COMMISSION DECISION

of 15 December 1982

relating to a proceeding under Article 85 of the EEC Treaty (IV/C-30.128 — Toltecs/Dorcet)

(Only the Dutch and German texts are authentic)

(82/897/EEC)

THE COMMISSION OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Economic Community,

Having regard to Council Regulation No 17 of 6 February 1962: first Regulation implementing Articles 85 and 86 of the Treaty (1), as last amended by the Act of Accession of Greece, and in particular Articles 3 and 15 thereof,

Having regard to the complaint filed by Mr Antonius Segers (hereinafter referred to as 'Mr Segers') pursuant to Article 3 of Regulation No 17 on 12 June 1980,

Having given the undertakings concerned the opportunity to make known their views on the objections raised by the Commission in accordance with Article 19 (1) of Regulation No 17 and with Commission Regulation No 99/63/EEC of 25 July 1963 on the hearings provided for in Article 19 (1) and (2) of Council Regulation No 17 (2),

After consultation with the Advisory Committee on Restrictive Practices and Dominant Positions,

Whereas:

I. The facts

1. The family firm, P. L. Segers & Zonen, was established in the Netherlands in 1896 for the purpose of processing and selling coffee, tea and tobacco. In 1969, the firm began manufacturing tobacco products, partly for third parties under their own brands and partly for direct sale through a new firm set up that same year, Tabaksindustrie Toltecs. Both firms have their headquarters in Roosendaal and are at present owned and run by Mr Segers.

Mr Segers used the trade mark Toltecs Special for the first time in 1969 and had it registered internationally for the Federal Republic of Germany and for other countries. On 31 January 1973 he applied to have the trade mark Toltecs Special (device and word as reproduced below) registered internationally in Class 34, for raw tobacco and tobacco products, as No 395 536 for, among others, Benelux, France, the Federal Republic of Germany and Italy.

In accordance with the agreement entered into by Mr Segers and BAT Cigaretten-Fabriken GmbH on 16 January 1975 the latter, on 21 January 1975, withdrew its opposition in the Federal Republic of Germany, so that registration could then be completed there too. The trade mark Toltecs Special (hereinafter referred to as 'Toltecs') is an expression derived from the name of an Indian tribe which lived in Mexico, the Toltecs. Over the last five years it has been used only in the Netherlands and the Federal Republic of Germany.

As far as tobacco products are concerned, up to now Mr Segers has produced only fine cut — mild, medium and strong tobacco for which, in recent years, there has been a steady increase in demand. The question as to whether the firm will also manufacture pipe tobacco in the future depends on how the market develops. Since 1978 Mr Segers has been selling his fine cut almost exclusively in the Netherlands, and his sales doubled in 1981; they are somewhat below 1 % of total fine cut sales in the Netherlands, which amounted to 14 353 tonnes in 1981.

Smoking tobacco is made up of fine cut (shag) and curly cut; the former is used for cigarettes hand-rolled by the consumer, the latter for pipe smoking only. The main manufacturers of smoking tobacco in the Netherlands are Douwe Egberts BV, Van Nelle Lassie BV, Niemeyer BV and Gruno-Van Rossem BV. The Netherlands is one of the main exporters of smoking tobacco worldwide.

2. BAT Cigaretten-Fabriken GmbH (hereinafter referred to as 'BAT'), Hamburg, is a subsidiary of one of the world's biggest cigarette producers, British American Tobacco Company, UK-London (turnover in 1980: some £ 7 600 million); its business consists in the manufacture and distribution of tobacco products. On 18 December 1968 it applied to enter the name Dorcet on the German trade mark register: on 15 January 1970 this was registered in Class 34, for raw tobacco, tobacco products and cigarette paper, as No 865 058. The Dorcet trade mark has never been used.

In 1981 BAT once again maintained its position as Germany's second-largest cigarette manufacturer.

(1) OJ No 13, 21. 2. 1962, p. 204/62.
(2) OJ No 127, 20. 8. 1963, p. 2268/63.

With domestic sales of 35 600 million cigarettes the firm attained a 27·4 % market share; HB, the leading German filter cigarette for the past 20 years, contributed 18·1 %. BAT's total sales in 1981 rose to almost DM 4 200 million (including excise duty but excluding value added tax).

In 1981 BAT systematically expanded further in the field of smoking tobacco, concentrating on light fine cut tobacco. According to the trade press (1) BAT is market leader in this field with its Gold Dollar fine cut (sales: 711 000 kg). In comparison with the previous year sales by all suppliers on the German market rose by 14 % to some 11 700 tonnes, while BAT's sales of fine cut totalled 863 000 kg. It held fifth place with a market share of over 7 %, following Martin Brinkmann AG, Theodorus Niemeyer Holland-Tabak GmbH, Douwe Egberts Agio GmbH and Alois Pöschl GmbH & Co KG (with respective market shares of 30, 23, 18 and 7·4 % for the first quarter of 1982). These five suppliers of fine cut together account for more than 85 % of the German market. The remaining 15 % is shared between some 25 other manufacturers and importers (2).

