B. Legal basis for free movement of branded goods

I. The Treaty on the Functioning of the European Union

The interplay between intellectual property and free movement of goods in the European Union (EU) is regulated under Articles 34 to 36 and 345 of the TFEU.[775] The use of intellectual property rights to prohibit free movement of goods constitutes a measure having equivalent effects within the meaning of Article 34 of the TFEU. The Article provides that "Quantitative restrictions[776] on imports and all measures having equivalent effect shall be prohibited between Member States". For its part, Article 36 of the TFEU manifests recognition by the EU legislature of the significant role of industrial property rights in a free market economy "despite their inherent potential to undermine the E.U. free trade objective".[777] It stipulates that "The provisions of Articles 34 shall not preclude prohibitions or restrictions on imports… or goods in transit justified on grounds of … the protection of industrial and commercial property". However, the reliance on intellectual property rights to prohibit free movement of goods may be justified only to the extent such use does not constitute a "means of arbitrary discrimination or a disguised restriction on trade between Member States" – a requirement stipulated in the proviso to Article 34 of the TFEU.

The term "disguised restriction on trade between Member States", as expressed in recent ECJ's case law, refers to a scenario in which a trade mark proprietor devises a scheme enabling him to artificially partition the market between the EU Member States. For instance, the proprietor will be regarded as embarking on artificial partitioning of the EC Common Market when, with deliberate intention to segment the market, he relies on a national law, or contractual arrangements, to prohibit imports of similar goods bearing his trade mark that were legally marketed in another Member State.[778] The ECJ's use of the term "artificial partitioning" presupposes existence of "natural partitioning". It follows from the principles laid down in Article 36 TFEU, that the proprietor of a trade mark is naturally allowed to rely on his trade mark rights as owner to oppose the marketing of the branded goods "when such action is justified by the

775 The consolidated version of the TFEU was published in the Official Journal of the European Union No. C 115/47 of 9.5.2008.

776 Quantitative restrictions encompass "measures which amount to a total or partial restraint of, according to the circumstances, imports, exports or goods in transit" (*cf.* ECJ, Case C-2/73 *Gedo v Ente Nazionale Risi* [1973] ECR 865, para. 7).

777 *Cf.* GROSS, N., "Trade mark exhaustion: the U.K. perspective", 23(5) E. I. P. R. 224, 226 (2001).

778 ECJ, joined cases C-414/99 to 416/99, *Zino Davidoff* [2001] ECR I-0869, para. 45.

need to safeguard the essential function of the trade mark", in which case the resultant partitioning could not be regarded as artificial.[779]

The essential function of intellectual property rights is one of the principles developed by the ECJ in the course of interpreting provisions of the EU law in relation to the free movement of branded goods. It was preceded by the principle that requires a distinction to be made between the existence and exercise of intellectual property rights, and the principle of specific subject-matter of intellectual property rights.

II. Principles developed by the ECJ

1. Existence and exercise of intellectual property

The principle that requires a distinction to be made between the existence and exercise of intellectual property rights was expounded by the ECJ as a response to a fundamental question of how to achieve a balance between the legitimate interests of right holders to enjoy a monopoly in respect of industrial property protected under the national law and the EU's objective to maintain undivided common market. This question becomes of paramount importance when the owner of a national industrial property seeks to enjoy his rights in a way that clashes with interests of the EU's Common Market, namely the principle of free movement of goods. A partial solution to this question can be found in Article 36 of the TFEU, which disqualifies any attempt, by individuals, to rely on intellectual property to hamper free movement of goods, especially where such reliance disguisedly restricts trade between Member States. However, Article 345 of the TFEU, which provides that the Treaty "shall in no way prejudice the rules in Member States governing the system of property ownership", is a very antithesis of the foregoing conclusion. In the light of this Article, the TFEU seems to subordinate the EU law governing ownership of intellectual property to national law of the Member States regulating the same subject. This begs the question whether the proviso to Article 36 of the TFEU outlaws the use of national industrial property adjudged to be a disguised restriction on trade between Member States.

The provisions of Article 345 and the first part of Article 36 of the TFEU ostensibly trigger individuals in the EU Member States to assume that their nationally protected copyrights, patents, trade marks and other forms of

779 *Cf.* joined cases C-427/93, C-429/93 and 436/93, *Bristol-Myers Squibb v Panarova* [1996] ECR I-3457, para. 53.