origin of the trade-marked product to the consumer or ultimate user, by enabling him without any possibility of confusion to distinguish that product from products which have another origin.

This guarantee of origin means that the consumer or ultimate user can be certain that a trade-marked product which is sold to him has not been subject at a previous stage of marketing to interference by a third person, without the authorization of the proprietor of the trade-mark, such as to affect the original condition of the product.

The proprietor of a trade-mark right which is protected in two Member States at the same time is justified pursuant to the first sentence of Article 36 of the Treaty in preventing a product to which the trade-mark has lawfully been applied in one of those States from being marketed in the other Member State after it has been repacked in new packaging to which the trade-mark has been affixed by a third party.

However, such prevention of marketing constitutes a disguised restriction on trade between Member States within the meaning of the second sentence of Article 36 of the Treaty where;

— It is established that the use of the trade-mark right by the proprietor, having regard to the marketing system which he has adopted, will contribute to the artificial partitioning of the markets between Member States;

— It is shown that repackaging cannot adversely affect the original condition of the product;

— The proprietor of the mark receives prior notice of the marketing of the repackaged product; and

— It is stated on the new packaging by whom the product has been repackaged.

3. To the extent to which the exercise of a trade-mark right is lawful in accordance with the provisions of Article 36 of the Treaty, such exercise is not contrary to Article 86 of the Treaty on the sole ground that it is the act of an undertaking occupying a dominant position on the market if the trade-mark right has not been used as an instrument for the abuse of such a position.

In Case 102/77

Reference to the Court under Article 177 of the EEC Treaty by the Landgericht Freiburg for a preliminary ruling in the action pending before that court between

1. HOFFMANN-LA ROCHE & CO. AG, Basel

2. HOFFMANN-LA ROCHE AG, Grenzach-Wyhlen (Federal Republic of Germany)

and

CENTRAFARM VERTRIEBSGESELLSCHAFT PHARMAZEUTISCHER ERZEUGNISSE MBH, Bentheim (Federal Republic of Germany)

on the interpretation of Articles 36 and 86 of the EEC Treaty,

THE COURT

composed of: H. Kutscher, President, M. Sørensen and G. Bosco (Presidents of Chambers), J. Mertens de Wilmars, 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 of the case, the course of the procedure and the observations submitted pursuant to Article 20 of the Protocol on the Statute of the Court of Justice of the EEC may be summarized as follows:

I — Facts and procedure

1. The second *plaintiff in the main action* (hereinafter called "Roche-Germany") is a legally independent undertaking forming part of the worldwide organization known as Roche-SAPAC.

The Roche-SAPAC group has developed *inter alia* the psycho-pharmacological drug "Valium", the chemical abbreviation for which is "Diazepam". Roche-Germany manufactures Valium under a licence which it obtained from the first plaintiff (hereinafter called "Roche-Basel"), and sells it in the Federal Republic of Germany under the name "Valium Roche".

Valium and Roche are trade-marks protected by international registration in favour of Roche-Basel. The proprietary medicinal product has, in accordance with the provisions of the Arzneimittelgesetz (German law on medicines) been registered in the register of proprietary medicines of the Bundesgesundheitsamt (Federal public health office). Roche-Germany sells Valium in packets of 20 or 50 tablets, which in this form are intended for the use of individuals and which are further packaged, five small packets at a time, in quantities of 100 or 250 tablets for the use of hospitals.

A British subsidiary of the Roche-SAPAC organization also makes Valium Roche which it markets in Great Britain in packages containing 100 and 500 tablets at prices which are considerably lower than those charged in Germany.

2. The *defendant in the main action* is the legally independent German marketing company of the Netherlands medicaments manufacturer Centrafarm B.V., whose company objects include, among others, international trade in

pharmaceutical products. The cause of the present action is the practice of the defendant in the main action of purchasing Valium Roche from its Netherlands parent company which in turn had purchased it in Great Britain in the original packages of the British subsidiary of Roche and then repackaged it in the Netherlands, under the surveillance of a pharmacist, in batches of 1 000 tablets. On the new bottles and packets were affixed (albeit in an outward presentation different from the presentation of the original package) the names Valium and Roche, the number of the entry on the register of the Bundesgesundheitsamt, together with the name "Centrafarm" and the words "Marketed by Centrafarm GmbH, 4444 Bentheim-1, Telephone: 05922-2525". Each packet also came with an information leaflet in German, signed Hoffmann-La Roche, repeating the notice that the medicinal preparation was marketed by Centrafarm. It should be observed that the latter has notified its intention of repackaging the tablets in smaller packets intended for sale to individuals, and that it also manufactures a Diazepam preparation.

3. Roche-Germany regards the conduct of Centrafarm as an infringement of the trade-mark rights of the undertaking from which it has obtained a licence. On 31 December 1975 it obtained from the First Chamber for Commercial Matters of the Landgericht Freiburg, an interim injunction prohibiting Centrafarm:

from using in the course of its business dealings in medicinal preparations the names Valium and/or Roche as a trade-mark, except where the user consists of placing on the market or offering for sale the product in the original presentation in which it was put onto the market in a Member State of the Community by a third party with the consent of Hoffmann-La Roche and Co. AG, Basel.

That injunction was confirmed by judgment of 16 February 1976.

4. Centrafarm lodged an appeal against that judgment before the Civil Senate of the Oberlandesgericht Karlsruhe sitting at Freiburg.

By order dated 14 October 1976, that court referred to the Court of Justice for a preliminary ruling three questions, two of which were almost identical to those with which the present proceedings are concerned. In its judgment of 24 May 1977 in Case 107/76 ([1977] ECR 957), the Court in answer to the first question put by the Oberlandesgericht ruled that that court was not required by the third paragraph of Article 177 of the EEC Treaty to make a reference in interlocutory proceedings for an interim order. As a result the two other questions remained unanswered.

5. Since January 1976 the parties have been contesting the substance of the action at first instance before the Landgericht Freiburg.

6. On 20 June 1977 the Landgericht Freiburg in turn ordered that the proceedings should be stayed and that the following questions should be referred to the Court of Justice under Article 177 of the EEC Treaty for a preliminary ruling:

1. Is the person entitled to a trade-mark right protected for his benefit both in Member State A and in Member State B empowered under Article 36 of the EEC Treaty, in reliance on this right, to prevent a parallel importer from buying from the proprietor of the mark or with his consent in Member State A of the Community medicinal preparations which have been put on the market with his trade-mark lawfully affixed thereto and packaged under this trade-mark, from providing them with new packaging, affixing to such

packaging the proprietor's trade-mark and importing the preparations distinguished in this manner into Member State B?

2. Is the proprietor of the trade-mark entitled to do this or does he thereby infringe provisions of the EEC Treaty — in particular those contained in Article 86 thereof — even if he acquires a dominant position within the market in Member State B with regard to the medicinal preparation in question, when prohibition on imports of a repacked product to which the proprietor's trade-mark has been affixed has in actual fact a restrictive effect on the market, because different sizes of packages are used in countries A and B and because the importation of the product in another manner has not yet in fact made any appreciable progress on the market, and when the actual effect of the prohibition is that between the Member States there is maintained a substantial — in certain circumstances disproportionate — price differential, without its being possible to prove that the owner of the mark is using the prohibition solely or mainly to maintain this price differential?

7. It appears from the order making the reference that the Landgericht Freiburg is of the opinion that the conduct of Centrafarm which is in issue constitutes an infringement of the provisions of German trade-mark law and that Community law does not preclude Roche-Basel from relying upon its trade-mark rights. It refers to its judgment of 16 February 1976 and to the observations made in the order containing the reference from the Oberlandesgericht of 14 October 1976.

8. In that order the Oberlandesgericht stated that under domestic German trade-mark law Hoffmann-La Roche could, within the limits set out in the interim order, require Centrafarm to refrain from using the designations Valium and Roche as trade-marks. Only Roche-Germany, therefore, is entitled under Article 15 (1) of the German Warenzeichengesetz *inter alia* to affix the trade-mark to the package or container of its products and to put them, so designated, on the market. Anyone else who acts in this way without the consent of the proprietor of the mark does so unlawfully. In the same way the established legal view is that to fill with the genuine product a container to which the mark has been affixed also infringes the exclusive right of the proprietor of the trade-mark (cf. RGZ 103, 359, 363/4 — "Singer"; RGZ 124, 273, 275/6 — "Stellin").