German imports of fine cut from other Member States have also gone up in the past few years: in 1976 they amounted to 2 500 tonnes; in 1981, 5 500 tonnes. Most of these imports came from the Netherlands.

There has been constant growth in the number of smokers rolling their own cigarettes over recent years in the Federal Republic of Germany. The progress made by fine cut tobacco, which accounts in the main for the expansion of the German market in smoking tobacco, stems on the one hand from the acquisition of a new category of purchasers, intellectuals and students, and on the other from the rise in retail prices of manufactured cigarettes due to increased value added tax and excise duty. According to the abovementioned trade press (3) over 12 000 million cigarettes were hand-rolled in the Federal Republic of Germany in 1981. This figure is barely 10 % of manufactured cigarette sales. On account of the increase in tobacco tax which came into force on 1 June 1982, the industry estimates that there will be further increase of at least between 1 500 million and 2 000 million in the number of cigarettes rolled by hand, for they cost roughly half the price of manufactured cigarettes, despite the fact that the tax on fine cut was increased by up to 130 % as against some 39 % for manufactured cigarettes. The same sources believe that in the near future light fine cut will gain ground in the increasing trend towards substitution of manufactured cigarettes by hand-rolled ones. At present light fine cut accounts for 37·18 % and medium tobacco for 33·77 % of sales.

In 1980 BAT sold 61 500 kg of pipe tobacco; in 1981, 64 400 kg, accounting for some 3·7 % of total pipe tobacco sales in the Federal Republic of Germany of 1 740 tonnes. Specialized retailers have a particularly important role to play in the selling of smoking tobacco. BAT has stated in its 1980 annual report that the range of smoking tobacco it offers is well established in this respect and that this has contributed to the rise in sales.

3. On 25 July 1973 BAT, on the basis of its trade mark Dorcet, opposed the application for registration of the mark Toltecs. Although in a letter from his trade mark lawyer, dated 25 January 1974, Mr Segers expressly left open the question of the possible confusion of the trade marks Dorcet and Toltecs, he submitted to BAT the scheme of arrangement outlined below, with the aim of inducing the latter to withdraw its opposition.

'If your client (BAT) withdraws its opposition, my client (Mr Segers) gives a firm undertaking in respect of himself and any assignees or licensees to restrict the goods covered by his IR mark 395 536 in the Federal Republic of Germany to "curly cut tobacco (shag)", to use the word/device mark Toltecs after grant of protection in the Federal Republic of Germany for this specific product only, and to claim no rights as against your client arising from the registration and use of this mark, in particular to raise no objection if your client should again apply for registration of or use his mark Dorcet or a similar mark (with the exception of Toltecs) for the same or similar products, as listed under mark 865 058 in the Federal Republic of Germany.'

On the basis of this proposal and subsequent correspondence, notably the further exchange of letters dated 30 October 1974 and 7 January 1975, the following agreement was entered into and signed by BAT on 16 January 1975:

'Article 1

"BAT" is the owner of the German trade mark 865 058 "Dorcet".

Article 2

"Mr Segers" is the owner of the internationally registered trade mark 395 536 (word/device mark) "Toltecs Special".

(1) Die Tabak Zeitung (2. 7. 1982).
(2) Die Tabak Zeitung Dokumentation, Rauchtabak 1982 (20. 8. 1982).
(3) Die Tabak Zeitung (16 and 23. 4. 1982).

Article 3

"Mr Segers" undertakes to restrict the products listed under the IR mark 395 536 in the Federal Republic of Germany to "curly cut tobacco (shag)" and after protection is granted in the Federal Republic of Germany, to use the word/device mark "Toltecs Special" for this special product only, to claim no right as against "BAT" arising from registration and use of the mark Toltecs Special, not even if the latter does not use its 865 058 "Dorcet" mark for more than five years or if it applies again for registration of the mark or a mark other than Toltecs Special that could be confused with it within the meaning of Section 31 of the German trade mark law.

Article 4

"Mr Segers" further undertakes to refrain from publicizing in any description of the tobacco sold under the IR mark 395 536 that it is suitable or recommended for rolling cigarettes. "Mr Segers" may use the designation "fine cut tobacco" or "Dutch shag".

Article 5

"BAT" undertakes on signature by "Mr Segers" of the agreement, to withdraw its opposition to the grant of protection for the IR mark 395 536 and to raise no objection to use of the IR mark 395 536 for "curly cut tobacco" in the Federal Republic of Germany.'

