

The Law of the EUROPEAN UNION

Teaching Material



THE INTERNAL MARKET:
INTELLECTUAL PROPERTY

J.H.H. Weiler

*European Union Jean Monnet Professor
NYU School of Law*

AND

Martina Kocjan

*Graduate Member of the Faculty of Law
University of Oxford*

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1. INTRODUCTION

From: <http://europa.eu.int/scadplus/leg/en/s06020.htm>.

For more information on intellectual property rights, see also the site of the World Intellectual Property Organisation (WIPO; www.wipo.int).

Differences between national laws in the intellectual property field may constitute protectionist barriers to the free movement of goods and services and distort competition, thereby undermining the single market. For example, a Member State with extremely strict counterfeiting laws could easily take action for counterfeiting against products coming from a Member State whose laws were less stringent.

The protection of intellectual property is, of course, governed by many international conventions. The World Intellectual Property Organisation (WIPO) and, more recently, the World Trade Organisation (WTO) are responsible for implementing numerous international conventions and treaties. The first convention, *the Paris Convention for the Protection of Industrial Property*, dates back to 1883, and since then several conventions and treaties have been signed which cover various aspects of the protection of intellectual property, such as the protection of literary and artistic works (*the Berne Convention*), and the protection of performers, producers of phonograms and broadcasting organisations (*the Rome Convention*). The Paris Convention for the Protection of Industrial Property, to which all the Member States are signatories, was, and still, is the basic tool for the international regulation of industrial property. The conclusion of the *Agreement on trade-related aspects of intellectual property rights (the TRIPS Agreement)* by the members of the WTO in 1996 upon the conclusion of the Uruguay Round emphasises the importance of the protection of intellectual property in the field of trade. The Agreement covers several aspects of trade, particularly the granting of patents for, amongst other things, pharmaceutical products. The WTO therefore plays an important role in the protection of intellectual property and has established close relations with the WIPO. The corresponding commitments made by some or all of the Member States are leading to some standardisation of national laws in specific fields.

This does not, however, provide an adequate basis for completing the single market. The Commission has therefore decided to strive for *harmonisation of national laws in different areas* and for stronger effective protection of intellectual property throughout the world.

I. Trade marks

As regards the protection of industrial property, attention was initially focused on trade marks. The measures adopted are designed, on the one hand, to establish a Community trade mark and, on the other, to harmonise laws on national trade marks. The first instrument concerns the harmonisation of national rights, which have been the subject of a Directive harmonising the conditions for registration of a national trade mark and the rights conferred by such a mark. The second instrument, the Regulation on the Community trade mark, adopted by the Council on 20 December 1993, enables the holder of a Community trade mark to market his products throughout the Community and to benefit from a single set of rules of protection. It has been supplemented by an implementing regulation, a regulation setting the fees payable and a regulation establishing the procedure to be followed before the Boards of Appeal instituted within the Office for Harmonisation in the Internal Market, the body responsible for trade marks and designs, which is based in Alicante (Spain). The languages of the Office are German, English, Spanish, French and Italian; the Office translates applications into the other languages of the European Union and publishes them in all of those languages. The provisions of the Regulation conform to the corresponding provisions of the Directive.

II. Designs

A similar approach has been taken towards designs. In October 1998, the Community adopted a

Directive approximating national laws to bring them into line with the rules on Community designs. Following this, a regulation to set up a Community design was adopted on 12 December 2001.

III. Patents

In the patents field there are two conventions. The first, the Munich Convention on the European Patent, which was signed in 1973 by a number of Member States and non-EC countries in Europe, provides for patents to be obtained for a number of countries through a single application to the European Patent Office. All the Member States are now party to this Convention. The second one, the Luxembourg Convention, was signed in 1975 and amended in 1989. It aims to give unitary effect to European patents applied for in respect of Community territory. 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 Munich Convention system (European patent). By offering appropriate legal certainty and a single patent for the whole of the Community, it will enable Europe to derive full benefit from research and new knowledge and to catch up with the United States and Japan as regards private investment in R&D (research and development).

IV. Utility models

Utility models also afford exclusive protection for technical inventions. However, they provide less legal certainty than patents and can, for that reason, be obtained more swiftly and cheaply. In its Green Paper on utility models, the Commission showed that utility model protection systems differ widely between Member States, hampering the free movement of goods. With a view to resolving this problem, it presented in December 1997 a proposal for a Directive approximating the relevant legal arrangements in Member States.

V. Legal protection of biotechnological inventions

The Commission has also put forward other proposals, such as the Directive on the legal protection of biotechnological inventions, which was adopted in 1998.

VI. Copyright and related rights

In the field of copyright and related rights, the first Directive was adopted in December 1986 and concerned the legal protection of topographies of semiconductor products. In a 1988 Green Paper on copyright and the challenge of technology, the Commission examined the most urgent problems requiring immediate action at Community level with a view to adjusting to the emergence of new technologies. In December 1990 it adopted a communication on the action to be taken on this Green Paper setting out the Commission's action plan in the field. As a consequence, the Community has adopted harmonised legislation which focuses on cases in which disparities between Member States in the area of copyright protection or legal uncertainty are a disincentive when it comes to exercising rights in some countries. Efforts have centred on the legal protection of computer programs and databases, satellite broadcasting and cable transmission, rental right and lending right, certain related rights and the duration of protection. By providing a high comparable level of copyright protection in all Member States, this harmonisation has created a climate conducive to innovation and creativity while making it easier for these rights to be exercised throughout the Community. In 1996 the Commission presented a proposal for a Directive designed to harmonise the resale right for the benefit of the author of an original work of art; the proposal was amended in March 1998.

In November 1996 the Commission adopted a communication concerning the follow-up to the Green Paper on copyright and related rights in the information society. This communication presents the results of the consultation of interested parties and puts forwards priority issues for legislative action in order to

establish fair rules throughout the Community governing the protection of copyright within the context of the single market. As a consequence, the Commission adopted a Directive on copyright and related rights in the information society. The purpose of this proposal is to bring legislation on copyright and related rights into line with technological developments and, in particular, with the information society and to transpose into Community law two new treaties in the field (the Copyright Treaty and the Performances and Phonograms Treaty), adopted in December 1996 by the World Intellectual Property Organisation (WIPO). In March 2000, the Community also approved these WIPO Treaties.

VII. Counterfeiting and piracy

Counterfeiting and piracy have become an international phenomenon with major economic and social consequences. It is estimated that such activities account for between 5% and 7% of world trade and lead to 200 000 job losses a year worldwide. Differences in ways of ensuring that intellectual property is respected - for example, differences in systems of sanctions from one Member State to another - make any fight against counterfeiting and piracy less effective. In order to tackle this problem, in 1998 the Commission presented a Green Paper aiming to bring the problems to light, to propose action and to launch a debate on the subject. The interested parties have, by their response, confirmed the size of the problem and proposed action which might be taken. There is a great demand for action to be coordinated and harmonised at European Union level. To this end, in November 2000 the Commission presented a communication in the form of an action plan, covering action it expected to take both as a matter of urgency and in the medium term and other initiatives aimed at the private sector and national authorities. The action plan includes a proposal for a Directive to harmonise legislative, regulatory and administrative provisions in the Member States, to ensure that intellectual property rights are respected.

2. RELEVANT TREATY PROVISIONS

2.1 TEC: Free movement of goods

Article 28

Quantitative restrictions on imports and all measures having equivalent effect shall be prohibited between Member States.

Article 29

1. Quantitative restrictions on exports, and all measures having equivalent effect shall be prohibited between Member States.
2. Member States shall, by the end of the first stage at the latest, abolish all quantitative restrictions on exports and any measures having equivalent effect which are in existence when this Treaty enters into force.

Article 30

The provisions of Articles 28 and 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.

2.2 TEC: General and final provisions

Article 295

This Treaty shall in no way prejudice the rules in Member States governing the system of property ownership.

2.3 TEC: Competition

Article 81

1. The following shall be prohibited as incompatible with the common market: all agreements between undertakings, decisions by associations of undertakings and concerted practices 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, and in particular those which:
 - (a) directly or indirectly fix purchase or selling prices or any other trading conditions;
 - (b) limit or control production, markets, technical development, or investment;
 - (c) share markets or sources of supply;
 - (d) apply dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
 - (e) make the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.
2. Any agreements or decisions prohibited pursuant to this article shall be automatically void.
3. The provisions of paragraph 1 may, however, be declared inapplicable in the case of:
 - any agreement or category of agreements between undertakings,
 - any decision or category of decisions by associations of undertakings,
 - any concerted practice or category of concerted practices, 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:
 - (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.

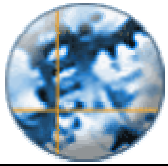
Article 82

Any abuse by one or more undertakings of a dominant position within the common market or in a substantial part of it shall be prohibited as incompatible with the common market in so far as it may affect trade between Member States.

Such abuse may, in particular, consist in:

- (a) directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions;
- (b) limiting production, markets or technical development to the prejudice of consumers;
- (c) applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;
- (d) making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.

3. THE NATURE AND FUNCTION OF INTELLECTUAL PROPERTY RIGHTS



NOTE AND QUESTIONS

1. What are the interests protected by patent legislation, what are those protected by trade-mark legislation?
2. Does one of these merit greater respect?

3.1 Case C-10/89: Hag II

SA CNL-SUCAL NV v HAG GF AG

Case C-10/89

13 March 1990

AG Jacobs

ECR [1990] I-03711

<http://www.curia.eu.int/en/content/juris/index.htm>

[...]

V. The nature and function of trade marks

- 16 Before going any further into the question what, if any, justification can be found for the doctrine of common origin laid down in HAG I, I must first make one preliminary observation about the approach of the Court in the earlier cases to the nature and function of trade marks. With the benefit of hindsight, one can see there were in the previous case-law signs of an unduly negative attitude to the value of trade marks. Thus Advocate General Dutheillet de Lamothe observed in Case 40/70 Sirena [1971] ECR 69, at p. 88):

"Both from the economic and from the human point of view the interests protected by patent legislation merit greater respect than those protected by trade marks.

... From the human point of view, the debt which society owes to the 'inventor' of the name 'Prep Good Morning' [a brand of shaving cream] is certainly not of the same nature, to say the least, as that which humanity owes to the discoverer of penicillin."

The Court echoed those remarks in the judgment (paragraph 7):

"The exercise of a trade mark right is particularly apt to lead to a partitioning of markets, and thus to impair the free movement of goods between States which is essential to the common market. Moreover, a trade mark right is distinguishable in this context from other rights of industrial and commercial property, inasmuch as the interests protected by the latter are usually more important, and merit a higher degree of protection, than the interests protected by an ordinary trade mark."

- 17 It is noteworthy that this conception of the relative merits of trade marks and other forms of intellectual property was based on an invidious comparison between a rather trivial trade mark and one of the most important discoveries in the history of medicine. Different comparisons might have produced different results, more favourable to trade marks. The truth is that, at least in economic terms, and perhaps also "from the human point of view", trade marks are no less important, and no less deserving of protection, than any other form of intellectual property. They are, in the words of one author, "nothing more nor less than the fundament of most market-place competition" (W. R. Cornish, *Intellectual property: patents, copyright, trade marks and allied rights*, 2nd edition, 1989, p. 393).
- 18 Like patents, trade marks find their justification in a harmonious dovetailing between public and private interests. Whereas patents reward the creativity of the inventor and thus stimulate scientific progress, trade marks reward the manufacturer who consistently produces high-quality goods and they thus stimulate economic progress. Without trade mark protection there would be little incentive for manufacturers to develop new products or to maintain the quality of existing ones. Trade marks are able to achieve that effect because they act as a guarantee, to the consumer, that all goods bearing a particular mark have been produced by, or under the control of, the same manufacturer and are therefore likely to be of similar quality. The guarantee of quality offered by a trade mark is not of course absolute, for the manufacturer is at liberty to vary the quality; however, he does so at his own risk and he - not his competitors - will suffer the consequences if he allows the quality to decline. Thus, although trade marks do not provide any form of legal guarantee of quality - the absence of which may have misled some to underestimate their significance - they do in economic terms provide such a guarantee, which is acted upon daily by consumers.
- 19 A trade mark can only fulfil that role if it is exclusive. Once the proprietor is forced to share the mark with a competitor, he loses control over the goodwill associated with the mark. The reputation of his own goods will be harmed if the competitor sells inferior goods. From the consumer's point of view, equally undesirable consequences will ensue, because the clarity of the signal transmitted by the trade mark will be impaired. The consumer will be confused and misled.
- 20 I should add that the Court, shortly after HAG I, modified its attitude and recognized the twin functions of trade marks as defined above - namely to protect the proprietor's goodwill and to save the consumer from confusion and deception: see Case 16/74 *Centrafarm v Winthrop* [1974] ECR 1183. I will turn in due course to the later case-law. However, the earlier, more negative, approach to trade marks may well help to explain the decision in HAG I itself.

[...]

4. PATENTS

4.1 Primary Sources

4.1.1 Patent protection in the European Union

In the European Union, patent protection is currently provided by three systems, none of which is based on a Community legal instrument:

- the national patent systems,
- the European patent system (through the European Patent Office)
- and the Patent Co-operation Treaty

These different organisations have grown out of progressive attempts to try and simplify the application procedure. The national patent appeared first. Within Europe national patent law has over time undergone de facto harmonisation. First of all, all the Member States are parties to both the *Paris Convention for the Protection of Industrial Property* of 20 March 1883 (as last amended on 14 July 1967) and the Agreement of 15 April 1994 on *Trade Related Aspects of Intellectual Property Rights* (referred to hereinafter as the *TRIPS Agreement*). Several Member States are also party to the *Council of Europe's Convention* of 27 November 1963 on the *unification of certain elements of patent law*.

The fear that national intellectual property rights would be (ab)used to restrict trade within the Community lead the Commission to seek for solutions in the fields of patents, designs and trade marks. In 1965 a draft of the system of law governing European Patents was finished, but was put on hold due to the UK's application to join the EEC. At that time, initial thought was given to the creation of a patent system applicable to the nascent European Community in its entirety. However, it quickly became apparent that this approach could not take on more tangible form in a purely Community context. After that the draft was split into two separate conventions:

4.1.1.1 The "Munich Convention"

The first was to be open to both Member and non-Member States and would introduce a procedure to obtain European patents that would have the legal value of a compilation of national patents. This convention lead to the *Convention on the Grant of European Patents* (referred to hereinafter as the "*Munich Convention*"), to which all the Member States gradually acceded.

The Munich Convention is governed by conventional international law and does not form part of the Community legal order. The Munich Convention established a European Patent Organisation, the constituent bodies of which are the European Patent Office (referred to hereinafter as the "Office") and the Administrative Council. It lays down a single procedure for the granting of patents. This task has been assigned to the Office. 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. At present, nineteen countries are members of the European Patent Organisation. Apart from the Member States of the European Community, these are Switzerland, Liechtenstein, Monaco, Cyprus, Turkey, Bulgaria, Czech Republic, Estonia, Hungary, Romania, Slovak Republic and Slovenia and, in the near future Albania, Lithuania, Latvia and FYR Macedonia.

The European Patent Organisation

- Established by the Convention on the Grant of European Patents (EPC) signed in Munich 1973, the EPO is the outcome of the European countries' collective political determination to establish a uniform patent system in Europe.
- As a centralised patent grant system administered by the European Patent Office on behalf of all contracting states, it is a model of successful co-operation in Europe.

The European Patent Organisation comprises

- its legislative body, the Administrative Council
- its executive body, the European Patent Office

For more information visit: <http://www.european-patent-office.org/>

4.1.1.2 The Patent Co-operation Treaty

Similarly, at an international level the Patent Co-operation Treaty (PCT) was agreed in 1970 and has been ratified by 100 countries, including all those of the developed world.

Again the aim is to simplify procedures - in a single request for an international patent; the applicant can list a series of countries where he wants the patent to apply. It is however the application procedure that is simplified, the courts of individual countries still rule on whether or not a patent has been infringed or is legally valid.

4.1.1.3 The Luxembourg 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 (referred to hereinafter as the "Luxembourg Convention").

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 the only Member States to ratify it were France, Germany, Greece, Denmark, Luxembourg, the United Kingdom and the Netherlands. Difficulties in the ratification process led to two conferences in Luxembourg in 1985 and 1989. At the first conference the Convention was amended by an Agreement concerning Community patents and including, amongst other things, the Protocol on the Settlement of Litigation concerning the Infringement and Validity of Community Patents¹ and the Protocol on Establishment of the Community Patent Appeal Court. At the second conference in 1989 a Protocol for the Possible Modification of the Conditions of Entry into Force of the Community Patent Convention was agreed. It 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 at this IGC in Lisbon in 1992 regarding to this protocol and little progress was made since then.

¹ See below title 4.1.3.

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.

Following the failure of the Luxembourg Convention, the Commission's Green Paper on the Community patent and the European patent system², which was part of the follow-up to the First Action Plan for Innovation in Europe³, launched a broad discussion on the need to take new initiatives in relation to patents. The Green Paper elicited a large number of opinions from interested parties, the European Parliament and the Economic and Social Committee.

After this extensive consultation process, which found the users of the patent system unanimous on the opinion that the Luxembourg 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 Europe⁴.

However the need for a unitary Community wide patent still exists. The Commission therefore set forward a number of other proposals for possible reform⁵, among which the preparation of a draft regulation.

In March 2003, EU governments broke the deadlock in the protracted debate on the possibility of introducing unitary patent protection for the entire territory of the European Community. A Community patent is now to be established as a complement to national patents and the existing European system under the EPC, with the European Patent Office 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.

² COM(97) 314 final, of 24 June 1997.

³ COM(96) 589 final, of 20 November 1996.

⁴ COM(1999) 42 final, of 5 February 1999. The aim of this Communication was to announce the various measures and new initiatives which the Commission was planning to take or propose in order to make the patent system attractive for promoting innovation in Europe.

⁵ See COM(99) 197.

4.1.2 Proposal for a Council Regulation on the Community Patent

The Commission Proposal consists of two proposals:

- Proposal for a Council Regulation on the Community Patent - Text revised by the Working Party on Intellectual Property (Patents) - Document 12219/03 - 4 September 2003
- Commission Working Document on the planned Community Patent Jurisdiction of 30 August 2002 (COM(2002) 480 final)

1. THE JURISDICTIONAL SYSTEM

- a. The jurisdictional system will be based on a unitary system for the CP, the aim being to secure uniformity of jurisprudence, high quality of work, proximity to users and potential users, and low operating costs.
- b. The Court of Justice is to have exclusive jurisdiction, inter alia relating to invalidity, infringement proceedings, declaration of non-infringement, and counter claims for invalidity. The Court of Justice will also have exclusive jurisdiction for granting interlocutory injunctions/provisional measures. The CP may also be the subject of proceedings for claims or damages.
- c. Litigation of CP shall at first instance be before a judicial panel established by a Council decision according to Article 225a of the EU Treaty.
- d. An appeal shall lie with the Court of First Instance of the European Union. (CFI).
- e. The judicial panel referred to above shall be called the Community Patent Court (CPC), will be attached to the CFI, and will have its seat at the CFI.
- f. The CPC may hold hearings in Member States other than that in which it is located.
- g. It is expected that the CPC will be organised into chambers, each of which shall have three judges.
- h. The judges shall be appointed by unanimous decision of the Council for a fixed term. Candidates for appointment must have an established high level of legal expertise in patent law. However, technical experts will assist the judges in handling of cases.
- i. Proceedings before the CPC are to be in the official language of the Member State where the defendant is domiciled, or, where there are two or more official languages in a Member State, the official language chosen by the defendant. However, at the request of the parties and with the consent of the CPC, any official language of the EU can be selected as the language of the proceedings.
- j. The CPC shall be established at the latest by 2010. Each Member State is to designate a limited number of national courts to have jurisdiction in post-grant matters relating to CP until that time.

2. LANGUAGES

- a. Up to the grant of the CP, the language regime for the CP will be the same as provided under the EPC. The approach, however, allows for an applicant to file an application in a non-EPO language, and providing that the applicant provides a translation into an EPC language, the cost of that translation will be borne by the system referred to as "mutualisation of costs".
- b. Upon the grant of the CP, the applicant must file a translation of all claims into all official EU languages, unless a Member State renounces translation into its official language. These translations are to be filed in the EPO, the costs being borne by the applicant.
- c. The amount of a renewal fee for a CP must not exceed the level of the corresponding renewal fees for an average European Patent.
- d. The Commission is invited by the common political approach to carry out a study of possible further cost savings, e.g., in respect of services provided by patent agents.

3. NATIONAL PATENT OFFICES

- a. Although the EPO will be central to the administration of CPs and alone will be responsible for examination and grant of such patents, the common political approach states that all national offices will have an important role to play.
This role includes advising potential applicants for CPs, receiving applications and forwarding them to the EPO, disseminating patent information, and advising SMEs.
- b. Applications of CPs can be filed with the national office of a Member State in its working language(s).
- c. On behalf of the EPO and at the request of the applicant, national patent offices of Member States having an official language other than those of the EPO may carry out any task up to and including novelty searches in their respective language(s).
- d. National patent offices of Member States having as their official language one of the EPC languages, which have experience of co-operation with the EPO and which need to maintain a critical mass, may, if they wish, carry out search work on behalf of the EPO.
- e. Work referred to in paragraphs (c) and (d) above will be based on partnership agreements with the EPO, these agreements being subject to periodic independent review.

4. RENEWAL FEES

- a. Renewal fees for CPs will be payable to the EPO and will be distributed 50:50 between the EPO and the national patent offices of the Community Member States in accordance with a distribution key which will be decided by the Council.

5. REVIEW

- a. The Commission will present a report to the Council on the functioning of all aspects of the CP, five years after the grant of the first CP. Further reviews should be made periodically thereafter.

It is to be noted that the Council states at the end of the common political approach that filing a translation of the claims into all the official EU languages upon the grant of the patent means within a reasonable time from the date of grant, and during this time the granted patent shall be valid irrespective of availability of translation of all the claims into all official EU languages. It is noted that the German delegation considers that a reasonable time would be within two years from the date of grant of the CP and no other delegation seems to disagree with this interpretation.

Excerpt from the Proposal for a Regulation on the Community patent

Document 12219/03 (4 September 2003)

GENERAL PROVISIONS

Article 1

Community patent law

This Regulation establishes a Community law on patents. This law shall apply to all patents designating the Community granted by the European Patent Office (hereinafter referred to as "the Office") under the provisions of the European Patent Convention of 5 October 1973 (hereinafter referred to as the "Munich Convention") and to all applications for a European patent in which the Community is designated.

For the purpose of this Regulation, such patents shall be considered to be Community patents and the term "application for a Community patent" shall mean an application for a European patent designating the Community.

Article 2

Community patent

1. The Community patent shall have a unitary character. It shall have equal effect throughout the Community and may only be granted, transferred, declared invalid or lapse in respect of the whole of the Community.
2. The Community patent shall have an autonomous character. It shall be subject only to the provisions of this Regulation and to the general principles of Community law. However, the provisions of this Regulation shall not exclude the application of the law of Member States with regard to criminal liability and unfair competition, and the provisions of the Munich Convention, which refer to the post-grant phase of European Patents.
- 2a. An application for a Community patent shall be subject to the Munich Convention. However provisions of the present Regulation may regulate issues concerning applications for Community Patents, which are not regulated by the Munich Convention.
3. Unless otherwise provided for, the terms used in this Regulation shall have the same meaning as the corresponding terms used in the Munich Convention.

[...]

CHAPTER IV
JURISDICTION AND PROCEDURE IN LEGAL ACTIONS RELATING TO THE
COMMUNITY PATENT

Article 30

Actions and claims relating to the Community patent – Exclusive jurisdiction of the Court of Justice

1. The Community patent may be the subject of invalidity or of present or threatened infringement proceedings, of action for a declaration of non-infringement, of proceedings relating to the use of the invention prior to the granting of the patent or to the right based on prior use of the patent, or of a counterclaim for a declaration of invalidity or of a petition for the grant or revocation of a compulsory licence. It may also be the subject of proceedings or claims for damages or provisional or protective measures or requests for the determination of compensation.
2. In accordance with the decision giving the Court of Justice jurisdiction for matters relating to the Community patent, adopted pursuant to Article 229a of the Treaty, the actions and claims referred to in paragraph 1 shall come under the exclusive jurisdiction of the Court of Justice, except in the case of Article 9a. In accordance with the decision taken pursuant to Article 225a of the Treaty, they shall be brought in the first instance before the Community Patent Court and, on appeal, before the Court of First Instance.

Article 46

Jurisdiction of national courts

The national courts of the Member States shall have jurisdiction in actions relating to Community patents which do not come within the exclusive jurisdiction of the Court of Justice under this Regulation or under the decision adopted pursuant to Article 229a of the Treaty.

Article 47

Application of provisions on international jurisdiction and enforcement

Unless otherwise specified in this Regulation, Regulation (EC) No 44/2001 or, where applicable, the Convention on Jurisdiction and Enforcement of Judgments in Civil and Commercial Matters, signed at Brussels on 27 September 19681, referred to hereafter as "the Convention on Jurisdiction and Execution", shall apply to actions brought before the national courts and to decisions given in respect of such actions.

[...]

