Community law relating to the free movement of goods and to competition contained in Articles 30, 36 and 85 of the Treaty establishing the European Economic Community.

CBS Grammofon suggests the following reply:

1. Where a trade-mark is invoked in a Member State in relation to imports from a third country of products to which the same mark has been legally applied in that country, Article 85 is inapplicable, provided that the proprietors of the trademarks for the two countries have acquired the marks, or the right to use them, through agreements between each other or through agreements which can be traced to the same original proprietor of both marks.
2. Where agreements referred to under Paragraph 1 above have been concluded before the entry into force of the EEC Treaty it is necessary but also sufficient for their effects to continue thereafter.
3. Agreements restricting competition — including agreements of the type mentioned under Paragraph 1 above — entered into between connected undertakings and as such falling outside the prohibition of Article 85, none the less come within the scope of Article 85 if they are maintained after the connexion between the original parties to the agreement has been terminated.
4. If the proprietor of a trade-mark in one Member State invokes the mark with regard to the importation by other undertakings of products to which the same mark has been lawfully applied in another country, including a third country, it may constitute an abuse within the meaning of Article 86 if the proprietor of the trade-mark or its subsidiary itself distributes the goods of the other producer under the same mark without deleting it.

CBS Schallplatten submits the following answer:

'The provisions relating to the free movement of goods and Article 85 of the EEC Treaty are infringed if proprietor A of a trade-mark registered in a Member State uses his trade-mark rights in order to prevent the importation of goods which in another State situated outside the European Communities are lawfully given an identical trade-mark having the same origin by undertaking B and are there put into circulation.

This applies in particular if A draws his trade-mark rights from agreements which had as their objective a partitioning of the markets.'

C — Written observations submitted by the Belgian Government (Case 96/75)

The Belgian Government takes the view that in the present case the exercise of the trade-mark right is not restricted and that the imports in dispute may be prohibited by means of national procedures for the infringement of trade-marks. In support of its view it states that according to the order making the reference there is no legal, economic, financial or technical link between the two groups, one within the Community the other in certain third countries, which own the Columbia mark. These companies each hold separately in various countries the same trade-mark in respect of similar products. In those circumstances to deprive the common market group of the use of the trade-mark right for the benefit of the American group without reciprocity would not only be inequitable but would also result in a complete distortion of competition in the territory of the Community since this constitutes a unilateral advantage improperly bestowed upon the nationals of third countries. Any other view amounts to imposing discriminatory conditions on all proprietors of trade-marks in the Community since the enormous expenses which they incur to launch, promote and develop their marks would benefit their direct competitors.

Moreover, it is mistaken to claim that in the circumstances of the case there is an unjustified barrier in the sense of Articles 30 to 36, 85 and 86 of the Treaty. By laying down rules designed to ensure the free movement of goods and free competition, the Treaty also made provision for a reservation, contained in Article 36, whereby prohibitions or restrictions on imports are permissible in relation to the normal exercise of industrial and commercial property rights, including the case of infringement of trade-marks. It is thus impossible to reserve privileged treatment for imports of products manufactured in a country where another company enjoys the right to use the mark since, in the absence of a means of preventing such infringement, the protection afforded by the mark would be purely illusory.

D — Written oberservations submitted by the Danish Government

The Danish Government observes that the mark can no longer fulfil its purpose, which is to differentiate products of different origins, once the proprietor cannot prevent imports of spurious products originating from a producer with whom he has no legal or economic connexion. The case-law of the Court in this sphere, on the barrier which trade-marks create to trade between States, is inspired by the need to protect the principal objective of the common market that is to say, the abolition of obstacles to the free movement of goods within the Community. Since the Treaty does not pursue a similar objective to that indicated above in the Community's external relations, this caselaw cannot be transposed to imports from a third country. Furthermore it must not be forgotten that, according to the express wording of the orders for reference, for many years there has been no link between the two companies in question. In those circumstances the application to import from a third country of the principles laid down by the Court, in particular in *Sirena* judgment ([1971] ECR) and the *Hag* judgment ([1974] ECR 731), would result in unfairness to the proprietor of a mark in the Community since Community law does not provide for the latter a system of 'reciprocity' on the market of the relevant third country and would imply the sacrifice of the interests of European consumers because of the risk of confusion thereby created as to the origin of the goods.

Having set out these general considerations the Danish government considers more particulary the meaning

of the provisions of the Treaty on the free movement of goods and on competition. With regard to Articles 30 to 36 it notes that those provisions refer solely to trade between Member States and that Article 85 is not applicable in the present case by reason of the fact that, as has been found by the national court, there is no legal, financial, technical or economic link between the two proprietors of the mark in dispute. This latter article, even supposing moreover that agreements in restriction of trade are capable of affecting trade between Member States, is not applicable to trade with third countries.

Similarly, for the purposes of its application, Article 86 assumes two conditions which are absent in the present case, that is to say, that the dominant position affects trade between Member States and that the dominant positions is abused. However, the proprietor of a trade-mark who takes action against imports of goods bearing the same mark is merely making normal use of his right and is not abusing it.

Furthermore, the Court held in its judgment in the *Sirena* case that the proprietor of a trade-mark does not enjoy a dominant position within the meaning of Article 86 of the Treaty by the mere fact of his exclusive right.

On the basis of those considerations the Danish Government concludes that a negative reply must be given to the questions put in the three cases.

E — Written observations submitted by the Government of the Federal Republic of Germany

The Government of the Federal Republic of Germany makes *inter alia* the following oberservations:

— Although it is true that in principle Article 85 of the Treaty also applies to restrictions on competition arising from the actions of undertakings established outside the common market it is none the less true that the present case does not disclose the necessary conditions for its application, that is to say, the existence of an agreement or a concerted practice restricting competition. In fact it is clear from the statement of the facts in the order making the reference that since 1931 there has no longer been any legal or economic link between the proprietors of the Columbia marks;

— Article 86 of the Treaty cannot apply in this case since there is nothing to indicate an abuse of the trade-mark;

— Article 30 of the Treaty only refers to quantitative restrictions and measures having equivalent effect 'between Member States'. Likewise Articles 31 to 37 show that the object of the free movement of goods is restricted to abolishing commercial barriers between the Member States;

— Article 110 *et seq.* on trade with third countries contain no express prohibition of quantitative restrictions and measures having equivalent effect and the existence of such a prohibition cannot be inferred even indirectly. This is borne out not only by the manner in which the Treaty provides for the establishment of the common commercial policy with regard to third countries but also by the agricultural regulations and the policy regarding commercial agreements hitherto implemented by the Community. Finally the Court itself has recognized that, as regards trade with third countries, the Treaty does not require the abolition of quantitative restrictions and measures having equivalent effect;

— If in relations with third countries there is no general prohibition of quantiative restrictions and measures having equivalent effect there cannot be any prohibition limited to a specific sector. Under Article XX(d) of GATT the Member States are not obliged to prohibit as an obstacle to trade the exercise of trade-mark rights in the sphere of Community external trade.

