

## International Market Division on the Basis of Industrial Property Rights

Industrial property rights, such as trademarks and patents, require in many cases exploitation by separate legal entities in the various countries. Past experience with government regulations has shown that outright transfer of industrial property rights might lead to a loss or, at least a serious reduction in the value of these rights in the various foreign countries. Proprietors of such rights are therefore inclined to hedge the transfer of their rights with a number of restrictions and allocate markets separately for each foreign country.

The substantial increase in the movement of goods across state lines, together with a substantial movement of persons from country to country, have led to a phenomenon which is generally referred to as "parallel import." The term "parallel import" means the introduction and marketing of goods in a country which has been allocated to a licensee or assignee by express or implied agreement, the goods being originally put into trade channels by, or with the consent of, the original proprietor of the industrial property rights. The problem of parallel imports has become particularly pressing in relation to goods promoted and marketed under a trademark, especially if this trademark has been promoted across state lines.

A number of industrial countries have enacted antitrust laws of various scope. Additionally, the Rome Treaty, the basic treaty for the creation of the European Common Market, contains antitrust provisions which are superimposed over the national antitrust statutes, if such exist, of the constituent members of the European Common Market.

The industrial output and the international trade of the European Common Market will therefore play an increasingly important part in any exploitation of industrial property rights. The European Court of Justice

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has repeatedly held that industrial property rights cannot be utilized for allocation of markets within the Common Market and prevent movement of goods across the borders of the states constituting the Common Market. These decisions were rendered in disputes against prohibition of parallel imports based on different trademark rights. They would apply equally to parallel imports conflicting the rights in patents held or transferred to different entities in the various countries of the European Common Market.

### United States of America

A decision after the enactment of the Trademark Act of 1905<sup>1</sup> held that the importation of genuine goods, that is, goods which emanate from the proprietor of the trademark could not be prevented.<sup>2</sup> The Court of Appeal for the Second Circuit decided likewise in the case of *Bourjois v. Katzel*,<sup>3</sup> holding that the assignment of the U.S. trademark rights to a U.S. corporation cannot prevent imports of genuine goods.

The assignment itself and the relationship of the original trademark owner and its assignee, the U.S. corporation, were not discussed in the judgment. The Supreme Court reversed<sup>4</sup> on January 21, 1923, holding that the assignee, the U.S. corporation had acquired independent trademark rights and could prevent importation and marketing of goods emanating from the French manufacturer, the original trademark owner.

The United States filed suit against three French manufacturers of perfumes, Guerlain, Inc.,<sup>5</sup> Parfum Corday, Inc.<sup>6</sup> and Lanvin Parfums, Inc.<sup>7</sup> before the District Court for the Southern District of New York, charging each of the three defendants with violation of §2 of the Sherman (Antitrust) Act. Judge Edelstein came to the conclusion that the provisions of the Antitrust Act had been violated. He also found that the defendants, the three U.S. corporations to whom the trademarks were assigned, and their French counterparts constitute a single international enterprise. Judge Edelstein also found that it is the name (the trademark) that is bought rather than the perfume itself.

<sup>1</sup>United States Trademark Act of 1905, 33 Stat. 730, 33 USC §1051 *et seq.*

<sup>2</sup>Fred Gretsch Mfg. Co. v. Schoening, 238 F 780 (CA2-1916).

<sup>3</sup>275 F 539 (CA2-1921).

<sup>4</sup>*Bourjois v. Katzel*, 260 US 689 (1923).

<sup>5</sup>*United States v. Guerlain Inc.*, 155 F. Supp. 77 (SDNY 1957), 114 USPQ 223.

<sup>6</sup>*United States v. Parfums Corday*, 155 F. Supp. 77 (SDNY 1957), 114 USPQ 223.

<sup>7</sup>*United States v. Lanvin Parfums*, 155 F. Supp. 77 (SDNY 1957), 114 USPQ 223.

This decision was critically discussed by Kramer,<sup>8</sup> Malia,<sup>9</sup> Fugate,<sup>10</sup> Linowitz,<sup>11</sup> Oliver<sup>12</sup> and Nitsche.<sup>13</sup>

The general adverse comments on the decision by Judge Edelstein prompted the Department of Justice to file a motion to vacate the judgment by Judge Edelstein.<sup>14</sup> Judge Edelstein declared there was no reason at all why a straightforward confession of error should not be made if the government believed itself and the Court to be in error. It was stated that the basis of the government's unusual procedure was a policy decision arrived at only during the pendency of the appeals.<sup>15</sup>

### Austria

Austria had been considered an adherent to the strict interpretation of the principle of territoriality, as exemplified by the decision of the Austrian Supreme Court in the Brunswick case<sup>16</sup> and by the Oberlandesgericht (Court of Appeals) Vienna in the *Nescafé* case,<sup>17</sup> also the *Seaburg* case.<sup>18</sup>

The strict interpretation of the principles of territoriality meant that not only the proprietor of an independent Austrian trademark, but also the sole licensee could sue a parallel importer, even if the goods had emanated from his licensor.