4.1.3 Commission working document on the planned Community patent jurisdiction

Full document: http://europa.eu.int/eur-lex/en/com/wdc/2002/com2002_0480en01.pdf

Brussels, 30.08.2002 COM(2002) 480 final

Context

On 1 August 2000 the Commission put forward a proposal for a Regulation on the Community patent. In their working paper of 7 May 2001 the Commission services advanced a detailed approach on the necessary changes to the European Patent Convention in order to empower the European Patent Office to grant Community patents and to prepare an accession of the Community to the European Patent Convention. The current working document addresses the remaining fundamental feature of the Community patent system: the Community patent jurisdiction.

The Nice Treaty introduces into the EC Treaty a legal basis for the establishment of a Community patent jurisdiction. Article 229a of the EC Treaty constitutes a legal basis to confer jurisdiction on the Court of Justice in disputes relating to the application of acts which create Community industrial property rights. Article 225a of the EC Treaty allows for the establishment of judicial panels to hear and determine at first instance certain classes of actions or proceedings brought in specific areas with the possibility of an appeal to the Court of First Instance. The Council agreed in its common approach adopted on 31 May 2001 that these provisions should be used as the legal basis for the establishment of a Community patent jurisdiction. This working document builds on that same approach.

This working document contains in its annex detailed suggestions on the jurisdictional arrangements based on Commission's thinking so far, pending a formal proposal by the Commission. The primary purpose of this working document at this stage is to facilitate discussions in the Council with a view to reaching an overall political agreement on the main elements of the Community patent system. The working document is also being forwarded to the European Parliament and the European Court of Justice since both will be consulted in due course on any Commission proposal. The Commission reserves the right to modify or complement the suggestions made in this working document should this appear to be appropriate at the time when it may be in a position to make a formal legislative proposal which will then be subject to scrutiny in accordance with the usual legislative procedures.

Jurisdiction

As explained in the proposed Community patent regulation, the Commission is of the view that a centralised Community jurisdiction specialised in patent matters will best ensure unity of law and consistency of case law regarding the unitary Community patent. It should not only be delivered according to the uniform standards of the European Patent Convention but it should also be effectively enforceable before a Community jurisdiction guaranteeing a high quality decision in a quick, inexpensive and uniform procedure. Such a uniform procedure before a single Community jurisdiction would bring legal certainty to businesses across Europe doing away with the necessity of parallel costly and time consuming procedures in different Member States.

The litigation with which the specialised Community jurisdiction will deal, litigation between private parties, does not currently fall within the jurisdiction of the European Court of Justice. It will therefore be necessary to expressly confer this jurisdiction on the Court of Justice by a separate Council decision and subsequent adoption by the Member States according to their own constitutional requirements, as foreseen by Article 229a EC Treaty (Nice).

It is suggested that, in parallel, use be made of Article 225a EC Treaty (Nice) which allows the setting up of first instance judicial panels. Such a panel, Community Patent Court, would be attached to the Court of First Instance which would examine the appeals.

The specialised Community jurisdiction would hear certain categories of actions. It is essential that it can deal at the same time with disputes relating to the infringement and the validity of the patent. Separating jurisdictions for these two types of actions would not be conducive either to the sound administration of justice or the efficient functioning of the Community patent system aimed for in the Regulation, given that the factors which the Judge has to examine are largely the same in both types of action. Some other, limited categories of disputes and claims should also be brought under the specialised jurisdiction. In all cases where the specialised Community jurisdiction has competence, including provisional measures, its competence should be exclusive.

In contrast, decisions of the European Patent Office, which are subject to a specific review mechanism within the European Patent Convention, would not be reviewed by the specialized Community jurisdiction. Nor would it be competent to review decisions taken by the Commission on compulsory licences pursuant to the Community patent Regulation. Such decisions shall be subject to review in accordance with existing treaty provisions before the Court of First Instance.

Composition

The Judges of the specialised Community patent jurisdiction should be sufficiently experienced in the field of patents. The jurisdiction should comprise both “legal” and “technical” members. A case would consequently normally be heard by two legal members and one technical member. The technical members are expected to cover the three major technical fields (physics, chemistry, mechanics) and would consequently not possess the highest expertise in each and every field of technology. Their input would nevertheless be essential in helping to focus from the start of proceedings on the essential technical questions involved. Their role would not be to make the use of experts entirely superfluous but rather to enable the court as a whole to understand the technical aspects of the case quickly and accurately which is relevant for an efficient handling of a case and for a legally sound decision.

Another alternative means to make use of technical knowledge, although not pursued in this document, could be to make use of “Assistant Rapporteurs” as foreseen in the Statute of the Court of Justice. Such Assistant Rapporteurs, specialised in different technical fields, could actively participate in the internal deliberations of the jurisdiction and their possible reports could be submitted to the parties before the hearing, but they could not vote. The normal composition of the bench would in such cases be three “legal members” which would be assisted by an Assistant Rapporteur.

It is expected that, when the system becomes operational, in the first phase of operation only a limited number of Judges will be required. The approach put forward opts for seven Judges, including four legal members and three technical members, for the first instance. They could form two sections, each sitting with two legal and one technical member. With these resources, the first instance could be expected to handle around 120 - 150 cases per year. In the appeal instance, one chamber specialised in patent matters at the Court of First Instance would suffice.

Structure

The structure of the first instance jurisdiction has been the subject of lengthy discussions within the Council. Principles of proximity, local presence and closeness to users have been invoked as counter-arguments against a centralised Community jurisdiction. This document takes as a starting point that the first instance court to be put in place must at the very least in an initial phase be completely centralised. In the beginning, when the Community patent system first becomes operational, there will be relatively few Community patents and even fewer litigated patents. Consequently, only a limited number of Judges will be needed. It is essential that these Judges work permanently together with a view to developing a

common line for proceedings and a coherent jurisprudence. They should also prepare the Rules of Procedure of the first instance.

The use of best available modern technologies should ensure a simple and direct communication between the court and the parties. In order to achieve this, provision would have to be made for facilities that allow for a communication with the court in electronic form. The Community Patent Court should also be able to make use of video conferencing for oral hearings, where appropriate. However, this should not prevent the court from deciding, on a case by case basis, to hold oral hearings in a Member State, should this be more appropriate than to organise them at its own seat or by video conferencing. Such a hearing in a Member State will nevertheless only be possible where the Member State in question has put, at its own expense, the necessary infrastructure at the disposal of the court.

Over time, the volume of litigation and thereby the workload of the first instance jurisdiction can be expected to grow. In such cases it could be justified, from an efficiency point of view, to set up one or more regional chambers in the Member States to which the litigation has proven to be most closely connected. Such regional chambers would be sections of the central Community Patent Court of which they would form an integral part. The Commission considers it appropriate, already at this stage, to envisage clear criteria for the launching of the mechanism to set up regional chambers. In the interests of the users of the Community patent system it is essential to ensure, on the one hand that the establishment of regional chambers does not start before the central chamber is sufficiently well established and it has a workload which means it has built up a coherent case law but also, on the other hand, that its functioning is not hampered by serious backlogs. For these reasons the Commission considers it appropriate to link the mechanism to set up regional chambers to the number of cases before the central chamber of the Community Patent Court. Of course, a regional chamber should only be established where such a chamber can be expected to have a significant case load, in particular to ensure a high level of expertise and professionalism on the part of the chamber.

The appropriate locations for regional chambers should be determined on the basis of the domicile of parties involved in litigation before the central chamber. The existence of one or several regional chambers in addition to a central chamber requires, from an efficiency point of view, provisions on the exercise of jurisdiction between the central chamber and regional chambers. The basic principle would be that jurisdiction is exercised by the central chamber unless there are special rules providing for its exercise by a regional chamber. The special rules would build upon the principles of the so called Brussels regulation (Council regulation 44/2001).

The Commission wishes nonetheless to underline that, even if there is a certain delocalization via the creation of regional chambers, these should possess and maintain the same level of professionalism as the central chamber. More importantly, they must form an integral part of the same central Community jurisdiction ensuring the development of a coherent body of case-law and that the Community patent Regulation is interpreted and applied in the same manner throughout the Community.

Article 225a of the EC Treaty (Nice) shall serve as legal basis for the establishment of a first instance Community patent jurisdiction. That Article provides:

"The Council, acting unanimously on a proposal from the Commission and after consulting the European Parliament and the Court of Justice or at the request of the Court of Justice and after consulting the European Parliament and the Commission, may create judicial panels to hear and determine at first instance certain classes of action or proceeding brought in specific areas.

The decision establishing a judicial panel shall lay down the rules on the organization of the panel and the extent of jurisdiction conferred upon it.

Decisions given by judicial panels may be subject to a right of appeal on points of law only or, when provided for in the decision establishing the panel, a right of appeal also on matters of fact, before the Court of First Instance.

The members of the judicial panels shall be chosen from persons whose independence is beyond doubt and who possess the ability required for appointment to judicial office. They shall be appointed by the Council, acting unanimously.

The judicial panels shall establish their Rules of Procedure in agreement with the Court of Justice. Those Rules shall require the approval of the Council, acting by a qualified majority.

Unless the decision establishing the judicial panel provides otherwise, the provisions of this Treaty relating to the Court of Justice and the provisions of the Statute of the Court of Justice shall apply to the judicial panels."

A Council decision pursuant to Article 225a of the EC Treaty (Nice) would contain provisions on

- the establishment, the structure and the jurisdiction of the Community Patent Court (Articles 1 to 10),
- the EC Treaty provisions relating to the Court of Justice which shall be applicable to the Community Patent Court (Article 11),
- the Statute of the Community Patent Court (Articles 12 to 27),
- its entry into force (Article 28).

Article 1

Establishment of a Community Patent Court

(1) A judicial panel, to be called "Community Patent Court ", shall be attached to the Court of First Instance of the European Communities. Its seat shall be at the Court of First Instance.

(2) The Community Patent Court is composed of a central chamber and may comprise one or more regional chambers set up in accordance with Article 5.

Notes:

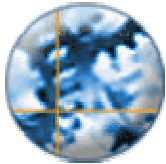
The legal basis for the establishment of the Community Patent Court (CPC) is Article 225a of the EC Treaty (Nice). Article 220(2) of the EC Treaty (Nice) provides that judicial panels are "attached to the Court of First Instance" following the same approach used for the creation of the Court of First Instance which is attached to the Court of Justice. The provision corresponds to Article 1 of Council decision 88/591 ECSC, EEC, EAEC of 24 October 1988 establishing a Court of First Instance of the European Communities.

The second paragraph sets out the structure of the CPC. It contains a central chamber (Article 4) and may comprise one or more regional chambers (Article 5). The chambers will sit in sections which hear and decide a case (Article 13).

[...]

4.2 Cases

4.2.1 Case 24/67: Parke



NOTE AND QUESTIONS

1. What are the economic and legal problems of parallel patents? Does this case raise an issue of parallel patents?
2. Can you think of situations where Art 81 and 82 (ex Art 85, 86 TEC) could be brought into action against the exercise of a patent right? Which legal and which economic requirements would have to be met?
3. Which rights are protected by Art 295 (ex Art 222 TEC)? Which policy issues are raised when applying it to intellectual property rights?
4. Is the decision in Parke in any way problematic? What risk does it create for the Community Market and is there any way to avoid it for the future? For a similar case to Parke, but in the field of copyright law see Case 341/87: EMI Electrola GmbH v Patricia. Note that both decisions still remain good law.

Parke, Davis & Co. v Probel, Reese, Beintema-Interpharm and Centrafarm

Case 24/67

Court of Justice

29 February 1968

[1968] ECR 55

<http://www.curia.eu.int/en/content/juris/index.htm>

Summary of the facts and procedure:

Parke, Davis & Co., whose registered office is in Detroit (United States), is the holder of Netherlands patents Nos 69, 156 (issued on 17 November 1961) and 70 832 (issued on 16 August 1952) which relate to a microbiological preparation and a chemical antibiotic preparation process called chloramphenicol.

The Probel, Interpharm and Centrafarm companies marketed or resold and delivered chloramphenicol in the Netherlands without the permission of Parke, Davis & Co. On 15 January 1958 Parke, Davis & Co. brought an action against Probel, Interpharm and Centrafarm before the Arrondissementsrechtbank,

Rotterdam, for breach of patent and sought damages and an order requiring them to refrain from any further infringement. In particular Parke, Davis & Co. alleged that the chloramphenicol in question had been made by one of the processes for which it held a patent in the Netherlands and furthermore that it was not only entitled to intervene in the matter but was even under an obligation to do so because of the licence which it had granted to Koninklijke Nederlandse Gist-en Spiritusfabriek N. V. at Delft for the exploitation of these patents.

The three defendants opposed this claim first for reasons concerning both the facts and the interpretation of Netherlands patent law. It was only during the proceedings before the Gerechtshof, The Hague, that Centrafarm alleged that Parke, Davis & Co. was acting in disregard of Articles 85 and 86 of the EEC Treaty in using its Netherlands patent to prevent the importation into the Netherlands of chloramphenicol produced and freely sold in Italy. It is a fact that under Italian patent law no patent can be granted for medicaments and processes for their preparation. Centrafarm stated that it had bought chloramphenicol from Carlo Erba at Milan.

In its judgment of 30 June 1967 the Gerechtshof, The Hague, reached decisions on most of the points at issue. In particular it declared that the practices of which complaint was made against these three companies were illegal, and ordered them to cease forthwith from infringing the two patents concerned in any way, and threatened them with periodic penalty payments for non-compliance with the order. But this order was made 'except as regards products from Italy'. The Gerechtshof reserved its decision as regards the imports from Italy, and in accordance with Article 177 of the Treaty it referred a question relating to the interpretation of the Treaty to the Court of Justice, wording it in the following terms:

'1. Do the prohibitions contained in Articles 85(1) and 86 of the Treaty establishing the European Economic Community, possibly considered in conjunction with the provisions of Articles 36 and 222 of that Treaty, concern or not concern the holder of a patent issued by the authorities of a Member State when, in reliance on that patent, he claims that the courts should prevent in the territory of that State any circulation, sale, hire, delivery, storage or use of some product from another Member State, if the latter State does not grant an exclusive right to manufacture and sell that product?

2. Is the answer to Question 1 different if the price at which the patent-holders offers the product on the market in the territory of the first Member State is higher than the price asked of the consumer in that same territory for the same product when it comes from the second Member State?"

Judgement:

[1] IN A JUDGMENT DATED 30 JUNE 1967, WHICH REACHED THE COURT ON 6 JULY, THE GERECHTSHOF, THE HAGUE, UNDER ARTICLE 177 OF THE TREATY ESTABLISHING THE EEC, PUT TO THE COURT TWO QUESTIONS ON THE INTERPRETATION OF ARTICLES 85(1) AND 86. IT APPEARS FROM THE FACTS GIVEN BY THE COURT MAKING THE REFERENCE THAT THE QUESTIONS PUT CONCERN THE EXERCISE OF RIGHTS ATTACHING BY NETHERLANDS LAW TO A PATENT WHICH PROTECTS A PROPRIETARY MEDICINAL PRODUCT IN THE NETHERLANDS AS REGARDS THE INTRODUCTION INTO THAT STATE OF A SIMILAR PRODUCT MANUFACTURED IN ANOTHER MEMBER STATE WHERE PROPRIETARY MEDICINAL PRODUCTS ARE NOT PATENTABLE

[2] IN THE FIRST QUESTION THE COURT IS ASKED TO RULE WHETHER THE CONCEPT OF PRACTICES PROHIBITED UNDER ARTICLES 85(1) AND 86, POSSIBLY CONSIDERED WITH ARTICLES 36 AND 222 OF THE TREATY, INCLUDES THE ACTION OF THE HOLDER OF A PATENT ISSUED IN A MEMBER STATE WHEN, BY VIRTUE OF THAT PATENT, HE REQUESTS THE NATIONAL COURTS TO PREVENT ALL COMMERCIAL DEALING IN THE TERRITORY OF

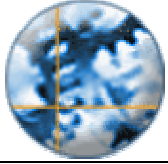
THAT STATE IN A PRODUCT COMING FROM ANOTHER MEMBER STATE WHICH DOES NOT GRANT AN EXCLUSIVE RIGHT TO MANUFACTURE AND SELL THAT PRODUCT.

- [3] IN THE SECOND QUESTION THE COURT MAKING THE REFERENCE ASKS WHETHER THE POSSIBLE APPLICATION OF THE ABOVEMENTIONED ARTICLES MAY BE AFFECTED BY THE FACT THAT THE ASSIGN OF THE PATENT - HOLDER OFFERS THE PATENTED PRODUCT AT A PRICE HIGHER THAN THAT OF A SIMILAR UNPATENTED PRODUCT COMING FROM ANOTHER MEMBER STATE.
- [4] THE NATIONAL RULES RELATING TO THE PROTECTION OF INDUSTRIAL PROPERTY HAVE NOT YET BEEN UNIFIED WITHIN THE COMMUNITY. IN THE ABSENCE OF SUCH UNIFICATION, THE NATIONAL CHARACTER OF THE PROTECTION OF INDUSTRIAL PROPERTY AND THE VARIATIONS BETWEEN THE DIFFERENT LEGISLATIVE SYSTEMS ON THIS SUBJECT ARE CAPABLE OF CREATING OBSTACLES BOTH TO THE FREE MOVEMENT OF THE PATENTED PRODUCTS AND TO COMPETITION WITHIN THE COMMON MARKET.
- [5] AS REGARDS THE PROVISIONS RELATING TO THE FREE MOVEMENT OF PRODUCTS, PROHIBITIONS AND RESTRICTIONS ON IMPORTS MAY BE JUSTIFIED UNDER ARTICLE 36 ON GROUNDS OF THE PROTECTION OF INDUSTRIAL PROPERTY, BUT SUBJECT TO THE EXPRESSLY STATED RESERVATION THAT THESE "SHALL NOT, HOWEVER, CONSTITUTE A MEANS OF ARBITRARY DISCRIMINATION OR A DISGUISED RESTRICTION ON TRADE BETWEEN MEMBER STATES". FOR SIMILAR REASONS, THE EXERCISE OF THE RIGHTS ARISING UNDER A PATENT GRANTED IN ACCORDANCE WITH THE LEGISLATION OF A MEMBER STATE DOES NOT, OF ITSELF, CONSTITUTE AN INFRINGEMENT OF THE RULES ON COMPETITION LAID DOWN BY THE TREATY.
- [6] UNDER ARTICLE 85(1) OF THE TREATY, "ALL AGREEMENTS BETWEEN UNDERTAKINGS, DECISIONS BY ASSOCIATIONS OF UNDERTAKINGS AND CONCERTED PRACTICES" WHICH MAY AFFECT TRADE BETWEEN MEMBER STATES AND WHICH HAVE AS THEIR OBJECT OR EFFECT AN INTERFERENCE WITH COMPETITION ARE PROHIBITED AS INCOMPATIBLE WITH THE COMMON MARKET. ALTHOUGH THE GENERALITY OF THE WORDS USED IS EVIDENCE OF AN INTENTION TO INCLUDE WITHOUT DISTINCTION ALL THE CATEGORIES OF AGREEMENT DESCRIBED IN THIS PROVISION, THE RESTRICTIVE NATURE OF THE SAID PROVISION IS INCOMPATIBLE WITH ANY EXTENSION OF THE PROHIBITION FOR WHICH IT PROVIDES BEYOND THE THREE CATEGORIES OF AGREEMENT EXCLUSIVELY ENUMERATED THEREIN.
- [7] A PATENT TAKEN BY ITSELF AND INDEPENDENTLY OF ANY AGREEMENT OF WHICH IT MAY BE THE SUBJECT, IS UNRELATED TO ANY OF THESE CATEGORIES, BUT IS THE EXPRESSION OF A LEGAL STATUS GRANTED BY A STATE TO PRODUCTS MEETING CERTAIN CRITERIA, AND THUS EXHIBITS NONE OF THE ELEMENTS OF CONTRACT OR CONCERTED PRACTICE REQUIRED BY ARTICLE 85(1). NEVERTHELESS IT IS POSSIBLE THAT THE PROVISIONS OF THIS ARTICLE MAY APPLY IF THE USE OF ONE OR MORE PATENTS, IN CONCERT BETWEEN UNDERTAKINGS, SHOULD LEAD TO THE CREATION OF A SITUATION WHICH MAY COME WITHIN THE CONCEPTS OF AGREEMENTS BETWEEN UNDERTAKINGS, DECISIONS OF ASSOCIATIONS OF UNDERTAKINGS OR CONCERTED PRACTICES WITHIN THE MEANING OF ARTICLE 85(1).
- [8] HOWEVER, NOTWITHSTANDING THE ALLUSIONS MADE DURING THESE PROCEEDINGS TO SUCH A SITUATION, WHICH IS FOR THE GERECHTSHOF, THE HAGUE, ALONE TO ASSESS, THE WORDING OF THE QUESTIONS REFERRED AND THE CONTENTS OF THE FILE DO NOT ENABLE THE COURT TO TAKE THIS POSSIBILITY INTO ACCOUNT.

- [9] UNDER ARTICLE 86 OF THE TREATY: "ANY ABUSE BY ONE OR MORE UNDERTAKINGS OF A DOMINANT POSITION WITHIN THE COMMON MARKET OR IN A SUBSTANTIAL PART OF IT SHALL BE PROHIBITED AS INCOMPATIBLE WITH THE COMMON MARKET IN SO FAR AS IT MAY AFFECT TRADE BETWEEN MEMBER STATES". FOR THIS PROHIBITION TO APPLY IT IS THUS NECESSARY THAT THREE ELEMENTS SHALL BE PRESENT TOGETHER: THE EXISTENCE OF A DOMINANT POSITION, THE ABUSE OF THIS POSITION AND THE POSSIBILITY THAT TRADE BETWEEN MEMBER STATES MAY BE AFFECTED THEREBY. ALTHOUGH A PATENT CONFERS ON ITS HOLDER A SPECIAL PROTECTION AT NATIONAL LEVEL, IT DOES NOT FOLLOW THAT THE EXERCISE OF THE RIGHTS THUS CONFERRED IMPLIES THE PRESENCE TOGETHER OF ALL THREE ELEMENTS IN QUESTION. IT COULD ONLY DO SO IF THE USE OF THE PATENT WERE TO DEGENERATE INTO AN ABUSE OF THE ABOVEMENTIONED PROTECTION.
- [10] MOREOVER, IN A COMPARABLE FIELD, ARTICLE 36 OF THE TREATY, AFTER PROVIDING THAT ARTICLES 30 TO 34 SHALL NOT PRECLUDE RESTRICTIONS ON IMPORTS OR EXPORTS JUSTIFIED ON GROUNDS, INTER ALIA, OF THE PROTECTION OF INDUSTRIAL AND COMMERCIAL PROPERTY, EXPRESSLY STATES, AS HAS ALREADY BEEN OBSERVED, THAT SUCH RESTRICTIONS " SHALL NOT, HOWEVER, CONSTITUTE A MEANS OF ARBITRARY DISCRIMINATION OR A DISGUISED RESTRICTION ON TRADE BETWEEN MEMBER STATES".
- [11] ACCORDINGLY, SINCE THE EXISTENCE OF PATENT RIGHTS IS AT PRESENT A MATTER SOLELY OF NATIONAL LAW, THE USE MADE OF THEM CAN ONLY COME WITHIN THE AMBIT OF COMMUNITY LAW WHERE SUCH USE CONTRIBUTES TO A DOMINANT POSITION, THE ABUSE OF WHICH MAY AFFECT TRADE BETWEEN MEMBER STATES.
- [12] ALTHOUGH THE SALE PRICE OF THE PROTECTED PRODUCT MAY BE REGARDED AS A FACTOR TO BE TAKEN INTO ACCOUNT IN DETERMINING THE POSSIBLE EXISTENCE OF AN ABUSE, A HIGHER PRICE FOR THE PATENTED PRODUCT AS COMPARED WITH THE UNPATENTED PRODUCT DOES NOT NECESSARILY CONSTITUTE AN ABUSE.
- [13] IT FOLLOWS FROM ALL THE ABOVE: FIRST, THAT THE EXISTENCE OF THE RIGHTS GRANTED BY A MEMBER STATE TO THE HOLDER OF A PATENT IS NOT AFFECTED BY THE PROHIBITIONS CONTAINED IN ARTICLES 85(1) AND 86 OF THE TREATY; SECONDLY, THAT THE EXERCISE OF SUCH RIGHTS CANNOT OF ITSELF FALL EITHER UNDER ARTICLE 85(1), IN THE ABSENCE OF ANY AGREEMENT, DECISION OR CONCERTED PRACTICE PROHIBITED BY THAT PROVISION, OR UNDER ARTICLE 86, IN THE ABSENCE OF ANY ABUSE OF A DOMINANT POSITION; FINALLY, THAT A HIGHER SALE PRICE FOR THE PATENTED PRODUCT AS COMPARED WITH THAT OF THE UNPATENTED PRODUCT COMING FROM ANOTHER MEMBER STATE DOES NOT NECESSARILY CONSTITUTE AN ABUSE.

[...]

4.2.2 Case 15/74: Centrafarm v Sterling Home



NOTE AND QUESTIONS

1. What are parallel imports and which effects do they have on interstate commerce?
2. To what extent is Article 28 (ex Article 30) TEC applicable to provisions preventing parallel imports? Which rights could be protected by Article 30 (ex Article 36)?
3. What is the specific “subject-matter” of a patent right? Are there problems with the notion of a subject-matter?
4. Should patents and trademarks be treated differently as regards the free movement of goods?
5. Can you think of a good compromise between the patent holder’s wish to make maximum profit out of it and the public interest in freedom of trade? Does the Court in its decision strike the right balance?
6. What could be the effects of the establishment of a European Patent?
7. In this early case the Court introduced the most controversial aspect of Community law on industrial and commercial property rights: the exhaustion of rights doctrine. The doctrine as such is not unknown to many national legal systems (including the US) in their internal markets. Why then did it spark so much controversy in the European Community?