9. Referring to the case-law of the Court on Article 36 of the EEC Treaty the Oberlandesgericht observed in particular that Centrafarm had adversely affected the function of the mark as an indication of origin and therefore its specific subject-matter. Since medicinal preparations are concerned the relevant legal provisions should indicate the requirements as to proof of origin and accordingly show to what extent the function of the trade-mark as an indicator of origin provides protection. According to Article 4 (14) of the new German Arzneimittelgesetz in the version of that law of 24 August 1976 (BGBl. I, 2445), which enters into force in 1978, production includes transfer into other containers, repacking and marking. Transfer into other containers and repacking of a medicinal preparation involves such interference with the substance of the product that legislative measures of protection of the same scope as those applying to the original manufacture appeared necessary. Transfer into other containers therefore adversely affects not only the function of the trade-mark as an indication of origin but also its consequent function as a guarantee.

As regards Article 86 of the Treaty, the Oberlandesgericht relied on the findings reached by the Kammergericht in its decision of 5 January 1976 delivered on an administrative action in a cartel case between Roche-Germany and the Bundeskartellamt (Federal Cartel Office), and was of the opinion that Roche-Germany occupied a dominant position on the German market in tranquillizers. Centrafarm had also established the likelihood that Roche-Germany abusively maintains that position to keep prices at an excessively high level. This nevertheless does not mean that the assertion of its trade-mark rights by Roche-Germany infringes Article 86 of the Treaty. It is not an abuse for an undertaking to avail itself of the subject-matter of a right to which it is entitled in the same manner as any other person entitled to a similar right and which is justified by objectives unconnected with the abuse of a dominant position on the market.

10. The Landgericht Freiburg adds to those observations of the Oberlandesgericht as follows:

"The Chamber is not able to follow the view adopted by the plaintiffs that, with the decision of the Bundesgerichtshof of 16 December 1976 (KVR 2/76), which quashed the decision of the Kammergericht Berlin of 5 January 1976, there is no longer any basis for the present second question referred for a preliminary ruling. It is impossible to equate a finding that there has been an infringement under Article 22 (5) of the Law against Restrictions on Competition (Gesetz gegen Wettbewerbsbeschränkungen) with the content of the second question referred to the Court of Justice for a preliminary ruling. Of the criteria laid down in the above-mentioned provision the question referred for a preliminary ruling adopts only the concept of a 'dominant position'. However, in this respect the findings of the Kammergericht were finally upheld in the decision of the Bundesgerichtshof of 16 December 1976 (p. 19)."

11. The order making the reference was received at the Court Registry on 2 August 1977.

The parties to the main action, the Government of the United Kingdom and the Commission of the European Communities submitted written observations under Article 20 of the Protocol on the Statute of the Court of Justice of the EEC.

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

II — Written observations submitted to the Court

First question

A — Observations of the plaintiffs in the main action

The plaintiffs in the main action, Hoffman-La Roche, observe that the facts in the present case are basically different from those in cases which the Court has previously decided and in particular those concerning parallel imports. The plaintiffs are claiming nothing which is incompatible with Community law as found in those decisions.

The problem in the present case is not limited to trade-marks in the pharmaceutical sector. The solution to be adopted must therefore be appropriate to trade-mark law as a whole, for there are no trade-mark rights having a distinct specific content. The special significance of affixing the trade-mark to the package is apparent in the case of liquids, for it is not possible to affix the trade-mark to the product itself.

The Landgericht Freiburg and the Oberlandesgericht Karlsruhe properly characterized the conduct of the defendant in the main action as clearly infringing a trade-mark under *German* law.

Writers and case-law of all Member States unanimously reach the same conclusion as that of German law. There is a clear line of cases in *France* to the effect that re-affixing the protected mark to the genuine product is a clear infringement of the right to the trade-mark. *Italian* writers and case-law agree with this. In the *United Kingdom* the question is expressly governed by the Trade-marks Act 1938, which enacts long-standing case-law. The owner of the mark may, when putting the product into circulation, reserve the right of repacking and re-affixing the mark on genuine products with the result that an action lies against any subsequent purchaser who infringes that right. The same rules apply in *Ireland* (sections 12 and 14 of the Trade-marks Act 1963). In *Denmark* according to previous case-law trade-mark law is the same as the German law and the new Trade-mark Law of 11 June 1959, which to a large extent is the same as the trade-mark law of the *other Scandinavian countries*, has in no way changed the position, if that case-law is correctly interpreted. The same is true of the law of the *Benelux* countries. Until the adoption of a uniform trade-mark law for the Benelux countries case-law and writers were unanimous in considering that the re-affixing of the protected mark to goods marketed for the first time by the proprietor of the trade-mark infringes the trade-mark. Both the general system and the statement of grounds of that law show that it is not intended to alter the earlier case-law.

The future *European trade-mark law* also recognizes the exclusive right of the proprietor to affix his trade-mark. The plaintiffs in the main action show how the various preliminary drafts of a European trade-mark law have dealt with the problem in the present case and they observe above all that when the preliminary draft of the regulation on the Community trade-mark was discussed by the Commission working party on "Trade-marks" from 18 to 20 July 1977 an exception to the principle of exhaustion set out in Article 16 (1) of the draft was adopted in the following terms as paragraph (2) of that article on a proposal by British and French experts:

"Paragraph (1) applies only to goods in the form in which they were originally marketed."

On this issue the conclusions of that meeting state:

"In this way paragraph (2) would cover all exceptions to the exhaustion principle, especially cases of modification of packing or where the trade-mark is replaced by a third person after the goods have been put on the market.".

The exclusive right of the proprietor of the trade-mark which is thus recognized in all the Member States is part of the very substance and therefore of the "specific subject-matter" of the trade-mark right which, according to the case-law of the Court, is respected and protected by Community law.

One of the main functions of the trade-mark is to guarantee the origin of the goods, that is to confirm to the consumer that the goods to which the trade-mark in question is affixed really originate from the proprietor of the trade-mark (cf. Case 119/75 *Terrapin* v *Terranova* [1976] ECR 1039).

This function of the trade-mark to guarantee to consumers the identity of the origin of the product requires that only the proprietor of the trade-mark is entitled to affix his trade-mark to the product. Only if there is a guarantee that the product reaches the consumer in the original packing chosen by the

proprietor of the trade-mark can the market be protected from deception as to origin and from impairment of quality as a result of transfer to other containers.

Insufficient protection would be given to the consumer's legitimate interest if the exclusive right of the proprietor of the trade-mark were to extend only to affixing the mark to the product itself and not also to the packing. It would mean that, by their very nature, the trade-mark could not be affixed to certain products. Above all, it would be of no use to the consumer on unpacking at home the product which he has purchased to find the trade-mark which has been affixed to it, for in the shop where he makes his decision to purchase he can judge only by the packing and by the trade-mark which has been affixed thereto.

There are special dangers in the case of medicinal preparations which are sold only on prescription. According to the Commission's proposal of 9 September 1976 for a directive on the approximation of provisions laid down by law, regulation or administrative action by the Member States in relation to liability for defective goods (Bulletin of the European Communities, Supplement No 11/76) the manufacturer would to all intents and purposes assume absolute liability for any damage caused. If, however, the manufacturer is unable to guarantee the identity of his product by means of his trade-mark, he risks being held liable for the defective products of others.

It is not possible to prohibit transfer into other containers only where there is a "concrete" (in contrast to an "abstract") danger of deterioration of the composition of the product. Neither the proprietor of the trade-mark, nor the consumer nor the appropriate health authority can continually check whether the transfer into other containers is not taking place in conditions which might lead to an impairment of the quality of the product.

In its observations in Case 107/76 the French Government rightly referred to the fact that the Member States had harmonized their laws in accordance with the provisions of Council Directive No 65/65 of 26 January 1965 on the approximation of provisions laid down by law, regulation or administrative action relating to proprietory medicinal products (Official Journal, English Special Edition 1965-1966, p. 20) and that it would be an infringement of the provisions of that directive, and in particular Articles 4 and 13 thereof, were an importer to unpack a proprietary medicinal product, the marketing of which had been authorized in the country of export, and to repack it, even if he were to affix the proprietor's trade-mark to the new package. According to these provisions the name of the proprietary product must accompany the application for authorization to place it on the market and it must be shown on the containers and outer packages of the product.

In the view of the plaintiffs in the main action it is wrong to claim that the information on the packaging as to the repacking which has been carried out protects the legitimate interests of the proprietor of the trade-mark and the legitimate rights of consumers. Such additions lead to the danger that the consumer's recollection of the trade-mark he knows will be impaired and thus its function as an identification will diminish. The consumer will be deceived, since descriptions such as Valium Roche Centrafarm will lead the consumer to think that Centrafarm is a part of the sales organization of Roche. The trade-mark Valium Roche could be converted into a generic concept (Freizeichen) incapable of protection. Finally, the legitimate interests of the proprietor of the trade-mark are not satisfied because although retailers buy the product they do not succeed in

disposing of it because consumers are wary of products bearing a trade-mark together with a notice stating that they have been repacked and this adversely affects prospects for the sale of trade-marked products which have not been repacked.