4. Although the wording of the agreement is ambiguous and even, in part, contradictory, since the designations curly cut tobacco and shag are not synonymous, the former being used only for pipe tobacco and the latter only for fine cut tobacco, both in the Federal Republic of Germany and in the Netherlands, the manner in which the parties applied the agreement reveals that Segers was to be prohibited from any marketing of fine cut in the Federal Republic of Germany under the Toltecs mark without BAT's approval.

(a) Following a first attempt at exporting in 1973, when 5 500 kg of Toltecs fine cut was sold in the Federal Republic of Germany, Mr Segers began selling this product again in January 1977 through an exclusive distributor, the importer Müller-Broders. Before then, by letter dated 12 July 1976, BAT had notified this importer that, until further notice, it would assert no claim arising from the agreement of 16 January 1975 with Mr Segers to prohibit use of the Toltecs mark, provided that Müller-Broders used the name Toltecs for fine cut. In 1977 17 302 kg of Toltecs fine cut was imported through this distributor.

(b) In the course of 1978 difficulties arose between Mr Segers and Müller-Broders, apparently because the latter's sales drive was inadequate. When the business links were severed BAT reiterated its view in a letter to Mr Segers dated 23 August 1978 that the agreement authorized only the marketing of pipe tobacco under the Toltecs mark and not of fine cut tobacco. It stated that it has also granted Müller-Broders the right to use this mark for fine cut and demanded that Mr Segers should give the names of any new importers. Following a short period of cooperation with Müller-Broders' successor, Peter Grassmann GmbH, Hamburg, which was, however, soon to be wound up, Mr Segers requested BAT's approval to distribute through Planta GmbH & Co., Berlin. BAT then declared its willingness to extend the agreement to fine cut, but imposed the further condition that Mr Segers buy up the stock of Toltecs tobacco remaining with Peter Grassmann GmbH. Since Mr Segers did not comply, BAT stated in its letter of 14 December 1979 that it would prohibit further distribution through third parties of Toltecs fine cut on the German market and that it had forwarded a copy of its letter to Planta GmbH & Co. On account of these differences between Mr Segers and BAT, Planta GmbH & Co. withdrew from the talks on taking over the distribution of Toltecs fine cut in the Federal Republic of Germany. In reply to a letter dated 21 May 1980 from Mr Segers's lawyer containing a request to terminate the agreement, BAT repeated its offer of extending the contract to fine cut provided that Mr Segers take on the stocks remaining with Peter Grassmann GmbH.

Mr Segers had stopped exporting Toltecs fine cut to the Federal Republic in 1978 on account of his dispute with BAT (in early 1978 sales in the Federal Republic still amounted to 3 750 kg). Since then Mr Segers has been endeavouring to sell his fine cut in the Federal Republic under his new trade mark, Wigwam, but with little success: 400 kg was sold in 1981.

5. In its written replies to the Commission's requests for information and statement of objections, as well as at the oral hearing on 1 April 1982 BAT gave the following explanations:

(a) There appeared to be no infringement of Articles 85 and 86 in the trade mark 'delimitation' agreement with Mr Segers, for it reflected national trade mark law which governed exclusively assessment of the risk of possible confusion. The precedence of national trade mark law in relation to confusability was clear from the judgment of the Court of Justice of 22 June 1976 in Case 119/75 (Terranova v. Terrapin) (1) whereby it is compatible with the provisions of

(1) [1976] ECR 1039.

the EEC Treaty relating to the free movement of goods for an undertaking established in a Member State, by virtue of a right to a trade mark and a right to a commercial name which are protected by the legislation of that State, to prevent import of products of an undertaking established in another Member State and bearing, by virtue of the legislation of that State, a name giving rise to confusion with the trade mark and commercial name of the first undertaking.

There were no economic or legal ties between BAT and Mr Segers. The respective marks 'Dorcet' and 'Toltecs' had been established independently. They sounded similar, which according to the broad concepts of confusability defined under German trade mark law was sufficient to establish the risk of confusion. The two marks sounded similar because the vowel sequence was the same, the consonants were of a like nature and the last three letters 'CET' and 'TEC' were simple inversions of each other. The obligation imposed on Mr Segers therefore fell within the scope of the exclusive rights of the owner of the trade mark Dorcet which has priority over the trade mark Toltecs. Moreover, it was not necessary to go into the question of the likelihood of confusion for both parties had assumed that confusion was possible. Mr Segers shared this view, as emerged from the fact that he initiated the proposal for the agreement in the abovementioned letter of 25 January 1974.

Finally, the agreement between the two firms was apt to promote competition. Without it Mr Segers might not have entered the German market at all, or at least there would have been protracted litigation, for purely on the basis of its capital resources it would have been easier for BAT to hold out than for a small firm like Mr Segers's, which was new to the market.