This position has been completely reversed by the Austrian Supreme Court on November 30, 1970, in the *Agfa* case.<sup>19</sup>

### Switzerland

Switzerland stood in the forefront of the countries upholding the in-

<sup>8</sup>Kramer, *The Application of the Sherman Act to Foreign Competition*, ANTITRUST BULL. Vol. III, July/August 1958, p. 387.

<sup>9</sup>Malia, *Jointly Owned Companies Operating Abroad, A Problem of Antitrust Policy*, GEORGETOWN L. J. 125-142.

<sup>10</sup>Fugate, *Antitrust Law and International Trade*, U. OF ILL. L. FORUM, Vol. II (1959).

<sup>11</sup>Linowitz, *Antitrust Laws, A Damper on American Foreign Trade?* ABA J., Vol. 44 (1958) p. 853.

<sup>12</sup>Oliver, *Does International Law Keep the Sherman Act at Home?*, PENN. BAR ASSOC. Q., Vol. 29 (1958) p. 326.

<sup>13</sup>Nitsche, *Some Antitrust Problems in Foreign Trade* MICH. ST. BAR J., Vol. 37 (May 1958) p. 19.

<sup>14</sup>*Guerlain v. United States*, U.S. Supreme Court, 358 US 915, 119 USPQ 501.

<sup>15</sup>ABA SECTION OF ANTITRUST LAW 1958, p. 59.

<sup>16</sup>"Brunswick," 1957 OESTERREICHISCHE BLAETTER FUER GEWERBLICHEN RECHTSCHUTZ UND URHEBERRECHT (OeBl) 72, 1970 GRUR Int. 557.

<sup>17</sup>"Nescafé," Oberlandesgericht Wien, July 29, 1953, OESTERREICHISCHE BLAETTER FUER GEWERBLICHEN RECHTSCHUTZ UND URHEBERRECHT (OeBl) 67.

<sup>18</sup>"Seaburg," 1960 OESTERREICHISCHE BLAETTER FUER GEWERBLICHEN RECHTSCHUTZ UND URHEBERRECHT (OeBl) 72, 1960 GRUR Int. 557.

<sup>19</sup>"Agfa," Oesterreichischer Oberster Gerichtshof, File 4 Ob 333/70, November 30, 1970, 1971 GRUR Int. 90.

terests of international commerce and trade, disregarding state boundaries. The underlying concept was that the trademark proprietor could not influence further disposition of goods once they had been sold. Additionally, this concept should be upheld, independent of the location of the sale. Trademarks should further international trade, not hinder it. The trademark proprietor should be bound by the image projected to the public, namely, whether the trademark is regarded as a source of origin or relates to the distributor. The following cases may be referred to.

The German firm of Schwer registered the Trademarks "SABA" and "SABA-RADIO" and then transferred the Swiss Trademarks to its Swiss subsidiary, Saba. A distributor of radios in Zurich obtained some radios produced by the German proprietor of the trademarks and sold them in Switzerland. The decision by the Schweizer Bundesgericht, Cassationshof (Supreme Court) of October 17, 1958 found that no trademark infringement had occurred since the public regarded the trademarks as indicating the origin of the goods.<sup>20</sup>

The dispute about the use of the Trademarks "HIS MASTER'S VOICE" and "COLUMBIA" covering records underlines the importance of the understanding of the public as to the source of the goods. The English firm of Electric and Musical Instruments Ltd. (EMI) and its subsidiary are proprietors of the Swiss Trademarks, "HIS MASTER'S VOICE" and "COLUMBIA." In the United States, the trademark proprietors are Columbia and RCA. The Swiss firm of Delachaux et Niestlé S.A. obtained records in the United States and sold them in Switzerland. It was held that the Swiss public regards records with these two trademarks as coming from the English corporations, and that the importer of records from the United States is an infringer.

This was held to be so in spite of the fact that the trademarks were originally registered by the U.S. corporation, which had transferred its trademarks in Switzerland in 1924. Since that time the trademarks were connected in the minds of the Swiss public with the English corporation, which had no ties with the original proprietors of the trademarks.<sup>21 22</sup>

The Dutch firm of Philips produces numerous electrical devices in a great number of countries which are marketed through subsidiaries or associated firms. The Swiss Trademark "PHILIPS" is registered in the name of the Swiss subsidiary, Philips A.G. in Zuerich. Radio-Import

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<sup>20</sup>1959 GRUR Int. p. 241.

<sup>21</sup>EMI v. Delachaux et Niestlé S.A., Schweizer Bundesgericht Cassationshof, March 13, 1959, 1960 GRUR Int. 256.

<sup>22</sup>"Columbia" Decision by Schweizer Bundesgericht (Supreme Court), April 9, 1963; 1964 GRUR Int. 27.