The exhaustion of rights doctrine has also been applied by the Court to trade marks (see e.g. Case 16/74: Centrafarm v Winthrop), to industrial designs (see e.g. Case 144/81: Keurkoop BV v Nancy Kean Gifts BV) and subject to some qualification due to its special nature to copyright (see e.g. Case 158/86 Warner Brother v Christiansen and Case 258/78 Musik-Vertrieb Membran GmbH v GEMA).

Centrafarm BV and Adriaan De Peijper v Sterling Drug Inc.

Case 15/74

31 October 1974

Court of Justice

[1974] ECR 1147

<http://www.curia.eu.int/en/content/juris/index.htm>

Summary of the facts and procedure

Sterling Drug Inc., a company incorporated according to the law of the State of New York, is the titular holder of national patents in several countries - including the Netherlands and the UK - relating to the mode of preparation of a medicament named acidum nalidixicum, for the treatment of infections of the urinary passages.

For this product the trade-mark 'Negram' is the property, in the UK, of the company Sterling-Winthrop Group Ltd. and, in the Netherlands, of a subsidiary of the latter, Winthrop BV.

Centrafarm imported medicinal preparations manufactured according to the patent method, some of which bore the trade-mark Negram, without the agreement of Sterling Drug, from England and the Federal Republic of Germany, where they had been put onto the market in a regular manner by subsidiaries of Sterling Drug Inc., into the Netherlands where they were offered for sale.

By importing the goods from Great Britain Centrafarm took advantage of a considerable price differential. It appears that in Great Britain the product is sold for half the price at which it sells in the Netherlands.

On 16 June 1971 Sterling Drug submitted to the president of the Arrondissements-Rechtbank at Rotterdam, sitting in chambers, an application for the immediate adoption of measures of conservation against the actions of Centrafarm and of its director, and requiring them to refrain from any further infringement of the patent belonging to Sterling Drug, together with several subsidiary requests. The president of the court rejected the application, on the grounds of an interpretation of the law on patents (Octrooiwet) according to which a product is held to have been put into circulation in a regular manner even if it is put into circulation abroad by the titular holder of a Dutch patent. Sterling Drug thereupon brought an appeal before the Gerechtshof (Court of Appeal) at The Hague, which found in favour of Sterling Drug, with the exception of certain of its subsidiary requests.

Centrafarm and de Peijper brought an appeal on a point of law before the Hoge Raad against the judgment of the Gerechtshof.

Before deciding further, the Hoge Raad stayed the proceedings and requested the Court of Justice, pursuant to Article 177 of the EEC Treaty, to give a preliminary ruling on the following questions:

I. As regards the rules concerning the free movement of goods:

(a) Assuming that:

- 1. a patentee has parallel patents in several of the countries belonging to the EEC,*
- 2. the products protected by those patents are lawfully marketed in one or more of those countries by undertakings to whom the patentee has granted licences to manufacture and/or sell,*
- 3. those products are subsequently exported by third parties and are marketed and further dealt in in one of those other countries,*
- 4. the patent legislation in the lastmentioned country gives the patentee the right to take legal action to prevent products thus protected by patents from being there marketed by others, even where these products were previously lawfully marketed in another country by the patentee or by the patentee's licensee,*

do the rules in the EEC Treaty concerning the free movement of goods, notwithstanding what is stated in Article 36, prevent the patentee from exercising the right under 4 above?

- (b) *If the rules concerning the free movement of goods do not under all circumstances prevent the patentee exercising the right mentioned under (a) 4 above,*

do they however so prevent him if the exercise of that right arises exclusively or partially from an attempt to partition the national markets of the relevant countries from each other for products protected by the patent, or at least has the effect of thus partitioning those markets?

- (c) *Does it make any difference to the reply to the questions under (a) and (b) above that the patentee and the licensee do or do not belong to the same concern?*

- (d) *Can the patentee successfully rely in justification of the exercise of the abovementioned right on the fact that the price differences in the relevant countries which make it profitable for third parties to market in one country products originating in another country and give the patentee an interest in taking action against such practices, are the consequence of governmental measures whereby in the exporting country the prices of those goods are kept lower than would have been the case in the absence of those measures?*

- (e) *At any rate where the patent relates to pharmaceutical products, can the patentee successfully rely in justification of the exercise of his patent rights on the fact that the state of affairs described under (a) above prevents him from controlling the distribution of his products, such control being considered by him essential so that measures for the protection of the public can be taken in the event of defects appearing?*

- (f) *Is it a consequence of Article 42 of the Treaty of Accession that, if the rules of the EEC Treaty relating to the free movement of goods prevent the exercise of a patent right as before mentioned, those rules cannot be invoked in the Netherlands until 1 January 1975 insofar as the relevant goods originate in the United Kingdom?*

II. As regards Article 85:

- (a) *Does the fact that a patentee owns parallel patents in different countries belonging to the EEC and that he has in those countries granted to different undertakings associated with the patentee licences to manufacture and sell (assuming that all the agreements entered into with such licensees are exclusively or in part designed to regulate differently for the different countries the conditions on the market in respect of the goods protected by the patent) mean that this is a case of agreements or concerted practices of the type prohibited by Article 85 of the EEC Treaty, and must an action for infringement as referred to under I (a) above - to the extent that this must be regarded as a result of such agreements or concerted practices - for that reason be held impermissible?*

- (b) *Is Article 85 also applicable if, in connection with the agreements or concerted practices referred to above, it is only undertakings belonging to the same concern that are involved?*

Judgement:

[...]

AS REGARDS QUESTION I (A)

- 4 THIS QUESTION REQUIRES THE COURT TO STATE WHETHER, UNDER THE CONDITIONS POSTULATED, THE RULES IN THE EEC TREATY CONCERNING THE FREE MOVEMENT OF GOODS PREVENT THE PATENTEE FROM ENSURING THAT THE PRODUCT PROTECTED BY

THE PATENT IS NOT MARKETED BY OTHERS.

- 5 AS A RESULT OF THE PROVISIONS IN THE TREATY RELATING TO THE FREE MOVEMENT OF GOODS AND IN PARTICULAR OF ARTICLE 30, QUANTITATIVE RESTRICTIONS ON IMPORTS AND ALL MEASURES HAVING EQUIVALENT EFFECT ARE PROHIBITED BETWEEN MEMBER STATES.
- 6 BY ARTICLE 36 THESE PROVISIONS SHALL NEVERTHELESS NOT INCLUDE PROHIBITIONS OR RESTRICTIONS ON IMPORTS JUSTIFIED ON GROUNDS OF THE PROTECTION OF INDUSTRIAL OR COMMERCIAL PROPERTY.
- 7 NEVERTHELESS, IT IS CLEAR FROM THIS SAME ARTICLE, IN PARTICULAR ITS SECOND SENTENCE, AS WELL AS FROM THE CONTEXT, THAT WHILST THE TREATY DOES NOT AFFECT THE EXISTENCE OF RIGHTS RECOGNIZED BY THE LEGISLATION OF A MEMBER STATE IN MATTERS OF INDUSTRIAL AND COMMERCIAL PROPERTY, YET THE EXERCISE OF THESE RIGHTS MAY NEVERTHELESS, DEPENDING ON THE CIRCUMSTANCES, BE AFFECTED BY THE PROHIBITIONS IN THE TREATY.
- 8 INASMUCH AS IT PROVIDES AN EXCEPTION TO ONE OF THE FUNDAMENTAL PRINCIPLES OF THE COMMON MARKET, ARTICLE 36 IN FACT ONLY ADMITS OF DEROGATIONS FROM THE FREE MOVEMENT OF GOODS WHERE SUCH DEROGATIONS ARE JUSTIFIED FOR THE PURPOSE OF SAFEGUARDING RIGHTS WHICH CONSTITUTE THE SPECIFIC SUBJECT MATTER OF THIS PROPERTY.
- 9 IN RELATION TO PATENTS, THE SPECIFIC SUBJECT MATTER OF THE INDUSTRIAL PROPERTY IS THE GUARANTEE THAT THE PATENTEE, TO REWARD THE CREATIVE EFFORT OF THE INVENTOR, HAS THE EXCLUSIVE RIGHT TO USE AN INVENTION WITH A VIEW TO MANUFACTURING INDUSTRIAL PRODUCTS AND PUTTING THEM INTO CIRCULATION FOR THE FIRST TIME, EITHER DIRECTLY OR BY THE GRANT OF LICENCES TO THIRD PARTIES, AS WELL AS THE RIGHT TO OPPOSE INFRINGEMENTS.
- 10 AN OBSTACLE TO THE FREE MOVEMENT OF GOODS MAY ARISE OUT OF THE EXISTENCE, WITHIN A NATIONAL LEGISLATION CONCERNING INDUSTRIAL AND COMMERCIAL PROPERTY, OF PROVISIONS LAYING DOWN THAT A PATENTEE'S RIGHT IS NOT EXHAUSTED WHEN THE PRODUCT PROTECTED BY THE PATENT IS MARKETED IN ANOTHER MEMBER STATE, WITH THE RESULT THAT THE PATENTEE CAN PREVENT IMPORTATION OF THE PRODUCT INTO HIS OWN MEMBER STATE WHEN IT HAS BEEN MARKETED IN ANOTHER STATE.
- 11 WHEREAS AN OBSTACLE TO THE FREE MOVEMENT OF GOODS OF THIS KIND MAY BE JUSTIFIED ON THE GROUND OF PROTECTION OF INDUSTRIAL PROPERTY WHERE SUCH PROTECTION IS INVOKED AGAINST A PRODUCT COMING FROM A MEMBER STATE WHERE IT IS NOT PATENTABLE AND HAS BEEN MANUFACTURED BY THIRD PARTIES WITHOUT THE CONSENT OF THE PATENTEE AND IN CASES WHERE THERE EXIST PATENTS, THE ORIGINAL PROPRIETORS OF WHICH ARE LEGALLY AND ECONOMICALLY INDEPENDENT, A DEROGATION FROM THE PRINCIPLE OF THE FREE MOVEMENT OF GOODS IS NOT, HOWEVER, JUSTIFIED WHERE THE PRODUCT HAS BEEN PUT ONTO THE MARKET IN A LEGAL MANNER, BY THE PATENTEE HIMSELF OR WITH HIS CONSENT, IN THE MEMBER STATE FROM WHICH IT HAS BEEN IMPORTED, IN PARTICULAR IN THE CASE OF A PROPRIETOR OF PARALLEL PATENTS.
- 12 IN FACT, IF A PATENTEE COULD PREVENT THE IMPORT OF PROTECTED PRODUCTS MARKETED BY HIM OR WITH HIS CONSENT IN ANOTHER MEMBER STATE, HE WOULD BE ABLE TO PARTITION OFF NATIONAL MARKETS AND THEREBY RESTRICT TRADE BETWEEN MEMBER STATES, IN A SITUATION WHERE NO SUCH RESTRICTION WAS NECESSARY TO GUARANTEE THE ESSENCE OF THE EXCLUSIVE RIGHTS FLOWING FROM THE PARALLEL PATENTS.
- 13 THE PLAINTIFF IN THE MAIN ACTION CLAIMS, IN THIS CONNECTION, THAT BY REASON OF DIVERGENCES BETWEEN NATIONAL LEGISLATIONS AND PRACTICE, TRULY IDENTICAL

OR PARALLEL PATENTS CAN HARDLY BE SAID TO EXIST.

- 14 IT SHOULD BE NOTED HERE THAT, IN SPITE OF THE DIVERGENCES WHICH REMAIN IN THE ABSENCE OF ANY UNIFICATION OF NATIONAL RULES CONCERNING INDUSTRIAL PROPERTY, THE IDENTITY OF THE PROTECTED INVENTION IS CLEARLY THE ESSENTIAL ELEMENT OF THE CONCEPT OF PARALLEL PATENTS WHICH IT IS FOR THE COURTS TO ASSESS.
- 15 THE QUESTION REFERRED SHOULD THEREFORE BE ANSWERED TO THE EFFECT THAT THE EXERCISE, BY A PATENTEE, OF THE RIGHT WHICH HE ENJOYS UNDER THE LEGISLATION OF A MEMBER STATE TO PROHIBIT THE SALE, IN THAT STATE, OF A PRODUCT PROTECTED BY THE PATENT WHICH HAS BEEN MARKETED IN ANOTHER MEMBER STATE BY THE PATENTEE OR WITH HIS CONSENT IS INCOMPATIBLE WITH THE RULES OF THE EEC TREATY CONCERNING THE FREE MOVEMENT OF GOODS WITHIN THE COMMON MARKET.

AS REGARDS QUESTION I (B)

- 16 THIS QUESTION WAS REFERRED TO COVER THE POSSIBILITY THAT COMMUNITY RULES DO NOT UNDER ALL CIRCUMSTANCES PREVENT THE PATENTEE FROM EXERCISING THE RIGHT, UNDER HIS NATIONAL LAW, TO PROHIBIT IMPORTS OF THE PROTECTED PRODUCT.
- 17 IT FOLLOWS FROM THE ANSWER GIVEN TO QUESTION I (A) ABOVE THAT QUESTION I (B) HAS BECOME DEVOID OF OBJECT.

AS REGARDS QUESTION I (C)

- 18 THIS QUESTION REQUIRES THE COURT TO STATE WHETHER IT MAKES ANY DIFFERENCE TO THE ANSWER GIVEN TO QUESTION I (A) THAT THE PATENTEE AND THE LICENCEES DO OR DO NOT BELONG TO THE SAME CONCERN.
- 19 IT FOLLOWS FROM THE ANSWER GIVEN TO QUESTION I (A) THAT THE FACTOR WHICH ABOVE ALL ELSE CHARACTERIZES A RESTRICTION OF TRADE BETWEEN MEMBER STATES IS THE TERRITORIAL PROTECTION GRANTED TO A PATENTEE IN ONE MEMBER STATE AGAINST IMPORTATION OF THE PRODUCT WHICH HAS BEEN MARKETED IN ANOTHER MEMBER STATE BY THE PATENTEE HIMSELF OR WITH HIS CONSENT.
- 20 THEREFORE THE RESULT OF THE GRANT OF A SALES LICENCE IN A MEMBER STATE IS THAT THE PATENTEE CAN NO LONGER PREVENT THE SALE OF THE PROTECTED PRODUCT THROUGHOUT THE COMMON MARKET.
- 21 ACCORDINGLY, IT IS OF NO SIGNIFICANCE TO KNOW WHETHER THE PATENTEE AND THE LICENCEES DO OR DO NOT BELONG TO THE SAME CONCERN.

AS REGARDS QUESTION I (D)

- 22 THIS QUESTION REQUIRES THE COURT TO STATE, IN SUBSTANCE, WHETHER THE PATENTEE CAN, NOTWITHSTANDING THE ANSWER GIVEN TO THE FIRST QUESTION, PREVENT IMPORTATION OF THE PROTECTED PRODUCT, GIVEN THE EXISTENCE OF PRICE DIFFERENCES RESULTING FROM GOVERNMENTAL MEASURES ADOPTED IN THE EXPORTING COUNTRY WITH A VIEW TO CONTROLLING THE PRICE OF THAT PRODUCT.
- 23 IT IS PART OF THE COMMUNITY AUTHORITIES' TASK TO ELIMINATE FACTORS LIKELY TO DISTORT COMPETITION BETWEEN MEMBER STATES, IN PARTICULAR BY THE HARMONIZATION OF NATIONAL MEASURES FOR THE CONTROL OF PRICES AND BY THE PROHIBITION OF AIDS WHICH ARE INCOMPATIBLE WITH THE COMMON MARKET, IN ADDITION TO THE EXERCISE OF THEIR POWERS IN THE FIELD OF COMPETITION.
- 24 THE EXISTENCE OF FACTORS SUCH AS THESE IN A MEMBER STATE, HOWEVER, CANNOT JUSTIFY THE MAINTENANCE OR INTRODUCTION BY ANOTHER MEMBER STATE OF MEASURES WHICH ARE INCOMPATIBLE WITH THE RULES CONCERNING THE FREE MOVEMENT OF GOODS, IN PARTICULAR IN THE FIELD OF INDUSTRIAL AND COMMERCIAL

PROPERTY.

- 25 THE QUESTION REFERRED SHOULD THEREFORE BE ANSWERED IN THE NEGATIVE.
AS REGARDS QUESTION I (E)
- 26 THIS QUESTION REQUIRES THE COURT TO STATE WHETHER THE PATENTEE IS
AUTHORIZED TO EXERCISE THE RIGHTS CONFERRED ON HIM BY THE PATENT,
NOTWITHSTANDING COMMUNITY RULES ON THE FREE MOVEMENT OF GOODS, FOR THE
PURPOSE OF CONTROLLING THE DISTRIBUTION OF A PHARMACEUTICAL PRODUCT WITH
A VIEW TO PROTECTING THE PUBLIC AGAINST THE RISKS ARISING FROM DEFECTS
THEREIN.
- 27 THE PROTECTION OF THE PUBLIC AGAINST RISKS ARISING FROM DEFECTIVE
PHARMACEUTICAL PRODUCTS IS A MATTER OF LEGITIMATE CONCERN, AND ARTICLE 36
OF THE TREATY AUTHORIZES THE MEMBER STATES TO DEROGATE FROM THE RULES
CONCERNING THE FREE MOVEMENT OF GOODS ON GROUNDS OF THE PROTECTION OF
HEALTH AND LIFE OF HUMANS AND ANIMALS.
- 28 HOWEVER, THE MEASURES NECESSARY TO ACHIEVE THIS MUST BE SUCH AS MAY
PROPERLY BE ADOPTED IN THE FIELD OF HEALTH CONTROL, AND MUST NOT
CONSTITUTE A MISUSE OF THE RULES CONCERNING INDUSTRIAL AND COMMERCIAL
PROPERTY.
- 29 MOREOVER, THE SPECIFIC CONSIDERATIONS UNDERLYING THE PROTECTION OF
INDUSTRIAL AND COMMERCIAL PROPERTY ARE DISTINCT FROM THE CONSIDERATIONS
UNDERLYING THE PROTECTION OF THE PUBLIC AND ANY RESPONSIBILITIES WHICH
THAT MAY IMPLY.
- 30 THE QUESTION REFERRED SHOULD THEREFORE BE ANSWERED IN THE NEGATIVE.

S REGARDS QUESTION I (F)

- 31 THIS QUESTION REQUIRES THE COURT TO STATE WHETHER ARTICLE 42 OF THE ACT
CONCERNING THE CONDITIONS OF ACCESSION OF THE THREE NEW MEMBER STATES
IMPLIES THAT THE RULES OF THE TREATY CONCERNING THE FREE MOVEMENT OF
GOODS CANNOT BE INVOKED IN THE NETHERLANDS UNTIL 1 JANUARY 1975, INSOFAR AS
THE GOODS IN QUESTION ORIGINATE IN THE UNITED KINGDOM.
- 32 PARAGRAPH 1 OF ARTICLE 42 OF THE ACT OF ACCESSION PROVIDES THAT
QUANTITATIVE RESTRICTIONS ON IMPORTS AND EXPORTS SHALL, FROM THE DATE OF
ACCESSION, BE ABOLISHED BETWEEN THE COMMUNITY AS ORIGINALLY CONSTITUTED
AND THE NEW MEMBER STATES.
- 33 UNDER PARAGRAPH 2 OF THE SAME ARTICLE, WHICH IS MORE DIRECTLY RELEVANT TO
THE QUESTION, 'MEASURES HAVING EQUIVALENT EFFECT TO SUCH RESTRICTIONS
SHALL BE ABOLISHED BY 1 JANUARY 1975 AT THE LATEST'.
- 34 IN THE CONTEXT, THIS PROVISION CAN REFER ONLY TO THOSE MEASURES HAVING AN
EFFECT EQUIVALENT TO QUANTITATIVE RESTRICTIONS WHICH, AS BETWEEN THE
ORIGINAL MEMBER STATES, HAD TO BE ABOLISHED AT THE END OF THE TRANSITIONAL
PERIOD, PURSUANT TO ARTICLES 30 AND 32 TO 35 OF THE EEC TREATY.
- 35 IT THEREFORE APPEARS THAT ARTICLE 42 OF THE ACT OF ACCESSION HAS NO EFFECT
UPON PROHIBITIONS ON IMPORTATION ARISING FROM NATIONAL LEGISLATION
CONCERNING INDUSTRIAL AND COMMERCIAL PROPERTY.
- 36 THE CASE UNDER CONSIDERATION IS THEREFORE SUBJECT TO THE PRINCIPLE
ENSHRINED IN THE TREATY AND IN THE ACT OF ACCESSION, ACCORDING TO WHICH THE
PROVISIONS OF THE TREATIES ESTABLISHING THE EUROPEAN COMMUNITIES
CONCERNING THE FREE MOVEMENT OF GOODS AND, IN PARTICULAR, ARTICLE 30, ARE
APPLICABLE, FROM THE DATE OF ACCESSION, TO THE NEW MEMBER STATES, SAVE
WHERE CONTRARY IS EXPRESSLY STATED.

37 IT FOLLOWS THAT ARTICLE 42 OF THE ACT OF ACCESSION CANNOT BE INVOKED TO PREVENT IMPORTATION INTO THE NETHERLANDS, EVEN BEFORE 1 JANUARY 1975, OF GOODS PUT ONTO THE MARKET IN THE UNITED KINGDOM UNDER THE CONDITIONS SET OUT ABOVE BY THE PATENTEE OR WITH HIS CONSENT.

AS REGARDS QUESTIONS II (A) AND (B)

38 THESE QUESTIONS REQUIRE THE COURT TO STATE WHETHER ARTICLE 85 OF THE TREATY IS APPLICABLE TO AGREEMENTS AND CONCERTED PRACTICES BETWEEN THE PROPRIETOR OF PARALLEL PATENTS IN VARIOUS MEMBER STATES AND HIS LICENCEES, IF THE OBJECTIVE OF THOSE AGREEMENTS AND CONCERTED PRACTICES IS TO REGULATE DIFFERENTLY FOR THE DIFFERENT COUNTRIES THE CONDITIONS ON THE MARKET IN RESPECT OF THE GOODS PROTECTED BY THE PATENTS.

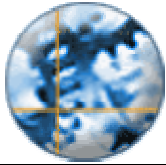
39 ALTHOUGH THE EXISTENCE OF RIGHTS RECOGNIZED UNDER THE INDUSTRIAL PROPERTY LEGISLATION OF A MEMBER STATE IS NOT AFFECTED BY ARTICLE 85 OF THE TREATY, THE CONDITIONS UNDER WHICH THOSE RIGHTS MAY BE EXERCISED MAY NEVERTHELESS FALL WITHIN THE PROHIBITIONS CONTAINED IN THAT ARTICLE.

40 THIS MAY BE THE CASE WHENEVER THE EXERCISE OF SUCH A RIGHT APPEARS TO BE THE OBJECT, THE MEANS OR THE CONSEQUENCE OF AN AGREEMENT.

41 ARTICLE 85, HOWEVER, IS NOT CONCERNED WITH AGREEMENTS OR CONCERTED PRACTICES BETWEEN UNDERTAKINGS BELONGING TO THE SAME CONCERN AND HAVING THE STATUS OF PARENT COMPANY AND SUBSIDIARY, IF THE UNDERTAKINGS FORM AN ECONOMIC UNIT WITHIN WHICH THE SUBSIDIARY HAS NO REAL FREEDOM TO DETERMINE ITS COURSE OF ACTION ON THE MARKET, AND IF THE AGREEMENTS OR PRACTICES ARE CONCERNED MERELY WITH THE INTERNAL ALLOCATION OF TASKS AS BETWEEN THE UNDERTAKINGS.

[...]

4.2.3 Case 187/80: Merck v Stephar



NOTE AND QUESTIONS

1. What is the principle of exhaustion of rights by the patentee and is there any exception to this principle?

Merck & Co. Inc. v Stephar BV and Petrus Stephanus Exler

Case 187/80

14 July 1981

Court of Justice

ECR [1981] 2063

<http://www.curia.eu.int/en/content/juris/index.htm>

- 1 BY A JUDGMENT OF 2 JULY 1980 WHICH WAS RECEIVED AT THE COURT ON 15 SEPTEMBER 1980 THE PRESIDENT OF THE ARRONDISSEMENTSRECHTBANK ROTTERDAM REFERRED TO THE COURT FOR A PRELIMINARY RULING UNDER ARTICLE 177 OF THE EEC TREATY A QUESTION ON THE RELATIONSHIP BETWEEN THE PROVISIONS OF THE TREATY CONCERNING FREE MOVEMENT OF GOODS, IN PARTICULAR ARTICLE 36, AND THE PROTECTION OF INDUSTRIAL AND COMMERCIAL PROPERTY AFFORDED BY NATIONAL LAWS.
- 2 IN THE JUDGMENT MAKING THE REFERENCE THE PRESIDENT OF THE ARRONDISSEMENTSRECHTBANK DESCRIBED THE ELEMENTS OF FACT AND NATIONAL LAW CONSTITUTING THE BACKGROUND TO THE QUESTION SUBSTANTIALLY AS FOLLOWS:
 - MERCK & CO INC. (HEREINAFTER REFERRED TO AS "MERCK") IS THE PROPRIETOR OF TWO NETHERLANDS PATENTS PROTECTING A DRUG, MODURETIC, AND ITS MANUFACTURING PROCESS, BY VIRTUE OF WHICH PURSUANT TO NETHERLANDS LAW IT HAS A LEGAL REMEDY AGAINST THE PROTECTED PRODUCT'S BEING MARKETED IN THAT COUNTRY BY OTHER PERSONS, EVEN WHEN THAT PRODUCT HAS BEEN MARKETED IN A DIFFERENT MEMBER STATE BY OR WITH THE CONSENT OF THE HOLDER OF THE PATENT.
 - THE COMPANY MARKETS THE DRUG IN ITALY WHERE IT HAS NOT BEEN ABLE TO PATENT IT OWING TO THE FACT THAT AT THE TIME WHEN THE DRUG WAS SOLD IN ITALY

THE ITALIAN PATENT LAW (REGIO DECRETO (ROYAL DECREE) NO 1127 OF 29 JUNE 1939) - WHICH WAS SUBSEQUENTLY DECLARED UNCONSTITUTIONAL BY A JUDGMENT OF THE ITALIAN CORTE COSTITUZIONALE (CONSTITUTIONAL COURT) DELIVERED ON 20 MARCH 1978 - PROHIBITED THE GRANT OF PATENTS FOR DRUGS AND THEIR MANUFACTURING PROCESSES.