(b) Leaving aside the above considerations of principle on the question of delimitation under trade mark law, objective interpretation of the agreement reveals that it does not comprise a general ban on the marketing of Toltecs fine cut, but only the obligation imposed on Mr Segers in Clause 4 to refrain from publicizing the product's suitability for rolling cigarettes. In Clause 3 the agreement does incorrectly equate curly cut with shag — though this definition can be traced back to the letter from Mr Segers's lawyer — but in the light of Clause 4 it must refer to fine cut, for pipe tobacco cannot be used for rolling cigarettes. In addition, Clause 4 authorized Mr Segers to use the designation 'fine cut' on account of the designation on the tax band required under tax law.

On conclusion of the agreement there was in fact no doubt in the minds of the parties that it entitled Mr Segers to use the Toltecs mark for fine cut. Later, however, on the occasion of the dispute between Mr Segers and Müller-Broders and only to help the latter to assert his claims on account of their long-standing good business relations — BAT's representative deliberately put forward the erroneous point of view that the agreement prohibited the marketing of Toltecs fine cut. Surprisingly Mr Segers did not then insist further on his contractual rights, which were substantial. However, for the purposes of Article 85, no further contractual arrangement can be inferred from the manner in which the agreement was actually applied.

(c) BAT has never used the Dorcet mark. It takes the view, however, that the situation regarding the use of Dorcet is irrelevant, since the complainant himself raised no objection regarding failure to use. Besides, the agreement contained no general no-challenge clause preventing Mr Segers from applying for cancellation of the Dorcet mark for non-use. Despite several inconsistencies, the text of the agreement is to be interpreted as meaning that, regardless of any non-use, the only challenges by Mr Segers which are prohibited are those founded on the legal status acquired through registration and use of the Toltecs mark. A number of cases are conceivable in which this ban could come into play, e.g. loss of priority by the Dorcet mark, possibly by commencing use after expiry of the five-year period laid down by German law or by a new application for registration of this mark or of a mark that could be confused with it.

(d) Moreover, the wording disputed by the Commission, namely the withdrawal of opposition to the registration of the mark together with the no-challenge clause, i.e. not to take action against the prior mark, even after expiry of the five-year period, was not only customarily used by BAT, but in the German branded goods sector in general. It was even contained in the automatic printout used by the trade mark departments of major undertakings.

(e) Article 85 (1) had not been infringed intentionally since Commission Decision 78/193/EEC [1] on the sole relevant precedent (Penneys) was taken only on 23 December 1977 and published on 2 March 1978. Even if conclusion of the agreement on 16 January 1975 had infringed Article 85 (1),

[1] OJ No L 60, 2. 3. 1978, p. 19.

the five-year limitation period for proceedings had run out.

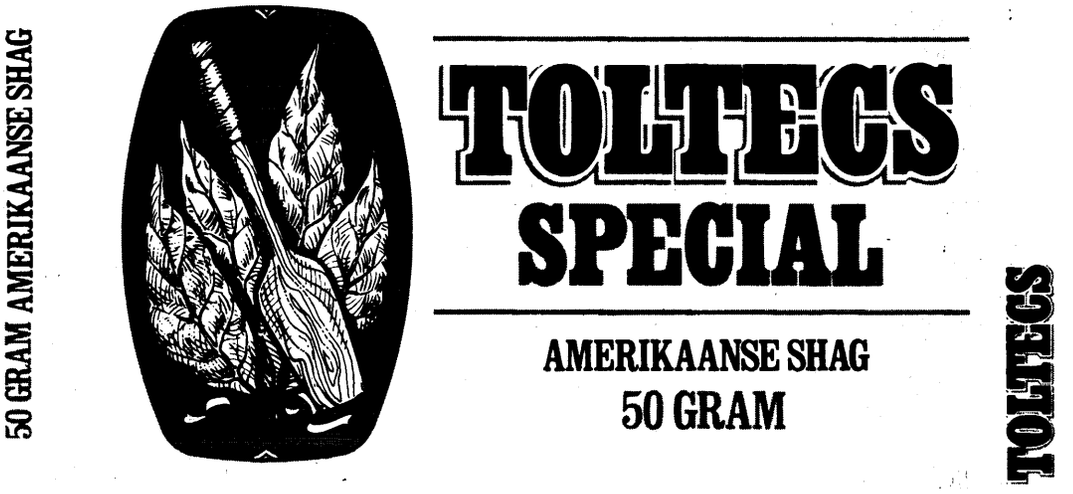
(f) Whatever the precise content of the agreement may have been, BAT attached no further importance to its continuing and was quite prepared to terminate it without delay.

