

JUDGMENT OF THE COURT
OF 20 JUNE 1978 ¹

Tepea BV
v Commission of the European Communities

“Cleaning devices for records”

Case 28/77

1. *Competition — Cartels — Undertaking situate in a non-member country — Application of Article 85 (1) — Conditions*
(EEC Treaty, Art. 85 (1))
2. *Competition — Cartels — Prohibition — Application — Criteria — Trade between Member States affected appreciably*
(EEC Treaty, art. 85 (1))

1. The fact that one of the undertakings which are parties to an agreement is situate in a non-member country does not prevent the application of Article 85 of the Treaty since the agreement is operative on the territory of the Common Market.
2. An agreement does not fall within the prohibition contained in Article 85 if it affects trade between Member States only to an extent which is not appreciable.

In Case 28/77

TEPEA BV (formerly known as “THEAL NV”), a Netherlands limited liability company, having its registered office at The Hague, represented by J. F. A. Verzijl, Advocate at the Bar at The Hague, with an address for service in Luxembourg at the Chambers of Ernest Arendt, 34/B/IV Rue Philippe II,

applicant,

v

COMMISSION OF THE EUROPEAN COMMUNITIES, represented by its Legal Adviser, B. van der Esch, acting as Agent, with an address for service in Luxembourg at the office of its Legal Adviser, Mario Cervino, Jean Monnet Building, Kirchberg,

defendant,

¹ — Language of the case: Dutch.

supported by

J. D. Wilkes, Leeuwarden, and All Wave B. V., having its registered office at Delft, represented by L. Wichers Hoeth and C. A. J. Grul, Advocates at the Amsterdam Bar, with an address for service in Luxembourg at the Chambers of J. Loesch, 2 Rue Goethe,

interveners,

APPLICATION for the annulment of the Commission Decision of 21 December 1976 relating to a proceeding under Article 85 of the EEC Treaty (IV/28.812 Theal/Watts; Official Journal L 39 of 10 February 1977, p. 19) and also for the cancellation of the fines imposed by that decision,

THE COURT

composed of: H. Kutscher, President, M. Sørensen and G. Bosco (Presidents of Chambers), A. M. Donner, J. Mertens de Wilmars, P. Pescatore, Lord Mackenzie Stuart, A. O'Keeffe and A. Touffait, Judges,

Advocate General: F. Capotorti

Registrar: A. Van Houtte

gives the following

JUDGMENT

Facts and Issues

The facts, the procedure and the conclusions and arguments of the parties may be summarized as follows:

I — Facts and procedure

On 21 December 1976 the Commission took a decision directed against the undertakings Tepea BV (hereinafter

referred to as "Tepea") and Cecil E. Watts Limited (hereinafter referred to as "Watts") which was enforceable under Article 192 of the EEC Treaty. Article 1 of that decision found that there had been two infringements of the Community rules on competition:

1. An exclusive oral distribution agreement between the two companies including the grant of the

- exclusive right to use trade-marks registered in the Netherlands was declared to infringe Article 85 (1) of the Treaty;
2. Tepea (which at the date of the facts complained of was known as "Theal NV" having changed its name as from 13 April 1976 to Tepea) was found to have supplied incorrect and misleading particulars in the notification which it made on 24 January 1963 of the contested agreement — an infringement in respect of which a fine may be imposed under Article 15 (1) (a) of Regulation No 17 of the Council of 6 February 1962.

The decision went on to refuse the application for a declaration under Article 85 (3) that Article 85 (1) was inapplicable. It also ordered the undertakings to bring to an end without delay the infringement referred to in Article 1 thereof and stated that they were to refrain from all further action of any kind calculated to prevent the importation into or resale in the Netherlands of any Watts products.

Finally Tepea and Watts were each fined 10 000 units of account — that is Hfl 36 200 to be paid by Tepea and £4 166 to be paid by Watts — for the infringement of Article 85 (1); an additional fine of 5 000 units of account — that is Hfl 18 100 — was imposed on Tepea for the infringement of Article 15 (1) (a) of Regulation No 17.

The Commission pleaded that its decision was supported by the following facts:

1. In 1954 Mr Cecil E. Watts invented and then manufactured and sold four types of products for cleaning and maintaining gramophone records of which the most important are:

- Watts "Dust Bug": an automatic record cleaner for transcription turntables.

- Watts "Parostatik" Disc Preener: used for the maintenance of new records.

- Watts "Manual Parastat": This device is for use with new records or for restoring the quality of old records.

- Hi-Fi Parastat: used on high quality record-playing equipment.

2. On 8 September 1956 Mr Watts appointed Theal/Tepea orally as his exclusive distributor in the Netherlands and at approximately the same time granted it the exclusive right to use the trade-marks affixed to all his products.

3. In 1960 Mr Watts incorporated his business as a company which took over the above-mentioned rights and obligations.

4. On 24 January 1963 Theal/Tepea notified the oral agreement of 8 September 1956 to the Commission; the notification was drawn up as follows:

"Exclusive dealing agreement whereby the factory undertakes to supply only Theal NV in Netherlands territory and to pass on all orders originating in that territory to NV."

The term of validity was from 8 September 1956 "until determination".

The objectives of the agreement were stated to be as follows:

"To promote the sale of the products by entrusting it to a specialist organization and to improve the supply of information to the consumer and in addition to make available to him the best possible service in the event of any defects in the appliances."

The inapplicability of Article 85 (1) was justified in this way:

"The agreement in question does not exclude free competition within the Member State concerned or between Member States but its sole object is to make available to the consumer the best possible service."

Finally according to Theal/Tepea,

"The free wording of competition remains intact since this agreement applies only to one trade-mark and there is a large number of competing trade-marks whilst the consumer's freedom to purchase remains unfettered."

The Commission did not become aware officially of the grant of the exclusive right to use the Watts trade-marks until 11 July 1975 at a meeting with Theal/Tepea and Watts. Both parties moreover stated at the hearing on 23 February 1976 that the agreement of 8 September 1956 had never been amended.

In the meantime the Commission sent Theal the following letter on 18 April 1969:

"The Commission of the European Communities adopted on 22 March 1967 Regulation No 67/67/EEC (published in the Journal Officiel des Communautés Européennes No 57 of 25 March 1967) which provides that certain categories of exclusive dealing agreements, as defined therein, shall be exempted from the prohibition laid down in Article 85 (1) in pursuance of Article 85 (3) of the Treaty of Rome. In order to be exempted the agreements in question must not however impose upon the sole concessionaire obligations which restrict competition other than those referred to by that regulation. In particular the parties must not in any way establish absolute territorial protection either by a formal agreement or by any other method; this means that they cannot limit the opportunities available to intermediaries or consumers to obtain the products referred to in the agreement from other vendors within the Common Market; the contracting parties may not either grant each other reciprocal exclusive rights to market competing products.

The Commission decided on 17 July 1968 to take no action with regard to notifications of exclusive dealing

agreements which on the basis of the facts and particulars forwarded to it by the undertakings do not provide for any absolute territorial protection. A provisional examination of the notification of your agreement, registered under the above-mentioned number, discloses that the latter is such an agreement.

If your agreement does not fulfil the conditions specified in Regulation No 67/67, which exempts certain agreements by categories, you are advised to make the necessary amendments to adapt it to that regulation. In that case your agreement might be exempted as provided for in Article 1 of the said regulation as from the date of any such adaptation.

If you wish to make any comments on the conclusions drawn from this provisional examination of your file I would ask you to let me know and to state in particular whether and for what reasons you consider it advisable that the Commission should take a decision on your agreement."

5. The marketing of the products at issue was an undoubted success because sales in the Netherlands, for example, accounted for 15 % of the entire market for record-cleaning products in that country.

Since 1954 Mr Watts had entered orally into exclusive distribution agreements with other distributors in Belgium, Denmark, France, Ireland and Italy which had been continued in force by the company which he formed in 1960. In the Federal Republic of Germany on the other hand he had concluded an oral agreement with two non-exclusive distributors. In the United Kingdom Watts supplied mainly about twenty wholesalers on the basis of a standard price list and on its own admission since May 1972 at least on the express condition not to export. This is proved by the fact that Watts stopped supplying a United Kingdom wholesaler who in

1972 exported Watts's products to the Netherlands; furthermore in 1973 Watts gave the following answer to a Netherlands company which had asked for information:

"We ... have to advise you that we do not accept any orders from countries where we have established distributors and we have an agreement with all our UK customers that they will not export any of our products sold to them for consumption on the UK market."