G.m.b.H. in Zurich obtained television sets which were produced by the German subsidiary, and marketed the same in Switzerland. The Swiss subsidiary sued the importer for trademark infringement. The Schweizer Bundesgericht held, on October 4, 1960, that no trademark infringement had occurred.<sup>23</sup> The Swiss Court based its decision on the holding that the public in Switzerland regards the Mark "PHILIPS" to indicate a sign of origin, the origin being either the parents or any of the subsidiaries of the Philips multi-national organization.

The Japanese firm of Asahi Optical Co., Ltd. obtained a Swiss Trade-mark "ASAHI PENTAX" covering cameras. The mark is engraved in the housing of the camera. The exclusive distributorship was given by Asahi Optical Co., Ltd., to Mr. I. W. who advertised this fact in Switzerland. The exclusive distributor sued a parallel importer.

The Handelsgericht des Kantons Zuerich (Commerical Court, Zurich), in its decision of December 26, 1961, found that no trademark infringement had occurred since the cameras were genuine goods and the Swiss public regarded the mark as a sign of origin.<sup>24</sup>

### **European Common Market**

The European Common Market, formed originally by six countries, Belgium, France, Germany, Holland, Italy and Luxembourg, was enlarged on January 1, 1973 by the accession of Denmark, Great Britain and Ireland. The basic treaty forming the European Common Market is the "Rome Treaty" which came into force on January 1, 1958. This Treaty which was aimed at allowing free movement of goods across the previously closed boundaries protected by high custom duties, was bound to lead to numerous confrontations between the laws of the constituent countries and the provisions of the Rome Treaty. One of the declared purposes of the Rome Treaty was to benefit the ultimate buyer or user.

Grundig had sued a Dutch parallel importer for trademark infringement. The Dutch Supreme Court (Hoge Raad) rendered a decision on December 14, 1956 against Grundig.<sup>25</sup>

Shortly thereafter Grundig arranged for the registration of the Trade-mark "GINT," denoting "G" for Grundig and "INT" for international.<sup>26</sup>

<sup>23</sup>"Philips" 86 II ENTSCHEIDUNGEN DES SCHWEIZERISCHEN BUNDESGERICHTS (BGE) 270, 1961 GRUR Int. 294; 54 TRADEMARK REPORTER (TMR) 351.

<sup>24</sup>1963 GRUR Int. 109.

<sup>25</sup>Grundig v. Prins, Hoge Raad, December 14, 1956; 1957 GRUR Int. 259; 1957 BIJBLAD BIJ DE INDUSTRIELE EIGENDOM (BIE) 46; 1962 NEDERLANDSE JURISPRUDENCE (NJ) 242; DE NAAMLOOZE VENNOTSCHAP (NV) 164.

<sup>26</sup>Grundig-Consten Final Motions by Attorney General Karl Roemer, 1966 DECISIONS BY THE EUROPEAN COURT OF JUSTICE, p. 403.

The Trademark "GINT" was registered in Germany in the name of Grundig, in France in the name of the appointed sole distributor, Consten. Consten applied for registration of the Trademark "GINT" in its own name on October 3, 1957. Consten, the proprietor of the French Trademark "GINT" was enjoined from using the trademark for goods emanating from Grundig.

Consten agreed also to obligate its customers not to export or to sell for export any goods carrying the Trademark "GINT." The same agreement was entered between Grundig and the sole distributors in the other countries of the Common Market.

Consten also obligated itself to transfer the French Trademark "GINT" to Grundig or arrange for the cancellation of the trademark upon termination of the sole distributor agreement.<sup>27</sup>

The Parisian firm of UNEF had obtained trademarked goods in Germany and had marketed the same in France since April 1961.

Consten sued UNEF for infringement of the French Trademark "GINT" and on the basis of unfair competition. The Trial Court found that UNEF had committed an act of unfair competition, by buying from German wholesalers goods bearing the Trademark "GINT" and selling the same in France.<sup>28</sup> The Court of Appeal in Paris decided to abate a decision on an appeal filed by UNEF until the Commission of the Common Market has decided whether the registration of the Trademark "GINT" in France, and the agreement set forth above, were contrary to the provisions of §85 of the Rome Treaty.<sup>29</sup>

It is deemed advisable to discuss the provisions against unfair competition both in France and Germany at this junction.

France does not allow agreements fixing resale prices.<sup>30</sup> It is, however, an act of unfair competition to interfere with a contractual relationship, such as the sole distributorship agreement between Grundig and Consten. A sole distributor agreement is, in fact, a direct allocation of an exclusive market<sup>31</sup> and, indirectly, a means to obtain resale price maintenance.

Germany allows price maintenance agreements for trademarked goods in a vertical sense; that means, between the producer, wholesaler and retailer, but only if it is in writing, recorded with the authorities (Bundeskartellamt), and if it is without loopholes, in order to be enforceable

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<sup>27</sup>*Ibid.* pp. 421/442.

<sup>28</sup>Consten v. UNEF, Tribunal de Commerce de Seine, 1<sup>er</sup> chambre, Paris, May 21, 1962.

<sup>29</sup>UNEF v. Consten, Cour d'appel, 1<sup>er</sup> chambre, Paris 1963; 2 CCH COMMON MARKET LAW REPORTS (CMLR) 8009.