6. The two trade marks which form the subject of the agreement are reproduced below:

(a) As appearing in registration No 865 058 of 15 January 1970:

DORCET

(b) As appearing on the packaging used by Mr Segers:



(c) As appearing under Mr Segers's IR mark 395 536:

II. Applicability of Article 85 (1) of the EEC Treaty

1. Article 85 (1) of the EEC Treaty prohibits, as incompatible with the common market, all agreements between undertakings which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the common market.

2. The agreement between Mr Segers and BAT is an agreement between undertakings within the meaning of Article 85 (1).

3. The agreement contains clauses which have as their object and effect the restriction of competition within the common market.

A. By virtue of the first half of Clauses 3, 4 and 5 of the agreement, as applied by the parties from the outset onwards, Mr Segers may not without BAT's consent import fine cut tobacco under the Toltecs trade mark into the Federal Republic of Germany nor market it there.

(a) The agreement thus keeps Mr Segers's fine cut out of the German market or at least so restricts his freedom to compete that his products can be distributed only through an importer acceptable to BAT or subject to further conditions imposed by BAT, e.g. taking over the remaining Toltecs tobacco stocked by Peter Grassmann GmbH. The object of the agreement is therefore a restriction of competition within the meaning of Article 85 (1).

This is not refuted by BAT's argument that the agreement must objectively be construed as merely restricting Mr Segers's freedom to advertise and that no other further restrictions on Mr Segers can be inferred from the erroneous legal position adopted by BAT after conclusion of the agreement.

BAT took up this legal position as early as 1976 when Müller-Broder began to distribute Toltecs fine cut. As a result, and in conjunction with the admittedly ambiguous wording of the agreement, Mr Segers was constrained to behave as if the agreement contained the sales ban alleged by BAT. He accordingly had to discontinue the marketing of his fine cut in the Federal Republic of Germany, if he did not want to submit to BAT's conditions or run the risk of becoming involved in costly litigation — which he could not afford — with a firm in a strong financial position like BAT.

Even if in future the contract were to be applied only with the meaning that BAT now seeks to attach to it, i.e. that it imposed on Mr Segers only the obligation to refrain from publicizing the suitability of his Toltecs fine cut for rolling cigarettes, this would constitute a restriction of Mr Segers's freedom to make use of a feature of importance to competition and would be caught by Article 85.

(b) The agreement also results in a restriction of competition between BAT and third parties. It is not only Mr Segers who is precluded from the unhampered marketing of his product in the Federal Republic of Germany; the restrictions of competition also affect independent trading companies that may wish to sell products bearing the Toltecs mark in the Federal Republic of Germany. This applies in particular to Planta GmbH and Co., Berlin; BAT prevailed upon Planta to forgo distribution of Toltecs fine cut by drawing attention to the agreement with Mr Segers and the alleged confusion between the Dorcet and Toltecs marks.

(c) It cannot be argued that Article 85 (1) does not apply because the exclusion effected by the agreement could also be achieved by BAT through unilateral assertion of the rights arising from the Dorcet mark with the result that there is no relationship of cause and effect between the agreement and the restriction of competition.

In its judgment in Terrapin v. Terranova, the Court of Justice made it clear that in the present state of Community law claims may be asserted under trade mark law to prevent the import of a product bearing a mark giving rise to confusion, despite the restrictive effect on competition, provided that the respective rights have arisen independently of one another and that the undertakings concerned have no economic or legal ties.

BAT maintains that this principle, which applies to a right arising under legislation, is also applicable to a 'delimitation' agreement under which such a right is in part exercised and in part waived in favour of the other party. BAT did no more, it alleges, than to reserve to itself the right, to which it was entitled in the Federal Republic of Germany

where it held the prior mark, to oppose the import of fine cut tobacco under the Toltecs mark in certain cases. The agreement was thus in all respects advantageous to Mr Segers, for he could still use the Toltecs mark in the Federal Republic of Germany in certain circumstances; in the final result it promoted competition. In concept this legal assessment is well founded, but is inapplicable here in the light of the particular facts of the case.

(d) In the present state of Community law, in cases where the products are similar, there is a serious likelihood of confusion and the owner of the prior mark is therefore more likely to be in a position to prevent registration and use of the later mark, restrictions on the use of a later mark do not restrict competition within the meaning of Article 85 (1), for in accordance with the case law of the Court of Justice the right to prevent marketing relates to the existence of the prior mark.

(e) However, the greater the difference in the products or the less likely the risk of confusion, the more the agreement must take account of the overriding goal of common market unity. Of all the possible solutions to the conflict, the parties therefore have to adopt that which least restricts the use of both marks throughout the whole of the common market. This includes agreements to reproduce the disputed mark only in a certain way (colour, form of lettering, inclusion of trade name, etc.) or possibly to use it for certain products only.

The Commission recognizes the latitude that may exist in the appreciation of such cases both as concerns the relevant national law and as concerns the parties; this is a further factor that must be taken into account when Article 85 (1) is applied.

