

EXHAUSTION OF INDUSTRIAL PROPERTY RIGHTS  
IN THE EUROPEAN UNION  
AND  
ITS IMPLICATIONS ON THE APPLICATION OF THIS PRINCIPLE  
IN TURKEY

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DECEMBER 2005

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IN TURKEY

A THESIS SUBMITTED TO  
THE GRADUATE SCHOOL OF SOCIAL SCIENCES  
OF  
MIDDLE EAST TECHNICAL UNIVERSITY

BY

SEÇİL TUTKUN

IN PARTIAL FULFILLMENT OF THE REQUIREMENTS  
FOR  
THE DEGREE OF MASTER OF SCIENCE  
IN  
EUROPEAN STUDIES

DECEMBER 2005

Approval of the Graduate School of Social Sciences

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## ABSTRACT

### THE EXHAUSTION OF INDUSTRIAL PROPERTY RIGHTS IN THE EUROPEAN UNION AND ITS IMPLICATIONS ON THE APPLICATION OF THIS PRINCIPLE IN TURKEY

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December 2005, 160 pages

This thesis analyzes the reconciliation of industrial property rights with the principle of free movement of goods in the EU and the implications of this solution on trade relations between the EU and Turkey in the scope of the Decision No. 1/95 of the EC-Turkey Association Council. In the second chapter, patents, trademarks, industrial designs and utility models then the EU regulations and the international regulations concerning the protection of the relevant right in the EU region is examined. Although, the need for “EU wide protection of industrial property rights” is not covered by these regulations, there are special provisions which stipulate “regional exhaustion” for trademarks and industrial designs. In the EU region there are systems for granting Community Trademark and granting Community Industrial Design which are co-exist with the national systems. However there is no system for granting Community Patent or Community Utility Models and there is no special provision which determine the geographical boundary of the exhaustion of patents and utility models. Nevertheless, the principle of regional exhaustion was accepted through ECJ decisions long before the above mentioned regulations which are very recent. In the third chapter of the thesis, firstly the provisions of the Rome Treaty

regarding the free movement of goods, then the process that ECJ had faced until the regional exhaustion doctrine was reached and the implementation clauses of this doctrine is examined. Implementation of this doctrine affects both the trade relations among EU Member States and the trade relations between Member States and the non-EU countries. In the fourth chapter of the thesis, the provisions of the Decision No. 1/95 which regulates the free movements of goods between Turkey and the EU are examined with the articles of national legislation concerning the exhaustion of industrial property rights in Turkey. By considering above mentioned provisions and the different views in the doctrine, the trade relation between the EU and Turkey is examined with the economical, political and legal aspects.

Keywords: industrial property rights, free movements of goods, doctrine of exhaustion, customs union, trade relations.

## ÖZ

### AVRUPA BİRLİĞİ'NDE SINAİ MÜLKİYET HAKLARININ TÜKENMESİ VE TÜRKİYE'DE BU PRENSİBİN UYGULANMASI ÜZERİNDEKİ ETKİLERİ

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Aralık 2005, 160 sayfa

Bu tez, sınai mülkiyet haklarının AB'de malların serbest dolaşımı ilkesi ile uzlaştırılmasını ve bu uzlaşmanın, 1/95 sayılı Ortaklık Konseyi Kararı çerçevesinde AB ile Türkiye arasındaki ticaret ilişkileri üzerindeki etkisini incelemektedir. İkinci bölümde, patent, marka, endüstriyel tasarım ve faydalı model, ardından ilgili hakkın, AB bölgesinde korunmasını düzenleyen AB düzenlemeleri ve uluslararası düzenlemeler incelenmiştir. Söz konusu düzenlemelerle, “AB bölgesinde sınai mülkiyet haklarının korunması” ihtiyacı karşılanmamakla birlikte, bu düzenlemelerde markaların ve endüstriyel tasarımların “bölgesel tükenmesi”ni düzenleyen özel hükümler yer almaktadır. AB bölgesinde, Topluluk Markası ve Topluluk Endüstriyel Tasarımı tesciline imkan sağlayan ve ulusal sistemlerle beraber varlıklarını sürdüren sistemler bulunmaktadır. Ne var ki, AB'de Topluluk Patenti veya Topluluk Faydalı Modeli tesciline imkan sağlayan sistemler bulunmadığı gibi, patentlerin ve faydalı modellerin tükenmesinin coğrafi sınırlarını belirleyen özel hükümler de yer almamaktadır. Bununla beraber, bölgesel tükenme ilkesi, yukarıda bahsedilen ve çok yeni tarihli sayılabilecek düzenlemelerden çok daha önce ATAD kararlarıyla kabul edilmiştir. Üçüncü bölümde, önce Roma Anlaşmasının malların serbest dolaşımını düzenleyen hükümleri, ardından ATAD'ın bölgesel tükenme

doktrinine ulařıncaya kadar geirdiđi sre, ve bu doktrinin uygulanma kořulları incelenmiřtir. Bu doktrinin uygulanması, hem AB yesi devletler arasındaki ticaret iliřkilerini hem de ye devletler ile AB'ye ye olmayan devletler arasındaki ticaret iliřkilerini etkilemektedir. Tezin drdnc blmnde, 1/95 sayılı Ortaklık Konseyi Kararının, Trkiye ile AB arasında malların serbest dolařımını dzenleyen hkmleri, Trkiye'de sınai mlkiyet haklarının tkenmesini dzenleyen ulusal mevzuat hkmleri ile birlikte incelenmiřtir. Ardından, yukarıda bahsedilen hkmler ve doktrindeki deđiřik grřler de gz nnde tutulmak suretiyle, AB ile Trkiye arasındaki ticari iliřkiler, ekonomik, politik ve hukuki ynleriyle incelenmiřtir.

Anahtar Kelimeler : sınai mlkiyet hakları, malların serbest dolařımı, tkenme doktrini, gmrk birliđi, ticari iliřkiler.

To My Family

## ACKNOWLEDGMENTS

I wish to express my deepest gratitude to Prof. Dr. Ali Gitmez for giving me a chance to be accepted to the M.S. programme of European Studies.

Also I wish to express gratitude to my supervisor Assist. Prof. Dr. Gamze Aşçıođlu Öz for her guidance throughout the thesis. I would also like to thank Mr. G. Uđur Yalçiner for his useful advices, contributions and comments.

I would also like to specially thank to Assist. Prof. Dr. Galip Yalman for his valuable suggestions, encouragements and supports throughout the thesis.

I also wish to express my deepest gratitude to my brother Mr. H. Koray Tutkun for his technical assistance throughout the research, and to my father Mr. K. Yücel Tutkun and my mother Mrs. Selma Tutkun for their patience and great understanding throughout the thesis.

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## LIST OF ABBREVIATIONS

<b>EC</b>	: European Community
<b>ECJ</b>	: European Court of Justice
<b>EEC</b>	: European Economic Community
<b>EPC</b>	: Convention on the Grant of European Patent
<b>EPO</b>	: European Patent Office
<b>EU</b>	: European Union
<b>PCT</b>	: Patent Co-operation Treaty
<b>OHIM</b>	: Office for the Harmonization in the Internal Market
<b>TRIPS</b>	: Agreement on Trade-Related Aspects of Intellectual Property Rights
<b>WIPO</b>	: World Intellectual Property Organization

## CHAPTER I

### INTRODUCTION

Enterprises, one of the main factors of the economy, are established by two kinds of assets: physical assets and intangible assets. While the physical assets including buildings, machinery, financial source and infrastructure, intangible assets are composed of human resource, creativity and innovative talents. Traditionally, physical assets have been considered to be largely responsible for determining the competitiveness and value of an enterprise in the market place. However, companies increasingly are realizing that intangible assets have become more valuable than their physical assets.<sup>1</sup>

Human ingenuity, inventiveness and creativity subjected to the intangible assets are protected in the market by a legal system known as the system of intellectual property. Intellectual property rights generally subdivided in two main branches: industrial property and copyright and related rights.<sup>2</sup> According to Article 1(2) of the Paris Convention for the Protection of Industrial Property, patents, utility models, industrial designs, trademarks, service marks, trade names, indications of source or appellations of origins and the repression of unfair competition are the objects of the protection of industrial property.

Industrial property rights provide territorial exclusive rights for a limited time period.<sup>3</sup> As these rights are territorial, they are usually protected only in the country or region where protection has been applied for and obtained. According to exclusivity character of these rights, industrial property rights may not be exploited in the country by persons other than the owner of the right unless the owner agrees to

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<sup>1</sup> International Trade Centre UNCTAD/WTO and World Intellectual Property Organization. *Secrets of Intellectual Property*. Geneva:ITC/WIPO.,2004, p.3

<sup>2</sup> World Intellectual Property Organization. *WIPO Intellectual Property Handbook: Policy, Law and Use*. Geneva: WIPO Publication No.489 (E), June 2001, p.3

<sup>3</sup> International Trade Centre UNCTAD/WTO and World Intellectual Property Organization, op.cit., p. 3,11

such exploitation. Thus the right owner is entitled to prevent all third parties, not having consent, from using it in the course of national and international trade.

“Exhaustion principle” is one of the ways to limit the exclusive rights granted to industrial property rights. The aim of this principle is to ensure a balance between two kinds of conflicts of interests. First one is “conflict between free trade and protection of industrial property rights” the second one is “conflict between public interest and private interest”.<sup>4</sup> First implementation of this principle, named as “first sale doctrine”, was seen in a court decision concerning patent rights, in United States of America in 1873. In Europe, first implementation of this Principle was seen in a court decision concerning trademarks in Germany in 1902.<sup>5</sup> According to exhaustion of industrial property rights, once a good protected by an industrial property right has been marketed, either by the right owner by a third party with his consent, unless otherwise specified by law or act, the rights of commercial exploitation over this particular goods can no longer be exercised by the right owner, as they are exhausted. Depending on the geographical boundary of the “market” the exhaustion can be national, regional or international.<sup>6</sup> The Article 6 of the TRIPS stipulates that, nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights; this means that this article gives scope for contracting parties to determine the specific instances of exceptions they are willing to permit. It is sure that all EU Member States are bound by the rules of the TRIPS Agreement.

Since industrial property rights are both monopolistic in nature and organized on a territorial basis, it potentially represents a significant threat to both anti-monopoly and free movement policies of the EU. As the industrial property rights provide investment and creativity, play an important role in economic life and European competitiveness in the global market, a compromise have to be found, which would

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<sup>4</sup> Tekdemir, Yaşar., “Marka Hakkının Tükenmesi İlkesi ve Paralel İthalat Sorununa İkdıadi Bir Yaklaşım 1.Farklı Tükenme Rejimleri 2. Türkiye İçin Politika Önerisi” *Rekabet Dergisi*, Sayı 13 Ocak-Şubat-Mart 2003, p.10

<sup>5</sup> Ibid, p.10

<sup>6</sup> For further detailed information concerning exhaustion and its geographical boundary please see Second Chapter oh this thesis.

meet the needs of both the national industrial property rights and the legal principles which are fundamental to EU as set forth in the Article 2 of the Rome Treaty<sup>7</sup>. For this reason the EU has been caught between two conflicting needs. First of all it needs to strengthen its national and transnational laws in order to remain competitive in the world market and attractive for investment. However it also has to weaken the national laws of the Member States to the degree that they constituted a barrier to free movement of goods.<sup>8</sup> Although harmonizing national laws would help to remove this conflict, it does not provide an adequate basis for completing the single market.<sup>9</sup> Therefore, the thesis aims to answer two main questions:

- How does the protection of industrial property rights compromise with the principle of free free movements of goods in the EU?
- What are the implications of the answer of the first question on trade relations between EU and Turkey, in the scope of the Decision No. 1/95 of the EC-Turkey Association Council?

To make a systemical analysis concerning the industrial property rights, it is important to be familiar with the terms which are used generally. Firstly as the industrial property rights in the scope of this thesis, patents, trademarks, utility models and industrial designs will be analyzed. In this analyses the definition of the right; scope, conditions and the exceptions of the protection; the exclusive rights derived from this protection and the limits of this protection will be mentioned. After

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<sup>7</sup> “The Community shall have as its task, by establishing a common market and economic and monetary union and by implementing common policies or activities referred to in Article 3 and 4, to promote throughout the Community a harmonious, balanced and sustainable development of economic activities, a high level of employment and of social protection, equality between men and women, sustainable and non-inflationary growth, a high degree of competitiveness and convergence of economic performance, a high level of protection and improvement of the quality of environment, the raising of the standard of living and quality of life, and economic and social cohesion and solidarity among Member States.” In accordance with the Article 3 for the purpose set out in Article 2, the activities of the Community shall include, the prohibitions, as between Member States, of customs duties and quantitative restrictions on the import and export of goods, and of all other measures having equivalent effect.

<sup>8</sup> Keyder, Virginia B. *Intellectual Property Rights and Customs Union*. İstanbul: Intermedia Yayınları, 1996, p.126,127

<sup>9</sup> Weiler, J.H.H., and Kocjan, Martina. “ The Law of the European Union: The Internal Market: Intellectual Property” (2003). Available from <http://europa.eu.int/scadplus leg/en/s06020.htm>, p.1

analyzing each right, the EU regulations and the international regulations concerning the protection of the relevant right in the EU region will be also examined. The main aim of this examination is, to find out, whether the scope of exhaustion principle which should be applied throughout the EU has been stipulated in these regulations or not.

In the third chapter, the principle of free movements of goods in the EU will be examined in the scope of the related articles of the Rome Treaty. Not all the articles, but Articles 28, 29, 30 will be examined in detail. While, the enforcement of industrial property rights may have an equivalent effect to quantitative restrictions, quantitative restrictions and all measures having equivalent effect on imports and exports between the Member States are prohibited by the Articles 28 and 29 of the Rome Treaty. However, in accordance with the Article 30 of the same Treaty, if the prohibition or restriction is justified on the grounds of the protection of industrial and commercial property then it is not a prohibition or restriction contrary to the Article 28 and 29 of the Rome Treaty, if it does not constitute a means or arbitrary discrimination or a disguised restriction on trade between Member States. Therefore, it is possible to say that, there is a conflict between the enforcement of industrial property rights and the free movement of goods between the Member States and reconciliation of these necessities should be ensured. The conflict between two fields has been discussed in many cases and the solution is reached by the judgements of ECJ. In the second part of the third chapter, the related ECJ decisions will be examined to understand how the protection of industrial property rights has been reconciled with the principle of free movement of goods in the EU.

In the fourth chapter, the implications of the solution reached by the ECJ concerning the above mentioned conflict, on trade relations between EU and Turkey, in the scope of the Decision No. 1/95 of the EC-Turkey Association Council will be examined.

Customs union between the EU and Turkey was formed by the Decision No. 1/95 of the EC-Turkey Association Council in 1995. Besides, since 3 October 2005 Turkey has been an acceding country which should accept the *acquis communautaire* of the

EU as a whole. Although being an acceding country, Turkey will be considered as a non-EU country. However, the situation of the Turkey is exceptional and departs from the other non-EU countries, because by the Decision No. 1/95, with the customs union, free movement of goods between the EU and Turkey has also formed. Therefore the reconciliation of protection of industrial property rights and the free movements of goods in the EU will also effect the trade relations between the EU and Turkey. Because the industrial property rights owner both in the EU and Turkey may depend on their exclusive rights to prevent the free movement of goods between their domestic markets.

In the first part of the fourth chapter, protection of industrial property rights in Turkey will be examined but not in detail. Because the national legislation of Turkey should be and is convenient with the EU regulations and the international conventions, of which the general characteristics will be given in the second chapter of this thesis. In the second part of the fourth chapter, provisions of the Decision No.1/95 which regulates the customs union and the free movement of goods between the EU and Turkey; and the national legislations which regulates the exhaustion of patents, utility models, trademarks and industrial designs will be analyzed. By considering these provisions, with the assistance of different views in the doctrine, the trade relations especially “parallel trade” between the EU and Turkey will be examined. While making this examination, the views of directly relevant public authorities have been asked to understand their approach to this issue.

## CHAPTER II

### PROTECTION OF INDUSTRIAL PROPERTY RIGHTS IN THE EUROPEAN UNION

To make a systematical analysis concerning the industrial property rights it is important to be familiar with the terms which are used generally. Thus in this chapter not all of the industrial property rights but the ones which are in the scope of this thesis will be analyzed. While making this analyses, not all the details but the definition of the right; scope, conditions and the exceptions of the protection; the exclusive rights derived from this protection and the time limits of the protection will be mentioned. After analyzing each right in the scope of this thesis, the regulations concerning the protection of these rights in the EU will be also examined. The main aim of this examination is, to find out that, whether the scope of exhaustion principle which should be applied throughout the EU has been stipulated in these regulations or not.

#### 2.1. Trade Marks

##### 2.1.1. Trademarks in General

“A trademark is any sign that **individualizes** the goods of a given enterprise and **distinguishes** them from the goods of its competitors.” This definition comprises two different functions of the trademark, which are interdependent and for all practical purposes should always be looked at together.<sup>10</sup> In order to individualize a product for the consumer, the trademark indicates its source. It is sufficient that the consumer can trust in a given enterprise, not necessarily known to him, being responsible for the product sold under the trademark. The function of indicating the source as described above presupposes that the trademark distinguishes the goods of a given enterprise from those of other enterprises. When a trademark allows the consumer to

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<sup>10</sup> World Intellectual Property Organization, op.cit.(2001), p.66

distinguish a product sold under it, from the goods of other enterprises offered on the market this means that trademark fulfill this function. This shows that the distinguishing function and the function of indicating the source cannot really be separated.<sup>11</sup>

In general, any distinctive **words, letters, numerals, drawings, colours, pictures, shapes, logotypes, or combinations of the above** used to distinguish between the goods and services of different companies may be considered a trademark. According to the national legislations, **advertising slogans**, less traditional forms of trademarks, such as three dimensional signs (e.g. the Coca-Cola bottle or the Toblerone chocolate bar) audible signs (sounds, such as the roar of the lion that precedes films produced by MGM) or olfactory signs (smells, such as perfumes) can be considered to be trademarks and may be registered at national trademark offices. But many countries have set limits as to what may be registered as a trademark.<sup>12</sup>

Besides these limitations, the applicant should consider the absolute grounds and relative grounds of the rejection of an application. The grounds mentioned hereinafter are the ones which are generally valid in most of the countries' regulations.

Applications for trademark registration are usually rejected on what are commonly referred to as '**absolute grounds**' in the following situations:<sup>13</sup>

- **Generic terms.** A sign is generic when it defines a category or type to which the goods belong. It is essential to the trade and also to consumers that nobody should be allowed to monopolize such a generic term. Examples of generic terms are "furniture" (for furniture in general, and also for tables, chairs, etc.) and "chair" (for chairs). Other examples would be "drinks", "coffee" and "instant coffee", which

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<sup>11</sup> World Intellectual Property Organization, op.cit.(2001), p.66

<sup>12</sup> International Trade Centre UNCTAD/WTO and World Intellectual Property Organization, op.cit., p. 33; World Intellectual Property Organization, op.cit.(2001), p.68,69

<sup>13</sup> International Trade Centre UNCTAD/WTO and World Intellectual Property Organization, op.cit., p.34

shows that there are larger and narrower categories and groups of goods, all having in common that the broad term consistently used to describe them is generic.<sup>14</sup>

- **Descriptive terms.** These are the words that serve in the trade to designate the kind, quality, intended purpose, value, place of origin, time of production or any other characteristic of the goods for which the sign is intended to be used or is being used.<sup>15</sup> The words ‘Sweet’ ‘Rapid’ ‘Best’ ‘Classic’ or ‘Innovative’ likely to give rise to similar objections unless they are part of an otherwise distinctive mark. In such cases, it may be necessary to include a disclaimer clarifying that no exclusivity is sought for that particular part of the mark.

- **Deceptive trademarks.** These are trademarks that are likely to deceive or mislead consumers as to the nature, quality or geographical origin of the product.

- **Marks considered as contrary to public order and / or morality.**

- **Flags, armorial bearings, official hallmarks and emblems of States and international organization.**<sup>16</sup>

Applications are rejected on ‘**relative grounds**’ when the trademark is in conflict with prior trademark rights. Having two identical or very similar trademarks for the same or very similar type of product could cause confusion among consumers. Some trademark offices check for conflict with existing marks (including unregistered well-known marks) a regular part of the registration process, while many others do so only when the trademark is challenged by a third party after publication of the trademark. In either case, if the office considers that the trademark to be identical or confusingly similar to one that already exists for identical or similar products, it will be rejected or cancelled. Irrespective of the type of the mark which is chosen, it is important to avoid imitating existing trademarks.<sup>17</sup> A slightly altered competitor’s trademark or misspell well-known or famous mark is unlikely to be registered. Thus before submitting an application for registering a trademark, ensuring a proper trademark search will make sure that the trademark which is intended to use, or a

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<sup>14</sup> World Intellectual Property Organization, op.cit.(2001), p.71

<sup>15</sup> Ibid, p.71

<sup>16</sup> International Trade Centre UNCTAD/WTO and World Intellectual Property Organization, op.cit., p.34

<sup>17</sup> Ibid, p.34

similar one, is not already registered by another company for identical or similar products. To conduct a trademark search both in the country of registration and as far as is possible, in potential export countries is necessary in order to avoid problems of infringement.<sup>18</sup>

Another important point to be considered while making a trademark application is the “**classes**”. While filling the trademark application form, in most countries the applicant has to list the goods and/or services for which the sign is to be registered, and to group them according to ‘classes’.<sup>19</sup> The applicant should ensure that the sign is registered for all categories of goods and/or services for which the sign is, or will be used. Because the scope of the protection of the trademark will be determined according to this registration. The trademark classification system allows data on registered trademarks to be stored in an orderly manner according to the different types of goods or services. This greatly facilitates the retrieval of information. It is essential to register the trademark in all the classes in which the applicant intend to use it.<sup>20</sup> The International Classification of Goods and Services for the Purposes of the Registration of Marks (or Nice Classification)<sup>21</sup> is the most widely used, with 34 classes of goods and a further 11 for services. The proposed trademark should meet the legal requirements above mentioned to be registered.

If the trademark consist of one or more words, it is advisable that the words should be **easy to read, write, spell and remember**, and suitable for advertising purposes in all types of media. The trademark should not be corresponding domain name (Internet address) should be available for registration.<sup>22</sup>

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<sup>18</sup> International Trade Centre UNCTAD/WTO and World Intellectual Property Organization, op.cit., p.41

<sup>19</sup> World Intellectual Property Organization,op.cit.(2001), p.78

<sup>20</sup> International Trade Centre UNCTAD/WTO and World Intellectual Property Organization, op.cit., p.41

<sup>21</sup> 1957 Nice Agreement concerning the International Classification of Goods and Services for the Purpose of Registration of Marks

<sup>22</sup> International Trade Centre UNCTAD/WTO and World Intellectual Property Organization,op.cit., p.38

After a duly and adequate application, due to the legislation which will provide the trademark protection, the trademark will be registered and will be protected for the goods specified in the registration. Registering a trademark gives the company the **exclusive right to the use of the trademark** and the owner's exclusive right exists from the date of registration.<sup>23</sup> This prevents others from marketing identical or similar product the same mark or under a confusingly similar mark. The owner may license or franchise the protected trademark to other companies, thus providing an additional source of revenue for the company. A protected trademark with a given reputation among consumers may also be used to obtain funding from financing institutions, such as banks or venture capitalists, which are increasingly aware of the importance of brands for business success.<sup>24</sup>

If a trademark is not protected by the owner, other companies could (intentionally or unintentionally) use the same or a confusingly similar sign for their own products. By this way the competitors might benefit from the reputation and relationship which has been built with the customers and business partners of the trademark owner. This means that the distinguishing role of the trademark is not functioning.<sup>25</sup>

To summarize all the explanations mentioned above a registered trademark protection:<sup>26</sup>

- Ensures that consumers can distinguish the identical and similar products of the companies;
- Enables companies to differentiate between their products. Thus trademarks play a pivotal role in the advertising and marketing strategies of companies in defining the image and reputation of the company's products in the eyes of consumers.<sup>27</sup>

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<sup>23</sup> World Intellectual Property Organization, op.cit.(2001), p.80

<sup>24</sup> International Trade Centre UNCTAD/WTO and World Intellectual Property Organization, op.cit., p.35

<sup>25</sup> World Intellectual Property Organization, op.cit.(2001), p.84-85

<sup>26</sup> International Trade Centre UNCTAD/WTO and World Intellectual Property Organization, op.cit., p.35

<sup>27</sup> However it should be considered that trademarks differ from trade names. A trade name is the full name of your business, and it identifies your company. A trademark, however, is what distinguishes the products of your company from those of other companies. Although a company may have only one trade name, the same company may have various trademarks.

- Gives its owner marketing tool and the basis for building a brand image and reputation;
- Provides the opportunity for licensing and being a direct source of revenue through royalties;
- May be a critical component of franchising agreements;<sup>28</sup>
- May be a valuable business asset;
- Encourages companies to invest in maintaining product quality in order not to deceive consumers.
- Provides proof of rights, which is particularly important in case of disputes with third parties.
- An application can be filed prior to using the mark thus obtaining exclusive rights even before you have begun to commercialize your product.
- Makes it easier and cheaper to enforce the rights of the trademark owner.
- The ® sign can be used next to the trademark.

Although a registered trademark provides many advantages, rights and power to its owner, while using a trademark some points which are mentioned hereinafter should be considered.<sup>29</sup>

The registration of a trademark that has not been used for a given period of time (usually three to five years following registration) will be cancelled. This is to try to guarantee that the registration is done with the intention of actually using the trademark in the marketplace, rather than simply for the purpose of obstructing its use by others. Parallel to other industrial property rights a time limit is generally provided for in trademark laws (generally 10 years), so it is important to renew registrations when the limit expires.

If the mark is registered as a logo with a specific design or typeface, make sure that, wherever it appears, it is represented in exactly the form in which it is registered. It is

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<sup>28</sup> For further detailed information concerning licencing and franchising of the trademarks please see World Intellectual Property Organization, op.cit.(2001), p.93-104

<sup>29</sup> International Trade Centre UNCTAD/WTO and World Intellectual Property Organization, op.cit., p.42; World Intellectual Property Organization, op.cit.(2001), p.76-77

also important to avoid using the trademark as a verb or noun in order that it does not come to be perceived by consumers as a generic term.

Many companies use signs such as ®, TM, SM, MD (French, *marque déposée*) or MR (Spanish, *marca registrada*) or equivalent symbols next to their trademark in order to inform consumers and competitors that the word, logo or other sign is a trademark. While such symbols are not a requirement and generally provide no further legal protection for the trademark, it may be a convenient way of informing others that a given sign is a trademark, thus warning possible infringers and counterfeiters. The ® symbol, MD and MR are used once the trademark has been registered. TM denotes that a given sign is a trademark and SM is sometimes used for service marks.<sup>30</sup>

Due to the scope of the thesis the main characteristics of the trademarks has been mentioned. However there are other kinds of marks also such as, service mark, collective marks, certification marks and well-known marks.<sup>31</sup>

### **2.1.2. Trademark Protection in the European Union**

Principle of territoriality is the very basis of trademark legislation of all Member States and it means that the protection of a trademark ends at the borders of the state in which the right conferred by the trademark originated. Thus owing to this principle of territoriality, the applicant who wishes to have a trademark protection in several or all Member States has to conform to up to 23 trademark acts.<sup>32 33</sup> The differences between those 23 trademark acts ran contrary to the objectives of the EU,

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<sup>30</sup> International Trade Centre UNCTAD/WTO and World Intellectual Property Organization, op.cit.,p.42

<sup>31</sup> For further detailed information concerning licencing and franchising of the trademarks please see International Trade Centre UNCTAD/WTO and World Intellectual Property Organization, op.cit., p.36-37

<sup>32</sup> The number is 23 not 25 because an Uniform Trade Mark Act replacing three national trademark acts has applied since 1971 in three Member States, i.e. the Belgium, the Netherlands and Luxemburg.

<sup>33</sup> Bastian, Eva M., “The Community Trade Mark in European Law: Relationship to National Law and Current Issues” a paper presented at Ankara Barosu Uluslararası Hukuk Kurultayı, Ankara, January 8-12, 2002, p.3

reducing the barriers established by property rights, promoting the free movement of goods and services and thus creating a common market.

To remove these obstacles, a decision was made in favour of a two-tier approach, on the one hand harmonization of national trademark legislation and the unification of law by creating a Community Trademark on the other. On the basis conditions disparities between the national trademark acts are removed by the Directive to Approximate the Laws of the Member States relating to Trademarks. However the harmonization of legislation which was achieved can not prevent impediments to free economic activities rising from the territoriality of national trademark legislation. It is the purpose of the Community Trademark Regulation achieved a priority goal of the Community.<sup>34</sup>

In the area covered by harmonization the provisions contained in the Regulation are identical with the provisions set forth in the Directive.

#### **2.1.2.1. Instrument Concerns the Harmonisation of National Rights.**

In this field, First Council Directive of 21 December 1988<sup>35</sup> approximates the law of the Member States relating to trade marks.

In accordance with the Article 1 of the Directive, this Directive shall apply to every trademark in respect of goods or services which is the subject of registration or of an application in a Member State for registration as an individual trademark, a collective mark or a guarantee or certification mark, or which is the subject of a registration or an application for registration in the Benelux Trade Mark Office or of an international registration having effect in a Member State.

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<sup>34</sup> Ibid, p.4

<sup>35</sup> "First Council Directive 89/104 EEC of 21/12/1988 to Approximate the Laws of the Member States Relating to Trade Marks" OJ,11/2/1989, L 040

According to this directive,

- Signs which can not constitute a trademark,
- Trademarks which are liable to mislead or are contrary to public or accepted principles of morality,
- Trademarks which are of such a nature as to deceive the public,
- A trade mark which is identical with or similar to an earlier trademark, where the goods or services which it represents are identical with or similar to those represented by the earlier mark,

may not be registered or if registered are liable to be declared invalid.<sup>36</sup>

As it is mentioned previously, when a trademark is registered it confers on its owner exclusive rights therein. In accordance with the Article 5 of the Directive:

1. The registered trademark shall confer on the proprietor exclusive rights therein. The proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade:

(a) any sign which is identical with the trademark in relation to goods or services which are identical with those for which the trademark is registered;

(b) any sign where, because of its identity with, or similarity to, the trademark and the identity or similarity of the goods or services covered by the trademark and the sign, there exists a likelihood of confusion on the part of the public, which includes the likelihood of association between the sign and the trademark.

2. Any Member State may also provide that the proprietor shall be entitled to prevent all third parties not having his consent from using in the course of trade any sign which is identical with, or similar to, the trademark in relation to goods or services which are not similar to those for which the trademark is registered, where the latter has a reputation in the Member State and where use of that sign without due cause takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trademark.

3. The following, inter alia, may be prohibited under paragraphs 1 and 2:

(a) affixing the sign to the goods or to the packaging thereof;

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<sup>36</sup> Weiler, J.H.H., and Kocjan, Martina., op.cit., p.72

(b) offering the goods, or putting them on the market or stocking them for these purposes under that sign, or offering or supplying services thereunder;

(c) importing or exporting the goods under the sign;

(d) using the sign on business papers and in advertising.

4. Where, under the law of the Member State, the use of a sign under the conditions referred to in 1 (b) or 2 could not be prohibited before the date on which the provisions necessary to comply with this Directive entered into force in the Member State concerned, the rights conferred by the trademark may not be relied on to prevent the continued use of the sign.

5. Paragraphs 1 to 4 shall not affect provisions in any Member State relating to the protection against the use of a sign other than for the purposes of distinguishing goods or services, where use of that sign without due cause takes unfair advantage of, or is detrimental to, the distinctive character or the repute of the trademark.

After the registration the right holder should fulfill some obligations:<sup>37</sup>

A ten year period of time should be considered by the owner of the trademark to not forfeit the right. A trademark is renewable for further periods of 10 years.

The owner of a trademark may forfeit his rights, either the trademark is not put to genuine use in the Member State concerned in connection with the goods or services in respect of which is registered within a period of **five years** following the date of completion of the registration procedure or the trademark has not been put to genuine use during an uninterrupted period of **five years**, this may cause the forfeiture of the right also.

Also the owner of a trademark may forfeit his rights where, in consequence of his acts or inactivity, the trademark has become the common name in the trade for a product or service in respect of which it is registered or where, in consequence of the use made of it by the owner or with his consent, the trademark is liable to mislead the public.

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<sup>37</sup> Ibid, p.72

Besides these, in case there are two identical registered trademarks for the similar products and the owner of an earlier trademark has acquiesced, for a period of five successive years, in the use of a later registered trademark, the first owner no longer entitled either to apply for a declaration that the later trademark is invalid or to oppose the use of the later trademark in respect of the goods or services for which the later trademark has been used, unless registration of the later trademark was applied for in bad faith.