On 11 July 1975 Watts informed the Commission that following the United Kingdom's entry into the EEC it had discontinued the prohibition on exports which had been intended to protect the home market.

However, on 23 July 1976 Mr Wilkes — one of the interveners — produced evidence that the products were still being sold in the United Kingdom with leaflets bearing the export prohibition. There was a similar occurrence in June 1976 in the case of products manufactured and packaged after 11 July 1975.

In the case of products sold for export which are identical to the products available for the home market considerable increases of export prices, rising in some cases by as much as 32% in 1974, coincided approximately with the imposition of the export prohibition on United Kingdom wholesalers. These price differences were further widened by differences in covering parities between the currencies of the United Kingdom and the Netherlands.

6 The products manufactured by Watts are all sold under trade-marks registered in the United Kingdom. Watts has obtained similar trade-marks in Denmark, Germany and France either directly in its own name or through a subsidiary. In the Benelux countries the trade-marks relating to Watts's products are now registered on the Benelux trade-marks register under

the name "Theal" only as Watts, at the express request of Theal, withdrew on 23 October 1973 the parallel registration in its own name effected on 23 December 1971.

7. The Commission has emphasized in its decision in connexion with the special relations between Theal and Watts that in 1972 Theal was Watts's most important exclusive distributor within the EEC, that the sale of Watts's products accounted for more than 25% of its turnover and that Watts itself put on the products supplied to Theal seals in the name of that undertaking and bearing the words "Een Theal-produkt".

8. According to the Commission in 1972 the company Audiogram BV of Leeuwarden, the Netherlands, bought a quantity of Watts's products direct from a wholesaler in London who had himself obtained them from Watts.

The company resold the said products to Netherlands traders including J. D. Wilkes, also of Leeuwarden, Partimex-Holland BV, of Bussum, Willem de Jong NV of Rotterdam and Intermezzo of Amsterdam, the persons responsible in all these companies being shareholders of Audiogram which performed for them the function of importer/wholesaler. (There is an action on this subject still pending before the court at the Hague).

On 5 September 1972 Theal wrote to Audiogram and complained that Intermezzo was selling products bearing trade-marks to which Theal was entitled and that Theal had not supplied these products. This letter contained the following passage:

"... It has come to our notice that your shareholder Mr A. Norden (Intermezzo), is marketing Watts appliances ... which we have not supplied and to which trade-marks registered by us have been affixed without our consent. Such conduct on

his part is contrary to the law. We must place it on record that these articles are resold to third parties whether or not affiliated to your organization. We clearly cannot tolerate this situation and we request you to offer an explanation in this connexion."

Moreover on 2 November 1972 the applicant's legal adviser wrote to Wilkes as follows:

"My client, Theal NV, is the proprietor of trade-marks in respect of the words 'Dust Bug', 'Parastat' and 'Disc Preenner' and in respect of the pictorial mark 'Watts', all of which relate to appliances... for cleaning gramophone records.

These trade-marks have all been entered in the Benelux trade-mark register so that my client is the sole proprietor.

It has come to my client's notice that you are still marketing identical products under these trade-marks.

Although my client has on several occasions drawn your attention to the fact that your conduct is unlawful you persistently refuse to put an end to it.

In these circumstances I am compelled to call upon you to stop selling forthwith, that is to say on receipt of this letter, articles such as the ones in question under the said trade-marks and to report to me that this has been done within a period of 2 days from today... in default of which proceedings will be taken against you."

At the same time as it issued these warnings Theal commenced proceedings against the vendors of Watts products — who in its view were not entitled to do so — for having sold Watts products with which it had not supplied them and from 1972 to 1975 Theal obtained several summary decisions in its favour, founded on its exclusive right to use its registered trade-marks, in particular against Wilkes of Leeuwarden and All Wave of Delft who were later to intervene in these proceedings.

The most illuminating of these proceedings seems to be the one brought by Theal against Mr Wilkes followed on and after 30 July 1973 by the action brought by Mr Wilkes against Theal and Watts itself before the Arrondissementsrechtbank (district court), Amsterdam, in order to prevent the enforcement of the order obtained by Theal in the first stage of the proceedings before the Arrondissementsrechtbank, Leeuwarden. In the second stage Mr Wilkes invoked the EEC rules on competition which, he claimed, forbid the prohibition of parallel imports. The Amsterdam court delivered an interlocutory judgment on 14 May 1975 and it is appropriate to record its finding:

"... To the extent to which Watts in fact imposes on its English customers a prohibition on exports to the Netherlands and the other Member States this prohibition must be regarded as being in breach of the condition which the Commission (of the EEC) held to have been fulfilled in paragraph 2 (f) of its provisional acceptance of Theal's exclusive distributorship agreement. A concerted practice of the defendants on this basis would therefore contravene Article 85 of the EEC Treaty which forbids agreements restricting competition so that the carrying on by the plaintiff of his business could neither be impeded nor affected.

It follows that in principle the plaintiff's claim must be allowed provided that the latter proves that the articles to which trade-marks have been affixed and which the plaintiff has marketed — and it is common ground that they have reached the Netherlands without passing through Theal — come from Watts and have been properly imported from England...

The Arrondissementsrechtbank hereby grants the plaintiff leave to produce evidence: that the articles at issue... —

to the extent to which they were bought by him after 20 November 1972 — come from Watts and have been properly imported from England . . .”

It is to be noted that during those proceedings Theal, while moreover pleading differences in the presentation of the articles, had questioned whether the goods sold by its competitors were genuine Watts products. At that time Watts had withdrawn its registrations in its own name on the Benelux register in favour of Theal (23 October 1973).

9. During these years Theal seems to have continued to write to unlicensed vendors stating that their dealings infringed Theal's trade-mark rights in the Netherlands. It even made public — for example by a letter of 25 October 1972 to the newspaper RTH — the judgments against the vendors and announced that it would institute proceedings against any infringers; this letter ended with the sentence:

“We request you to inform the retail trade of the risks involved in such sales in breach of trade-mark rights.”

Furthermore Theal, on the strength of the difficulties which had arisen in its trade relations with Mr Wilkes, seems to have refused from April 1973 to sell Watts products to Mr Wilkes who has thus been deprived of them in the first place by his refusal to sell, in the second place by the decision of the Arrondissementsrechtbank, Leeuwarden, and in the third place by the prohibition on exports imposed by Watts on British wholesalers.

10. On 30 January 1974, pursuant to Article 3 of Regulation No 17, Mr Wilkes applied to the Commission for a finding that there was an infringement of the provisions of Article 85. The Commission decided on 2 December 1975 to initiate a proceeding in connexion with this matter. This administrative procedure culminated in a Commission decision of 21 December

1976 (IV/28·812 Theal-Watts) published in the Official Journal of the European Communities of 10 February 1977, L 39, p. 19; the reasons on which the decision is based and its scope and operative part have already been described.

Tepea, the legal successor to Theal and proprietor of the trade-mark of that name, lodged an application on 21 February 1977 against that decision. The procedure followed the normal course.

The Court by an order of 21 September 1977 allowed Mr Wilkes and All Wave to intervene in the case in support of the Commission while reserving the costs of the intervention.

Upon hearing the report of the Judge-Rapporteur and the views of the Advocate General the Court decided to open the oral procedure on 19 April 1978 after the parties had been invited to answer certain questions. It asked them:

- (a) Whether or not Tepea manufactures itself in the Netherlands products bearing its own trade-marks;
- (b) Whether the trade-mark Theal is actually affixed to the products manufactured by Watts at the manufacturing stage in the United Kingdom;
- (c) Whether, within the category of the articles referred to in the decision, Tepea sells only products imported from the United Kingdom;
- (d) Which trade-marks had been registered and/or used, on the one hand by Watts and on the other by Tepea, before the date of the agreement for the sale of the products in question in the various States which at that time were members of the Common Market and the United Kingdom?

The Commission was also invited to add to the Court's file the

correspondence between the Commission and Tepea during the administrative procedure (with special reference to the letters quoted in the written procedure).

The replies reached the Court Registry before 30 March 1978.

II — Conclusions of the parties

The *applicant* claims that the Court should:

- “Annul the decision of the Commission of the European Communities; and
- Cancel the fines imposed by the Commission.”

The *defendant* contends that the Court should:

- “Declare that the application is unfounded; and
- Order the applicant to bear the costs.”