(f) In this case, however, in its scrutiny of the agreement pursuant to Article 85, the Commission cannot find any serious risk of confusion between the word mark Dorcet and the word/device mark Toltecs. There is still no serious risk of visual or phonetic confusion if the pictorial component registered and used by Mr Segers (a wooden shovel lying across four tobacco leaves depicted within a distinctively-shaped gold ground) is disregarded, and the words Dorcet and Toltecs are compared. BAT's assertion that the marks sound similar and are therefore likely to be confused does not change this finding.

Contrary to BAT's viewpoint it is not merely national trade mark law that underlies the question whether two marks of different origin are likely to be confused. As the Court of Justice stated in Terrapin v. Terranova, the application of Community law (*viz.* the rules on the free movement of goods and on competition) may be involved. The greater the scope of the protection which national law affords to the Dorcet mark, the greater the restriction on the import into the Federal Republic of Germany of goods bearing the Toltecs mark.

B. In second half of Clause 3, Mr Segers undertakes to claim no rights as against BAT arising from his registration and use of the Toltecs mark, not even if BAT does not use its Dorcet mark for more than five years or if it applies again for registration of this mark or a mark capable of being confused with it within the meaning of Section 31 of the German trade mark law (other than Toltecs Special).

(a) BAT first put forward the view, in its letter to the Commission dated 9 September 1980, that this clause put Mr Segers under a fully comprehensive obligation, admissible in law, to refrain from challenging the Dorcet mark, even after expiry of the five-year period. After receiving the Commission's statement of objections, however, BAT amended its view to concede that the clause would not prevent Mr Segers from having the Dorcet mark cancelled on grounds of non-use.

(b) Yet even under BAT's amended view, the clause serves to reinforce an agreement which restricts competition (see II (3) A)) and is caught by Article 85 (1). The clause prevents Mr Segers from freely asserting as against BAT the rights which have arisen in the meantime from his Toltecs mark in the event of the Dorcet mark being cancelled on grounds of non-use. This clause would also restrict Segers rights if Dorcet were in fact to lose priority over Toltecs as a result of BAT's using the Dorcet mark for the first time after expiry of the five-year period or of a new application for registration. The clause prevents Mr Segers from invoking the priority of his mark Toltecs against the Dorcet mark in the event of the coming into use or being registered again at a later date. Mr Segers has thus abandoned a ground for defence which is much easier to rely upon than a contestation

of confusability. Finally, it was made difficult for Mr Segers to release himself from contractual restrictions on registration and use of his Toltecs mark and thus to eliminate a barrier to his economic activity in the Federal Republic.

In conjunction with the contractual restriction on the registration and use of the Toltecs mark the object of the no-challenge clause is to prevent for all time legitimate extension of the mark's field of application, thereby strengthening BAT's position under trade mark law.

Contrary to the view expressed in BAT's abovementioned letter of 9 September 1980, Mr Segers's contractual renunciation of his right to attack non-use of the Dorcet mark must be disregarded for the purposes of the application of Article 85. The overriding public interest in the cancellation of trade marks that are not used or that can be challenged on other grounds requires that neither Mr Segers nor any third party should be prevented from taking steps to obtain such a cancellation with all its repercussions.

(c) BAT's objection that the user requirement, as for example in the Federal Republic of Germany pursuant to the Law of 4 December 1967 [1], is not yet a concept acknowledged by Community law since it was first provided for in the draft Council Regulation on Community trade marks and is unknown in Danish law, is on factual ground irrelevant. The object of the user requirement is to avoid overloading the trade mark register with unused prior marks, in order to facilitate the registration of new marks for new products and their entry into the market. This reflects the fact that there is a mathematical limit to possible combinations of letters of the alphabet for word marks and even then not all the possible combinations are made up of syllables that can be pronounced. As a result of the unlimited maintenance of unused prior marks in many countries, including several Member States, new marks based on letters are no longer available. Within the Community this is true in particular for France, with 301 711 marks registered, for the Federal Republic of Germany with 285 317 marks and for the United Kingdom with 244 100 marks. In contrast, there are only 86 753 registered marks in Denmark [2]. In the light of these circumstances it follows that agreements which hinder the registration and use of new marks in a Member State with a large number of marks are more serious infringements of Article 85 than in Member States with a small number of marks.

4. The abovementioned clauses of the agreement are also apt to affect trade between Member States. They impede free import and export of the goods covered by the agreement from the Netherlands to the Federal Republic of Germany by raising artificial barriers to trade in a manner which jeopardizes attainment of the goal of a single market.