The plaintiffs in the main action consider, finally, that the marketing of a product under the trade-mark in question does not deprive the proprietor of that trade-mark of his right to prevent the improper use of the trade-mark at subsequent stages of marketing. In this respect they refer to the judgments of the Court of 3 July 1974 in Case 192/73, *Van Zuylen* v *Hag* [1974] ECR 731, and 31 October 1974 in Case 16/74, *Centrafarm* v *Winthrop* [1974] ECR 1183.

In the view of the plaintiffs in the main action there is no conflict between the principle of the free movement of goods within the Community and national trade-mark rights. The scope of Article 30 of the Treaty does not cover the content, that is the specific subject-matter of commercial property, and in particular does not cover the national law of trade-marks. At the very least, in this respect this is a case justified by Article 36 of the Treaty, which protects "the specific subject-matter" of industrial and commercial property rights.

The exercise of the trade-mark right in the present case does not represent a means of "arbitrary discrimination" or "a disguised restriction on trade between Member States". The defendant in the main action is quite at liberty to market in the Federal Republic of Germany in its original packing the Valium Roche purchased by it within the Community. If this is made more difficult by particular provisions relating to medicinal preparations or by the habits of consumers, the exercise of the trade-mark right is certainly not responsible for that.

B — Observations of the defendant in the main action

Centrafarm observes that because of the oligopolistic structure of supply on the market in medicinal products and because prices do not affect demand since the cost of a large part of medicinal products is borne by insurance companies, sellers are able to develop different national strategies in the various Member States. In no other market do price levels differ so much as in that for medicinal products.

After setting out the provisions laid down by law, regulation or administrative action applicable to proprietary medicinal products either at a Community level or in the Member States, the defendant in the main action infers that if the importer were prohibited from repacking proprietary medicinal products there would be no trade in this sphere.

The differences existing between national laws, the diversity of commercial usage, the medical practices and habits of consumers in the various Member States are all exploited by manufacturers of medicinal products purposely and systematically, in particular to partition off the markets of Member States, without their being constrained to do so by factors inherent in production techniques or market conditions. The artificial differentiation asserted by Roche in the present case lies in the different sizes of packets. The units of 20 or 50 tablets which Roche sells in the Federal Republic of Germany are sold in no other Member State. There is nothing, however, to prevent Roche from marketing Valium in the various Member States in packages containing the same quantities.

On the question whether it is lawful to maintain or re-affix the original trade-mark on the original product and in what circumstances, the law and case-law of the Member States vary: under the *Benelux* trade-mark law any

use of the trade-mark for the purposes of re-sale is lawful unless the product has been changed. The *Italian* case-law requires that the product should have been so altered that the link of identification between the trade-mark and the product has been destroyed. *French* case-law does not allow the original trade-mark either to be left on or to be re-affixed to the product where the latter is transferred to another container. *German* case-law does not allow the re-affixing of the trade-mark even where the product has not been altered at all.

As regards the preliminary draft of the agreement on a *European trade-mark law*, the defendant in the main action refers to the observations of the Commission in Case 107/76 in which the Commission stated that the re-affixing of the original trade-mark should be allowed so long as the product had not been altered and that the mere transfer into another container should not be considered an alteration.

As regards the first sentence of Article 36 of the EEC Treaty Centrafarm observes that the "specific subject-matter" of a trade-mark right is simply to identify the origin in the true sense of the word, that is to say that the trade-mark shows that the product comes from a particular undertaking. This is the position resulting from the judgments of the Court in Cases 16/74 *Centrafarm* and 119/75 *Terranova*.

In the present case Centrafarm is guilty of no deception as regards the origin of the goods. By reason of the indication of origin, as represented by the trade-mark, being re-affixed on repacking the identity of the origin of the product is quite apparent to the consumer so that there is no "wrongful" or "false" affixing of the trade-mark. The use of the trade-mark in trade gives no cause for confusion of the said product with those of other manufacturers.

Every attempt to associate with the function of indicating origin some special and independent function as a guarantee leads to results which are incompatible with Articles 30 and 36 of the Treaty. This view is confirmed by the memorandum of the Commission of 6 July 1976 (Bulletin of the European Communities, Supplement 8/76) on the creation of a Community trade-mark and by the latest German case-law, in particular the judgment of the Bundesgerichtshof of 2 February 1973 (Entscheidungen des Bundesgerichtshofs in Zivilsachen 60, p. 185, Cinzano).

To hold that there is such a guarantee in the present case would mean a departure from the case-law which is apparent from the decision in Case 16/74 *Centrafarm*, where the Court expressly denied that the use of industrial and commercial property rights might be a lawful or merely appropriate way of guaranteeing the consistent quality of a proprietary medicinal product.

According to the judgment of the Court in Case 119/75 *Terranova*, the basic function of the trade-mark is to guarantee to consumers that the product has the same origin. On the one hand, the Court limits the specific subject-matter of the trade-mark to the function of showing origin and, on the other hand, observes that protection of the function of indicating origin is in the interests of the consumer and not of the manufacturer. Such a definition of the "specific subject-matter" of the trade-mark right does not *a priori* exclude discussion of its function as a guarantee at the level of national law. According to the judgment of the Court of 20 February 1975 in Case 12/74 *Commission* v *Germany* [1975] ECR 181, any indication of origin serves to protect the ultimate consumer against designations which may mislead him. Protection of the consumer against deception to which he may be subject in spite of a precise indication of origin

must be ensured at the level of national law by means of the law on unfair competition. The derogation provided for by Article 36 of the Treaty cannot serve as a basis for that protection, as is shown by the judgment of the Court in Case 192/73 *Hag*.

The questions whether Centrafarm is entitled to use its own name in conjunction with the trade-mark Valium Roche and whether the phrase on the packages "marketed by Centrafarm GmbH" should be worded differently must therefore be answered by the national court with reference to the national law on competition. In the same way, protection against any other deception as to quality and the risk of counterfeiting, which Roche stressed in the main action, is a primary objective not of trade-mark law but of the law on deception in relation to goods and consumer protection. Thus none of these considerations is relevant for the purposes of the answer to be given to the question put to the Court, which relates to whether it is possible to prevent all use of the trade-mark Valium Roche independently of the existence of any deception. That question must be answered in the negative. Even assuming that the trade-mark has a function as a guarantee, the interest which Roche is seeking to protect is not part of the "specific subject-matter" of the trade-mark.

Finally, as regards the first sentence of Article 36 of the Treaty, the defendant in the main action considers that the common basis of the national rules lies in the fact that the person who has marketed a product under a given trade-mark cannot prevent the lawful purchaser of that product in turn from offering it for sale as an original product. The lawful purchaser must be allowed to carry out all the operations necessary for the resale of the product as an original product. Articles 30 and 36 of the Treaty require this general principle to be applied also in trade between Member States. The proprietor of the trade-mark can prevent the products of others from being marketed under his trade-mark, but he cannot prevent his own products from being so marketed.

The German rule which allows the trade-mark to be displayed on the shelves of shops, counters where drinks are sold or petrol pumps, but on the other hand does not allow it on sacks, beer barrels or fuel tanks is scarcely applicable in practice and in any case is not a basic element of trade-mark law which is unanimously recognized by the Member States.

These questions, however, do not need to be dealt with exhaustively in order to decide the present case. The proposition that the proprietor of a trade-mark is not entitled to prevent the resale under the original trade-mark of products lawfully placed on the market makes it impossible to prevent the re-affixing of the trade-mark when the product is not saleable without affixation of the trade-mark, as is the position with Valium imported from Great Britain in its original packing. It is not denied that under the national provisions the trade-mark must be re-affixed after each alteration of the packing of medicinal preparations. In such cases the concept of the exhaustion of the trade-mark, which is to be found not only in the legal systems of the Member States but also in Community law, limits the "specific subject-matter" of the trade-mark right.

As regards the second sentence of Article 36 of the Treaty, the defendant in the main action observes that there is a disguised restriction on trade between Member States where, objectively, it is not possible to show that the proprietor of trade-mark rights can give a convincing reason which may be inferred from the function of the trade-mark for exercising his rights in spite of the restriction on the freedom of trade which such exercise involves.

In the present case Roche has simply alleged that the repacking from large packages into small packages could give rise to manipulations or confusions such as to affect the reliability of the indication of origin.

The fact that Roche seeks to prevent not only the marketing of the repacked products but also the alteration of the packing shows in itself that Roche has adduced no good and obvious reason justifying an obstacle to free trade. Furthermore, there can be no good reason, since the information which Centrafarm has placed on the packing and the guarantee which it gives are sufficient evidence of the true position.

The fact that Valium is always repacked in the Netherlands by pharmacists is an additional factor showing that the abstract danger associated with repacking must be accepted by the manufacturer. In these circumstances there is no good reason to prohibit repacking only when it is undertaken for the purpose of trade between Member States.