— Since the exercise of trade-mark rights within the framework of international trade is not prohibited in any third country, to admit such a prohibition in the Community system would result in infringing the trade-mark law of the Member States and the future European law on trade-marks;
— In those circumstances it is of little importance to know whether the trade-marks at issue in the present case have 'the same origin' within the meaning of the *Hag* judgment ([1974] ECR 731), the more so since the application of the principles propounded on this point in the judgment raises other problems which are difficult to resolve.

The German Government consequently concludes that the following reply should be given to the first question in Case 51/75:

'Articles 110 *et seq.* and 30 *et seq.* of the EEC Treaty are to be interpreted as meaning that the proprietor of a trade-mark registered in one Member State of the Community may oppose the importation of goods bearing the same mark from a country outside the Community in so far as the conditions for the application of Article 85 *et seq.* of the EEC Treaty do not apply'.

With regard to the *second question* in the same case the German Government states that the trade-mark does not entitle its proprietor to prohibit others from manufacturing a specific product but merely entitles him to prohibit the use of a certain appellation or sign identifying it. The question put must thus be read as asking whether, in certain circumstances, A may prevent B from applying to certain goods the mark which A holds in a Member State and from distributing such goods under this mark in the same State. In replying to such a question it must be considered:
— that, according to the facts set out in the order making the reference A ist the proprietor of the mark in dispute in all the Member States, so that under the national law of the relevant Member State B is infringing A's rights, irrespective of the State on the territory of which he uses this mark and markets the products bearing it. In this respect it is of little importance that the use of the mark and the marketing of the products bearing it in the Member State are regarded as effected directly by B or through a subsidiary established in that State;
— In the present case the mark is not used by A in order to partition national markets within the Community;
— Even assuming that Article 30 could apply to the present case, the exercise by A of his trade-mark rights would be covered by the derogation contained in Article 36 of the Treaty. Community law does not prohibit the right of the proprietor of a mark in a Member State to prohibit third parties, even if in another Member State they are proprietors of an identical mark having the same origin, from affixing this mark to a product and from marketing it on the territory of the first State;
— On the other hand Community law prohibits the proprietor of a trade-mark form preventing the importation of products bearing the same mark, coming from another Member State and manufactured by a third party who is the proprietor in the latter State of an identical mark having the same origin. However, this is not so in the present case since in all the Member States in the Community the mark in dispute belongs to one and the same proprietor (the plaintiff in the main action).

The German Government ends by suggesting the following reply to the second question:

'The owner of a trade-mark right in a Member State of the Community is not

disentitled by the provisions of Community law from prohibiting, on the basis of his trade-mark right, goods, in respect of which the trade-mark is protected, from being marked with the trade-mark in this Member State and from being put into circulation when so marked.'

F — Written observations submitted by the French Government

The French Government reviews the essential characteristics of the national legal system of the Member States regarding trade-mark law, considers the scope of the provisions of the EEC Treaty in this sphere and then points out that in its case-law the Court has endeavoured to control the exercise of trade-mark rights without affecting the existence as such of this right, as is defined and protected by national legislation. The solution adopted by the Court in particular in the *Sirena* judgment ([1971] ECR) and the *Hag* judgment ([1974] ECR 731) essentially consists in refusing to consider the competing marks as territorially independent and in re-establishing, in the person of the current proprietors, the community of interests which originally existed. However, in order to define the scope of this solution it must be borne in mind

— that the marks considered by the Court in those two judgments were purely national marks of Member States;
— that the aim of the Treaty consists in merging the national markets of the Member States into a single market and not to assist under abnormal or illegal conditions the penetration of those markets by persons from third countries;
— that in the present cace the exercise by A of his trade-mark right against B does not affect trade between Member States. Furthermore, the present disputes do not originate in an open conflict between the national systems of trade-mark law and Community legislation but from a conflict arising between those systems and the action of a third party from outside the common market.

After setting out those general considerations the French Government in addition observes

— that the provisions of the Treaty on the free movement of goods (Article 30 *et seq.)* are not applicable to the present case: the present proceedings relate on the one hand to trade between a Member State and a third country and, on the other hand, to the dispute existing between a local manufacturer and the proprietor of a local trade-mark;
— the rules on competition are likewise inapplicable. In fact in the said judgments in the *Hag* and *Sirena* cases the Court acknowledged that Article 85 of the Treaty does not apply where there exists between the two present proprietors of the mark 'no legal, financial, technical or economic links'. The Court also stated that the proprietor of a mark does not enjoy a dominant position within the meaning of Article 86 merely because he is in a position to prohibit third parties from putting into circulation, on the territory of a Member State, products bearing the same trade-mark. Such a position only comes about if, *inter alia,* the proprietor exercises his right in such a way as to impede the maintenance of effective competition over a considerable part of the relevant market;
— it is clear from the statement of facts in the orders for reference that those conditions are wholly lacking in the present case;
— in addition an affirmative reply to the questions put would without any justification favour B at the expense of A since the latter would be unable to call Community law in aid in the third country where B has registered the mark in dispute and he would be

regarded as infringing the mark in that latter country if he were to use the relevant mark there. Furthermore an affirmative reply would be all the more harmful to the nationals of the Community in that the Paris Convention did not adopt the principle of reciprocity and merely recognized the principle of treating foreigners as equivalent to nationals.

For these reasons the French Government considers that a negative reply must be given to the questions put in the three cases.

G — Written observations submitted by the Irish Government

The Irish Government finds first of all that the trade-mark legislation of the Member States does not create rights the exercise of which in general conflicts with the provisions of Article 2 of the Treaty. On the contrary unless the proprietor of a mark infringes other provisions of the Treaty the exercise of those rights contributes to the attainment of the objectives referred to by Article 2.

In the present case the economic unit referred to as B in the orders for reference has no right to use the disputed mark within the Community. In those circumstances to grant B the protection which it claims would not only result in allowing it to use the disputed mark within the Community but would also permit this to be done by any undertaking other than A. Such an outcome is not justified under Article 2: it cannot be reconciled with the task of the Community and is contrary to the principles on which the customs union is based.