In the scope of this thesis Article 7 of the Directive is the determining factor. In accordance with this article:

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

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

It is clear that by this article Council foresees “**regional exhaustion**” for trademarks in the EU region and also constrains the Member States to adopt their national laws due to this directive.

#### **2.1.2.2. The Regulation on the Community Trademark**

The Council Regulation of December 1993<sup>38</sup> on the Community Trademark introduces a system for the award of Community Trademarks by the Office for the Harmonization in the Internal Market (OHIM)<sup>39</sup>. Community Trademark system has

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<sup>38</sup> “Council Regulation No.40-94 of 20 December 1993 on the Community Trade Mark” 14/1/1994, OJ L 11

<sup>39</sup> OHIM is a Community body which has legal personality. In each Member State it enjoys the most extensive legal capacity accorded to legal persons by their national legislation. The Office is made up of an Administrative Board, a Budget Committee and various divisions such as opposition, administration of trade marks and legal issues and cancellation and Boards of Appeal.

been in force since 1996, with far greater success than expected, and provides a single trademark for the Community as a whole.<sup>40</sup>

**A single application** to OHIM is adequate to get a Community Trademark. Although a Community Trademark has a unitary character which means that it shall have equal effect throughout the Community, this principle shall apply unless otherwise provided in the Regulation.<sup>41</sup>

According to the Article 4 of the Regulation, any signs capable of being represented graphically (particularly words, designs, letters, numerals, the shape of goods or their packaging) provided that the sign is capable of distinguishing the goods or services of one undertaking from those of other undertakings can be registered as a Community Trademark.

Besides this, when the application is filed, a Community Trademark may be designated as collective if it is capable of distinguishing the goods or services of the members of the association which is the owner of the mark from those of other undertakings. Associations of manufacturers, producers, suppliers of services or traders, as well as legal person under public law, are entitled to register **Community Collective Marks**.<sup>42</sup>

Nationals of the Member States, nationals of other States which are parties to Paris Convention for the protection of industrial property, nationals of States which are not parties to the Paris Convention who are domiciled or have their seat within the territory of the Community or of a State which is party to the Paris Convention, nationals of any other State which accords to nationals of all the Member States the same protection for trademarks as it accords to its own nationals may apply to OHIM to get a Community Trademark. Under the above mentioned scope, natural or legal

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<sup>40</sup> Torremans, Paul. *Intellectual Property Law*. 3<sup>rd</sup> ed. Great Britain: The Bath Press, 2001, p.32

<sup>41</sup> Bastian, Eva M., op.cit., p. 5; Article 1(2) of the Regulation.

<sup>42</sup> EU Official WEB site. "Community trade mark" (2004) Available from <http://europa.eu.int/scadplus/leg/en/lvb/126022a.htm>, p.3

persons, including authorities established under public law have the right to make an application for a Community Trademark.<sup>43</sup>

The filing date of the Community Trademark application is important for defense of the Community Trademark as an earlier right. The applicant may claim **a right of priority** for the Community Trademark within six months of the filling date in or for any State party to the Paris Convention or World Trade Organisation, even if the European Communities as such are not members of the Paris Convention. The Community Trademark applicant or owner can invoke the Community Trademark application in opposition or cancellation proceedings in the Member States against subsequent trademark applications and may claim the priority of a Community Trademark for national and international trademarks.<sup>44</sup>

The application is normally filed directly at the OHIM, but it can be filed at a national trademark office within the European Community, which then has to forward the application to the OHIM according to Article 25 of the Regulation within the certain time limits.

Basic requirements with which applications must comply in order to obtain a filing date has been stipulated by the Article 26 of the Regulation. In the scope of this thesis it should be noted that, in accordance with this article, “As a trademark can only be protected for certain goods and services the application must contain a complete list of goods or services in respect of which the registration is requested”  
The filing date is very important because, this date fixes the appearance of the trademark.<sup>45</sup>

Application for Community Trademark can be filed in one of the official languages of the EU. The languages of the Office are English, French, German, Italian and Spanish. Applicants must specify a second office language as acceptable for possible

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<sup>43</sup> Ibid, p.1

<sup>44</sup> Bender, Achim., and Kapff, Phillipp. “Born to Be Free –The Community Trade Mark in Practice.” *International Review of Industrial Property and Copyright Law*, Vol. 1 Issue 6/2001, p.628

<sup>45</sup> Ibid, p.628-629

use in opposition, revocation and invalidity proceedings. The application must be accompanied by various documents and information and necessitates the payment of an application fee which is mentioned in the regulation.<sup>46</sup>

However the applicant should consider the absolute grounds for refusal which are stipulated in the Article 7 of the Directive and which will be examined ex officio by the office exists:

- Signs which are not suitable to serve as Community Trademark.
- Trademarks which are devoid of any distinctive character
- Trademarks consisting of signs or indications that have become customary in current parlance or in the practice of the trade
- Trademarks which are contrary to public policy or to accepted principles of morality
- Trademarks which are of such a nature as to deceive the public, for instance as to the nature, quality or geographical origin of the goods or service.

2<sup>nd</sup> and 3<sup>rd</sup> absolute grounds for refusal shall not apply, if the trademark has become distinctive in relation to the goods or services for which registration is in consequence of the use which has been made of it.<sup>47</sup>

Besides the absolute grounds, Article 8 of the Regulation stipulates the relative grounds for refusal. However a distinction is to be made between absolute grounds and relative grounds for refusal. Relative grounds for refusal are considered only upon opposition by the proprietor of an earlier trademark.<sup>48</sup>

In accordance with the Article 8 of the Regulation such a relative ground for refusal is present if:

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<sup>46</sup> EU Official WEB site. “ Community trade mark”, op.cit., p.4

<sup>47</sup> Bastian, Eva M., op.cit., p.7

<sup>48</sup> Ibid, p.7

- The trademarks is identical with an earlier trademark and the goods or services at issue are likewise identical or
- Because of its identity with or similarity to an earlier trademark and the identity or similarity of the goods and services covered there exists a likelihood of confusion on the part of the public in the territory in which the earlier trademark is protected; the likelihood of confusion includes the likelihood of association with the earlier trademark or
- The trademark is identical with or similar to the earlier trademark whereas the goods or services to be covered are not similar provided that in the case of an earlier Community Trademark, this mark has a reputation in the Community and, in the case of an earlier national trademark, the trademark has a reputation in the Member State concerned and where the use without due cause of the trademark applied for would take unfair advantage of, or to be detrimental to, the distinctive character or the repute of the earlier trademark.

The Regulation also sets out the possibility for third parties to make **written observations** to OHIM and to **oppose the registration of a trademark**. In particular, the regulation establishes the “**searching**” system designed to identify any conflict with earlier rights.<sup>49</sup>

The Community Trademark is obtained by registration and the directive relates to registered trademarks only but it also leaves the Member States to grant protection to non-registered trademarks as well.<sup>50</sup>

The Community Trademark is registered for **10 years** from the date of filing of the application and registration is renewable for further periods of **10 years**.

Under the registration a Community Trademark confers on its holder exclusive rights. On the basis of the exclusive rights, in accordance with the Article 9 of the Regulation the holder/owner is entitled to prohibit all third parties from using:

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<sup>49</sup> EU Official WEB site. “Community trade mark”, op.cit., p.2

<sup>50</sup> Bastian, Eva M., op.cit., p.6

- Any sign which is identical with the Community Trademark in relation to goods or services which are identical with those for which the Community Trademark is registered.
- Any sign for which exists a likelihood of confusion on the part of the public in relation to another trademark.
- Any sign which is identical with or similar to the Community Trademark in relation to goods or services which are not similar to those for which the Community Trademark is registered, if the sign is used to exploit the reputation or distinctive character of the trademark in the course of trade.

However as set forth in Article 12 the Community Trademark does not entitle the its owner to prohibit a third party from using

- His own name or address
- Indications concerning the kind, quality, quantity, intended purpose, value and geographical origin and the time of production of the goods or of rendering of the service or other characteristics of the goods or service.
- The trademark, where it is necessary to indicate the intended purpose of a product or service, in particular as accessories or separate parts.

After the registration, the rights of the owner of a Community Trademark maybe declared revoked under the conditions which are mentioned hereinafter: <sup>51</sup>

- within a continuous period of five years, the trademark has not been put to genuine use in the Community inconnection with the goods or services for which it is registered and there are no proper reasons for non-use;
- in consequence of acts or inactivity of the proprietor, the trademark has become the common name in the trade for a product or service in respect of which it is registered;
- the trademark is liable to mislead the public, particularly as to the nature, quality or geographical origin of those goods or services;

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<sup>51</sup> Ibid, p.3

- the proprietor of the trade mark no longer satisfies the conditions of entitlement applicable to proprietors of a Community trade mark.

In the scope of this thesis Article 13 of the Regulation is the determining factor. This article has been regulated under the title “Exhaustion of the rights conferred by a Community Trademark”. In accordance with this article:

1. A Community Trademark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that trademark by the proprietor or with his consent.
2. Paragraph 1 shall not apply where there exist legitimate reasons for the proprietor to oppose further commercialization of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market.

It is clear that, by this article Council foresees “**regional exhaustion**” for trademarks in the EU region. This article has a parallel character with the Directive of the Council (89/104/EEC) which approximates the law of the Member States relating to trademarks.

The Community Trademark does not replace the existing trademark laws of Member States for which a need will continue to exist, but **co-exist alongside national trademarks**. Co-existence has two meanings: first of all it means that national trademark legislation continues to exist side by side with the Community Trademark so a sign, may be simultaneously protected as a Community Trademark and as a national trademark. Secondly it means that there is a equivalence of national trademark and Community Trademarks so conflicts between them are resolved according to the principle of priority.<sup>52</sup> However the owner of an earlier trademark registered in a Member State who applies for an identical trademark for registration as a Community Trademark may invoke the seniority of the earlier national trademark. In certain cases, the applicant for or owner of Community Trademark

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<sup>52</sup> Bastian, Eva M., op.cit., p.6

may request the conversion of his Community Trademark application or Community Trademark in to a national trademark application.<sup>53</sup>

A Community Trademark as an object of property is dealt with for the whole area of the Community as a national trademark registered in the Member State in which the owner has his seat or his domicile or an establishment on the relevant date. Rules relating to transfer of the trademark to another party, levy of execution, bankruptcy or like proceedings, licensing and effects vis-à-vis third parties (opposability to third parties) are also laid down.<sup>54</sup>

Also the regulation defines the procedure, applicable to simultaneous and successive civil actions on the basis of Community and national trademarks and refers to the implementing provisions of national law for the purpose of prohibiting the use of Community Trademarks, particularly national legislation allows the initiation of actions for infringement of earlier rights against the use of a later Community Trademark.<sup>55</sup> The regulation contains few provisions on legal enforcement (Articles 90-104); rather it largely assigns national laws concerning the enforcement of the Community Trademark.<sup>56</sup>

The regulation does not provide special courts having jurisdiction for the protection of Community Trademarks. This function falls to national courts of first and second instance which have been designated as Community Trademark courts by the Member States in accordance with Article 91 of the Regulation. Thus the Member States are required to designate in their territories a limited number of national courts and tribunals and second instance courts.

The question of international jurisdiction is answered by the Article 93 of the Regulation.

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<sup>53</sup> EU Official WEB site. “Community trade mark”, op.cit., p.4

<sup>54</sup> Ibid, p.2

<sup>55</sup> Ibid, p.4

<sup>56</sup> Bastian, Eva M., op.cit., p.10

Extend of the jurisdiction of the Community trademark courts is defined by the Article 94 of the Regulation.

### **2.1.3. Accession of the European Union to the Madrid Protocol**

Besides the Directive 89/104/EEC, which approximates the laws of Member States relating to trademarks and the Regulation on the Community Trademark, in June 2004 the EU submitted to the WIPO its instrument of accession to the Madrid Protocol relating to the international registration of trademarks.

Council Decision of 2003/793/EC 27 October 2003 approves the accession of the EC to the Protocol relating to the Madrid Agreement concerning the international registration of marks. This decision covers Community Accession to the Protocol relating to the Madrid Agreement concerning the international registration of marks. Council Regulation (EC) No.1992/2003 of 27 October 2003 amends the Regulation (EC) no. 40/94 on the Community Trademark to give effect to the accession of the EC to the Protocol relating to the Madrid Agreement concerning the international registration of marks. This regulation deals with procedures and effects associated with international registration based on an application for a Community Trademark and international registration designated the EC.<sup>57</sup>

These two texts are designed to establish a link between the Community Trademark system and the international trademark registration system of the WIPO.<sup>58</sup>

Accession of the European Union to the Madrid Protocol is the first time that the Commission, in its own right, has signed a WIPO treaty. With the accession of the European Union, a link is now established between the Madrid system, administered by WIPO, and the Community Trademark system regulated by OHIM.<sup>59</sup> Concerning this accession WIPO Director General Dr. Kamil Idris said that:

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<sup>57</sup> EU Official WEB site. “Community trade mark”, op.cit., p.6-7

<sup>58</sup> Ibid, p.6

<sup>59</sup> WIPO Official WEB Site. “WIPO Welcomes Accession by European Community to International Trademark System” Pres Release PR/2004/387, Geneva, June 29, 2004, available from [http://www.wipo.int/edocs/prdocs/en/2004/wipo\\_pr\\_2004\\_387.html](http://www.wipo.int/edocs/prdocs/en/2004/wipo_pr_2004_387.html), p.1

The accession of the EC marks a milestone in the development of the international trademark system. This important development creates an interface between WIPO's international trademark operations and those of the EC trademark system, thus offering trademark owners greater flexibility in the process of obtaining international trademark protection ... The Madrid system for the international registration of trademarks offers businesses in all participating countries a simple, affordable and efficient way of obtaining and maintaining their trademarks.<sup>60</sup>

As of 1 October 2004, when the Treaty of Accession came into force applicants and holders of Community Trademarks are now able to obtain international protection for their trademark by filling an international application under the Madrid Protocol. Controversially holders of international registrations under the Madrid Protocol can also seek protection for their trademarks through the Community Trademark system.<sup>61</sup>

With the accession of the EU to the Madrid Protocol, a trademark owner may chose to register his trademark as a national trademark or a community trademark or international trademark under the Madrid System.<sup>62</sup>

## **2.2. Patents**

### **2.2.1. Patents in General**

A patent is a document, issued, upon application, by a government office (or a regional office acting for several countries), which describes an invention and creates a legal situation in which the patented invention can normally only be exploited (manufactured, used, sold, imported) with the authorization of the owner of the patent. **“Invention”** means a solution to a specific problem in the field of

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<sup>60</sup> WIPO Official WEB Site. “WIPO Welcomes Accession by European Community to International Trademark System”,op.cit., p.1

<sup>61</sup> EU Official WEB site. “Community trade mark”, op.cit., p.5

<sup>62</sup> WIPO Official WEB Site. “WIPO Welcomes Accession by European Community to International Trademark System”,op.cit., p.2

technology. An invention may relate to a product or a process.<sup>63</sup> It is also a misconception to believe that patents applies only to complex physical or chemical processes and products, or that they are useful only to large corporations, even a simple item can be an invention if it solves an existing technical problem.<sup>64</sup>

A patent provides an **exclusive right** for the protection of an **invention for a limited time period**. According to this exclusive right a patented invention may not be exploited in the country by persons other than the owner of the patent unless the owner agrees to such exploitation. Thus, while the owner is not given a statutory right to practice his invention, the same owner is given a statutory right to prevent others from commercially exploiting the invention. The patent right permits the owner to sue anyone who exploits the patented invention without the permission. Besides this it also permits the owner to derive the material benefits to which the owner is entitled as a reward for the effect and work, and compensation for the expenses which the research and experimentation leading to the invention have entitled.<sup>65</sup>

However three main exceptions in most laws to infringement of exclusive rights to make a patented product, namely;<sup>66</sup>

- where the patented product is made for the sole purpose of scientific research and experiment;
- where a third party had started making the product before the date when the patent application for an invention incorporated in the product was filed; and
- where the patented product is made under a non-voluntary license or under an authorization granted by the Government on public interest grounds.

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<sup>63</sup> World Intellectual Property Organization,op.cit.(2001), p.18

<sup>64</sup> International Trade Centre UNCTAD/WTO and World Intellectual Property Organization, op.cit., p.17

<sup>65</sup> World Intellectual Property Organization,op.cit.(2001), p.17

<sup>66</sup> Ibid, p.30

It should be noted that to be accepted as an infringement, the use of a patented product does not require that the use be repetitive or continuous.

The exclusive right derived from patent is given for a limited period of time, **generally for 20 years** from the filing date as long as annual renewal or maintenance fees are paid by the patent holder, and is valid only in the country where the applicant have applied for protection.<sup>67 68</sup> After expire of the limited time period others may gain the benefit of the invention. Legal protection against any violation of patent rights (infringement) is not given automatically, the patent rights are not automatically enforced thus the patent owners need to monitor regularly the business activities of others if they want to enforce their patent rights.<sup>69</sup>

The theory behind the system is, the financial reward flowing from the exploitation of the patent and the disclosure of the resulting inventions for public dissemination and use, would encourage innovation and raise the technical level of a nation's industry, with the obvious benefits to its trade.<sup>70</sup>

An invention must meet several criteria to be protected under patent law:<sup>71</sup>

- It must fall within the scope of **patentable subject matter**

Patentable subject matter is established by statute, and is usually defined in terms of the exceptions to patentability, the general rule being that patent protection shall be available for inventions in all fields of technology.

- Its subject matter must be capable of **industrial applicability (utility)**

An invention, in order to be patentable, must be applied for practical purposes, not be purely theoretical. "Applicability" and "industrial applicability" are expressions reflecting, respectively, the possibility of making and manufacturing in practice, and that of carrying out or using in practice.<sup>72</sup>

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<sup>67</sup> Ibid p.31

<sup>68</sup> Ibid p.27

<sup>69</sup> Ibid p.17

<sup>70</sup> International Trade Centre UNCTAD/WTO and World Intellectual Property Organization, op.cit., p.17

<sup>71</sup> World Intellectual Property Organization,op.cit.(2001), p.18-21

<sup>72</sup> Ibid p.18

- It must be **novel**

Novelty is the fundamental requirement in any examination as to substance and is an undisputed condition of patentability. An invention is new if it is not anticipated by the prior art. "Prior art" is, in general, all the knowledge that existed prior to the relevant filing or priority date of a patent application, whether it existed by way of written or oral disclosure.

By three ways an invention may disclosed to public and it becomes part of the prior art:

- by a description of the invention in a published writing or publication in other form;
- by a description of the invention in spoken words uttered in public, such a disclosure being called an oral disclosure;
- by the use of the invention in public, or by putting the public in a position that enables any member of the public to use it, such a disclosure being a "disclosure by use."

Publications include issued patents or published patent applications, writings, pictures including photographs, drawings or films, and recording, whether they be discs or tapes in either spoken or coded language.

Normally it is accepted that prior art to be descriptions sufficient to inform the average worker in the field of or the man skilled in the art.

- It must involve an **inventive step (non-obviousness)**

The inclusion of this requirement is based on the premise that, protection should not be given to what is already known as part of the prior art, or to anything that the person with ordinary skill could deduce as an obvious consequence thereof.

It should be noted that novelty and inventive step are different criteria. Novelty exists if there is any difference between the invention and the prior art. The expression "inventive step" conveys the idea that it is not enough that the claimed invention is

new, that is, different from what exists in the state of the art, but that this difference must have two characteristics:<sup>73</sup> Firstly, it must be “inventive”, that is, the result of a creative idea and it must be a step, that is, it must be noticeable. There must be a clearly identifiable difference between the state of the art and the claimed invention. Secondly, it is required that this advance or progress be significant and essential to the invention.

If the problem is known or obvious, the examination will bear on the originality of the solution and the result claimed. If a person having ordinary skill in the art would have been able to pose the problem, solve it in the manner claimed, and foresee the result, the inventive step is lacking.

- In the application procedure it must be **disclosed** to the public

An additional requirement of patentability is whether or not the invention is sufficiently disclosed in the application. The application must disclose the invention in a manner sufficiently clear for the invention to be carried out by a person skilled in the art or in that field of technology.

Despite an invention fulfills the conditions above mentioned, depending on the patent law of each country, some of the following **may not be patentable**:<sup>74</sup>

- Discoveries of materials or substances already existing in nature;
- Scientific theories or mathematical methods;
- Plants or animals (or the varieties thereof) other than microorganisms, or essentially biological processes for the production of plants or animals (or the varieties thereof), other than microbiological processes;
- Schemes, rules or methods, such as those for doing business, performing purely mental acts or playing games;
- Methods of treatment for humans or animals, or diagnostic methods practised on humans or animals (but not products for use in such methods);

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<sup>73</sup> World Intellectual Property Organization, op.cit.(2001), p.20

<sup>74</sup> International Trade Centre UNCTAD/WTO and World Intellectual Property Organization, op.cit., p.19

- Any invention where prevention of its commercial exploitation is necessary to protect public order, good morals or public health.

If the invention meets all the criteria which are mentioned above the owner of the invention should make an application to the patent office (national-regional or international patent office) to get the patent document which will ensure the exclusive rights.

It is obvious that the requirements of patent application differ from country to country. However a patent application must contain claims which determine the scope of the protection. Claims are the basis of interpretation of patent protection. It is from the claims that third parties are able to know what they may do and what they may not do. The claims may not be significantly broader or different from that which has been described. The claims define clearly the scope of the exclusive right provided by the patent.<sup>75</sup>

After receiving a patent application, generally speaking patent offices will examine the application in three main areas<sup>76</sup>:

Firstly, the application will be examined as to form. In this stage the application is checked to ensure that, all the requirements necessary to accord the application a filing date, have been satisfied. The filing date is important because both the term of the patent, and if it is appropriate the priority date under the terms of the Paris Convention for the Protection of Industrial Property are determined according to that date. The filing date (or priority date) is also relevant to the evaluation of novelty and inventive step. The right of priority offers great practical advantages to an applicant who seeks protection in one or more other countries. The applicant can use that period to organize with due care the steps to be taken to secure protection in the various countries.

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<sup>75</sup> World Intellectual Property Organization, op.cit.(2001), p.22

<sup>76</sup> Ibid p.24-27

After examination of an application as to form, then the patent office will make a search. The objective of the search is to determine the prior art in the specific field to which the invention relates. The search will cover all directly relevant technical fields, and may then have to be extended to analogous fields.

Examination of an application as to substance can take place either at the same time with the search or after it. The aim of the examination as to substance procedure is to ensure that the application satisfies certain conditions of patentability.

If and when the examination process has reached a conclusion favorable to the applicant, and assuming no opposition has been filed or that any opposition has been unsuccessful, the patent office will grant a patent on the application.

Besides exclusive right patent protection may also provide to its holder:<sup>77</sup>

- **Strong market position.** Through these exclusive rights, the patent holder is able to prevent others from using your patented invention commercially.
- **Higher return on investment.** Having in a considerable amount of money and time in developing the innovative product, the patent holder could, under the umbrella of these exclusive rights, and then commercialize the invention, thus enabling him to obtain a higher return on investment.
- **Opportunity to sell or license the invention.** If the patent holder chooses not to exploit the patent himself, there is an option of either selling it or licensing the rights to commercialize it to another company. If a patented idea is accepted and the inventor does not prefer to be manufacturer he can sell or licence his product idea to a company equipped to manufacture it.<sup>78</sup>
- **Increased negotiating power.** If the patent holder is in the process of acquiring the rights to use the patents of another company, through a licensing contract; his patent portfolio will enhance his bargaining power.

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<sup>77</sup> International Trade Centre UNCTAD/WTO and World Intellectual Property Organization, op.cit., p.20

<sup>78</sup> For further detailed information please see World Intellectual Property Organization, op.cit.(2001), p.33-40

Patent rights could be exchanged between the company of the holder and the others.

- **Positive image for the enterprise.** Business partners, investors and shareholders may perceive patent portfolios as a demonstration of the high level of expertise, specialization and technological capacity within the company of the patent holder.

Despite all its advantages above mentioned, patenting may not always be the right solution for a business. Thus it is advisable to weigh up the costs and the benefits of patent protection carefully, prior to initiating the process.<sup>79</sup>

### **2.2.2. Patent Protection in the European Union**

In present, the EU, patent protection is currently provided by three systems: **the national patent system, the European patent system (through the European Patent Office) and the Patent Co-operation Treaty.** However none of these systems is based on a Community legal instrument.<sup>80</sup> Although these different organizations have grown out of progressive attempts to try and simplify the application procedure, there is still no Community patent which belongs the community legal order.<sup>81</sup> It is certain that without effective patent protection across the EU, firms can not exploit the results of their research, raise capital for further research and have sufficient confidence to transfer technology across the continent.<sup>82</sup>

Within Europe; the national patent system appeared first and national patent laws has over time undergone de facto harmonization. First of all, all the Member States became parties to the both Paris Convention and the TRIPS Agreement. Besides these, in the patent field, there are two conventions in the EU, **the Convention on**

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<sup>79</sup> For further detailed information please see Yalçiner, Uğur G. *Sınai Mülkiyet'in İlkeleri*. Ankara: Yalçiner Danışmanlık ve Dış Ticaret Ltd. Şti.,2000, p. 132-136

<sup>80</sup> Weiler, J.H.H., and Kocjan, Martina., op.cit., p. 8

<sup>81</sup> EU Official WEB Site. "Community patent" (2004) Available from <http://europa.eu.int/scadplus/leg/en/lvb/126056.htm> p.1

<sup>82</sup> "Wanted: One Patent for One Market" *Country Monitor*, Vol.6 Issue 36, p.1-2, 1998 Available from EBSCO HOST Research Databases.

**the Grant of European Patents (EPC) and the Luxemburg Convention.** Addition to these conventions in 1997 The Commission adopted a **Green Paper** on the Community patent and the patent system in Europe, describing the situation as regards the protection of innovation by the patent system and looking at the scope for new initiatives in this field. On the basis of the Green Paper, a proposal for a Regulation was adopted in August 2000, aiming to set up a Community patent which would coexist with national patent systems and with the EPC system.<sup>83</sup>

### **2.2.2.1. Convention on the Grant of European Patent (EPC)<sup>84</sup>**

This convention is open to both Member and non-Member States and governed by conventional international law. By April 2005 the Convention is now in force in 30 contracting states<sup>85</sup>. Except Greece, Latvia, Malta and Spain all EU members and Turkey<sup>86</sup> are contracting state of the EPC.

To obtain patent protection in individual countries separately would be logistically difficult and would lead to very high initial costs to prepare application documents in each language. The EPC provides a system comprising a single patent application and search. At the end of the procedure the applicant is granted a bundle of national patents, one of each member state indicated in the application.<sup>87</sup>

A single patent application may be filed at the EPO at Munich, at its branches at the Hague or Berlin or at a national patent office of a Contracting State, if the national law of the State so permits. European Patent Organization is the execution body of

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<sup>83</sup> Weiler, J.H.H., and Kocjan, Martina., op.cit., p.2

<sup>84</sup> Convention on the Grant of European Patents of October 1973 (as amended) Protocol on a possible modification of the conditions of entry into force of the agreement relating to community patents, 30/12/1989,OJ L 401

<sup>85</sup> Lockergnome. “European Patent Convention-Learn all About European Patent Convention” (2004) Available from [http://encyclopedia.lockergnome.com/s/b/European\\_Patent\\_Convention](http://encyclopedia.lockergnome.com/s/b/European_Patent_Convention), p.3

<sup>86</sup> Turkey has ratified this convention by Law No.4504 R.G.29/01/2000,No:23948

<sup>87</sup> Torremans, Paul., op.cit., p.31

the Convention which is constituted by the European Patent Office (executive body) and the Administrative Council (legislative body).<sup>88</sup>

According to Article 14 of EPC, European patent applications can be filed in any of English, French, or German. This language is then designated as the "language of proceedings" for the subsequent procedure. People or companies can file in their own language and file a translation subsequently.<sup>89</sup>

In common with other patent application processes, the application procedure includes a prior art search and a patentability examination, before a patent can be granted. However, once the European patent has been granted, it becomes a national patent and is subject to the national rules of the contracting states designated in the application, except for the provisions of a time-limited, unified, **post-grant opposition procedure**. At this point, the European patent is effectively treated as a bundle of national rights, and national law applies. This has particular relevance to renewal, revocation, and infringement. All infringement issues will be dealt with national courts.<sup>90</sup>

The Convention includes **substantive patent law** and **procedural provisions**.

Substantive Patent law part of the Convention includes provisions on patentability, provisions related to the right to a European patent and more. According to the Article 52(1) of the Convention, "European patents shall be granted for any inventions which are susceptible of industrial application, which are new and which involve an inventive step".

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<sup>88</sup> Ortan, Ali N. *Avrupa Patent Sistemi Cilt 1*. Ankara: Banka ve Ticaret Hukuku Araştırma Enstitüsü Yayını, 1991, p.99

<sup>89</sup> Yalçın, Uğur G., op.cit. (2000), p.63

<sup>90</sup> Ortan, Ali N., op.cit., p.67 et seq; Desantes, Manuel. "Intellectual Property and Competition Law: The European Patent System and its Future." a paper presented at Ankara Barosu Uluslararası Hukuk Kurultayı, Ankara, January 8-12, 2002, p.2

This article constitutes the basic patentability provision under the EPC. However, in the following Articles, the EPC provides further indications on what is patentable, by introducing exceptions.<sup>91</sup>

After granting a patent, the only centrally executed procedure is the **opposition procedure**, governed by the EPC, which allows third parties to oppose the European patent granted. The **opposition procedure before the EPO** is an administrative procedure intended to allow any European patent to be centrally opposed if it was allegedly wrongly granted. Basically **European patents** granted by the EPO under the EPC may be **opposed** by any person from the public. The opposition has an effect on all designated states in the European patent. The opposition can only be based on grounds mentioned in Art. 100 of the Convention. The notice of opposition must be filed in writing at the EPO (either at Munich, The Hague or Berlin) within nine months from the publication of the mention of the grant of the European patent, along with the payment of an opposition fee. Opposition divisions of the EPO are then responsible for the opposition procedure.<sup>92</sup>

After the end of the opposition proceedings, the patent is either, **maintained as granted**, that is, the opposition is rejected (Art. 102(2) EPC); or **maintained in an amended form** (Art. 102(3) EPC). In this case, a new patent specification is published; or **revoked** (Art. 102(1), (4) and (5) EPC). Opposition of a granted patent is a quasi-judicial process, subject to appeal, which can lead to amendment or even revocation of a European patent. It has often arisen that a European patent has been subject of litigation at a national level for example an infringement dispute and opposition proceedings in the EPO simultaneously.