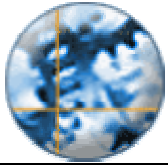
- STEPHAR IMPORTS THE DRUG FROM ITALY INTO THE NETHERLANDS AND MARKETS IT THERE IN COMPETITION WITH MERCK.

- 3 ON THE BASIS OF THOSE FACTS THE COURT HAS ASKED WHETHER IN SUCH CIRCUMSTANCES THE GENERAL RULES OF THE TREATY CONCERNING THE FREE MOVEMENT OF GOODS, NOTWITHSTANDING THE PROVISION OF ARTICLE 36, PROHIBIT THE PROPRIETOR OF A PATENT WHO SELLS A DRUG PROTECTED BY THAT PATENT IN A MEMBER STATE (THE NETHERLANDS) FROM PREVENTING, AS HE MAY UNDER THE NATIONAL LEGISLATION OF THAT MEMBER STATE, THE DRUG WHICH HE HIMSELF SELLS FREELY IN ANOTHER MEMBER STATE WHERE NO PATENT PROTECTION EXISTS (ITALY), FROM BEING IMPORTED FROM THAT OTHER MEMBER STATE AND MARKETED BY OTHER PERSONS IN THE FIRST MEMBER STATE (THE NETHERLANDS).
- 4 THE PARTIES TO THE PROCEEDINGS COMMENCED THEIR DISCUSSION OF THE QUESTION BY EMPHASIZING THAT THE COURT HAS ALREADY STATED, IN ITS JUDGMENT OF 31 OCTOBER 1974 (STERLING DRUG, CASE 15/74 (1974) ECR 1147), THAT INASMUCH AS IT PROVIDES AN EXCEPTION, FOR REASONS CONCERNED WITH THE PROTECTION OF INDUSTRIAL AND COMMERCIAL PROPERTY RIGHTS, TO ONE OF THE FUNDAMENTAL PRINCIPLES OF THE COMMON MARKET, ARTICLE 36 ADMITS OF SUCH A DEROGATION ONLY IN SO FAR AS IT IS JUSTIFIED FOR THE PURPOSE OF SAFEGUARDING RIGHTS WHICH CONSTITUTE THE SPECIFIC SUBJECT-MATTER OF THAT PROPERTY, WHICH AS FAR AS PATENTS ARE CONCERNED IS IN PARTICULAR TO GUARANTEE "THAT THE PATENTEE, TO REWARD THE CREATIVE EFFORT OF THE INVENTOR, HAS THE EXCLUSIVE RIGHT TO USE AN INVENTION WITH A VIEW TO MANUFACTURING INDUSTRIAL PRODUCTS AND PUTTING THEM INTO CIRCULATION FOR THE FIRST TIME, EITHER DIRECTLY OR BY THE GRANT OF LICENCES TO THIRD PARTIES, AS WELL AS THE RIGHT TO OPPOSE INFRINGEMENTS".
- 5 IN THE SAME JUDGMENT THE COURT DECLARED THAT AN OBSTACLE TO THE FREE MOVEMENT OF GOODS MAY BE JUSTIFIED ON THE GROUND OF PROTECTION OF INDUSTRIAL PROPERTY WHERE SUCH PROTECTION IS INVOKED AGAINST A PRODUCT COMING FROM A MEMBER STATE WHERE IT IS NOT PATENTABLE AND HAS BEEN MANUFACTURED BY THIRD PARTIES WITHOUT THE CONSENT OF THE PATENTEE.
- 6 THE PARTIES ARE IN AGREEMENT AS TO THE FACT THAT THE SITUATION UNDER CONSIDERATION IN THE PRESENT INSTANCE DIFFERS FROM THAT WHICH WAS THE SUBJECT OF THAT DECISION BECAUSE, ALTHOUGH IT CONCERNS A MEMBER STATE WHERE THE PRODUCT IN QUESTION IS NOT PATENTABLE, THAT PRODUCT HAS BEEN MARKETED NOT BY THIRD PARTIES BUT BY THE PROPRIETOR OF THE PATENT AND MANUFACTURER OF THE PRODUCT HIMSELF; HOWEVER, FROM THAT STATEMENT THEY DRAW OPPOSITE CONCLUSIONS.
- 7 STEPHAR AND THE COMMISSION CONCLUDE THAT ONCE THE PROPRIETOR OF THE PATENT HAS HIMSELF PLACED THE PRODUCT IN QUESTION ON THE OPEN MARKET IN A MEMBER STATE IN WHICH IT IS NOT PATENTABLE, THE IMPORTATION OF SUCH GOODS INTO THE MEMBER STATE IN WHICH THE PRODUCT IS PROTECTED MAY NOT BE PROHIBITED BECAUSE THE PROPRIETOR OF THE PATENT HAS PLACED IT ON THE MARKET OF HIS OWN FREE WILL.
- 8 IN CONTRAST MERCK, SUPPORTED BY THE FRENCH GOVERNMENT AND THE GOVERNMENT OF THE UNITED KINGDOM, MAINTAINS THAT THE PURPOSE OF THE

PATENT, WHICH IS TO REWARD THE INVENTOR, IS NOT SAFEGUARDED IF OWING TO THE FACT THAT THE PATENT RIGHT IS NOT RECOGNIZED BY LAW IN THE COUNTRY IN WHICH THE PROPRIETOR OF THE PATENT HAS MARKETED HIS PRODUCT HE IS UNABLE TO COLLECT THE REWARD FOR HIS CREATIVE EFFORT BECAUSE HE DOES NOT ENJOY A MONOPOLY IN FIRST PLACING THE PRODUCT ON THE MARKET.

- 9 IN THE LIGHT OF THAT CONFLICT OF VIEWS, IT MUST BE STATED THAT IN ACCORDANCE WITH THE DEFINITION OF THE SPECIFIC PURPOSE OF THE PATENT, WHICH HAS BEEN DESCRIBED ABOVE, THE SUBSTANCE OF A PATENT RIGHT LIES ESSENTIALLY IN ACCORDING THE INVENTOR AN EXCLUSIVE RIGHT OF FIRST PLACING THE PRODUCT ON THE MARKET.
- 10 THAT RIGHT OF FIRST PLACING A PRODUCT ON THE MARKET ENABLES THE INVENTOR, BY ALLOWING HIM A MONOPOLY IN EXPLOITING HIS PRODUCT, TO OBTAIN THE REWARD FOR HIS CREATIVE EFFORT WITHOUT, HOWEVER, GUARANTEEING THAT HE WILL OBTAIN SUCH A REWARD IN ALL CIRCUMSTANCES.
- 11 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.
- 12 THAT IS BORNE OUT, MOREOVER, BY THE STATEMENTS OF THE COURT IN ITS JUDGMENTS OF 22 JUNE 1976 (TERRAPIN, CASE 119/75 (1976) ECR 1039) AND 20 JANUARY 1981 (MUSIK-VERTRIEB MEMBRAN AND K-TEL, JOINED CASES 55 AND 57/80 (NOT YET PUBLISHED) INASMUCH AS "THE PROPRIETOR OF AN INDUSTRIAL OR COMMERCIAL PROPERTY RIGHT PROTECTED BY THE LAW OF A MEMBER STATE CANNOT RELY ON THAT LAW TO PREVENT THE IMPORTATION OF A PRODUCT WHICH HAS BEEN LAWFULLY MARKETED IN ANOTHER MEMBER STATE BY THE PROPRIETOR HIMSELF OR WITH HIS CONSENT".
- 13 UNDER THOSE CONDITIONS TO PERMIT AN INVENTOR, OR ONE CLAIMING UNDER HIM, TO INVOKE A PATENT HELD BY HIM IN ONE MEMBER STATE IN ORDER TO PREVENT THE IMPORTATION OF THE PRODUCT FREELY MARKETED BY HIM IN ANOTHER MEMBER STATE WHERE THAT PRODUCT IS NOT PATENTABLE WOULD BRING ABOUT A PARTITIONING OF THE NATIONAL MARKETS WHICH WOULD BE CONTRARY TO THE AIMS OF THE TREATY.
- 14 THE REPLY TO THE QUESTION WHICH HAS BEEN RAISED THEREFORE SHOULD BE THAT THE RULES CONTAINED IN THE EEC TREATY CONCERNING THE FREE MOVEMENT OF GOODS, INCLUDING THE PROVISIONS OF ARTICLE 36, MUST BE INTERPRETED AS PREVENTING THE PROPRIETOR OF A PATENT FOR A MEDICINAL PREPARATION WHO SELLS THE PREPARATION IN ONE MEMBER STATE WHERE PATENT PROTECTION EXISTS, AND THEN MARKETS IT HIMSELF IN ANOTHER MEMBER STATE WHERE THERE IS NO SUCH PROTECTION, FROM AVAILING HIMSELF OF THE RIGHT CONFERRED BY THE LEGISLATION OF THE FIRST MEMBER STATE TO PREVENT THE MARKETING IN THAT STATE OF THE SAID PREPARATION IMPORTED FROM THE OTHER MEMBER STATE

4.2.4 Joined cases C-267/95 and C-268/95: Merck v Primecrown



NOTE AND QUESTIONS

1. Was the Court right in not reversing its ruling of Merck I and not following AG Fennelly's opinion in Merck II?
2. What is the general risk of this case law for the common market?

4.2.4.1 Opinion of AG Fennelly

Merck & Co. Inc., Merck Sharp & Dohme Ltd and Merck Sharp & Dohme International Services BV v Primecrown Ltd, Ketan Himatlal Mehta, Bharat Himatlal Mehta and Necessity Supplies Ltd and Beecham Group plc v Europharm of Worthing Ltd

Joined cases C-267/95 and C-268/95

6 June 1996

AG Fennelly

ECR [1996] I-6285

<http://www.curia.eu.int/en/content/juris/index.htm>

[...]

Recommendation to the Court

116 I am thus satisfied, even before examining the subsequent cases cited by the plaintiffs in support of reconsidering the judgment of the Court in Merck v Stephar, that it should no longer represent the law. In my view, Article 36 of the Treaty ought to be interpreted as permitting the proprietor of a patent for a medicinal preparation in one Member State who also markets units of the product in a second Member State, where there is no patent protection, to avail of rights under the law of the first Member State to prevent imports into that first State of products which were initially marketed in the second Member State.

[...]

4.2.4.2 Judgment of the Court of Justice

Merck & Co. Inc., Merck Sharp & Dohme Ltd and Merck Sharp & Dohme International Services BV v Primecrown Ltd, Ketan Himatlal Mehta, Bharat Himatlal Mehta and Necessity Supplies Ltd and Beecham Group plc v Europharm of Worthing Ltd

Joined cases C-267/95 and C-268/95

5 December 1996

Court of Justice

ECR [1996] I-6285

<http://www.curia.eu.int/en/content/juris/index.htm>

Summary of the facts and procedure:

Merck holds patents in the United Kingdom for a drug for hypertension (Innovace), a drug prescribed in prostate treatment (Proscar) and a drug for glaucoma (Timoptol) whilst Beecham holds a patent for an antibiotic (Augmentin).

Those drugs were marketed by Merck and Beecham in Spain and Portugal at a time when drugs could not be patented in those two States (they became patentable in Spain on 7 October 1992 and in Portugal on 1 January 1992).

Merck and Beecham complain that Primecrown and Europharm have infringed their United Kingdom patents by importing the drugs in question into the United Kingdom from Spain and Portugal, thereby taking advantage of the price difference between those Member States.

The two cases referred to the Court of Justice by the High Court in London therefore concern cases in which drugs are patented in one Member State and the patent holders seek to oppose import of the drugs from another Member State where they could not be patented and where the patent holder was under a legal or ethical obligation to market them.

Judgement:

[...]

- 6 Primecrown and Europharm refer, for their part, to the case-law of the Court on Articles 30 and 36 of the Treaty and in particular to the principle of the exhaustion of rights, as interpreted by the Court in its judgment in Case 187/80 Merck v Stephar and Exler ([1981] ECR 2063, hereinafter 'Merck v Stephar' or 'Merck'). They deduce from Merck v Stephar that, upon expiry of the transitional periods laid down in Articles 47 and 209 of the Act of Accession, they are entitled to import the products in question from Spain and Portugal where they have been marketed by, or with the consent of, the patent holders.
- 7 In Merck v Stephar, the Court referred to its case-law on Articles 30 and 36 of the Treaty according

to which the proprietor of an industrial and commercial property right protected by the legislation of a Member State may not rely on that legislation to oppose the importation of a product which has been lawfully put on the market in another Member State by, or with the consent of, the proprietor of that right himself. The Court held that this case-law also applied where the product concerned was put on the market by, or with the consent of, the proprietor in a Member State where the product was not patentable.

- 8 Article 42, concerning the Kingdom of Spain, and Article 202, concerning the Portuguese Republic, of the Act of Accession, impliedly referring to Articles 30 and 34 of the Treaty, abolished, as from 1 January 1986, quantitative restrictions on imports and exports and all measures having equivalent effect existing between the Community and those two new Member States.
- 9 Articles 47 and 209 of the Act of Accession (in relation to Spain and Portugal respectively) provide in substance that, by derogation from Articles 42 and 202 of that Act, the rule in *Merck v Stephar* is not to apply to pharmaceutical products during a certain transitional period.
- 10 The first paragraph of Articles 47 and 209 of the Act of Accession provides that the holder, or his beneficiary, of a patent for a chemical or pharmaceutical product or a product relating to plant health, filed in a Member State at a time when a product patent could not be obtained in Spain or in Portugal for that product may rely on the rights granted by that patent in order to prevent the import and marketing of that product in the Member State or States where the product in question enjoys patent protection even if that product was put on the market in Spain or in Portugal for the first time by him or with his consent.
- 11 According to the second paragraph of those two articles, that right may be invoked until the end of the third year after Spain and Portugal have made those products patentable.
- 12 Protocols Nos 8 and 19 to the Act of Accession require the Kingdom of Spain and the Portuguese Republic to make their legislation on patents compatible with the level of industrial property protection in the Community. For that purpose, they provide that those two States must accede to the Munich Convention of 5 October 1973 on the European Patent and make pharmaceutical products patentable within a certain period. In accordance with those provisions, pharmaceutical products were made patentable on 7 October 1992 in Spain and on 1 January 1992 in Portugal.
- 13 In the order for reference the national court explains that the present disputes have arisen because the holders of the patents in question do not have, and never could have got, patent protection in Spain or Portugal for the drugs concerned. Prices in those Member States are lower than elsewhere in the European Union, and medicines sold by the patent holders to wholesalers there, instead of going to Spanish or Portuguese consumers, are immediately exported.
- 14 The national court considers that the cases before it raise two distinct questions concerning the interpretation of Community law: (i) the question of the duration of the transitional arrangement provided for by the Act of Accession and (ii) the question whether the principle of the exhaustion of patent rights, as laid down by the Court in *Merck v Stephar*, must be reconsidered in view of the particular circumstances referred to in the order for reference.
- 15 In those circumstances, the High Court decided to stay proceedings and to refer the following questions to the Court for a preliminary ruling:

[...]

3. After the expiration of Article 47 (and/or Article 209, as appropriate), in a case where:

3.1 an undertaking is the proprietor ("the Proprietor") of a patent ("the Patent") in one or more Member States of the European Communities ("the Member State") for a pharmaceutical product ("the Pharmaceutical");

3.2 the Pharmaceutical was first put on the market in a country by the Proprietor after that country's accession to the EC but at a time when the Pharmaceutical could not be protected by a product patent in that country;

3.3 a third party imports the Pharmaceutical from that country into the Member State;

3.4 and the patent legislation in the Member State granted the proprietor of the Patent the right to oppose by legal action the importation of the Pharmaceutical from that country do the rules set forth in the EC Treaty concerning the free movement of goods prevent the Proprietor from availing himself of the right referred to in paragraph 3.4 above, in particular if:

- (a) the Proprietor had and continues to have a legal and/or ethical obligation to market and to continuing marketing the Pharmaceutical in that country; and/or
- (b) that country's and/or EC legislation effectively requires that, once the Pharmaceutical is put on the market in that country, the Proprietor supply and continue to supply sufficient quantities to satisfy the needs of domestic patients; and/or
- (c) that country's legislation grants to its authorities, and its authorities exercise, the right to fix the sale price of the Pharmaceutical in that country and legislation prohibits the sale of the Pharmaceutical at any other price; and/or
- (d) the price of the Pharmaceutical in that country has been fixed by its authorities at a level at which substantial exports of the Pharmaceutical from such country to the Member State are anticipated with the result that the economic value of the Patent would be significantly eroded and research and development for future pharmaceuticals planned by the Proprietor significantly undermined, contrary to the rationale underlying the recent introduction by the EC Council of the Supplementary Protection Certificate?

16 By order of the President of the Court of 6 September 1995 Cases C-267/95 and C-268/95 were joined for the purposes of the written procedure, the oral procedure and the judgment.

[...]

The third question

- 26 By its third question the national court asks whether Articles 30 and 36 of the Treaty preclude application of national legislation which grants the holder of a patent for a pharmaceutical product the right to oppose importation by a third party of that product from another Member State in circumstances where the holder first put the product on the market in that State after its accession to the European Community but before the product could be protected by a product patent in that State. In this regard, the national court mentions certain specific circumstances and asks what relevance they have.
- 27 In substance, the High Court is seeking to ascertain whether it is necessary to reconsider the rule in *Merck v Stephar* or whether, having regard to the specific circumstances mentioned, its scope should be limited.
- 28 *Merck* and *Beecham* consider that there are weighty reasons for departing from the rule in *Merck v Stephar*. They point out first of all that an important change in the situation has occurred since *Merck*. At the time when the Court gave that judgment, it was the exception rather than the rule for pharmaceutical products to be patentable in Europe. Nowadays, such products are patentable in all the countries of the European Economic Area, with the exception of Iceland. Similarly, the Community institutions have emphasized the importance of patents in the pharmaceutical sector, in particular by the adoption of Council Regulation (EEC) No 1768/92 of 18 June 1992 concerning the creation of a supplementary protection certificate for medicinal products (OJ 1992 L 182, p. 1). *Merck* and *Beecham* then point to the increasingly serious financial consequences of maintaining the rule in *Merck* which, in their view, appreciably reduce the value of patents granted in the Community. Finally, they argue that the specific subject-matter of a patent can be exhausted only if the product in question is marketed with patent protection and that *Merck* is incompatible with the later case-law of the Court.
- 29 It is first necessary to recall the Court's reasoning in *Merck*.
- 30 In that judgment, the Court referred to its judgment in Case 15/74 *Centrafarm v Sterling Drug* [1974] ECR 1147 in which it held, in paragraphs 8 and 9, that as an exception, on grounds of the protection of industrial and commercial property, to one of the fundamental principles of the common market, Article 36 of the Treaty admitted such derogation only in so far as it was justified

for the purpose of safeguarding rights constituting the specific subject-matter of that property, which, as regards patents, is, in particular, in order to reward the creative effort of the inventor, to guarantee that the patentee has the exclusive right to use an invention with a view to manufacturing industrial products and putting them into circulation for the first time, either directly or by the grant of licences to third parties, as well as the right to oppose infringements.

- 31 In paragraphs 9 and 10 of Merck, the Court then stated that it followed from the definition of the specific purpose of a patent that the substance of a patent right lies essentially in according the inventor an exclusive right to put the product on the market for the first time, thereby allowing him a monopoly in exploiting his product and enabling him to obtain the reward for his creative effort without, however, guaranteeing such reward in all circumstances.
- 32 The Court held, finally, in paragraphs 11 and 13 of Merck that it was for the holder of the patent to decide, in the light of all the circumstances, under what conditions he would market his product, including the possibility of marketing it in a Member State where the law did 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 free movement of the product within the common market, this being a fundamental principle forming part of the legal and economic circumstances which the holder of the patent must take into account in determining how to exercise his exclusive right. Under those conditions, to permit an inventor to invoke a patent held by him in one Member State in order to prevent the importation of the product freely marketed by him in another Member State where that product was not patentable would cause a partitioning of national markets contrary to the aims of the Treaty.
- 33 For the reasons set out below, the arguments for reconsideration of the rule in Merck are not such as to call in question the reasoning on which the Court based that rule.
- 34 It is true, as Merck and Beecham point out, that it is now the norm for pharmaceutical products to be patentable. However, such a development does not mean that the reasoning underlying the rule in Merck is superseded.
- 35 The same is true in relation to the arguments based, first, on the efforts made by the Community institutions to give enhanced protection to holders of patents for pharmaceutical products and, second, on the consequences of maintaining that rule for research and development by the pharmaceutical industry.
- 36 There can be no doubt now, any more than at the time when the judgment in Merck was given, that if a patentee could prohibit the importation of protected products marketed in another Member State by him or with his consent, he would be able to partition national markets and thereby restrict trade between the Member States. By the same token, if a patentee decides, in the light of all the circumstances, to put a product on the market in a Member State where it is not patentable, he must accept the consequences of his choice as regards the possibility of parallel imports.
- 37 The arguments put forward in the present cases have not shown that the Court was wrong in its assessment of the balance between the principle of free movement of goods in the Community and the principle of protection of patentees' rights, albeit that, as a result of striking that balance, the right to oppose importation of a product may be exhausted by its being marketed in a Member State where it is not patentable.
- 38 It is important to remember in this respect that the transitional measures provided for by Articles 47 and 209 of the Act of Accession were adopted in the light of the ruling in Merck. Although the Member States considered it necessary to postpone the effects of that ruling for a long period, they provided that, upon expiry of the transitional arrangements, Articles 30 and 36 of the Treaty, as interpreted in Merck, should apply in full to trade between Spain and Portugal, on the one hand, and the existing Member States, on the other.
- 39 Furthermore, the situations addressed by the ruling in Merck are set to disappear since pharmaceutical products are now patentable in all the Member States. If, upon accession of new States to the Community, such situations were to recur, the Member States could adopt the measures considered necessary, as was the case when the Kingdom of Spain and the Portuguese

Republic acceded to the Community.

- 40 Finally, Merck's and Beecham's argument that judgments given by the Court after Merck, in particular those in Case 19/84 Pharmon v Hoechst ([1985] ECR 2281) and in Case 158/86 Warner Brothers and Metronome Video v Christiansen ([1988] ECR 2605), support their point of view must be rejected.
- 41 Contrary to their contention, the judgment in Pharmon shows that the Court confirmed the principles laid down in Merck. In Pharmon, the Court emphasized the importance of the patentee's consent to the product in question being put into circulation. At paragraph 25 it held that, where the authorities of a Member State grant a third party a compulsory licence allowing him to carry out manufacturing and marketing operations which the patentee would normally have the right to prevent, the patentee cannot be deemed to have consented to those operations and he may therefore oppose importation of products made by the holder of the compulsory licence.
- 42 Unlike the cases now under consideration, Warner Brothers concerned legislation of the importing State which allowed the author of a musical or cinematographic work not only to control the initial sale but also to oppose the hiring out of videos of that work for as long as he refused specific consent for such hiring out. In that judgment, the Court held that, since there was a specific market for hiring out distinct from the market for sales, such a specific right would lose its substance if the proprietor of the work were unable to authorize hiring out, even in the case of video cassettes already put into circulation with his consent in another Member State whose legislation allowed the author to control the initial sale without giving him the right to prohibit hiring out.
- 43 Since none of the arguments for re-examining the rule in Merck which the Court has thus far considered have been accepted, the Court must next determine whether, having regard to the specific circumstances mentioned by the national court, the scope of that rule must be restricted.
- 44 The first question to be considered is whether the rule in Merck also applies where the patentee has a legal or ethical obligation to market or to continue to market his product in the exporting State. Here the national court is concerned to know what importance is to be attached to a requirement of that State's legislation or of Community legislation that, once the product has been put on the market in that State, the patentee must supply and continue to supply sufficient quantities to satisfy the needs of domestic patients.
- 45 The second question is whether the rule in Merck applies where the legislation of the exporting State not only grants to its authorities the right, which they exercise, to fix the sale price of the product but also prohibits the sale of the product at any other price. Here the national court is concerned to know whether it is relevant that those authorities have fixed the price of the products at a level such that substantial exports of the product to the Member State of importation are foreseeable.
- 46 Merck and Beecham maintain in particular that, in the circumstances mentioned in the order for reference, their right to decide freely on the conditions in which they market their products is removed or considerably reduced. In their view, it follows from Pharmon that the rule in Merck does not apply in the present cases.
- 47 As to that, 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 and not by the adoption by another Member State of measures incompatible with the rules on free movement of goods (see Case 16/74 Winthrop [1974] ECR 1183, paragraph 17; Joined Cases 55/80 and 57/80 Musik-Vertrieb Membran and K-tel International v GEMA [1981] ECR 147, paragraph 24; and Joined Cases C-427/93, C-429/93 and C-436/93 Bristol-Myers Squibb and Others [1996] ECR I-3457, paragraph 46).
- 48 The next question which must be examined is how far the rule in Merck applies where patentees are legally obliged to market their products in the exporting State.
- 49 In answering that question it is to be remembered, first, that in Merck the Court emphasized the

importance of the fact that the patentee had taken his decision to market his product freely and in full knowledge of all relevant circumstances and, second, that it follows from *Pharmon* that a patentee who is not in a position to decide freely how he will market his products in the exporting State may oppose importation and marketing of those products in the State where the patent is in force.