Having made this point the Irish Government considers the implications of the provisions of the Treaty on the free movement of goods (Article 30 *et seq.)* and on competition (Article 85).

(a) The Irish Government considers that since the *provisions on the free movement of goods* refer exclusively to trade between Member States in this case they cannot restrict B's exercise of its exclusive right. Furthermore, when A prohibits B from using the mark in dispute within the Community it is merely exercising its right normally without effecting any arbitrary discrimination or disguised restriction on trade between Member States within the meaning of Article 36 of the Treaty.

The contrary argument is not supported by a number of decisions of the Court, since

— in the *Hag* judgment ([1974] ECR 731) the facts on which the Court adjudicated differ from those in this case. In the *Hag* case the undertaking alleged to have used the disputed mark was also the proprietor of that mark within the Community whereas in the present case neither B nor any part of B has any legal right to use the mark in dispute within the Community. Likewise in the *Hag* case the products which it was sought to prohibit from being marketed in a Member State, to the extent that they bore the mark in dispute, were lawfully marketed in another Member State whereas in the present case B has not lawfully marketed them in any part of the Community. It is futile for B to endeavour to seek to rely on Article 9 (2) of the Treaty. This provision does not accord to products imported into a Member State from a third country more favourable treatment than that reserved for products originating in a Member State: both are subject to the national laws of each Member State, including trade-mark law. Furthermore, in the Hag case the relevant mark had a common origin in an undertaking established in the Community whereas in the present case the mark has a common origin in an undertaking established in a third country. Finally, in this case the transfer of the mark did not play a part in partitioning markets within

the Community since a single proprietor holds the trade-mark in every Member State;

— it should furthermore be noted, as regards the judgment in the *Centrafarm* case ([1974] ECR 1183), that the products in dispute in that case had been marketed in a Member State under the relevant mark with the consent of its proprietor and that, because of the links existing between the two proprietors of the mark (parent company and subsidiary) in two Member States of the Community, the exercise of the trade-mark right resulted in partitioning the markets. In the present case neither have the products in dispute been marketed in a Member State with the consent of the proprietor of the mark nor has the exercise of the trade-mark right by its proprietor in the Community partitioned national markets within the common market.

(b) With regard to the *rules on competition* the Irish Government considers that the conditions for the application of Article 85 of the Treaty are likewise absent in the present case. The only undertaking which is entitled to use the mark in dispute in the Community has neither concluded an agreement nor participated in any concerted practice regarding this mark with another undertaking 'within' the Community. Furthermore there does not presently exist and never has existed any legal, financial, technical or economic link between the proprietor of the mark in the Community and the proprietor of the mark in a third country; nor is there any indication of concerted action between those two undertakings. The only agreements which can have any importance, those dated 27 April 1917, do not come within the category prohibited by Article 85 (cf. the abovementioned *Centrafarm* Judgment). Consideration of the provisions of those agreements, as reproduced in the order making the reference, leads to the conclusion that they do not have as their object or effect the prevention, restriction or distortion of competition within the common market. Furthermore they do not affect trade between Member States.

Taking account of those consideration the Irish Government proposes that the following replies should be given to the questions put in Case 51/75:

(1) The provisions of the Treaty establishing the European Economic Community and in particular the provisions laying down the principles of Community law and the rules relating to the free movement of goods and to competition should *not* be interpreted as to disentitle A from exercising its rights in the trade-mark under the appropriate national law in every Member State to prevent:

(i) the sale by B in each Member State of goods bearing the mark X manufactured and marked with the mark X by B outside the Community in a territory where he is entitled to apply the mark X, or

(ii) the manufacture by B in any Member State of goods bearing the mark X.

In addition the Irish Government further suggests that a negative reply should be given in Cases 86/95 and 96/75.

H — Written observations submitted by the Netherlands Government

The Netherlands Government considers the problem in dispute in the light of the provisions of the Treaty on competition (Articles 85 and 86) and on the free movement of goods (Articles 30 to 36). It makes the following particular observations:

— in its judgment in the *Hag* case ([1974] ECR 731) the Court found that the application of Article 85 of the Treaty was excluded on the grounds that there existed no legal, financial, technical or economic links between the two proprietors of the mark. As is clear from the statement

of facts in the order making the reference this is precisely the situation in the present case.

— with regard to Article 86 the Court found in its judgment in the *Sirena* case ([1971] ECR) that the proprietor of a mark does not enjoy a dominant position merely because he is in a position to prevent third parties from putting into circulation in a Member State products bearing the same mark. The proprietor of the mark enjoys a dominant position if he has the power to impede the maintenance of effective competition over a considerable part of the relevant market. It does not appear that this condition is fulfilled in the present case.

— it is undisputed that Article 36 of the Treaty allows derogations from the prohibition on quantitative restrictions and measures having equivalent effect set out in Articles 30 and 34 of the Treaty to the extent that *inter alia* such derogations are justified on ground of protecting rights which constitute the specific subject-matter of the industrial and commercial property. In the abovementioned Hag case the Court found, however, that such derogations are not justified if the exercise of the trade-mark right tends to contribute to the partitioning of the markets and if the right is asserted in order to prohibit the marketing in a Member State of goods legally produced in another Member State under an identical trade-mark having the same origin. Those conditions are absent in this case. Furthermore the fact that the relevant marks had the same origin would have been taken into consideration by the Court if the point at issue had been barriers to the free movement of goods between Member States whereas the present case relates to barriers to trade between a Member State and a third country.

— an affirmative reply to the questions put would result in discrimination against the proprietors of a mark in the Member States to the advantage of those owning the same mark in a third country. It would be detrimental to consumers who are accustomed to associate a mark with a specific product and would deprive the mark itself of its particular function.

On those grounds the Netherlands Government suggests that a negative reply should be given in the three cases.

It finally adds that it must not be forgotten that the restriction imposed by A on B in the present case solely involves the prohibition on the latter from importing or manufacturing in the Community records bearing the mark in dispute. It does not prevent B from importing or manufacturing records under another mark if it does not infringe the trade-mark owned by third parties.

I — Written observations submitted by the Government of the United Kingdom

The Government of the United Kingdom considers that any restriction on the exercise of trade-mark rights must not be imposed lightly. Consumers and users gradually establish a connexion between products bearing a mark and the trader who holds such a mark. The purpose of the trade-mark is thus both to protect the interests of the trade and of consumers.