A diplomatic conference was held in November 2002 in Munich to revise the Convention, amongst other things to integrate in the EPC new developments in international law, especially those of the TRIPs Agreement and of the Patent Law

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<sup>91</sup> Lockergnome. "European Patent Convention-Learn all About European Patent Convention." op.cit., p.6

<sup>92</sup> Arıkel, Sülün. "Rekabet Hukukunda Hakim Durumun Kötüye Kullanılması Çerçevesinde Sınai Mülkiyet Hakları." Yüksek Lisans Tezi., Ankara Üniversitesi, 2002, p.35; Yalçın, Uğur G., op.cit. (2000), p.68

Treaty, and to add a level of judicial review of the Boards of Appeal decisions. The revised Convention, known as the EPC 2000, is not entered into force yet. Twelve Contracting States have ratified or accessed to the EPC 2000, as of April 2005 while fifteen countries need to deposit their instrument of ratification or accession for the EPC 2000 to enter into force.<sup>93</sup>

#### **2.2.2.2. The Patent Co-operation Treaty (PCT)**

At an international level the PCT was agreed in 1970 and has been ratified 115 countries, including all those of the develop world. Except Malta all EU members and Turkey<sup>94</sup> also the signing party of the PCT.<sup>95</sup>

The aim of the PCT is to simplify the procedures, in a single request for an international patent; the applicant can list a series of countries where the patent to be applied. Although the applicant procedure is simplified, the courts of individual countries still rule on whether or not a patent has been infringed or are legally valid.<sup>96</sup>

Filing of a single patent application with one patent office allows the applicant to obtain the effect of patent filings in any or all of the PCT countries and to defer the bulk of filing costs usually on filing before the respective national patent office. In other words, because an international patent application must be prepared in accordance with certain requirements set out in the Treaty and regulations, international standards will be effective in all of the PCT Contracting States, so subsequent adaptation to varying national formal requirements and the cost associated therewith will not be necessary.<sup>97</sup> Because an international patent application is effective in all designated PCT Contracting States, the applicant do not

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<sup>93</sup> Lockergnome. "European Patent Convention-Learn all About European Patent Convention." op.cit., p.5

<sup>94</sup> Turkey has ratified this Treaty by Law No.4115 dated 7/7/1995

<sup>95</sup> World Intellectual Property Organization. *Basic Facts About the Patent Cooperation Treaty (PCT)*. Geneva: WIPO Publication No. 433(E), April 2002, p.12

<sup>96</sup> Weiler, J.H.H., and Kocjan, Martina., op.cit., p.9

<sup>97</sup> World Intellectual Property Organization., op.cit. (2002), p.5

have to incur the costs that would arise if the applicant prepared and filed separate applications for all of those States, and the applicant have to pay only a single set of fees for filing the international patent application with the PCT receiving Office.<sup>98</sup>

Anyone who is a resident or national of a PCT contracting state may file a PCT application. The applicant can file an international patent application with its national patent office which will act as a PCT “receiving office” or, unless not permitted by national security provisions in the national law, with the International Bureau of WIPO. The international application has the effect of a national patent application in those PCT contracting states which the applicant has “designated” in the application. Thus the granting of a patent remains the responsibility of the national or regional offices.<sup>99</sup>

In general, an international patent application can be filed in any language which the receiving office is prepared to accept. Receiving offices are, however, obliged to accept filings in at least one language which is both a language accepted by the competent International Searching Authority that is to carry out the international search and a “publication language,” that is, one of the languages in which international patent applications are published. These languages are Chinese, English, French, German, Japanese, Russian and Spanish. If the applicant files its application in a language which is not mentioned above, the applicant will be required to furnish a translation of the application for the purposes of international search.<sup>100</sup>

Also in an international patent application, the applicant may claim the priority, under the Paris Convention, and to a certain extent within the framework of the World Trade Organization, of an earlier patent application for the same invention, whether it was a national, a regional or an international application, for up to 12

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<sup>98</sup> Arıkel, Sülün., op.cit., p.37

<sup>99</sup> Arıkan, Ayşe S. “EPO Üyeliği ve Türkiye İçin Anlamı” paper presented at Türk Patent Enstitüsü ve Avrupa Patent Ofisi, Avrupa Patent Sistemi ve Türkiye Sempozyumu, İstanbul, May 22-23, 2001 p.4

<sup>100</sup> World Intellectual Property Organization., op.cit. (2002), p.6,7

months after the filing of that earlier application. If the applicant does not claim priority from an earlier application, the priority date will be the international filing date of the international application.<sup>101</sup> Until international publication (18 months after the priority date), no third person is allowed access to the international patent application unless so requested or authorized by the applicant.<sup>102</sup>

In addition to the advantages which are mentioned above, by “international search report” and “international preliminary examination report” of the international patent application, the applicant will have some pre-information concerning both the outcome of the application and the value of the invention.

“International search report,” contains a list of relevant “prior art” documents which the applicant can evaluate.<sup>103</sup>

The international search report contains no comments on the value of the invention but lists gives an indication of the possible relevance of the citations to the questions of novelty and inventive step (non-obviousness). If a search report is unfavorable the applicant has the opportunity to centrally amend the claims in the international patent application or to withdraw the application before it is published.<sup>104</sup> The “international preliminary examination report” gives to the applicant more detailed information about the patentability of the invention. This preliminary examination is made, on the basis of the international search report, according to internationally accepted criteria for patentability (novelty, inventive step and industrial applicability). The applicant may participate actively in the international preliminary examination, submitting amendments and arguments.<sup>105</sup> It provides the applicant with an even stronger basis on which to evaluate the chances of obtaining patents, and if the report is favorable, a stronger basis on which to prosecute the application before the national and regional

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<sup>101</sup> Ibid, p.7

<sup>102</sup> Ibid, p.9

<sup>103</sup> Ibid, p.7

<sup>104</sup> Ibid, p.7-8

<sup>105</sup> Ibid, p.8

patent Offices.<sup>106</sup> The decision on the granting of a patent remains the responsibility of each of the national or regional offices designated in the international patent application; the international preliminary examination report is authoritative but is not binding on those Offices.<sup>107</sup>

The PCT does not replace the existing patent laws of Member States, but **co-exist** with them. The applicant may prefer the application procedure which is stipulated either in the PCT or in the national patent laws.<sup>108</sup>

In respect of which states the applicant wish to proceed further with the application that the applicant must fulfill the various national requirements for entry into the national phase.

### **2.2.2.3. The Luxemburg Convention on the Community Patent**

This convention was intended to create a European patent for the Common Market – a Community patent– and it led in 1975 to the signing of the Luxembourg Convention on the Community patent.

The Luxembourg Convention is a Community convention. In essence, the Convention would have transformed the national stages in the granting of European patents into a single stage common to the Member States. The Luxembourg Convention never entered into force because of the difficulties in the ratification process.

Difficulties in the ratification process led to two conferences in Luxemburg in 1985 and 1989. In the second conference it is provided that if the Convention had not entered into force by the 31st of December 1991, another conference would be reconvened in order for the Member States to amend the number of states, which had to ratify the Convention for it to enter into force. However no agreement was reached

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<sup>106</sup> Artikel, Sülün., op.cit., p.37

<sup>107</sup> World Intellectual Property Organization., op.cit. (2002), p.8

<sup>108</sup> Artikel, Sülün., op.cit., p.37

in Lisbon in 1992 regarding to this protocol and little progress was made since then.<sup>109</sup>

The failure of the Luxembourg Convention has generally been attributed to the costs of the Community patent, chiefly that of translation, and to the judicial system. Under the Convention, a patent had to be translated into every Community language. Interested parties felt that this requirement was excessive. Under the highly complex judicial system, national judges would have been able to declare a Community patent invalid with effect for the entire territory of the Community. This aspect aroused the distrust of interested parties, who considered it to be a major element of legal uncertainty.<sup>110</sup>

Following the failure of the Luxembourg Convention, the Commission's Green Paper on the Community patent and the European patent system, which was part of the follow-up to the First Action Plan for Innovation in Europe, launched a broad discussion on the need to take new initiatives in relation to patents<sup>111</sup>.

The Green Paper asks whether and to what extent the interested parties, the European Parliament and the Economic and Social Committee, would be prepared to make use of a Community patent system established by regulation under Article 308 of the Rome Treaty, rather than by intergovernmental conventions.

After this extensive consultation process, which found the users of the patent system unanimous on the opinion that the Luxemburg Convention nowadays represents such major disadvantages that it would no longer be acceptable and would not guarantee the necessary unitary protection, the Commission adopted, on 5 February 1999, a Communication on the follow-up to the Green Paper on the Community patent and the patent system in Europe.<sup>112</sup>

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<sup>109</sup> Weiler, J.H.H., and Kocjan, Martina., *op.cit.*, p. 9

<sup>110</sup> *Ibid*, p.10

<sup>111</sup> *Ibid*, p.10

<sup>112</sup> *Ibid*, p.10

According to this follow-up paper, there is a need for a more cohesive system. The nature of the Community patent must be unitary, must be affordable, must guarantee legal certainty and must co-exist with existing patent systems. The unitary nature of the patent means that it must have the same impact throughout the Community. It must be able to be issued, acquired, revoked and to expire for the Community as a whole.

The European Commission has proposed the creation of a Community Patent to give inventors the option of obtaining a single patent legally valid throughout the EU. The proposal would lessen the burden on business significantly, encourage innovation by making it cheaper to obtain a patent and provide a clear legal framework in case of dispute. Under the Commission's proposal for a Council Regulation, Community Patents would be issued by the EPO. National and European Patents would coexist with the Community Patent system, so that inventors would be free to choose which type of patent protection best suited their needs. The proposed regulation must be adopted unanimously.

Such legislation would harmonize national rules and practices to the extent necessary to insure that innovative software companies can obtain effective patent protection for their inventions in all Member States. Currently, this is not possible due to divergent approaches in different member states.

As a result need for a unitary Community wide patent still exists and none of the regulations mentioned above do not regulate the scope of **exhaustion principle** which should be applied to the patent rights throughout the European Union.

Besides these, in March 2003, EU governments broke the deadlock in the protected debate on the possibility of introducing unitary patent protection for the entire territory of the EC. A Community patent is now to be established as a complement to national patents and the existing European system under the EPC, with the EPO playing a key role in examination and administration. The problems of legal certainty and affordability have been addressed by agreeing to set up a central patent court in Luxembourg and providing that only the patent claims have to be translated into all

Community languages. The new EU-wide patent is expected to be available from 2007 or 2008.<sup>113</sup>

## 2.3. Utility Models

### 2.3.1. Utility Models in General

The term “utility model” is somewhat equivocal. There is no global acceptance of the term due to, it has been suggested, there being “fundamental different concepts from one country to another.”<sup>114</sup>

In accordance with the Article 1(2) of the Paris Convention utility models are recognized as industrial property. However the Convention is silent as to its definition and scope and merely confirms that the international principles of national treatment and the right of priority are accorded utility models.<sup>115</sup>

Anyway, it is possible to define “utility model” as a registered right which confers on its proprietor exclusive protection for an invention. The requirements to be protectable under utility model are less strict and more flexible than for “patentable” inventions but otherwise the rights under the utility model are similar to patents.<sup>116</sup> In other words, to be protected by a utility model, an invention must be **new**, involve an **inventive step** and lend itself to **industrial application**. However the level of inventiveness required, is generally lower than that for patents. In addition, utility models are granted without prior examination to establish the conditions of novelty and degree of inventiveness that are required for obtaining protection. This means that protection can be obtained more quickly (on average 6 months) and at less cost than with a patent, but on the other hand it has less legal certainty. Thus when an invention is eligible for protection under both systems, the quick registration of

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<sup>113</sup> Weiler, J.H.H., and Kocjan, Martina., op.cit., p.10

<sup>114</sup> Suthersanen, Uma. “ The Economic Efficacy of Utility Model Protection” In *Industrial Property in the Bio-Medical Age:Challenges for Asia*, edited by C.Heath and A.K. Sanders. Great Britain: Kluwer Law International, 2003, p.231

<sup>115</sup> Ibid, p.231

<sup>116</sup> World Intellectual Property Organization,op.cit.(2001), p.17

utility models makes it possible to cover the relatively long period it takes to grant a patent with prior examination.<sup>117</sup>

However legal uncertainty, arising from the lack of any prior examination of the basic conditions may cause some disadvantages by resulting in costly litigation or even the loss of the sums which have been invested in the improvements of the utility model.<sup>118</sup>

### **2.3.2. Utility Model Protection in the European Union**

There may be disparities in the legal situation regarding protection of one and the same invention amongst the Member States of the EU either because exclusive rights to the invention exist only in one or some of the Member States or because exclusive rights thereto are held by different, mutually independent, proprietors in different Member States. Such situations can obstruct the movement of goods between Member States.<sup>119</sup>

Within Europe there are two turning points concerning the utility model protection. First one is the Green Paper “Utility Model Protection in the Internal Market” published by the Commission in 1995 and it is followed by the “Proposal for a European Parliament and Council Directive Approximating the Legal Arrangements for the Protection of Inventions by Utility Model.” However there is currently no consistent policy for the utility model protection across the EU.<sup>120</sup> Thus, legal protection for inventions by means of utility models is available only at national level.

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<sup>117</sup> EU Official WEB Site. “Commission Staff Working Paper “Consultations on the Impact of the Community Utility Model in order to Update the Green Paper on the Protection of Utility Models in the Single Market” (2001) Available from [http://europa.eu.int/comm/internal\\_market/en/indprop/model/consultation\\_en.pdf](http://europa.eu.int/comm/internal_market/en/indprop/model/consultation_en.pdf), p.3-4

<sup>118</sup> Ibid, p.5

<sup>119</sup> Krasser, Rudolf. “Harmonization of Utility Model Law in Europe” *International Review of Industrial Property and Copyright Law*, Vol. 31 Issue 7-8/2000, p.797

<sup>120</sup> Suthersanen, Uma., op.cit., p.237

### 2.3.2.1. Green Paper on the Protection of Utility Models in Single Market

The Green Paper of 19 July 1995<sup>121</sup> on the Protection of utility Models in the Single Market explains the reasons why Community action is necessary in the field of utility model protection. Also it subsequently proposes the measures considered appropriate to bring about the harmonisation of such protection and then invites the interested parties to comment on the objective in question.

The reasons of the necessity of the Community action in this field are, the protection systems existing in the Member States differ widely, particularly as regards the level of inventiveness required, which can hamper the free movement of goods and distort competition and this protection is important within the internal market because of the economical issues.<sup>122</sup>

The Green Paper also mentions the distinctive characteristics of the effective protection of the utility models in the EU:<sup>123</sup>

- First of all there will be no limit on the number of claims.
- The protection should be provided for both the technical inventions involving only a small inventive step and the short-lived technical inventions. And the rights conferred by a Community utility model would be identical to those conferred by patent.
- Protection by a Community utility model would be available for inventions of both products and processes which are novel, involves an inventive step and capable of industrial application.
- The application for a Community utility model would be subject to only a formal verification and the utility model would be granted without any prior examination of the conditions for obtaining protection with regard to novelty

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<sup>121</sup> European Commission's Green Paper on the Protection of Utility Models in the Single Market, COM (95) 370 final 1995 Not published in the official journal

<sup>122</sup> EU Official WEB Site. "Utility Model: Green Paper" (2003) Available from <http://europa.eu.int/scadplus/leg/en/lvb/l26048.htm>, p.1

<sup>123</sup> Ibid, p.2; EU Official WEB Site. "Commission Staff Working Paper "Consultations on the Impact of the Community Utility Model in order to Update the Green Paper on the Protection of Utility Models in the Single Market." op.cit., p.6,7

and inventive step. A search report on the state of the art could be requested by the applicant or by third parties; the search report would be added to the file and would become compulsory in the event of legal proceedings.

- The protection should be rapid, simple, and inexpensive. Besides these the public should be informed concerning this protection quickly.

According to the Commission's view, creation of a uniform European right, as a Community utility model right, which would rank above national schemes but would not replace them, will be the appropriate measures for the harmonization of protection at Community level.

Also a **grace period** of twelve months should be allowed for novelty. Furthermore, the procedure for granting utility models should be based on patent-law rules. However, at the examination and decision stage, there should be no general vetting to ensure that the conditions are met. It would appear reasonable to design the rights of use and prohibition and the rules governing exhaustion along the lines of the existing provisions of patent law.<sup>124</sup> The Commission is of the opinion that the protection should not extend to the exclusion clauses borrowed from patent law.<sup>125</sup>

The duration of the protection should be renewable up to **ten years** from the date of filing of the application. In order to combat counterfeiting, courts should have the right to order a search report in order to establish whether the disputed invention qualifies for protection. Finally, in order to avoid placing the right-holder in too strong a position, the Commission considers it necessary either to prohibit dual protection or to impose a ban on invoking both types of protection successively.<sup>126</sup>

Summary report of 1 March 2001 is containing the replies to the consultation on the impact of the Community Utility Model with a view to updating the Green Paper on the Protection of Utility Models in the Single Market.<sup>127</sup>

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<sup>124</sup> EU Official WEB Site. "Utility Model: Green Paper." op.cit., p.2

<sup>125</sup> Ibid, p.2

<sup>126</sup> Ibid, p.2

<sup>127</sup> Ibid, p.3

According to this report, in the 1995 consultation, about a third of the replies of the EU Member States concerning the Green Paper, were in favour of a Regulation setting up a Community utility model. However the majority of the replies rejected this possibility.<sup>128</sup>

### **2.3.2.2. The EC Proposed Utility Model Directive<sup>129</sup>**

Harmonization can prevent disparities in the legal situation regarding protection among the Member States in so far as they are based on differences in national legislation, in particular, on the fact that there are inventions eligible for protection in certain Member States but not in others, or on the fact that the effects or term of protection granted for different Member States differ from each other.<sup>130</sup>

In four fields, the European Commission's proposal foresees a harmonized approach to Utility Model Union. These fields are "protectable subject matter", "conditions of protection", "examination of the application" "Rights which are conferred by the Utility Model Union"<sup>131</sup>

- **Protectable Subject Matter:** The proposed utility model law will protect any new invention involving products or process that involve an inventive step and are suitable for industrial application. Thus, subject matter such as "schemes, rules and methods for playing games" and "computer programs" which have been traditionally excluded under patent law would be able constitute protectable utility models if the proposed changes take effect.

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<sup>128</sup> EU Official WEB Site. "Commission Staff Working Paper "Consultations on the Impact of the Community Utility Model in order to Update the Green Paper on the Protection of Utility Models in the Single Market." op.cit., p.6

<sup>129</sup> Proposed for a European Parliament and Council Directive Approximating the Legal Arrangements for the Protection of Inventions by Utility Model COM (97)/691;OJ C 36, 3 February 1998; Amended Proposal for Utility Model Directive , COM (99) 309, final 97/0356 (COD), OJ C 248, 3 August 2000, E/57

<sup>130</sup> Krasser, Rudolf., op.cit., p.798

<sup>131</sup> Ibid, p.238-241

Conversely, some subject matter that is explicitly protected under current patent law will be excluded under the proposed utility model law:

Discoveries, scientific theories and mathematical methods; aesthetic creations; schemes, rules and methods for performing mental acts or doing business; presentations of information; inventions contrary to public policy or morality; inventions relating to biological material; inventions relating to chemical or pharmaceutical substance or process; surgical or therapeutic treatment procedures applicable to the human body or the bodies of animals and diagnostic procedures which are carried out on the human body or the bodies of animals-not inventions susceptible of industrial application are the field which are excluded under the proposed utility model law.

- **Conditions of protection: Industrial applicability, novelty and inventive step** are the criteria of protection under Utility Model Law.

**Examination:** According to the proposed utility model directive, an application for utility model right will not be examined at first instance. Only renewal, opposition or legal proceedings can ensure an examination for the utility models. Utility models may be registered for an initial period of **6 years**, until such times as an interested third party queries the validity of the utility model right, or if the registered proprietor requests an extension of protection for a further period of 4 years, or in the event of legal proceedings. If any of the preceding event occur, the invention will be examined and a search report as to its novelty and inventive step will be published.

- **Rights which are conferred by the Utility Model Union:** After the registration, the proprietor of the product invention has a right to prevent third parties from making, using, offering for sale, selling, or importing for these purposes that product. Also the proprietor of the process invention has a right to prevent third parties from using the process and from using, offering for sale, selling, or importing for these purposes at least the product obtained directly by that process. However both the acts done privately and for non-commercial purposes and the acts done for

experimental purposes relating to the subject matter of the protected invention can not be prohibited or prevented by the proprietor of the invention.

The rule on priority is laid down in Article 17 of the proposed Directive. The amended proposal strengthens this impression in that it includes Article 18 the possibility to change a patent into a utility model application and makes it dependent on a priority right effective only for 12 months and in addition on priority not having been already claimed for the patent application.<sup>132</sup>

## **2.4. Industrial Designs**

### **2.4.1. Industrial Designs in General**

Industrial design refers to the creative activity of achieving a formal or ornamental appearance for mass-produced items that, within the available cost constraints, satisfies both the need for the item to appeal visually to potential consumers, and the need for the item to perform its intended function efficiently.<sup>133</sup> In a legal sense, industrial design refers to the right granted in many countries, pursuant to a registration system, to protect the original ornamental and non-functional features of an industrial article or product that result from design activity.<sup>134</sup> As a general rule an industrial design consists of the three dimension features, such as the **shape** of a product, the two-dimensional features such as **ornamentation, patterns** and **lines** or **colour**, or a combination of two or more of these.<sup>135</sup>

In order to customize products to particular customer groups, create a new ‘niche’ market and strengthen brands enhancing the design of the product is important, because if the technical performance of the various products offered by different manufacturers is relatively equal, visual appeal along with cost will determine the

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<sup>132</sup> Ibid, p.808

<sup>133</sup> World Intellectual Property Organization, op.cit.(2001), p.112

<sup>134</sup> Ibid, p.112

<sup>135</sup> International Trade Centre UNCTAD/WTO and World Intellectual Property Organization, op.cit., p.45

consumer's choice, particularly in areas where a range of products performing the same function is available in the market.<sup>136</sup>

If an industrial design functions as a trademark in the marketplace, then it may be protected as a **three-dimensional mark**. This could be the case when the shape of the product or its packaging is considered to have become a distinctive feature of the products made by a given enterprise. Many companies have successfully redefined their brand image through strong focus on product design. For example bottle of Coca-Cola.<sup>137</sup>

From an industrial property law perspective, **industrial design refers only to the aesthetic aspects or outward appearance of a product**. The conception or idea that constitutes the design may be something which can be expressed either two-dimensionally or three-dimensionally. The subject matter of the legal protection of industrial designs is not articles or products, but rather the design which is applied to or embodied in such articles or products as embody or reproduce the protected design. Therefore, the protection does not prevent other manufacturers from producing or dealing in similar articles fulfilling the same utilitarian function, provided that such substitute articles does not embody or reproduce the protected design.<sup>138</sup>

As a general rule, a design must be **new (novel), original** and has **individual character** to be registered as an industrial design. Depending on the national law, the design should meet one or more of the above mentioned requirements.<sup>139</sup>

The requirement of **novelty** is to be found in all laws, but the nature of the novelty differs amongst the laws of various countries. **Absolute or universal novelty**, means that the design must be new as against all other designs produced in all other parts of

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<sup>136</sup> World Intellectual Property Organization, op.cit.(2001), p.111

<sup>137</sup> International Trade Centre UNCTAD/WTO and World Intellectual Property Organization, op.cit., p.48

<sup>138</sup> World Intellectual Property Organization, op.cit.(2001), p.113

<sup>139</sup> International Trade Centre UNCTAD/WTO and World Intellectual Property Organization, op.cit., p. 49

the world at any previous time and disclosed by any tangible or oral means. In a **qualified standard of novelty** the qualification may relate to time, or territory, or means of expression. Thus the owner of a design should be careful which kind of novelty is required in the law system where he is seeking for the protection.<sup>140</sup> In some countries, the legislation allows for a **grace period** for registration of between six months and one year from the moment a design was made public, disclosed or published. During that period, the owner of the industrial design may market the design without losing its 'novelty' and he may still apply for registration. However, the design owner will have no exclusive design rights during the grace period.<sup>141</sup>

A design is considered **original** if it has been created by the designer independently and is not a copy or imitation of existing design.

Having an **individual character** requirement is met if the overall impression that a design makes on an informed user differs from the overall impression made on such a user by any earlier design (which has been made available to the public).

Designs which are mentioned hereinafter barred from registration in many countries:<sup>142</sup>

- Designs that do not meet the requirements of novelty, originality, and/or individual character.
- Designs that are considered to be dictated exclusively by the **technical function** of a product.
- Designs incorporating protected **official symbols or emblems** (such as the nation flag).
- Designs that are considered to be **contrary to public order or morality**.

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<sup>140</sup> World Intellectual Property Organization, op.cit.(2001), p.114

<sup>141</sup> International Trade Centre UNCTAD/WTO and World Intellectual Property Organization, op.cit., p.50

<sup>142</sup> International Trade Centre UNCTAD/WTO and World Intellectual Property Organization, op.cit., p.49

Depending on the national legislation, there may be further restrictions on what can or cannot be registered as a design. For example traditional designs and traditional cultural expressions (expressions of folklore) more generally, are often regarded as 'public domain' by industrial property laws and cannot be protected. However, contemporary adaptations and interpretations of traditional designs made by individuals can be sufficiently 'original' and 'new' for industrial design protection.<sup>143</sup>

The right to legal protection in respect of an industrial design belong to creator (or author or originator) of the industrial design. However an industrial design may be created by an employee, or by a contractor pursuant to a commission. In these situations the law usually provides that the entitlement to legal protection of the design shall belong the employer, or to the person who has commissioned the design.<sup>144</sup>

To register an industrial design the applicant must file an application at the office of the country or region where he is seeking protection. The most commonly adopted examination system provides for a formal examination only of an application for a registered design. According to this system, no search is made of the prior art to determine whether the substantive criterion of novelty or originality is satisfied by the design for which registration is sought. Any person interested in using such a design will have the opportunity either to oppose the registration of the design if the relevant law provides for an opposition procedure, or of bringing legal proceedings for the cancellation of a registration which it is alleged is invalid.<sup>145</sup> Once a design is registered, it is entered in the design register, published in the official design journal/gazette/bulletin and a design registration certificate is issued.<sup>146</sup>

When an industrial design is protected by registration, the owner is granted an **exclusive right against unauthorized copying or imitation** by third parties. This

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<sup>143</sup> Ibid, p.49

<sup>144</sup> World Intellectual Property Organization,op.cit.(2001), p.115

<sup>145</sup> World Intellectual Property Organization,op.cit.(2001), p.116

<sup>146</sup> International Trade Centre UNCTAD/WTO and World Intellectual Property Organization, op.cit., p.47

exclusive right prevents others from exploiting an industrial design by doing any of the following things for industrial and commercial purposes.<sup>147</sup>

The term of protection for a registered industrial design varies from country to country, but is usually **at least 10 years** and often longer (for example, 14 years for design patents in the United States, and 25 years under the registered Community design right of the European Union). In some countries, right-holders are required to renew their design protection every few years.<sup>148</sup>

#### **2.4.2. Industrial Design Protection in the European Union.**

It is possible to protect an industrial design as a Community Design in the EU region. The first step is the harmonization of national design laws, which is in progress. The Directive concerning the Harmonization of national design law in the EU was agreed in October 1998.<sup>149</sup> There is now also a new Amended Proposal for the Regulation on the Community Design Right<sup>150</sup> and the negotiations seem to have led to an agreement on all but few points.<sup>151</sup>

##### **2.4.2.1. Harmonization of National Design Laws.**

The need for harmonizing designs law in Europe appeared in the 60's.<sup>152</sup>

The Directive concerning the Harmonization of national design law in the EU harmonizes the most substantial elements of national design laws throughout Europe.

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<sup>147</sup> World Intellectual Property Organization, op.cit.(2001), p.116

<sup>148</sup> International Trade Centre UNCTAD/WTO and World Intellectual Property Organization, op.cit., p.48

<sup>149</sup> Directive 98/71/EC of the European Parliament and of the Council of 13 October 1998 on the legal protection of designs (1998) OJ L 289/28

<sup>150</sup> Amended Commission Proposal for a Council Regulation on Community Design (2001) OJ C 120/12, COM (00) 66 final

<sup>151</sup> Torremans, Paul., op.cit., p.33

<sup>152</sup> Bezzegh, Tibor. "Main Features of the Harmonized European Design Law" (2004) Available from <http://www.uni-miskolc.hu/uni/res/kozlemenyek/2004/MAIN.doc>.p.1

In accordance with the Article 1 of the Directive, a design is the appearance of the whole or a part of a product resulting from the features of, in particular the lines, contours, colours, shape, texture and/or materials of the product itself and/or its ornamentation. No shape is registrable if its form dictated solely by technical functions.

The broad definition of the design directive is very flexible and the exclusion which is mentioned in the last sentence of the first Article, used to be a characteristic of all national laws already before harmonization.<sup>153</sup>

The system under the 98/71/ EC Directive requires that a registrable design should be “**novel**” and also requires some originality “**individual character**”. Industrial applicability is not need for protection under design law so, handicraft items are covered also.<sup>154</sup>

From the view of the public, **novelty** is objective if no identical design was made available to the public without limitations. This corresponds with a generally accepted definition of novelty in patent law. A subjective-relative criterion is used in the Article 6 of the Directive and it makes clear that public availability means the knowledge of the specialised circles within the territory of the EU.<sup>155</sup>

Under the Directive not only novelty but also **individual character** is required. This requirement is the copyright approach element of the law. Individual character means only that any good must be a personal intellectual creation. According to the this requirement a shape which is formed without human creativity is unprotectable. The individual character in accordance with the Directive means some kind of distinctiveness.

A design which is novel and has an individual character should not be excluded from design protection:

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<sup>153</sup> Ibid, p.1

<sup>154</sup> Ibid, p.3

<sup>155</sup> Ibid, p.3

Pursuant to the Article 7 of the Directive an exception for mechanical connections is given.

A design right shall not subsist in features of appearance of a product which must necessarily be reproduced in their exact form and dimensions in order to permit the product in which the design is incorporated or to which is applied to be mechanically connected to or placed in, around or against another product so that either product may perform its function.

The most attention should be paid to the “repair clause” part of the Directive which foresees exclusion for spare parts. A spare part is a component of a complex product which is protectable under the Directive. The purpose of spare part is to repair the original appearance of the product “so as to restore its original appearance”.<sup>156</sup> The necessity to restrict the legal protection of such parts is originated from the fundamental idea of the EU to liberalise the movement of goods in the internal market.<sup>157</sup> Also Commission found that the prices of spare parts are lower where they are not design protected.

However in most European countries remained design protection for spare parts.<sup>158</sup> If spare parts are excluded from design protection, for consumer protection purpose the necessary information should be given to the buyers of the origin of spares.

In accordance with the article 9 of the Directive, “A community design shall not subsist in a design which is contrary to public policy or to accepted principles of morality.”

Before the harmonization by the Directive, the period of protection was ensured by national laws differed on a wide scale. The unified duration now in the EU Member States according to the Directive is 25 years.<sup>159</sup>

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<sup>156</sup> Ibid, p.2

<sup>157</sup> Ibid, p.2

<sup>158</sup> Ibid, p.2

<sup>159</sup> Ibid, p.2

The Article 17 of the Directive regulates the design-copyright interface. This article sets the principle of total cumulation or overlap of design protection with national copyright, which means that a design may be eligible for copyright protection and so the shape is protectable on both grounds simultaneously.<sup>160</sup>

However the most important Article of the Directive in the scope of this thesis is 15:

The rights conferred by a design right upon registration shall not extend to acts relating to a product in which a design included within the scope of protection of the design right is incorporated or to which it is applied, when the product has been put on the market in the Community by the holder of the design right or with his consent.

With this article, the Commission clearly stated that “**regional exhaustion**” should be valid for the industrial designs which are registered in the territory of the EU region.

#### **2.4.2.2. Community Design.**

National protection systems, even if harmonised, can not fully satisfy the needs of the internal market because of their territorial character. Thus a Community wide protection system for design is considered necessary.<sup>161</sup> By the Council Regulation of 12 December 2001 on Community Designs entered into force. The regulation is intended to encourage innovation and help to prevent counterfeiting and piracy by providing for protection of industrial designs at European level.<sup>162</sup> After this regulation, national design rights will not be abolished but will **co-exist** with the Community Design so, companies will still be able to choose to register designs under national law, as national design protection, as harmonised by the design

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<sup>160</sup> Ibid p.4

<sup>161</sup> EU Official WEB Site. “Community Design-A New Amended Proposal for Regulation” (2000) Available from [http://europa.eu.int/comm/internal\\_market/en/indprop/design/design-new.htm](http://europa.eu.int/comm/internal_market/en/indprop/design/design-new.htm), p.1

<sup>162</sup> Ibid, p.1

protection Directive 98/71/EC, will continue to exist in parallel with Community design protection.<sup>163</sup>

This regulation provides for two types of design protection, directly applicable in each Member State: “**Registered Community Design**” and the “**Unregistered Community Design**”. In both cases, to be eligible for protection, designs must be **new** and must be apparent to the public that they are different from products which existed previously, the second criterion is called “**individual character**”.<sup>164</sup> There is no requirement that a design must have any aesthetic quality to qualify for Community design protection. However the industrial designs should not be contrary to both public order and public morality.