When, in its observations in Case 107/76, it stressed the publicity rôle of the trade-mark and considered that the proprietor of a trade-mark is entitled to require that even on the packing his trade-mark should always present the same appearance, the government of the Federal Republic of Germany lost sight of the fact that the publicity rôle of the trade-mark is merely ancillary to the function of indicating the origin and is not an essential part of the trade-mark. The German Government used the same argument in a slightly different form to claim that from the consumer's point of view it is vitally important that he should know when he buys medicinal products that the package bearing the proprietor's trade-mark has reached him unopened. German law does not give the proprietor of the trade-mark the opportunity to ensure that his product is delivered to the ultimate consumer in its original packing. German law even allows the trade-mark to be removed before marketing. The question whether in certain cases this may adversely affect the reputation of the trade-mark is a matter for the law of competition and not for trade-mark law.

In principle, the proprietor of the trade-mark may not rely thereon to influence the subsequent form of marketing of the product.

Finally, the German Government has lost sight of the fact that the batches of Valium marketed in Great Britain and the Netherlands are in large packages which cannot in any event reach the consumer in the packing as originally sealed with the trade-mark by the manufacturer.

There is no obvious ground in the present case for preventing the re-affixing of the trade-mark on the packing of the original goods in order to protect the trade-mark. Since trade in medicinal products is concerned such a prohibition would completely exclude freedom of trade in medicinal products between Member States.

Account must also be taken of the fact that where under the national rules the parallel importer cannot re-affix the trade-mark, only the direct importer is able to engage in trade without meeting serious difficulties. Such rules involve a disguised restriction on trade between Member States and are incompatible with Articles 30 and 36 of the Treaty (Case 8/4 *Procureur du Roi* v *Dassonville* [1974] ECR 837).

C — Observations of the United Kingdom

After referring to certain aspects of the case-law of the Court the United Kingdom observes that the package, with its contents, constitutes a single product to which the person entitled to trade-mark protection has affixed his mark and upon which his reputation

depends. Transferring the product into containers of a different size, providing them with new packaging, and affixing to such packaging the proprietor's trade-mark creates in effect a new product, to which the proprietor has never applied his mark and to which his mark has been applied without his permission. In those circumstances, the mark is no longer functioning to distinguish the products of the proprietor from those of all other manufacturers or traders or to guarantee the origin, genuineness and immediate source of the product.

In the view of the United Kingdom, it is unrealistic to expect a trade-mark owner to be able to show that the products have been handled in such a way as to be liable to impair them or to stand by and wait until it can be proved that the products in question have actually been impaired. He would not normally be in a position to produce evidence as to how his product had been handled or to have any right to take possession of the products in order to submit them to examination, since they would be in the hands of the party doing the repackaging, or his customer. For the vast mass of trade-marked goods the approach of the Commission which would put the onus on the trade-mark proprietor is totally unrealistic and would provide no protection for either consumer or producer. Proper protection can be assured in such cases by the exercice of trade-mark rights.

Since at a meeting of the Working Party on the Community Trade-mark in July 1977 Member States were agreed that there should be no exhaustion of the proposed Community trade-mark right if any changes were made in goods from their original condition on marketing, including their packing and presentation, the United Kingdom submits that when the law of Member State B prohibits such unauthorized repackaging and re-marking, the national law must be allowed to operate to prevent imports into Member State B of a product deriving from Member State A which has been so re-packaged and re-marked in order that the subject-matter of the trade-mark may be duly safeguarded. The fact that special market features or consumer preferences in Member State B may make the products unattractive to market there cannot prejudice the rights of the proprietor of the trade-mark.

In the view of the United Kingdom, it is also material that in addition to its specific subject-matter, a trade-mark has incidental functions, which include the protection of consumers. Such protection is assured because the consumer is able to identify the proprietor of the mark who, by using it on or in connexion with the goods, has indicated that he will accept responsibility for their origin and genuineness. He cannot be expected to do so if a third party has repackaged and re-marked his goods without his authorization or control.

The primary purpose of the rules laid down in Council Directive No 65/65 of 26 January 1965 — to safeguard public health — is liable to be frustrated if there is unauthorized repackaging and re-marking of an imported proprietary medicinal product. The new packaging might adversely affect the products, or be inadequate or otherwise defective. The product might be exposed to contamination during repackaging. If a recall operation proved necessary, its success would be jeopardized.

In this respect the United Kingdom considers that a general distinction may be made between on the one hand repackaging which consists of the reassembly of the outer packaging only and on the other repackaging of the product itself, that is the tablets or capsules, into different containers. The risk of any impairment of the product from repackaging of the former kind is probably remote. On the other hand

there will always be a real risk of impairment in the latter form of repackaging. Unless the trade-mark owner is aware of and has details of the repackaging processes it will be difficult and in many cases impossible for him to satisfy himself that there will be "no serious risk of the nature or quality of the goods concerned being altered" by such repackaging. Having regard to the present early stage of harmonization in this field, the fact that under Community and consequential national legislation repackaging of pharmaceutical products is required to be carried out under an authorization of a competent authority does not in practice necessarily give the trade-mark owner the assurance referred to above. Having regard to the potential hazard involved in any impairment of any pharmaceutical products by such repackaging, and the consequential damage to the reputation of the trade-mark owner, to await proof of actual impairment before exercising the trade-mark right is, in the view of the United Kingdom, unrealistic. It would therefore appear that to permit the proprietor of the trade-mark to exercise his rights in the present case would be conducive to the protection of public health.

In the submission of the United Kingdom, the answer to Question 1 should be that the person entitled to the trade-mark right is empowered under Article 36 of the EEC Treaty to prevent parallel imports of products treated in the manner described in the question.

D — Observations of the Commission

The Commission queries whether the matters referred to by the Landgericht Freiburg suffice under German law to give rise to an infringement of trade-mark rights. The objective of the steps taken by the defendant in the main action was to leave the characteristics of the product unaltered. The only risk in the present case could therefore be that of an alteration in those characteristics taking place contrary to the intention of the defendant in the main action. The right under the trade-mark enjoys greater protection in the Federal Republic of Germany than in the other Member States. In this respect the Commission refers to Article 13 A (3) of the uniform law of the Benelux countries, where it is stated:

"Toutefois, le droit exclusif à la marque n'implique pas le droit de s'opposer à l'emploi de cette marque pour les produits que le titulaire ou son licencié a mis en circulation sous ladite marque, à moins que l'état des produits n'ait été altéré."

The conception (which is not binding and is not yet settled in all its details) of the content of trade-mark law so far developed at the Community level does not provide such wide protection as that offered by German law. By reason of the principle that the trade-mark must indicate clearly that a product originates from a certain undertaking, only such measures which are taken without the consent of the proprietor of the trade-mark and which alter the characteristics of the product are relevant to trade-mark law. Quite apart from this, the preliminary draft of the agreement on a European trade-mark law and the memorandum on the creation of a Community trade-mark do not refer to any special protection in relation to the packaging of products.

In connexion with Article 36 of the Treaty the Commission observes that in its definition of the "specific subject-matter" of the trade-mark the Court has stressed the fact that "the basic function of the trade-mark" is "to guarantee to consumers that the product has the same origin" (judgment in Case 119/75, *Terranova*). In other words, the objective of the trade-mark is to distinguish or identify the products of a manufacturer or trader and to guarantee their origin, genuineness and source.

The first entry into circulation does not exhaust the trade-mark right. The proprietor of the trade-mark still needs to be protected against infringements from a two-fold aspect, precisely as regards the function of indicating origin. On the one hand, the proprietor must be able to take action against any unlawful manipulation of the trade-mark, the classic example of infringement being the unlawful use of a "good trade-mark" on products of third parties with the objective of "passing them off". On the other hand, he must be protected against any unlawful manipulation of the product by a third party affecting the characteristics and quality of the product.

Where measures taken with regard to a product outside the context of normal trade in goods involves a change in quality not exceeding that which might be expected in the normal way of trade, it is not possible to claim that the function of indicating the origin is thus affected.

In the Commission's view, if the principle is accepted that the trade-mark must guarantee the genuineness and identity of a product but not of its packaging, it is not possible to see how a change in the presentation necessarily affects the trade-mark's function of indicating the origin. On the contrary, it is quite conceivable that a trader may alter the packaging on which the trade-mark has been placed and may then re-affix the trade-mark without affecting its function of indicating the origin. Further, the trader could duly inform consumers of the fact that he has altered the packaging, for example by affixing to the new packaging a special notice such as "repackaged and put into circulation". When the packaging encloses a container which itself holds the product and when the product and the container (or at least one of them) bear a trade-mark, the consumer is easily able to check the identity of the product. The same is true when a product bearing a trade-mark is in direct contact with the packaging.