Furthermore, in the absence of express provision to the contrary, and there is no such provision in the present case, the EEC Treaty must not be interpreted so as to favour the proprietors of trade-marks in a third country as compared to those who own trade-mark rights recognized by Member States. Likewise, in the absence of provisions to the contrary in Community law, it is permissible for Member States to subject spurious products from third countries to

restrictions on imports for reasons similar to those set out by Article 36 of the Treaty.

Having made the above points the Government of the United Kingdom considers the implications of the provisions of the Treaty on competition and on the free movement of goods and in particular makes the following observations:

(a) On the *rules on competition:*

— Article 85 refers exclusively to agreements, practices or decisions which may affect trade between Member States and consequently does not apply to trade with third countries.

— Furthermore, at the time of the assignment of trade-mark X the predecessors in title of A and of B, as parent company and subsidiary, formed part of the same economic unit so that no agreement, decision or concerted practice within the meaning of *Article 85* existed. In fact, according to the decision of the Court, *Article 85* does not refer to agreements or practices existing between undertakings, such as a parent company and its subsidiary, which form an economic unit within which the subsidiary does not enjoy any real independence.

— The assignment took place long before the Treaty entered into force; the ownership of the mark now held by B has changed hands on a number of occasions and there has never been any legal, financial, technical or economic link between A and B as now constituted. Although the *Sirena* judgment ([1971] ECR) greatly extended the scope of the provisions of the Treaty on competition it must not be forgotten that a mere assignment does not of itself suffice to render applicable Article 85 of the Treaty. For this there must exist other factors indicating in particular that the assignment was effected in accordance with an agreement the purpose of which is to partition the common market or which for another reason is contrary to the the provisions of *Article 85* (1) or of *Article 86.*

— Whilst it is true that an agreement concluded before the entry into force of the Treaty may fall under Article 85 it is nevertheless necessary that the parties should have concluded such an agreement with the purpose of evading the prohibitions of the Treaty.

— A is entitled to mark X in all the Member States of the Community. In the absence of any prior agreement indicating an intention to abuse this right it is thus impossible to state that the assignment made between the predecessors in title of A and B had as its effect the prevention, restriction or distortion of competition within the common market within the meaning of Article 85 (1) of the Treaty.

(b) The provisions of Articles 30 to 36, which make it possible to terminate the restrictions on imports created by means other than those prohibited by Articles 85 and 86 of the Treaty, also apply solely to trade between Member States. The fact that in the present case undertaking B owns a subsidiary within the Community is irrelevant since Article 30 of the Treaty relates exclusively to the fact of importation and does not take into consideration connexions which may exist between the importer and his supplier who is established in a third country. Moreover the principle of the 'exhaustion' of the right, which the Court has already recognized, is inapplicable to the present case since the relevant products were not marketed for the first time in a Member State of the Community either by the proprietor of the exclusive right in that State or with his consent.

The British Government indicates the differences existing between this dispute and the situation referred to in the *Hag*

judgment ([1974] ECR 731), emphasizes the special and restricted scope of this judgment and goes on to propose that the Court should answer the questions referred to it as follows:

'(1) that *Articles 85,* and *30 and 36* do not apply to the present case; and

(2) that, as a result, A is *not disentitled* to exercise its rights under the appropriate national law to prevent either —

(i) the sale thereby of goods bearing the mark X manufactured and marked with the mark X by B outside the Community in a territory where he is entitled to apply the mark X, or

(ii) the manufacture by B in any Member State of goods bearing the mark X.'

J — Written observations submitted by the Commission of the European Communities.

The Commission sets out first of all general considerations on the conditions for the application of the rules of Community law on competition and on the free movement of goods. This body of rules is intended to protect the unity of the common market by prohibiting two different methods of partitioning the market.

Article 85 applies to restrictions on competition which constitute the subject, the means or the consequence of an agreement, or concerted practice or, less frequently, of a decision by an association. On the other hand Articles 30 to 36 apply to cases where there is no agreement or concerted practice between the relevant undertakings. In many situations it may be said that it is irrelevant whether an assignment of a mark falls under Article 85 because it has restrictive effects on trade between Member States since in any event Articles 30 to 37 of the Treaty prevent the use of the trade-mark to partition the common market. On the other hand this question retains its importance in other specific situations, in particular when, in a case of imports coming directly from third countries and not of trade between Member States, Articles 30 to 37 of the Treaty cannot be applied. On the other hand Article 85 remains applicable to an agreement even if one of the parties is not established in the Community.

Having set out these general considerations the Commission considers whether and to what extent the abovementioned rules are applicable to the present case.

1. It considers first of all the *rules on the free movement of goods* and makes in particular the following observations.

(a) The provisions of Articles 30 to 36 of the Treaty apply solely to trade 'between Member States' and prohibit the partitioning of national markets within the Community. The underlying reasons for this prohibition do not exist in cases like the present which relate to trade with third countries. To concede the contrary view would be to place in jeopardy the specific purpose of the trade-mark law in the common market, and render useless from a practical point of view the creation of a European mark which the Community is currently considering and drafting. Furthermore there is no guarantee of 'reciprocity' to assure the proprietor of a mark in the common market of treatment in third countries identical to that which, according to the argument put forward by CBS, Community law must confer on the proprietor of the mark in a third country.

(b) Neither Article 110 *et seq.* of the Treaty on the common commercial policy nor the rules of law adopted for their implementation contain provisions prohibiting Member States from applying measures having equivalent effect with regard to third countries or at any rate from maintaining existing measures.

(c) The fact that the records bearing the mark in dispute are 'in free circulation in

a Member State' can in no way shield them from the provisions which, in the public interest and for the protection of private interests, are also applied to products originating from the said State.

It is clear from Article 10 (1) of the Treaty that the conditions relating to 'free circulation' consist in completing the import formalities and paying any customs duties and charges having equivalent effect which are due. Since the imported goods have complied with those conditions the fact that they are in free circulation in the Community merely has the effect of exempting them from the application of other taxation and from other customs formalities but by no means implies that the regularity of their marketing has been verified in relation to the national provisions of the importing State regarding industrial and commercial property rights.

A differing interpretation of the concept of goods 'in free circulation' such, as that put forward by CBS, is not only contrary to the wording of Article 10 of the Treaty but puts domestic goods at a disadvantage in relation to goods imported from third countries. It also results in depriving marks registered in the Member States of their particular function since such marks no longer retain any commercial value.