The *interveners* submit that the Court should:

“Confirm the contested decision, if need be after perfecting and completing the statement of the reasons on which it is based, and order Tepea to bear the costs.”

III — Submissions and arguments of the parties in the written procedure

1. *The nature of the agreements between Theal and Watts*

The *applicant* states in its application that though there was in fact an oral exclusive distributorship agreement there could not have been an agreement for the exclusive use of the trade-marks, because it was the first user of the latter in the Netherlands, and this explains why the notification does not mention it

and why it has never been able to say anything to the contrary. In particular “Parastat”, “Disc Preener” and “Dust Bug” are all trade-marks established and registered by the applicant after the sole agency agreement and not by Watts, who subsequently used and registered the third in the United Kingdom, but after Theal’s registration in the Netherlands. Watts and the applicant may have been at cross-purposes to some extent on this point but this was due to a misunderstanding.

The applicant never intended by enforcing its trade-mark rights to prevent imports into the Netherlands of products manufactured by Watts. This emerges from all the actions it brought in the Netherlands and especially from the actions involving Mr Wilkes and All Wave. Thus the Arrondissementsrechtbank, Amsterdam, invited Mr Wilkes to produce evidence that the goods which he sold actually came from Watts and were properly imported; Mr Wilkes did not manage to adduce such proof.

The *defendant* points out that the applicant, using its own terminology, when it speaks of the “agreement” refers only to its appointment as Watts’s exclusive agent whilst at the same time it considers that it has a right of its own over the trade-marks. But in this way it leaves out of account in particular the use of the “Watts” trade-mark, used in the United Kingdom before the 1956 agreement, and in the case of the three others (Dust Bug, Disc Preener and Parastat) it relies on the fact — which moreover is questionable in the light even of a declaration made in its name during the hearing of the parties concerned during the administrative procedure — that Watts has not used them as trade-marks (Dust Bug) or has not had them registered as such (Disc Preener and Parastat). In fact Watts registered the trade-mark Parastat in the United Kingdom on 11 February 1958.

The defendant gives the reasons why it came to the conclusion that there was an agreement covering the trade-marks:

- The appointment as sole agent for branded articles, in this case the Watts articles, presupposes that the applicant's trade-mark rights were acquired "by" an agreement (judgment of 18 February 1971 in Case 40/70, *Sirena S.r.l. v Eda S.r.l. and Others* [1971] ECR 84 paragraph 1 (a) of the operative part
- In the United Kingdom Watts was the first to use the "words" Dust Bug, Disc Preener and Parastat.
- Various facts (conversations, an admission, letters) prove that Watts always consented to the applicant's use of certain words or trade-marks to designate Watts's products.
- The applicant considered that the consent which it had been given expressly for Dust Bug also applied to the trade-marks Disc Preener and Parastat which Watts has clearly admitted; these trade-marks were covered by a tacit agreement relating to the use of certain rights by a contracting partner. An agreement in such a form also falls within the concept of an agreement within the meaning of Article 85 (1).
- The applicant's position as a concessionnaire of derivative rights in the four trade-marks in question has also been confirmed by a letter which two of its directors wrote to Watts on 10 October 1973:
 "We acknowledge that your company is the proprietor of the trade-marks Dust Bug, Disc Preener, Parastat and Watts.
 If you agree to withdraw the registration of these trade-marks in your name on the Benelux register or your application for registration, as the case may be, we undertake to take at any time, at your request, the necessary steps to assign any

rights which we may have to your company, or to the company, person or persons designated by you or your successors."

This letter makes it clear that the applicant had an interest in removing Watts's registration from the Benelux register in order to be able to prevent parallel imports and to gain credence for the idea that it had its "own" rights over the trade-marks referred to. Moreover light has been thrown on the contents of this letter by particulars obtained recently by the Commission of the contacts between Watts and Theal which preceded the despatch of the said letter: Watts's registration was an embarrassment in the proceedings brought by Mr Wilkes against Theal. In this connexion the Commission produces two letters exchanged by Theal and Watts which prove that the letter quoted above indicates the true legal relations between the parties, whatever the subsequent denials.

- (a) In its actions against the parallel importers the applicant clearly acted as proprietor of the Watts trade-mark (see letter of 5 September 1972 to Audiogram, quoted in I above).
- (b) The Parastat and Disc Preener trade-marks, registered on the Benelux register in the name of Watts on 23 December 1971, were in fact struck off on the application of Watts following the above-mentioned exchange of letters. The fact that accordingly the exclusive agency agreement is in theory independent of the agreement covering the trade-marks does not in any way alter the fact that the legal relationship between the parties in its entirety may be taken into consideration for the purposes of Article 85 (1).

Finally the defendant points out that the applicant has not only used its trade-

mark rights in order to prevent the marketing of goods infringing the marks. The decision only refers to the use of this right in so far as it prevents the importation into the Netherlands of products clearly supplied by Watts.

The *applicant* states in its reply that the Commission was wrong to start out with the idea that Theal used Watts's trade-mark rights in the Netherlands with the consent of Watts. The letter of 10 October 1973 has been wrongly considered as a confirmation of an existing state of affairs because the question of the trade-marks was not until then raised for the first time between Watts and Tepea. As soon as the letter at issue — which was moreover a mere declaration — was considered to be likely to infringe the provisions of the EEC Treaty it was superseded by the letter of 19 October 1973 and was not followed by any confirmatory agreement. It was not until 1973, the year in which Mr Wilkes brought an action, that Tepea became aware of Watts's registration of the trade-marks in England; the latter was supposed to use its own name in the ordinary course; moreover a proper noun cannot be registered as a trade-mark in England. All this explains why it was impossible to refer in a notification in 1963 of an agreement entered into in 1955 or 1956 to an agreement concerning trade-marks.

On the question of the use by the applicant of the designation "Watts" in the form of a vignette in the Netherlands it points out that:

"This vignette was stamped on products which Tepea has bought from Watts since 1965 but in its actions against third parties Tepea never availed itself of this trade-mark; it relied on its trade-marks Dustbug and Disc Preener. The trade-mark Dustbug, written in one word, was moreover used by the applicant in the Netherlands before Watts registered this trade-mark in

England. Finally Tepea never had the slightest knowledge either of any registration by Watts of the trade-mark Dust Bug in England or of particulars of a registration of names such as Parostatic, Disc Preener and Hi/Fi Parastat."

According to the hearing on 23 March 1976 Watts itself never questioned whether Tepea was proprietor of the trade-marks at issue as regards Benelux. This is proved by the minutes of the hearing.

The so-called implied agreement has no foundation at all; the decisions of the Netherlands courts on the Court's file do not mention it. Any declaration to the contrary would be incorrect as Tepea explained during the administrative procedure.

As for the letter of 10 October 1973 and its replacement by that of 19 October 1973 a logical argument is called for:

"Tepea had trade-mark rights of its own in the Netherlands; Watts apparently had its own rights in Belgium. When the Benelux Law on trade-marks entered into force there were consequently two proprietors in the whole of the Benelux territory which did not seem to be desirable. The trade-marks which Tepea had itself registered and maintained were thus owned by it only as regards Netherlands territory and not Belgian and Luxembourg territory.

The letter of 10 October 1973 might have been regarded as a breach of the provisions of Article 85 et seq. of the Treaty and for this reason the letter was superseded by the letter of 19 October 1973 after Tepea's auditor had looked into the matter."

Moreover the so-called declarations of the Board of Tepea contained in a report by Watts of 18 October 1973 cannot be used unless they are produced at the hearing and their content is proved.

Tepea has never used the Watts trade-mark and has never challenged parallel imports either. It merely brought actions against all those who, under its own trade-marks Dustbug and Disc Preener, put into circulation articles which came neither from Tepea nor from Watts. The letter to Audiogram of 5 September 1972, for example, written when the United Kingdom was not in the Common Market, might as far as concerns the wording "products not supplied by us" be a reference to products which were not genuine; there has not been moreover any reaction showing that the products at issue in fact came from Watts, which, under the provisions of the EEC Treaty, would have put a stop to Tepea's action. No evidence has since then been produced in this connexion.

With regard to the applicable law the applicant states:

"Industrial property rights are governed by national law. This applies in particular to the right to a trade-mark which was originally governed by the Law on trade-marks of 1893 and then governed by the uniform Benelux Law relating to trade-marks. There is still no EEC trade-mark law with the result that a claim by a proprietor that he has a right to a trade-mark must be based on Benelux law. The Court of Justice has given only one specific decision in relation to such rights but the facts are different in this case as is shown moreover by the decisions of the Netherlands courts. Tepea's trade-marks in the Netherlands and those belonging to Watts in England were created independently of each other and originated separately, the English trade-marks originating without Tepea's being aware of the fact."