The subject matter that may be protected by Community design rights is very broad, extending to virtually any aspect of the appearance of a product or any part of a product, whether two dimensional or three dimensional.<sup>165</sup> This scope includes features of shape and surface ornamentation, features of colour, material and texture that give an article a distinct appearance. Graphic designs, symbols, and typefaces are also included to this protection.<sup>166</sup>

However both the designs those are dictated by function but only to the extent that the design could not be made in any other shape, and the shapes of mechanical interfaces, and shapes of component parts which are hidden in normal use are expressly excluded from the protection.<sup>167</sup>

Acts that constitute infringement for both Registered Community Design and Unregistered Community Designs are: unauthorized manufacture, supply, use, import, export, or other dealing. Besides these, the scope of protection for

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<sup>163</sup> EU Official WEB Site. “Commission Welcomes Adoption of Regulation on Community Design” (2001) Available from [http://europa.eu.int/comm/internal\\_market/en/indrop/design/01-1803.htm](http://europa.eu.int/comm/internal_market/en/indrop/design/01-1803.htm), p.2

<sup>164</sup> Ibid, p.1

<sup>165</sup> Suluk, Cahit. “Avrupa Birliği ve Türk Hukukunda Tescilli Tasarımları Koruma Şartları” *Ankara Barosu Fikri Mülkiyet ve Rekabet Dergisi*, Sayı:2001/2 Cilt:1, p.46

<sup>166</sup> Storey, Robert B., and Langton, David. “New European Design Laws” (2005) Available from <http://www.bereskinparr.ca/publications/pdf/Indust-Euro-Storey-Langton.pdf> , p.4

<sup>167</sup> Ibid, p.3; Suluk, Cahit. op.cit., p.2

Community design rights, whether registered or unregistered, not only covers the unauthorized use of the identical design, but also extends to any other design that is so closely resembling that it does not produce a different overall impression on an informed user.<sup>168</sup>

Excluded from being considered infringement are the acts, done privately for non-commercial purposes, experimental uses, and any reproduction of a design for the purpose of teaching provided that such reproduction is compatible with fair trade practice and does not unduly prejudice the normal exploitation of the design.<sup>169</sup>

Once a design has been registered in OHIM, the design right will qualify for protection in all 25 Member states and this protection will continue one or more periods of five years up to a total term of 25 years from the date of filing. Under this regulation, also unregistered designs would be protected for three years as from the date on which are first made available to the public within the Community.<sup>170</sup>

Registered Community design protection is against both deliberate copying and the independent development of similar design. Registered Community design can be infringed even where the infringer was not aware of the prior existence of the design.<sup>171</sup> On the other hand, the unregistered design right owner will only be able to prevent copying in bad faith. Because of the design is not registered, in any infringement action, the burden rests on the plaintiff to establish that Community design rights exist, and that is the owner of these rights. Thus together with exclusive rights, Registered Community Design also provides a certificate of registration which carries evidentiary advantages or presumptions of ownership and subsistence of rights.<sup>172</sup>

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<sup>168</sup> Ibid, p.4

<sup>169</sup> Ibid p.5; Suluk, Cahit. op.cit., p.26

<sup>170</sup> EU Official WEB Site. "Commission Welcomes Adoption of Regulation on Community Design." op.cit.,p.1; Storey, Robert B., and Langton, David., op.cit., p.2

<sup>171</sup> EU Official WEB Site. "Commission Welcomes Adoption of Regulation on Community Design." op.cit., p.1

<sup>172</sup> Storey, Robert B., and Langton, David., op.cit., p.2

Community design rights, whether registered or unregistered, cover the entire EU. Exhaustion of rights also applies throughout the EU; the owner of a Community design for an article that is lawfully sold in one Member States can not prevent the article from subsequently being exported to other countries or imported from other countries within the EU. Thus “**regional exhaustion**” is accepted by the regulation.<sup>173</sup>

Under the Registered Community Design system, holders of eligible designs can make use of simple, one-off and inexpensive procedure to register them with the OHIM or through the national office any EU Member State. This procedure is relatively simple and inexpensive when it is compared with the separate applications which should be done in every state to gain the protection.<sup>174</sup>

The application will not be based upon substantive examination as to compliance with requirements for protection prior to registration thereby keeping to a minimum the registration and other procedural burdens on application.<sup>175</sup> Provided they meet the formal requirements and the appropriate fees are paid, applications are to be accepted for registration.<sup>176</sup>

Also one application may include any number of designs. Such designs do not need to have a common feature, but three-dimensional designs can only be combined where the specified products are in the same class under the Locarno Convention for classifying industrial designs. Combining multiple designs in one application offers a significant cost savings, and is particularly advantageous for industries and businesses that develop and market designs for whole product lines concurrently.<sup>177</sup>

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<sup>173</sup> Ibid, p.2

<sup>174</sup> Ibid, p.5

<sup>175</sup> Suluk, Cahit. op.cit., p.35

<sup>176</sup> Storey, Robert B., and Langton, David. op.cit., p.6

<sup>177</sup> Ibid, p.6-7

In a Community Design application, **priority** may be claimed from corresponding applications filed within the preceding six months in any member state of the Paris Convention. There is also one year **grace period**: disclosures of the design by the designer or his successors, or anyone who derived knowledge of the design from them, do not invalidate a subsequent registered Community design provided that they took place less than a year before the application filing date, or applicable Convention priority date.<sup>178</sup>

Specific national courts which are designated by the Regulation will also deal with infringement cases for unregistered design rights and with declarations of invalidity of unregistered design rights.<sup>179</sup>

With a few sentences it is possible to summarize what is mentioned under the first chapter: Industrial property rights provide its owner some exclusive rights for a limited time period in the country or in the region which they have been registered. These exclusive rights provide the owner of the industrial property right to manufacture and/or put them into market for the first time either directly or with his consent. Also the same exclusive rights prevent others from commercial exploitation of the goods without consent of the right owner unless otherwise specified by law or act. If a third party manufacture, use, sell or import a good under the protection of industrial property right, the right owner may sue and/or use all other legal means against this infringement. These rights are given to the owners of industrial rights by the national laws and the differences between the national laws may prevent the ensuring a common market between the Member States. To get rid of this issue sometimes harmonization of national laws, sometimes EU wide protection systems or international level protection systems are used in the EU. Usually EU wide protection systems or international level protection systems co-exist with the national systems. Although it is not possible to say that, the need for “EU wide protection of industrial property rights” has been fully covered by these regulations, in the scope of this thesis, it is possible to draw some conclusions: While

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<sup>178</sup> Suluk, Cahit. op.cit., p.40,41

<sup>179</sup> “EU Wide Industrial Designs.” op.cit., p.2

there are special provisions in these regulations which stipulates “regional exhaustions” for trademarks and industrial designs, there is no special provision which determine the geographical boundary of the exhaustion of patents and utility models. Thus this issue has been solved by the decisions of the ECJ, which will be examined in the next chapter.

## **CHAPTER III**

### **INDUSTRIAL PROPERTY RIGHTS VERSUS FREE MOVEMENT OF GOODS**

Because of the territorial exclusive rights granted by the industrial property rights, the differences between national laws in this field, may constitute protectionist barriers to the free movements of goods, thereby undermining the single market.

Enforcement of industrial property rights especially between Member States may have an equivalent effect to quantitative restrictions. Although quantitative restrictions and all measures equivalent effect on imports and exports between the Member States are prohibited by the Article 28 and 29 of the Rome Treaty, Article 30 derogates from this principle where such behavior is justified on the grounds of the protection of industrial and commercial property. Also Article 295 provides that the treaty shall in no way prejudice the rules in Member States governing the system of property ownership. Thus, if the prohibition or restriction is justified on the grounds of the protection of industrial or commercial property then it is not a prohibition or restriction contrary to the Rome Treaty's free movement of good provisions.

On the contrary as it is mentioned in the Article 3 of the Rome Treaty free movement of goods in the European Union is one of the ways to achieve the economic purposes mentioned in the Article 2 of the Rome Treaty.

Consequently, it is possible to say that there is a conflict between the enforcement of industrial property rights and the free movements of goods between the Member States. However it is not possible to neglect either the protection of industrial property rights or the principle of free movements of goods. Thus, the protection of industrial property rights should compromise with the free movements of goods, as it is mentioned in the second sentence of the Article 30 of the Rome Treaty. In accordance with this sentence, if the prohibitions or restrictions are justified for the

protection of industrial and commercial property, they must not constitute a means or arbitrary discrimination or a disguised restriction on trade between Member States.

Both the free movement of goods principle and the enforcement of industrial property rights are sine qua non for EU to ensure the economical integration of Member States and compete in the global economy. The conflict between two fields was the main dispute in many cases and the solution is reached by the judgments of ECJ.

In this chapter firstly the free movements of goods in the EU region, then the relationship between this principle and the industrial property rights are discussed in the scope of the ECJ decisions. The principle of free movements of goods in the EU has been examined in the scope of the related articles of the Rome Treaty. However not all the articles but Article 28, 29, 30 are examined detally, because in the Article 30, industrial property rights are foreseen as an exception for the implementation of Articles 28 and 29. In the second part of this chapter the related ECJ decisions are examined to understand how the protection of industrial property rights has been reconciled with the principle of free movements of goods in the EU.

### **3.1. Free Movements of Goods in the European Union**

The main objective of Rome Treaty is to promote a harmonious development of economic activities, a continuous and balanced expansion, and an increase in stability, an accelerated rising of standard of living and closer relations between the Member States.<sup>180</sup> The principal means of achieving this objective is to establish a common market by allowing goods move freely within Member States. To follow this free movement of goods notion, it is necessary to remove all internal trade barriers; physical, technical and fiscal barriers, which create discriminatory restrictions, between Member States.<sup>181</sup>

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<sup>180</sup> Pitiyasak, Saravuth. "Legal Resarch Free Movements of Goods within EU" Available from <http://www.thailawforum.com/articles/saravuth.html>  
<http://www.thailawforum.com/articles/saravuth2.html>, p.1

<sup>181</sup> Ibid, p.1

The free movement of goods is the cornerstone of the common market and it is defined in Article 14 of the Rome Treaty as: “The internal market shall comprise an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured in accordance with the provisions of this Treaty”.

Article 14 provides the legal basis for the creation of internal market within the EU.

Barriers to free movement of goods in the internal market are **physical barriers** which involve the stopping and checking system to monitor goods passing the national borders; **fiscal barriers** which are tariffs and other indirect taxes imposed on exports, imports, or goods in transit and the **technical barriers** which are quantitative restrictions or measure having an equivalent effect to quantitative restrictions which impede the free movement of goods.<sup>182</sup>

Free movement of goods in the internal market has been regulated by several provisions in the Rome Treaty.

Article 23 and 24 is about free movement of goods, which are produced in a Member State or imported from a third country to EU.

Article 23 (1) stipulates that:

The Community shall be based upon a customs union which shall cover all trade in goods and which shall involve the prohibition between Member States of customs duties on imports and exports and of all charges having equivalent effect, and the adoption of a common customs tariff in their relations with third countries.

In addition, Article 25 prohibits the reintroduction of any customs duties on imports or exports of goods passing between Member States.

The free movement of goods provisions within Rome Treaty should apply to all types of movement of goods such as movement of goods from one Member State to

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<sup>182</sup> Ibid, p.3

be sold in another Member State; movement of goods in transit through one Member State to be sold in another Member State or outside the EU, re importation of goods which are imported from one Member State to another, where they were produced or put on the market; parallel imports; movement of goods by individuals; movement of goods involving no commercial transactions.<sup>183</sup>

Article 24 of the Rome Treaty recognizes another concept of a customs union or the free movement of goods from a third country by providing:

Products coming from a third country shall be considered to be in free circulation in a Member State if the import formalities have been complied with and any customs duties or charges having equivalent effect which are payable have been levied in that Member State, and if they have not benefited from a total or partial drawback of such duties or charges.

According to Article 24, goods from a third country shall be freely moved within the Member States if three conditions are met: First, goods have been passed the import formalities. Secondly, goods have been paid in import Member States any customs duties or charges having equivalent. Finally, the goods must not have benefited from a total of partial drawback of such duties or charges.<sup>184</sup>

Article 25 of the Rome Treaty is about the abolition of customs duties and charges having equivalent effect.

Article 25 stipulates that:

Member States shall refrain from introducing between themselves any new customs duties on imports or exports or any charges having equivalent effect, and from increasing those which they already apply in their trade with each other.

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<sup>183</sup> Pitiyasak, Saravuth. *op.cit.*, p. 4

<sup>184</sup> *Ibid*, p.4

Article 25, prohibits the introduction of new customs duties or charges having equivalent effect, and equally prohibits the increase of those which are already in existence. This prohibition applies both to imports and exports.<sup>185</sup> It is relatively easy to recognize a customs duty; the more difficult concept is a charge having an equivalent effect to a duty. There is no definition of such a concept in the Rome Treaty.

Contrary to the Rome Treaty, definition of the charge having an equivalent effect is given in the **Commission v Belgium and Luxemburg (Gingerbread) Case**<sup>186</sup>:

A duty, whatever it is called, and whatever its mode of application, may be considered a charge having equivalent effect to a custom duty, provided that it meets the following three criteria: (a) It must be imposed unilaterally at the time of importation, or subsequently; (b) It must be imposed specifically upon a product imported from a Member State to the exclusion of a similar national product; and (c) It must result in an alteration of price and thus have the same effect as a customs duty on the free movement of products.

These charges must be interpreted in the spirit of the Rome Treaty.

However Member States commonly make charges for services rendered, such as border inspections, warehouse inspections or storage charges during customs formalities.<sup>187</sup> Usually these kinds of charges for the services may cause affects equivalent to customs duties. However a differentiation should be made between two kinds of border services which are essential for the importation and which are used as a charge having an equivalent effect to customs duties. This differentiation has been made by the ECJ; the charges for services may not constitute an equivalent effect to customs duties if they met the following conditions:<sup>188</sup>

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<sup>185</sup> Ibid, p. 5

<sup>186</sup> Cases 90&91/63 Commission v. Luxemburg and Belgium, E.C.R. [1964] E.C.R. 625.(Ginderbread)

<sup>187</sup> Hanlon, James. *European Community Law*. London: Sweet&Maxwell Limited, 1998, p.172

<sup>188</sup> Pitiyasak, Saravuth. op.cit., p. 5-6

The charges should not exceed the actual cost of the services, and must not be imposed solely in connection with the completion of custom formalities, they must be obligatory and uniform for all the products concerned in the Community.

The services are required by Community legislation in the general interest of the Community, and promote the free movement of goods.

Article 90 of the Rome Treaty is relevant to the abolition of measures of discriminatory domestic taxation between the domestic goods and the imported ones. If a charge imposed is non-discriminatory and charged at the same rate to both domestic and imported goods then it will not be a charge having an equivalent effect. It will not be covered by Article 25 but it may fall under Article 90.

Article 90 stipulates that:

No Member State shall impose, directly or indirectly, on the products of other Member States any internal taxation of any kind in excess of that imposed directly or indirectly on similar domestic products.

Furthermore, no Member State shall impose on the products of other Member States any internal taxation of such a nature as to afford indirect protection to other products.

The purpose of Article 90 is to prevent Member States discriminating against imported goods or products, or giving indirect protection to domestic products. Article 90 prevents the undermining of Articles 23, 24, 25. Article 90 requires that, whatever system is chosen will be applied without discrimination to all goods.<sup>189</sup> Thus an internal taxation may not be discriminatory imposed between domestic products and imports. If a tax imposed on imported goods, it must be because domestic goods are subject to the same tax.

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<sup>189</sup> Hanlon, James. *op.cit.*, p.175

It is not a necessity that the products should be identical, the Article provides that products need only be “similar”.<sup>190</sup> Also the words “directly or indirectly” must be construed broadly to include all taxation actually and specifically imposed on the domestic products at earlier stage of the manufacturing process. The words would also cover taxes on raw materials and the assessment of tax.<sup>191</sup>

The Member State could use any method to remove the discrimination. It could higher the tax on domestic products, or lower the tax on imported products, or could adopt a combination of the two, so long as the tax was the same for both products, and of course, it could abolish the tax on both products.<sup>192</sup>

While Article 90 (1) deals with the situation were products are “similar”, Article 90 (2) provides that no Member State shall impose on the products of another Member State any internal taxation of such a nature as to afford indirect protection to other products. This is intended to cover products which are not similar but are nevertheless in competition with each other. For Article 90 (2) it is not possible to make a direct comparison between the domestic and imported goods, because the goods are different and the criteria for assessment under Article 90 (2) are whether the tax has a protective effect.<sup>193</sup>

Although the provisions of Article 23, 24, 25 and Article 90 cover EU Law on duties and similar taxes, it would be possible for Member States to restrict the free movement of goods by imposing **quotas** or other forms of **quantitative restrictions**, or any **measures having an equivalent effect** on the importation of goods into their territory.

Articles 28 and 29 deals with the prohibition of both quantitative restrictions and measures having an equivalent effect to quantitative restrictions on imports and exports. They are the central provisions of the free movement of goods under the

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<sup>190</sup> Pitiyasak, Saravuth. op.cit., p. 6

<sup>191</sup> Hanlon, James. op.cit., p. 175

<sup>192</sup> Ibid, p.173-174

<sup>193</sup> Ibid, p. 177

Rome Treaty, because they deal with the elimination of technical barriers which are the most dangerous to free movement of goods notion.<sup>194</sup> For this reason Article 28 and 29 concerning the free movement of goods in the internal market will be examined under a subtitle.

### **3.1.1. The Elimination of Quantitative Restrictions and Measures Having an Equivalent Effect to Quantitative Restrictions (Article 28 & Article 29)**

In accordance with the Articles 28 and 29 of the Rome Treaty, Member States are prohibited to impose quantitative restrictions and all measures having equivalent effect on imports and exports between themselves.

Article 28 stipulates that “Quantitative restrictions on imports and all measures having equivalent effect shall be prohibited between Member States.”

Article 29 stipulates that “Quantitative restrictions on exports, and all measures having equivalent effect, shall be prohibited between Member States.”

Although the both Article cover “measures” taken by the Member States the term should be interpreted widely to include the activities of any public or quasi-public body. This will include “measures” taken by professional bodies on whom national legislation has conferred regulatory powers.<sup>195</sup>

Prohibition on quantitative restrictions covers measures which amount to a total or partial restraint of, according to the circumstances, imports, exports or goods in transit. Therefore, the concept of quantitative restrictions covers not only quotas restricting the import or export of a given product by amount or by value but also the total or complete bans on imports or exports.<sup>196</sup> The complete bans on goods, or quotas by amount or by value, which restrict the right to import or export a particular product will be clearly be in breach of both Article 28 and Article 29.

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<sup>194</sup> Pitiyasak, Saravuth. op.cit., p.6

<sup>195</sup> Hanlon, James. op.cit., p.179

<sup>196</sup> Pitiyasak, Saravuth. op.cit., p.6

On the other hand measures having equivalent effect are more difficult to define. For example some national rules will have the effect of a quota, however the Member State may argue that the rules are neutral in that they apply equally to domestic products and imports or they are provided for Article 30. To clarify this situation the Commission issued Directive 70/50 to guide Member States by providing a non-exhaustive list of measures equivalent to quantitative restrictions.<sup>197</sup> The scope of measures having equivalent effect, has been the subject of many decisions of the ECJ.

The ECJ produced its own definition of measures having equivalent effect and it is known as the “**Dassonville Principle**”.<sup>198</sup> In the case of **Procureur du Roi v. Dassonville**<sup>199</sup> the court held that:

All trading rules enacted by Member States which are capable of hindering, directly indirectly, actually or potentially, intra- Community trade are to be considered as measures having an effect equivalent to quantitative restrictions.

The court used the expression “capable of hindering...” the crucial element in this expression is “possible effect on trade”; it means that there is no need to show an intent to discrimination.<sup>200</sup>

The application scope of the "Dassonville" principle is important as the principle. Because if a national measure intentionally discriminates between imported products and domestic products, it is contrary to Article 28 if the national measure discriminates against nationals then it is contrary to Article 7. Furthermore, if the procedural requirements of a national measure are such as to cause discrimination then these procedural requirements also will be contrary to Article 28.

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<sup>197</sup> Hanlon, James. op.cit., p. 180

<sup>198</sup> Ibid, p.181

<sup>199</sup> Case 8/74, Procureur du Roi v. Beneoit and Gustave Dassonville, E.C.R. [ 1974] 837. (Dassonville)

<sup>200</sup> Hanlon, James. op.cit., p.181

The free movement of goods can be also be hindered by public procurement policies of Member States. This situation will arise when the national government, or other public authority, favours a domestic undertaking when it decides on tenders for public contracts.<sup>201</sup>

Another method to hinder the free movement of goods between Member States is to treat imported goods less favorably than domestic goods by price-fixing regulations. For example the maximum price can be set at such a low level that an importer can trade only at loss, or the minimum price can be fixed at such a high level that the imported product is prevented from taking advantage of the fact that it is cheaper than its domestic competitor. In these situations, the effect of the price fixing is, to discriminate against importers.<sup>202</sup> In both of these two situations, the importer or the foreign producer is often disadvantaged as compared to the domestic producer. In applying the Dassonville principle, the ECJ has widely applied Article 28 to national laws which disadvantage suppliers of products from other Member States.<sup>203</sup> Thus both of these two cases may also be considered in the scope of “Dassonville Principle”.

Until recently, as it is mentioned beforehand any idiosyncratic national provision which was not duplicated in other states and which was capable of affecting trade between Member States was prohibited under Articles 28,29,30 unless there was a good reason for it. This led traders to invoke Article 28 in relation to national provisions which had no ostensible effect on trade between Member States. This tendency had been encouraged in the light of decisions by the ECJ which tended to find that apparently innocuous measures infringed Article 28 merely because they directly or indirectly made free trade more difficult.<sup>204</sup> However, in many cases, especially where the relevant provision applies equally to both domestic and imported products, it is not so obvious that a national law or legal regulations has the effect of hindering trade between Member States.

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<sup>201</sup> Ibid, p.182

<sup>202</sup> Ibid, p.183

<sup>203</sup> Tritton, Guy. *Intellectual Property In Europe*. London: Sweet&Maxwell Limited, 1996, p.356

<sup>204</sup> Ibid, p.357

The use of “Article 28 defence” cases and the difficulties experienced by national courts persuaded the ECJ that a new approach was required.<sup>205</sup> Thus in the recent case of **Keck v. Mithouard**, the ECJ has retreated from this extreme stance. **In Keck and Mithouard Case**<sup>206</sup> the Court signaled its intention to determine the limits of Article 28 and attempted to narrow the application of the Dassonville Principle.

**In Keck v. Mithouard**, the applicants were prosecuted for reselling products in an unaltered state at prices lower than their actual purchase price contrary to French Law. The ECJ said in a short judgment that it was not the purpose of such legislation to regulate trade in goods between Member States. It continued that such legislation may admittedly restrict the volume of sales and hence the volume of sales of products from other Member States. However, it said that the question was whether such a possibility is "sufficient to characterize the legislation in question as a measure having equivalent effect to a quantitative restriction on imports". The Court said that in view of the tendency described above, it was necessary to re-examine and clarify its case law on this matter. It then recited the Cassis de Dijon principle and went on to say:

However, contrary to what has previously been decided, the application to products from other Member States of national provisions restricting or prohibiting certain selling arrangements is not such as to hinder directly or indirectly actually or potentially trade between Member States within the meaning of the Dassonville judgment . . . provided that those provisions apply to all affected traders operating within the national territory and provided that they affect in the same manner, in law and in fact, the marketing of domestic products and of those from other Member States.

Where those conditions are fulfilled, the application of such rules to the sale of products from another Member State meeting the requirements laid down

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<sup>205</sup> Ibid, p.357

<sup>206</sup> Cases C-267 and 268/91 Criminal Proceedings against Bernard Keck and Daniel Mithouard, ECR [1993] I-6097 (Keck)

by that State is not by nature such as to prevent their access to the market or to impede access any more than it impedes the access of domestic products. Such rules therefore fall outside the scope of the Article 30 of the Treaty.

The court drew a sharp distinction between the obstacles to the free movements of goods arising from rules laying down the requirements to be met by goods and the rules relating to methods of sale. Restrictive rules applying to goods as such continue to be governed by Cassis de Dijon. By contrast, national rules restricting or prohibiting certain selling arrangements will not be treated as hindering intra-state trade provided they apply to all affected traders operating within the Member State concerned, and also provided that they “effect in the same manner, in law and in fact” the marketing of domestic goods and imports from other Member States.<sup>207</sup>

It would appear from the judgment that it is not enough for the measure to have the possibility of affecting trade between Member States. Instead, the measure in issue must have some defining purposive characteristic that affects imports and exports.

As a consequence it can be said that if rules laid down by a Member State were not by nature such as to prevent their access to the market or to impede access any more that it impeded the access of domestic products, then such rules fell outside Article 28 entirely.

Besides the exceptions in Article 30, which will be discussed later, the ECJ has also recognized the **mandatory requirements** that Member States should impose on the free movement of goods. As mandatory requirements: the consumer protection, the environmental protection, and the effectiveness of fiscal supervision, the fairness of commercial transactions and the public health are the exceptions to the general provisions of Articles 28 and 29.<sup>208</sup>

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<sup>207</sup> Hanlon, James. *op.cit.*, p. 200

<sup>208</sup> *Ibid*, p. 187-191

One of the most important cases for this exception is **Cassis de Dijon, Rewe-Zentral AG v. Bundesmonopolverwaltung für Branntwein**<sup>209</sup>. In the Cassis de Dijon Case, German law provided that fruit liqueurs could only be sold in Germany if they contained a minimum of 32 per cent wine-spirit content. To this general rule, certain beverages were exempted. A trader attempted to import "Cassis de Dijon" liqueur, a well known French liqueur but whose alcoholic strength was below 32 per cent from France. Thus the German provision prevented the sale of Cassis de Dijon in Germany. The trader sought a ruling from the ECJ that the measure was contrary to Article 28 in that it prevented the import of drinks traditionally and lawfully produced in another Member State. The ECJ stated that:

In the absence of common rules relating to the production and marketing of alcohol . . . it is for the Member State to regulate all matters relating to the production and marketing of alcohol and alcoholic beverages on their own territory. Obstacles of movement within the Community resulting from disparities between the national laws relating to the marketing of the products in question must be accepted in so far as those provisions may be recognized as being necessary in order to satisfy mandatory requirements relating in particular to the effectiveness of fiscal supervision, the protection of public health, the fairness of commercial transaction and the defense of the consumer.

The above mentioned phrase is traditionally called the "Cassis de Dijon" principle.<sup>210</sup> The German Government argued that it was in the interests of the consumer for the latter to know that fruit liqueurs were of a certain alcoholic content and to prevent unfair trade practices developing. However, the ECJ said that the labelling of products stating their alcoholic content would suffice to ensure that consumers were not prejudiced. Thus, the German law was not necessary and the German measures did not serve the general interest and did not take precedence over the requirements of the free movement of goods.

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<sup>209</sup> Case 120/78, Rewe-Zentrale AG v. Bundesmonopolverwaltung für Branntwein, ECR. [1979] 649. (Cassis de Dijon)

<sup>210</sup> Tritton, Guy. op.cit., p.359

The "Cassis de Dijon" principle also prohibits any national measure which has the effect of preventing the sale of a product lawfully produced and marketed in another Member State, even if the national measure applies indiscriminately to both domestic and imported products, unless the measure falls within the exceptions described above.<sup>211</sup> The ECJ held:

There is therefore no valid reason why, provided they have been lawfully produced and marketed in one Member State, alcoholic beverages should not be introduced into any other Member State; the sale of such products may not be subject to a legal prohibition on the marketing of beverages with an alcoholic content lower than the limit set by national rules.

This is an important paragraph which introduces the idea of “**mutual recognition**”. This idea is that every Member State must respect the traditions of other Member States, and that once a product has been lawfully produced and marketed in one Member State it will meet the mandatory requirements of their other Member State, unless objective evidence can show otherwise.<sup>212</sup> In other words it means that until rules are harmonized, barriers to trade which arise out of the different laws of the Member States are capable of breaching Article 28.

There is another restriction for the application of the mandatory requirement principle which is known as “**the rule of reason**”.<sup>213</sup> The rule of reason is also determined by the ECJ. According to the rule of reason any measure taken to protect a “mandatory requirement” must be proportionate to that end and must be the least restrictive of trade.<sup>214</sup>

“The rule of reason” in other words “the reasonableness rule” can be described as embodying two principles. Firstly, there is the principle of **proportionality**, which means that the national legislations must be accepted if those exceptions are

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<sup>211</sup> Ibid, p.360

<sup>212</sup> Hanlon, James. op.cit., p.186

<sup>213</sup> Ibid, p. 185

<sup>214</sup> Ibid, p.186

necessary to satisfy mandatory requirements. Secondly; there is the principle of **alternative means**, which means that where the same objective can be attained by other means which are less of a hindrance to trade, then the measure is not permissible.<sup>215</sup>

This Cassis de Dijon Case has caused many problems to the ECJ, because Member States seek it to justify their restrictions, while the traders attempt to attack any national laws which restrict trade practices or commercial freedom. On the other hand, this case assists to clarify the principle of the free movement of goods under Articles 28 and 29 and its exception under Article 30 of the Rome Treaty.<sup>216</sup>

Thus after the judgment, the Commission sent a letter to the Member States containing some policy conclusions. In that communication, the Commission said that where products are manufactured according to a customarily and traditionally accepted way, then exceptions to the principle of free movement of such products would only be admissible under strict conditions. These were that the rules were **necessary, appropriate and not excessive in order to satisfy mandatory requirements**; they served a purpose in the general interest which was compelling enough to justify an exception to the principle of free movement of goods and the rules were essential for such a purpose, *i.e.* were the means most appropriate and at the same time least hindered trade.<sup>217</sup>

This communication and the principles that emerged from Cassis have become the cornerstone of the drive to ensure an integrated and free market for goods within the EU Member States.<sup>218</sup>

The list of mandatory requirements in Cassis is not exhaustive, for example the “protection of the environment” and “consumer protection” has been added to the list by the ECJ.<sup>219</sup>

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<sup>215</sup> Tritton, Guy. *op.cit.*, p.361

<sup>216</sup> Pitiyasak, Saravuth. *op.cit.*, p.10

<sup>217</sup> Tritton, Guy. *op.cit.*, p. 360

<sup>218</sup> Hanlon, James. *op.cit.*, p. 187

<sup>219</sup> *Ibid*, p.189-190

The “Cassis de Dijon” principle must be reconsidered in the light of *Keck v. Mithouard*. In *Cassis de Dijon*, obstacles to the free movement of the goods which result from disparities between national laws are *prima facie* prohibited. In *Keck*, the judgment suggests that if national laws merely affect in the same manner, in fact and in law, both domestic and foreign products then they are compatible with Articles 28,29,30. Thus, under *Keck*, even if there are disparities between national laws which binder trades between Member States, it is sufficient that there is no legal or actual discrimination between domestic and foreign products. It is submitted that the judgment in *Keck* is aimed at those laws which have no defining characteristic which could be said to affect trade between Member States as opposed to those laws which have a more obvious and direct effect on trade between Member States.<sup>220</sup>

The mandatory requirements are also treated separately from the derogations allowed under Article 30 because the *Cassis* ruling applies only to indistinctly applicable measures.<sup>221</sup> The *Cassis* exceptions could only be used where rules were applied without discrimination for both national and imported products. For measures which are distinctly applicable, *Cassis* has no relevance in terms of mandatory requirements. Application scope of the *Cassis de Dijon* Principle is in contrast to the narrow application of Article 30 to distinctly applicable rules.<sup>222</sup> However if a state fails to justify one of its mandatory requirements under the *Cassis* principle, it still may be able to justify under Article 30.

The above principles intimated in *Cassis de Dijon*, are all subject to the general rule that Member States cannot take or enact any measures which are contrary to or frustrate legislation implemented by the EU pursuant to the objectives of the Rome Treaty. Thus if the EU has introduced a comprehensive and exhaustive regime of legislation in a particular sphere, then Member States have no powers to enact or

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<sup>220</sup> Tritton, Guy. *op.cit.*, p.360-361

<sup>221</sup> Hanlon, James. *op.cit.*, p.187

<sup>222</sup> *Ibid*, p.188

maintain legislation in that sphere. Therefore, unless legislation is not contravened Articles 28, 29, 30, Member States are free in application of the legislation.<sup>223</sup>

Previously, only the measures concerning imports are discussed but it is sure that the principles relating to Article 28 also apply to Article 29 which covers **export**. For both imports and exports justification is possible under Article 30 which will be discussed later. However indistinctly applicable measures will not breach Article 29 unless they discriminate against exports.<sup>224</sup>

The important point to remember about exports is that Cassis does not apply. The land mark case is **Groenveld**<sup>225</sup>. Dutch legislation prohibited all makers of meat products from stocking horsemeat. The purpose was to safeguard the export of meat products to countries which prohibited the sale of horsemeat. Thus countries receiving Dutch meat products could be confident that the product did not contain horse flesh. The sale of horsemeat was not forbidden in the Netherlands itself. Groenveld, a Dutch firm, decided to make horsemeat sausages and to export them. When they came into conflict with Dutch law they argued that the ban on exports of horsemeat contravened in Article 29. The Advocate general stated that the Dutch rules were indistinctly applicable, but restricted trade. Therefore, the Cassis principle applied, and no justification for the restriction could be shown. But the ECJ thought differently. It held that Article 30 was exclusively concerned with “the establishment of a difference in treatment between domestic trade of a Member State and its export trade.” Where there was no discrimination between goods produced for the home market and those for export Article 30 was inapplicable.

Why is Article 29 dependant on showing discrimination, while all that is needed for Article 28 is to show a restrictive effect on trade? The answer seems to be that goods due for exports and goods due for domestic market are subject to the same set of rules, at the same stage in the process of production. Whereas goods subject to indistinctly applicable measures are subject to the “dual burden” of a set of technical

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<sup>223</sup> Tritton, Guy. op.cit., p.363

<sup>224</sup> Hanlon, James. op.cit., p.191

<sup>225</sup> Ibid, p.191-192

rules in their stage of origin, and another at the state of destination. It is this second set of technical rules which compose an extra burden on importers, and which obstruct trade. Therefore Cassis assists importers who challenge impediments to free trade.<sup>226</sup>

Besides the exceptions arising from the decisions of the ECJ the real exceptions of the Article 28 and 29 are mentioned in the Rome Treaty Article 30.