<sup>30</sup>Grundig-Consten v. Commission of the Common Market, 1966 DECISIONS OF THE EUROPEAN COURT OF JUSTICE, 342, 343, 358 based on §37, No. 4, Ordonance 45-1483 dated June 30, 1945 plus amendments.

<sup>31</sup>*Ibid.* p. 391.

against outsiders or third parties who have not signed the price maintenance or resale price maintenance agreement.

The German Antitrust Law, on the other hand, prohibits price-fixing horizontally, that is between producers and wholesalers or retailers, respectively.<sup>32</sup>

The importance of the agreement not to allow export into another country, both by Consten and by Grundig (parallel imports) can now be understood. Parallel imports would nullify the provisions of the French law against interference of sole distributorship, and would also nullify the provisions of the German law against unfair competition by rendering resale price fixing moot, because the agreement would not be without loopholes (lueckenlos). Parallel import would, in fact, make it impossible to maintain the agreement without loopholes.

The European Court of Justice, in its decision of July 13, 1966, held that the agreement between Grundig and Consten fell within the prohibitions of §85(1) of the Rome Treaty, and that transfer of genuine goods from one country of the Common Market to another could not be prevented.

The decision by the European Court of Justice has been discussed at great length by various authors; for example, Dr. Friedrich Karl Beier,<sup>33</sup> Robert A. Bicks,<sup>34</sup> Arved Deringer,<sup>35</sup> Dr. Helmut Droste,<sup>36</sup> Lawrence F. Ebb,<sup>37</sup> Dr. Ludwig Heydt,<sup>38</sup> Juerden Hoth,<sup>39</sup> Helmut Johannes,<sup>40</sup> Dr. D. C. Maday,<sup>41</sup> Robert Pleasant & Jacques Lassier.<sup>42</sup>

Another decision by the European Court of Justice regarding two parallel imports relates to the dispute about the Trademark "PREP" between Sirena and Novimpex.<sup>43</sup>

<sup>32</sup>German Statute against Monopoly §16.

<sup>33</sup>Beier, *Die kartellrechtliche Beurteilung von Alleinvertriebsvertraegen im Gemeinsamen Markt und den USA*, GRUR Int. 1964, 84.

<sup>34</sup>Bicks, *Antitrust and Trademark Protection Concepts in the Import Field*, 49 TRADE-MARK REPORTER (TMR) 1959, 1255ff.

<sup>35</sup>Deringer, *Internationale Lizenzvertraege und Antitrustgesetze* GRUR Int. 1968, 179.

<sup>36</sup>Droste, *Auswirkungen der Territorialitaet der Markenrechte im Falle der nichterlaubten Einfuhr von Produkten*, GRUR Int. 1969, 106.

<sup>37</sup>Ebb, *The Grundig-Consten Case Revisited: Judicial Harmonization of National Law and Treaty Law in the Common Market*, U. OF PENN. L. REV. (UPLREV.) 1967, 855.

<sup>38</sup>Heydt, *Parallelimporte und Warenzeichenrecht*, GRUR 1969, 450.

<sup>39</sup>Hoth, *Territoriale Grenzen des Schutzbereiches von Warenzeichen*, GRUR 1968, 64ff.

<sup>40</sup>Johannes, *Der Begriff der Wettbewerbsbeschaenking in Art. 83 Abs. 1 des EWG-Vertrages*, AUSSENWIRTSCHAFTSDIENST DES BETRIEBSBERATERS (AWD) 1968, 409.

<sup>41</sup>Maday, *Territorialitaet des Markenrechts bei der Einfuhr von Originalwaren*, GRUR Int. 1968, 361.

<sup>42</sup>Pleasant & Lassier, *Reglemations de la concurrence en France et dans the Marche Commun*, REVUE INTERNATIONALE DE LA PROPRIETE INDUSTRIELLE ET ARTISTIQUE (RIPIA) 1969, 244.

<sup>43</sup>*Sirena v. Novimpex*, 1971 DECISIONS BY THE EUROPEAN COURT OF JUSTICE 69; 1971 FLEET STREET PATENT LAW REPORTS (FSR) 666, 1971 GRUR Int. 260.

The American firm of Mark Allen transferred its Italian Trademark "PREP" to the Italian firm of Sirena in 1937. Sirena additionally registered in 1952 two Italian trademarks, "PREP" in block letters and "PREP" with an intricate design, covering an after-shave lotion.

The Italian firm of Novimpex purchased some jars of this lotion in Germany from a licensee of Mark Allen, and sold the same in Italy at a reduced price. The design mark on the jars produced in Germany was identical with the design registered by Sirena in 1952.

Sirena sued the importer for trademark infringement before the Court of Milan. The Court of Milan requested the European Court of Justice to decide whether the antitrust provisions of the Rome Treaty applied. The European Court of Justice held that the antitrust provisions applied.