- 50 It follows that, where a patentee is legally bound under either national law or Community law to market his products in a Member State, he cannot be deemed, within the meaning of the ruling in *Merck*, to have given his consent to the marketing of the products concerned. He is therefore entitled to oppose importation and marketing of those products in the State where they are protected.
- 51 It is for the patentee to prove, before the national court from which an order prohibiting imports is sought, that there is a legal obligation to market the product concerned in the exporting State. He must in particular show, for example by reference to decisions of the competent national authorities or courts or of the competent Community authorities, that there is a genuine, existing obligation.
- 52 According to the information given to the Court in these proceedings and as the Advocate General observes in points 152 and 153 of his Opinion, such obligations can hardly be said to exist in the case of the imports in question.
- 53 Finally, as regards the argument that ethical obligations may compel patentees to provide supplies of drugs to Member States where they are needed, even if they are not patentable there, such considerations are not, in the absence of any legal obligation, such as to make it possible properly to identify the situations in which the patentee is deprived of his power to decide freely how he will market his product. Such considerations are, at any rate in the present context, difficult to apprehend and distinguish from commercial considerations. Such ethical obligations cannot, therefore, be the basis for derogating from the rule on free movement of goods laid down in *Merck*.
- 54 In view of the foregoing, the answer to be given to the third question must be that Articles 30 and 36 of the Treaty preclude application of national legislation which grants the holder of a patent for a pharmaceutical product the right to oppose importation by a third party of that product from another Member State in circumstances where the holder first put the product on the market in that State after its accession to the European Community but before the product could be protected by a patent in that State, unless the holder of the patent can prove that he is under a genuine, existing legal obligation to market the product in that Member State.

[...]

4.2.5 Case 19/84: Pharmon v Hoechst

Pharmon BV v Hoechst AG

Case 19/84

9 July 1985

Court of Justice

ECR [1985] 2281

<http://www.curia.eu.int/en/content/juris/index.htm>

Summary of the facts and procedure:

Hoechst owned patents in the United Kingdom and The Netherlands on the process for manufacturing a drug known as "frusemide". A British company, DDSA, obtained a compulsory license from the British government for manufacture of the drug for sale within the United Kingdom only. In violation of the terms of the compulsory license, DDSA exported the frusemide which it had manufactured to Pharmon in The Netherlands. Hoechst sought to restrain Pharmon's infringement of its Netherlands patent.

Judgement:

[...]

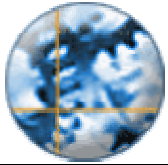
- 22 It must be recalled that the court has consistently held that articles 30 and 36 of the EEC treaty preclude the application of national provisions which enable a patent proprietor to prevent the importation and marketing of a product which has been lawfully marketed in another member state by the patent proprietor himself, with his consent, or by a person economically or legally dependent on him.
- 23 If a patent proprietor could preclude the importation of protected products marketed in another member state by him or with his consent, he would be able to partition the national markets and thus restrict trade between the member states, although such a restriction is not necessary to protect the substance of his exclusive rights under the parallel patents.
- 24 The Hoge Raad 's question is therefore essentially intended to establish whether the same rules apply where the product imported and offered for sale has been manufactured in the exporting member state by the holder of a compulsory licence granted in respect of a parallel patent held by the proprietor of the patent in the importing member state.
- 25 It is necessary to point out that where, as in this instance, the competent authorities of a member state grant a third party a compulsory licence which allows him to carry out manufacturing and marketing operations which the patentee would normally have the right to prevent, the patentee cannot be deemed to have consented to the operation of that third party. Such a measure deprives

the patent proprietor of his right to determine freely the conditions under which he markets his products.

- 26 As the court held most recently in its judgment of 14 July 1981 (Merck v Stephar, cited above), 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. It is therefore necessary to allow the patent proprietor to prevent the importation and marketing of products manufactured under a compulsory licence in order to protect the substance of his exclusive rights under his patent.

[...]

4.2.6 Case 35/87: Thetford



NOTE AND QUESTIONS

1. To what extent should the Member States be free to define the conditions for the existence of intellectual property rights? Why must there be a limit to a Member State's discretion?
2. Which cases are covered by the second sentence of Article 30 (ex Article 36) TEC and what kind of relief could be granted under this Article?
3. What are the economic consequences of courts issuing injunctions against the importation of goods from other Member States which infringe national patents? When should such injunctions be allowed in the light of Articles 28-30 (ex Articles 30-36) TEC?
4. Do you think there should be "relative novelty"? Are there legal and/or economic reasons for this concept?

4.2.6.1 Opinion of AG Mischo

Thetford Corporation and Another v Fiamma SpA and Others

Case 35/87

28 April 1988

AG Mischo

ECR [1988] 3585

<http://www.curia.eu.int/en/content/juris/index.htm>

1. This request for a preliminary ruling relates to a patent infringement action in which Thetford Corporation (USA) and Thetford (Aqua) Products Ltd (UK) (which I will refer to as Thetford) are suing Fiamma SpA and Fiamma UK (which I will refer to as Fiamma). The latter are, respectively, the manufacturers in Italy and the importers into the United Kingdom of portable toilets patented by Thetford in the United Kingdom, and in that Member State alone. Thetford, from which Fiamma has no licence whether in the United Kingdom, in Italy or elsewhere, is relying in particular on a patent (which I will refer to as Patent 235) issued under the Patents Act 1949, which continues to govern

the patent despite its having been replaced by the Patents Act 1977.

2. The Court of Appeal of England and Wales, before which the main proceedings are pending, asks this Court to make the following assumptions:
 - (a) Patent 235 is a valid patent under United Kingdom law;
 - (b) Patent 235 would be invalid under the laws of other Member States, except possibly Ireland, because seven patent specifications were published more than 50 years before the priority date but excluded from consideration in the United Kingdom under section 50 of the Patents Act 1949;
 - (c) The exclusion of 50-year old specifications under section 50 of the 1949 Act does not apply to patents granted under the Patents Act 1977;
 - (d) The plaintiffs have not sought to obtain any corresponding patent in any other Member State;
 - (e) The alleged infringing articles were manufactured in Italy and imported and sold in the United Kingdom.

The first question

3. The first of the two questions referred to the Court by the Court of Appeal is as follows:
 - (1) Whether a subsisting patent which has been granted in the United Kingdom under the provisions of the Patents Act 1949 in respect of an invention which but for the provisions of section 50 of that Act would have been anticipated (lacked novelty) by a specification as is described in paragraphs (a) or (b) of section 50 (1) of that Act constitutes industrial or commercial property entitled to protection under Article 36 of the Treaty of Rome?
4. Section 50 (1) of the Patents Act 1949 provides as follows:

An invention claimed in a complete specification shall not be deemed to have been anticipated by reason only that the invention was published in the United Kingdom:

 - (a) in a specification filed in pursuance of an application for a patent made in the United Kingdom and dated more than 50 years before the date of filing of the first-mentioned specification;
 - (b) in a specification describing the invention for the purposes of an application for protection in any country outside the United Kingdom made more than 50 years before that date; or
 - (c) [...]
5. Consequently, it is not possible in United Kingdom law to base an action for the revocation of a patent on a specification issued in the United Kingdom or in any other country more than 50 years before.
6. The first question put by the Court of Appeal therefore seeks to establish whether the derogation from Articles 30 to 34 of the EEC Treaty which is set out in the first sentence of Article 36 necessarily applies to all patents or whether, on the contrary, that exception does not apply to patents which, were it not for section 50 (1) of the Patents Act 1949, would be liable to be revoked, that is to say patents granted by virtue of the principle of relative novelty.
7. The defendant in the main proceedings (Fiamma) considers that the freedom which, according to the Court, the Member States have to define the conditions for the existence of intellectual and commercial property rights must necessarily be subject to limits and not exceed a certain area of discretion. Accordingly, it considers that a right granted by a national legislature does not constitute a patent and cannot qualify for the protection afforded on that ground by Article 36 unless certain fundamental conditions are fulfilled. In particular, a patent granted in the absence of novelty or an inventive step could not be regarded as industrial and commercial property.
8. However, in its judgment in *Keurkoop v Nancy Kean Gifts* the Court made it clear that in the state of Community law then obtaining it would not examine the precise conditions laid down by national law for the grant of an intellectual property right. The question at issue in that case was whether

Article 36 of the Treaty permitted the application of a national law which, like the Uniform Benelux Law on Designs, gave an exclusive right to the first person to file a design, without persons other than the author or those claiming under him being entitled, in order to challenge such an exclusive right or defend an action for an injunction brought by the holder of the right, to contend that the person filing the design was not the author of it, the person who commissioned the design from him or his employer. The Court stated that in the present state of Community law and in the absence of Community 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 (paragraph 18 of the judgment).

9. Moreover, despite the fact that the Uniform Benelux Law afforded protection to a product which in fact had not been commonly known in the industrial and commercial circles concerned in the Benelux territory during the 50 years prior to the filing of the design (paragraph 15 of the judgment) the Court ruled that in the present state of its development Community law does not prevent the adoption of national provisions of the kind contained in the Uniform Benelux Law, as described by the national court (paragraph 1 of the operative part of the judgment).
10. However, Fiamma further argues that whereas there has been little harmonization in the field of designs, with which Keurkoop was concerned, the same cannot be said of patents. There has been significant progress towards harmonization of national laws regarding patents, and at Community level agreement has even been reached on matters of substantive patent law, including novelty. Account should therefore be taken of that development.
11. What is the actual position? The 1975 Luxembourg Convention for the European patent for the common market (Community Patent Convention) has still not entered into force.
12. The Strasbourg Convention on the unification of certain points of substantive law on patents for invention and the 1973 Munich Convention on the grant of European patents (European Patent Convention) also incorporate the principle of absolute novelty, but those conventions are not part of the Community legal order.
13. Furthermore, they did not enter into force until after the patent in question was granted to Thetford (the Strasbourg Convention on 1 August 1980 and the Munich Convention, as far as the United Kingdom was concerned, on 7 October 1977).
14. Lastly, both the Munich Convention and the Luxembourg Convention allow national patents to continue to exist alongside European patents. Since Thetford's patent was not applied for under the Munich Convention, it is purely national and continues to be governed by the provisions of United Kingdom law.
15. In sum, I therefore consider that the judgment in Keurkoop does in fact constitute a relevant precedent, and that there is no reason for not applying in this case the Court's ruling to the effect that the definition of the conditions for the existence of industrial and commercial property rights is a matter for the Member States, ⁵¹ even if the resulting differences between national laws creates obstacles to the free movement of goods. Thus in Parke Davis and Deutsche Gramophon, Dutch and German law made provision for industrial or commercial property rights which were unknown in Italy and in France respectively. However, the Court did not call in question the Member States' freedom to grant industrial or commercial property rights within the meaning of Article 36, even though differences between those rights were the source of a potential barrier to the free movement of goods.
16. Those are the observations which, in my view, are called for with regard to the first sentence of Article 36, which, in the opinion of the representatives of the United Kingdom and Thetford, is the only provision to which the Court of Appeal intended to refer.
17. However, in my view the appraisal of the issue would be incomplete were we to ignore the second sentence of Article 36. The national court asks not only whether a patent granted under the conditions described constitutes industrial or commercial property, but whether it constitutes industrial or commercial property entitled to protection under Article 36 of the Treaty of Rome.
18. It would not be entitled to protection if the prohibition or restriction on imports based on the

existence of a patent constituted a means of arbitrary discrimination or a disguised restriction on trade between Member States within the meaning of the second sentence of Article 36.

19. In fact, it could be that an injunction prohibiting the importation of a product, issued in view of the existence of a patent, may constitute such discrimination or such a restriction simply because the patent was granted in circumstances indicative of a protectionist intention.
20. Therefore, in this case the Court is not called upon to consider -- as Fiamma asks it to do -- whether a patent such as the one granted to Thetford constitutes a genuine patent (under United Kingdom law that is in fact the case), but to consider whether in the light of the circumstances in which the patent was granted (that is to say, despite the existence of specifications going back more than 50 years) the prohibition on the importation of products of the type in question constitutes arbitrary discrimination or a disguised restriction on trade.
21. It is from that point of view that Fiamma's example of the grant of a patent for a perfectly ordinary football may be helpful. If a Member State were in fact to grant a patent for such an article in everyday use, without any doubt its motive would be to reserve a monopoly for a national manufacturer, thereby imposing a disguised restriction on trade within the meaning of the second sentence of Article 36.
22. It was, moreover, on the basis of the second sentence of Article 36 that the Court held in the *Sekt and Weinbrand* case, which Fiamma cites in support of its argument, that Article 30 of the Treaty had been infringed because German law granted the protection provided for indications of origin to appellations which, at the time when such protection was granted, were merely generic in nature.
23. Can the protection of a patented product against imports from another Member State despite the relative novelty of the invention likewise constitute arbitrary discrimination or a disguised restriction on imports?
24. Certainly, according to the established case-law of the Court the specific subject-matter of a patent consists 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.
25. Consequently, where there is no effort to reward, a prohibition on importation can scarcely be anything other than the expression of a discriminatory or protectionist attitude (the example of the football).
26. The United Kingdom and the Commission argue that there is reward for an effort in this case, namely the effort put in by the author of the re-invention, who makes a forgotten invention available once again to the country. This reasoning seems to me to be valid, especially since only patent specifications going back more than 50 years are excluded from the state of the art by section 50 of the Patents Act 1949. In other words, publication in forms other than patent specifications and previous use going back more than 50 years may be relied on in order to obtain the revocation of the patent. (I would observe that the national court asked us to assume simply as a working hypothesis that Thetford's patent is valid under United Kingdom law.) Anticipation is ignored only where the old invention exists only in the form of old documents lodged at the Patent Office. In that context it seems to me to be possible to speak of re-invention and rewarding re-invention, whether the inventor was wholly ignorant of the old specifications and made an invention quite independently of them or whether he discovered them on the shelves of the Patent Office and developed a modern product from them.
27. Other arguments tend to show that this is not one of the cases covered by the second sentence of Article 36. First, paragraphs (a) and (b) of section 50 of the Patents Act 1949 make no distinction between specifications describing an invention lodged in connection with a patent application in the United Kingdom and those lodged in connection with a patent application in another country: in both cases specifications which are more than 50 years old are not taken into consideration. (Moreover, it was not contested that specifications relating to patent applications made abroad are available at the United Kingdom Patent Office).
28. It is also uncontested that foreign nationals applying for a patent in the United Kingdom have the same rights as British nationals in regard to the 50-year rule. Hence, if Fiamma had lodged its

patent application before Thetford and if its product had not been described in a publication available in the United Kingdom Fiamma would have obtained a United Kingdom patent. It would have been able to enforce that patent both with respect to imports (except imports of its own products marketed with its consent in other Member States) and with regard to any infringers of that patent in the territory of the United Kingdom.

29. It may be concluded, therefore, that a prohibition or restriction on imports granted with a view to protecting the exclusive rights of the holder of a patent issued in respect of an invention the novelty of which in the absence of the 50-year rule could have been contested would not constitute arbitrary discrimination or a disguised restriction on trade between Member States within the meaning of the second sentence of Article 36.
30. It remains for me to say a few words about a related issue raised by the Commission in answering the questions put by the Court: under the Patents Act 1949 it was possible to obtain a patent in the United Kingdom for an invention which was freely used or published (and could therefore be freely used) in another Member State at the time of the application. Like the Commission, I take the view that if such legislation still existed now a prohibition on importation granted in order to protect a patent obtained on that basis would constitute arbitrary discrimination or a disguised restriction on trade between Member States. As to whether the Treaty could now be invoked in order to deprive the holder of a patent which was validly granted in 1969 – that is to say, before the United Kingdom became a member of the Community – of the right to oppose imports, in my view that question raises very complex problems involving, *inter alia*, concepts such as the transitional period, legal certainty, legitimate expectations and vested rights. There can be no question of the Court's dealing with them by way, so to speak, of an *obiter dictum* when the Court of Appeal has not even raised the matter.
31. For all the reasons set out above I propose, therefore, that the first question should be answered as follows:

A subsisting patent which was granted in the United Kingdom under the provisions of the Patents Act 1949 in respect of an invention which but for the provisions of section 50 of that Act would have been anticipated (lacked novelty) by a specification as is described in paragraphs (a) or (b) of section 50 (1) of that Act constitutes industrial or commercial property entitled to protection under Article 36 of the Treaty of Rome.

The second question

32. In its second question the Court of Appeal asks whether, if a patent such as Thetford's is entitled to the protection of Article 36, the only relief justified under that article would, as Fiamma has argued, be an order for the payment of a reasonable royalty (or other monetary award) but not an injunction.
33. According to the established case-law of the Court: 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. It is therefore necessary to allow the patent proprietor to prevent the importation and marketing of products manufactured under a compulsory licence in order to protect the substance of his exclusive rights under his patent (paragraph 26 of the judgment).
34. There is all the more reason to reach such a conclusion where there is not even a compulsory licence in the country of manufacture or any form of consent on the part of the patentee to the marketing of the product concerned (see *Merck v Stephar*, and *Centrafarm v Sterling Drug*).
35. Consequently, prohibiting importation is the normal method of protecting the specific subject-matter of the patentee's right and there is no room for considerations based on the principle of proportionality. Moreover, it would be paradoxical to require United Kingdom law to tolerate the importation of products manufactured abroad without the patentee's consent whereas if the products were manufactured in the United Kingdom it would be possible to restrain the manufacturer's activity by means of an injunction.
36. In contrast, the situation would be quite different if, all other things being equal, an infringer

established in the country in question could only be ordered to pay royalties but could not be restrained by injunction from manufacturing. In that case an injunction issued against importers alone would constitute an arbitrary discrimination within the meaning of the second sentence of Article 36. This follows from the Court's judgment of 3 March 1988 in Case 434/85 *Allen and Hanburys Ltd v Generics (UK) Ltd*, where the Court ruled that Articles 30 and 36 of the Treaty must be interpreted as precluding the courts of a Member State from issuing an injunction prohibiting the importation from another Member State of a product which infringes a patent endorsed 'licences of right' against an importer who has undertaken to take a licence on the terms prescribed by law where no such injunction may be issued in the same circumstances against an infringer who manufactures the product in the national territory (paragraph 23 of the judgment; see also paragraph 22).

37. For all those reasons I propose the following answer to the second question: Article 36 permits the courts of a Member State to issue an injunction prohibiting the importation and marketing of a product infringing a patent issued in that State where, in the same situation, an injunction could be issued against an infringer manufacturing the product in the national territory.

[...]

4.2.6.2 Judgment of the Court of Justice

Thetford Corporation and Another v Fiamma SpA and Others

Case 35/87

30 June 1988

Court of Justice

ECR [1988] 3585

<http://www.curia.eu.int/en/content/juris/index.htm>

- 1 By an order which was lodged at the Court Registry on 5 February 1987 the Court of Appeal, London, referred to the Court for a preliminary ruling under Article 177 of the EEC Treaty two questions concerning the interpretation of Article 36 of the EEC Treaty with a view to the assessment of the compatibility with the rules on the free movement of goods of certain provisions of national patent law and especially the principle of relative novelty.
- 2 Those questions were raised in proceedings brought by Thetford Corporation and Thetford (Aqua) Products Limited (hereinafter referred to as Thetford), the owners of several United Kingdom patents relating to portable toilets, and Fiamma SpA, a manufacturer of such toilets in Italy, and Fiamma UK, which imports them into the United Kingdom (hereinafter together referred to as Fiamma).
- 3 It appears from the order of the national court that Thetford sued Fiamma for infringement of two United Kingdom patents, granted pursuant to the Patents Act 1949, namely Patent No 1 226 235 (hereinafter Patent 235) and Patent No 1 530 155. The articles alleged to constitute an infringement of those patents are portable toilets manufactured in Italy and sold in the United Kingdom. Fiamma has no licence from Thetford in the United Kingdom, in Italy or anywhere else.
- 4 Before the Patents Court Fiamma denied the patent infringement and argued, on the one hand, that Thetford's patent was invalid on grounds of lack of novelty and inventive step and, on the other, that even if the patent were valid, Articles 30 and 36 of the EEC Treaty limited the relief which the courts of the United Kingdom ought to grant to the proprietor of the patent.
- 5 After the Patents Court had granted Thetford's application, Fiamma appealed to the Court of Appeal, which decided that, bearing in mind that there was no direct authority of the Court of Justice on the points raised by the defendants, the allegations disclosed an arguable case. It therefore decided to refer the following questions to the Court of Justice for a preliminary ruling:
 - (1) Whether a subsisting patent which has been granted in the United Kingdom under the provisions of the Patents Act 1949 in respect of an invention which but for the provisions of section 50 of that Act would have been anticipated (lacked novelty) by a specification as is described in paragraphs (a) or (b) of section 50 (1) of the Act constitutes industrial or commercial property entitled to protection under Article 36 of the Treaty of Rome?
 - (2) If such a patent is entitled to such protection as aforesaid whether as contended by the defendants Fiamma in this case the only relief justified under Article 36 of the Treaty would be an order for the payment of a reasonable royalty (or other monetary award) but not an injunction?
- 6 Reference is made to the Report for the Hearing for a fuller description of the facts, the applicable national legislation and the observations submitted to the Court, which are mentioned or discussed

hereinafter only in so far as is necessary for the reasoning of the Court.

The first question

- 7 The Court of Appeal's first question seeks to establish whether the derogation from Articles 30 to 34 of the EEC Treaty which is set out in the first sentence of Article 36 necessarily applies to any patent granted pursuant to the legislation of a Member State or whether, on the contrary, it does not apply to patents granted by virtue of the principle of relative novelty.
- 8 The principle of relative novelty, as adopted at the material time by the legislation of the United Kingdom, is the result of section 50 (1) of the Patents Act 1949, which provided as follows: An invention claimed in a complete specification shall not be deemed to have been anticipated by reason only that the invention was published in the United Kingdom:
 - (a) in a specification filed in pursuance of an application for a patent made in the United Kingdom and dated more than 50 years before the date of filing of the first-mentioned specification;
 - (b) in a specification describing the invention for the purposes of an application for protection in any country outside the United Kingdom made more than 50 years before that date; or
 - (c) ...Consequently, it was not possible under the 1949 Act to base an action to have a patent declared invalid on a specification issued in the United Kingdom or any other country more than 50 years previously.
- 9 It should be observed in limine that, as the parties acknowledged at the hearing, the question put by the Court of Appeal hinges on the question of relative novelty, in so far as it was not possible under the Patents Act 1949 to have a patent declared invalid solely on the ground that its specification was published prior to a period of time fixed by statute.
- 10 In that connection, it must be pointed out that the effect of the provisions of the Treaty on the free movement of goods, in particular Article 30, is to prohibit as between Member States restrictions on imports and all measures having equivalent effect. According to Article 36, however, those provisions do not preclude prohibitions or restrictions on imports justified on grounds of the protection of industrial and commercial property. However, such prohibitions or restrictions must not constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States.
- 11 Fiamma argues that the derogation provided for in Article 36 can apply only if a patent right granted pursuant to national legislation fulfils certain fundamental conditions. In particular, a patent granted in the absence of novelty or an inventive step cannot be regarded as being covered by the expression protection of industrial and commercial property.
- 12 In that regard, it must be observed, as the Court held in its judgment of 14 September 1982 (in Case 144/81 *Keurkoop v Nancy Kean Gifts* ((1982)) ECR 2853) on the protection of designs, that in the present state of Community law and in the absence of Community standardization or of a harmonization of laws the determination of the conditions and procedure under which protection... is granted is a matter for national rules.
- 13 However, Fiamma contends that the Court's case-law on designs may not be transposed to the field of patents in view of the higher degree of harmonization of national legislation which has already been achieved in that field and the existence of international conventions based on the principle of absolute novelty.
- 14 That argument cannot be upheld. Firstly, no harmonization of the patents legislation of the Member States has yet been effected by virtue of measures of Community law. Secondly, none of the international conventions in force on patents is capable of supporting Fiamma's argument. The entry into force of the Munich Convention of 1973 on the Grant of European Patents, which is based on the principle of absolute novelty, did not affect the existence of national legislation on the granting of patents. Article 2 (2) of that Convention expressly provides that The European patent shall, in each of the contracting States for which it is granted, have the effect of and be subject to

the same conditions as a national patent granted by that State. As for the Strasbourg Convention of 1963 on the unification of certain points of substantive law on patents for invention, it must be pointed out that, since that Convention entered into force after the patent in question had been granted, it cannot serve as a determining factor for the purposes of the interpretation of Community law. The only instrument the provisions of which might afford support for Fiamma's point of view with regard to the recognition in the Community legal order of the principle of absolute novelty is the Luxembourg Convention of 1975 on the European patent for the common market (European Patent Convention) which has close links with the aforementioned Munich Convention but which has not yet entered into force.