### **3.1.2. The Main Treaty- Based Exception to the Fundamental Rule of the Free Movement of Goods (Article 30)**

If trade rules are discriminatory under Article 28, 29 they are outside the scope of “Cassis de Dijon Principle”. However this time, they may be justified under Article 30. This provides that:

The provisions of Articles 28 to 29 shall not preclude prohibitions or restrictions on imports, exports or goods in transit justified on grounds of public morality, public policy or public security; the protection of health and life of humans, animals or plants; the protection of national treasures possessing artistic, historic or archaeological value; or the protection of industrial and commercial property. Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States.

As an exception to the fundamental rule of free movement of goods, Article 30 is interpreted strictly, and thus does not extend to justification not mentioned therein.<sup>227</sup> In other words the justifications set out in Article 30 are exhaustive.

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<sup>226</sup> Ibid, p. 192.

<sup>227</sup> Kapteyn, P.J.G., and Van Themaat, P. Ver Loren. *Introduction to the Law of the European Communities, From Maastricht to Amsterdam*. United Kingdom: Kluwer Law International, 1998, p.658

The ECJ has always refused to extend the scope of justifications beyond those already mentioned in Article 30. The key to the understanding of Article 30 is mentioned by the ECJ in the case **Campus Oil**.<sup>228</sup> The ECJ held that:

The purpose of Article 36 (current 30)... is not to reserve is not to reserve certain matters to the exclusive jurisdiction of Member States; it merely allows national legislation to derogate from the principles of the free movement of goods to the extent that this is and remains justified in order to achieve the objectives set out in the Article.

So, the scope of the justification will remain narrow, and the action taken against an import must be in proportion to the risk presented by the import, and the restriction must be the least able to achieve the end desired by the restriction. This issue of proportionality is similar to the requirements for the justification of quantitative restrictions in the Cassis judgment.<sup>229</sup>

The degrees of **public morality, public policy, public security, health and life of humans, animals or plants protection and industrial and commercial property protection** may vary from one Member State to another because they are for each Member State to determine in accordance with its own scale of values and the requirements of protection. However, the ECJ can limit the scope of their effects by applying the **principle of non-discrimination** and the **principle of proportionality**.<sup>230</sup>

Therefore, the harmonization of the laws will be one of the best ways to break down the technical barriers because with the harmonization of laws, the Member States could no longer justify their legislation.<sup>231</sup>

In Accordance with the Article 94, Council must act unanimously to issue the directives for harmonization of laws among Member States. However directives have

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<sup>228</sup> Hanlon, James. *op.cit.*, p.193

<sup>229</sup> *Ibid*, p.193

<sup>230</sup> For further detailed information please see Hanlon, James. *op.cit.*, p.193-198

<sup>231</sup> Pitiyasak, Saravuth. *op.cit.*, p.9

no direct effect. They require Member States to implement into their national laws or regulations within the period of time.<sup>232</sup>

The protection of industrial and commercial property is the main topic of this thesis so it will be discussed in detailed in the following part.

### **3.2.The Impact of the Protection of Industrial Property Rights on the Free Movements of Goods**

Early cases on the application of Articles 28, 29, 30 on the import and export of goods which were alleged to infringe industrial property rights under national law were few and alluded to the free movement provisions rather than directly applied them. It seems that the parties involved in these early disputes were slow to realise that their facts came within the free movement provisions so most defendants tried to argue that the exercise of property rights was prohibited by virtue of Articles 81 and 82.<sup>233</sup>

The ECJ gave a series of landmark judgments on Articles 28, 29, 30 in relation to industrial property.

**The first landmark case** concerning this issue is **Deutsche Grammophon v. Metro-SB-Grossmarkte**<sup>234</sup> in 1971. Deutsche Grammophon is a German company which produces gramophone records. In Germany, it supplied records under the "Polydor" mark directly to retailers. The retail prices of the records were controlled and the contracting retailers could only import Deutsche Grammophon records from abroad with the authorisation of Deutsche. This was given if the retailer undertook to observe the resale price maintenance scheme with respect to these imported goods as well.

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<sup>232</sup> Ibid, p.10

<sup>233</sup> Tritton, Guy. op.cit., p.287

<sup>234</sup> Case 78/70 Deutsche Grammophon Gessellschaft mbH v. Metro-SB Grossmarkte, E.C.R. [1971] 487. (Deutsche Grammophon v. Metro)

Deutsche Grammophon in Germany exported records to its Paris subsidiary in France. These were then re-exported back to Germany where Metro, a German wholesaler and not part of the Deutsche Grammophon network, purchased them. These records were then sold by Metro to retail customers at a price below that fixed by Deutsche in Germany. Deutsche Grammophon obtained an injunction in Germany for infringement of its exclusive right under German law, as manufacturer of sound recording to reproduce and to distribute the recording in Germany. The matter submitted to the ECJ on concerning the interpretation of Articles 81 and 82.

Although the ECJ had not been asked as to the compatibility of Articles 28,29,30 with the legality of the German action, it held that the enforcement of such a right was incompatible with the provision regarding the free movement of goods. The ECJ said that:

. . . although the Treaty does not affect the **existence of industrial property** rights conferred by the national legislation of a Member State, the **exercise of these rights** may come within the prohibitions of the Treaty. Although Article 36 (current 30) permits prohibitions or restrictions on the free movement of goods that are justified for the protection of industrial and commercial property, it only allows such restriction on the freedom of trade to the extent that they are justified for the protection of the rights that form the **specific object of this property**.

If a protection right analogous to copyright is used in order to prohibit in one Member State, the marketing of goods that have been brought onto the market by the holder of the right or with his consent in the territory of another Member State solely because this marketing has not occurred in the domestic market, such a prohibition maintaining the isolation of the national markets conflicts with the essential aim of the Treaty, the integration of the national markets into one uniform market. This aim could not be achieved if by virtue of the various legal systems of the Member States private persons were able to divide the market and cause **arbitrary discriminations or disguised restrictions in trade between the Member States**.

Accordingly, it would conflict with the provisions regarding the free movement of goods in the Common Market if a manufacturer of recordings exercised the exclusive right granted to him by the legislation of a Member State to market the protected goods in order to prohibit the marketing in that Member State of **products that had been sold by himself or with his consent** in another Member State solely because this marketing had not occurred in the territory of the first Member State.

**Another landmark case** concerning the relationship between the Articles 28, 29, 30 and the patent and trademark is **Centrafarm v. Sterling & Winthrop Case**.<sup>235</sup> In this case, Sterling Drug Inc. held parallel national patents for a drug for urinary tract infections in Holland and Great Britain. Furthermore, Sterling-Winthrop Group Ltd held the trade mark "Negram" for the drug in the United Kingdom and its wholly-owned subsidiary Winthrop BY held it in Holland.

Benefitting from a considerable price difference for the drug in the two countries, Centrafarm imported the drug from the United Kingdom where it had been properly put on the market by licensed subsidiaries of Sterling Drug Inc. into Holland without the consent of Sterling Drug Inc. Some of the drug packaging bore the mark "Negram". Sterling Drug Inc. and Winthrop BY brought patent and trademark infringement proceedings in Holland against Centrafarm. Proceedings eventually went to the Dutch Supreme Court who referred to the ECJ the question of whether the use of the trademark and patent rights was contrary to Articles 28, 29, 30. The ECJ held that such an exercise of rights was incompatible with Articles 28, 29, 30. It said that:

In so far as it makes an exception to one of the fundamental principles of the Common Market, Article 36 allows derogations to the free movement of goods only to the extent that such derogations are **justified for the protection of the rights which constitute the specific object of such**

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<sup>235</sup> Case 15/74 Centrafarm BV and Adriaan De Peijper v. Sterling Drug Inc., E.C.R. [1974] 1147. (Centrafarm v. Sterling Drug), Case 16/74 Centrafarm BV and Adriaan De Peijper v. Winthrop BV, E.C.R [1974] 1183. (Centrafarm v. Winthrop)

**property.** As regards patents, the specific object of the industrial property is inter alia to ensure to the holder, to recompense the creative effort of the inventor, the exclusive right to utilise an invention with a view to the manufacture and first putting into circulation of industrial products, either directly or by the grant of licences to third parties, as well as the right to oppose any infringement.

In relation to the trademark action, the ECJ came to the same conclusion and said:

As regards trade marks, the specific object of commercial property is inter alia to ensure to the holder the exclusive right to utilise the mark for the first putting into circulation of a product, and to protect him thus against competitors who would take advantage of the position and reputation of the mark by selling goods improperly bearing the mark.

Also in relation to the patents, the ECJ held that:

The existence in national laws on industrial and commercial property of provisions that the right of a patentee is not exhausted by the marketing in another Member State of the patented product, so that the patentee may oppose the import into his own State of the product marketed in another State, may continue an obstacle to the free movement of goods. While such an obstacle to free movement may be justifiable for reasons of protection of industrial property when the protection is invoked against a product coming from a Member State in which it is not patentable and has been manufactured by third parties without the consent of the patentee or where the original parties are legal and economically independent of each other, the derogation to the principle of free movement of goods is not justified when the **product has been lawfully put by the patentee himself or with his consent** on the market of the Member State from which it is being imported e.g. in the case of a holder of parallel patents.,,

The ECJ also said that it was immaterial whether the patentee and licensee belonged to same group or not. The essential factor was whether the product had been marketed by the patentee himself or with his consent. Furthermore, the ECJ said that this was regardless as to whether there were price differences between the countries resulting from measures taken by the public authorities in the exporting country to control prices.<sup>236</sup>

**The landmark case** concerning the relationship between the Articles 28, 29, 30 and the industrial design is **Keurkoop BV v Nancy Kean Gifts BV**<sup>237</sup> in 1982. The Nancy Kean Gifts filed a design for a ladies' handbag. Nancy Kean Gifts which obtained supplies from the Renoc AG of ZUG, states that the handbag which it markets is made in Taiwan whence it is directly dispatched to the Netherlands .

The Nancy Kean Gifts found that another undertaking, the company Keurkoop BV was offering a ladies' handbag the appearance of which Nancy Kean Gifts considered to be identical with the design which it was itself selling and, in reliance on its exclusive right to the design, the Nancy Kean Gifts commenced proceedings before the distinct court, for an interlocutory injunction against Keurkoop BV.

Keurkoop BV, obtained the handbag in question from a wholesale exporter, named the Formosa Keystone Products Corporation and which in turn obtains its supplies from two manufacturers, which are also established in Taiwan, namely the Taiwan Plastic Company and Ocean Lights Industries Corporation.

According to Nancy Kean Gifts, the bag in question is marketed in the Federal Republic of Germany by Otto GmbH, which imports it directly from Taiwan. In the United Kingdom the bag is sold by Nancy Kean Gifts and in Denmark by Atelier Nancy Aps. These last two legal persons belong to the same group as Nancy Kean Gifts. Keurkoop BV adds that the bag is also sold in the Netherlands by OTTO and Euro Direct Service. Finally, according to Keurkoop BV and the Commission, the

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<sup>236</sup> Tritton, Guy. op.cit., p.291

<sup>237</sup> Case 144/81 Keurkoop BV v. Nancy Kean Gifts BV, E.C.R. [1982] 2853. (Keurkoop v. Nancy Kean Gifts)

same design of handbag was filed on 18 April 1979 with the French designs registry by Peter Herman of New York.

On that issue the ECJ can only state that in the present state of European Union Law and in the absence of standardization or of a harmonization of laws the determination of the conditions and procedures under which protection of designs is granted is a matter for national rules. Besides this, the rules on the free movement of goods do not constitute an obstacle to the adoption of provisions of the kind contained in the national laws on designs.

However the ECJ has consistently held that the proprietor of an industrial or commercial property right protected by the legislation of a Member State may not rely on that legislation in order to oppose the importation of a product **which has lawfully been marketed in another Member State by, or with the consent of, the owner of the right himself or a person legally or economically dependent on him.**

The owner of a right to a design acquired under the legislation of a Member State may oppose the importation of products from another Member State which are identical in appearance to the design which has been filed, provided that the products in question have not been put into circulation in the other Member State **by, or with the consent of the owner** of the right or a person legally or economically dependent on him, that as between the natural or legal persons in question there is no kind of agreement or concerted practice in restraint of competition and finally that the respective rights of the proprietors of the right to the design in the various Member States were created independently of one another.

The above cases introduced or clarified three doctrines in regard to industrial property and Article 3 which for convenience's sake are described as the "**existence v. exercise**" doctrine; the "**specific object**" doctrine and the "**consent**" doctrine.

### 3.2.1. Doctrine of Existence versus Exercise

The "existence of industrial rights v exercise of industrial rights" doctrine mentioned in *Deutsche Grammophon* had been mentioned previously in relation to Article 81 in **Consten & Grundig v. E.C. Commission Case**<sup>238</sup> .

However *Deutsche Grammophon Case* is the first time that, this doctrine had been applied by the ECJ in relation to an Article 30 ruling.<sup>239</sup>

This doctrine which is derived from the judgements of the ECJ <sup>240</sup>, distinguishes between two aspects, the existence and the exercise, of an industrial property right. The existence of the industrial property rights is unaffected by the Rome Treaty whereas the exercise of industrial property right may come within the prohibitions of the Treaty.

Articles 28, 29, 30 are concerned with state measures. If a state measure constitutes a quantitative restriction and is not justifiable under Article 30, it is void. If a law is found to be prohibited under Articles 28, 29, 30, it no longer has any valid existence at EU level. However to introduce a distinction between the existence and exercise of rights for the purposes of Articles 28, 29, 30 has no meaning because the existence of intellectual property rights are valueless unless the owner is prepared to exercise them.<sup>241</sup> At best, the "existence" of rights may have a deterrent value on potential infringers. Recently, the doctrine has been far less invoked in the analysis of industrial property cases under Article 30.<sup>242</sup>

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<sup>238</sup> Joined Cases 56 and 58/64 *Etablissements Consten SARL and Grunding-Verkaufs-GmbH v. Commission*, E.C.R. [1966] 299. (*Consten&Grunding vs. Commission*)

<sup>239</sup> Tritton, Guy. *op.cit.*, p.291

<sup>240</sup> Özcan, Mehmet. *Avrupa Birliğinde Fikri ve Sınai Haklar*. Ankara: Nobel Dağıtım Ltd. Şti.,1999, p.110

<sup>241</sup> Tritton, Guy. *op.cit.*, p.291,292

<sup>242</sup> *Ibid* p.292

What is clearly true is that, the ECJ has stated several times in relation to Articles 28, 29, 30 and industrial property that, in the absence of standardisation or harmonisation of laws in the EU level, the determination of the conditions and procedure under which protection is granted is a matter for national rules.<sup>243</sup>

### 3.2.2. Doctrine of Specific Object

In **Deutsche Grammophon v. Metro-Grossmarkte**<sup>244</sup>, the ECJ held that Article 30 permits prohibitions or restrictions of industrial and commercial property to the extent that they are justified for the protection of the rights that form the specific object of the property.

Specific object of patents and trade marks was provided in the joined cases of **Centrafarm BV v. Sterling Drug Inc. and Centrafarm v. Winthrop**.<sup>245</sup> The ECJ held that the **specific object of a patent** is inter alia to ensure to the holder to recompense the creative effort of the inventor, the exclusive right to utilise an invention with a view to the manufacture and first putting into circulation of industrial products either directly or through licensees. Similarly, **for trademarks, the specific object** is the exclusive right to utilise the mark for the first putting into circulation of a product and to protect the trademark owner against competitors who would take advantage of the position and reputation of the mark by selling goods improperly bearing the mark.<sup>246</sup>

Certainly, neither the Rome Treaty nor its secondary legislation provides a sufficient legal basis for such a definition. This failure to develop a proper theory of the specific object of a right has meant that as a legal analytical tool, it must be used with caution.<sup>247</sup> It has been suggested that the specific object is essentially the right to be

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<sup>243</sup> Ibid p.293

<sup>244</sup> Case 78/70 *Deutsche Grammophon Gesellschaft mbH v. Metro-SB Grossmarkte*, E.C.R. [1971] 487. (*Deutsche Grammophon v. Metro*)

<sup>245</sup> Case 15/74 *Centrafarm BV and Adriaan De Peijper v. Sterling Drug Inc.*, E.C.R. [1974] 1147. (*Centrafarm v. Sterling Drug*) Case 16/74 *Centrafarm BV and Adriaan De Peijper v. Winthrop BV*, E.C.R [1974] 1183. (*Centrafarm v. Winthrop*)

<sup>246</sup> Tritton, Guy. op.cit., p.293,294

<sup>247</sup> Ibid, p. 294

rewarded. For instance, the words, “. . . the specific object of the industrial property is inter alia to ensure to the holder, so as to recompense the creative effort of the inventor, the exclusive right to . . . first putting into circulation of industrial products. . .” in *Centrafarm v. Sterling* suggest such an interpretation.

The doctrine of specific object is in effect the same as the doctrine of exhaustion. Once the rights owner or someone with his consent has "first put" the protected project on the market, he has "consented" to its marketing throughout the EU. However, when the two doctrines are compared it will be seen that, the two doctrines are not identical and exhaustion of industrial property rights doctrine is more preferable.<sup>248</sup>

Accordingly, the doctrine of "specific object of industrial rights" must be considered a fluid concept which is defined and refined on a case by case basis. As has been commented, the main advantage of this formula is that it allows subtle distinctions to be made depending on the type of intellectual property in issue. The disadvantage of this flexibility is that its application to a set of facts different to that of a decided case may be uncertain.<sup>249</sup>

### 3.2.3. Doctrine of Common Origin

Exhaustion of industrial property rights on goods which have common origin has been discussed and concluded in two joint cases **HAG 1**<sup>250</sup> & **HAG 2**<sup>251</sup>

In HAG 1 Case, HAG AG invented decaffeinated coffee. It marketed the coffee under the trademark HAG which it had registered in various countries including Luxembourg and Belgium. In Luxembourg and Belgium marks were owned by Cafe HAG SA, a subsidiary of HAG AG. In 1935, the international registration of HAG was struck out in relation to Belgium and Luxembourg and new registrations of HAG in those states were effected in the name of Cafe HAG SA. From then on until

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<sup>248</sup> Ibid, p.295

<sup>249</sup> Ibid, p.295

<sup>250</sup> Case 192/73 *Van Zuylen Frères v. Hag AG*, E.C.R. [1974] 731. (Hag I)

<sup>251</sup> Case C-10/89 *SA CNL-Sucal NV v. Hag GF AG*, E.C.R. [1990] I-3711. (Hag II)

1944, Cafe HAG SA produced decaffeinated coffee for the Belgo-Luxembourg market under the "HAG" trademark. In 1944, all the shares in Cafe HAG SA were sequestrated and sold to the Van Oevelen family. In 1971, the HAG marks were assigned to the firm Van Zuylen Freres. HAG AG subsequently acquired registrations in Belgium and Luxembourg in the Cafe HAG marks of its own accord. In 1972, HAG AG decided to export decaffeinated coffee under the mark HAG to Luxembourg. Van Zuylen Freres brought trademark infringement proceedings and a parallel action to cancel HAG AG's registrations in Belgium and Luxembourg.

The matter was referred to the ECJ on the question as to whether Articles 81 and 28, 29, 30 prohibited Van Zuylen Freres from bringing an infringement action given the fact that though the parties in the action had no legal, economic, financial or technological ties between each other, the trademarks had a common origin. The ECJ held in a short judgment:

It could not therefore be accepted that the exclusiveness of the trademark right, which can be the consequence of the territorial limits of the national laws, should be relied on by the holder of a mark with a view to prohibiting trading, in one Member State, in goods lawfully produced in another Member State under an identical mark which has the same origin. In fact such a prohibition, establishing the isolation of the national markets would come into conflict with one of the fundamental aims of the Treaty, the fusion of the national markets into one single market. While in such a market, the indication of the origin of a trademarked product is useful, informing consumers thereon can be done by means other than those which would affect the free circulation of goods.

Therefore to prohibit trading in one Member State in a product which lawfully bears a trademark in another Member State, for the sole reason that an identical mark, sharing the same origin, exists in the first State is incompatible with the provisions laying down the free circulation of goods within the Common Market.

The decision in HAG No. 1 which gave rise to the doctrine of "common origin" was severely criticized. It took 16 years for the ECJ to recognize the suspect reasoning in *Van Zuylen Freres v. HAG AC* and this was done ironically in a case concerning the successor-in-title to Van Zuylen Freres (SUCAL) who started to export decaffeinated coffee under its mark HAG to Germany.<sup>252</sup>

In **HAG 2 Case**, the ECJ stated that the decision in *Van Zuylen* which is now known as HAG No. 1 had to be reconsidered in the light of the subsequent case law. Advocate-General Jacobs delivered a lengthy opinion for the case. He then went on to consider the HAG No. 1 case and confessed that he did not find the reasoning at all convincing. He concluded that the doctrine of common origin was not a legitimate creature of EU Law. He noted that the doctrine had been developed when the ECJ's case law on industrial property had been in its infancy and before the ECJ had established the doctrine of the specific subject matter and essential function of a trade mark.<sup>253</sup>

The ECJ in HAG No.2 emphasized that the essential function of the mark was to enable one product to be distinguished from another product of a different origin. A trademark as is to guarantee the identity of the origin of the trademarked product to the consumer or ultimate user. This enables the consumer to distinguish a particular trademarked product from another of a differing province. This is known as the **“essential function”** of the trade mark. The ECJ said in HAG No. 2 that:

... the essential function of the mark would be compromised if the owner of the right could not exercise his option under national law to prevent the importation of the similar product under a name likely to be confused with his own mark because, in this situation, consumers would no longer be able to identify with certainty the origin of the marked product and the bad quality of a product for which he is in no way responsible could be attributed to the owner of the right.

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<sup>252</sup> Tritton, Guy. *op.cit.*, p. 329

<sup>253</sup> *Ibid*, p.329

The ECJ's statement clearly proves the link between the essential function and the specific object of a trademark. Where trademarked goods have been placed on the market by the owner of the trademark, he will not be able to rely on the essential function of the trademark to prevent further trade of these particular goods.<sup>254</sup>

Also, in **Ideal Standard Case**<sup>255</sup> the ECJ refined the concept of "essential function". Accordingly, the essential function of a trademark is a guarantee of unitary control and not merely of actual origin.<sup>256</sup> The court emphasized that:

...for the trade mark to be able to fulfill its role, it must offer a guarantee that all goods bearing it have been produced under the control of a single undertaking which is accountable for their quality...decisive factor is the possibility of control over the quality of goods and not the actual exercise of that control...

However in certain circumstances, products of differing quality may be marketed under a single point of control. The ECJ in *Ideal Standard* said that where subsidiaries in each of the Member States manufactured products whose quality was geared to the particularities of each national market, then each subsidiary cannot exercise its rights against the importation of products from another Member State on grounds that quality differences exist because Articles 28, 29, 30 required the group to bear the consequences of its choice.<sup>257</sup> Also in *Ideal Standard*, the ECJ held that the free movement of the goods would undermine the essential function of the trade mark that its reasoning equally applied to the splitting of the market whether through the act of a public authority or as a result of a contractual assignment.

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<sup>254</sup> Ibid, p. 322

<sup>255</sup> Case C-9/93 *IHT Internationale Heiztechnik GmbH and Uwe Danziger v. Ideal-Standard GmbH and Wabco Standard GmbH*, E.R.C [1994] I-2789 (*Ideal Standard*)

<sup>256</sup> Tritton, Guy. *op.cit.*, p. 322

<sup>257</sup> Ibid, p.322

Furthermore, in HAG 2 Case, it has been mentioned that case of *Pharmon v. Hoechst*, a case analogous but pertaining to patent was irreconcilable with HAG No. 1.<sup>258</sup>

In HAG 2 Case, with the concept of the “essential function” the advocate general also clarified the rights of the trademark owner. Having dismissed the proposal that confusingly similar trademarked goods should be distinguished by the addition of additional matter as not feasible, he concluded that the owner of a trademark must be allowed to exclude from his territory goods on which an identical trademark had been placed by another, unrelated person who is the owner of the mark in another Member State and that such a view was both justified by the specific subject matter of the right and the essential function of the mark. Finally, he recognized that there were differences between HAG No. 1 & 2 and that the injustice in HAG No. 2 was more obvious but considered it healthier to recognize that HAG No. 1 was wrongly decided rather than make spurious distinction between the two cases.<sup>259</sup>

The ECJ said that it was necessary "to reconsider" the interpretation given in HAG No. 1 in the light of the subsequent developments in the case law in the field of industrial and commercial property in relation to the free movement of goods provisions. The ECJ emphasized the doctrine of consent, the specific subject matter of the trademark and the essential function of a trademark as a guarantee to the consumer of the identity of origin of the product. The Court concluded that:

Articles 30 and 36 of the EEC Treaty (current Articles 28,29,30) do not preclude national legislation from allowing an undertaking which is the holder of a trademark in a Member State from opposing the importation from another Member State of similar products lawfully bearing an identical trademark in the latter State or liable to confusion with the protected mark even though the mark under which the contested products are imported originally belonged to a subsidiary of the undertaking which opposes the

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<sup>258</sup> Ibid, p.330

<sup>259</sup> Ibid, p.330

importation and was acquired by a third undertaking as a result of the expropriation of that subsidiary.

Thus, it can now be said that the fact that a trademark has a common origin is now irrelevant in considering the application of Articles 28, 29, 30 to the exercise of trademark rights.<sup>260</sup>

#### 3.2.4. Doctrine of Exhaustion

Exhaustion of industrial property rights refers to one of the limits of industrial property rights and the definition of exhaustion is made by the ECJ: Once a product protected by an industrial property right, has been marketed, either by the right owner or by a third party with his consent, unless otherwise specified by law or act, the rights of commercial exploitation over this given product can no longer be exercised by the right owner as they are exhausted.

Depending on the geographical boundary of the “market” the exhaustion principle can be national, regional or international.

In “**national exhaustion**” the right owner, whose rights arise by virtue of the national jurisdiction, loses the right to control the commercial exploitation of industrial property protected goods which were sold with his consent, in that particular country. However he will be able to prevent importation of goods sold abroad under a different jurisdiction, even if they had been sold by him or with his consent<sup>261</sup>. On the contrary “**international exhaustion**” means that the industrial rights are exhausted once the product has been sold by the owner of the right or with his consent in any part of the world. In this condition, industrial property owner has no right to control the commercial exploitation of these particular goods.<sup>262</sup>

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<sup>260</sup> Ibid, p. 331

<sup>261</sup> Kobak, James B. “Exhaustion of Intellectual Property Rights and International Trade.” *Global Economy Journal*, 2005 Vol.5 Issue I, p.1-3

<sup>262</sup> Ibid, p.3

In case of “**regional exhaustion**”, rights become exhausted upon first sale within the territory of a certain group of countries. Although the right owner can not prevent the introduction of the protected good in his national territory, when it comes from one of the countries belonging to the ‘region’, he retains legal power to prevent the introduction of protected goods when they come from outside the region.<sup>263</sup>

To clarify the effects of “geographical boundary” in other words territorial scope given to the exhaustion principle, two more terms should be mentioned parallel imports and re-import. Difference between these two concepts should be well understood.

**Parallel imports**<sup>264</sup> involve the legal purchase of products in a foreign market, made by third parties in order to bring them to another market, where those products are protected by an industrial property right. Parallel products are original goods which are identical with the ones in the importing market, only that they were marketed outside of the official distribution channel. Parallel imports depends on two basic conditions from a legal point of view, that the exhaustion principle not be set by legislations at a national level, from an economic point of view, that price differentials exist between products marketed nationally by the right owner and products marketed in foreign markets. That is the price of the product in the country of origin of parallel imports plus shipping and transaction costs must be lower than the price at which the right holder sells the products in the country of destination of parallel imports. Because parallel products are cheaper than official ones, the official chain of distribution may loose customers and thus suffer. On the other side, customers profit from lower prices.

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<sup>263</sup> Perini, Federico G. “ Patent vs. Trade? The Issue of Patent Rights Exhaustion” *Legal Issue of Economic Integration*, Vol.30 Issue 2, 2003, p.134

<sup>264</sup> Kayhan, Fahrettin. “Türk Marka Hukuku Açısından Paralel İthalat ve Marka Hakkının Tükenmesi.” *Ankara Barosu Fikri Mülkiyet ve Rekabet Dergisi*, Sayı:2001/1 Cilt: I, s.51-72, p.53

Re-importation is different from parallel importation. **Re-importation**<sup>265</sup> depends on two basic actions which follow each other. First the good should be exported to a foreign market from the domestic market. Then the same goods should be imported back from the foreign market to the domestic market.

The right owner has a right to prevent the parallel importation from outside of the geographical boundary of the market, in other words territorial scope of the exhaustion.<sup>266</sup> On the contrary the right owner has no right to prevent the re-importation of the goods because when the goods are put on the domestic market by the right owner or with his consent the exclusive rights given by the industrial rights has already exhausted for these particular goods.<sup>267</sup>

In Both *Deutsche Grammophon, Keurkoop v. Nancy Kean Gifts* and *Centrafarm v. Sterling & Winthrop* it is emphasized that where a protected product has been placed on the market by the rights owner or with his consent in a Member State, then Article 30 cannot be applicable and the owner cannot use his rights to prevent further trading in the product. This is known as the “**doctrine of exhaustion**”. One thing should be considered that, in all of these judgements the marked is used for the internal market between the Member States.

Thus, when a product has been lawfully put on the market in one Member State according to the regional exhaustion it is a breach of Article 28 and 29 of the Rome Treaty to prevent the product to be resold in another Member State, even if in the latter state the product is protected by the exclusivity, granted by a industrial property right.

The doctrine of exhaustion has been applied numerous times by the ECJ and now must be considered a cast-iron rule of law.<sup>268</sup> It prevents the owner of the right in

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<sup>265</sup> Ibid, p.53

<sup>266</sup> Artikel, Sülün., op.cit., p.93-94

<sup>267</sup> Ibid, p.95-96

<sup>268</sup> SA CNL-Sucal NV vs. Hag GF AG (“Hag 2) 1990 3 C.M.L.R. 571; Case 19/84, *Pharmon vs. Hoechst* 1985 E.C.R. 2281, 1985 3 C.M.R.L. 775; Case 187/80, *Merck vs. Stephar* 1981 E.C.R. 2063, 1981, ECR 2063, 1981 3 C.M.L.R. 463

effect being remunerated more than once for the marketing of a protected good. It also prevents the owner from hindering the free movement of goods and partitioning the common market.<sup>269</sup>

It is clear that a right owner cannot limit his consent to the marketing of a protected product in a Member State. Thus, even if the right owner contractually bans a party from marketing a product other than in a Member State, the ECJ will not permit him to exercise his rights against a parallel importer importing products so marketed into another Member State. Once the product has been lawfully marketed, he can no longer exercise his rights and prevent the subsequent movement within the Common Market of such goods.

The doctrine of exhaustion has been consistently applied and refined by the ECJ since *Deutsche Grammophon* and the *Sterling* cases. Also historically, the ECJ has chosen consent as being the decisive factor. In *Ideal Standard*, the ECJ rehearsed the doctrine of the specific object of a trademark and then proceeded to ignore its application and merely analysed the facts of the case by reference to the doctrine of exhaustion of rights. Therefore, where there is a conflict, the ECJ has always favoured the doctrine of exhaustion over the doctrine of specific object.<sup>270</sup>

### 3.2.5. Application Scope of the Doctrine of Exhaustion

The application scope of the doctrine of exhaustion and the doctrine of specific object can be investigated under miscellaneous conditions:

- If a protected product is placed on the market by a party who is **economically or legally linked** to the owner of the right, then the owner's rights are exhausted.<sup>271</sup> Economic links will generally be links that exist as a result of belonging to the same group of companies. In such circumstances, there will be no need to investigate whether one party actually consented to the marketing of the product by the other party.

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<sup>269</sup> Tritton, Guy. op.cit., p.296

<sup>270</sup> Ibid, p.310

<sup>271</sup> Ibid, p.297

- When the protection of industrial property rights are not harmonized in the EU there may be some **differences between the rate of the protection in the Member States**. Thus the industrial property owner should consider all the circumstances, under what conditions he will market his product, including the possibility of marketing it in a Member State where the law does not provide protection or the same rate of remuneration for the product. The landmark case concerning the differing protection in member states is **Merck v Stephar**<sup>272</sup>. In this case, a drug was not patentable in Italy but was in other Member States. The holder of the patents had marketed the drug in Italy knowing that it was not patentable. A parallel importer sought to import the drug into Holland. The ECJ was asked, whether Articles 28,29,30 prevented the exercise of the patent in Holland to prevent importation or not. The ECJ held that a patentee cannot exercise his rights to prevent importation of a product from a Member State where it has been marketed by himself or with his consent and at the end the court said that:

It is for the proprietor of the patent to decide, in the light of all the circumstances, under what conditions he will market his product, including the possibility of marketing it in a Member State where the law does not provide patent protection for the product in question. If he decides to do so he must then accept the consequences of his choice as regards the free movement of the product within the Common Market, which is a fundamental principle forming part of the legal and economic circumstances which must be taken into account by the proprietor of the patent in determining the manner in which his exclusive right will be exercised.