Finally the applicant asserts that in four actions which it brought (two of them against Mr Wilkes and All Wave) there had been passing off and offers to prove it. There were further examples of

passing off by Wilkes in 1976. Moreover it says that since 1 May 1976, a date prior to the Commission's decision, it has ceased to market such of Watts's articles as are the subject-matter of this action.

In its rejoinder the *defendant* explains that according to the actual wording of the contested decision it never claimed that there was a separate agreement covering the trade-marks but that the use of the latter formed part of the general agreement entered into by Watts and Theal in 1956. Since that agreement is oral it is necessary to take into account the statements of the parties, the correspondence, the documentation and even the conduct of the parties. The defendant calls attention to the following facts:

- (a) The manufacture by Watts from 1955 of products under the Watts and Dust Bug trade-marks and their sale in the Netherlands before the appointment of Theal as exclusive distributor;
- (b) The exclusive distribution agreement of 8 September 1956 notified by Theal;
- (c) The admission of 11 July 1975 by Watts and Theal that Watts allowed Theal to use the said trade-marks in the Netherlands and Theal's letter of 3 November 1975 approving the account of the interview in question;
- (d) The confirmation of these facts at the hearing on 23 March 1976 by Mrs Watts whatever discussions took place subsequently about the scope of the interview;
- (e) The affixing from 1961 or 1962 of the Theal label by Watts to products intended for that company (a fact acknowledged at the hearing on 23 March 1976) which allowed parallel imports of the products to be identified;

- (f) Watts's and Theal's acknowledgement that the agreement has not been amended;
- (g) The conduct of the parties concerned with regard to parallel imports in 1972:
 - The prohibition of exports imposed by Watts on his English wholesalers (because of the price difference);
 - Watt's refusal to sell in 1972 to an infringer;
 - The joint action brought by Theal and Watts against Mr Wilkes before the Netherlands court with reference to the trade-marks Parastat, Disc Preener, Watts and Dust Bug, which at that time had been registered by the two undertakings on the Benelux trade-mark register;
 - The removal of the Watts registrations (which were subsequent to those of Theal) on 23 October 1973 — so that the double registration should not produce any unfavourable impression on the Netherlands court — after Theal had agreed to assign its rights to Watts at the latter's request (letter of 10 October 1973).

All these factors have led the defendant to the conclusion that as far back as 1956 the agreement was planned and performed for the purpose of providing absolute territorial protection; there was therefore an agreement within the meaning of the *Sirena* judgment.

Watts, unlike Theal, has never retracted the statements made in 1975 and has therefore never shared the applicant's point of view; it no longer claims that the agreement does not exist since it also takes the view that, since Theal has now ceased to be an exclusive distributor, it has to reassign the trade-marks in question (see Annex 6 to the rejoinder).

The evidential value of the letter of 10 October 1973 is not called in question by the letter of 19 October 1973 of the dispatch whereof there is no evidence since Watts did not receive it. This first letter is moreover in keeping with the earlier correspondence.

Whether Theal held itself out before the Netherlands court as the original proprietor of the rights in them are derivative is a fact of minor importance compared with the fact that the agreement existed and trade-marks and national legislation (in this case that of Benelux) were used for the purpose of partitioning the market. The *Béguelin* judgment and Article 3 (b) (1) of Regulation No 67/67 to which the *Sirena* judgment refers favour this line of reasoning.

Theal contradicts itself, being compelled to acknowledge, owing to the joint action against Mr Wilkes, that any such agreement could only exist from 1972 at the earliest. Moreover Watts regards this as being a consequence of the original agreement and the two parties laid stress on the fact that that agreement was never amended. Theal, by registering the trade-marks in the Netherlands in 1969, acknowledges that it has used them for many years (from 1955 in the case of Dustbug, from 1958 in the case of Parastat, from 1962 in the case of Disc Preener and from 1964 in the case of Watts).

Moreover the date of notification was 31 January 1963; furthermore the Commission's warning of 18 April 1969, to which Theal made no response refers clearly to the prohibition of absolute territorial protection. The Commission did not have any inkling of the claims put forward by Theal relating to the trade-marks until 30 January 1974 as a result of Mr Wilkes's complaint.

The Commission tenders statements and invoices of a British export wholesaler as evidence of the origin of the imported Watts products. Even if some

importers were unable to produce straightaway to the Netherlands court evidence of the relations between Watts and their British supplier, the Commission was able to adduce such evidence — but this did not prevent Theal from continuing to send warning letters even after the opening of the administrative procedure before the Commission. A trade-mark right only allows the prevention of passing off and the burden of proof must lie on the proprietor of the trade-mark; to ask for evidence that there is no passing off would impose a burden of negative proof which is difficult to discharge; shifting the burden of proof would make it easier to prevent parallel imports and consequently to infringe the Treaty. Proving any passing off — no matter what the quality of the goods and the differences in presentation — does not in any way alter this position of principle with specific reference to the Watts trade-mark.

Theal not only registered it in the Netherlands and then on the Benelux register but enforced it against parallel importers (letter from Theal to Audiogram of 5 September 1972; judgments obtained against Wilkes).

As to the parallel imports it does not matter very much whether they pass through the hands of more or fewer intermediaries; they must not be impeded.

Finally the Commission considers some subsidiary points and in particular:

"Theal's argument that is used the trade-marks in the Netherlands *before* Watts had them registered in England does not stand up to examination. In fact trade-mark rights can be acquired both in the Netherlands and in England by use alone. The reason why Watts used the trade-marks in England before Theal used them in the Netherlands is simply that he manufactured products himself and affixed the said trade-marks to them before selling them to Theal."

The Benelux Law on trade-marks which applies in fact to the case of two persons having rights in the same trade-marks (Article 33) provides no ground whatsoever for the cancellation of Watts's registration which can therefore only be explained by the fact that there was a joint attempt to provide Theal with absolute territorial protection.

The *interveners* recall their legal disputes with Theal/Tepea and the judgments obtained by the latter against other undertakings. These judgments were obtained by Theal on the strength of "its" trade-marks:

"In the circumstances described by Tepea in its statement of the facts in which it states that Watts has affixed these trade-marks to the articles with its consent, these various uses by Tepea of its trade-mark rights in this way are just so many infringements of the Community law on competition."

As for the trade-mark right itself the interveners submit that the argument put forward by Theal/ Tepea and Watts before the Netherlands courts is wrong:

"It is unreliable because Tepea entered into an exclusive distribution agreement with Watts similar to those which Watts also concluded with certain vendors from other countries in respect of its articles. That is inconsistent with the statement that Watts affixed the trade-marks to the products on behalf of Tepea. It is also unreliable because Watts has registered the trade-marks in England and in other countries including the Netherlands as its own trade-marks. Lastly it is unreliable because Watts also registered the trade-marks as its own trade-marks in Benelux and because in 1973 Watts expressly made its agreement to the cancellation of its trade-marks in Benelux in favour of Tepea's registrations subject to the condition that Tepea undertook to reassign them to it as soon as it calls upon Tepea to do so. Tepea's view is also wrong in

law. Before 1 January 1971, the date when the Benelux Law on trade-marks entered into force, the right to a trade-mark was acquired in the Netherlands pursuant to Article 3 of the Law on trade-marks of 1893 by the person using it first. According to the case-law relating to this article the courts had always held that it was not the domestic importer (Tepea) but in fact the foreign manufacturer (Watts) who, in cases such as this, was to be regarded as the first user and consequently proprietor of the trade-mark in the Netherlands. Accordingly on the basis of first use in the Netherlands the rights in the four trade-marks vested in Watts and not in Tepea. The registration by Tepea of these trade-marks under the Benelux Law of 1971 was accordingly *mala fide*. Tepea did not acquire any rights to these trade-marks either in 1971 or before.

Tepea in fact realized later on that it was futile to advance the claim that it had a trade-mark right. For that reason it therefore asserted — for the first time in 1975 in its oral argumentation on the substance of the case — that it only objected to the sales in the Netherlands under the four trade-marks of articles which were not genuine. Nevertheless Tepea has been unable to show that at the time when it was instituting proceedings against Mr Wilkes and All Waves, Partimex or Willem de Jong the latter were putting into circulation articles which were not genuine.”