- 15 It follows that, as the Court held in the judgment of 29 February 1968 (in Case 24/67 Parke Davis v Centrafarm ((1968)) ECR 55), since the existence of patent rights is at present a matter solely of national law, a Member State's patent legislation, such as the legislation at issue, is covered in principle by the derogations from Article 30 which are provided for in Article 36.
- 16 It must next be considered whether the application of the principle at issue may not constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States within the meaning of the second sentence of Article 36.
- 17 As regards the first possibility, namely whether a means of arbitrary discrimination is involved, it is sufficient, in order to refute that argument, to point out that before the Court the Agent of the United Kingdom stated, without being contradicted by the other parties, that the application of section 50 (1) of the Patents Act 1949 does not give rise to any discrimination. On the one hand, that rule prevents consideration from being given to a specification disclosing an invention whether it was filed in the United Kingdom or in another State; secondly there is no discrimination based on the nationality of applicants for patents; foreign nationals applying for patents in the United Kingdom have the same rights as United Kingdom nationals.
- 18 It must further be considered whether the application of the principle in question may not give rise to a disguised restriction on trade between Member States.
- 19 In that regard, the justification for the rule of relative novelty, as given in the documents before the Court, discloses that the objective pursued by the United Kingdom legislature in introducing the 50-year rule in 1902 was to foster creative activity on the part of inventors in the interest of industry. To that end, the 50-year rule aimed to make it possible to give a reward, in the form of the grant of a patent, even in cases in which an old invention was rediscovered. In such cases the United Kingdom legislation was designed to prevent the existence of a former patent specification which had never been utilized or published from constituting a ground for revoking a patent which had been validly issued.
- 20 Consequently, a rule such as the 50-year rule cannot be regarded as constituting a disguised restriction on trade between Member States.
- 21 In view of the foregoing considerations, the answer to the national court's first question must be that, in the present state of Community law, Article 36 must be interpreted as not precluding the application of a Member State's legislation on patents which provides that a patent granted for an invention may not be declared invalid by reason only of the fact that the invention in question appears in a patent specification filed more than 50 years previously.

The second question

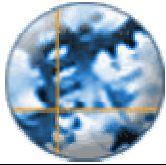
- 22 In its second question the Court of Appeal asks essentially whether the national court is free to choose from among the various forms of relief available under national law in cases of infringement or whether the only relief justified under Article 36 of the Treaty is an order for the payment of a reasonable royalty (or other monetary award) but not an injunction prohibiting the importation of the infringing article from another Member State.
- 23 Fiamma maintains in that connection that the rule of proportionality as defined in the case-law of the Court and in particular by the judgment of 20 May 1976 (in Case 104/75 de Peijper ((1976)) ECR 613) should also be applied in the field of industrial and commercial property. In particular, in view of the particular features of the case at issue, in which the protection conferred by Article 36

relates to a patent obtained by virtue of the rule of relative novelty, the specific subject-matter of the patent is already adequately protected by conferring on the proprietor of the patent the right to obtain reward for the marketing of the patented article without going so far as to give him the right to obtain an injunction.

- 24 However, it must be observed in that connection that according to the case-law of the Court (most recently its judgment of 9 July 1985 in Case 19/84 *Pharmon v Hoechst* ((1985)) ECR 2281) the right of the proprietor of a patent to prevent the importation and marketing of products manufactured under a compulsory licence is part of the substance of patent law. There is all the more reason for that conclusion to apply in a case such as this where no licence has been granted by the proprietor of the patent in the country of manufacture.
- 25 Consequently, the answer to the second question must be that where national law normally provides for the issue of an injunction to prevent any infringement, that measure is justified under Article 36.

[...]

4.2.7 Case C-30/90: Commission v UK (Compulsory licences)



NOTE AND QUESTIONS

1. What are the legal and economic reasons for compulsory licensing?
2. Does Art. 28 (ex Art. 30) TEC prohibit national provisions on compulsory licensing which distinguish between products manufactured on national territory and imported products? Which policy issues are raised by such rules?

Commission of the European Communities
v
United Kingdom of Great Britain and Northern Ireland

Case C-30/90

18 February 1992

Court of Justice

ECR [1992] I-829

<http://www.curia.eu.int/en/content/juris/index.htm>

Summary of the facts and procedure:

Context

1. The provisions of the Treaty

The case falls within the provisions of Articles 30, 36 and 222 EEC.

2. Paris Convention for the protection of industrial property of 20 March 1883, as revised at Brussels on 14 December 1900, at Washington on 2 June 1911, at The Hague on 6 November 1925, at London on 2 June 1934, at Lisbon on 31 October 1958 and at Stockholm on 14 July 1967

Article 5(A) of the Paris Convention provides:

1. *Importation by the patentee into the country where the patent has been granted of articles manufactured in any of the countries of the Union shall not entail forfeiture of the patent.*

2. *Each country of the Union shall have the right to take legislative measures providing for the grant of compulsory licences to prevent the abuses which might result from the exercise of the exclusive rights conferred by the patent, for example, failure to work.*
3. *Forfeiture of the patent shall not be provided for except in cases where the grant of compulsory licences would not have been sufficient to prevent the said abuses. No proceedings for the forfeiture or revocation of a patent may be instituted before the expiration of two years from the grant of the first compulsory licence.*
4. *A compulsory licence may not be applied for on the ground of failure to work or insufficient working before the expiration of a period of four years from the date of filing of the patent application or three years from the date of the grant of the patent, whichever period expires last; it shall be refused if the patentee justifies his inaction by legitimate reasons. Such a compulsory licence shall be non-exclusive and shall not be transferable, even in the form of the grant of a sub-licence, except with that part of the enterprise or goodwill which exploits such licence.*

3. Conventions on the Community patent

- (a) *A Convention for the European Patent for the Common Market (Community Patent Convention - CPC) was signed at Luxembourg on 15 December 1975.
The Community Patent Convention constitutes a 'special agreement' within the meaning of Article 142(1) of the Convention on the Grant of European Patents (European Patent Convention) signed at Munich on 5 October 1973.
The Community Patent Convention in its original form (hereinafter referred to as the 'First CPC') did not enter into force for want of ratification by all the member-States.*
- (b) *An agreement relating to Community patents was signed at Luxembourg on 15 December 1989. Article 1(4) of that agreement provides:
On entry into force of this Agreement, it shall replace the Community Patent Convention in the form signed at Luxembourg on 15 December 1975.
Annexed to the agreement is the amended Convention for the European Patent (hereinafter referred to as the 'Second CPC').
That agreement is in the process of ratification.*
- (c) *In relation to the Community patent, Article 46(1) of the First CPC and Article 45(1) of the Second CPC provide as follows:
Any provision in the law of a Contracting State for the grant of compulsory licences in respect of national patents shall be applicable to Community patents. The extent and effect of compulsory licences granted in respect of Community patents shall be restricted to the territory of the State concerned (...)
Article 47 of the First CPC and Article 46 of the Second CPC provide as follows:
A compulsory licence may not be granted in respect of a Community patent on the ground of lack of insufficiency of exploitation if the product covered by the patent, which is manufactured in a Contracting State, is put on the market in the territory of any other Contracting State, for which such a licence has been requested, in sufficient quantity to satisfy needs in the territory of that other Contracting State. This provision shall not apply to compulsory licences granted in the public interest.*
- (d) *These Conventions also contain provisions on national patents.
Article 82 of the First CPC and Article 77 of the Second CPC respectively provide that Article 47 of the First CPC and Article 46 of the Second CPC shall apply mutatis mutandis 'to the grant of compulsory licences for lack of insufficiency of exploitation of a national patent.'*
- (e) *Article 89 of the First CPC, however, authorises member-States to make reservations subject to the following conditions:*
 1. *Any Contracting State may, at the time of signature or when depositing its instrument of ratification, declare that it reserves the right to provide that Articles 47 and 82 shall not apply within its territory to Community patents or to European patents granted for, or to national patents granted by, that State.*

2. *Any reservation made by a Contracting State under paragraph 1 shall have effect for a period of not more than 10 years from the entry into force of this Convention. However, the Council of the European Communities may, acting by a qualified majority on a proposal from a Contracting State, extend the period in respect of a Contracting State making such a reservation by not more than five years. This majority shall be that specified in Article 86(5)(b).*
3. *Any reservation made under paragraph 1 shall cease to apply when common rules on the granting of compulsory licences in respect of Community patents have become operative.*

[...]

Article 83 of the Second CPC is in substance identical since it provides:

1. *Any signatory State may, at the time of signature or when depositing its instrument of ratification declare that it reserves the right to provide that Articles 46 and 77 shall not apply within its territory to Community patents or to European patents granted for, or to national patents granted by, that State.*
2. *Any reservation made by a signatory State under paragraph 1 shall have effect until the end of the 10th year at the latest after the entry into force of the Agreement relating to Community Patents. However, the Council of the European Communities may, acting by a qualified majority on a proposal from a signatory State, extend the period in respect of a signatory State making such a reservation by not more than five years. This majority shall be that specified in the second indent of the second subparagraph of Article 148(2) EEC.*
3. *Any reservation made under paragraph 1 shall cease to apply when common rules on the granting of compulsory licences in respect of Community patents have become operative.*

[...]

- (f) *Finally Article 93 of the First CPC and Article 2(1) of the Luxembourg Agreement of 15 December 1989 provide that no provision of the Convention or Agreement 'may be invoked against the application of the Treaty establishing the European Economic Community.'*

The national provisions

In the United Kingdom patents are governed by the Patents Act 1977. Section 48(3) provides that the Comptroller of Patents may order the grant of compulsory patent licences at any time after the expiration of three years from the date of the grant of the patent on the grounds that:

- (a) *where the patented invention is capable of being commercially worked in the United Kingdom, that it is not being so worked or is not being so worked to the fullest extent that is reasonably practicable;*
- (b) *where the patented invention is a product, that a demand for the product in the United Kingdom:*
 - (i) *is not being met on reasonable terms, or*
 - (ii) *is being met to a substantial extent by importation;*
- (c) *where the patented invention is capable of being commercially worked in the United Kingdom, that it is being prevented or hindered from being so worked:*
 - (i) *where the invention is a product, by the importation of the product,*
 - (ii) *where the invention is a process, by the importation of a product obtained directly by means of the process or to which the process has been applied.*

Section 50 the Patents Act provides:

- (1) *The powers of the comptroller on an application under section 48 above in respect of a patent shall be exercised with a view to securing the following general purposes:*

- (a) *that inventions which can be worked on a commercial scale in the United Kingdom and which should in the public interest be so worked shall be worked there without undue delay and to the fullest extent that is reasonably practicable;*
- (b) *that the inventor or other person beneficially entitled to a patent shall receive reasonable remuneration having regard to the nature of the invention;*
- (c) *that the interests of any person for the time being working or developing an invention in the United Kingdom under the protection of a patent shall not be unfairly prejudiced.*

(2) Subject to subsection (1) above, the comptroller shall, in determining whether to make an order or entry in pursuance of such an application, take account of the following matters, that is to say:

- (a) *the nature of the invention, the time which has elapsed since the publication in the journal of a notice of the grant of the patent and the measures already taken by the proprietor of the patent or any licensee to make full use of the invention;*
- (b) *the ability of any person to whom a licence would be granted under the order concerned to work the invention to the public advantage; and*
- (c) *the risks to be undertaken by that person in providing capital and working the invention if the application for an order is granted, but shall not be required to take account of matters subsequent to the making of the application.*

Section 53(1) of the Patents Act states that the provisions relating to compulsory licences shall have effect subject to any provisions of the Community Patent Convention relating to the grant of compulsory licences for lack or insufficiency of exploitation.

Judgement:

- 1 By application lodged at the Court Registry on 30 January 1990, the Commission of the European Communities brought an action under Article 169 of the EEC Treaty for a declaration that by providing for the grant of compulsory licences where a patent is not worked in the United Kingdom to the fullest extent that is reasonably practicable or where demand for the patented product in the United Kingdom is being met to a substantial extent through importation, the United Kingdom has failed to comply with its obligations under Article 30 of the EEC Treaty.
- 2 In the United Kingdom patents are governed by the Patents Act 1977. Section 48 provides that the Comptroller-General of Patents may order the grant of compulsory patent licences at any time after the expiration of three years from the date of the grant of the patent on the grounds set out in section 48(3), namely:

"(a) where the patented invention is capable of being commercially worked in the United Kingdom, that it is not being so worked or is not being so worked to the fullest extent that is reasonably practicable;

(b) where the patented invention is a product, that a demand for the product in the United Kingdom

...

(ii) is being met to a substantial extent by importation;

(c) where the patented invention is capable of being commercially worked in the United Kingdom, that it is being prevented or hindered from being so worked,

(i) where the invention is a product, by the importation of the product,

(ii) where the invention is a process, by the importation of a product obtained directly by means of the process or to which the process has been applied;

..."

- 3 Section 50(1) of the Patents Act provides that the Comptroller may exercise his powers inter alia to ensure that inventions which can be worked on a commercial scale in the United Kingdom and which should in the public interest be so worked are worked there without undue delay and to the fullest extent that is reasonably practicable.
- 4 The Commission took the view that those national provisions constituted measures having an effect equivalent to quantitative restrictions on imports within the meaning of Article 30 of the Treaty and therefore brought the present Treaty infringement proceedings.
- 5 Reference is made to the Report for the Hearing for a fuller account of the Community and national provisions, the course of the procedure and the pleas in law and arguments of the parties, which are mentioned or discussed hereinafter only in so far as is necessary for the reasoning of the Court.

The subject-matter of the application

- 6 The Commission makes it clear in its arguments in the application that it is not challenging in principle the patentee's obligation to work the patent and satisfy domestic demand for the patented product or the right of the competent authorities of a Member State to grant a compulsory licence where that obligation is not complied with. It is solely contesting the aforementioned provisions of the Patents Act in so far as they distinguish between the manufacture of the patented product on national territory and the importation of the product from the territory of another Member State and place imports at a disadvantage by virtue of the conditions on which they allow the competent authorities to grant a compulsory licence where the patent is being worked by importation. It is on the application as so defined that the Court must rule.
- 7 The Commission also points to the incompatibility with Article 30 of the Treaty of national provisions which limit the exercise of rights conferred by a compulsory licence to the national territory. Such incompatibility constitutes a separate complaint and since it is not included in the form of order sought it will not be examined by the Court in these proceedings.

The merits of the action

- 8 In order to rule on the merits of the action it is necessary to specify the scope of the rules established by the national provisions in question and then to determine whether those rules are compatible with Article 30 of the Treaty.

The scope of the rules established by the national provisions in question

- 9 The United Kingdom points out that the provisions in question are only part of the Patents Act, which was drafted in such a way as to give full effect to the provisions of Community law. Section 53(1) of the Patents Act provides that sections 48 to 51 are to have effect subject to the provisions of the Community Patent Convention as from the entry into force of that Convention.
- 10 The defendant further maintains that the fact that demand for a patented product on the domestic market is being met by importation is not sufficient in itself to justify grant of a compulsory licence. In

granting such a licence the Comptroller must take account of other factors such as the public interest or the economic interest in the manufacture of the product in the national territory.

- 11 That argument can have no effect upon the outcome of the dispute.
- 12 In the first place the reference in the Patents Act to the Community Patent Convention is, in any event, devoid of legal significance so long as that Convention has not entered into force. Neither the Community Patent Convention signed at Luxembourg on 15 December 1975 (hereinafter referred to as "the First CPC"), which was not ratified by all Member States, nor the Convention annexed to the Agreement signed at Luxembourg on 15 December 1989 (hereinafter referred to as "the Second CPC"), which is intended to replace the First CPC and is in the process of being ratified, has yet entered into force.
- 13 In the second place, even accepting, as the United Kingdom claims, that the Comptroller is not bound to grant a compulsory licence in all cases where demand for the patented product on the domestic market is satisfied by imports from other Member States, it nevertheless follows from the aforementioned provisions of section 48(3)(b) and (c) of the Patents Act that whenever the needs of the domestic market are being satisfied wholly or in part by importation the patentee runs the risk of losing his exclusive right as a result of the possible grant of a compulsory licence. It is the existence of that risk and the influence it has upon the conduct of patentees which the Commission is challenging.

The compatibility of the national provisions at issue with Article 30 of the Treaty

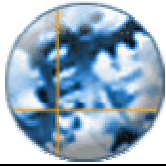
- 14 According to the Commission the aforementioned national provisions encourage domestic production by discriminating against the working of the patent by importation into the national territory. Such provisions have the effect of encouraging the patentee to manufacture in the national territory rather than to import from the territory of other Member States and constitute measures having equivalent effect to quantitative restrictions on imports. Since the Court has already recognized that a mere publicity campaign organized by the authorities of a Member State to promote domestic products constitutes a measure having equivalent effect (Case 249/81 Commission v Ireland [1982] ECR 4005), it ought, a fortiori, in view of the seriousness of the legal consequences attaching to the grant of a compulsory licence, to find that the contested provisions are incompatible with the Treaty. Those provisions cannot be justified by the derogating provision of Article 36 of the Treaty since the object of the contested rules is not to ensure the protection of industrial and commercial property but, on the contrary, to limit the rights conferred by such property. Furthermore, the objective sought, namely to encourage domestic production, is diametrically opposed to the objectives of the Treaty. Finally, the measures adopted are, in any event, disproportionate to that objective.
- 15 The United Kingdom, the defendant, and the Kingdom of Spain, intervening, ask the Court to reject the application and, to that end, put forward various submissions. In the first place, they say, the conditions under which a system of compulsory licences may be set up in relation to industrial and commercial property fall, pursuant to Articles 222 and 36 of the Treaty, within the exclusive competence of the national legislature. Secondly, the contested provisions are in accordance with Article 5 of the Paris Convention for the Protection of Industrial Property of 20 March 1883, last amended at Stockholm on 14 July 1967 (hereinafter referred to as "the Paris Convention"). Thirdly, the contested provisions do not prevent or restrict imports. Fourthly, the Commission's argument is aimed not at ensuring free movement of goods but at reinforcing the rights of the patentee in circumstances which disregard the requirements of free competition between the economic operators in the various Member States. Fifthly, the objection to the provisions in question is essentially academic since in practice they are seldom applied. Sixthly, it is only in the context of Community harmonization directed at the laws of all the Member States that the Commission's object in bringing the present action could be achieved without creating fresh disparities. Finally the

Commission' s reasoning would lead to certain provisions of the Community Patent Conventions being regarded as contrary to the Treaty.

- 16 As Community law stands, the provisions on patents have not yet been the subject of unification at Community level or in the context of approximation of laws. In that respect, it must be pointed out that, as stated above, the Community Patent Convention has not yet entered into force.
- 17 In those circumstances it is for the national legislature to determine the conditions and rules regarding the protection conferred by patents.
- 18 However, the provisions of the Treaty, and in particular Article 222 according to which the Treaty in no way prejudices the rules in Member States governing the system of property ownership, cannot be interpreted as reserving to the national legislature, in relation to industrial and commercial property, the power to adopt measures which would adversely affect the principle of free movement of goods within the common market as provided for and regulated by the Treaty.
- 19 First, the prohibitions and restrictions on imports justified on grounds of the protection of industrial and commercial property are allowed by Article 36 of the Treaty only subject to the express proviso that they do not constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States.
- 20 Secondly, as the Court has consistently held, Article 36 only admits derogations from the fundamental principle of the free movement of goods within the common market to the extent to which such derogations are justified for the purpose of safeguarding rights which constitute the specific subject-matter of such property (Case C-10/89 CNL-SUCAL v HAG [1990] ECR I-3711, paragraph 12).
- 21 In the case of patents, the specific subject-matter of the industrial property is, in particular, the exclusive right for the patent proprietor to use an invention with a view to manufacturing industrial products and putting them into circulation for the first time, either directly or by the grant of licences to third parties, as well as the right to oppose infringements (Case 434/85 Allen and Hanburys v Generics [1988] ECR 1245, paragraph 11).
- 22 Those principles must be applied in assessing whether the national provisions at issue are compatible with Articles 30 and 36 of the Treaty.
- 23 Under the national provisions the benefit constituted by the exclusive right conferred by a patent may, in the framework of the grant of compulsory licences, be adversely affected where the patent is worked by importation into the national territory.
- 24 To avoid any risk of loss of his exclusive right, which could not, in his view, be duly compensated by the payment by the licensee of the reasonable remuneration provided for by section 50(1)(b) of the Patents Act, the patentee is thus encouraged to manufacture on the territory of the State where the patent has been granted rather than to import the patented product from the territory of other Member States.
- 25 Irrespective of the number of compulsory licences granted, such provisions are capable of hindering, directly or indirectly, actually or potentially, intra-Community trade.
- 26 Moreover, as the Advocate General pointed out in his Opinion (point 10), the application of such provisions, when it leads to the grant of a compulsory licence to a national manufacturer, necessarily reduces imports of the patented product from other Member States and thus affects intra-Community trade.

- 27 In that respect such provisions constitute measures having an effect equivalent to quantitative restrictions on imports within the meaning of Article 30 of the Treaty (Case 8/74 Procureur du Roi v Dassonville [1974] ECR 837, paragraph 5).
- 28 Although the penalty for lack or insufficiency of exploitation of a patent may be regarded as the necessary counterpart to the territorial exclusivity conferred by the patent, there is no reason relating to the specific subject-matter of the patent to justify the discrimination inherent in the contested provisions between exploiting the patent in the form of production on the national territory and exploiting it by importation from the territory of other Member States.
- 29 Such discrimination is in fact motivated not by the specific requirements of industrial and commercial property but, as the defendant State moreover recognizes, by the national legislature's concern to encourage domestic production.
- 30 Such a consideration, the effect of which is to frustrate the objectives of the Community as laid down in particular in Article 2 and specified in Article 3 of the Treaty, cannot be accepted as a justification for a restriction on trade between Member States.
- 31 Neither the provisions of Article 5 of the Paris Convention, which merely allow signatory States the option of providing for the grant of compulsory licences to prevent abuses which might arise from the exercise of the exclusive right conferred by the patent, such as failure to work it, nor concern to promote competition between the various economic operators by restricting the exclusive rights conferred by patents can, in any event, justify measures which, by virtue of their discriminatory nature, are contrary to the Treaty.
- 32 Those rules have been taken into account by the signatories to the two Community Patent Conventions. Article 82 of the First CPC and Article 77 of the Second CPC provide for the application to national patents of rules relating to Community patents which do not allow for the grant of compulsory licences on the territory of a Member State where the needs of that State are satisfied by imports of the product from another Member State. It is true that Article 89 of the First CPC and Article 83 of the Second CPC provide that Member States may, in certain circumstances, make reservations as regards the application of the aforementioned provisions and that such reservations may prove to be incompatible with Article 30 of the Treaty as herein interpreted by the Court. However, the possibility of such incompatibility was expressly envisaged in Article 93 of the First CPC and Article 2(1) of the Luxembourg Agreement of 15 December 1989 according to which no provision of the Convention may be invoked against the application of any provision of the Treaty.
- 33 In consequence it must be held that by treating a case where demand for the patented product is satisfied on the domestic market by imports from other Member States as a case where a compulsory licence may be granted for insufficiency of exploitation of the patent the United Kingdom has failed to fulfil its obligations under Article 30 of the EEC Treaty.

4.2.8 Case 434/85: Allen



NOTE AND QUESTIONS

1. On what grounds could one distinguish between patent infringers operating within one Member State and infringers importing goods?

4.2.8.1 Opinion of AG Mancini

Allen & Hansburys Limited v. Generics Limited

Case 434/85

2 December 1987

AG Mancini

ECR [1988] 1245

<http://www.curia.eu.int/en/content/juris/index.htm>

1. By a judgment delivered on 12 December 1985 the House of Lords has asked this Court to deliver a preliminary ruling on whether certain provisions of British patent law are compatible with the principles laid down by the EEC Treaty on the free movement of goods.

I shall first consider the relevant provisions. On 1 June 1978 the Patents Act 1977 came into force in the United Kingdom repealing the earlier Patents Act 1949. In conformity with the European Patent Convention, the new act increased the term of exclusive patent rights from 16 to 20 years. The original expiry dates of "old existing patents" remained the same. For "new existing patents", on the other hand, that is to say patents which on 1 June 1978 still had five or more years to run, an extension of four years was granted under transitional rules. However, from the start of that four-year period, the words "licences of right" were automatically entered in the register and on the certificates corresponding to those patents.

The effect of that endorsement is as follows: under section 46 (3) (a) of the Patents Act 1977, from the time of such endorsement, "any person shall... be entitled as of right to a licence... on such terms as may be settled by agreement or, in default of agreement, by the Comptroller on the application of the proprietor of the patent or the person requiring the licence". Moreover, under section 46 (3) (c), "if in proceedings for infringement of the patent (otherwise than by the importation of any article) the defendant or defender undertakes to take a licence on such terms, no injunction or interdict shall be granted against him and the amount... recoverable against him by

way of damages shall not exceed double the amount which would have been payable by him as licensee if such a licence on those terms had been granted before the earliest infringement".