The restriction of competition and its direct effect on intra-Community trade are also appreciable. In its Decision 75/297/EEC [3] (Sirdar/Phildar), the Commission has already pointed out that it is problematical, if not impossible on economic grounds, to replace an established mark by another mark, because of the consequent loss of the advertising impact of the established mark and other practical difficulties. In this case the mark Toltecs has been in use for a number of years and almost one third of Mr Segers's export of tobacco products to the Federal Republic of Germany have borne this mark. Since then Mr Segers's production has increased considerably, while his exports to the Federal Republic of Germany have fallen to almost nil, although demand for Dutch fine cut in the Federal Republic of Germany continues to expand.

In view of the structure of the German tobacco market, which is dominated by a few large undertakings, even the restriction of a small supplier from another Member State is particularly serious, all the more so since BAT has entered into numerous similar agreements.

III. **Inapplicability of Article 85 (3) of the EEC Treaty**

Under Article 85 (3) the provisions of Article 85 (1) may be declared inapplicable in the case of any agreement which contributes to improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit, and which does not:

(1) Bundesgesetzblatt 1967 I, p. 853.

(2) Organisation Mondiale de la Propriété Intellectuelle, Statistique de propriété industrielle, 1980, p. 30.

(3) OJ No L 125, 16. 5. 1975, p. 27.

(a) impose on the undertakings concerned restrictions which are not indispensable to the attainment of these objectives;

(b) afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products in question.

1. The agreement was not notified to the Commission, so that already on procedural grounds it cannot qualify for a grant of exemption.

2. The agreement does not fall within Article 4 (2) (2) (b) of Regulation No 17.

(a) As owner of the Toltecs trade mark, Mr Segers is neither assignee nor user of a mark belonging to BAT.

(b) Mr Segers cannot be regarded as an assignee or a user within the meaning of this provision, for the assignment and use of his Toltecs mark do not require BAT's approval since there is no serious risk of confusion with the Dorcet mark.

(c) Moreover the restrictions of competition established above (II (3) (A) (a)), namely:

— distribution only through an importer approved by BAT,

— taking over the remaining stocks of Peter Grassmann GmbH,

do not constitute restrictions on the exploitation of a licensed trade mark.

3. The Commission is careful to point out that agreements which contain restrictions of competition that extend beyond the latitude in appreciation of national law and the parties (referred to in II (3) (A) (e) above) and that are accordingly caught by Article 85 (1), may be exempted where they satisfy the tests of Article 85 (3). But there is no indication in this case of how the agreement contributes to improving the production or distribution of goods, for its object and effect is that fine cut bearing the Toltecs mark cannot be distributed in the Federal Republic of Germany or can be so distributed only under onerous conditions. It is not clear why the correct description of Toltecs fine cut — that it is suitable for rolling cigarettes by hand — should be withheld from German consumers. The agreement therefore fails to benefit the consumer. Finally, it imposes restrictions on the undertakings which are not indispensable within the meaning of the third condition of Article 85 (3). Even if the object of the no-challenge clause were to eliminate the most extreme risk of confusion imaginable, this could not justify Mr Segers forgoing his rights, where BAT refrained for more than five years from using the Dorcet mark.

4. Article 85 (3) is not, therefore, applicable to this agreement.

IV. Applicability of Articles 3 (1) and 15 (2) of Regulation No 17

1. *Article 3*

It is clear from the foregoing that the firms concerned have infringed Article 85. In accordance with Article 3 of Regulation No 17 they must be required to bring that infringement to an end forthwith, by putting an end to the clauses in their agreement which restrict competition. Furthermore, BAT may not replace this restriction of competition with economic pressure on Mr Segers or on importers in order to prevent or impede the import and marketing of Toltecs tobacco in the Federal Republic of Germany.

2. *Article 15 (2)*

The Commission may impose, in accordance with Article 15 (2), fines of from 1 000 to 1 000 000 units of account, or a sum in excess thereof but not exceeding 10 % of the turnover in the preceding business year of each of the undertakings participating in the infringement where they intentionally or negligently infringe Article 85 (1) of the EEC Treaty.

In fixing the amount of the fine, regard shall be had both to the gravity and to the duration of the infringement.

(a) The Commission is not imposing a fine in respect of the obligation taken over by Mr Segers to refrain from putting fine cut tobacco bearing the Toltecs mark in circulation in the Federal Republic of Germany, even though on several previous occasions it has indicated its objections to territorial restrictions in trade mark delimitation agreements, e.g.:

— in the Decisions 75/297/EEC (Sirdar-Phildar) and 78/193/EEC (Penneys), and the cases involving Persil [1] and Bayer/Tanabe [2]. The Commission considers it sufficient to confirm its point of view by its finding at IV (1) above that Article 85 (1) has been infringed.

[1] Seventh report on competition policy, points 138 to 140.
[2] Eighth report on competition policy, points 125 to 127.

(b) However, it appears appropriate to impose a fine on BAT in respect of the extension of the no-challenge clause to the case where the Dorcet mark remains unused for more than five years.