Moreover at that time the undertakings proceeded against had sold articles which did originate from Watts. The Arrondissementsrechtbank, Amsterdam, made a proper assessment of the situation and found that there was a wrongful interference with competition within the Community.

The trade-marks themselves, used in the first place by Watts in England in 1954 and then in the Netherlands in 1955, could not have been used also by Theal/

Tepea in the Netherlands except under the terms of an exclusive distribution agreement providing for the use of the trade-marks. Watts and Tepea always applied to the office of the same patent agents at The Hague which had them registered on the same dates (25 September 1969 in the case of Dustbug, 5 September 1963 in the case of Disc Preener, 22 October 1969 in the case of Watts and 25 September 1965 in the case of Parastat) in the name of Watts and also of Theal/ Tepea. These simultaneous registrations are also evidence of a concerted practice. The same procedure was adopted after the entry into force of the Benelux law. The removal from the register, after Wilkes had complained, of the registrations in the name of Watts in accordance with Tepea's request and the acknowledgement by Tepea of Watts's ownership before 1971 on the ground of first use (letter of 10 October 1973) are thus explained.

The *applicant* in its reply submits that the interveners do not have an interest in the action, since the cancellation of the fines is of little consequence to them.

It is for the interveners to prove the authenticity of the goods sold by them; they are however unable to do so. The proceedings commenced in this connexion are still pending.

The applicant specifically denies that the trade-marks at issue were used for the first time in the Netherlands by Watts and not by itself. The interveners' statements are untrue and this is proved by a statement of the patent agents who effected the registrations.

The *defendant* observes that the interveners are supporting the arguments it has put forward. It also points out that in the meantime, on 5 August 1977, Watts's manager confirmed that the parallel imports were products manufactured by Watts.

Therefore it only remains for the applicant to fall back on the argument which it originally advanced before the Netherlands courts regarding solely the right attaching to a trade-mark to prevent parallel imports.

2. *The correctness of the notification of 24 January 1963*

The *applicant* in its application "does not clearly understand — and this is not apparent either from the Commission's decision — in reliance on what facts or, as the case may be, on what statements the Commission reached the conclusion that the notification of the agreement in 1963 was incorrect, misleading or incomplete." It points out that this notification was drawn up in close co-operation with the Amsterdam Chamber of Commerce. For this reason it does not consider that Article 15 (1) of Regulation No 17 applies in this case.

The *defendant* joins issue with the applicant on its view that it can sever the agreement relating to the trade-marks from the exclusive distribution agreement and that it was entitled only to mention the second in its notification; the relations between Watts and Theal had to be considered "as a whole and with due regard to their interrelationship", especially as the applicant has been using the trade-mark Parastat since 1958 and the trade-mark Disc Preenner since 1962. The facts set out in the notification of 24 January 1963 by Theal were incomplete and this amounts to supplying at least negligently misleading information within the meaning of Article 15 (1) (a) of Regulation No 17. The Commission stresses that it must retain the option to impose penalties to safeguard its activities in competition matters as against contrived or cavalier interpretations of the obligations of undertakings in this field.

The *applicant* in its reply states that even if the letter of 10 October 1973 —

although superseded by that of 19 October 1973 — may in the end have to be considered as a contravention of the provisions of Article 85 the agreement in question only came into being in 1973 and not in 1963, the year when the notification was effected. The Commission itself admits that at the very beginning, in about 1955, there was no agreement relating to the trade-marks, so that such an agreement could not be notified in 1963 and that it had not at that time been supplied with incorrect information either intentionally or negligently. Tepea moreover did not object until 1972 and not before to the unlawful use of the trade-marks.

The *defendant* makes use of the argument relating to the period during which Theal registered the trade-marks in the Netherlands (1955 to 1964) to draw the conclusion that the agreement concerning the use of the trade-marks did in fact exist at the time of the notification, that is to say 31 January 1963. The Commission reiterates that due notification must be accurate and complete. It stresses that according to the wording of the reply Theal emphasizes that it objects only to the fine imposed for the incorrectness of its notification in 1963; the Commission, while pointing out that this wording assumes that Tepea no longer seems to have any contentions to put forward about the amount of the fine for its other infringement, calls attention to the fact that no plausible reason has been put forward for considering the fine for the incorrect notification to be wrong.

IV — Replies to the questions put by the Court

First question: Does Tepea manufacture itself in the Netherlands products bearing its own trade-marks?

The *applicant's* reply:

"Since Tepea — from 13 April 1976 — has concentrated exclusively on the

manufacture *inter alia* of transformers, rectifiers, battery chargers, feeder installations and emergency lighting equipment, it has always affixed the Theal trade-marks to its own products or where appropriate, at the request of third parties, applied the latter's trade-marks to their products.

"In 1975 Tepea was a trading undertaking, although under its statutes it was empowered to manufacture and had in fact previously done so (cf. extracts from the Trade Register annexed hereto)".

The *defendant's* reply:

"On 6 August 1975 Tepea (which was still called Theal) pointed out to the Commission that it was solely a trading undertaking. The Commission believes it may be deduced from this that Tepea does not produce in the Netherlands or elsewhere any product bearing its own trade-mark.

Furthermore as far as the products sold under the trade-marks Dust Bug, Disc Preener, Parastat and Watts are concerned, the Commission has no information indicating that Theal or Tepea manufactures these products in the Netherlands or elsewhere."

The *interveners'* reply:

"Tepea is a trading undertaking whose operations do not cover the manufacture of products under its own trade-marks. The answer to this question is therefore in the negative. Nevertheless Tepea is in a position to repair products which it has bought from third parties and resold. In such circumstances the articles in question are always articles manufactured by third parties to which those parties have affixed their own trade marks."

Second question: Is the Theal trade-mark actually affixed to the products manufactured by Watts at the manufacturing stage in the United Kingdom?

The *applicant* replied in the affirmative.

The *defendant's* reply:

"The answer to this question must be in the affirmative. The officers of the Commission responsible for this case were able to see this for themselves during their visit to Watts's factory in London on 11 July 1975. This also emerges from extract of the minutes of that meeting approved by Watts on 3 November 1975 and set out in paragraph (e) on page 5 of the rejoinder.

The English manufacturer affixes the Theal trade-mark to the products in question by means of a small label supplied by Theal bearing the words 'een Theal-produkt' which is stuck on the plastic box containing the product, either underneath the cellophane packaging or on the latter.

To complete the picture it is necessary to recall that the Theal trade-mark is also affixed by manufactures to other products marketed by Tepea. That emerges from the extract from the minutes of the hearing on 23 March 1976 set out at the bottom of page 5 of the rejoinder".

The *interveners'* reply:

"From 1960 onwards or thereabouts the 'Theal' label has been affixed, at the time of manufacture in the United Kingdom, to articles manufactured by Watts and intended for Theal. The label consisted of the wording 'een Theal-produkt' ('a Theal-produkt') and it was affixed to the plastic case of the article (cf. telex message of 6 March 1978 from Baker & McKenzie, London; Nicholas Conolly)."

Third question: Does Tepea sell, within the category of articles referred to in the decision, only products imported from the United Kingdom?

The *applicant's* reply:

"Up to April 1976 Tepea sold only products from the United Kingdom; later on that ceased to be the position since Tepea then became solely a producer undertaking".

The defendant's reply:

"The Commission thinks that the answer to this question must also be in the affirmative. The products marketed under the trade-marks Dust Bug, Disc Preener, Parastat and Watts are manufactured only in the United Kingdom by the manufacturer Watts, apart from the undermentioned exception. Only Watt's distributor on the French market, the HIFA undertaking at Montrouge (Paris) manufactures itself some of the parts of the products in question. In a letter of 24 July 1975 the latter undertaking explained to the Commission:

'Contrary to what you write none of these products is manufactured for us by a Swiss undertaking. All the products are sold as they are except the dustbug. We import the brush and the felt-covered roller of this article, the rest being made by us in France.'

This undertaking sells its products in France only. The HIFA undertaking is not the proprietor in France of the trade-marks referred to. Watts is the proprietor in France of the trade-marks Dust Bug, Parastat and Parastatik."

The interveners' reply:

"Within the category of articles referred to in the decision — articles for cleaning gramophone records — Tepea sells only products which it has imported from Watts from the United Kingdom. In other fields of electro-technology Tepea also markets articles bought from third parties."