This decision has repeatedly been criticized.<sup>44</sup>

The European Court of Justice has held that other legal provisions, such as a new clause in the German Copyright Law, cannot be utilized to allocate markets and prevent movement of goods across the boundaries of one member state of the Common Market into the other

§85 of the Copyright Law was enacted on September 9, 1965, and came into force on January 1, 1966, that is, a number of years after the conclusion and coming-into-force of the Rome Treaty establishing the Common Market. §85 reads as follows.

The producer of a record has the exclusive right to reproduce the record and to sell the same.

Records were produced with the consent of the copyright holder in France, and then exported into Germany where they were marketed at a lower price than the price fixed by the German producer.

The parallel importer was sued before the Landgericht Hamburg which found against the importer. Upon appeal, the dispute was submitted to the European Court of Justice, which held that neither statutory provisions nor decisions by national courts should be allowed to allocate markets and prevent movement of goods from one member state to the other.<sup>45</sup>

The strict view which the European Court of Justice has taken against any attempt to divide markets has been further emphasized in the decision *Béguelin v. SA G. L. Export and Marbach*, rendered on November 25, 1971.<sup>46</sup> The facts are as follows:

The Japanese firm of Oshawa, producer of pocket cigarette lighters,

<sup>44</sup>Deringer, 1971 AUSSENWIRTSCHAFTSDIENST DES BETRIEBSBERATERS (AWD) p. 177.

<sup>45</sup>Deutsche Grammophon v. Metro-SB, 1971 DECISIONS BY THE EUROPEAN COURT OF JUSTICE 487.

<sup>46</sup>Béguelin v. S.A. G.L. Import Export and Marbach, 1971 DECISIONS BY THE EUROPEAN COURT OF JUSTICE 949.



appointed the Belgian firm of Béguelin a sole distributor of its goods which were marketed under the registered Trademark "WIN," for the area of France and Belgium in 1967. Later on, a subsidiary French firm of Béguelin was formed by the Belgian firm of Béguelin, and the sole distributorship for France was transferred to the French firm of Béguelin by the Japanese firm of Oshawa.

The German firm of Marbach was appointed by Oshawa as distributor for Germany, with an obligation not to export from Germany. The firm of Marbach disregarded this obligation and sold 18,000 lighters to the French firm of SA G. L. Import-Export of Nice. SA G. L. Import-Export marketed these lighters in France.

Béguelin France and Belgium sued SA G. L. Import-Export and the German firm of Marbach before the Commercial Court in Nice, for unfair competition as interfering with the sole distributorship between Béguelin and Oshawa, asking for the grant of an injunction and damages.

It should be pointed out again that the French Law of Unfair Competition states that interference in a contractual relationship, such as a sole distributorship, constitutes the tort of unfair competition.

The Commercial Court of Nice submitted the dispute to the European Court of Justice, requesting a decision whether such a lawsuit based solely on parallel import, can be maintained on the basis of a transfer of goods from one member state of the European Community, Germany, to another member state, France.

The European Court of Justice held that a lawsuit trying to prevent a transfer of goods from one member state to another utilizing statutes or judicial decisions, such as the French law against unfair competition, cannot be sustained if the act complained of consists solely of parallel imports of genuine goods from one member state to another.<sup>47</sup>

## France

Disputes about parallel imports in France have centered mainly on the concept of unfair competition, by interfering with existing sole distributor contracts. This was particularly the basis of the decision of the Trial Court in the *Grundig-Consten* case.<sup>48</sup>

The French courts were confronted for the first time with the question of interpretation of the trademark statute itself in the *Koerting* case.

Koerting, a well-known German firm producing radios, had its French Trademark "KOERTING RADIO" confiscated during World War II.

<sup>47</sup>*Ibid.* p. 960.

<sup>48</sup>*Consten v. UNEF*, Tribunal de Commerce de Seine, 1<sup>e</sup> chambre, Paris, May 21, 1962.

The French authorities thereafter sold the trademark to a French corporation, Simplex Electronique. It is believed that the ownership of the French Trademark "KOERTING RADIO," led the German producer to appoint the owner of the French trademark, Simplex Electronique, as its sole distributor.

A parallel importer, Radio Tele Hall, obtained chassis of stereo receivers from a French wholesaler. The French parallel importer advertised in *Figaro* on February 12, 1965, the radio receivers under the Trademark "KOERTING," and added that he had obtained the same directly from the German producer.

Simplex Electronique, the owner of the French Trademark "KOERTING RADIO," sued the parallel importer for infringement of its own trademark and also for unfair competition, because the parallel importer had untruthfully and wrongly alleged in his advertisement that he had obtained the receivers from the German producer whereas, in fact, he had only obtained the chassis indirectly, and had added his own housing to the chassis.

The Trial Court found for plaintiff, both on the basis of trademark infringement and on the basis of unfair competition, interference with the sole distributorship between the German firm of Koerting and the French firm, the owner of the French Trademark "KOERTING RADIO." Nothing turned on the fact that only the chassis was a true product of Koerting, since expert evidence was adduced that the ordinary purchaser would buy the product by its trademark without regard to the housing, being interested only in the quality and performance of the chassis.