Thus, the right owner cannot exercise his rights to prevent the import into Member State A of a protected product first put on the market by himself or with his consent in Member State B merely because the commercial return for the protected products in B is less than in A.<sup>273</sup> The ECJ said that exclusive right of the patentee derived from the patent is not always guaranteed in all circumstances, it is likely that the

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<sup>272</sup> Case 187/80 Merck & Co v. Stephar BV and Petrus Stephanus Exler. E.C.R. [1981] 2063. (Merck v. Stephar)

<sup>273</sup> Tritton, Guy. op.cit., p.298

patentee will receive a fair profit for the marketing of the goods even where the invention is unpatentable.

In contrast, a parallel importer cannot argue that where a product has come on the market in one Member State because its laws do not provide for protection of such a product or because certain conditions have not been fulfilled, that it is entitled to import such a product into a Member State where protection does exist for such a product if the owner of such protection has not consented to the marketing of the product in the first Member State.<sup>274</sup>

- **Parallel trade** of goods protected by industrial property rights is an important but little understood issue in international trade. Parallel trade, involves the shipment of genuine goods, across international borders. In parallel trade usually the distribution channels by which these goods find their way to the importing country is not under the control of the right holder. In the importing country, such goods may create havoc particularly for entrepreneurs who sell the same goods, obtained via different distribution channels and perhaps more expensively.<sup>275</sup>

The key point is that such trade is motivated by international price differences. In a free-trade environment, parallel trade prevents monopoly suppliers from engaging in international price discrimination. However, where the good is protected by an industrial property right, this right may permit the owner to prohibit international arbitrage.<sup>276</sup>

Examples of parallel trade involving an industrial property right would be:

The sale of a French patented drug by a French company to distributors in the German market, who then decide that it would be more profitable to re-sell the product into the French market;

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<sup>274</sup> Ibid, p. 299

<sup>275</sup> Heath, Christopher. "Parallel Imports and International Trade" (1999) Available from [http://www.wipo.int/sme/en/activities/meetings/pdf/atrip\\_gva\\_99\\_6.pdf](http://www.wipo.int/sme/en/activities/meetings/pdf/atrip_gva_99_6.pdf), p.1

<sup>276</sup> Ibid, p.1

The sale of perfume by a French producer, who owns a trademark in France, to a Russian distributor for sale in Russia who then decides it would be more profitable to re-sell the perfume into the French market.

In both cases it is supposed that the product originated from a country where a patent or trademark was legally registered and the goods had been exported or sold in a foreign territory. In both cases, the price would likely be lower than in the home territory, and therefore wholesalers of the product would have an incentive to engage in international arbitrage.<sup>277</sup>

Parallel imports depend on two basic conditions the **scope** and the **prices**: from a legal point of view, that the exhaustion principle not be set by legislations at a national level, from an economic point of view, that price differentials exist between products marketed nationally by the right holder and products marketed in foreign markets. That is, the price of the product in the country of origin of parallel imports, plus shipping and transaction costs (tariffs, duties and other charges) must be lower than the price at which the right holder sells the product in the country of destination of parallel imports. Because parallel products are cheaper than official ones, the official chain of distribution may lose customers and thus suffer. On the other side, consumers profit from lower prices.<sup>278</sup>

Historically, national industrial property law in countries has given exporters who possess an industrial property right to prohibit such trade. The legal status of parallel imports in these countries depends on the territorial scope given to the exhaustion principle. More recently, the EU has overridden this national law by adopting a policy known as “Community Exhaustion”. Community Exhaustion is a kind of regional exhaustion. The implementation and the territorial scope of the Community Exhaustion include all the Member States. On the free movement of goods front, the doctrine of exhaustion of industrial property rights has redesigned the balance between Article 28 (especially parallel trade) and Articles 30. In this respect,

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<sup>277</sup> Ibid, p.1

<sup>278</sup> Perini, Federico G. op.cit., p. 134

tensions are created because of the argument that this doctrine of exhaustion of industrial property rights impinges on the substance of the right, when coupled with price regulation at a national level, by reducing the return on research and development costs which industrial property rights aim at guaranteeing.<sup>279</sup>

In our example above mentioned, under Community Exhaustion, the French right owner could not prevent the German distributor reselling or importing the goods in the French. However, since Russia is currently outside the EU the owner of the French perfume trademark could prevent resell or importation into France.

A number of cases have established in front of the ECJ, concerning the exhaustion of industrial property rights in parallel trade.

As it is mentioned previously, the main idea in the **Merck v. Stepher** decision is the emphasis on the free will of the patentee. According to this decision, while deciding to put the product onto the market, the patentee accepts the legal framework of Community law, including the provisions on free movement of goods. This approach is confirmed by the decision in **Pharmon v. Hoechst**<sup>280</sup> where the ECJ accepted that the doctrine of exhaustion does not apply if the holder of parallel patents has not put the product onto the market freely but under a compulsory licence granted to a third party.<sup>281</sup>

In **Merck v. Primecrown**<sup>282</sup> the holders of a patent of pharmaceuticals products tried to prevent parallel imports from Spain and Portugal into the United Kingdom. Patent holder claimed that in those Iberian countries the products in question were not patentable and the price was considerably lower than in England. The ECJ firmly rejected those arguments by restating its established caselaw that:

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<sup>279</sup> Nazzini, Renato. "Parallel Trade in the Pharmaceutical Market Current Trends and Future Solutions" *World Competition*, Vol. 26 Issue 1, 2003, p.56

<sup>280</sup> Case 19/84 Pharmon BV v. Hoechst AG, E.C.R. [1985] 2281. (Pharmon v. Hoechst)

<sup>281</sup> Nazzini, Renato. op.cit., p.62

<sup>282</sup> Joined Cases C-267-268/95 Merck 8c Co Inc., Merck Sharp & Dohme Ltd and Merck Sharp International Services BV v Primecrown Ltd, Ketan Himatlal Mehta, Bharat Himatlal and Necessity Supplies Ltd and Beecham Group plc v Europharm of Worthing Ltd, E C R [1996] I-6285 (Merck v Primecrown)

...although the imposition of price controls is indeed a factor which may, in certain conditions, distort competition between Member States, that circumstance cannot justify a derogation from the principle of free movement of goods...

It is well settled that, distortions caused by different price legislation in a Member State must be remedied by measures taken by the community authorities not by the adoption by another Member State of measures incompatible with the rules on free movement of goods and the doctrine of exhaustion of patent rights within the EU. The ECJ has consistently rejected the idea that price regulations, ethical obligations to sell medicines and research and development costs can limit in any way the application of the said doctrine in the pharmaceutical market. Besides limiting the exercise of patent rights, the ECJ has facilitated parallel trade by imposing a relaxation of domestic regulatory regimes.<sup>283</sup>

In the parallel imports of goods under the protection of a trademark, a key issue is the re-packaging of imported products. Generally a medicine must be accompanied by a leaflet in the language of the country where the product is put onto the market. Furthermore, consumers in the pharmaceutical market are very sensitive to characteristic features of the product which make it recognisable. The ECJ has developed a consistent case law on trademarks and re-packaging which has a clear impact on the viability of practices of parallel trade. The principle of exhaustion of trademarks under EU law was first laid down in **Centrafarm v. Winthrop**<sup>284</sup> and further developed in **Hoffman-La Roche v. Centrafarm**.<sup>285</sup>

In these two cases, the use of the trademark right to prevent the parallel import is prohibited where it contributes to the artificial partitioning of markets between Member States and repackaging does not adversely affect the original condition of the product. Therefore repackaging and re affixation of the trademark cannot be

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<sup>283</sup> Nazzini, Renato. op.cit., p.63

<sup>284</sup> Case 16/74 Centrafarm BV and Adriaan De Peijper v. Winthrop BV, E.C.R [1974] 1183. (Centrafarm v. Winthrop)

<sup>285</sup> Case 102/77 Hoffmann-La Roche &Co AG v. Centrafarm Vertriebsgesellschaft Pharmazeutischer Erzeugnisse mbH, E.C.R [1978] 01139. (Hoffmann-LaRoche v. Centrafarm)

prevented if “the repackaging undertaken by the importer is necessary in order to market the product in the Member State of importation”.<sup>286</sup> However if the parallel importer wants to re-package, he must comply with some minimum requirements. He must indicate on the external packaging who repackaged the product and who manufactured the product. If the parallel importer was obliged to add an extra article to the package in order to sell the product, he must ensure that its origin is indicated in such a way as to dispel any impression that the trademark owner is responsible for it. He must give the trademark owner advance notice of the product being put on sale and the trademark owner may also require the parallel importer to supply him with a specimen of the repackaged product before it goes on sale.<sup>287</sup>

Protection of the owner of the trademark has been reinforced by the ECJ, at least as regards some minimum safeguards, in **Boehringer Ingeheim v. Swingward** Case.<sup>288</sup> The ECJ, confronted with three main issues of European trademark law, stated that the owner of a trademark may oppose the repackaging of the trademarked pharmaceutical product without it being necessary to show that the repackaging actually causes harmful effects to the holder of the trademark. The need for repackaging cannot be justified simply because of suspicions that consumers might have regarding relabeled products. The only exception to this would be where a significant number of consumers were so adverse to relabeled products that it amounted to a hindrance to effective market access. Finally, the Court stated that failure to notify the holder of the trademark of the intended marketing of repackaged products protected by the trademark constitutes a legitimate reason to oppose commercialization of such products.<sup>289</sup> Trademarks cannot, therefore, be used to prevent parallel imports completely. In other words, the trademark owner can not control the commercial exploitation of the goods which were sold by himself or with his consent. However if the condition of the goods is changed or impaired after they

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<sup>286</sup> Nazzini, Renato. *op.cit.*, p.67

<sup>287</sup> *Ibid*, p.68

<sup>288</sup> Case 143/00 *Boehringer Ingelheim KG, Boehringer Ingelheim Pharma KG, Glaxo Group Ltd, The Wellcome Foundation Ltd, SmithKline Beecham plc, Beecham Group plc, SmithKline & French Laboratories Ltd and Eli Lilly and Co v. Swingward Ltd and Dowelhurst Ltd*, E.C.R. [2002] I-03759 (*Boehringer Ingeheim v. Swingward*)

<sup>289</sup> Nazzini, Renato. *op.cit.*, p.68

have been put on the market there may exist legitimate reasons for the owner of the trademark to oppose further commercialization of the goods.<sup>290</sup>

As it is mentioned above, to ensure the free movements of goods between Member States ECJ prefers not to prevent the parallel importation between the Member States with some exceptions. This approach is so efficient to reach the aims mentioned in the Rome Treaty. However one thing must be considered also, if arbitrage undermines profitability in the high price market the producer may choose to offer to sell at a single price across all markets, possibly leaving some markets unserved. It is clear from this argument that in the short run parallel trade must benefit consumers in high price market but must harm consumers in markets that would have low prices if arbitrage were not possible.<sup>291</sup>

The decisions previously mentioned under this title are all about the parallel trade between the EU Member States. On the other hand, the ECJ has recently given the guidance on both parallel imports from outside the EU and trade with non-EU countries in the scope of joined cases **Zino Davidoff v. A&G Imports and Levi Strauss & Co. and Anor v. Tesco**<sup>292</sup>,

Prior to entering the EU, Sweden operated a system of international exhaustion, permitting importers to source parallel traded goods from anywhere in the world. For example, if Levi jeans could be purchased more cheaply in South America than in Europe, a Swedish importer was free to purchase in South America and resell in Sweden, even if the goods had originally been intended by Levi Strauss & Co. for sale in South America. However, on entering the EU Sweden was obliged to respect the rights of any holder of a Community trademark to prevent parallel trade from outside the EU. Tesco, a UK retailer, attempted to circumvent the EU distribution channels of Levi Strauss by buying direct from US wholesalers - the court upheld the right of Levi Strauss under their trademark to prohibit these imports. ECJ held that,

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<sup>290</sup> Ibid, p.68

<sup>291</sup> Ibid, p.69

<sup>292</sup> Joined cases 414-416/99 Zino Davidoff SA v. A&G Imports Ltd and Levi Strauss & Co. and Others v. Tesco Stores Ltd and Others, E.C.R. [2001] I-8691. (Davidoff v. A&G Imports)

for goods originally marketed outside the EU, it must be clear that the trademark owner has given his consent to the resale of his goods in the EU. As consent amounts to the trademark owner renouncing his exclusive right to control initial marketing in the EU, the evidence of his consent must be “unequivocally demonstrated”. ECJ said that, if there is no such evidence of consent, the trademark owner has the right to stop goods which were placed on the market outside of the EU from being imported and sold in the EU. Consent will usually be established from an express statement by the trademark owner. *Levi Strauss & Co. v. Tesco* is consistent with the EU’s policy on trademarks and its economic policy.<sup>293</sup> Afterwards, the subject of trade with non-EU countries will be discussed more detailed.

- As it is mentioned in the definition, the decisive issue of the exhaustion of industrial property rights is the consent of the owner of the right. Thus determining the existence of the consent is important to claim that the industrial property right has been exhausted. In general, the ECJ has rejected the concept of **constructive consent**. For instance, when a patent is subject to compulsory licensing provisions of a Member State and a product is placed on the market by virtue of such legislation, it is arguable that the patentee by obtaining a patent in that Member State, accepts all possible legislative consequences including the possibility of compulsory licensing.

When the patentee failed to work the patent, compulsory licenced will be given to the third parties by the competent authorities, for the exploitation of a patent without the patent owner’s consent. It is the State and not the right holder who ‘licenses’ the patent. Patent rights are ‘licensed’ against ‘licensors’ will because if they had accepted to reach a voluntary license agreement, State intervention would not have been necessary.<sup>294</sup> They are, like the exhaustion principle, a way of restricting the monopolistic power awarded to patentees. But while exhaustion works as a general principle applicable regardless of the specific circumstances of any given case, compulsory licenses, in turn, work as exceptional measures taken under specific and extraordinary circumstances. They are meant, in general, to re-establish the

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<sup>293</sup> Kirby, Ian., and Frazer, Tim. “Parallel Trade: How to Protect Your Brand” (2002) available from <http://www.arnoldporter.com/pubs/files/Pt.pdf>, p.39

<sup>294</sup> Perini, Federico G. op.cit., p.141,142

equilibrium between private rights and public interest, or to rebalance exclusive rights, to pursue higher political objectives.<sup>295</sup>

Buyers of compulsory licensed products undoubtedly have the right to use the products as if they had been put on the market by the patent holder himself. However, a clear distinction must be drawn, between the first sale of the compulsory licensed product, and its subsequent distribution, to determine if the reasons that led the government authorities to restrict patent owner's rights are still valid when the first buyer pretends to make disposal of the acquired products. In the case of compulsory licensing to remedy anti-competitive practices, if the patent owner was given the right to prevent the subsequent distribution of the products, the objective of the compulsory license would be frustrated.<sup>296</sup>

In the case of compulsory licensing for public non-commercial use, if the subsequent distribution of the products shares the non-commercial nature of the first marketing, there should be no reason to allow the patent owner to prevent the distribution. Otherwise, the effectiveness of the measure would be affected. In the case of compulsory licenses granted to address emergencies, if the circumstances that grounded the measure are still valid for the subsequent distribution of the licensed products, there should be no reason to prevent the subsequent distribution. Otherwise, the objective of the license would not be achieved, and the measure would turn out to be ineffective.<sup>297</sup> If, on the contrary, there is no link between the emergency and the subsequent distribution of the compulsory licensed products, patent owners should be entitled to prevent it. Patent owners should be able to prevent the subsequent distribution in this case, as there is no reason why consumers not being part of the emergency should benefit from products licensed to address it.<sup>298</sup>

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<sup>295</sup> Ibid, p.141

<sup>296</sup> Ibid, p.143

<sup>297</sup> Ibid, p.144

<sup>298</sup> Ibid, p.144

**In *Pharmon v. Hoechst Case***<sup>299</sup> the ECJ held that the party is not deemed to have consented to the lawful marketing of a product in a Member State by another person where the latter has marketed the product pursuant to a compulsory licence.

In *Pharmon v. Hoechst* the ECJ rejected the principle that a patentee with parallel patents must be deemed to have consented to the free movement of products throughout the EU which were marketed in a Member State pursuant to a compulsory licence. In *Pharmon v. Hoechst*, a German company, Hoechst AG, owned parallel patents in England and Holland. Pharmon, a Dutch company, obtained a compulsory licence in England which stipulated that any goods manufactured under the licence were not to be exported from the United Kingdom. However Pharmon BV disregarded the rule and directly exported goods into Holland. Hoechst sued for patent infringement. The ECJ in a preliminary ruling said that Hoechst cannot be deemed to have consented to the marketing of the goods manufactured under the compulsory licence. Further, it said that the substance of a patent right lies essentially in according the inventor an exclusive right of first placing the product on the market so as to allow him to obtain the reward for his creative effort. Thus Articles 28,29,30 did not prevent Hoechst from enforcing its rights against Pharmon even though it had received a royalty for the marketing of the patented products in issue. The decisive issue is whether the patentee has consented to the marketing of the goods in or not. Whether or not the patentee has already been remunerated for the marketing of these goods is irrelevant. Furthermore, in accordance with the decision of the ECJ for other types of intellectual property, the issue is one of actual consent and not deemed consent that is of paramount importance.<sup>300</sup>

In relation to trade marks, concerning the constructive consent, the ECJ specifically rejected that by assigning a trademark to a third party, the assignor has implicitly consented to the marketing of goods bearing the trademark by the assignee, reiterating that in such circumstances where the assignee is not economically or

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<sup>299</sup> Case 19/84 *Pharmon BV v. Hoechst AG*, E.C.R. [1985] 2281. (*Pharmon v. Hoechst*)

<sup>300</sup> Tritton, Guy. *op.cit.*, p.342

legally linked to the assignor, the assignor cannot exercise control over the assignee's goods.

Also, when Member States provide for differing types of protection and differing periods the ECJ has rejected the concept of constructive consent<sup>301</sup>

- Also there is a tight relationship between the concepts of **licence** and the consent of the right owner. The ECJ in **Centrafarm v. Sterling** emphasised that once a sales licence has been granted in a Member State by the patentee, the latter can no longer oppose the marketing of any protected product sold under the sales licence throughout the EU. The patentee is deemed to have consented to its marketing throughout the Member States. It was irrelevant as to whether the patentee and the licensees belonged to the same group or not for the purposes of Articles 28,29,30. However, the situation becomes less clear when it is not the owner of the right but the licensee seeking to enforce the right. This indefiniteness has been ceased by the interpretation of the ECJ's judgment in **Centrafarm v. Sterling & Winthrop**. The ECJ held that when the products have been placed on the market by the patentee or in the case of licensee, with the consent of the patentee; their subsequent circulation within the EU cannot be impeded by exercise of any rights. Thus another licensee in another Member State would not be permitted to exercise his rights against such imported goods. Alternatively, this situation can be analysed in terms of the specific object. The right to first place the protected product on the market has been exhausted by the patentee or the licensee.

A patentee may decide to license his patent and impose particular conditions on the licence which prevent the licensee from marketing its goods outside an assigned territory. For instance, the licence may ban the marketing of the invention outside a particular territory. However usually these kinds of bans are contrary to Article 81 and if they are not exempted by the patent block exemptions they would be void and unenforceable. If the ban does not infringe Article 81(1) or is exempted under Article 81(3), the licensee may choose to disregard such a clause and markets the invention

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<sup>301</sup> Ibid, p.301

outside his assigned territory into another territory. However the conclusion of this action would distort the concept of consent. Because it is clear that, the patentee has indicated to licensee that he only consents to the marketing of the invention upon strict adherence to the terms of the licence. If the licensee does not obey these bans it cannot be said that the licensee has marketed the invention with the consent of the patentee.<sup>302</sup>

- The concept of exhaustion of rights is not applicable to **direct exports** because the goods have not been previously marketed in a Member State.<sup>303</sup> The more relevant approach is whether the owner of the rights has consented to the marketing of the licensed products by a licensee in a Member State. For example if, E is an exclusive licensee of O in Member State A and Member State B is a reserved territory of O. Can it be possible for O to exercise his rights against E, where E directly exports to Member State B?

Where there is a ban on direct exports in Member State B, it is perverse to say that O has consented to their marketing in B. In case O has only consented to the marketing of goods in A. In such circumstances, if it is said that O cannot exercise his rights against E, this would seem to undermine the specific object of the right. Thus, it is submitted that, contrary to the Commission's view that the grant of a licence to sell in a Member State is a general licence to sell throughout the Common Market, a right owner is entitled to limit his consent to the marketing of products through a ban on direct exports. It may be that such a ban is contrary to Article 81 or falls outside the block exemption. If the bans on direct export ban is void under Article 81, it is unlikely that O could exercise his rights against E in Member State B.<sup>304</sup>

If there is no ban on direct exports into B, the issue again is whether or not O has consented to the marketing of the protected products in his territory. Often, a ban on direct exports clause can be implied into a licence which merely grants the licensee the right to manufacture and sell in a particular territory. This kind of licence

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<sup>302</sup> Ibid, p. 303

<sup>303</sup> Ibid, p.304

<sup>304</sup> Ibid, p.304-305

prohibits the licensee from selling in other Member States where there is a parallel protection. Such an approach emphasises the territorial nature of industrial property. It may be argued that such an approach is contrary to the free movement of goods provisions. However, such an argument ignores the fact that O decided to exercise his rights to stop the goods being placed on the market in the first place and not to affect the free movement of goods already in circulation in the EU. To find in favour of such an argument means that the grant of a simple licence to manufacture and sell a patented product in one state is a licence to sell in all states in the EU. It is submitted that a national court should determine by reference to its domestic laws of contract, industrial property and rules of construction whether O has consented to the exporter to directly export his goods in O's territory.<sup>305</sup>

- Industrial property rights may be sold in the various Member States in order to finance other commercial deals of the owner of the right. In this condition can it be possible to say that by an **assignment** the assignor has “consented” to the placing on the market and subsequent export of protected goods by the assignee? This question has been answered by the ECJ in the Ideal Standard Case.

**In Ideal Standard Case**<sup>306</sup>, the American Standard group held through its French and German subsidiaries Ideal-Standard GmbH ("IS Germany") and Ideal-Standard SA ("IS France"), the trademark "Ideal Standard" in Germany and France for sanitary fittings and heating equipment. In July 1984, IS France which had been in financial difficulties sold the "Ideal Standard" French trademark for heating equipment (retaining it for sanitary fittings) to Societe Generale de Fonderie ("SGF") who later assigned the mark to Compagnie Internationale de Chauffage ("CICH"). CICH had no legal or economic links with American Standard. CICH continued to manufacture heating equipment and marketed it under the Ideal Standard trademark. IHT, a German company, began marketing heating equipment made by CICH in France, its parent company, and bearing the "Ideal Standard" mark

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<sup>305</sup> Ibid, p.304-305

<sup>306</sup> Case C-9/93, ITH Internatiolle v. Ideal Standard GmbH, ECR [1994] I-1954 (Ideal Standard)

in Germany. IS Germany brought proceedings for trademark infringement against IHT.<sup>307</sup> The ECJ mentioned that :

...the consent implicit in any assignment is not the consent required for application of the doctrine of exhaustion of rights. For that the owner of the right in the importing State must, directly or indirectly, be able to determine the products to which the trademark may be affixed in the exporting State and to control their quality. That power is lost if, by assignment, control over the trademark is surrendered to a third party having no economic link with the assignor.

The ECJ held that in such circumstances, Articles 28,29,30 did not prevent the exercise of trademark rights. The decisive factor was whether the trademark owner had the possibility of control over the quality of the goods. However in the case of an assignment, the owner did not have such control if the mark was surrendered to a third party having no economic and/or legal link with the assignor. Furthermore, ECJ rejected that the consent implicit in any assignment is the consent required for application of the doctrine of exhaustion of rights.<sup>308</sup>

As a consequence of this case it can be possible to say that once a mark had been assigned, a trademark owner could not exercise his rights against imports bearing the assigned mark from another Member State if he has the possibility of control over the quality of the goods.

The reference to the need to control the quality of the goods was derived from previous discussion by the ECJ about the need to maintain the essential function of a trademark, by ensuring that a trademark indicates a single "point of control of manufacture". Such considerations do not apply to other types of industrial property.

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<sup>307</sup> Tritton, Guy. *op.cit.*, p.332

<sup>308</sup> *Ibid*, p. 333

<sup>309</sup> *Ibid*, p.306

If the ECJ's ruling is to be applied to other rights, its application may well be overly generous to the assignor and overly restrictive of the free movement of goods. Considering patents, the ECJ in **Centrafarm vs. Sterling**<sup>310</sup> specifically referred to the specific object of a patent being to recompense the creative effort of the inventor. The assignment for value of a parallel patent in one Member State to a third party would mean that the patentee had been compensated for his creative efforts in relation to patented products placed into circulation in that Member State. Considerations of control over the manufacture of products and their quality are irrelevant because there is no likelihood of the public being deceived as to the origin of the assignor's and assignee's products. Clearly, the patentee would have exhausted his rights in products marketed under a patent licence. In such circumstances, to make a distinction between a licence to an assignment appears artificial. It has been pointed out that the principle should not apply in reverse where the assignor exports to the assignee's territories. The assignee has not been compensated for the marketing of the patented goods by the assignor.<sup>311</sup>

- The landmark case concerning the **trade of goods, under protection of industrial rights, between EU Member States and non-EU Countries** is the *Silhouette International Schmied GmbH & Co. vs. Hartlauer Handelsdesellschaft MbH* Case<sup>312</sup>.

The Silhouette, an Austrian firm, sold high-priced frames and eyeglasses under its trademark in Austria and internationally via a selective distribution system. Hartlauer, another Austrian firm, also sold eyeglasses, but in supermarkets at prices much lower than Silhouette's. In October 1995, Silhouette exported to Bulgaria 21,000 frames considered "out of fashion" with a value of \$261,450 which is a steeply discounted price, to be sold exclusively in that country or in members of the former Soviet Union, with a clause prohibiting re-exports. However Hartlauer

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<sup>310</sup> Case 15/74 Centrafarm BV and Adriaan De Peijper v. Sterling Drug Inc., E.C.R. [1974] 1147. (Centrafarm v. Sterling Drug)

<sup>311</sup> Tritton, Guy. op.cit., p. 307

<sup>312</sup> Case C-355/96 Silhouette International Schmied GmbH & Co v. Hartlauer Handelsgesellschaft mbH, E.C.R [1998] I-4799 (Silhouette v Hartlauer)

obtained this Silhouette model from abroad and was going to sell it at unbeatably low prices in the EU Member States. Thus Silhouette brought an action for interim relief in April 1996.

Before Directive 89/104 became law, Austria applied the principle of international exhaustion for trademark rights. However the directive, introduced Community exhaustion. The directive made it clear that exhaustion would occur when an authorized sale occurred within the EU region. However it did not explicitly answer the question whether Member States could apply exhaustion to sales that first occurred in non-EU states.

The issue in this subject is concerned the importation into the EU of original merchandise, covered by a trademark, sold by its owner but to a non-Member State. The Austrian court stayed proceedings and asked the ECJ whether national rules providing for the exhaustion of trademark rights in regard to products put on the market outside the EU under that mark by the proprietor or with his consent are contrary to Article 7(1) of the Directive.<sup>313</sup>

The court was perfectly aware of the question's complexity. On the one hand, the first preamble of the Directive underlined how very different the trademark laws of the Member States were and how these disparities could affect the free movement of goods. Thus there is a need to harmonize the national trademark laws. On the other hand, the third preamble stated that total harmonization of trademark laws was not appropriate at this time, but only on those elements that directly concerned the functioning of the internal market.<sup>314</sup> In view of these conflicting indications, the ECJ made its position quite clear. In light of these recitals, Articles 5 to 7 of the Directive must be construed as embodying a complete harmonization of the rules

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<sup>313</sup> Directive 89/104. The Community Trade Mark Regulation, Article 13 provides similar provisions

<sup>314</sup> Tancer, Robert S., and Marlio, Claude M. "Intellectual Property Rights Exhaustion-Opposite Viewpoints: United States/Europe: Silhouette International v. Hartlauer & Quality King Distributors v. L'anza Research International" *Thunderbird International Business Review*, Vol.46 Issue:1, Jan-Feb 2004, p.88

relating to the rights conferred by a trademark. Then, in the next paragraph of its judgment, the ECJ emphatically stated:

Accordingly the Directive cannot be interpreted as leaving it open to the Member States to provide in their domestic law for exhaustion of the rights conferred by a trademark in respect of products put on the market in non-Member countries. This, moreover, is the only interpretation which is fully capable of ensuring that the purpose of the Directive is achieved, namely to safeguard the functioning of the internal market. A situation in which some Member States could provide for international exhaustion while others provide for Community exhaustion only would inevitably give rise to barriers to the free movement of goods and the freedom to provide services.

The ECJ then concluded that, national rules providing for exhaustion of trademark rights in respect to products put on the market outside the Community by the owner of the right or with his consent under that mark, were contrary to Article 7(1) of the Directive.

In accordance with the Article 7 (1) of the Directive trademark right of Silhouette was not exhausted, as the marketing had taken place outside the Community, so the argument forwarded by the Hartlauer concerning that Member States have authority to apply an international exhaustion doctrine is rejected by the ECJ.<sup>315</sup>

The ECJ reasoned this judgment on the purpose of the directive was “to safeguard the functioning of the internal market” against the potential loss of uniformity that might ensue if some nations permitted low cost imports to enter the trading bloc while others wished to apply their laws to exclude them, so under the Rome Treaty and Trademark Directive, an exhaustion doctrine was mandatory but could apply only to sales first authorities with the EU region.<sup>316</sup>

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<sup>315</sup> Kobak, James B. *op.cit.*, p.10

<sup>316</sup> *Ibid*, p.10-11

If each country could individually choose the exhaustion criteria it wished, then the rules for intra Community commerce would not be harmonized and Community exhaustion would be destroyed. For example, one country by itself could impose international exhaustion something mandatory in this State would entail applicability in the others because of Community exhaustion. Because when the goods have been placed on the Community market, Community exhaustion would allow for those goods to be sold all over the EU, in accordance with the principle of the free movements of goods. However Community exhaustion only operates where the goods have been placed on the Community market either by the owner of the right, or with the owner's consent. If the right owner marketed the goods outside of the Community, consent would be lacking and the right owner could lawfully oppose any attempted marketing of the goods in any EU state outside of the origin member state so the seller could waive its potential rights to block imports and consent to importation by a purchaser abroad.<sup>317</sup>

Besides the perspective of the right owner, the ECJ also noted that the Community was free to permit different rules through treaties with other nations or trading blocs. The ECJ determined that European trademark owners could not be deemed to have manifested consent of to have forfeited their rights through a failure to include notices or downstream contractual restrictions or through a claimed lack of notice by subsequent purchaser.

A subsequent ECJ opinion, **Van Doren & Q.GmbH v Lifewear Sports & Sportswear Handelsgesellschaft mbH**,<sup>318</sup> further refined or complicated the rule of Silhouette in an effort to accommodate that rule to the principle of free movement of goods within the EU region enshrined in Article 28 and 30 of Rome Treaty.<sup>319</sup>

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<sup>317</sup> Ibid, p.11

<sup>318</sup> Case 244/00 Van Doren & Q.GmbH vs.Lifewear Sports & Sportswear Handelsgesellschaft mbH, E.C.R. [2003]

<sup>319</sup> Kobak, James B. op.cit., p.12

German law considered exhaustion an affirmative defense to a trademark infringement action and normally placed the burden of proving the defense on the alleged infringer. The ECJ of agreed with the defendant in the German case, however, that is rule of national procedure might have to be qualified if the defendant could show that placing this burden on the defendant would risk permitting the trademark owner to partition the EU into national markets, as when aggressive efforts to enjoin imports of indeterminate origin are combined with a system of exclusive national distributorship. In such cases the burden of showing where the first sale occurred would shift to the trademark owner. The Court's apparent concern was that a trademark owner might assume that all goods imported into a country such as Germany originated from outside the EU and be tempted to seek remedies against all such imports without discriminating between those originally intended solely for non-EU use and those sold within the EU by the rights owner or with the right's owners consent. As a practical matter, Van Doren will probably require owners of the rights who employ exclusive distribution systems in Europe to develop, where possible, methods for marketing and tracking the goods that they sell in other parts of the world.<sup>320</sup>

As a consequence the ECJ case law has meant that the courts of Member States must recognize the principle that, once a protected product has been placed on the market in a Member State by the rights owner or with his consent, the rights owner has exhausted his rights but this is not valid for the goods placed on the non-Member States.