Fourth question: Which trade-marks had been registered and/or used for the sale of the products in question in the different Member States of the Common Market at that time and in the United Kingdom on the one hand by Watts and on the other by Tepea, before the date of the agreement?

The applicant's reply:

"Assuming that the word 'agreement' refers to the exclusive agency agreement for the benefit of Watts in the

Netherlands entered into on 8 September 1956 it may be pointed out that Tepea used its trade-mark Dustbug even before the exclusive agency agreement was entered into. Reference is made to the Benelux registration No 45985 of 29 July 1971 which gives 1955 as the year of first use. Watts's application for confirmation gives 1957 as the year of first use but wrongly mentions Tepea's registration as prior registration of this trade-mark in the Netherlands. The exclusive agency agreement of 8 September 1956 makes no reference whatever to trade-marks. In this connexion reference is made again to the first paragraph of page 2 of the agreement of 8 September 1956 (see Annex).

In the case of the trade-marks Disc Preener and Parastat there had not yet been any use thereof, because the goods to which these trade-marks relate did not exist when the said agreement was concluded.

The Dustbug trade-mark like the other trade-marks was not registered until much later because in the Netherlands at that time trade-mark rights derived from use and not registration.

Tepea does not know which trade-marks Watts has registered and in which countries. It was only in 1973, in consequence of the various proceedings, that Tepea learnt that Watts had also registered trade-marks in England.

As far as concerns the trade-mark Disc Preener it is noted that Watts has never registered it and that the registration which according to the Commission dates back to 28 July 1972 is in fact a renewal of a confirmatory registration effected earlier, namely on 29 July 1971.

Finally I should like to draw attention to the letters from Theal to Watts dated 10 and 19 October 1973 which are on the file relating to the procedure initiated by the Commission."

The *defendant's* reply:

"As Theal's notification (Annex 2, p. 4 to the rejoinder) indicates, the oral agreement between Watts and Theal was concluded on 8 September 1956.

Before that date neither Watts nor Theal had registered the trade-marks in question either in the Netherlands or in the United Kingdom or in any of the Member States.

However, at that time rights in a trade-mark in the United Kingdom and also in the Netherlands could be acquired merely by using it. Theal registered these trade-marks on the Benelux register (Annex 1 to this reply) on 29 July 1971 and 28 July 1972 referring to prior registrations in the Netherlands going back to 5 and 25 September 1969 and to the fact that these trade-marks had been used in the Netherlands since 1955 (Dust Bug), 1958 (Parastat), 1962 (Disc Preener) and 1964 (Watts). Tepea is thus claiming use prior to the agreement only in the case of Dust Bug.

Nevertheless it is quite clear from the illustrated article published by Mr Watts in 'Wireless World' of *January 1955* p. 27 and 28 (see Annex II) and also from p. 85 of Mrs Watts's book (Annex III) and from the declaration made by Mrs Watts on 11 July 1975, set out on p. 4 of the rejoinder (last sentence of the quotation) that Mr Watts invented the name Dust Bug and used it in the United Kingdom before Theal did so in the Netherlands.

It is furthermore clear from Annex I to the rejoinder that Watts itself used the name in the Netherlands at a time when Theal apparently was not using it. This annex mentions deliveries from Watts to Netherlands firms which took place on 16 April and 3 September 1955. Theal does *not* appear on the list of those deliveries.

These trade-marks were neither used nor registered in the other Member States of the Community before the

conclusion of the agreement of 8 September 1956.

Commission's footnote:

1 — Having regard to the date of publication it may be assumed that the article was written in 1954, a year in respect of which Tepea has not made any unfounded allegations."

The *interveners'* reply:

"Before the date when the agreement between Watts and Tepea was entered into none of the trade-marks at issue in the present proceedings was *registered* either in any of the then Member States of the Community or in the United Kingdom.

It is true that, before the date when the agreement was concluded, Watts *was using* the trade-mark Dustbug in the Netherlands and in the United Kingdom which, under the law applicable at that time in the Netherlands and in the United Kingdom, gave Watts the exclusive right to use this trade-mark in relation to his products in both countries. The Commission has produced evidence of this first use which gave rise to a right to the trade-mark.

This question affords the interveners the opportunity to correct one point in their statement of 10 November 1977. Watts did not register the four trade-marks in the Netherlands before the entry into force of the Benelux Law of 1971 on trade-marks. Watts did however apply for the registration of these trade-marks after 1971 and by doing so referred to prior registrations in the Netherlands and, as far as the trade-mark 'Dust Bug' is concerned, the first use in its own right (in right of Watts) in 1955, that is to say before the agreement entered into with Tepea (cf. the evidence of the registration of the four trade-marks in the name of Watts in the Benelux register of trade-marks)."

Fifth question: The Commission was asked to provide for the Court's file

the correspondence between the Commission and Tepea during the administrative procedure (with special reference to the letters mentioned in the written procedure).

The Commission answered this question by producing a series of documents (*inter alia* the minutes of the interview on 23 March 1976).

V — The oral procedure

The parties appeared at the hearing on 19 April 1978; they submitted oral argument and replied to a series of questions by the judges and the Advocate General.

The *applicant* recalled the facts of the case and stressed certain specific points:

- The expression "Dust Bug" was invented by Mr Meyling, a director of Theal.
- The absence of any agreement covering the trade-marks is proved by the fact that Watts raised no objection on receipt of the copy of the notification sent by Theal.
- Theal has never sued vendors of Watts products who could prove the origin of the said products.

The *defendant* described the situation arising out of the use of trade-mark rights to reduce "intra-brand competition, that is to say competition "within the trade-mark" and has endeavoured to show that moves in this direction might be caught by Article 85. It has also described the difficulties facing parallel importers, upon whom, according to the applicant, lies the burden of proof of the authenticity of the imported products. The result is an abnormal territorial protection.

The *interveners* suggested that papers relating to the actions brought by Theal against parallel importers in the Netherlands be added to the file. They stress that it is difficult to adduce negative proof that a product is not an imitation, evidence which Theal wishes to force them to produce before the national courts; the onus of proof that a product is not genuine must lie on the person making the allegation. Logic and the pointers given previously by the case-law of the Court must guide the national courts before whom such disputes are brought.

The Advocate General delivered his opinion at the hearing on 10 May 1978.

Decision

- 1 The Commission on 21 December 1976 took a decision, which was published in Official Journal L 39 of 10 February 1977, p. 19, concerning the undertakings Theal NV and Cecil E. Watts, now known as Tepea BV and Cecil E. Watts Ltd. (referred to hereafter in this judgment as "Theal" and "Watts"), Article 1 whereof recorded that:

- (1) An oral exclusive distribution agreement between Theal and Watts including the grant of the exclusive right to use the trade-marks registered in the Netherlands was an infringement of Article 85 (1) of the EEC Treaty;

- (2) The supplying of incorrect and misleading information in Theal's notification dated 24 January 1963 was also a punishable infringement of Article 15 (1) (a) of Regulation No. 17 of 6 February 1962.

Articles 2 and 3 of the decision further stated that "The application for a declaration under Article 85 (3) that Article 85 (1) is inapplicable is refused in respect of the agreement referred to in Article 1 hereof" and the two undertakings were ordered to bring the infringement of Article 85 (1) of the Treaty to an end without delay and to refrain from all further action of any kind calculated to prevent the importation into or resale in the Netherlands of any Watts products.

- 2 Finally a fine of 10 000 u.a. was imposed on each of the undertakings, that is Hfl 36 200 on Theal and £ 4 166 on Watts, for infringement of Article 85 (1).
- 3 In addition a fine of 5 000 u.a., that is Hfl 18 100, was imposed on Theal for supplying incorrect and misleading information in a notification made under Article 5 of Regulation No 17.
- 4 According to the information supplied by the Commission at the hearing Watts has complied with the Commission's decision.
- 5 In its application which reached the Registry on 24 February 1977 Theal has claimed that the Court should:
 - (a) annul the decision;
 - (b) cancel the fines imposed by the Commission.
- 6 The previous history and the facts of the case in so far as they are not disputed may be summarized as follows:
- 7 After setting up in 1954 the undertaking which was to manufacture and sell the cleaning appliances which he had invented for gramophone records Watts entered into oral agreements with a single distributor in each of the Netherlands, Belgium, Denmark, France, Ireland and Italy to the effect that the person concerned would act as exclusive distributor within the national territory allotted to him.