In these circumstances, having regard to the connexion, which alone is relevant, between the trade-mark and the product, the only function of the packaging being to indicate that connexion without itself enjoying any protection given by the trade-mark, the question arises in the present case whether the fact of continuing to use the original trade-mark on a product which, without the consent of the proprietor, has been manipulated in a manner going beyond the alterations usually involved in the normal way of trade, constitutes an infringement of the trade-mark. This might in particular be taken to be the case where what has been done has caused, or at least appears more or less likely to have caused, an alteration in the quality of the product affecting its origin. It is for the national court to determine whether or not what has been done affects the origin.

As regards pharmaceutical products, although alterations by third persons who have not been authorized by the manufacturer must be subject to strict criteria, nevertheless even here there are alterations which, since they in no way affect the function of indicating the origin, do no harm from the point of view of trade-mark law.

In the present state of national and Community law applicable to proprietary medicinal products, any other interpretation would render international trade in these proprietary products practically impossible. The Commission recalls that Council Directives Nos 65/65 of 26 January 1965 and 75/319 of 20 May 1975 on the approximation of provisions laid down by law, regulation or administrative action relating to proprietary medicinal products (Official Journal L 147 of 9 June 1975, p. 13) provide expressly that Member States may require that certain information relating to proprietary medicinal

products be mentioned on the packaging or on the leaflet enclosed with the packaging. If by relying on trade-mark law it were possible to evade the obligations relating to the provision of information imposed by the Member States in accordance with Community law, this would undermine the principle of the free movement of goods as recognized by the Court in its judgments in Cases 15 and 16/74 *Centrafarm* v *Sterling Drug* and *Centrafarm* v *Winthrop*.

Where, on the other hand, the proprietor of the trade-mark must allow the manipulation of a product which does not affect the function of the trade-mark as an indicator of the origin because, *inter alia*, the national and Community law in force provide for or allow such manipulation, the Commission sees no reason why it should be necessary to prohibit other acts which have similarly so little effect upon that function and which, without being directly provided for by legal provisions, are necessarily called for, having regard to the indirect effect of national laws and the habits of consumers, so that international trade may take place under acceptable economic conditions.

Conversely, the Commission considers that all acts which alter the actual nature of the product are prohibited. Such acts, which always result in an objectively ascertainable alteration of the nature of the product, give rise, in the view of the Commission, to a product distinct from the original product and thus alter the origin of the product. In this respect it does not matter whether or not the acts are allowed by the health laws of the importing State.

In view of the high quality required in the case of medicinal products the very danger of a deterioration of quality should be regarded as a defect, which should not be underestimated when the products are marketed, especially from the point of view of the consumer. Accordingly, where as a result of acts undertaken by third persons without the authorization of the manufacturer an original medicinal product suffers such defects, it must be concluded that the nature of the product has been adversely affected from the point of view of its origin.

The Landgericht Freiburg rightly concluded that to justify a claim of infringement of a trade-mark it is not possible simply to rely on criteria taken from health legislation. The criteria of the law on trade-marks and those of health protection law do not have the same scope when it comes to ascertaining the lawfulness of a particular act in relation to a medicinal product: the objective of the trade-mark is to protect personal rights, while the objective of the law on medicinal products is actively to protect public health. The Court presupposed this fundamental distinction between the protection of industrial and commercial property and the protection of public health when it ruled that:

"The owner of a trade-mark relating to a pharmaceutical product cannot avoid the incidence of Community rules concerning the free movement of goods for the purpose of controlling the distribution of the product with a view to protecting the public against defects therein" (Case 16/74 *Centrafarm* v *Winthrop*, paragraph (3) of the operative part).

However, the fact that the proprietor of a trade-mark cannot, for the purpose of enforcing his rights, rely on the necessity of protecting public health does not mean that the law on medicinal products has no effect upon the exercise of trade-mark rights. The Landgericht Freiburg was right in saying that, in reaching a decision based exclusively on the "specific subject-matter" of the trade-mark, the provisions of the law on medicinal products defining certain acts as being likely to endanger public health are important factors in determining

whether such acts may impair the quality of the product in question and therefore affect the function of indicating the origin. The market in medicinal products is characterized by rules laid down by the public authorities and this is not without influence on the attitude and expectations of consumers.

In the Commission's view it would be wrong to conclude that the function of indicating the origin has in fact been adversely affected merely because of the existence of some abstract risk. It is more proper to ask whether and how far the provisions adopted by the national legislature in view of the danger that impairment of quality may represent are appropriate for avoiding such risk.

Where the public health laws of a State contain preventive measures which, if they are respected, allow unpacking and repackaging, it must be that the legislature considers that this precludes the risk that any impairment of the quality of the product may endanger public health. This means that the proprietor of the trade-mark cannot rely on considerations of public health law to claim that the function of indicating the origin has been adversely affected.

In the present case no facts have been alleged to show that there has been a wrongful impairment in relation to public health law. In cases where rules and inspections by public authorities guarantee that the transfer into other containers and repackaging of ready-prepared medicinal products does not change their identity and genuineness, it is accordingly not possible to rely on the law concerning medicinal products or the abstract considerations which it contains to claim that such acts affect the function of indicating the origin.

Conversely, the fact that the acts in question involve no risk to public health does not automatically mean that they "do not affect the function of indicating the origin". The proprietor of a trade-mark is simply prevented from relying on the abstract risk that alterations may represent from the point of view of public health law. The national court must therefore ascertain whether close consideration of the objective interests of the manufacturer does not reveal factors which have nothing to do with public health criteria but which show that there is an effect upon the function of indicating the origin. This is particularly the case where in his undertaking a manufacturer submits products bearing his trade-mark to very rigorous quality control.

Where a third person alters the packaging or wrapping in a legal manner it is possible to require that, for the information of the consumer, he should indicate on the external packaging the nature of what he has done and should specify that it has been done without the approval of the manufacturer (or of a third person authorized by the latter). In this way both the legitimate interests of the proprietor of the trade-mark and those commercial interests which are worthy of protection are taken into account.

The Commission does not wish to deal further with the scope of the provisions on the free movement of goods since it does not see in the facts submitted to the Court any grounds for considering in detail the second sentence of Article 36.

Second question

A — Observations of the plaintiffs in the main action

The plaintiffs in the main action observe that the Landgericht Freiburg assumes in the second question referred for a preliminary ruling:

(1) that the proprietor of the trade-mark, which the third party has infringed by repackaging, has a dominant position on the market by reason of the medicinal product

bearing the protected trade-mark and not, for example, by reason of the trade-mark itself;

(2) that the prohibition on importing repackaged products bearing the proprietor's trade-mark is in fact an obstacle to the free play of the laws of the market because it is still customary in the various countries of the Community to use packages of different sizes, and

(3) that the effect of the prohibition is to maintain a price difference, which may be disproportionate, between the Member States, without its being possible to show that the proprietor of the trade-mark intends that this should be so.

On the other hand, the Landgericht does not assume that Roche satisfies the conditions laid down in Article 86 of the Treaty, relating in particular to an abuse of a dominant position.

The facts assumed by the Landgericht Freiburg do not exist or at least no longer exist: the dominant position of the plaintiffs within the market, if it ever existed, has in the meantime been whittled away since the share of the market and frequency of prescriptions for Valium Roche have diminished because of the arrival of competing products. This question, moreover, will be reconsidered in the proceedings before the Kammergericht Berlin. Further, the prohibition on importing repackaged products bearing the proprietor's trade-mark cannot be an obstacle to the marketing of those products since the defendant in the main action is not prohibited from importing into the Federal Republic of Germany or from selling there in their original packaging batches of 100 or 500 tablets of Valium Roche purchased in Great Britain. It is, moreover, inconceivable that batches of 1 000 tablets should be sold in the Federal Republic of Germany but not batches of 100 or 500 tablets. Even assuming that the defendant in the main action had to repackage the large batches of Valium Roche purchased in Great Britain into smaller packets and mark on them "Valium Roche Centrafarm", a judicial injunction restraining this would not be an obstacle to trade between Member States since all the latter's legal systems condemn such practices.

The assumptions listed under (1) to (3) cannot, either individually or taken together, justify a complaint of abuse by the proprietor of the trade-mark. In order that the exercise of the trade-mark right may be regarded as contrary to Article 86 or other provisions of the Treaty additional conditions have to be fulfilled.

The French, British and German governments and the Commission rightly insisted in their written observations in Case 107/76 that the exercise of a trade-mark right cannot be regarded as an abuse within the meaning of Article 86 of the Treaty solely because that right is exercised by an undertaking which occupies a dominant position on the market. This view is confirmed by the judgments of 29 February 1968 in Case 24/67, *Parke, Davis and Co.* [1968] ECR p. 55) and 18 February 1971 in Case 40/70, *Sirena* ([1971] ECR p. 69).