The Court of Appeals confirmed on both grounds.<sup>49</sup> The plaintiff was awarded single lump-sum damages for both the trademark infringement and the unfair competition.

The Cour de Cassation reversed the Court of Appeals in its decision of April 17, 1969,<sup>50</sup> and sent the case for further consideration to a different court of appeals.

The Cour de Cassation found that no trademark infringement had occurred, since the parallel importer had correctly advertised his goods as genuine goods emanating from the German producer, Koerting. This dispute had to be decided under the Trademark Law of 1857, §§7 and 8, which deal only with the placing of trademarks on goods unlawfully, or imitating a trademark. The Cour de Cassation found that the trademark

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<sup>49</sup>Koerting v. Radio Tele Hall, Cour de Paris, November 23, 1967 1970 REVUE INTERNATIONALE DE LA PROPRIETE INDUSTRIELLE ET ARTISTIQUE (RIPIA) 5.

<sup>50</sup>"KOERTING," Cour de Cassation, April 27, 1969, 1971 GRUR Int. 275; 1970 REVUE INTERNATIONALE DE LA PROPRIETE INDUSTRIELLE ET ARTISTIQUE (RIPIA) 5.

was neither placed unlawfully, nor was it imitated by the parallel importer. The trademark referred to the German manufacturer, Koerting. No mention was made by the Cour de Cassation of the fact that the French trademark was registered in the name of the French sole distributor, the plaintiff, Simplex Electronique.

It should be taken into consideration that §§7 and 8 of the French Trademark Statute are penal. The new French Trademark Statute of 1964/1965 gives a somewhat larger protection of the trademark proprietor. It is, however, suggested that the case would have been decided in a like manner, even under the new Trademark Law.

The decision by the Cour de Cassation is the first decision regarding trademark infringement by parallel import. It is unlikely that a further decision will be rendered in the near future since trademark cases are very seldom taken up by the Cour de Cassation. This Court normally decides only legal issues crystallized by the lower courts.

It has previously been assumed that the tort of interfering with a contractual relationship of a sole distributor arrangement, is committed when the interfering party acquires goods from an outside source independently of the knowledge of the sole distributorship contract. This concept appears to have been negated by the Cour de Cassation in its Koerting decision.

The Cour de Cassation ordered the Court of Appeals, to whom the case was transferred for further consideration, to investigate the circumstances under which the parallel importer had obtained the stereo receivers.

This is understood to mean that the parallel importer would be free from the tort of interfering with a contractual relationship, and would be allowed to dispose of the goods acquired, unless it should be proved that he knew of the sole distributorship at the time of the acquisition of the goods.

It is not surprising that the decision by the Cour de Cassation has created consternation in some circles.

## Germany

German courts have found repeatedly that parallel imports could not be prevented by the licensee or sole distributor. The "MAJA" case has highlighted this attitude.<sup>51</sup> The decision of the *Maja* case has found general approval. The question of the quality or guaranty function of the trademark remained in dispute.

The question of a quality or guaranty function of a trademark was the

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<sup>51</sup>"MAJA," 41 ENTSCHEIDUNGEN DES BUNDESGERICHTS IN ZIVILSACHEN (BGHZ) 84, 1964; 41, 84; 1964 GRUR 636; 1965 NEUE JURISTISCHE WOCHENSCHRIFT (NJW) 973; 1965 WIRTSCHAFT UND WETTBEWERB (WuW) 49.

main issue in the "CINZANO" dispute in which a decision was rendered by the Landgericht Hamburg on March 10, 1971.<sup>52</sup> The judgment has been appealed to the Bundesgericht (German Supreme Court). No final decision has yet been rendered.

The facts are as follows: The German firm of Cinzano is a subsidiary of the well-known Italian firm of Francesco Cinzano & Cia. S.p.A. The German subsidiary is the proprietor of a number of German trademarks containing the term "Cinzano."

A third party imported Cinzano Vermouth from France and Spain and sold it in Germany. The bottles carried labels marked with the term, "Cinzano."

It was proved that the taste of the French and the Spanish vermouth was different from the Italian vermouth, at least to the expert. The Spanish vermouth was produced in Spain by a Spanish subsidiary of the Italian firm of Cinzano. The French vermouth was produced by a licensee of the Italian firm of Cinzano.

The Landgericht Hamburg found that no trademark infringement had occurred, but did find that unfair competition had been committed. An injunction was issued against selling in Germany, Cinzano Vermouth of French and Spanish origin unless the bottle carried a clear legend that the vermouth is of French or Spanish origin, respectively.

## **Holland**

In Holland, a number of interesting decisions have been rendered, some of which have been overruled by the decisions of the European Court of Justice.

In the "OMO" decision by the President of the Arrondissements-Rechtsbank of Breda of December 31, 1968,<sup>53</sup> it was held that no relevance resides in the fact that the proprietors of the identical German and Dutch trademark belong to the same multinational corporation.