In the course of the main proceedings Lord Diplock set out the scope and purpose of that provision, with particular regard to the powers it confers on the Comptroller. He stated that the Comptroller's decision merely had the same effects as would have been produced by a licensing agreement and "merely makes lawful acts... which if done without the consent of the patentee would be unlawful" (*Beecham Group plc v Gist-Brocades NV* (1986) 1 WLR 51, at p. 61). However, that explanation does not take account of the words in brackets in section 46 (3) (c). As a result of that rider, a British infringer who imports from another State a product covered by a patent endorsed "licences of right" is treated differently from an infringer who manufactures the same product within the United Kingdom and sells it there.

In particular, provided the latter undertakes to apply for a licence of right he is at liberty to carry on his unlawful activity until the administrative measure is adopted; an infringer by importation on the other hand may find that imports are blocked even before they have begun and even if he has requested a licence. He will also have to pay damages whose amount, in contrast to those payable by a producer guilty of infringement, is not subject to any limit.

2. I will now turn to the facts of the case. On 15 September 1967, Allen and Hanburys Ltd, a pharmaceutical laboratory which is a subsidiary of Glaxo Operations UK Ltd, which in turn is owned by the multinational Glaxo Holdings plc, obtained a patent under the Patents Act 1949 for "salbutamol", a drug which is particularly effective in the treatment of asthma.

The drug is produced by Allen & Hanburys and in the United Kingdom it is always sold by that company under the proprietary name "Ventolin". In the rest of the Community - including Italy - the drug is protected by parallel patents held by various members of the group who are also responsible for marketing it. However, it should be noted that until a few years ago patents could not be granted for pharmaceutical inventions under Italian law. Accordingly the salbutamol to be found in Italian chemists' shops was not solely produced by Allen & Hanburys and sold by Glaxo; it was also manufactured and marketed by other undertakings, obviously without the consent of the British manufacturer.

Generics (UK) Ltd (hereinafter referred to as "Generics") is a subsidiary of a company registered in Panama; it carries on business in the United Kingdom as a distributor of "generic" drugs, that is to say drugs which are bought in bulk for resale either as branded drugs or, more commonly, under their chemical name. Since those distributors do not engage in research, the prices of such drugs are usually lower than the prices charged by the companies which hold the patents.

In November 1983, that is to say after the exclusive rights for salbutamol had been extended pursuant to the Patents Act 1977, Generics asked Allen & Hanburys for a licence of right in order to import from Italy the drug manufactured there without the consent of the inventor. That request was not granted and Generics made an application to the Comptroller on 2 August 1984. Shortly afterwards, however, before the Comptroller had taken a decision, Generics informed Allen & Hanburys of its intention to import the drug immediately. Allen & Hanburys brought proceedings for an injunction which was duly granted; Generics appealed against that judgment and the proceedings subsequently reached the House of Lords. As mentioned above, the House of Lords, pursuant to the third paragraph of Article 177 of the EEC Treaty, referred four questions to this Court which I may summarize as follows:

1. Is the holder of a patent which, under the law of a Member State, is endorsed "licences of right" prevented by Articles 30 and 36 of the EEC Treaty from obtaining from the competent national authorities an order prohibiting the importation from another Member State of goods which infringe the patent, where that law makes no provision for measures against a person who infringes the same patent by acts other than importation?
2. Under the abovementioned Community provisions, are the national authorities which grant "licences of right" under an obligation to include in such licences terms permitting importation from another Member State?

3. Is the answer to Questions 1 and 2 affected, and if so how, by the fact that the imported goods are pharmaceutical products and originate in a Member State whose legislation does not allow such products to be patented?

4. If the answers to Questions 1, 2 and 3 are to the effect that Articles 30 and 36 of the EEC Treaty do not allow such imports to be prohibited, may an injunction to that effect nevertheless be granted on the basis of the case-law of the Court of Justice and in particular of the principles it has enunciated on the subject of unfair competition and consumer protection?

3. The parties to the main proceedings, the United Kingdom, and the Commission of the European Communities have presented written observations and oral argument in the proceedings before this Court.

They have basically advanced two lines of argument. Allen & Hanburys and the United Kingdom argue that a patent endorsed "licences of right" remains an industrial property right and as such may be protected pursuant to Article 36 of the Treaty. Although he does not have absolute control over his exclusive rights, the inventor retains the power to act against a licensee who fails to comply with the terms of the licence. In the Community context it is clear from the Court's case-law that the holder of a patent cannot be denied the right to oppose the importation of patented products unless they have been marketed with his consent in the exporting country (judgment of 31 October 1974 in Case 15/74 *Centrafarm v Sterling Drug* ((1974)) ECR 1147; judgment of 22 June 1976 in Case 119/75 *Terrapin v Terranova* ((1976)) ECR 1039; judgment of 14 July 1981 in Case 187/80 *Merck v Stephar and Exler* ((1981)) ECR 2063).

That, according to Allen & Hanburys and the United Kingdom, is clearly not the position in this case. The fact that salbutamol could not be patented in Italy means that it would have served no useful purpose for Allen & Hanburys to consent to its marketing; Allen & Hanburys therefore had the right to oppose its importation into the United Kingdom. In the final analysis the power of the Comptroller and the national courts to suspend importation in such situations serves to strike the necessary balance between two interests of equal weight: the public interest dictating the grant of the licence of right and the protection that must still be afforded to a patent proprietor whose property rights have not yet been exhausted under Community law.

The Commission and Generics, on the other hand, consider that the holder of a patent endorsed "licences of right" cannot prevent the exploitation of the invention by third parties but is merely entitled to receive a fair reward from the licensee. On that basis, and having regard to the judgment in *Merck* referred to above, the derogation from the principle of the free movement of goods provided for by Article 36 on grounds of the protection of industrial property cannot apply in this case. Moreover a measure prohibiting the importation of salbutamol into the United Kingdom is clearly disproportionate to the need to safeguard the rights afforded by a patent bearing such an endorsement.

The conclusions that are to be drawn from each of the two views are obvious. The Commission and Generics consider that the ban on imports is not compatible with Community law. On the other hand it is regarded as lawful by Allen & Hanburys and the United Kingdom which, however, do not rely solely on the arguments referred to above (the legal impossibility of patenting the pharmaceutical product in Italy); they also invoke certain "mandatory requirements" recognized by the Court in a long series of well-known cases. They argue that the prohibition is justified by the need to protect such interests as public health, fair trading and consumers' rights.

4. It is trite law that the provisions of the Treaty on the free movement of goods, in particular Article 30, preclude restrictions on imports and measures having equivalent effect, that is to say all national provisions capable of hindering directly or indirectly, actually or potentially, intra-Community trade. Equally, it scarcely needs saying that such restrictions and measures are lawful under Article 36 in so far as they are justified on certain grounds, including the protection of industrial and commercial property.

However, it is evident from the context and, in particular, from the second sentence of Article 36 that "whilst the Treaty does not affect the existence of rights recognized by the legislation of a Member State in matters of industrial and commercial policy, yet the exercise of those rights may

nevertheless, depending on the circumstances, be restricted by the prohibitions in the Treaty". "Inasmuch as it provides an exception to one of the fundamental principles of the common market, Article 36 in fact admits exceptions to the free movement of goods only to the extent to which such exceptions are justified for the purpose of safeguarding rights which constitute the specific subject-matter of that property" (judgment in *Terrapin v Terranova*, paragraph 5, my emphasis). Moreover, prohibitions or restrictions laid down by national provisions must not "constitute a means of arbitrary discrimination or a disguised restriction" (Article 36, in fine).

That said, it seems to me that the main problem in this case is not to determine what effect a patent subject to the endorsement "licences of right" actually has in Community law and whether the first part of Article 36 applies in such circumstances but to ascertain whether the rules at issue fall within the scope of the last sentence of Article 36, that is to say whether the ban on imports to which the grant of the licence is subject constitutes in itself arbitrary discrimination or a disguised restriction on trade.

It should be borne in mind that under the Patents Act 1977, during the four-year extension of the term of a new existing patent, any person who produced or imported the patented article could obtain a licence and that, in the words of Lord Diplock, such a licence "merely makes lawful acts... which ((otherwise)) would be unlawful ". It has also been seen that no such equality exists in cases of patent infringements inasmuch as the competent authority does not have the power to enjoin an infringer who produces articles within the country to suspend his unlawful operations whereas it may adopt restrictive measures having analogous effect with regard to an infringer by importation.

Asked by the Court to explain the reasons for that disparity, the United Kingdom stated that an infringer within the country can always obtain a licence as of right and thereby bring his infringement to an end. That outcome is thus "inevitable"; since the delay in granting the licence is due not "to any right of the patentee to prevent the grant" but "to the failure of the parties to agree terms" it would be wrong to grant the patentee an injunction pending the grant of the licence.

In the case of an infringer by importation, the United Kingdom goes on, it may on the other hand be appropriate to prohibit importation as a term of the licence. But such a measure will be adopted only in exceptional circumstances, in particular "where damages would not be an adequate remedy". In that situation "to deny a patentee relief by way of an interim injunction would be to allow importers a period of grace" which would give rise to the risk of unlicensed articles flooding on to the market which in turn would necessarily have irreversible consequences if it were later found that imports should have been prohibited. The United Kingdom therefore considers that it is unjustified to maintain that section 46 (3) (c) is protectionist in aim; as this case bears out, that provision seeks merely to defend the patentee against unfair competition.

It is a clever reply but it does not suffice to resolve the contradictions underlying the provision. In any event by making the grant of the licence subject to a requirement that imports are to be suspended the nature of that grant as an individual right is ultimately negated (or to a large extent debased) and thus the licensee is denied the possibility of subsequently legalizing his own situation. We have already seen, however, that where the term of a patent has expired but has been extended by operation of law, "any person ((including an importer therefore)) shall... be entitled as of right to a licence" and that one of the effects of such a grant is to regularize any prior infringements by the licensee.

But that is not all. The explanation furnished by the United Kingdom implies that the holder of a patent whose term has been extended continues to enjoy, as against an infringer by importation, all the rights enjoyed by the proprietor of a patent with full validity and whose rights are not exhausted. Such a result is not merely contrary to the letter and the spirit of section 46 but, from the point of view of Community law, it is manifestly a discriminatory measure. The justification for the patentee enjoying full rights is that the infringement in question consists in the importation of goods from another Member State.

It may also be noted that the measure in question comes nowhere near to meeting the conditions laid down in the *Terrapin v Terranova* judgment. The reasons are obvious. The United Kingdom states that a patentee must also be able to obtain an "adequate remedy" in cases of infringement

by importation. However, prohibition of imports would preclude any possibility for the importer to exploit the invention and thus pay to the patent proprietor the remuneration and damages to which he was entitled by law. It seems to me that it would be difficult to conceive of any derogation which is less "justified" or even less appropriate than this for protecting industrial property rights in the form of a patent whose term has been extended.

All in all there are thus reasons enough for concluding that the power given to the Comptroller and the national courts to prohibit imports encounters an inescapable obstacle in the letter of Article 36 and the interpretation of that provision by the Court of Justice.

5. In the light of the foregoing it is an easy matter to resolve the problem raised by the second question. If, during the extension of the term of a new existing patent, "any person" is entitled to exploit the invention in question as he sees fit, it is obvious that, leaving aside the question of infringement, the national authorities cannot make the grant of licences subject to terms that are likely to affect imports of goods from another Member State. Apart from denying importers alone the right to exploit the invention, such terms would ultimately act exclusively against products originating in the rest of the Community; they would thus in effect constitute a restriction on intra-Community trade and as such be contrary to the prohibition laid down in Article 30 of the Treaty. Once that conclusion is established, it is for the national authorities to determine precisely what means are most appropriate to ensure that the licences are granted in a manner compatible with Community law.

The third and fourth questions seek to establish whether, leaving aside the derogation on grounds of the protection of industrial property, the measure at issue may be justified on the basis of: (a) the fact that it was impossible to patent the product in the exporting country; (b) mandatory requirements such as the protection of fair trading and the consumer.

The answer can only be in the negative. With regard to (a), it is undeniable that at the time when salbutamol was invented it could not be patented in Italy. Notwithstanding that fact, there is no need to examine whether the Community principle concerning the exhaustion of exclusive rights applies in this case. On the contrary, the problem here concerns the position of a person who, on the basis of the law of his State, wishes to exploit an invention pursuant to a "licence of right" which under that law may be granted *invito domino*, that is to say without the consent of the proprietor of the patent. In other words the fact that the salbutamol was produced in Italy without the permission of Allen & Hanburys is irrelevant to the position of someone who, like Generics, is entitled to obtain a licence to exploit that invention.

Finally, as regards the possibility of invoking any mandatory requirements, it is sufficient to point out that the Court has consistently held that such requirements must have been laid down for reasons which are in the public interest; they can be relied upon as derogations from Article 30 only in so far as the national rules apply without distinction to trade in domestic and imported products and are not protectionist in nature (judgment of 17 June 1981 in Case 113/80 *Commission v Ireland* ((1981)) ECR 1625, at paragraph 11; judgment of 6 November 1984 in Case 177/83 *Kohl v Ringelhan & Rennett* ((1984)) ECR 3651, at paragraph 14). As we have already seen, however, those conditions are not satisfied in this case.

6. On the basis of the foregoing considerations I propose that the Court should reply as follows to the questions referred to it by the House of Lords by judgment of 12 December 1985 in the proceedings brought by Allen & Hanburys Ltd against Generics (UK) Ltd:

- (1) Articles 30 and 36 of the EEC Treaty are to be interpreted as meaning that the prohibitions laid down therein apply to the case where a national provision enables the proprietor of a patent endorsed "licences of right" to obtain from the competent authorities of that State an interim injunction prohibiting the importation of goods produced without his consent but no analogous measure can be obtained against an infringer operating within that State.

- (2) The aforesaid Articles 30 and 36 prohibit the national authorities which are competent to grant a licence of right from including in that licence terms apt to hinder the importation of goods from other Member States. It is immaterial that the goods in question are pharmaceutical products which were not patentable in the exporting Member State.

(3) Mandatory requirements relating to fair trading and consumer protection may justify derogations from the prohibition laid down by Article 30 of the EEC Treaty only in respect of national provisions which apply without distinction to trade in domestic products and imported products and do not have protectionist effects.

4.2.8.2 Judgement of the Court of Justice

Allen & Hansburys Limited v. Generics Limited

Case 434/85

3 March 1988

Court of Justice

ECR [1988] 1245

<http://www.curia.eu.int/en/content/juris/index.htm>

- 1 BY A JUDGMENT OF 12 DECEMBER 1985 WHICH WAS RECEIVED AT THE COURT ON 20 DECEMBER 1985, THE HOUSE OF LORDS REFERRED TO THE COURT OF JUSTICE UNDER ARTICLE 177 OF THE EEC TREATY A NUMBER OF QUESTIONS FOR A PRELIMINARY RULING ON THE INTERPRETATION OF ARTICLES 30 AND 36 OF THE TREATY WITH A VIEW TO DETERMINING THE COMPATIBILITY WITH THE RULES ON THE FREE MOVEMENT OF GOODS OF CERTAIN PROVISIONS OF UNITED KINGDOM PATENT LAW, IN PARTICULAR THE RULES CONCERNING LICENCES OF RIGHT.
- 2 THOSE QUESTIONS WERE RAISED IN PROCEEDINGS BETWEEN ALLEN AND HANBURYS LIMITED (HEREINAFTER REFERRED TO AS "ALLEN AND HANBURYS"), THE HOLDER OF A UNITED KINGDOM PATENT FOR THE PHARMACEUTICAL PRODUCT KNOWN AS "SALBUTAMOL", AND GENERICS (UK) LTD (HEREINAFTER REFERRED TO AS "GENERICS") CONCERNING THE LATTER' S INTENTION TO IMPORT INTO THE UNITED KINGDOM SALBUTAMOL FROM ITALY WHERE IT WAS MANUFACTURED BY AN UNDERTAKING HAVING NO FINANCIAL OR CONTRACTUAL LINKS WITH ALLEN AND HANBURYS.
- 3 PURSUANT TO THE PATENTS ACT 1977, THE PATENT HELD BY ALLEN AND HANBURYS WAS ENDORSED "LICENCES OF RIGHT" AS FROM 15 SEPTEMBER 1983.
- 4 ACCORDING TO THE HOUSE OF LORDS, UNDER THE PATENTS ACT 1977, IN PARTICULAR SECTION 46, THE EFFECTS OF THE ENDORSEMENT "LICENCES OF RIGHT" ARE INTER ALIA AS FOLLOWS:
 - (1) ANY PERSON IS ENTITLED AS OF RIGHT TO A LICENCE UNDER THE PATENT ON SUCH TERMS AS MAY BE SETTLED BY AGREEMENT OR, IN DEFAULT OF AGREEMENT, BY THE COMPTROLLER-GENERAL OF PATENTS. ONE OF THE TERMS WHICH MAY BE IMPOSED ON THE APPLICANT IS A PROHIBITION ON IMPORTING THE PRODUCT COVERED BY THE PATENT WITH THE RESULT THAT WHILE AN UNDERTAKING WHICH MANUFACTURES THE PRODUCT IN THE NATIONAL TERRITORY IS CERTAIN OF OBTAINING A LICENCE, THE SAME IS NOT TRUE OF AN IMPORTER.
 - (2) IN PROCEEDINGS FOR INFRINGEMENT OF THE PATENT, NO INJUNCTION OR

INTERDICTION WILL BE GRANTED AGAINST AN INFRINGER WHO MANUFACTURES THE PRODUCT IN THE NATIONAL TERRITORY PROVIDED THAT HE UNDERTAKES TO TAKE A LICENCE ON THE TERMS REFERRED TO ABOVE, WHILE THE SAME IS NOT THE CASE FOR AN UNDERTAKING WHICH INFRINGES THOSE EXCLUSIVE RIGHTS BY MEANS OF IMPORTS. MOREOVER THE AMOUNT OF ANY DAMAGES WHICH MAY BE AWARDED AGAINST AN INFRINGER WHO MANUFACTURES THE PRODUCT IN THE NATIONAL TERRITORY MAY NOT EXCEED DOUBLE THE AMOUNT WHICH WOULD HAVE BEEN PAYABLE BY HIM AS LICENSEE WHEREAS NO SUCH LIMIT APPLIES IN THE CASE OF AN UNDERTAKING WHICH INFRINGES THE EXCLUSIVE RIGHTS BY MEANS OF IMPORTS.

- 5 PURSUANT TO THE APPLICABLE NATIONAL PROVISIONS, GENERICS REQUESTED A LICENCE UNDER THAT PATENT, FIRST FROM ALLEN AND HANBURYS AND SUBSEQUENTLY FROM THE COMPTROLLER-GENERAL OF PATENTS, IN PARTICULAR IN ORDER TO IMPORT SALBUTAMOL INTO THE UNITED KINGDOM. HOWEVER, WITHOUT AWAITING THE DECISION OF THE COMPTROLLER-GENERAL OF PATENTS, GENERICS INFORMED ALLEN AND HANBURYS OF ITS INTENTION TO IMPORT THE PRODUCT IN QUESTION.
- 6 THE PROCEEDINGS BROUGHT BY ALLEN AND HANBURYS WITH A VIEW IN PARTICULAR TO PREVENTING GENERICS FROM INFRINGING ITS PATENT REACHED THE HOUSE OF LORDS WHICH REFERRED THE FOLLOWING QUESTIONS TO THE COURT OF JUSTICE FOR A PRELIMINARY RULING:

"(1) IS IT CONTRARY TO THE PROVISIONS OF ARTICLES 30 AND 36 OF THE EEC TREATY FOR THE HOLDER OF A PATENT, GRANTED TO HIM BY THE LAW OF A MEMBER STATE, TO BE GRANTED UNDER THAT LAW AN INJUNCTION OR INTERDICTION FROM THE COURTS OF THAT MEMBER STATE, PREVENTING THE IMPORTATION OF GOODS WHICH WOULD INFRINGE THE PATENT ("THE GOODS") FROM ANOTHER MEMBER STATE PENDING THE ADJUDICATION OF THE COMPETENT AUTHORITIES REFERRED TO IN (C) BELOW, IN THE FOLLOWING CIRCUMSTANCES:

(A) THE GOODS WERE NOT MARKETED IN THE MEMBER STATE OF ORIGIN BY THE PATENTEE OR WITH HIS CONSENT OR WITH THE CONSENT OF ANYONE CONNECTED WITH HIM;

(B) ANY APPLICANT COULD BY DUE DILIGENCE OBTAIN A LICENCE OF RIGHT AT THE TIME OF THE ENDORSEMENT REFERRED TO IN (C) BELOW AND SUBJECT TO QUESTION 2 SUCH A LICENCE MIGHT OR MIGHT NOT PRECLUDE IMPORTATION;

(C) WITHOUT ANY CONSENT OR INITIATIVE ON THE PART OF THE PATENTEE, THE PATENT HAS BEEN OR IS DEEMED TO HAVE BEEN ENDORSED "LICENCES OF RIGHT" BY NATIONAL LEGISLATION INTRODUCED SUBSEQUENT TO THE GRANT OF THE PATENT, WITH THE CONSEQUENCE THAT UNDER DOMESTIC LAW NO INJUNCTION CAN BE GRANTED AGAINST A PERSON WHO INFRINGES THE PATENT BY DOMESTIC MANUFACTURE OR SALE OF DOMESTICALLY PRODUCED GOODS IF HE GIVES AN UNDERTAKING TO THE COURTS IN INFRINGEMENT PROCEEDINGS TO TAKE A LICENCE ON SUCH TERMS AS MAY BE SETTLED BY AGREEMENT OR, AFTER EXAMINATION OF THE APPLICATION AND HEARING THE PARTIES, BY THE COMPETENT AUTHORITIES IN THE MEMBER STATE;

(D) THE IMPORTER HAS UNDERTAKEN IN INFRINGEMENT PROCEEDINGS TO TAKE, BUT HAS NOT OBTAINED, A LICENCE FROM THE PATENTEE ON SUCH TERMS?

(2) WHERE SUCH A LICENCE IS SOUGHT IN A MEMBER STATE DO THE PROVISIONS OF ARTICLES 30 AND 36 OF THE EEC TREATY REQUIRE THE COMPETENT AUTHORITIES IN SUCH CIRCUMSTANCES INVARIABLY TO INCLUDE IN THE LICENCE TERMS WHICH PERMIT IMPORTATION FROM ANOTHER MEMBER STATE?

(3) IS THE ANSWER TO THE FIRST OR SECOND QUESTION AFFECTED, AND IF SO HOW, BY THE FACT THAT THE GOODS ARE PHARMACEUTICAL PRODUCTS AND IMPORTATION

IS TO TAKE PLACE FROM A MEMBER STATE WHERE SUCH PRODUCTS ARE NOT PATENTABLE?

(4) IF THE ANSWERS TO QUESTIONS 1, 2 AND 3 ABOVE ARE TO THE EFFECT THAT ARTICLES 30 AND 36 OF THE EEC TREATY DO NOT AUTHORIZE THE GRANT TO THE HOLDER OF SUCH A PATENT OF AN INJUNCTION OR INTERDICT TO RESTRAIN SUCH IMPORTATION MAY SUCH AN INJUNCTION OR INTERDICT NEVERTHELESS BE GRANTED UNDER THE JURISPRUDENCE OF THE COURT OF JUSTICE AND IN PARTICULAR THE JURISPRUDENCE RELATING TO UNFAIR COMPETITION AND FOR THE PROTECTION OF THE CONSUMER?

- 7 REFERENCE IS MADE TO THE REPORT FOR THE HEARING FOR A FULLER ACCOUNT OF THE FACTS OF THE MAIN PROCEEDINGS, THE RELEVANT NATIONAL PROVISIONS AND THE OBSERVATIONS SUBMITTED TO THE COURT WHICH ARE MENTIONED OR DISCUSSED HEREINAFTER ONLY IN SO FAR AS IS NECESSARY FOR THE REASONING OF THE COURT.