Where the EU has harmonized industrial property laws, it has included provisions on the exhaustion of rights. As it is mentioned in the first chapter of this thesis, this harmonization has been done for trademarks and industrial designs and Member States are not free to legislate in areas where the directives and the regulations specifically provides for. Indeed, it appears that in both the Directive and the Community Trademark Regulations, a deliberate decision was taken to exclude an international exhaustion of rights principle. Thus, the adoption of an international

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<sup>320</sup> Ibid, p.12-13

exhaustion of rights principle may now be in breach of Community law in relation to trade marks and industrial designs.

Although there is no harmonization concerning the exhaustion of patent rights in the EU region, it is possible to say that the principle which is binding for the trademark is also valid for the patents. Thus, where a patentee had put protected products on the market in a country outside the EU and these were then exported to a Member State and then further exported to another, the court of latter country has interpreted this as meaning that the patentee has not exhausted its rights and can sue for infringement.<sup>321</sup>

The result is that the EU Member States tend to develop “Regional Exhaustion” towards other Member States of the Community, whilst sometimes developing another approach altogether towards non-EU trading nations. If such persons or enterprises were from another Member State, the nation as a matter of Community law taking precedent over national law would have to apply regional exhaustion. For non-EU trading nations, however, the national regime would apply.<sup>322</sup>

By a few sentences it is possible to summarize the idea which is discussed under this chapter. It is sure that free movement of goods between Member States is one of the fundemantel measures to achive the objectives mentioned in the Article 2 of the Rome Treaty. According to this principle customs duty, quantative restrictions and all measures having equivalent effect is prohibited between Member States. However as it is mentioned above, the four exceptions of Article 30 and mandatory requirements arising from the ECJ judgments impede the free movement of goods notion within the EU. The ECJ has narrowly interpreted these exceptions by holding that, the restriction of trade must not be discriminatory in goods originating in one Member State from those of the others. Also, it must not be discriminatory in domestic goods from the goods imported from the Member States. On the other hand, as a result of the “reasonableness rule”, these exceptions should be necessary

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<sup>321</sup> Tritton, Guy. op.cit., p.317

<sup>322</sup> Pilny, Karl H. op.cit., p.5

to satisfy mandatory requirements and there should not be any other means which are less of hindrance to trade while achieving the same object.

Also, the harmonization of the legislation and directives will be one of the ways to break down the technical barriers because with the harmonization of the legislation and directives, the Member States could no longer justify their legislation.

As it is examined in detail, protection of industrial property rights and the exclusive territorial rights derived from these rights may impede the free movement of goods as a technical barrier. To solve this problem, for both trademarks and industrial designs “regional exhaustion” in other words “community exhaustion” has been determined by the EU regulations. However there is no special provision which determine the geographical boundary of the exhaustion of patents and utility models.

On the other hand, it should be mentioned that, long before these regulations, since 1971 ECJ has been dealt about the reconciliation of territorial exclusive rights derived from the industrial property rights with the free movement of goods between Member States. To ensure a compromise between the protection of industrial property rights and the free movement of goods the ECJ evolved different doctrines. In chronological order these doctrines are Doctrine of Existence versus Exercise, Doctrine of Specific Object, Doctrine of Common Origin, and Doctrine of Exhaustion. At the end the ECJ adopt Doctrine of Exhaustion on regional basis and always favoured the Doctrine of Exhaustion over other doctrines.

Implementation of this doctrine affects both the trade relations between Member States and the trade relations between the Member States and the non-EU countries. According to this doctrine, when a product has been lawfully put on the market in one Member State, it is a breach of Article 28 and 29 of the Rome Treaty to prevent the product to be resold in another Member State, even if in the latter state the product is protected by the exclusivity, granted by a industrial property rights. In other words, after the exhaustion of the industrial property rights in the EU region, to ensure the free movements of goods between Member States, “as a rule” the ECJ prefers not to prevent the commercial use of these particular products. On the other

hand the attitude of the ECJ is different for the non-EU countries. According to the ECJ decisions, regional exhaustion only operates where the goods have been placed in the EU region either by the right owner or by a third party with his consent. If the goods protected by industrial property rights have been put on the market outside the EU region, by the right owner or by a third party with his consent, these rights will not be exhausted in the EU region. Thus the right owner in the EU Member States, outside of the origin Member State, could lawfully oppose any attempt to market of these particular goods in his domestic market, unless otherwise specified by law or act.

## CHAPTER IV

### TRADE RELATIONS BETWEEN THE EU AND TURKEY IN THE SCOPE OF EXHAUSTION DOCTRINE AND THE CUSTOMS UNION DECISION

EU-Turkey relations have a long history. In 1963 Turkey and the EEC entered into an Association Agreement containing a membership perspective. Also EEC and Turkey has signed an Additional Protocol which entered into force in 1 October 1973. In 1995, customs union was formed by the Decision No 1/95 of the EC-Turkey Association Council and, in Helsinki in December 1999, the European Council decided that Turkey is a candidate for accession to the EU. These conclusions were reaffirmed by the European Council in Brussels in June 2004.<sup>323</sup> By 3 October 2005 Turkey is an acceding country which should accept the *acquis communautaire* of the EU as a whole.

Although being an acceding country, until being a Member State of the EU, Turkey will be considered as a non-EU country. As it is examined and mentioned in the previous chapter, the principle of “regional exhaustion” which is valid in the EU region is not operates for the non-EU countries. Therefore the industrial property right owners in the EU and Turkey may depend on their exclusive rights to prevent the free movement of goods between their markets. However the situation of the Turkey is exceptional and departs from the other non-EU countries, because by the Decision No 1/95, customs union and free movement of goods between Turkey and EU was formed. Therefore, “which geographical boundary of the exhaustion should be accepted in Turkey?” becomes a complex question to be answered.

While trying to give an answer to this question, in the first part of this chapter protection of industrial property rights in Turkey will be examined. As the general information regarding the industrial property rights and the protection of them in the EU region has been given in the first chapter, the national legislations of Turkey will

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<sup>323</sup> Communication From the Commission to the Council and the European Parliament “Recommendation of the European Commission on Turkey’s Progress Towards Accession” p.2-3

not be examined in detail, because these legislations are and should be convenient with both the *acquis communautaire* of the EU and the international conventions in which Turkey is a party, following the signing of the Decision No 1/95. In the second part of the chapter, firstly the provisions of the Decision No 1/95 which regulates the customs union and the free movement of goods between Turkey and the EU; then the provision of national legislations which regulates the exhaustion of patents, utility models, trademarks and industrial designs will be analyzed. By considering these provisions and with the assistance of different views in the doctrine, the geographical boundary of the exhaustion which should be valid in Turkey will be tried to be found out.

#### **4.1. Protection of Industrial Property Rights in Turkey**

Protection of industrial property rights in a country is an important factor encouraging the invention activities, application of new technologies to industry, increasing foreign investment and supporting national and international trade. Efficient and strong protection of industrial property rights in a country can be supplied by establishing a system containing a government authority to conduct all the administrative works related to industrial property rights; legal status of the attorneys to present the applicants, laws in the international standards and accession to related international agreements and treaties and special courts. All these elements must exist without missing any one and work efficiently. Otherwise the system can not work.<sup>324</sup>

Turkey is one of the countries in the world which started the protection of industrial property in very early years in the history. The date of first legislation for protection of patents and trademarks is earlier than most of the developed countries.<sup>325</sup>

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<sup>324</sup> Security & Defense Solutions International. “ Protection of Industrial Property Rights in Turkey” [http://www.sdsint.com/en/newsfacts\\_protection.asp](http://www.sdsint.com/en/newsfacts_protection.asp), p.1

<sup>325</sup> First legal basis for granting of patent rights in Turkey was the “İhtira Beratı Kanunu” of March 23, 1879. Protection of trademarks has been started in Turkey in the year 1871 by *Alamet-i Farika Nizamnamesi* and this regulation had been replaced by the Law No: 551 of March 3, 1965

Although the initial legislations for the protection of patents and trademark are earlier than most developed countries<sup>326</sup>, these legislations were old fashioned and could not meet the needs of the Decision No.1/95 of the EC-Turkey Association Council, international treaties and *acquis communautaire* of the EU. These regulations have both required extensive national legal reform concerning the protection of the industrial property rights, as well as rapid accession to an unprecedented number of international treaties.<sup>327</sup> Thus after the 1995 very important developments has been realized in the legislation of Turkey concerning the protection of the industrial property rights.

What makes Turkey particularly interesting is both the speed and breadth of legal reforms, and scope of harmonization.

**Trade Mark Decree No. 556**<sup>328</sup> which replaces the Law No: 551 of March 3, 1965 is a touchstone for Turkey to open up to the world creative trademark practice. This Decree brings Turkish law in to compliance with three international harmonizing bodies:<sup>329</sup>

Firstly, the Decree fulfills obligations under the most recent amendments to the **1883 Paris Convention** which is revised in Stockholm in 1967 and amended in 1979. Secondly, The Trade Mark Decree No. 556 also incorporates the provisions of **TRIPS** as they apply to trademarks, as to harmonize Turkish law in terms of protection, enforcement and customs procedures designed to prevent trade in counterfeit goods. It also creates an obligation on the part of Member States to enforce laws concerning all industrial property. Finally, the Trademark Decree effects compliance with the requirements of the Customs Union Decision.

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<sup>326</sup> Yalçiner, Uğur.G. “Türkiye’de Sınai Mülkiyet Korumasının Tarihsel Gelişimi” (2004). Available from <http://www.abgm.adalet.gov.tr/1-1-TR-Yalciner.pdf>, p.9

<sup>327</sup> Keyder, Virginia B., op.cit., p.119,133; Yalçiner, Uğur.G. op.cit. (2004), p.11

<sup>328</sup> Decree Law No. 556 Pertaining to the Protection of Trademarks, OG No.22326, 27.06.1995

<sup>329</sup> Keyder, Virginia B., op.cit., p.136

Pursuant to the Customs Union Decision, Turkey acceded to a number of treaties related to trademark law in 1995. These include the **Nice Agreement** concerning the international classification of goods and services for the purpose of the registration of marks and the **Vienna Agreement** establishing an international classification of the figurative elements of marks. Turkey also signed the **Trademark Law Treaty** of 1994, which simplifies formalities in trademark registries. Also accession to the Protocol to the Madrid Agreement on international registration of marks has been realized.<sup>330</sup>

**Patent Decree No. 551**<sup>331</sup> which replaces the Law No: 4128 of March 23, 1979 brings Turkey into compliance with TRIPS and the Customs Union Decision.<sup>332</sup>

Turkey's role in global trade and the transnational legal structure is secured by the Patent Decree No.556. Also, the extensive new treaty commitments made by the national Government under the **Stockholm Act of the Paris Convention** for the protection of industrial property and the **Patent Cooperation Treaty**. Turkey has also ratified the **Strasbourg Agreement** concerning international patent classification, **Budapest Treaty** on the international recognition of the deposit of micro-organisms for the purposes of patent procedure, the international convention for the protection of new varieties of plants and the **European Patent Convention**.<sup>333</sup>

Additional changes have taken place when the **Patent Law Treaty** came into effect in 2000. This treaty aims to harmonise patent laws by establishing, at least in the field of formalities, norms not provided for in the Paris Convention.

These Conventions, along with digital technology to facilitate the meshing of the gears of national law with institutions such as WIPO in Geneva, the EPO in Munich, and the Patent Database in Vienna, will support an international structure to assist the

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<sup>330</sup> Keyder, Virginia B., op.cit., p.137

<sup>331</sup> Decree Law No. 551 Pertaining to the Protection of Patents, OG No.22326, 27.06.1995

<sup>332</sup> Keyder, Virginia B., op.cit.,p.185

<sup>333</sup> Ibid, p.186

Turkish Patent Institute with the substantive searches necessary for granting patents.<sup>334</sup>

In addition, like most of the new industrial property legislation, the Article 4 of the Patent Decree No.556 provides that where international agreements grant more favorable conditions, rights holder may opt for application of those provisions over domestic law.

Protection through the grant of a **utility model** certificate is provided under Articles 154-170 of the Patent Decree No.556. Restricted subject matter is the same as that of patents. The subject matter of a utility model certificate may also be protected under the Industrial Design Decree.

**Industrial Design Decree No. 554**<sup>335</sup> is the first special legislation for protection of industrial designs in Turkey. Since Turkey had no special legislation on this issue, judiciary has shown great awareness of the need to provide protection through copyright, trademark, and unfair competition.<sup>336</sup> Turkey's enactment of legislation for industrial design protection reflects the growing importance of industrial designs in industries such as textiles, automotives and home appliances. Decree No. 554 is convenient to both the Design Directive of the European Commission which is issued to harmonize the most substantial elements of national design laws throughout Europe and the TRIPS.<sup>337</sup>

In industrial design law reveals significant **overlaps** with other areas of law and subject matter. One of these overlaps is overlap of **industrial design** and **copyright**. In both the European Union and Turkish context, topical areas of overlap are enunciated in the laws themselves. Trademark law and especially the law of industrial design is another area of significant overlap. Turkey's new Trademark Decree provides for registrability of packaging with products though it does not

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<sup>334</sup> Ibid, p.186

<sup>335</sup> Decree Law No. 556 Pertaining to the Protection of Industrial Designs, OG No.22326, 27.06.1995

<sup>336</sup> Suluk, Cahit. op.cit., p.24

<sup>337</sup> Keyder, Virginia B., op.cit., p.196

provide exclusive protection for such packaging, while the Turkish Design Decree specifies packaging as being within the meaning of work to be protected as design.<sup>338</sup> Protecting the package with product under a trademark ensures unlimited protection if the trademark protections renewed, on the contrary the industrial design ensures protection within a limited time period.

Not only in the legislations but also in the administrative and judicial system of the industrial property rights important legal reforms has been realized.

Administration of industrial property legislation containing only trademark and patent protection was being conducted by a department in the Ministry of Industry and Trade until June 24, 1994. After 1994, industrial property applications are administered through Turkish Patent Institute, a government body established by Decree No. 544<sup>339</sup> in 1994, with financial and administrative autonomy. In addition to registering and administering industrial property rights, the Institute, which is located in Ankara, performs a number of other important functions. These include, providing expert opinions, providing meditation service, publishing information relevant to industrial property law and participating in international activities such as preparation of conventions and cooperation with and use of databanks and documentation centers.<sup>340</sup>

Also the Law No. 4630 dated February 21, 2001, has established the specialized courts of the industrial property rights and necessary amendments has been done in the Decree Laws concerning the industrial property rights

While dealing with the protection of industrial property rights, provisions of the unfair competition law should be mentioned also. In our country, protection of intellectual and industrial property is subsumed under both special legislations and unfair competition law. When an infringement takes place, the registered right holder has a right to refer the measures either the provisions of special legislations or the

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<sup>338</sup> Ibid, p.195

<sup>339</sup> Decree Law No. 544 For the Establishment and Functions of TPI, OG No.22326, 27.06.1995

<sup>340</sup> Keyder, Virginia B., op.cit., p.185

provisions of unfair competition law. Also it is possible to refer both of these legislations at the same time.

International unfair competition principles contained in Article bis 10 of the Paris Convention have been incorporated by reference into TRIPS Article 2. Turkish unfair competition law, as set forth under Articles 56 and 57 of the Turkish Commercial Code, has covered the areas mentioned in the Article bis of the Paris Convention.<sup>341</sup> Article 58-64 of the Commercial Code describe legal remedies available to victims of unfair competition. These remedies include injunctive relief, damages and criminal sanctions.<sup>342</sup>

Also unfair competition law, contained in Article 56 et seq of the Turkish Commercial Code, includes the increasingly important area of **trade secrets** and it is well established in Turkey. Unlike patents, trademarks and industrial designs trade secrets do not constitute ‘property’.<sup>343</sup>

#### **4.2. Inside the Regional Exhaustion or Not.**

Within the scope of this thesis, the Decision No 1/95 of the EC-Turkey Association Council is quite important since the customs union between the EU and Turkey was formed with it. After the signing of the Decision No 1/95 between the EU and Turkey, the customs union region covers the regions, which are under the sovereignty of the EU Member States, the regions which are included in the customs union within the EU and the customs territory of Turkey.<sup>344</sup>

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<sup>341</sup> Ibid, p.138

<sup>342</sup> Ibid, p.138

<sup>343</sup> For further detailed information concerning the “trade secrets” please see Keyder, Virginia B., op.cit., p.192

<sup>344</sup> Pınar , Hamdi. “Marka ve Haksız Rekabet Hukuku Alanında Avrupa Toplulukları Mahkemesinin Gümrük Birliğinde Malların Serbest Dolaşımına İlişkin Kararları ve Türk Hukukuna Etkileri.” In *Ankara Barosu Uluslararası Hukuk Kurultayı Cilt:I*. Ankara: Ankara Barosu Yayınları Konferanslar Dizisi:03 (2002), p.672

Provisions of the Decision No.1/95 of the EC-Turkey Association Council concerning the free movement of goods and the customs union are quite parallel with the provisions of the Rome Treaty which regulate the same fields.

Article 3 of the Decision No 1/95 stipulates the following provision parallel with Articles 23 and 24 of the Rome Treaty. In accordance with the Article 3 of the Decision, the provisions concerning the “Free Movements of Goods and Commercial Policy” shall apply to goods either produced in the EU or Turkey, including those wholly or partially obtained or produced from products coming from third countries which are in free movement in the EU or in Turkey, or coming from third countries and in free movement in the EU or in Turkey. Products from third countries shall be considered to be in free movement in the EU or in Turkey if the import formalities have been complied with and any customs duties or charges having equivalent effect which are payable have been levied in the EU or in Turkey, and if they have not benefited from a total or partial reimbursement of such duties or charges. Besides the same shall also apply to goods obtained or produced in the EU or in Turkey, in the manufacture of which products coming from third countries and not in free movement either in the EU or in Turkey were used. These provisions shall, however, apply to those goods only if the import formalities have been complied with and any customs duties or charges having equivalent effect, payable on third-country products used in their manufacture have been levied in the exporting state.

Article 4 of the Decision No 1/95 of the EC-Turkey Association Council stipulates the following provision parallel with Article 25 of the Rome Treaty. According to this provision, import or export customs duties and charges having equivalent effect shall be wholly abolished between the EU and Turkey on the date of entry into force of this Decision. The EU and Turkey shall refrain from introducing any new customs duties on imports or exports or any charges having equivalent effect from that date. These provisions shall also apply to customs duties of a fiscal nature.

Articles 5, 6, and 7 of the Decision No 1/95 of the EC-Turkey Association Council stipulates the following provisions parallel with Articles 28, 29 and 30 of the Rome Treaty which are the main subject of this thesis.

While Article 5 and 6 of the Decision prohibits the quantitative restrictions on imports and exports and all measures having equivalent effect shall be prohibited between the parties, Article 7 of the same Decision stipulates the exceptions of the implementation scope of the Article 5 and 6.

According to the Article 7 of the Decision, the provisions of Articles 5 and 6 shall not preclude prohibitions or restrictions on imports, exports or goods in transit justified on grounds of public morality, public policy or public security; the protection of health and life of humans, animals or plants; the protection of national treasures possessing artistic, historic or archaeological value; or the protection of industrial and commercial property. Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between the parties.

Article 50 of the Decision No 1/95 of the EC-Turkey Association Council stipulates the following provision parallel with Article 90 of the Rome Treaty. In this article it is mentioned that, neither party shall, directly or indirectly, impose on the products of the other party any internal taxation of either any kind in excess of that imposed directly or indirectly on similar domestic products or such a nature as to afford indirect protection to the other products. Products exported to the territory of either of the parties shall not qualify for refunds of internal indirect taxation which exceed the indirect taxation directly or indirectly imposed on those products. The parties shall repeal any provisions existing at the date of the entry into force of this Decision which conflict with the above rules.

The Ankara Agreement, the Additional Protocol and the Decision of the Association Council signed between the EU and Turkey as joint, inseparable components of the EU Law.<sup>345</sup> Even the Additional Protocol and the provisions of the Decision No. 1/95 of the EC-Turkey Association Council would be directly effective in the presence of the conditions. Member States of the EU are obliged to comply with the directly

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<sup>345</sup> For detailed information see Pinar, Hamdi. op.cit., p.668

effective provisions, instead of contrary provisions included in their own national laws.<sup>346</sup>

In addition, according to Article 66 of the Decision No 1/95, the provisions of this Decision, in so far as they are identical in substance to the corresponding provisions of the Rome Treaty shall be interpreted for the purposes of their implementation and application to products covered by the customs union, in conformity with the relevant decisions of the ECJ.

When the provisions mentioned above are examined, it can be said that the principles concerning the customs union and the free movement of goods between the Member States of the EU, are also valid between the Member States and Turkey and the relevant decisions of the ECJ will be taken as basis in the interpretation of the provisions stipulating these principles.<sup>347</sup>

As it is examined in detail in the previous chapter, essentially because of the territorial character of the industrial property rights, usually the protection and enforcement of these rights restrict imports and/or exports between Member States, as a consequence a state measure in terms of Articles 28 and 29 of the Rome Treaty emerges. In other words, protection of industrial property rights prevents the free movement of goods within the boundaries of the EU.

After passing through a long process and trying other doctrines as well, the ECJ has reconciled the principle of free movement of goods and the protection of industrial property rights with each other by deciding to apply the “Doctrine of Exhaustion” on regional basis within the boundaries of the EU. According to this principle, when a good protected by an industrial property right has been put on the market by the right owner or by a third party with his consent in one of the Member States; or imported from a third country in compliance with the importation regime upon payment of the

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<sup>346</sup> Pınar, Hamdi. *op.cit.*, p.670

<sup>347</sup> *Ibid*, p.670

common customs tariff, the industrial property right will not prevent the free movement of these particular goods within the boundaries of the EU.<sup>348</sup>

When the fact that the customs union therefore free movement of goods between Turkey and the EU was formed with the Decision No 1/95 and that the provisions of this decision will be interpreted in compliance with the ECJ decisions is taken into consideration, will Turkey be included in the regional exhaustion applied in the EU region?

In other words, when the goods protected by the industrial property rights, has been put on the market by the right owner or upon his consent, can the owner of the right prevent the free movement of these particular goods between the Member States of the EU and Turkey?

Primarily it should be stated that, just as in the Rome Treaty, the scope or boundary of exhaustion of industrial rights has not been clearly stated in the Decision No 1/95, either. On the other hand the principle of exhaustion of industrial rights has been separately stipulated in the Decree Law No 551 on the Protection of Patent Rights, the Decree Law No 556 on the Protection of Trademarks and the Decree Law No 554 on the Protection of Industrial Designs. These regulations are convenient with both the *acquis communautaire* and the international conventions in which Turkey is party, following the signing of the Decision No 1/95.<sup>349</sup>

Article 76 of the Decree Law No 551 on the Protection of Patent Rights stipulates under the heading “Exhaustion of the Right Arising from the Patent” as follows: “Rights conferred by a patent shall not extend to acts committed with regard to a product under patent protection after the product has been put on the market in Turkey by the right owner of the patent or with his consent.”

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<sup>348</sup> For further detailed explanation please see 2<sup>nd</sup> Chapter of this thesis

<sup>349</sup> Özcan, Mehmet. *op.cit.*, p.198-199

The principle of right exhaustion stipulated in the Decree Law has a national effect.<sup>350</sup> However, this effect is about “products with exhaustion patent and not related to invention”. Thus this principle ensures free movement of the goods that have been put in trade by consent and it does not make the invention free.<sup>351</sup>

Even though there is a customs union between Turkey and the EU Member States the rights on the goods put in market one of the EU Member States, are not considered to have exhausted in terms of Turkey.<sup>352</sup>

Article 13 of the Decree Law No 556 on the Exhaustion of the Rights arising from the Registration of the Trademark” states as:

The acts related with a product containing the registered trademark shall not constitute a breach of the rights of a registered trademark, where such acts have occurred after the product has been put on the market in Turkey by the right owner of the trademark or with his consent.

The owner have the right, even within the provision of the first paragraph, to oppose further commercialization of the goods, especially where the conditions of the goods is changed or impaired after they have been put on the market.

Since the relevant Decree Law accepts national exhaustion<sup>353</sup> and the Decision No 1/95 rejects regional and international exhaustion, the goods that have been put on the market outside Turkey – with the consent of the right holder - do not create exhaustion. According to this principle, the owner of the trademark may not prevent the re-sale or exportation of the goods at various stages, or importation of the same goods, which were exported from Turkey, back in the country, following the first

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<sup>350</sup> Arıkel, Sülün., op.cit., p.42-43

<sup>351</sup> Tekinalp, Ünal. *Fikri Mülkiyet Hukuku*. İstanbul: Beta Basım Yayım Dağıtım A.Ş., 2002, p.508

<sup>352</sup> Saraç, Tahir. *Patentten Doğan Hakka Tecavüz ve Hakkın Korunması*. Ankara: Seçkin Yayıncılık, 2003, p.134

<sup>353</sup> Arıkel, Sülün., op.cit., p.27; Arkan, Sabih. “Marka Hakkının Tüketilmesi” In *Prof. Dr. Ali Bozer’e Armağan*. Ankara: Banka ve Ticaret Hukuku Araştırma Enstitüsü Yayını, 1998, p.204

marketed realized in Turkey with his consent.<sup>354</sup> The definitions and explanations made in compliance with the principle of regional and international exhaustion are not appropriate for Turkey.<sup>355</sup> However the exceptions which are stated in the 2<sup>nd</sup> paragraph of the Article should be carefully considered implementation of the exhaustion principle.

Article 24 of the “Decree Law No 554 on the Protection of Industrial Designs” which is about the “Exhaustion of Right” stipulates as follows;

The acts relating to a product in which a design is incorporated or to which it is applied, fall outside the scope of protection of the design, after the product has been put on the market in Turkey by the owner of the design right or with his consent.

In compliance with the relevant Article of the Decree Law, a design right which is embodied or which is applied in a product, is exhausted with the marketing of the subject product in Turkey. Exhaustion is national and limited to Turkey.<sup>356</sup> Therefore, if the product, which a design is embodied or which is applied, has been put on the market outside Turkey, exhaustion occurs in compliance with the law of the subject country. In order for exhaustion to occur in Turkey, the product must have been put on the Turkish territory by the right holder or with his consent.<sup>357</sup>

As seen, the word “in Turkey” has been used in the subject stipulations in order to emphasize that the rights of the right owner are “exhausted within the boundaries of Turkey”, in order for the trade within Turkey not to be adversely affected.<sup>358</sup>

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<sup>354</sup> Tekinalp, Ünal. op.cit., p. 384

<sup>355</sup> Ibid, p. 385

<sup>356</sup> Arıkan, Ayşe S.“Fikri Ve Sınai Hakların Tükenmesi ve Rekabet Hukuku-Uluslararası Ticaret Hukuku Açısından Değerlendirme.” In *Ankara Barosu Uluslararası Hukuk Kurultayı Cilt:1*. Ankara: Ankara Barosu Yayınları Konferanslar Dizisi:03 (2002) p.761

<sup>357</sup> Tekinalp, Ünal. op.cit., p.583

<sup>358</sup> Arıkan, Ayşe S. op.cit.(2002), p.773

The provisions given above are mandatory law rules in terms of the exhaustion of industrial property rights.<sup>359</sup> When the relevant articles of the Decree Laws are examined, it is seen that all of the three provisions have adopted the principle of **“national exhaustion”** with regard to the exhaustion of right. Even though it cannot be said that there is consensus in the doctrine with this regard<sup>360</sup>, the majority of opinions in the doctrine, is in the direction that industrial property rights in Turkey are exhausted nationally.<sup>361</sup>

When it is accepted that **“national exhaustion”** is adopted by the national legislation, the owner of the industrial property right who puts the good in the “Turkish Territory”, by himself or with his consent will not be able to control the commercial exploitation of these particular goods in the domestic market because the industrial property right in terms of the goods put on the market has been exhausted within the boundaries of Turkey.

The issue that should be taken into consideration here is that the **exclusive rights given to the owner of the right by the industrial property right are only exhausted for the goods that have been put on the market with consent in Turkey; the right itself is not exhausted.**<sup>362</sup> A different approach, in other words, accepting that the industrial property rights are exhausted in an abstract manner, will cause the concept of geographical boundaries of exhaustion to lose its meaning. On the other hand, when the subject good is exported outside the boundaries of Turkey, then the limited authorities granted to the owner of the industrial right in that country will be reactivated, provided that the conditions for protection have occurred.

From the international trade perspective the situation is different. Firstly, if the goods which are subject to industrial property rights were put on the market in Turkey by the owner of the right or by his consent, for these particular goods, exclusive rights

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<sup>359</sup> Kayhan, Fahrettin. op.cit., p. 67; Saraç, Tahir. op.cit., p.136;

<sup>360</sup> For different approaches please see Pınar, Hamdi. op.cit., p.707; Keyder, Virginia B., op.cit., p.142

<sup>361</sup> Arkan, Sabih. op.cit., p.203; Arıkel, Sülün., op.cit., p.27,43; Saraç, Tahir. op.cit.,p.135; Tekinalp, Ünal. op.cit., p.385,508,583; Arıkan, Ayşe S. op.cit.(2002), p.758,761,763; Kayhan, Fahrettin. op.cit., p.56; Yalçınmer, Uğur G., op.cit. (2000), p.244, Tekdemir, Yaşar. op.cit., p.26.

<sup>362</sup> Saraç, Tahir. op.cit., p.136; Tekinalp, Ünal. op.cit., p.565; Kayhan, Fahrettin. op.cit., p.64

of the right owner are exhausted nationally. Thus he will not be able to prevent the exportation of these goods by the third parties (exportation). However, when these goods have been exported, the exclusive rights granted to the industrial property right in that country will be reactivated, provided that the conditions for protection have occurred.<sup>363</sup> Also if the goods marketed in the domestic market, have been imported again after their exportation, exclusive to these goods only, it is not possible to prevent their importation back (re-importation) to Turkey because the industrial property rights on the subject goods have been exhausted with their first marketing in Turkey.<sup>364</sup> However the owner of the industrial property right will be able to prevent the entrance of the goods to Turkey, which have been put on the market abroad by the right holder or by a third party with his consent (parallel importation). In other words, the owner of the right has the authority to prevent the parallel importation to be made to Turkey. In such a situation, it is not important whether or not the goods subject to the same industrial property right have also been put on the market in Turkey. Exhaustion is only valid for those industrial property rights formed on the goods, which have been put on the market.<sup>365</sup>

The issues, which have been stated above in general terms, can be summarized with regard to the **trade relations between the EU Member States and Turkey as follows:**

Some of the academicians, who express that “**national exhaustion**” is valid in Turkey, state that when the goods protected by the industrial property right are put on the market in one of the EU Member States by the owner of the industrial property right or by a third party with his consent, the industrial rights in these particular goods will have been exhausted within the EU region.<sup>366</sup> In other words, it will not have been exhausted in Turkey.<sup>367</sup> As the right to prohibit the importation and/or

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<sup>363</sup> Arkan, Sabih. op.cit., p.756,757

<sup>364</sup> Kayhan, Fahrettin. op.cit., p. 62; Arıkan, Ayşe S. op.cit.(2002), p. 759

<sup>365</sup> Saraç, Tahir. op.cit., p.136; Yalçiner, Uğur G., op.cit. (2000), p.244; Kayhan, Fahrettin. op.cit., p. 62

<sup>366</sup> Arıkan, Ayşe S. op.cit. (2002), p. 758,761,763; Kayhan, Fahrettin. op.cit., p. 56; Saraç, Tahir. op.cit., p. 135; Yalçiner, Uğur G., op.cit. (2000), p. 244.

<sup>367</sup> Yalçiner, Uğur G., op.cit.(2000), p. 250; Arıkan, Ayşe S. op.cit.(2002), p.774; Tekinalp, Ünal. op.cit., p.508

exportation is one of the exclusive rights granted to the owner of the right by the industrial property right, the owner of the right has the authority to prevent the importation of the goods to Turkey (parallel importation), which he has put on the market in one of the EU Member States, with his own consent. In such a situation, without any regard to whether or not the owner of the right has previously put the goods that are subject to industrial property right on the domestic market, he will be able to prevent the entrance of the original goods it has put on the market outside the boundaries of Turkey, for instance in a EU Member State, in Turkey (parallel importation.)<sup>368</sup> Whether or not this preference compromise with the other policies of Turkey related to the EU is debatable, but within the scope of the existing regulations, it is not quite possible to say that regional exhaustion is applicable to Turkey.<sup>369</sup>

The opposite of the same situation will also be valid for the trade to be made by the right owners in EU Member States with Turkey. That is, an industrial property right owner in the EU will be able to prevent the entrance of the industrial property protected good, which he has put on the market in Turkey, without any regard to whether or not he has put the same goods on the market within the EU region. Because the industrial property right in these particular goods will have been exhausted in Turkey, in other words, it will not have been exhausted within the EU region. However, the right holders in EU Member States will not be able to prevent the importation of a good back to the EU, which they have put on the market in their own countries and which has entered in free circulation in the EU region, after it has been entered to Turkey in compliance with the provisions of the customs union.