The plaintiff, the Dutch firm of Lever, which is the subsidiary of the multi-national corporation of Lever, the proprietor of the Dutch Trademark "OMO," sued the importer Gegro N.V. which had obtained "OMO" detergents in Germany. The detergent had been produced by the German subsidiary of Lever, and had been marked with the Trademark "OMO." The Dutch Court held that a trademark infringement had occurred since

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<sup>52</sup>"CINZANO" Decision of the Landgericht Hamburg March 10, 1971. File 150431/70; 1971 GRUR Int. 272.

<sup>53</sup>"OMO" President of the Arrondissement-Rechtsbank de Breda December 31, 1968; 1969 GRUR Int. 203.

the proprietors of the trademark in Germany and in Holland were different legal entities.

The Dutch Courts held that the provision of Article 85 of the Rome Treaty was not violated, and refused to submit the dispute for decision to the European Court of Justice.

In the author's submission, the above decision in the "OMO" case has been overruled, and is obsolete in view of the decision by the European Court of Justice in the *Sirena* case.<sup>54</sup>

The "DASH" case also deals with a detergent. In this case, decided by the President of the Arrondissement-Rechtsbank de Breda on April 1, 1969, it was held that the Dutch Trademark "DASH" was not infringed by the sale of goods imported from Germany. The multi-national corporation of Procter and Gamble was the proprietor of the Trademark "DASH" in Germany and in Holland, respectively. The defendant obtained some trademarked goods in Germany, and sold them in Holland.

The Court held further that no unfair competition occurred by the sale of goods having different qualities, unless the seller was aware of the quality difference. This could not be proved in the present case.

The German decision in the *Cinzano* case is thus foreshadowed by the *Dash* case<sup>55</sup> in Holland.

## Japan

The first decision in a contested case of parallel import was rendered by the District Court of Osaka (Osaka Chiho-Saibansyo) in the case *M.C. Kabushiki Kaisha v. Shiro Trading Co., Ltd.*,<sup>56 57</sup> generally referred to as the "PARKER" case, since it deals with the parallel import of "PARKER" pens.

The decision is, however, of sufficient significance as to its reasoning and holding to warrant attention. The defendant had been granted an exclusive license by the Parker Pen Co., for use of the "PARKER" Trademark in Japan, and was sued by a parallel importer for declaration of non-infringement of the trademark. The plaintiff importer was attempting to sell original "PARKER" pens which he had obtained in Hongkong. The Osaka Court discussed the provisions of the International Convention and

<sup>54</sup>*Supra*, note 43.

<sup>55</sup>"DASH" President of the Arrondissement-Rechtsbank de Breda April 1, 1969 in re Procter & Gamble Co. v. Importer, 1969 GRUR Int. 263.

<sup>56</sup>"PARKER" NMC Kabushiki Kaisha v. Shiro Trading Co., District Court of Osaka, Civil Senate 21, Decision of February 27, 1970; 1970 TOKYO (PATENT) NEWS No. 2662, No. 2663.

<sup>57</sup>"PARKER" Case with Comments by Prof. Dr. Saburo Kuwata, 1971 GRUR Int. 276.

found that the question of territoriality was not defined in that Convention.

The Court found that the Trademark "PARKER" and its goods were well known in Japan before the exclusive license was granted to defendant; also, that the prospective purchaser was not interested in the person of the Japanese licensee and/or distributor, but only in the fact that he obtained goods produced by or for the American corporation, the proprietor of the Trademark "PARKER."

The exclusive license filed an appeal. The license came to an end before a decision on the appeal was rendered. The appeal was therefore dismissed as being moot.

### **Great Britain**

A number of statutes have been promulgated in Great Britain in order to increase competition. A detailed discussion of those statutory provisions and their consequences would fall outside the scope of this paper.

It should, however, be kept in mind that Great Britain has become a member of the European Common Market on January 1, 1973, and the various decisions by the Commission of the Common Market and the European Court of Justice will have to be taken into consideration with respect to parallel imports into Great Britain.

The recent joining of the Common Market by Great Britain should be taken by U.S. industry as an occasion to review the various agreements with Great Britain, in relation to the existing and prospective members of the Common Market.

It is, however, deemed advisable to discuss a provision of the British Trademark Law, which should be taken into account upon reviewing agreements.

Great freedom exists in the jurisdictions discussed above as to licensing of trademarks. The British laws do not, in general, permit trademark licensing. The same applies to some other former members of the British Commonwealth, such as Australia, Canada and India.

The British Trademark Act of 1938 contains provisions for the recordation of persons other than the proprietor of a trademark, as users of the trademark.

The permitted use of a trademark by a person who is not its proprietor is likely to endanger the trademark and result in its cancellation, unless the use is recorded. Such a use is generally referred to as "Registered User." A license to another person should be recorded as "Registered User" even if the other person is a subsidiary or an affiliate of the proprietor of the British trademark.

**Canada**

Canada is a former British Commonwealth country which interprets the provisions for recordation of a license of a "Registered User" very strictly.