When the user requirement was introduced in the Federal Republic of Germany by the law of 4 December 1967 it was plain to BAT that the agreement, which prohibited Mr Segers from relying on his acquired rights even if the Dorcet mark is unused for more than five years, was contrary to the meaning and purpose of the statutory requirement, which was to remove unused marks from the register and faciliate entry by new applicants.

In this connection, it is particularly serious that the Dorcet mark was registered on 15 January 1970 and that BAT signed the agreement on 16 January 1975, one day after expiry of the period of protection accorded by German trade mark law. BAT was aware that by the agreement it has secured a legal position which by then could not be defended in law.

BAT acted intentionally as regards Community law also. In its Decision 78/193/EEC (Penneys) the Commission objected to a no-challenge clause concerning trade marks, where its effects extended beyond five years. As a firm dealing in branded goods BAT was not unaware of this Decision, which was published on 2 March 1978 and reprinted by the major specialized legal journals. Finally, by letter dated 21 May 1980 from Mr Segers's Dutch lawyer, BAT's attention was drawn to the fact that the agreement was incompatible with Community law. Notwithstanding this, and even though it never has used the Dorcet mark, BAT adhered to the agreement until the oral hearing on 1 April 1982.

In establishing the amount of the fine the Commission is taking account of the fact that this fine concerns only the no-challenge clause in so far as it is extended to the case where the Dorcet mark remains unused for more than five years and also that this is the first Decision imposing a fine in the field of industrial property rights.

However, the Commission is not imposing a fine on Mr Segers despite the fact that he has also committed an infringement of Article 85 (1). Mr Segers is the owner of a small Dutch firm, who at the beginning of his dispute with BAT was not adequately informed about the German legal position and Community law. Mr Segers's lack of legal experience is also clear from the course his dispute with BAT took, since he apparently let an erroneously worded agreement be used against him.

V. **Limitation periods**

The limitation period has not run out. The limitation period in respect of infringements covering a period of time, as in this case, begins to run when the agreement is terminated, not when it is entered into (Article 1 (2) of Council Regulation (EEC) No 2988/74 of 26 November 1974 concerning limitation periods in proceedings and the enforcement of sanctions under the rules of the European Economic Community relating to transport and competition [1].

In its letter to the Commission, dated 9 September 1980, BAT still referred to the existence of the no-challenge clause. In this case the earliest date for termination of the infringement must be taken as 1 April 1982, when BAT declared at the oral hearing that it attached no further importance to the continuation of the agreement,

HAS ADOPTED THIS DECISION:

Article 1

The provisions of the agreement of 16 January 1975 between the undertakings named in Article 5 and the application thereof constitute infringements of Article 85 (1) of the Treaty establishing the European Economic Community in so far as:

1. Mr Segers is under an obligation not to market fine cut under the Toltecs Special mark (IR mark 395 536) in the Federal Republic of Germany or not to undertake such marketing except through importers approved by BAT or on the fulfilment of certain other conditions;

2. Mr Segers is under an obligation to claim no rights as against BAT arising from his registration and use of the mark Toltecs Special, even where BAT does not use its Dorcet mark for more than five years or where it applies again for registration of this mark or a mark capable of being confused with it within the meaning of Section 31 of the German trade mark law (other than Toltecs Special).

Article 2

The undertakings named in Article 5 of this Decision shall terminate forthwith the infringements referred to in Article 1. In particular, BAT shall refrain from exercising any economic pressure on Mr Segers or on importers aimed at preventing or impeding the import and marketing of Toltecs tobacco in the Federal Republic of Germany.

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[1] OJ No L 319, 29. 11. 1974, p. 1.

Article 3

A fine of 50 000 (fifty thousand) ECU or DM 115 635 (one hundred and fifteen thousand six hundred and thirty five German marks) is hereby imposed on BAT Cigaretten-Fabriken GmbH for the infringement referred to at Article 1 (2) in respect of the extension of the no-challenge clause to the case where the Dorcet mark remains unused for more than five years.

Article 4

The fine imposed at Article 3 shall be paid, within three months of the date of notification of this Decision, to the following account in the name of the Commission of the European Communities:

Bankhaus, Sal. Oppenheimer,

D-5000 Köln, Konto Nr. 260/00/64910.

Article 5

This Decision is addressed to:

1. BAT Cigaretten-Fabriken GmbH,
   Alsterufer 4,
   D-2000 Hamburg 36.
2. Antonius Segers,
   Raadhuisstraat 41,
   NL-4701 PL Roosendaal.

This Decision shall be enforceable in accordance with Article 192 of the EEC Treaty.

Done at Brussels, 15 December 1982.

For the Commission
Frans ANDRIESSEN
Member of the Commission