(d) The fact that the goods in dispute, which were supplied by CBS to its subsidiaries established in the common market, have become the property of these subsidiaries as a result of transactions which took place exclusively within an 'economic unit' does not mean that such goods are to be considered as lawfully available on the common market for the purposes of their being marketed.

Hitherto Community law has employed the concept of an 'economic entity' in the context of Articles 85 and 86 in order to decide when an agreement between a parent company and its subsidiary constitutes an agreement between two separate undertakings and whether there is genuine competition between the two partners which is capable of being restricted by such an agreement. This concept can in no way be employed to allow the parent company to import spurious products into a Member State with the intention of selling them within the Community. If this were not so, then, since goods originating in the common market may not be treated less favourably than those from third countries, the parent company could also affix the spurious mark to products imported without a mark or manufactured by its subsidiary, thus infringing the mark protected by the legislation of the Member State where the subsidiary carries on business.

(e) Furthermore the principle stated by the Court in the *Hag* judgment ([1974] ECR 731) does not apply to the present case. This principle:

- relates to a case where the proprietors of two identical marks having the same origin own those marks within the Community whereas in the present case one of the two proprietors owns the mark in dispute in all the Member States whilst the other owns it in third countries outside the Community,
- is based on Articles 30 to 37 of the Treaty which only apply to trade between Member States,
- refers to the case of goods 'lawfully' produced in another Member State under the same mark whilst the CBS products from the United States were not legally manufactured under the Columbia mark within the Community,
- entitles each of the two proprietors of the mark to sell his goods on the other's market and thus establishes a system of 'reciprocity' which cannot be established under Community law since one of the two proprietors of the mark owns it in a third country.

(f) The same holds good regarding the principle of the 'exhaustion of the

trade-mark right' recognized by certain national legal systems and which the Court applied at Community level. Although the trade-mark is thus 'exhausted' when goods lawfully bearing the mark are distributed within the common market by the proprietor himself or with his consent it is nevertheless impossible purely and simply to extend this principle to a case where the proprietor of an identical mark markets in a third country goods originating from that country.

On the basis of these considerations the Commission takes the view that, with regard to the rules relating to the free movement of goods, including those of Article 10 and of the common commercial policy, the questions put should be answerd in the negative.

2. The Commission next considers the *rules on competition.* It states that at the time when it lodged its written observations in Case 51/75 it was only aware of the facts indicated by the court making the reference, that is to say, of the agreements of 1917. When it lodged its written observations in Case 86/75 it expressly declared that with regard to the applicability of Article 85 of the Treaty it was then unable to draw final conclusions from the documents produced in the meantime. Only after examining these documents in greater depth did the Commission find that the observations formulated in the two abovementioned cases required to be supplemented and where necessary corrected.

This examination relates in particular to the following documents:

- the agreements of 27 April 1917 between the American company, Columbia Graphophone Company, and its English subsidiary the Columbia Graphophone Company Limited;
- the agreement of 22 November 1922 between the American company, Columbia Graphophone Manufacturing Company, and the English companies, Constructive Finance Company and Columbia Graphophone Limited;
- the agreement of 5 January 1932 between the American company, Columbia Phonograph Company Inc., and Columbia Graphophone Company Limited which had in the meantime become wholly-owned subsidiary of Electrical and Musical Industries Limited;
- the agreement of 31 December 1946 between the American company, Columbia Recording Corporation and Columbia Graphophone Company Limited;
- the agreement of 18 September 1952 between the American company, Columbia Records Inc., and Columbia Graphophone Company Limited;
- the agreement of 15 November 1962 between Columbia Broadcasting System Inc. and Electrical and Musical Industries Limited;
- the agreement between CBS Records Limited and EMI Records (the Gramophone Company Limited) which is regarded as having been made *de facto* on 18 February 1966.

These agreements as a whole show that in the course of the years 1917 to 1956 competition was completely eliminated between the American and British Columbia companies. Those undertakings had effected a partition of the world market, accompanied by an assignment of the mark, so that the national markets of all the Member States of the Community as it then was were the preserve of the British partner. This partitioning was supplemented by collaboration regarding the manufacture and distribution of records involving in particular the exchange of matrices and records and the obligation on the part of each partner to reserve to the other partner, too, the benefit of exclusive contracts concluded with performers. The American and British Columbia companies only limited the scope of

their contractual relations through the agreement of 18 December 1952 which expired on 31 December 1956. However by the agreement of 15 November 1962 they resumed those relations after an interruption of six years. Under this agreement Columbia records produced by the American company were manufactured and distributed in Europe by the British company whilst the Columbia records produced by the latter company were manufactured and distributed by the American company on its own market. The exclusive contracts concluded by each of the two companies with performers also benefited the other. According to the statements made by the parties in the course of the main action their collaboration was terminated towards the end of the sixties or at the beginning of the seventies.

In the light of these circumstances the Court should, in accordance moreover with its case-law in order to provide the national court with an answer which will assist it, read the questions put as asking whether the exercise by A of his trade-mark right also infringes the provisions of the Treaty on competition because the predecessors in title of A acquired this mark through an agreement within the framework of a partitioning of markets which reserved to them the entire territory of the Community and because restrictions on competition were in whole or in part maintained through agreements subsequently concluded between A and B or their predecessors.

The Commission remarks that, unlike the provisions on the free movement of goods, those on competition also apply to facts and situations which originate outside the Community but which nevertheless affect the system of competition within the common market. The case-law of the Court in this sphere together with a whole series of decisions by the Commission merely confirm this point of view.

Accordingly, there can be no doubt that, with the possible exception of the agreements of 1917 which were concluded at a time when the American company held the entire capital of its British subsidiary, the other above-mentioned agreements come within the ambit of Article 85 of the Treaty since they have restrictive effects on competition within the common market.