The position referred to in Article 86 of the Treaty can thus exist only where, apart from the exercise of the trade-mark right, the proprietor of a trade-mark substantially fetters competition by reason of the position of power which it has acquired in fact or in law (Case 6/72 *Continental Can* [1973] ECR p. 215).

Such a degree of domination can never be achieved solely by means of the trade-mark but requires the deployment of means of a factual or legal nature going beyond the acquisition and use of the trade-mark.

Any abuse of a dominant position held within the market by the proprietor of

the trade-mark can therefore lead to a prohibition on the exercise of the rights arising from that trade-mark only where the abuse is based on the way in which the right in question is exercised or where it is at least encouraged by the trade-mark (see the aforementioned judgment of the Court in Case 24/67 *Parke, Davis and Co.)*

In the present case the exercise of the trade-mark right by the plaintiffs in the main action does not encourage any abuse: the Landgericht Freiburg does not assume any such position, but merely speaks of a "dominant position within the market" and not of an abuse of that position. The exercise of rights arising under the trade-mark cannot therefore "encourage" or "maintain" an abuse of a dominant position.

If the sole fact that the proprietor of a trade-mark has acquired a dominant position on the market were sufficient reason to impose on him restrictions in the exercise of the "specific subject-matter" of his trade-mark right, that would mean that the proprietor of a well-known trade-mark would enjoy less protection than the proprietor of less important or unknown trade-marks. Very properly the French and British governments in their written observations in Case 107/76 regarded such a result as absurd.

The fact that for medicinal products the usual units vary in size in the different countries of the Community is not due to trade-mark law but to the fact that the professional associations of pharmacists in the different Member States have different rules: thus a pharmacist in the Federal Republic of Germany, unlike a pharmacist in the Netherlands or in Great Britain, must sell proprietary medicinal products in the original packaging put together by the manufacturer, and only hospitals are entitled to dispense medicines. The different customs arising from this situation cannot be interpreted as an abuse of trade-mark law.

Nor can the price differences which still exist between the various Member States in relation to medicinal products be evidence of an abuse of a dominant position, for they are due not to trade-mark law but in the main to differences in purchasing power of the various currencies, variations in exchange rates, different patent laws in the legal systems and various legal positions in relation to public health.

B — Observations of the defendant in the main action

The defendant in the main action observes, first of all, that the national court refers to the decision of the Bundesgerichtshof of 16 December 1976 to justify the statement that Roche occupies a dominant position in the Federal Republic of Germany.

The finding made by the Bundesgerichtshof that the market in tranquillizers represents a limited sector of the market appears to accord with the Treaty, even having regard to the rules laid down by the Court in Case 6/72 (Continental Can, paragraphs 32 *et seq.* of the Decision).

The remarks of the Bundesgerichtshof regarding the position of Roche as a market leader and the significance of Valium are sufficient grounds for assuming that Roche occupies a dominant position on the market within the meaning of Article 86 of the EEC Treaty, since for that purpose it is sufficient that an undertaking has the possibility of determining prices for a substantial part of the relevant products (cf. the decision of the Commission of 9 December 1971 in the case of Continental Can, Journal Officiel of 8 January 1972, L 7, p. 25). That criterion was never contested in the judgment of the Court.

In this respect the national court observes that a dominant position on the market of a Member State represents at the same time a dominant pos-

ition within a substantial part of the market as a whole and in this it agrees with the view expressed by the Court in its judgment of 27 March 1974 in Case 12/73 Sabam ([1974] ECR 313, paragraph 5).

According to the findings of the national court the Roche group is preventing undertakings from other Member States from entering into competition with its German subsidiary on the market in the Federal Republic of Germany. Such hindrance is an abuse of a dominant position because it infringes Article 3 (f) of the EEC Treaty.

In reply to the argument advanced by Roche in the main proceedings to the effect that the "specific subject-matter" of a trade-mark must be protected even against the rules on competition contained in the Treaty, since otherwise an undertaking in a dominant position on the market would enjoy only less extensive trade-mark rights, the defendant in the main action states that according to Articles 85 and 86 of the EEC Treaty acts may be prohibited which are otherwise part of the "specific subject-matter" of the industrial and commercial property within the meaning of Article 36 of the Treaty. In support of this view it refers to the judgments of the Court in Cases 74/76 *Iannelli & Volpi* ([1977] ECR 557), 40/70 *Sirena* and 78/70 *Deutsche Grammophon Gesellschaft* v *Metro* ([1971] ECR 487).

Every provision which is intended to prevent the abuse of a dominant position necessarily prohibits undertakings which are in a dominant position from engaging in certain activities which are permitted to others. Such is in particular the case where the exercise of an absolute right by an undertaking in a dominant position is prohibited. An undertaking in a dominant position could for example be prohibited from exercising a copyright, the exercise of which by an undertaking not in a dominant position would be allowed (cf. the aforementioned judgment of the Court in Case 78/70). It is therefore quite feasible for Article 86 of the Treaty to have the effect of reducing the scope of a right to restrain others under a trade-mark which an undertaking in a dominant position would have if it did not occupy such a position on the market.

In order to find whether the prices of Roche might be "unfair" within the meaning of subparagraph (a) of the second paragraph of Article 86 of the EEC Treaty, the Bundesgerichtshof relied on the so-called "Vergleichsmarktkonzept" (the "comparable market" principle), that is the prices actually applied by Roche were compared with prices which would prevail if there were competition. This doctrine may be regarded as prevalent in the Federal Republic of Germany and has also been widely applied in Community law (cf. the judgment in Case 13/60, *Geitling* v *High Authority*, [1962] ECR at p. 102, paragraph 3).

On the other hand if, as some writers maintain, the doctrine of "fictitious competition" is not appropriate for establishing an abuse of a dominant position, it is necessary to inquire whether Roche has been found to have acted in such a way as to thwart the achievement of one of the objectives of the common market or is creating an obstacle to such achievement. In this respect it is interesting to observe that to obtain excessive prices Roche makes use of the principle of the partitioning of markets. The conduct which the national court imputes to Roche in reliance on the judgment of the Bundesgerichtshof must therefore be regarded as an abuse of its dominant position, even if the doctrine of "fictitious competition" is not followed and it is required that there be an additional violation of the objectives of the Treaty.

The view of the Oberlandesgericht Karlsruhe, that the consolidation of

market power which is abused in another context is not in itself an infringement of Article 86 of the EEC Treaty, conflicts with subparagraph (a) of the second paragraph of Article 86, which expressly states that abuse may consist in directly or indirectly imposing unfair selling prices, and also conflicts with the judgments of the Court in Case 6/72, *Continental Can*, paragraph 26, and in Joined Cases 6 and 7/73 *Commercial Solvents* [1974] ECR at p. 252, paragraph 32.

The application of Article 86 is, however, quite independent of any intention or negligence. It simply requires that the undertaking should have acted wrongly from an objective point of view. As regards the application of Article 85 of the EEC Treaty that objective interpretation appears from the wording "have as their object or effect" and this, apart from applying expressly to Article 85, applies also to Article 86.

C — Observations of the United Kingdom

The United Kingdom observes that having regard to the cogent arguments advanced in the order made by the national court, Article 36 is not invalidated merely because the proprietor of a trade-mark enjoys a dominant position in respect of a particular product in a substantial part of the common market. In the view of the United Kingdom there is no abuse of market strength if an undertaking enjoying a dominant position within the market avails itself of a trade-mark right to which it is entitled, in the same manner as any other person entitled to such a right, for objectives unconnected with the use of market power, and this is so even where recourse to this right has the effect in practice *inter alia* of consolidating market power which is abused in another context. The practical effect of a contrary conclusion would be that trade-marks belonging to dominant undertakings would necessarily be reduced in value as indicators of origin, with consequential damage both to those undertakings and to the public.

D — Observations of the Commission

The Commission observes that the Landgericht Freiburg proceeds on the basis of the following facts:

(a) The proprietor of the trade-mark occupies a dominant position.

(b) The proprietor of the trade-mark abuses that dominant position in order to maintain excessive price levels on the German market.

(c) Recourse to the trade-mark right results in a consolidation of the market power which is being abused.

In the Commission's view the objective of the present procedure for a preliminary ruling is not a thorough examination to determine whether Roche-Germany does indeed occupy a dominant position on the market within the meaning of Article 86 of the Treaty; such an examination would, moreover, be impossible on the basis of the available facts.

Nor is it a question in this procedure of determining whether the Landgericht Freiburg has properly found that there is an abuse of a dominant position within the meaning of Article 86 of the Treaty because prices have been maintained at an excessively high level in the Federal Republic of Germany. Such a finding is open to criticism since the Kammergericht Berlin, to whose decision reference has been made, considered the question of the abuse of the dominant position solely on the basis of the German law of competition.