The issues given above have also been clearly stated<sup>370</sup> in the 2<sup>nd</sup> paragraph of article 10 of annex 8 of the Decision No 1/95, which stipulates as, “This decision does not

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<sup>368</sup> Kayhan, Fahrettin. op.cit., p.47; 53; Saraç, Tahir. op.cit., p.136

<sup>369</sup> Saraç, Tahir. op.cit., p.136; Arıkan, Ayşe S. op.cit.(2002), p. 771,773,778; Tekinalp, Ünal. op.cit., p.385

<sup>370</sup> Tekinalp, Ünal. op.cit., p. 508; Arkan, Sabih. op.cit., p.202; Saraç, Tahir. op.cit., p. 134; Yalçınır, Uğur G., op.cit. (2000), p.250; Arıkan, Ayşe S. op.cit.(2002), p.776

imply exhaustion of intellectual, industrial and commercial property rights applied in the trade relations between the two Parties under this Decision”.

Some other academicians, who accept that the “**national exhaustion**” is valid in Turkey, express different opinions on, whether or not the owner of the right can prevent the parallel importation of the goods to Turkey which are marketed in one of the EU Member States by the owner of the right or with his consent.<sup>371</sup> According to these academicians, if the industrial property right has been registered and licensed in the name of the same person in Turkey and in the country which the good has been imported, the owner of the industrial right may not prohibit the parallel importation by using his exclusive rights granted him by the industrial right.

It is not possible to agree with this view because, as also indicated previously, the rights itself is not exhausted; exhaustion of the industrial right is only possible for the goods, which have been put on the market by the right holder or by a third party with his consent. If the above mentioned view is accepted, it should be concluded that the goods put on the market in the EU region would exhaust the industrial rights on the goods put on the market in Turkey, instead of exhaustion of the right only for the goods put on the market with consent. This understanding does not really comply with the definition and the scope of the national, regional and international exhaustion.

On the other hand, by some of the academicians it is also expressed that, because of the Decision No 1/95 of the Association Council, which establish the customs union and free movements of goods between the parties, Turkey is included to “**regional exhaustion**” which is valid in the EU region.<sup>372</sup> According to this view, it should be accepted that, when the goods protected by industrial property right put on the market in the EU and/or in Turkey by the owner of the right or by a third party with his consent, the right owner will not be able to use his exclusive rights to prevent the free movement of goods between the EU Member States and Turkey, because the

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<sup>371</sup> Tekinalp, Ünal. op.cit., p.379, 508, 583; Arkan, Sabih. op.cit., p.203

<sup>372</sup> Pınar, Hamdi. op. cit., p. 707, 711, 712

industrial property right over these particular goods are exhausted both in Turkey and in the EU. When these goods are imported to Turkey, the limited authorization granted to the industrial property right in Turkish law will be reactivated, provided that the conditions for protection have occurred. However the exceptions which are mentioned in the second chapter under the title “Application Scope of the Exhaustion” should be considered also. This approach is debateable against the 2<sup>nd</sup> paragraph of Article 10 of Annex 8 of the Decision No 1/95.

Also some writers claim that, by considering that the Turkey is a developing country, the “**international exhaustion**” should be accepted.<sup>373</sup> However as an acceding country it is not so possible for Turkey to accept the “international exhaustion” because of the *acquis communautaire* of the EU, which should be accepted by the Turkey as a whole, and the decisions of ECJ concerning the exhaustion of the industrial property rights in the EU, which prevents the EU Member States from choosing an exhaustion principle other than “regional exhaustion”.

It may be thought that, the opinions of the some academicians mentioned above are affected by the two decisions of the Supreme Court of Appeals in 1999.

In the Dexter Case of the 11<sup>th</sup> Civil Chamber of the Supreme Court of Appeals<sup>374</sup>, the claimant was the sole representative and distributor of the DEXTER outdoor shoes and textile products in Turkey and in the Turkish Republic of Northern Cyprus as required by the contract signed by himself and the Dexter Shoe Company located in the United States of America. However the defendant imported and sold the products with the DEXTER trademark in his store based on no rightful reasons.

The first instance court held an affirmative decision on behalf of the claimant and accepted his claims. However the decision was appealed by the defendant. The Supreme Court of Appeals held its decision in compliance with the second paragraph of Article 9 of the Decree Law No 556 on the Protection of Trademarks and the first paragraph of Article 13 of the same Decree Law. As a result the Supreme Court of

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<sup>373</sup> Tekdemir, Yaşar. *op.cit.*, p.28

<sup>374</sup> Dated June 14, 1999, with Principle File No 1999/3243 and Decision No 1999/5170

Appeals decided that if the owner of the trademark sold the goods outside Turkey or manufactured them abroad in a country other than the country of origin, after these goods had been put on the market in Turkey, the owner of the trademark could not prevent the importation of these products to Turkey by a third party through purchasing them from abroad, which was parallel importation. The same principle was also valid for the person, who was the sole vendor of the products carrying the foreign trademark, the exclusive licensee and who had officially registered this trademark in his name with the consent of the owner of the trademark.

According to these principles, if the goods, the shoes, which are original and not imitation are legally manufactured in countries other than the country of origin and imported to Turkey from these countries and sold by the importer, or purchased from the importer in return for invoice and presented for sale, the second paragraph or Article 9 of the Decree Law 556 would not apply. In addition, the judgment in the direction that the sale of the same goods in Turkey after legitimately importing them from countries other than the country of origin would not constitute a contradiction with the provisions of unfair competition was given.

The 11<sup>th</sup> Civil Chamber of the Supreme Court of Appeals rendered another decision in the POLICE Case<sup>375</sup> which was very similar to the judgement given above.

Even though the decisions stated above are only related to exhaustion of the trademark right and parallel importation of trademark goods, it would not be wrong to say that the subject decisions reflected the general opinion of the Supreme Court of Appeals in the subjects of “exhaustion of industrial property right” and “parallel importation”.

However, the rightfulness of the determinations made in these decisions on the “exhaustion” concept is required to be well evaluated.

Concerning the subject of the dispute, the Supreme Court of Appeals held that, the subject goods have been “put on the market in Turkey” and the trademark rights, are

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<sup>375</sup> Dated March 12, 1999, with Principle File No 1998/7996 and Decision No 1999/2099

exhausted and the owner of the trademark right or the licensee would not then be able to prevent the original good importation to be made from another country, which is called parallel importation. Based on these decisions, if the good has been put on the market outside the country but not presented for sale in Turkey, then the owner of the trademark would be able to prevent the importation of the subject goods. This approach of the Supreme Court of Appeals does not comply with any of the national, regional or international exhaustion principles.<sup>376</sup>

It can be said about the decisions of the Supreme Court of Appeals that the parallel importation and re-importation concepts, which were confused, the fact that the concept of exhaustion was valid for the rights on the goods put on the market and not for the trademark right itself was neglected, and the geographical boundary concept of exhaustion was not mentioned at all. For this reason, the subject decisions may be considered to be open for criticism.<sup>377</sup>

As a conclusion it is possible to say that there are different views in the doctrine concerning the geographical boundary of the exhaustion of industrial property rights in Turkey and the decisions of the Supreme Court of Appeals are also open for criticism. Therefore in the scope of this thesis, due to the Right to Information Act<sup>378</sup>, the views of the relevant public authorities have been asked to understand their approach to the exhaustion of industrial property rights in Turkey. The public authorities asked for their views are Republic of Turkey Ministry of Justice, Republic of Turkey Prime Ministry Undersecretariat of Customs, Republic of Turkey Prime Ministry Undersecretariat of Foreign Trade, Republic of Turkey Prime Ministry Secretariat General for the EU Affairs and the Turkish Patent Institute.

In the letters which have been sent to the above mentioned public authorities, after referring to the relevant Articles of Rome Treaty, Decision No. 1/95 of the Association Council between the EU and Turkey, Decree Laws No. 551, 554, 556

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<sup>376</sup> Kayhan, Fahrettin. *op.cit.*, p.65

<sup>377</sup> Saraç, Tahir. *op.cit.*, p.136; Pınar, Hamdi. *op.cit.*, p.709; Kayhan, Fahrettin. *op.cit.*, p.65

<sup>378</sup> Law No. 4982 Right to Information Act, OG No. 25269, 24.10.2003

and the decisions of ECJ it has been requested to notify their institutional opinion whether the national or the regional exhaustion of industrial property rights is valid in Turkey.

In the reply of the Undersecretariat of Foreign Trade it has been mentioned that the request has been transmitted to the Turkish Patent Institute because of its direct connection. Similarly in the reply of the Secretariat General for the EU Affairs it has been mentioned that they have no view or special study concerning this issue and it has been advised to apply to Turkish Patent Institute. On the other hand replies of the Turkish Patent Institute and Ministry of Justice are similar to each other. In both of these replies, briefly it has been mentioned that, to give an answer to this request a separate and/or special study should be done. Therefore this request is rejected in accordance with the Article 7 of the Right to Information Act.

Different from other public authorities, the institutional view concerning the exhaustion of industrial property rights in Turkey has been expressed in the reply of the Undersecretariat of Customs. In the reply it has been mentioned that, under the existing circumstances, until being a Member State of the EU it is not possible to say that Turkey is included to the regional exhaustion of industrial property rights in the EU.

From the interpretation of these replies received from the relevant public authorities it is possible to say that, except Undersecretariat of Customs none of them has an institutional view concerning the geographical boundary of the exhaustion of industrial property rights.

While deciding which geographical boundary of the exhaustion principle should be valid in Turkey, besides all the debates, different views in the doctrine and the decisions of the Supreme Court of Appeals, economic, political and legal aspects of this preference should be considered. Because the outcomes of the preference will affect both the owner of the industrial property rights and the consumers as well as the Turkey's herself.

If it is accepted that “**national exhaustion**” is valid in Turkey, the owner of the industrial property right or his licencees may prevent the free movement especially parallel importation of the original and identical goods between Turkey and the EU Member States. National exhaustion will strengthen the exclusive rights which are derived from industrial property rights.

Depending on his exclusive rights, the right owner may prefer to enforce price discrimination between the national and foreign markets. If the owner of the industrial property right has a right to prevent parallel importation, he may prohibit international arbitrage and it is sure that this will ensure excess profit for the right owner. Therefore, the consumers of the high priced market may suffer from these prices. However if the right owner of the industrial property right uses this excess profit, to finance the investments, research and development expenditures in the field he works, this may increase the economical development and turn to the consumers as a benefit. Although the “national exhaustion” may help the economical development of Turkey, as an acceding country she should accept all the *acquis communautaire* of the EU as a whole. As it is mentioned in the first chapter, regulations in the EU accept “regional exhaustion” for both trademarks and industrial designs. Also as it is examined in the second chapter “regional exhaustion” has been accepted for patents and utility models by the ECJ decisions. Therefore, accepting “national exhaustion” for the industrial property rights will be counter to these regulations and court decisions.

On the other hand, if it is accepted that “**regional exhaustion**” is valid in Turkey, the owner of the industrial property right or his licencees may not prevent the free movement of goods especially parallel importation of the original and identical goods between Turkey and the EU Member States. Regional exhaustion may weaken the position of the industrial property rights owners against their competitors in the EU market. Parallel trade prevents the right owners and the licencees from being a monopoly in the market and engaging international price discrimination.

If parallel trade is possible, and the owner of the industrial property rights enforces price discrimination between the markets, usually cheaper, original and identical goods from the foreign markets will come to the domestic market. In the importing country, such cheaper goods may create havoc particularly for the owners of the right and other entrepreneurs who sell the identical goods obtained via official distribution channels under control of the right holder, because they will probably lose their consumers because of the lower prices of the parallel imported goods. On the contrary, customers will benefit from these lower prices. This means that, arbitrage may undermine profitability in the high price markets. When arbitrage undermines the profitability in the high price market, the right owner may choose to offer to sell at a single price across all markets, possibly leaving some markets unserved. Also decreases in the excess profits, may affect the investments and research and development expenditures of the right owner in a negative way. It is clear from this explanation that, although in the short run parallel import benefits consumers in the high priced markets, in the long run it may harm consumers in all markets. Besides, the above mentioned consequences of “regional exhaustion”, it should be considered that, accepting “regional exhaustion” will bring the exhaustion policy of Turkey into consonance with the exhaustion policy of the EU.

After summarizing the subject in terms of the existing regulations, it should also be evaluated in relation to the draft laws being prepared in the subjects of the Protection of Patents, Trademarks and Industrial Designs, which are still under discussion.

When the process of harmonization with the international conventions and the *acquis communautaire* of the EU is taken into consideration, it has become a requirement for the industrial property rights subject, which is very important both in terms of national and international trade, to be regulated by Laws rather than Decree Laws. In addition, the requirement for the Decree Laws to adapt to the current developments and new EU regulations will only be possible to be eliminated through the regulation of these issues by Laws instead of the revision of Decree Laws.

When the draft laws presented for opinion are examined, from the context of the Article 13 of the “Law Draft on the Protection of Trademarks”<sup>379</sup> and its rationale<sup>380</sup> it is possible to say that the draft law has adopted the principle of “national exhaustion” about the trademarks with an exception in its second paragraph.

When the Article 22 with the heading “Exhaustion of Right” in the “Law Draft on the Protection of Designs”<sup>381</sup> is examined with its rationale<sup>382</sup> it has been stated that the draft law has adopted the principle of “national exhaustion”.

If the articles of the subject draft laws about the exhaustion of right are legalized in their present forms, the discussions made above will all be clarified. The explanations and determinations made for the current situation will also be effective for the new laws.

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<sup>379</sup> The proprietor of a trademark may not prohibit the use of the trademark in relation to goods, which have been put on the market in Turkey under that trademark by the proprietor or with his consent

Where there exist legitimate reasons, in particular, where the condition of the goods has been changed or impaired after they have been put on the market, the proprietor has the right to oppose third parties for commercial use of the mark.

<sup>380</sup> ... our country has accepted the principle of national exhaustion in terms of the rights on the trademark; this principle has been clearly stated in the first paragraph.

The second paragraph of the article, on the other hand, clearly states that the principle of national exhaustion has been adopted in respect of trademarks by indicating that it was rearranged in compliance with Article 13 of the Community Trademark Regulation and Article 7 of the Community Trademark Directive.

<sup>381</sup> Acts relating to a product in which a design is incorporated or to which it is applied shall be outside the scope of protection of the design after the product has been put on the market in Turkey by the owner of the design rights or with his consent.

<sup>382</sup> ... Since our country has accepted the principle of national exhaustion in terms of the rights arising from the registration of design right, this principle has been clearly stated in the article.

Whereas, when the “Draft Law on Patents and Utility Models” are examined, the situation is somewhat different. The Article 20 of the draft under the heading “Exhaustion of the Right Provided by the Patent”<sup>383</sup> and its rationale<sup>384</sup> has adopted the “international exhaustion” about the patents.

The article stipulated in the “Draft Law on Patents and Utility Models” concerning the exhaustion of patent rights is different from both the existing Decree Laws and draft laws related to other industrial property rights. If the draft is legalized in its present form, the principle of international exhaustion will have been adopted in the subject of patent right in terms of the Turkish Law. In that situation, accepting “national exhaustion” or “regional exhaustion” will not have any remaining importance with regard to patent rights, because as required by the principle of “international exhaustion”, when the goods protected by patent right have been put on the market by the owner of the right or by a third party with his consent in any place in the world the patent right will be exhausted for these particular goods. Thus the owner of a patent right, or a third party with his consent, will have exhausted the patent right all around the world on the products that have been put on the market, by just putting the goods on the market in Turkey. As a result of adopting “international exhaustion” principle, when the good put on the market anywhere in the world including the Member States of the EU, the owner of the right will not be able to prevent the parallel importation of these particular products to Turkey. On the other

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<sup>383</sup> The rights under the patent shall not extend to acts committed in relation to patented products after such products have been placed on sale anywhere in the world by or with the consent of the owner of the patent right. Actions in connection with the patented products, which have been placed on sale by the owner of the patent right or with his consent in any place in the world, remain outside the scope of the right provided by the patent.

<sup>384</sup> The article is about consideration of the patent right on the patented product, which has been put on the market by the owner of the patent right or with his consent, as exhausted. As known, the main purpose of the protection of industrial rights is encouraging creativity and presentation of new products into the market. The owner of the right will have received the expected response from the encouragement of creativity when he has put the product subject to protection on the market for the first time with his consent in every country that provides protection. From then on, the owner of the right must not be able to set forth the rights granted in him by the spreading and distribution right on the subject product due to geographical boundary changes only. In addition, since it is considered that the principle of national exhaustion, which makes the prevention of parallel importation possible and restricts competition in our country where free market economy prevails, would affect the commercial life negatively, the principle, which requires that the marketing of the product in any place in the world would mean that the patent right on that product would have been exhausted (international exhaustion) has been adopted.

hand, owners of patent right in the Member States of the EU will continue to have the right to prevent the parallel importation to be made to their countries from Turkey. Of course, the owners of patent right in countries, which have not adopted the principle of international exhaustion, will have the same right.

What is mentioned and discussed under this chapter should be summarized by few sentences, in Turkey; protection of patents and trademarks has been started earlier than most of the developed countries. However these legislations were old fashioned and could not meet the needs of the Decision No. 1/95, international conventions and *acquis communautaire* of the EU. Furthermore, there was no special legislation concerning the protection of industrial designs, so protection of industrial designs ensured through copyright, trademark and unfair competition. Therefore, after 1995, especially following the signing of Decision No. 1/95 very important legal reforms took place.

Firstly in 1994, by Decree No. 544 Turkish Patent Institute which has financial and administrative autonomy was established to perform administrative functions in the industrial property right field. After this in 1995, Trade Mark Decree No.556, Patent Decree No.551 and Industrial Design Decree No. 554 came into force. By these regulations, national legislations have been modernized, become convenient with *acquis communautaire* of the EU and the international conventions in which Turkey is a party. At last but not least, by the Law No. 4630 the specialized courts of industrial property rights were established.

As it is mentioned previously, the Decision No. 1/95 has established the customs union and free movement of goods between Turkey and the EU. The provisions of this decision which regulate the customs union and free movement of goods between the parties are quite parallel with the provisions of the Rome Treaty which regulate the same field. These provisions would directly effective in the presence of the conditions and as far as they are identical to the corresponding provisions of the Rome Treaty, they shall be interpreted in conformity with the relevant decisions of the ECJ. Therefore, the principles concerning the customs union and the free movement of goods between Member States are applicable to the free movement of

goods between Turkey and the EU Member States and the relevant decisions of the ECJ will be taken as basis in the interpretation of the provisions of Decision No. 1/95 concerning the free movement of goods.

Due to their territorial character, the protection and enforcement of industrial property rights may prevent the international trade of the goods. This fact also affects the trade relations between Turkey and the EU Member States. Principle of free movement of goods and the protection of industrial property rights are reconciled with each other in the EU region by the application of “Doctrine of Exhaustion” on regional basis. However in our national legislation, the articles concerning the exhaustion of industrial property rights (Article 76 of the Decree Law No.551; Article 24 of the Decree Law No.554; Article 13 of the Decree Law No. 556) stipulate that the goods under protection of these rights fall outside the scope of protection “...after the product has been put on the market in Turkey, by the right owner or with his consent.” From the wording of these mandatory law rules in terms of exhaustion of industrial property rights, it is seen that “national exhaustion” has been adopted. Although the majority of the opinions, in the doctrine in the direction that industrial property rights are exhausted nationally in Turkey, there are also different views concerning this issue.

While deciding either the “national exhaustion” or the “regional exhaustion” should be accepted in Turkey, economical, political and legal aspects of this preference should be considered, because the outcomes of the preference will affect both the owner of the industrial property rights and the consumers as well as the Turkey’s herself.

On condition that “**national exhaustion**” is valid in Turkey, the commercial exploitation and free movement of the goods, which has been put on the market by the industrial property right owner or by a third party with his consent, will not be prevented. Also the exportation of these goods to the EU Member States, then re-importation of same goods to Turkey will not be prevented also. Because the exclusive rights on these particular goods has been exhausted. However, the owner of the industrial property right may prevent the parallel importation of the goods

from the EU Member States. It is sure that, the licensee of the right owner has the same rights. National exhaustion, strengthen the exclusive right of the owners because, when the right owner enforce price discrimination between the markets, by preventing parallel importation and international arbitrage, he may gain excess profit. Therefore, the consumers in the high priced market will suffer from these prices. On the contrary, if the right owner uses this excess profit to finance the investment, research and development expenditures, this may increase the economical development of Turkey and turn to the consumers as a benefit. However, accepting “national exhaustion” will be counter to the regulations and ECJ decisions concerning the exhaustion of the rights in the EU.

If it is accepted that “**regional exhaustion**” is valid in Turkey, on condition that, the goods has been put on the market by the right owner or with his consent, the commercial exploitation, free movement, especially the parallel importation of these particular goods between Turkey and the EU will not be prevented by the right owner or his licensee. Therefore regional exhaustion may weaken the position of the right owner against their competitors in the EU. Also regional exhaustion prevents the right owners and their licensees from being a monopoly and engaging international price discrimination. Because when the right owners enforce price discrimination between the markets, by parallel trade cheaper, original and identical goods from the EU Member States may be imported to Turkey. While these cheaper goods may create havoc for the owners of the right, their licensees and other entrepreneurs who obtained the goods under control of the right owner, customers will benefit from the lower prices. However, when arbitrage undermines the profitability in the high price markets, firstly the right owner may choose to offer to enforce single price across all markets possibly leaving some markets unserved; secondly the decreases in the excess profit may reduce the investments and research and development expenditures. Consequences of these preferences may effect the economic development of Turkey in negative way. On the contrary, accepting “regional exhaustion” will bring the exhaustion policy of Turkey into consonance with the exhaustion of the EU.

## **CHAPTER V**

### **CONCLUSION**

Under the present conditions of world-wide economy, industrial property rights play an important role for economic development and competitiveness of the countries in the global market. Therefore protection of industrial property rights in a country is an important factor encouraging the invention activities, application of new technologies to industry, increasing foreign investment and supporting national and international trade.

The countries which are realizing the importance of the industrial property rights provide efficient legal systems for the protection of industrial property rights. As a principle, protection of industrial property rights depends on registration. After an industrial property right is registered; it provides its owner some exclusive rights for a limited time period in the country which it has been registered. These exclusive rights provide the owner of the right to manufacture and/or put them into market for the first time either directly or with his consent. Also these exclusive rights prevent the third parties from commercial exploitation of the goods without consent of the right owner, unless otherwise specified by law or act. If a third party manufactures, uses, sells or imports a good under the protection of industrial property right, the right owner may sue and/or use all other legal means against the infringement.

Exclusive rights granted by industrial property rights are given to the owners by the national laws and the differences between national legislations may prevent ensuring a common market and free movement of goods between the Member States. To get rid of this issue sometimes harmonization of national laws, sometimes EU wide protection systems or international level protection systems are used in the EU.

In the EU region it is possible to protect both trademarks and industrial designs on the Community basis. There is a system for granting a Community Trademark and

another system for granting a Community Industrial Design. However there is no system for granting a Community Patent or Community Utility Models.

Usually EU wide protection systems and international level protection systems co-exist with the national systems. The need for “EU wide protection of industrial property rights” is not fully covered by these regulations; but there are special provisions in these regulations which stipulate “regional exhaustion” for trademarks and industrial designs. However there is no special provision which determine the geographical boundary of the exhaustion of patents and utility models. Thus this issue has been solved by the decisions of the ECJ.

Free movement of goods between the Member States is one of the fundamental measures to achieve the objects mentioned in the Article 2 of the Rome Treaty. However, the mandatory requirements arising from the ECJ judgments and the four exceptions of Article 30 may impede the free movement of goods among the EU Member States. The ECJ has narrowly interpreted these exceptions. These exceptions should not be discriminatory in domestic goods from the goods imported from the Member States and in accordance with the “reasonableness rule” these exceptions should be necessary to satisfy mandatory requirements and there should not be any other means which are less of hindrance to trade while achieving the same object.

Protection of industrial property rights and the exclusive territorial rights derived from these rights may impede the free movement of goods as a technical barrier which has an equivalent effect to quantitative restrictions. While all measures having equivalent effect to quantitative restrictions on imports and exports are prohibited by the Articles 28 and 29, in accordance with the Article 30 of the same Treaty, the prohibition or restriction justified on the grounds of the protection of industrial property which does not constitute a means or arbitrary discrimination or a disguised restriction on trade between Member States, is not contrary to Articles 28 and 29.

To solve this conflict, for both trademarks and industrial designs “regional exhaustion” in other words “community exhaustion” has been determined by the EU

regulations. Harmonization of the legislation and directives will be one of the best ways to break down the technical barriers because with the harmonization of the legislation and directives, the Member States could no longer justify their national legislation.

On the other hand it should be mentioned that, long before these regulations, since 1971 ECJ has dealt about the reconciliation of territorial exclusive rights granted by the industrial property rights with the principle of free movements of goods between the Member States.

To ensure a compromise between the protection of industrial property rights and the free movement of goods principle the ECJ evolved different doctrines. In chronological order these doctrines are Doctrine of Existence versus Exercise, Doctrine of Specific Object, Doctrine of Common Origin, and Doctrine of Exhaustion. At the end, the ECJ adopted Doctrine of Exhaustion on regional basis and always favored the Doctrine of Exhaustion over other doctrines.

Implementation of this doctrine affects both the trade relations between Member States and the trade relations between the Member States and the non-EU countries. According to this doctrine, when a product has been lawfully put on the market in one Member State, it is a breach of Article 28 and 29 of the Rome Treaty to prevent the product to be resold in another Member State, even if in the latter state the product is protected by the exclusivity, granted by a industrial property rights. In other words, after the exhaustion of the industrial property rights in the EU region, to ensure the free movements of goods between Member States, “as a rule” the ECJ prefers not to prevent the commercial use of these particular products. On the other hand the attitude of the ECJ is different for the non-EU countries. According to the ECJ decisions, regional exhaustion only operates where the goods have been placed in the EU region either by the right owner or by a third party with his consent. If the right owner or a third party with his consent, puts the goods protected by industrial property rights on the market outside the EU region, these rights will not be exhausted in the EU region. Thus the right owner in the EU Member States, outside

of the origin Member State, could lawfully oppose any attempt to market of these particular goods in his domestic market, unless otherwise specified by law or act.

Although being an acceding country, Turkey is a non-EU country with an exceptional situation. Turkey's situation departs from the other non-EU countries, because by the Decision No. 1/95 customs union and free movement of goods between the EU and Turkey has formed. Therefore the reconciliation of protection of industrial property rights and the free movements of goods in the EU will also effect the trade relations between the EU and Turkey.

In Turkey, protection of patents and trademarks has been started earlier than most of the developed countries. However these legislations were old fashioned and could not meet the needs of the Decision No. 1/95, international conventions and *acquis communautaire* of the EU. Furthermore, there was no special legislation concerning the protection of industrial designs so protection of industrial designs ensured through copyright, trademark and unfair competition. Therefore, after 1995, especially following the signing of Decision No. 1/95, very important legal reforms took place. In 1995, Trade Mark Decree No.556, Patent Decree No.551 and Industrial Design Decree No. 554 came into force. By these regulations, national legislations have been modernized, become convenient with *acquis communautaire* of the EU and the international conventions in which Turkey is a party. At last but not least, by the Law No. 4630, the specialized courts of industrial property rights were established.

The provisions of Decision No. 1/95 which regulate the customs union and free movement of goods between Turkey and the EU are quite parallel with the provisions of the Rome Treaty which regulate the same field. These provisions would be directly effective in the presence of the conditions and as far as they are identical to the corresponding provisions of the Rome Treaty, they shall be interpreted in conformity with the relevant decisions of the ECJ. Therefore, the principles concerning the customs union and the free movement of goods between Member States are applicable to the free movement of goods between Turkey and the EU Member States and the relevant decisions of the ECJ will be taken as basis in the

interpretation of the provisions of Decision No. 1/95 concerning the free movement of goods.

Principle of free movement of goods and the protection of industrial property rights are reconciled with each other in the EU region by the application of “Doctrine of Exhaustion” on regional basis. However in our national legislation, the articles concerning the exhaustion of industrial property rights (Article 76 of the Decree Law No.551; Article 24 of the Decree Law No.554; Article 13 of the Decree Law No. 556) stipulate that the goods under protection of these rights fall outside the scope of protection “...after the product has been put on the market in Turkey, by the right owner or with his consent.” From the wording of these mandatory law rules in terms of exhaustion of industrial property rights, it is seen that “national exhaustion” has been adopted. Also the 2<sup>nd</sup> paragraph of article 10 of annex 8 of the Decision No 1/95, which stipulates as, “This decision does not imply exhaustion of intellectual, industrial and commercial property rights applied in the trade relations between the two Parties under this Decision” supports the interpretation of these articles in this way. Although the majority of the opinions are in the direction that industrial property rights are exhausted nationally in Turkey, there are also different views in the doctrine.

In the scope of this thesis, also the views of directly relevant public authorities such as Ministry of Justice, Undersecretariat of Customs, Undersecretariat of Foreign Trade, Secretariat General for the EU Affairs and Turkish Patent Institute have been asked to understand their approach to this issue. From these public authorities, it is requested to render their opinion whether the national or the regional exhaustion of industrial property rights is valid in Turkey. From the interpretation of the replies, it is possible to say that except Undersecretariat of Customs none of these public authorities has an institutional view regarding the geographical boundary of the exhaustion of industrial property rights in Turkey, especially for the trade relations between the EU and Turkey. In the reply of Undersecretariat of Customs, it has been mentioned that, under the existing circumstances, until being a Member State of the

EU, it is not possible to say that Turkey is included to the regional exhaustion of industrial property rights in the EU.

While deciding either the “national exhaustion” or the “regional exhaustion” should be accepted in Turkey, economical, political and legal aspects of this preference should be considered, because the outcomes of the preference will affect both the owner of the industrial property rights and the consumers as well as the Turkey herself.

On condition that “**national exhaustion**” is valid in Turkey, the commercial exploitation and free movement of the goods, which has been put on the market by the industrial property right owner or by a third party with his consent, will not be prevented. Also the exportation of these goods to the EU Member States, then re-importation of same goods to Turkey will not be prevented also. Because the exclusive rights on these particular goods has been exhausted. However, the owner of the industrial property right may prevent the parallel importation of the goods from the EU Member States. It is sure that, the licensee of the right owner has the same rights. National exhaustion, strengthen the exclusive right of the owners because, when the right owner enforce price discrimination between the markets, by preventing parallel importation and international arbitrage, he may gain excess profit. Therefore, the consumers in the high priced market will suffer from these prices. On the contrary, if the right owner uses this excess profit to finance the investment, research and development expenditures, this may increase the economical development of Turkey and turn to the consumers as a benefit. However, accepting “national exhaustion” will be counter to the regulations and ECJ decisions concerning the exhaustion of the rights in the EU.

On the other hand when it is accepted that “**regional exhaustion**” is valid in Turkey, if the goods has been put on the market by the right owner or with his consent, the commercial exploitation, free movement, especially the parallel importation of these particular goods between Turkey and the EU will not be prevented by the right owner or his licensee. Therefore regional exhaustion may weaken the position of the right owner against their competitors in the EU. Also regional exhaustion prevents

the right owners and their licencees from being a monopoly and engaging international price discrimination. Because when the right owners enforce price discrimination between the markets, by parallel trade cheaper, original and identical goods from the EU Member States may be imported to Turkey. While these cheaper goods may create havoc for the owners of the right, their licencees and other entrepreneurs who obtained the goods under control of the right owner, and customers will benefit from the lower prices. However, when arbitrage undermines the profitability in the high price markets, firstly the right owner may choose to offer to enforce single price across all markets possibly leaving some markets unserved; secondly the decreases in the excess profit may reduce the investments and research and development expenditures. Consequences of these preferences may effect the economic development of Turkey in negative way. On the contrary, accepting “regional exhaustion” will bring the exhaustion policy of Turkey into consonance with the exhaustion policy of the EU.

As a consequence, while deciding which geographical boundary of the exhaustion principle will be valid in Turkey, the balance between the public interest as well as the political and economical conditions of Turkey should be considered.

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