With regard to the problem of whether and to what extent this provision is in fact applicable to the situation in dispute it should be recalled that, according to the principles laid down by the Court in its case-law:

- although the rules on competition do not affect rights which constitute the specific subject-matter of industrial and commercial property they may nevertheless affect the exercise of such rights;
- the exercise of a trade-mark right is particularly apt to lead to a partitioning of markets, and thus to impair the free movement of goods between States *(Sirena* Judgment [1971] ECR);
- in relation to trade-marks, the specific subject-matter of the industrial property is the guarantee to the proprietor of the exclusive right of the opportunity of using that trade-mark for the purpose of putting a product into circulation thus protecting him against competitors wishing to take advantage of the status and reputation of the trade-mark by selling products illegally bearing that trade-mark *(Centrafarm/Winthrop* Judgment, [1974] ECR 1194);
- to prohibit the marketing in a Member State of a product legally bearing a trade-mark in another Member State, for the sole reason that an identical trade-mark having the same origin exists in the first State, is incompatible with the provisions providing for free movement of goods within the common market *(Hag Judgment [1974] ECR 744).*

This case-law is inspired by a basic concern to avoid in the first instance that

the proprietor of a trade-mark might by availing himself of the exclusive right conferred upon him by the various national legal systems, impair the unity of the common market. The same considerations may be raised with regard to the trade with third countries. Here, too, trade-mark rights may be used in order to partition the markets at international level: such a partitioning concerns the Community to the extent that it relates to the common market itself.

Furthermore regarding the application of Article 85 to such situations the distinction between an 'assignment' (or transfer) of the mark on the one hand and 'a licencing agreement' on the other hand is not conclusive. If on the one hand it is too much to claim that any assignment of a mark fulfils the conditions for the application of Article 85 of the Treaty, on the other hand it is in fact difficult to draw a precise distinction between a case where the 'simple' assignment does not constitute an agreement in restriction of trade and one where it involves an agreement of this nature.

This problem is of little importance regarding assignments of national marks within the common market since in such cases the provisions of the Treaty on the free movement of goods are already sufficient by themselves to prohibit the exercise of the trade-mark right. On the other hand, it has important consequences regarding assignments of marks effected at international level which thereby escape the said provisions. However, although such a problem merits careful consideration its solution does not appear necessary in the present case since in this instance the exercise by EMI of its trade-mark right falls under Article 85 of the Treaty for other reasons: in particular, because the assignment of the mark in dispute is embodied in a group of agreements creating a cartel formed for the purpose of sharing markets. In fact, the transfer in 1917 of the European marks by the American company to the British Company was intended to bring about a partitioning of the international markets between those two companies. This partitioning of the markets was re-enforced and consolidated on several occasions by the successive agreements concluded between 1922 and 1956 so that it is correct to state that EMI's ownership of the disputed marks in all the Member States of the Community originates and has its *raison d'être* in that partitioning.

The fact that the said agreements have now expired does not suffice by itself to exclude the application of Article 85 of the Treaty. This article remains applicable even to an agreement which has expired if it appears that the agreement continues to produce its effects after it has ceased to be in force. This is precisely the situation in the present case.

The fact that an agreement providing for a division of the markets and technical cooperation has ceased to be in force does not by itself imply that the agreement has ceased to have any restrictive effect on competition. If such agreement incorporated an assignment of a mark it is necessary for example either that the mark should be re-assigned to the original proprietor or that each party should undertake to refrain from closing his own market — by means of his exclusive right — against products coming from the other party and bearing the same mark. If one or other of those conditions is not fulfilled the exercise of the trade-mark right constitutes the result of a restrictive agreement intended to partition markets which, although it has expired, continues to produce effects by reason of the possibilities available under national law on industrial and commercial property.

Having regard to these considerations the Commission takes the view that under conditions such as those described above Article 85 of the Treaty prevents the exercise by EMI of the trade-mark right in dispute.

It is incorrect to say that the prohibition applied to CBS against using the Columbia mark in the common market is not capable of having an appreciable affect on competition in that market since CBS is not prevented from selling its records there by using other marks than the Columbia mark. In view of the international reputation of this mark and taking into account the size of the undertakings which claim the right to use it, such a prohibition would on the contrary have appreciable restrictive effects on the system of competition in the common market.

Nor can it be objected that the application of Article 85 of the Treaty is excluded in the present case owing to the fact that Community law cannot ensure for EMI any reciprocity *vis-à-vis* CBS on the market controlled by the latter under the Columbia mark as the provisions of Articles 85 and 86 of the Treaty have as their sole object to protect the system of competition in the common market. This is such a vital objective for the Community that the application of those provisions to restrictions created outside the Community but producing effects within the common market cannot depend on whether reciprocity is ensured. Furthermore it must not be forgotten that the United States has well-established legislation which makes it possible to avoid restrictions on competition arising from the exercise of rights created by the national system of industrial and commercial property.

The Commission finally observes in passing that if, contrary to its contentions, the Court considered that it must recognize that EMI is entitled to enforce the Columbia mark in order to prohibit CBS from importing and selling the records in dispute in the common market, it follows that EMI is also entitled to prohibit third parties from importing and selling in the common market such records already marketed in the United States. The fact that the records have already been put on the market by CBS in the United States does not imply that owing to the identity of the mark they are to be considered as marketed also by EMI, or with its consent, in the common market. In other words the principle of the 'exhaustion' of the right, recognized by the Court in the Deutsche Grammophon Case ([1971] ECR) cannot be extended generally to cases where the products are put on the market in a third country by the proprietor of an identical mark.

III — Oral procedure

At the hearing on 24 February 1974 the undertakings EMI Records Limited, CBS UK Limited, CBS Grammofon A/S and CBS Schallplatten GmbH, the Governments of the Federal Republic of Germany and of the United Kingdom together with the Commission of the European Communities further expounded their arguments.

EMI Records particularly emphasized that there were no legal, economic, financial or technical links between the English and American Columbia undertakings as presently constituted.

It denied that the assignment of the Columbia mark in 1917 was intended to support or reinforce a division of the markets and stressed the special features of British trade-mark law then in force which had necessitated the assignment in dispute.

EMI Records also emphasized the fact that CBS was capable of maintaining active competition in the common market by the sale of records bearing the CBS mark, manufactured in Europe or by the introduction of records, bearing the Columbia mark, manufactured in the United States since the stickering of the latter category of records presents no major technical or financial difficulties.

The CBS undertakings on the other hand denied the existence of such competition

and developed the arguments set out in their written observations.

In addition they reaffirmed that there is a cartel between the English and American Columbia undertakings which infringes Article 85 of the EEC Treaty since it is intended to establish a division of the markets; this is confirmed by the agreements applied until 1974 and which continue to produce effects at the present moment.

They further point to certain provisions of Community law regarding commercial policy, in particular Regulation No 1439/74 of the Council of 4 June 1974 on common rules for imports (OJ L 159 p. 1) and the principles written into the 'ACP — EEC Convention' signed at Lomé on 28 February 1975 (OJ L 25 1976) and into Articles XI and XX of GATT.