The exercise of a trade-mark right cannot be regarded as an abuse within the meaning of Article 86 of the EEC Treaty solely because it was the act of an undertaking having a dominant position within the market.

The exercise of such a right could nevertheless be regarded as an abuse within the meaning of Article 86 of the Treaty in two specific cases:

(a) There would be an abuse if the trade-mark right were exercised not in order to defend the right itself but to achieve other objectives, as for example control of distribution for the purpose of exercising influence. In the view of the national court there were no grounds for making such an assumption here;

(b) The exercise of restrictive rights based on the trade-mark is an abuse where objective consideration of all the circumstances leads to the conclusion that such exercise enables the proprietor to continue to abuse his dominant position or to extend such abuse.

The Landgericht Freiburg found that the recourse by Roche to its trade-mark right "has the effect in practice... of consolidating market power which is abused in another context." The exercise of the restrictive right based on the trade-mark would in fact prevent any economically worthwhile import of cheap Valium and thus prevent effective competition on the German market. This would adversely affect trade between Member States. In so far as the conditions set out in (a) to (c) above are fulfilled there is, in principle, an abuse of the trade-mark right.

This conclusion nevertheless does not mean that the proprietor of the trade-mark must tolerate any arbitrary use of his trade-mark by third persons. Thus in particular it would not be possible to justify the abuse of the trade-mark by unauthorized persons and the consequential deception of the consumer. It follows, on the one hand, that it is lawful to enforce the trade-mark right whenever it is a question of preventing the passing-off of non-genuine products and, on the other hand, that acts which have as their object or necessary effect a substantial objective alteration of the quality of the product are allowed under trade-mark law only with the permission of the proprietor of the trade-mark.

In its written observations in Case 107/76 the Commission expressed the view that when it appears that the exercise of a trade-mark right objectively enforces an already existing abuse of a dominant position, the proprietor of the trade-mark is subject to greater restrictions than those imposed on him by reason of the principle of the free movement of goods. After thorough examination the Commission has come to the conclusion that it is not possible to apply that reasoning in the present case. It no longer maintains its previous view, for the following reasons: As the Landgericht has found, the exercise of the trade-mark right is neither in itself nor directly an abuse of a dominant position, but simply causes an indirect reinforcement of an abuse the existence of which is independent of the recourse to the trade-mark right. It does not seem right to restrain the proprietor from exercising his right, which is lawful in itself, when in the case in point there is no possibility of checking the effects of such exercise. This observation nevertheless does not prevent recourse to Community criteria to determine the limits of the lawful exercise of a trade-mark right, nor does it prevent examination of whether the right to which recourse is had is part of the "specific subject-matter" of the industrial and commercial property right. In this respect the Commission refers to the observations which it has made in respect of the first question in the order requesting a preliminary ruling.

The general problem which arises in the present case is to determine what degree of interference by a third person with a product to which a trade-mark has been affixed must be tolerated by the

proprietor of that trade-mark, by virtue of the principle of the free movement of goods, because it adversely affects neither the identity nor the origin of the product. In the circumstances of the present case the limits to the exercise of the trade-mark right by the proprietor, as laid down by the Commission in its observations on the scope of Articles 30 and 36 of the Treaty, may not be exceeded unless both the identity and origin of the product are at the same time adversely affected.

III — Oral procedure

1. At the hearing on 14 February 1978 the plaintiffs in the main action, represented by O. C Brändel, P. Selbherr and M. Beier, the defendant in the main action, represented by A. F. de Savornin Lohmann and K. Huber, the Government of the Federal Republic of Germany, represented by M. Seidel, Ministerialrat at the Federal Ministry for Economic Affairs, and E. Bülow, Ministerialdirigent at the Federal Ministry of Justice, and the Commission, represented by its Legal Adviser, M. Beschel, acting as Agent, presented oral observations.

2. The *Government of the Federal Republic of Germany,* which did not submit written observations, claimed at the hearing among other things that the right of the proprietor of the trade-mark to restrain the marketing of products which had been repackaged and to which the trade-mark had been re-affixed serves to protect the rights which are the specific subject-matter of the trade-mark right, which consists of giving the proprietor of the trade-mark, by means of the exclusive right of using the trade-mark on the first marketing of the product, protection against competitors seeking wrongfully to profit from the significance and reputation of the trade-mark by selling products to which such trade-mark has been improperly affixed. The prohibition on repackaging and on re-affixing the trade-mark is aimed at preventing such conduct. From the purchaser's point of view the significance and reputation of a trade-mark depends not only on the service provided under the trade-mark but also on the external appearance of the product to which the trade-mark is affixed. Trade-mark law enables the proprietor of the trade-mark to control the noteworthy identity of the mark, appearance and content of the product as a whole, and not just to check the quality of the product.

The right of the proprietor of the trade-mark under German law to prevent repackaging under his mark serves in the first place to protect the identity of the product. Protection of that identity is not a matter regulated by the State, as is the case in diverse sectors, especially as such regulation normally relates to certain aspects of the "scientific" quality of the product.

Further, the Government of the Federal Republic took the view that the question whether the prohibition on repackaging and on re-affixing the trade-mark is compatible with the first sentence of Article 36 of the Treaty depends on consideration of the function and purpose both of trade-mark rights and of the principle of the free movement of goods. Since a trade-mark right cannot fulfil its essential function without a prohibition on repackaging and on the re-affixing of the trade-mark, it cannot as a general rule be denied that that prohibition is part of the essence of the trade-mark right without depriving that right of its essential function.

Conduct falling within the second sentence of Article 36 of the Treaty includes, in the view of the Government of the Federal Republic, the situation, for example, where the proprietor of the trade-mark, in exercising his powers

thereunder, has as his objective an abuse of his trade-mark rights, which may objectively be ascertained. Such a case also arises where the proprietor of the trade-mark exercises his trade-mark powers to exploit disproportionate price differences between the Member States. In considering such a case regard must be had to how far such price differences depend on the application of national maximum price regulations.

Finally, the Government of the Federal Republic stated that determination of the scope of trade-mark rights should not vary merely on the grounds that the proprietor of the trade-mark faces competition or occupies a dominant position on the market.

The Advocate General delivered his opinion at the hearing on 14 March 1978.

Decision

1 By order dated 20 June 1977 received at the Court on 2 August 1977 the Landgericht Freiburg referred to the Court under Article 177 of the EEC Treaty two questions concerning the effect of certain provisions of the Treaty on the exercise of the rights appertaining to the proprietor of a trade-mark. Those questions have arisen in proceedings between two undertakings in the pharmaceuticals sector, one of which, the plaintiff in the main action (hereinafter referred to as "Hoffmann-La Roche"), which is the proprietor of a certain trade-mark in several Member States, has taken issue over the fact that the other, the defendant in the main action (hereinafter referred to as "Centrafarm"), which had purchased a product covered by that trade-mark marketed in a Member State, distributes that product in another Member State after repackaging it and re-affixing the proprietor's trade-mark to the new packet.

2 The product in question, Valium, is marketed in Germany by Hoffmann-La Roche for individual buyers in packages of 20 or 50 tablets and for hospitals in batches of five packages containing 100 or 250 tablets, while the British subsidiary of the Hoffmann-La Roche group, which manufactures the same product, markets it in packages of 100 or 500 tablets at considerably lower prices than those obtaining in Germany. Centrafarm marketed in Germany Valium purchased in Great Britain in the original packages which it put up into new packages of 1000 tablets, to which it affixed the trade-mark of Hoffmann-La Roche together with a notice that the product had been marketed by Centrafarm. Centrafarm also gave notice of its intention to repack the tablets into smaller packages intended for sale to individuals.

3 In its order making the reference the Landgericht held, in accordance with an opinion expressed by the superior court in a previous procedural stage of the same case, that what Centrafarm has done constitutes an infringement of the rights of Hoffmann-La Roche according to the German law on trade-marks.

4 The question whether the laws of the other Member States in the matter are the same has been discussed before the Court but has not received a clear answer.

The first question

5 The first question is worded as follows:

"Is the person entitled to a trade-mark right protected for his benefit both in Member State A and in Member State B empowered under Article 36 of the EEC Treaty, in reliance on this right, to prevent a parallel importer from buying from the proprietor of the mark or with his consent in Member State A of the Community medicinal preparations which have been put on the market with his trade-mark lawfully affixed thereto and packaged under this trade-mark, from providing them with new packaging, affixing to such packaging the proprietor's trade-mark and importing the preparations distinguished in this manner into Member State B?"