- 8 Watts was the sole supplier of about 20 wholesalers in the United Kingdom whom he had forbidden — at least since May 1972 — to export his products, the packaging of which was marked “Not for export”.
- 9 In 1972, export prices which had been the same as or similar to prices on the home market began to rise compared with the latter.
- 10 In July 1974 the export price of the same product exceeded the domestic price by as much as 32%, the price differences being further widened by currency disparities especially between the currencies of the United Kingdom and the Netherlands and encouraging Netherlands traders to obtain their supplies of Watts’s products direct from England rather than apply to Theal the sole concessionnaire in the Netherlands.
- 11 On 24 January 1963 Theal had notified to the Commission an exclusive distribution agreement for cleaning appliances for gramophone records relating to deliveries within a single Member State which had not been put in writing — entered into with Watts on 8 September 1956 — of indefinite duration, under the terms of which “the factory undertakes to supply only Theal NV in Netherlands territory and to pass on all orders originating in that territory to NV”.
- 12 The notification expressly stated that the agreement did not exclude free competition within the Member State concerned since the agreement applied only to one trade-mark.
- 13 According to Theal there was a large number of competing trade-marks, the consumer’s freedom to purchase remained unfettered and the sole purpose of the agreement was to make available to the said consumer a specialist organization in order to provide him with the best possible service and especially an after-sales service in the event of any defects in appliances supplied.
- 14 Theal answered in the negative the question whether sharing markets or sources of supply was one of the ways specified in the agreement for attainment of its objectives.

- 15 The Commission informed Theal with reference to this notification, by a letter of 18 April 1969, that since a provisional examination of the agreement notified showed that it did not provide for any absolute territorial protection, it could therefore benefit from the exemption provided for in Regulation No 67/67; nevertheless, if in fact the agreement did not comply with the conditions for exemption laid down in the regulation, it should be amended accordingly, in which event the agreement would be exempted only from the date of such amendment.
- 16 Theal did not reply and accordingly the Commission had no reason to doubt that the agreement complied with the provisions of Article 1 (1) of Regulation No 67/67/EEC.

Application of Article 85 (1) of the EEC Treaty

- 17 The applicant states that, although an oral exclusive distribution agreement between Watts and itself has certainly been in existence since 1956, on the other hand an agreement relating to the use and registration of trade-marks has at no time been entered into by the two undertakings.
- 18 It claims that the Commission is wrong in maintaining that the applicant has used Watts's trade-mark rights in the Netherlands with the consent of Watts.
- 19 It asserts that it is the applicant which established the trade-marks Dust Bug, Disc Preener and Parastat after the conclusion of the exclusive agency agreement for cleaning appliances for gramophone records manufactured by Watts in the United Kingdom.
- 20 It states further that Theal's trade-marks in the Netherlands and those of Watts in England are completely independent of each other and were established separately, the English trade-marks having originated without Theal's knowledge.
- 21 Theal claims to have had an exclusive and independent right, vested in no one else, to use these trade-marks, but it never intended to use its rights in such a way as to prevent either in fact or in law parallel imports.

- 22 It states that it only enforced its trade-mark rights against goods which were not genuine, but manufactured neither by Watts in the United Kingdom nor by itself.
- 23 Theal states that it obtained several court decisions from November 1972 to May 1975 ordering the Netherlands traders to cease within 24 hours to sell articles bearing those trade-marks which had not been supplied by Theal.
- 24 In these circumstances the applicant does not "clearly" understand in reliance on what facts or statements the Commission reached the conclusion that it has infringed Article 85 (1) of the Treaty and that the notification of the agreement on 24 January 1963 contains incorrect and misleading information.
- 25 The Commission fined Theal *inter alia* for not having notified it that the agreement concluded with Watts "included the grant of the exclusive right to the trade-marks in the Netherlands", a clause of the agreement which the Commission discovered only on 11 July 1975 at a meeting with Theal and Watts.
- 26 It points out in support of this argument that it was Watts who first used the words "Dust Bug", "Parastat" and "Disc Preener", and moreover had the first two registered as trade-marks in the United Kingdom on 11 February 1958 and the third a little later.
- 27 The defendant states that Watts consented, at the request of Theal, with the words "Do as you like" to the use by Theal of the designation "Dust Bug" in its own name in the Netherlands.
- 28 The specific consent in respect of Dust Bug was also granted in respect of the trade-marks Disc Preener and Parastat.
- 29 In a letter of 10 October 1973 signed by the applicant's two directors, the applicant wrote to Watts and said "We acknowledge that your company is the proprietor of the trade-marks Dust Bug, Disc Preener, Parastat and Watts. If you agree to withdraw the registration of these trade-marks in your name on the Benelux register or your application for registration, as the case may be, we undertake to take at any time, at your request, the

necessary steps to assign any rights which we may have to your company, or to the company . . . designated by you . . .”.

- 30 The Commission considers that the content of that letter which are in keeping with the history of the relations between the parties, their statements and their conduct correctly represents the legal situation arising out of their agreements.
- 31 Moreover, the Commission contends, this situation found specific expression when Watts, after having its trade-marks registered in the Benelux register on 23 December 1971, had them struck out on 23 October 1973 at the request of Theal in order to facilitate the progress of the proceedings instituted by the latter against parallel importers.
- 32 The Commission finds that the applicant's statements to the effect that a further letter of 18 October 1973 superseded that of 10 October 1973 are irrelevant whereas Watts asserts that it never received the text of this letter of 18 October 1973 and that furthermore it emerges from the report of one of Watt's authorized agents and from correspondence placed on the Court's file that the letter of 10 October 1973, written following very detailed discussions between the parties concerned and their advisers, was intended to assist Theal's case in its proceedings against the intervener Mr Wilkes.
- 33 According to the Commission these exclusive distribution agreements and agreements granting the exclusive right to use the Watts trade-marks were in fact designed to ensure that Theal had absolute territorial protection excluding all parallel imports of authentic products and for this reason they are subject to Article 85 (1) of the Treaty.
- 34 In the Court's view the file as a whole shows that applicant's conduct on the market for cleaning appliances for gramophone records in the Netherlands has been as described by the Commission.
- 35 As far as concerns the grant of the exclusive right to use the trade-marks in the Netherlands it may be added that the distinctiveness of the words "Dust Bug" which originated in the bringing together of the words "Dust" and "Bug" is indisputably to be ascribed to the inventor of the cleaning appliance for gramophone records.

- 36 It is clear from an article which appeared in an English periodical that this wording has been used by Watts since 1955.
- 37 It was therefore possible for the registration of this specifically English designation as a trade-mark in the Netherlands to be effected by Theal only with the consent of its inventor, just as Watts consented to the registration of this trade-mark subsequently in Belgium, Luxembourg, France, Italy and Germany.
- 38 This consent given to Theal in the most general way with the words "Do as you like" inevitably covered the use of all Watts's trade-marks.
- 39 Their long-standing relations and the confidence and support provided by Theal, a distributor having a large infrastructure, for Watts after his first inventions, explain how their relations came into being and then developed without the two parties' having thought it necessary to set them down in writing.
- 40 There are grounds for accepting that as far back as 1956 the Watts and Theal undertakings were bound by two oral agreements, one appointing Theal as the sole distributor of Watts's products in the Netherlands whereby Watts undertook to supply Theal exclusively in the Netherlands and to pass on to it all orders received by Watts for the Netherlands, the other consisting of the grant of the exclusive right to use in the Netherlands the trade-marks affixed to these products.
- 41 These oral agreements mutually binding two undertakings were agreement within the meaning of Article 85 (1) the consequence of which was to give Theal absolute territorial protection in the Netherlands.
- 42 Furthermore this protection was ensured in 1956 by the applicable national law and strengthened later by the prohibition on exports imposed by Watts on wholesalers in the United Kingdom and by the affixing of a label "een Theal-produkt" to products supplied by Watts to Theal which enabled the latter to ascertain whether Watts products which did not come from its own undertaking were being offered for sale in the Netherlands.