It is clear from those provisions and principles that the Community intends to subject the system of trade with third countries to arrangements approximating as closely as possible to those applicable to the system of trade between Member States.

The German and British Governments drew the attention of the Court to the adverse effects which could be occasioned by an examination of the problem in dispute which takes into consideration facts other than those expressly stated by the courts making the references.

They further emphasized the difference of substance existing, with regard to the abolition of barriers to trade with third countries, between the provisions of Articles 30 to 36, 85 and 86 of the Treaty on the one hand and the rules which the Member States are free to adopt *vis-à-vis* third countries within the framework of the common commercial policy.

On 26 January 1976 the Commission lodged an agreement of 9 May 1963 and an agreement of 19 December 1967 which were in force until 30 April 1974 between CBS Broadcasting System, Electrical and Musical Industries and the Gramophone Company Limited.

On the basis of those agreements, together with the other agreements concluded since 1932 and produced in the course of the written procedure the Commission insisted that in the present case there existed a cartel which, brought about by means of the divided ownership of the same mark, involves a partitioning of the markets.

This cartel, established in 1917 or at the latest in 1931, is confirmed by the agreements for the exchange of matrices and the exclusive distributorship agreements which were made up to 1967 and maintained in force until 30 April 1974, and it continues to produce its effects at the present time.

The Advocate-General delivered his opinion at the hearing on 31 March 1976.

By a letter of 30 April 1976 CBS United Kingdom Limited requested the Court, pursuant to Article 61 of the Rules of Procedure, to re-open the oral procedure, citing the need to provide information on the circumstances under which CBS Inc. (USA) initiated proceedings against Nina Records Co. Inc. in the United States in order to prevent the importation into the USA of records coming from EMI and bearing the Columbia mark.

Whatever those circumstances may be neither the existence of the said dispute nor any possible outcome thereof can in any way constitute factors determining the reply to be given to the questions submitted by the national court.

Therefore the Court, after hearing the Advocate-General, decided not to accede to the request for the re-opening of the oral procedure.

Law

1 By an order of 22 May 1975 which was received at the Court Registry on 9 June 1975 the High Court of Justice, London, submitted, pursuant to Article 177 of the EEC Treaty, the following question for a preliminary ruling:

'Should the provisions of the Treaty establishing the European Economic Community and in particular the provisions laying down the principles of Community law and the rules relating to the free movement of goods and to competition be interpreted as disentitling A from exercising its rights in the trade-mark under the appropriate national law in every Member State to prevent:

(i) the sale by B in each Member State of the goods bearing the mark X manufactured and marked with the mark X by B outside the Community in a territory where he is entitled to apply the mark X, or

(ii) the manufacture by B in any Member State of goods bearing the mark X?'

2 It is clear from the information supplied by the national court that the trade-mark in question originally belonged to an American company which in 1917 transferred to its English subsidiary its interests and goodwill in various countries including the States which presently make up the Community.

3 At the same time the American company transferred to its English subsidiary a number of trade-marks, including the one in dispute, in respect of the said countries whilst retaining this mark in respect of the United States and other third countries.

4 This mark was successively acquired after 1922 by various American and English undertakings and is presently owned in a certain number of countries including the Member States by the English company, EMI Records Limited, and in other countries, including the United States, by the American Company CBS Inc., of which CBS United Kingdom Limited is its subsidiary in the United Kingdom.

5 It is clear from the information supplied by the High Court that the proprietor of the mark in the United States sells in the Community through its subsidiaries established there products bearing this mark and manufactured in the United States.

6 The essential purpose of the question submitted is to ascertain whether the proprietor of a mark in a Member State of the Community may exercise his exclusive right to prevent the importation or marketing in that Member State of products bearing the same mark coming from a third country or manufactured in the Community by a subsidiary of the proprietor of the mark in that country.

7 This is why the national court asks the Court of Justice to examine the question submitted in the light of the principles and rules of Community law relating to the free movement of goods and to competition.

(1) With regard to the free movement of goods

8 Within the framework of the provisions of the Treaty relating to the free movement of goods and in accordance with Article 3 (a), Article 30 *et seq.* on the elimination of quantitative restrictions and of measures having equivalent effect expressly provide that such restrictions and measures shall be prohibited 'between Member States'.

9 Article 36, in particular, after stipulating that Articles 30 to 34 shall not preclude restrictions on imports, exports or goods in transit justified *inter alia* on grounds of the protection of industrial and commercial property, states that such restrictions shall in no instance constitute a means of arbitrary discrimination or disguised restriction on trade 'between Member States'.

10 Consequently the exercise of a trade-mark right in order to prevent the marketing of products coming from a third country under an identical mark, even if this constitutes a measure having an effect equivalent to a quantitative restriction, does not affect the free movement of goods between Member States and thus does not come under the prohibitions set out in Article 30 *et seq.* of the Treaty.

11 In such circumstances the exercise of a trade-mark right does not in fact jeopardize the unity of the common market which Article 30 *et seq.* are intended to ensure.

12 Furthermore if the same proprietor holds the trade-mark right in respect of the same product in all the Member States there are no grounds for examining whether those marks have a common origin with an identical mark recognized in a third country, since that question is relevant only in relation to considering whether within the Community there are opportunities for partitioning the market.

13 It is impossible to avoid these conclusions by relying on Articles 9 and 10 of the Treaty.

14 According to Article 10 (1) of the Treaty products coming from a third country shall be considered to be in free circulation in a Member State if the import formalities have been complied with and any customs duties or charges having equivalent effect which are payable have been levied in the importing Member State.

15 According to Article 9 (2) of the Treaty the provisions of Chapter 1, Section 1 and of Chapter 2 of Title I of Part Two shall apply to products coming from third countries which are in free circulation in Member States.

16 Since those provisions only refer to the effects of compliance with customs formalities and paying customs duties and charges having equivalent effect, they cannot be interpreted as meaning that it would be sufficient for products bearing a mark applied in a third country and imported into the Community to comply with the customs formalities in the first Member State where they were imported in order to be able then to be marketed in the common market as a whole in contravention of the rules relating to the protection of the mark.

17 Furthermore the provisions of the Treaty on commercial policy do not, in Article 110 *et seq.*, lay down any obligation on the part of the Member States to extend to trade with third countries the binding principles governing the

free movement of goods between Member States and in particular the prohibition of measures having an effect equivalent to quantitative restrictions.