6 As a result of the provisions in the Treaty relating to the free movement of goods, and in particular Article 30, quantitative restrictions on imports and all measures having equivalent effect are prohibited between Member States. Pursuant to Article 36 those provisions nevertheless do not preclude prohibitions or restrictions on imports justified on grounds of the protection of industrial and commercial property. However, it is clear from that same article, in particular its second sentence, as well as from the context, that whilst the Treaty does not affect the existence of rights recognized by the laws of a Member State in matters of industrial and commercial property, yet the exercise of those rights may nevertheless, depending on the circumstances, be restricted by the prohibitions contained in the Treaty. Inasmuch as it creates an exception to one of the fundamental principles of the common market, Article 36 in fact admits of derogations from the free movement of goods only to the extent to which such exceptions are justified for the purpose of safeguarding the rights which constitute the specific subject-matter of that property.

7 In relation to trade-marks, the specific subject-matter is in particular to guarantee to the proprietor of the trade-mark that he has the exclusive right to use that trade-mark for the purpose of putting a product into circulation for the first time and therefore to protect him against competitors wishing to take advantage of the status and reputation of the trade-mark by selling products illegally bearing that trade-mark. In order to answer the question whether that exclusive right involves the right to prevent the trade-mark being affixed by a third person after the product has been repackaged, regard must be had to the essential function of the trade-mark, which is to guarantee the identity of the origin of the trade-marked product to the consumer or ultimate user, by enabling him without any possibility of confusion to distinguish that product from products which have another origin. This guarantee of origin means that the consumer or ultimate user can be certain that a trade-marked product which is sold to him has not been subject at a previous stage of marketing to interference by a third person, without the authorization of the proprietor of the trade-mark, such as to affect the original condition of the product. The right attributed to the proprietor of preventing any use of the trade-mark which is likely to impair the guarantee of origin so understood is therefore part of the specific subject-matter of the trade-mark right.

8 It is accordingly justified under the first sentence of Article 36 to recognize that the proprietor of a trade-mark is entitled to prevent an importer of a trade-marked product, following repackaging of that product, from affixing the trade-mark to the new packaging without the authorization of the proprietor.

9 It is, however, necessary to consider whether the exercise of such a right may constitute a 'disguised restriction on trade between Member States' within the meaning of the second sentence of Article 36. Such a restriction might arise, *inter alia*, from the proprietor of the trade-mark putting onto the market in various Member States an identical product in various packages while availing himself of the rights inherent in the trade-mark to prevent repackaging by a third person even if it were done in such a way that the identity of origin of the trade-marked product and its original condition could not be affected. The question, therefore, in the present case is whether the repackaging of a trade-marked product such as that undertaken by Centrafarm is capable of affecting the original condition of the product.

10 In this respect the answer must vary according to the circumstances and in particular according to the nature of the product and the method of repack-

aging. Depending on the nature of the product repackaging in many cases inevitably affects its condition, while in others repackaging involves a more or less obvious risk that the product might be interfered with or its original condition otherwise affected. Nevertheless, it is possible to conceive of the repackaging being undertaken in such a way that the original condition of the product cannot be affected. This may be so where, for example, the proprietor of the trade-mark has marketed the product in a double packaging and the repackaging affects only the external packaging, leaving the internal packaging intact, or where the repackaging is inspected by a public authority for the purpose of ensuring that the product is not adversely affected. Where the essential function of the trade-mark to guarantee the origin of the product is thus protected, the exercise of his rights by the proprietor of the trade-mark in order to fetter the free movement of goods between Member States may constitute a disguised restriction within the meaning of the second sentence of Article 36 of the Treaty if it is established that the use of the trade-mark right by the proprietor, having regard to the marketing system which he has adopted, will contribute to the artificial partitioning of the markets between Member States.

11 Although this conclusion is unavoidable in the interests of freedom of trade, it amounts to giving the trader, who sells the imported product with the trade-mark affixed to the new packaging without the authorization of the proprietor, a certain licence which in normal circumstances is reserved to the proprietor himself. In the interests of the proprietor as trade-mark owner and to protect him against any abuse it is therefore right to allow such licence only where it is shown that the repackaging cannot adversely affect the original condition of the product.

12 Since it is in the proprietor's interest that the consumer should not be misled as to the origin of the product, it is moreover right to allow the trader to sell the imported product with the trade-mark affixed to the new packaging only on condition that he gives the proprietor of the mark prior notice and that he states on the new packaging that the product has been repackaged by him.

13 It follows from what has been stated above that, subject to consideration of the facts of a particular case, it is irrelevant in answering the legal question raised regarding the substance of trade-mark law that the question referred by the national court is exclusively concerned with medicinal products.

14 The first question must therefore be answered to the effect that:

(a) The proprietor of a trade-mark right which is protected in two Member States at the same time is justified pursuant to the first sentence of Article 36 of the EEC Treaty in preventing a product to which the trade-mark has lawfully been applied in one of those States from being marketed in the other Member State after it has been repacked in new packaging to which the trade-mark has been affixed by a third party.

(b) However, such prevention of marketing constitutes a disguised restriction on trade between Member States within the meaning of the second sentence of Article 36 where:

— It is established that the use of the trade-mark right by the proprietor, having regard to the marketing system which he has adopted, will contribute to the artificial partitioning of the markets between Member States;

— It is shown that the repackaging cannot adversely affect the original condition of the product;

— The proprietor of the mark receives prior notice of the marketing of the repackaged product; and

— It is stated on the new packaging by whom the product has been repackaged.

The second question

15 The second question is worded as follows:

"Is the proprietor of the trade-mark entitled to do this or does he thereby infringe provisions of the EEC Treaty — in particular those contained in Article 86 thereof — even if he acquires a dominant position within the market in Member State B with regard to the medicinal preparation in question, when prohibition on imports of a repacked product to which the proprietor's trade-mark has been affixed has in actual fact a restrictive effect on the market, because different sizes of packages are used in countries A and B and because the importation of the product in another manner has not yet in fact made any appreciable progress on the market, and when the actual effect of the prohibition is that between the Member States there is maintained a substantial — in certain circumstances disproportionate — price differential, without its being possible to prove that the owner of the mark is using the prohibition solely or mainly to maintain this price differential?"

16 It is sufficient to observe that to the extent to which the exercise of a trade-mark right is lawful in accordance with the provisions of Article 36 of the Treaty, such exercise is not contrary to Article 86 of the Treaty on the sole ground that it is the act of an undertaking occupying a dominant position on the market if the trade-mark right has not been used as an instrument for the abuse of such a position.

Costs

17 The costs incurred by the Government of the United Kingdom, the Government of the Federal Republic of Germany and the Commission, which have submitted observations to the Court, are not recoverable. As these proceedings are, in so far as the parties to the main action are concerned, in the nature of a step in the action pending before the national court, the decision on costs is a matter for that court.

On those grounds,

THE COURT,

in answer to the questions referred to it by the Landgericht Freiburg by order of 20 June 1977, hereby rules:

1. (a) **The proprietor of a trade-mark right which is protected in two Member States at the same time is justified pursuant to the first sentence of Article 36 of the EEC Treaty in preventing a product to which the trade-mark has lawfully been applied in one of those States from being marketed in the other Member State after it has been repacked in new packaging to which the trade-mark has been affixed by a third party.**

   (b) **However, such prevention of marketing constitutes a disguised restriction on trade between Member States within the meaning of the second sentence of Article 36 where:**

   — **It is established that the use of the trade-mark right by the proprietor, having regard to the marketing system which he has adopted, will contribute to the artificial partitioning of the markets between Member States;**

   — **It is shown that the repackaging cannot adversely affect the original condition of the product;**

— The proprietor of the mark receives prior notice of the marketing of the repackaged product; and

— It is stated on the new packaging by whom the product has been repackaged.

2. To the extent to which the exercise of a trade-mark right is lawful in accordance with the provisions of Article 36 of the Treaty, such exercise is not contrary to Article 86 of the Treaty on the sole ground that it is act of an undertaking occupying a dominant position on the market if the trade-mark right has not been used as an instrument for the abuse of such a position.

Kutscher Sørensen Bosco

Mertens de Wilmars Mackenzie Stuart O'Keeffe Touffait

Delivered in open court in Luxembourg on 23 May 1978.

A. Van Houtte — Registrar

H. Kutscher — President

OPINION OF MR ADVOCATE GENERAL CAPOTORTI DELIVERED ON 14 MARCH 1978 [1]

Mr President,
Members of the Court,

1. It is of the very essence of the industrial and commercial property rights recognized by the legal systems of the various Member States that their exclusive and territorial nature should impede the free movement of goods in the Community and the proper functioning of the rules of competition. It was therefore necessary to provide in Article 36 of the EEC Treaty a provision protecting such rights; but we know how delicate and difficult the balance is that Article 36 seeks to establish when it states that prohibitions or restrictions on imports, exports or goods in transit *justified* on the grounds of the protection of industrial and commercial property shall not be precluded and then immediately adds that "such prohibitions or restric-

1 — Translated from the Italian.