The concept of "Registered User" is an artificial one, as it deems use of a trademark by another to be use by the owner. It has been held that the permitted use by the Registered User under Section 49 of the Canadian Trademark Act, being an exception to the general rule of the function of a trademark, must be strictly construed. This applies not only to the substantive law but also to the procedures laid down to give effect to the Registered User.

Multinational corporations which are proprietors of Canadian trademarks will attempt to protect their Canadian market, and the position of their Canadian licensees or subsidiaries, by assigning their trademarks to the Canadian licensee or the Canadian subsidiary, as the case may be, under Section 47(1) of the Canadian Trade Marks Act.

One such transfer was the subject of a much-discussed recent decision, *Wilkinson Sword (Canada) Limited v. Arthur Juda Carrying on Business as Continental Watch Import Co.*<sup>58</sup> The facts are as follows:

For a period of over forty years, from 1920 until July 1963, the Word Mark "WILKINSON SWORD" and the Design Mark "WILKINSON SWORD," two very striking trademarks, were used in Canada to distinguish wares—garden tools, swords and razor blades—manufactured by Wilkinson Sword Limited, an English corporation. The English corporation arranged for the incorporation of its Canadian subsidiary, Wilkinson Sword (Canada) Limited, and thereafter transferred the two Canadian trademarks to the Canadian subsidiary on June 22, 1965.

The trademarks were held invalid because the public was not informed about the change in proprietorship and because no registered user was recorded in favor of the English parent company, whose goods were still marketed in Canada.

The importance of informing the Canadian public about the relationship between the producer of the wares and the proprietor of the Canadian trademarks, was also the main facet of refusal to grant a preliminary injunction in the case of *Ulay (Canada) Ltd. v. Calstock Traders Ltd. et al.*<sup>59</sup> The facts are as follows:

Plaintiff sued an importer of a skin lotion for infringement of two Cana-

<sup>58</sup>*Wilkinson Sword (Canada) Ltd. v. Juda* (1968) 51 CAN. PAT. REP. (CPR) 55; 2 EXCHEQUER COURT REPORTS 137; 34 FOX PAT. CAS. (FOX PAT C) 77.

<sup>59</sup>*Ulay (Canada) Ltd. v. Calstock Traders Ltd. et al.* (1969) 59 CAN. PAT. REP. (CPR) 223.

dian trademarks, the Word Mark "OIL OF OLAY" and a design mark containing these words.

The defendant importer had obtained genuine goods outside Canada and put them on the market in Canada. It was proved that at the time the product was introduced in Canada, the advertising referred to the skin lotion as

... a beauty preparation which has claimed considerable favor in the United States over the past three years as well as other countries of the world.

The advertising also stated:

The world-famous Oil of Olay will be available to you in January 1966, through your local drug wholesaler.

The packaging of the wares, produced both in the United States and in England, named the plaintiff's Canadian company, but contained on the side of the package the words, "London, Sydney, Durban, Amsterdam."

Justice Walsh of the Exchequer Court of Canada refused to grant an interlocutory injunction in view of the plaintiff's own action indicating the international nature of the product.

The relevancy of such a type of advertising was not fully developed, since the dispute was settled by the defendant submitting to consent judgment.

It should be noted that the Canadian Trademark Act has been amended to place drugs in a special position regarding parallel imports. Section 50 provides, in effect, that a foreign parent corporation and a Canadian subsidiary corporation which owns a trademark used in Canada, are treated as a single legal entity. This means that the Canadian subsidiary, the proprietor of a Canadian trademark, cannot prevent parallel import of drugs emanating from its foreign-based parent corporation.

## **Conclusions**

A change of attitude in the industrial countries has taken place regarding the purpose, effect and the enforcement of trademarks.

It appears that less emphasis is placed by the courts on legal niceties, such as proprietorship of the various trademark registrations, and more emphasis is placed on the image created in the minds of the buying public by those dealing with the trademarked goods. The courts appear to become reluctant to enforce trademark rights of a national trademark proprietor, in his attempts to prevent parallel imports if the image is created that trademarked goods are marketed internationally.

The position is particularly acute in the Common Market countries where the decisions by the European Court of Justice indicate that national



trademark, price-maintenance and antitrust statutes cannot be utilized to prevent movement of goods between member states and thereby allocate exclusive markets.

One of the underlying concepts is also that industrial property rights are exhausted once the goods are placed into channels of commerce, by or with the consent of original owners of copyrights, also patent and/or trademark rights.

The European Court of Justice has repeatedly held that industrial rights cannot be utilized to allocate markets. This holding would apply not only to trademarks but also to patents. No dispute of this nature has yet come before the European Court of Justice.

The Commission of the Common Market follows these holdings.

The Common Market membership has been enlarged recently by the inclusion of Great Britain and other European countries. A great number of producers in the United States have arrangements with corporations in Great Britain, either for marketing in Great Britain, or for a combined marketing in Great Britain and other European countries.

It is suggested that the various marketing arrangements be revised to take into account the latest judicial decisions, particularly those of the European Court of Justice.