18 The arrangements concluded by the Community in certain international agreements such as the ACP-EEC Convention of Lomé of 28 February 1975 or the agreements with Sweden and Switzerland of 22 July 1972 form part of such a policy and do not constitute the performance of a duty incumbent on the Member States under the Treaty.

19 The binding effect of commitments undertaken by the Community with regard to certain countries cannot be extended to others.

20 Furthermore with regard to the provisions of Regulation No 1439/74 of 4 June 1974 (OJ L 1974, L 159, p. 1) introducing common rules for imports, these provisions relate only to quantitative restrictions to the exclusion of measures having equivalent effect.

21 It follows that neither the rules of the Treaty on the free movement of goods nor those on the putting into free circulation of products coming from third countries nor, finally, the principles governing the common commercial policy, prohibit the proprietor of a mark in all the Member States of the Community from exercising his right in order to prevent the importation of similar products bearing the same mark and coming from a third country.

22 Nor may the provisions of the Treaty on the free movement of goods be invoked for the purpose of prohibiting the proprietor of the mark in the territories of the Member States from exercising his right in order to prevent another proprietor of the same mark in a third country from manufacturing and marketing his products within the Community, either himself or through his subsidiaries established in the Community.

23 In fact the protection of industrial and commercial property established by Article 36 would be rendered meaningless if an undertaking other than the proprietor of a mark in the Member States could be allowed there to manufacture and market products bearing the same mark since such conduct would amount to an actual infringement of the protected mark.

24 The steps taken by the proprietor of a mark to prevent a person other than the proprietor of that mark in the Member States from manufacturing and distributing there products bearing the same mark cannot be classified as a means of arbitrary discrimination or as a disguised restriction on trade between Member States within the meaning of Article 36.

(2) With regard to competition

25 Under Article 85 (1) of the Treaty there shall be prohibited as incompatible with the common market 'all agreements between undertakings, decisions by associations of undertakings and concerted practices' which may affect trade between Member States and which have as their object or effect to affect adversely competition within the common market.

26 A trade-mark right, as a legal entity, does not possess those elements of contract or concerted practice referred to in Article 86 (1).

27 Nevertheless, the exercise of that right might fall within the ambit of the prohibitions contained in the Treaty if it were to manifest itself as the subject, the means, or the consequence of a restrictive practice.

28 A restrictive agreement between traders within the common market and competitors in third countries that would bring about an isolation of the common market as a whole which, in the territory of the Community, would reduce the supply of products originating in third countries and similar to those protected by a mark within the Community, might be of such a nature as to affect adversely the conditions of competition within the common market.

29 In particular if the proprietor of the mark in dispute in the third country has within the Community various subsidiaries established in different Member States which are in a position to market the products at issue within the common market such isolation may also affect trade between Member States.

30 For Article 85 to apply to a case, such as the present one, of agreements which are no longer in force it is sufficient that such agreements continue to produce their effects after they have formally ceased to be in force.

31 An agreement is only regarded as continuing to produce its effects if from the behaviour of the persons concerned there may be inferred the existence of elements of concerted practice and of coordination peculiar to the agreement and producing the same result as that envisaged by the agreement.

32 This is not so when the said effects do not exceed those flowing from the mere exercise of the national trade-mark rights.

33 Furthermore it is clear from the file that the foreign trader can obtain access to the common market without availing himself of the mark in dispute.

34 In those circumstances the requirement that the proprietor of the indentical mark in a third country must, for the purposes of his exports to the protected market, obliterate this mark on the products concerned and perhaps apply a different mark forms part of the permissible consequences flowing from the protection of the mark.

35 Furthermore under Article 86 of the Treaty 'any abuse by one or more undertakings of a dominant position within the common market or in a substantial part of it shall be prohibited as incompatible with the common market in so far as it may affect trade between the Member States.'

36 Although the trade-mark right confers upon its proprietor a special position within the protected territory this, however, does not imply the existence of a dominant position within the meaning of the abovementioned article, in particular where, as in the present case, several undertakings whose economic strength is comparable to that of the proprietor of the mark operate in the market for the products in question and are in a position to compete with the said proprietor.

37 Furthermore in so far as the exercise of a trade-mark right is intended to prevent the importation into the protected territory of products bearing an identical mark, it does not constitute an abuse of a dominant position within the meaning of Article 86 of the Treaty.

38 For those reasons it must be concluded that the principles of Community law and the provisions on the free movement of goods and on competition do not

prohibit the proprietor of the same mark in all the Member States of the Community from exercising his trade-mark rights, recognized by the national laws of each Member State, in order to prevent the sale or manufacture by a third party in the Community of products bearing the same mark, which is owned in a third country, provided that the exercise of the said rights does not manifest itself as the result of an agreement or of concerted practices which have as their object or effect the isolation or partitioning of the common market.

39 In so far as that condition is fulfilled the requirement that such third party must, for the purposes of his exports to the Community, obliterate the mark on the products concerned and perhaps apply a different mark forms part of the permissible consequences of the protection which the national laws of each Member State afford to the proprietor of the mark against the importation of products from third countries bearing a similar of identical mark.

Costs

40 The costs incurred by the Danish Government, the Government of the Federal Republic of Germany, the French Government, the Irish Government, the Netherlands Government, the Government of the United Kingdom and the Commission of the European Communities, which submitted observations to the Court, are not recoverable.

41 As these proceedings are, in so far as the parties to the main action are concerned, a step in the action pending before the national court, costs are a matter for that court.

On those grounds,

THE COURT

in answer to the questions referred to it by the High Court of Justice, London, by order of 22 May 1975, hereby rules:

1. **The principles of Community law and the provisions on the free movement of goods and on competition do not prohibit the proprietor of the same mark in all the Member States of**

the Community from exercising his trade-mark rights, recognized by the national laws of each Member State, in order to prevent the sale or manufacture in the Community by a third party of products bearing the same mark, which is owned in a third country, provided that the exercise of the said rights does not manifest itself as the result of an agreement or of concerted practices which have as their object or effect the isolation or partitioning of the common market.

2. **In so far as that condition is fulfilled the requirement that such third party must, for the purposes of his exports to the Community, obliterate the mark on the products concerned and perhaps apply a different mark forms part of the permissible consequences of the protection which the national laws of each Member State afford to the proprietor of the mark against the importation of products from third countries bearing a similar or identical mark.**

Lecourt Kutscher O'Keeffe

Donner Mertens de Wilmars Sørensen Capotorti

Delivered in open court in Luxembourg on 15 June 1976.

A. Van Houtte
Registrar

R. Lecourt
President