- 43 This system taken as a whole provided Theal with the means of preventing all parallel imports from the United Kingdom or from any other Member State into the Netherlands and thus of eliminating all competition; it consequently left Theal completely free to fix in the Netherlands prices for these products protected from any effective competition from products of the same brand.
- 44 The skilful use of trade-mark law has in this way strengthened the territorial protection given by the exclusive distribution agreement, the existence of which is admitted, the combined effect of these two techniques securing absolute and permanent protection.
- 45 The original agreement cannot therefore be examined without taking into account the concerted practice which ensured its efficacy.
- 46 For an agreement to be incompatible with the Common Market and prohibited under Article 85 it must in the first place be one "which may affect trade between Member States".
- 47 Although the case-law of the Court lays down (judgment of 25 November 1971 in Case 22/71, *Béguelin Import Co. and Others v S.A.G.L. Import Export and Others* [1971] ECR at p. 959) that the fact that one of the undertakings which are parties to the agreement is situated in a non-member country does not prevent the application of Article 85 since the agreement is operative on the territory of the Common Market, the fact must also be taken into consideration that such an agreement does not fall within the prohibition contained in Article 85 if it affects trade between Member States only to an extent which is not appreciable.
- 48 As long as the United Kingdom was not a Member State the restrictions on competition arising out of the implementation of the Watts/Theal agreements only in fact affected trade within the Netherlands and nothing in the Court's file justifies the assertion that the partitioning of this domestic market appreciably interfered with the pattern of trade between Member States in Watts products before 1 January 1973, the date of the United Kingdom's accession to the Common Market.
- 49 Theal continued to operate these agreements to its advantage after that date since it obtained judgments on 16 January and 5 June 1973 and 30 May

1975 against three undertakings which were forbidden to import Watts products directly into the Netherlands and it continued to write to retailers in the Netherlands who had bought Watts products directly or indirectly from wholesalers in the United Kingdom, pointing out that these dealings infringed its trade-mark rights in the Netherlands.

- 50 Consideration of the specific effects of these agreements shows that they restricted intra-Community trade appreciably since the sale of appliances of the Watts brand in the Netherlands accounted for 15 % of the market for appliances for cleaning gramophone records.
- 51 In view of these findings it is established that since 1 January 1973 the agreement between Theal and Watts affected trade between Member States.
- 52 A second condition must be fulfilled before the prohibition in Article 85 (1) can apply, namely that the agreement has as its object or effect the prevention, restriction or distortion of competition within the Common Market.
- 53 The agreements between Theal and Watts had as their main object and effect the prevention of competition in the protected area within the Common Market.
- 54 It is apparent from the practices of the parallel importers and the risks to which they exposed themselves by engaging in them that there was a specific demand for Watts's products in the Netherlands.
- 55 Theal's conduct shows that the latter feared the competition of traders who obtained their supplies elsewhere since Watts's products accounted for more than 25 % of its turnover.
- 56 It follows from all these findings that, since the agreements in question have as from 1 January 1973 affected trade between Member States in cleaning appliances for gramophone records and their effect has been to deprive consumers of the benefits flowing from effective competition between products of the same brand which might spring from a large number of outlets and sources of supply and from lower prices, they are incompatible with the Common Market and fall within the prohibition in Article 85 (1).

- 57 Furthermore these agreements, which by preventing parallel imports secured for Theal absolute territorial protection which was made still more effective by the prohibition on exports imposed by Watts, did not contribute either to improving the production or distribution of goods or to promoting technical or economic progress and could not therefore — even if they had been duly notified or exempted from notification — be exempted as provided for in Article 85 (3) since the requisite conditions for the application of that article do not exist.

The application of Article 15 (2) of Regulation No 17

- 58 Under Article 15 (2) of Regulation No 17 the Commission may impose fines of one thousand units of account or more, but not exceeding 10 % of the turnover in the preceding business year of the undertaking committing the infringement where, either intentionally or negligently, the undertaking infringes Article 85 (1).
- 59 The acts complained of in the case of Theal fall within Article 85 (1).
- 60 In fixing the amount of the fine to be imposed upon it regard must be had to the duration and gravity of the infringement.
- 61 As far the duration is concerned the Commission stated in the grounds of the decision that it did not “propose to take account of infringements subsisting before May 1972, the date on which the export prohibition was clearly in force and having effect.” With reference more particularly to Theal the Commission took as the relevant date September 1972, which was the date on which the applicant first exercised its trade-mark rights to prevent parallel imports.
- 62 Although it is true that the facts date from 24 January 1963 the infringement only materialized as from 1 January 1973, the date of the accession of the United Kingdom to the Common Market.
- 63 As far as concerns the duration, the inconsiderable difference between September 1972, the date taken by the Commission, and 1 January 1973, the date when the infringement actually began, leads to the view that it should have no effect on the fixing of the amount of the fine.

- 64 As far as concerns its gravity it must be borne in mind that the applicant continued afterwards to engage in this course of conduct by making applications on three other occasions to the Netherlands courts, even though its attention had been drawn to the rules of competition laid down by the Treaty of Rome.
- 65 Furthermore Theal's actions have led to clear restrictions of competition which contravene one of the fundamental objectives of the Treaty, namely to establish a single market in the Community.
- 66 However, account must be taken of the fact that the products in question, owing to their nature, represent only a small item of consumers' expenditure.
- 67 Although Theal's conduct has contributed to eliminating competition between products of the same brand, the loss to the consumer has not been serious in view of the price of the product in question and its relatively small importance to the ordinary consumer.
- 68 In the light of these considerations the fine of 10 000 u. a. imposed by the Commission for the infringement of Article 85 (1) by Theal does not seem to be out of proportion to its gravity and duration.

Application of Article 15 (1) (a) of Regulation No 17

- 69 Under Article 15 (1) of Regulation No 17 the Commission may by decision impose on undertakings fines of from 100 to 5 000 u. a. where, intentionally or negligently, they supply incorrect or misleading information in a notification pursuant to Articles 4 and 5 of the said regulation.
- 70 The infraction committed by Theal in supplying incorrect and misleading information was, if not intentional at least negligent, since the notification form clearly drew its attention to the duty to inform the Commission of the provisions of the agreement and to state whether it involved a sharing of the markets or a restriction of freedom to purchase from or sell to third parties or might in any other way have as its object or effect the restriction or distortion of competition and since the applicant in its notification to the

Commission did not disclose the agreement granting the exclusive right to make use of the trade-marks registered in the Netherlands and of the effects of the absolute territorial protection in that country, the joint effect of these two agreements being to prevent parallel imports and distort competition within the Common Market.

- 71 Consequently the Commission was deceived as to the actual provisions of the agreements which bound Watts and Theal as from 24 January 1963, the date of the notification, until Wilkes drew its attention to the latter in his application of 30 January 1974.
- 72 Having regard to the gravity of this infraction which led to the misapprehension under which the Commission laboured for 11 years, the fine of 5 000 u. a. imposed on Tepea appears to be completely justified.

Costs

- 73 Under the terms of Article 69 (2) of the Rules of Procedure the unsuccessful party shall be ordered to pay the costs if they have been asked for in the successful party's pleading.
- 74 The applicant has failed on all the heads of its application.
- 75 It must therefore bear the costs including those of the intervention.

On those grounds,

THE COURT

hereby:

1. Dismisses the application;

2. Orders the applicant to bear the whole of the costs including those of the intervention.

Kutscher	Sørensen	Bosco	Donner	Mertens de Wilmars
Pescatore	Mackenzie Stuart	O'Keeffe	Touffait	

Delivered in open court in Luxembourg on 20 June 1978.

A. Van Houtte
Registrar

H. Kutscher
President

**OPINION OF MR ADVOCATE GENERAL CAPOTORTI
DELIVERED ON 10 MAY 1978¹**

*Mr President,
Members of the Court,*

1. The present dispute originated in an application by Tepea, a Netherlands undertaking, against the Commission for the annulment of the decision of the Commission against it following a proceeding under Article 85 of the EEC Treaty.

I consider it essential first of all to summarize the facts which form the basis of the dispute.

In 1954 Mr Cecil E. Watts began manufacturing and marketing in the United Kingdom a product which he had invented for cleaning gramophone records. More precisely the product is an automatic record cleaner named a "Dust Bug". Other similar products were produced some years later: the

"Parostatik Disc Preener", used for the maintenance of records; the "Manual Parastat", which is used chiefly for restoring the quality of old records; and the "Hi-fi Parastat Kit" for high quality record-playing equipment.

In September 1956 Mr Watts granted to the undertaking Theal NV of Amsterdam (which in 1976 changed its name to Tepea BV) the exclusive right of sale of his products in the Netherlands. At that time Watts manufactured only the device known as the "Dust Bug".

On 24 January 1963 Theal notified the exclusive dealing agreement to the Commission and described the objectives of that agreement as follows: an "exclusive dealing agreement whereby the factory undertakes to supply only Theal NV in Netherlands

¹ — Translated from the Italian