QUESTION 1

- 8 THE FIRST QUESTION ASKS ESSENTIALLY WHETHER ARTICLES 30 AND 36 OF THE TREATY MUST BE INTERPRETED AS PRECLUDING THE COURTS OF A MEMBER STATE FROM GRANTING AN INJUNCTION PROHIBITING THE IMPORTATION FROM ANOTHER MEMBER STATE OF A PRODUCT WHICH INFRINGES A PATENT ENDORSED "LICENCES OF RIGHT" AGAINST AN IMPORTER WHO HAS UNDERTAKEN TO TAKE A LICENCE ON THE TERMS PRESCRIBED BY LAW WHILE NO SUCH INJUNCTION CAN BE GRANTED IN THE SAME CIRCUMSTANCES AGAINST AN INFRINGER WHO MANUFACTURES THE PRODUCT IN THE NATIONAL TERRITORY.
- 9 IT SHOULD BE NOTED THAT THE EFFECT OF THE PROVISIONS OF THE TREATY ON THE FREE MOVEMENT OF GOODS, IN PARTICULAR ARTICLE 30, IS TO PROHIBIT AS BETWEEN MEMBER STATES RESTRICTIONS ON IMPORTS AND ALL MEASURES HAVING EQUIVALENT EFFECT. ACCORDING TO ARTICLE 36, HOWEVER, THOSE PROVISIONS DO NOT PRECLUDE PROHIBITIONS OR RESTRICTIONS ON IMPORTS JUSTIFIED ON GROUNDS OF THE PROTECTION OF INDUSTRIAL AND COMMERCIAL PROPERTY. HOWEVER, SUCH PROHIBITIONS OR RESTRICTIONS MUST NOT CONSTITUTE A MEANS OF ARBITRARY DISCRIMINATION OR A DISGUISED RESTRICTION ON TRADE BETWEEN MEMBER STATES.
- 10 THE COURT HAS CONSISTENTLY HELD (SEE, IN PARTICULAR, THE JUDGMENT OF 14 JULY 1981 IN CASE 187/80 MERCK V STEPHAR AND EXLER ((1981)) ECR 2063) THAT INASMUCH AS IT PROVIDES AN EXCEPTION TO ONE OF THE FUNDAMENTAL PRINCIPLES OF THE COMMON MARKET, ARTICLE 36 ADMITS OF DEROGATIONS FROM THE FREE MOVEMENT OF GOODS ONLY IN SO FAR AS THEY ARE JUSTIFIED FOR THE PURPOSE OF SAFEGUARDING RIGHTS WHICH CONSTITUTE THE SPECIFIC SUBJECT-MATTER OF THAT PROPERTY.
- 11 IN GENERAL TERMS THE SPECIFIC SUBJECT-MATTER OF INDUSTRIAL AND COMMERCIAL PROPERTY INCLUDES THE EXCLUSIVE RIGHT FOR THE PATENT PROPRIETOR TO USE AN INVENTION WITH A VIEW TO MANUFACTURING INDUSTRIAL PRODUCTS AND PUTTING THEM INTO CIRCULATION FOR THE FIRST TIME, EITHER DIRECTLY OR BY THE GRANT OF LICENCES TO THIRD PARTIES, AS WELL AS THE RIGHT TO OPPOSE INFRINGEMENTS (SEE THE AFOREMENTIONED JUDGMENT IN MERCK).
- 12 HOWEVER IT SHOULD BE STATED THAT IN THE PARTICULAR CASE WHERE A PATENT IS ENDORSED "LICENCES OF RIGHT", THE SUBSTANCE OF THE EXCLUSIVE RIGHTS OF THE PATENT PROPRIETOR IS APPRECIABLY ALTERED.
- 13 IT IS CLEAR FROM THE NATIONAL COURT' S ANALYSIS OF THE PATENTS ACT 1977 THAT IN THE UNITED KINGDOM, IN CONTRAST TO THE PROPRIETOR OF AN ORDINARY PATENT, THE PROPRIETOR OF A PATENT ENDORSED "LICENCES OF RIGHT" CANNOT OPPOSE THE GRANT OF SUCH A LICENCE TO A THIRD PARTY WHO APPLIES FOR A LICENCE IN ORDER

TO MANUFACTURE AND MARKET THE PRODUCT IN QUESTION IN THAT MEMBER STATE BUT HE RETAINS THE RIGHT MERELY TO OBTAIN A FAIR RETURN.

- 14 IN THOSE CIRCUMSTANCES IT MUST BE CONSIDERED THAT THE POWER OF NATIONAL COURTS TO PROHIBIT THE IMPORTATION OF THE PRODUCT IN QUESTION MAY BE JUSTIFIED UNDER THE PROVISIONS OF ARTICLE 36 ON THE PROTECTION OF INDUSTRIAL AND COMMERCIAL PROPERTY ONLY IF THAT PROHIBITION IS NECESSARY IN ORDER TO ENSURE THAT THE PROPRIETOR OF SUCH A PATENT HAS, VIS-A-VIS IMPORTERS, THE SAME RIGHTS AS HE ENJOYS AS AGAINST PRODUCERS WHO MANUFACTURE THE PRODUCT IN THE NATIONAL TERRITORY, THAT IS TO SAY THE RIGHT TO A FAIR RETURN FROM HIS PATENT.
- 15 THAT IS THEREFORE THE TEST WHICH MUST BE APPLIED IN EXAMINING THE MERITS OF A NUMBER OF ARGUMENTS RAISED BEFORE THE COURT, BOTH BY ALLEN AND HANBURY AND BY THE UNITED KINGDOM, IN ORDER TO JUSTIFY AN INJUNCTION PROHIBITING IMPORTS GRANTED AGAINST AN IMPORTER-INFRINGER.
- 16 IT HAS BEEN OBSERVED IN THE FIRST PLACE THAT AN IMPORTER MAY HAVE NO SUBSTANTIAL PRESENCE IN THE IMPORTING MEMBER STATE, IN PARTICULAR WHERE HIS ASSETS AND EMPLOYEES ARE NOT SUBJECT TO THE JURISDICTION OF THAT STATE. AN INJUNCTION PROHIBITING HIM FROM IMPORTING THE PRODUCT IS THEN JUSTIFIED UNTIL THE PATENT PROPRIETOR HAS BEEN GUARANTEED ACTUAL PAYMENT OF THE SUMS DUE TO HIM.
- 17 HOWEVER, THAT ARGUMENT CANNOT BE ACCEPTED IN THE CASE OF A MEMBER STATE WHERE, UNDER THE RELEVANT LEGISLATION, THE FACT THAT MANUFACTURERS BASED IN ITS TERRITORY DO NOT HAVE ADEQUATE ASSETS CANNOT JUSTIFY THE GRANT OF AN INJUNCTION AGAINST THEM UNTIL THEY HAVE OFFERED GUARANTEES OF PAYMENT. FOR A MANUFACTURER BASED IN THE TERRITORY OF A MEMBER STATE AS WELL AS FOR AN IMPORTER SUCH GUARANTEES OF PAYMENT CAN ONLY BE INCLUDED AMONG THE TERMS FIXED IN THE LICENSING AGREEMENT OR, IN DEFAULT OF AN AGREEMENT, BY THE COMPETENT NATIONAL AUTHORITY.
- 18 IT HAS ALSO BEEN MAINTAINED THAT AN INJUNCTION PROHIBITING IMPORTS MAY BE JUSTIFIED BY THE DIFFICULTY OF CARRYING OUT CHECKS ON THE ORIGIN AND QUANTITIES OF GOODS IMPORTED, ON THE BASIS OF WHICH THE ROYALTIES PAYABLE TO THE PATENT PROPRIETOR MUST BE CALCULATED.
- 19 HOWEVER, IT SHOULD BE POINTED OUT THAT IT MAY ALSO BE DIFFICULT TO CHECK THE QUANTITY OF GOODS MARKETED EVEN WHERE THEY ARE MANUFACTURED WITHIN THE NATIONAL TERRITORY AND YET NO INJUNCTION OR INTERDICTION IS POSSIBLE IN THOSE CIRCUMSTANCES. IT IS THEREFORE A MATTER FOR THE LICENSING AGREEMENT ALONE OR, IN DEFAULT OF AGREEMENT, FOR THE COMPETENT NATIONAL AUTHORITY, TO LAY DOWN DETAILED RULES TO ENABLE THE PATENT PROPRIETOR TO CHECK THE SUPPORTING DOCUMENTS PRODUCED BY THE IMPORTER REGARDING THE PURCHASE, IMPORT AND SALE OF THE PRODUCT.
- 20 FINALLY, IT HAS BEEN MAINTAINED THAT AN INJUNCTION PROHIBITING IMPORTS MAY BE JUSTIFIED IN ORDER TO ENABLE THE PATENT PROPRIETOR TO CHECK ON THE QUALITY OF AN IMPORTED MEDICINE IN THE INTERESTS OF PUBLIC HEALTH.
- 21 IT MUST BE OBSERVED, HOWEVER, THAT THAT CONSIDERATION HAS NOTHING TO DO WITH PROTECTION OF THE EXCLUSIVE RIGHTS OF THE PATENT PROPRIETOR AND, THEREFORE, MAY NOT BE RELIED ON IN ORDER TO JUSTIFY, ON GROUNDS OF PROTECTION OF INDUSTRIAL AND COMMERCIAL PROPERTY, A RESTRICTION ON TRADE BETWEEN MEMBER STATES.
- 22 IT MUST THEREFORE BE CONCLUDED THAT AN INJUNCTION ISSUED AGAINST AN IMPORTER-INFRINGER IN THE CIRCUMSTANCES DESCRIBED BY THE NATIONAL COURT WOULD CONSTITUTE ARBITRARY DISCRIMINATION PROHIBITED BY ARTICLE 36 OF THE

TREATY AND COULD NOT BE JUSTIFIED ON GROUNDS OF THE PROTECTION OF INDUSTRIAL AND COMMERCIAL PROPERTY.

- 23 THE REPLY TO THE FIRST QUESTION MUST THEREFORE BE THAT ARTICLES 30 AND 36 OF THE TREATY MUST BE INTERPRETED AS PRECLUDING THE COURTS OF A MEMBER STATE FROM ISSUING AN INJUNCTION PROHIBITING THE IMPORTATION FROM ANOTHER MEMBER STATE OF A PRODUCT WHICH INFRINGES A PATENT ENDORSED "LICENCES OF RIGHT" AGAINST AN IMPORTER WHO HAS UNDERTAKEN TO TAKE A LICENCE ON THE TERMS PRESCRIBED BY LAW WHERE NO SUCH INJUNCTION MAY BE ISSUED IN THE SAME CIRCUMSTANCES AGAINST AN INFRINGER WHO MANUFACTURES THE PRODUCT IN THE NATIONAL TERRITORY.

QUESTION 2

- 24 THE SECOND QUESTION ASKS ESSENTIALLY WHETHER ARTICLES 30 AND 36 OF THE TREATY MUST BE INTERPRETED AS PROHIBITING THE COMPETENT ADMINISTRATIVE AUTHORITIES FROM IMPOSING ON A LICENSEE TERMS PREVENTING THE IMPORTATION FROM OTHER MEMBER STATES OF A PRODUCT COVERED BY A PATENT ENDORSED "LICENCES OF RIGHT" IF THOSE AUTHORITIES CANNOT REFUSE TO GRANT A LICENCE TO AN UNDERTAKING WHICH WOULD MANUFACTURE THE PRODUCT IN THE NATIONAL TERRITORY AND MARKET IT THERE.
- 25 IT SHOULD BE OBSERVED THAT THE REQUIREMENTS LAID DOWN BY THE TREATY REGARDING THE FREE MOVEMENT OF GOODS APPLY EQUALLY TO ALL THE AUTHORITIES OF A MEMBER STATE, WHETHER THEY BE JUDICIAL OR ADMINISTRATIVE BODIES.
- 26 MOREOVER, NO CONSIDERATION OTHER THAN THOSE WHICH HAVE BEEN REJECTED IN THE EXAMINATION OF THE FIRST QUESTION HAS BEEN RAISED BEFORE THE COURT IN ORDER TO JUSTIFY THE CREATION OF IMPEDIMENTS TO IMPORTS FROM OTHER MEMBER STATES WHEN TERMS ARE FIXED FOR THE GRANT OF A LICENCE.
- 27 THE REPLY TO THE SECOND QUESTION MUST THEREFORE BE THAT ARTICLES 30 AND 36 OF THE TREATY MUST BE INTERPRETED AS PROHIBITING THE COMPETENT ADMINISTRATIVE AUTHORITIES FROM IMPOSING ON A LICENSEE TERMS IMPEDING THE IMPORTATION FROM OTHER MEMBER STATES OF A PRODUCT COVERED BY A PATENT ENDORSED "LICENCES OF RIGHT" WHERE THOSE AUTHORITIES MAY NOT REFUSE TO GRANT A LICENCE TO AN UNDERTAKING WHICH WOULD MANUFACTURE THE PRODUCT IN THE NATIONAL TERRITORY AND MARKET IT THERE.

QUESTION 3

- 28 THE THIRD QUESTION ASKS WHETHER THE ANSWERS TO THE FIRST AND SECOND QUESTIONS ARE AFFECTED BY THE FACT THAT THE ARTICLE IN QUESTION IS A PHARMACEUTICAL PRODUCT IMPORTED FROM A MEMBER STATE WHERE SUCH PRODUCTS ARE NOT PATENTABLE.
- 29 IT IS CLEAR FROM THE FOREGOING THAT IN A SYSTEM OF OBLIGATORY LICENCES SUCH AS THAT DESCRIBED BY THE NATIONAL COURT THE PROTECTION OF PATENT RIGHTS MUST BE CONFINED TO GUARANTEEING THE PATENT PROPRIETOR A FAIR RETURN IN RESPECT OF BOTH IMPORTED PRODUCTS AND PRODUCTS MANUFACTURED AND MARKETED IN THE MEMBER STATE IN QUESTION.
- 30 IT HAS, HOWEVER, BEEN MAINTAINED IN THE PROCEEDINGS BEFORE THE COURT THAT MANUFACTURERS IN A MEMBER STATE WHERE PHARMACEUTICAL PRODUCTS ARE NOT PATENTABLE DO NOT HAVE TO BEAR THE COST OF RESEARCH, UNLIKE MANUFACTURERS IN OTHER MEMBER STATES, AND CAN THEREFORE MANUFACTURE IN CONDITIONS WHICH DISTORT COMPETITION. A PROHIBITION ON IMPORTS IS THE ONLY MEANS OF REMEDYING THAT SITUATION.

- 31 THAT ARGUMENT CANNOT BE ACCEPTED. IT IS SUFFICIENT TO POINT OUT, WITHOUT THERE EVEN BEING ANY NEED TO CONSIDER WHETHER THE FACTS ON WHICH IT IS BASED ARE ACTUALLY CORRECT, THAT THE RIGHT TO A FAIR RETURN GRANTED TO THE PROPRIETOR OF A PATENT SUBJECT TO A SYSTEM OF LICENCES OF RIGHT IS INTENDED PRECISELY TO AFFORD THE PROPRIETOR RECOMPENSE FOR THE RESEARCH COSTS HE HAS INCURRED. THERE ARE THEREFORE NO GROUNDS FOR DRAWING A DISTINCTION ACCORDING TO WHETHER THE PRODUCT MARKETED BY THE THIRD PARTY WAS MANUFACTURED IN THE NATIONAL TERRITORY OR IN THE TERRITORY OF A MEMBER STATE WHERE THE PRODUCT WAS NOT PATENTABLE.
- 32 IN ANSWER TO THE NATIONAL COURT IT SHOULD THEREFORE BE RULED THAT THE REPLIES TO THE FIRST AND SECOND QUESTIONS ARE NOT AFFECTED BY THE FACT THAT THE PRODUCT IN QUESTION IS A PHARMACEUTICAL PRODUCT AND COMES FROM A MEMBER STATE WHERE IT IS NOT PATENTABLE.

QUESTION 4

- 33 THE FOURTH QUESTION ASKS ESSENTIALLY WHETHER, IF THE PROHIBITION ON IMPORTS CANNOT BE JUSTIFIED UNDER ARTICLE 36 OF THE TREATY, IT MAY NEVERTHELESS BE JUSTIFIED ON THE GROUNDS OF IMPERATIVE REQUIREMENTS RELATING TO CONSUMER PROTECTION AND FAIR TRADING, AS RECOGNIZED BY THE COURT IN INTERPRETING ARTICLE 30 OF THE TREATY.
- 34 FROM THE FINDINGS SET OUT ABOVE IT IS CLEAR THAT THE NATIONAL LEGISLATION RELATING TO LICENCES OF RIGHT IS NOT APPLICABLE WITHOUT DISTINCTION TO MANUFACTURERS ESTABLISHED IN THE NATIONAL TERRITORY AND TO IMPORTERS.
- 35 THE COURT HAS CONSISTENTLY HELD (SEE, IN PARTICULAR, THE JUDGMENT OF 17 JUNE 1981 IN CASE 113/80 COMMISSION V IRELAND ((1981)) ECR 1625) THAT IT IS ONLY WHERE NATIONAL RULES APPLY WITHOUT DISTINCTION TO BOTH DOMESTIC AND IMPORTED PRODUCTS THAT THEY DO NOT FALL UNDER THE PROHIBITION LAID DOWN BY ARTICLE 30 OF THE TREATY IF THEY ARE NECESSARY IN ORDER TO SATISFY IMPERATIVE REQUIREMENTS RELATING IN PARTICULAR TO CONSUMER PROTECTION OR FAIR TRADING.
- 36 THE REPLY TO THE FOURTH QUESTION MUST THEREFORE BE THAT A PROHIBITION ON IMPORTATION CANNOT BE JUSTIFIED ON GROUNDS OF IMPERATIVE REQUIREMENTS RELATING TO CONSUMER PROTECTION OR FAIR TRADING WHERE THE NATIONAL LEGISLATION ON WHICH IT IS BASED IS NOT APPLICABLE WITHOUT DISTINCTION TO DOMESTIC AND IMPORTED PRODUCTS.

[...]

5. TRADEMARKS

5.1 Primary sources

5.1.1 First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks

Official Journal L 040, 11/02/1989 P. 0001 – 0007

Amended by Council Decision 92/10/EEC of 19 December 1991

CONTENTS

1. The Directive applies to trade marks in respect of goods or services which are the subject of registration or of an application in a Member State for registration.
2. The following may not be registered, or if registered are liable to be declared invalid:
 - signs which cannot constitute a trade mark;
 - trade marks which are devoid of any distinctive character;
 - trade marks which are liable to mislead or are contrary to public policy or accepted principles of morality;
 - trade marks which are of such a nature as to deceive the public;
 - a trade mark which is identical with or similar to an earlier trade mark, where the goods or services which it represents are identical with or similar to those represented by the earlier mark.
3. A registered trade mark confers on its proprietor exclusive rights therein. The proprietor is entitled to prevent all third parties not having his consent from using it in the course of trade.
4. Where the proprietor of an earlier trade mark has acquiesced, for a period of five successive years, in the use of a later registered trade mark, he is no longer entitled either to apply for a declaration that the later trade mark is invalid or to oppose the use of the later trade mark in respect of the goods or services for which the later trade mark has been used, unless registration of the later trade mark was applied for in bad faith.
5. Unless there are proper reasons for non-use, the proprietor of a trade mark may have his rights forfeited if:
 - within a period of five years following the date of completion of the registration procedure, he has not put the trade mark to genuine use in the Member State concerned in connection with the goods or services in respect of which it is registered; or
 - if, during an uninterrupted period of five years, the trade mark has not been put to genuine use.
6. The proprietor of a trade mark may also have his rights forfeited where, in consequence of his acts or inactivity, the mark 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 proprietor or with his consent, the trade mark is liable to mislead the public.

Article 1
Scope

This Directive shall apply to every trade mark 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 trade mark, 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.

[...]

Article 5
Rights conferred by a trade mark

1. The registered trade mark 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 trade mark in relation to goods or services which are identical with those for which the trade mark is registered;
 - (b) any sign where, because of its identity with, or similarity to, the trade mark and the identity or similarity of the goods or services covered by the trade mark 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 trade mark.
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 trade mark in relation to goods or services which are not similar to those for which the trade mark 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 trade mark.
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;
 - (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 trade mark 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 trade mark.

[...]

Article 7

Exhaustion of the rights conferred by a trade mark

1. The trade mark 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 trade mark 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.

[...]

Article 16

National provisions to be adopted pursuant to this Directive

1. The Member States shall bring into force the laws, regulations and administrative provisions necessary to comply with this Directive not later than 28 December 1991. They shall immediately inform the Commission thereof.
2. Acting on a proposal from the Commission, the Council, acting by qualified majority, may defer the date referred to in paragraph 1 until 31 December 1992 at the latest.
3. Member States shall communicate to the Commission the text of the main provisions of national law which they adopt in the field governed by this Directive.

[...]

5.1.2 92/10/EEC: Council Decision of 19 December 1991 postponing the date on which the national provisions applying Directive 89/104/EEC to approximate the laws of the Member States relating to trade marks are to be put into effect

Official Journal L 006, 11/01/1992 P. 0035 - 0035

Article 1

The date set in Article 16 (1) of Directive 89/104/EEC shall be replaced by 31 December 1992.

5.1.3 Regulation on the Community trade mark

Contents

1. This Regulation provides for the introduction of Community trade marks. A Community trade mark is created through registration at the Office for Harmonisation in the Internal Market (Trade Marks and Designs).
2. Definition of the grounds for refusal to register a trade mark, for example if the sign consists exclusively of the shape which results from the nature of the goods themselves or if the trade mark is likely to be confused with an existing mark. Trade marks may be owned by nationals of Member States, of States party to the Paris Convention or of other States, provided that they are domiciled or have their seat in one of the aforementioned States, and by nationals of any other State which guarantees nationals of Member States the same protection as it guarantees its own nationals.
3. Effects of Community trade marks: rights conferred and limits to those rights; for example, the proprietor of a trade mark may prevent any third party from using a sign which is identical to that Community trade mark in relation to goods or services which are identical to those for which it is registered, but he may not prohibit a third party from using in the course of trade his name or address if such use is in accordance with honest practices in industrial or commercial matters.
4. Use of Community trade marks: trade marks should be used within a period of five years following registration.
5. Community trade marks as objects of property: dealing with Community trade marks as national trade marks; provisions relating to transfers of trade marks; rights in rem; levy of execution; bankruptcy; licensing and effects vis-à-vis third parties.
6. Applications for Community trade marks: filing of applications and conditions with which they must comply; six-month right of priority for filing Community trade mark applications for proprietors of national trade marks; claiming the seniority of a national trade mark.
7. Registration procedure: examination of application (conditions of filing, grounds for refusal, etc.); search for earlier trade marks; publication of application; observations and opposition to registration by third parties; withdrawal, restriction and amendment of application; registration.
8. Duration, renewal and alteration of Community trade marks: duration (10 years but renewable for further periods of 10 years); renewal (within a period of six months, etc.); alteration (conditions governing alteration of names and addresses of proprietors, etc.).
9. Surrender, revocation and invalidity: surrender (conditions); revocation and invalidity (grounds, consequences and proceedings).
10. Appeals (decisions subject to appeal, persons entitled to appeal, time limit and form of appeal, interlocutory revision, examination of appeals, decisions in respect of appeals and actions before the Court of Justice).
11. Community collective marks (conditions, regulations governing use, grounds for revocation, grounds for invalidity).
12. Procedural provisions (general provisions, costs, information for the public and authorities in the Member States, representation before the Office).

13. Jurisdiction and procedure in legal actions relating to Community trade marks (application of the Convention on jurisdiction and enforcement, courts and their jurisdiction, applicable law, sanctions, provisional and protective measures, specific rules on related actions and further appeals).

14. Effects on the laws of the Member States (civil actions on the basis of more than one trade mark, ban on the use of Community trade marks, conversion into a national trade mark application).

15. The Office (general provisions, management, Administrative Board, implementation of procedures, budget and financial control).

16. Regulation (EC) No 3288/94 seeks to implement the TRIPs agreement concluded in the context of the Uruguay Round.

Follow-up work

On 25 July 1996 the Commission presented two proposals:

- a proposal for a Council Decision (EC) approving the accession of the European Community to the Protocol relating to the Madrid Agreement concerning the international registration of trade marks [COM(96) 367 final CNS0190 - Official Journal C 293, 05.10.1996];
- a proposal for a Council Regulation (EC) amending Council Regulation (EC) No 40/94 of 20 December 1993 on the Community trade mark to give effect to the accession of the European Community to the Protocol relating to the Madrid Agreement concerning the international registration of trade marks adopted in Madrid on 27 June 1989 [COM(96) 372 final CNS96/0198 - Official Journal C 300, 10.10.1996].

As the Community trade mark system and the international registration system established by the Madrid Agreement are complementary, the aim of the proposal is to enable firms to profit from the advantages of the Community trade mark system through the Madrid protocol and vice versa. The proposal deals with the procedures and effects relating to:

- international registration based on an application for a Community trade mark;
- international registration designating the European Community.

Consultation procedure

On 16 May 1997 the Parliament approved the Commission's proposal without amendment. The proposal is currently before the Council for adoption.

On 1 May 1999, the legal basis of these two proposals was changed following the entry into force of the Treaty of Amsterdam.

On 7 October 1997 the Commission presented a proposal for a Council Regulation (EC) amending Regulation (EC) No 40/94 on the Community trade mark [COM(97) 489 final CNS97/0253 - Official Journal C 335, 06.11.1997].

This proposal seeks to amend some of the financial provisions contained in Regulation (EC) No 40/94.

Consultation procedure

On 10 March 1998 Parliament approved the Commission proposal subject to certain amendments. The Commission accepted some of the amendments.

On 30 April 1998 the Commission presented an amended proposal [COM(98) 289 final - Official Journal C 194, 20.06.1998].

The proposal is currently before the Council for adoption.

On 1 May 1999, the legal basis of this proposal was renumbered following the entry into force of the Treaty of Amsterdam.

Commission implementing measures

- Regulation (EC) No 2868/95 - Official Journal L 303, 15.12.1995
- Commission Regulation of 13 December 1995 implementing Council Regulation (EC) No 40/94 on the Community trade mark.
- Regulation (EC) No 2869/95 - Official Journal L 303, 15.12.1995
- Commission Regulation of 13 December 1995 on the fees payable to the Office for Harmonisation in the Internal Market (Trade Marks and Designs).
- Regulation (EC) No 216/96 - Official Journal L 28, 06.02.1996
- Commission Regulation of 5 February 1996 laying down the rules of procedure of the Boards of Appeal of the Office for Harmonisation in the Internal Market (Trade Marks and Designs).

5.1.4 Council Regulation (EC) No 40/94 of 20 December 1993 on the Community trade mark

OJ L 011 14.01.1994 p.1

- Amended by Council Regulation (EC) No 3288/94 of 22 December 1994 (OJ L 349, 31.12.1994, p.83)
- Implemented by Commission Regulation (EC) No 2868/95 of 13 December 1995 (OJ L 303, 15.12.1995, p.1)
- Amended by Council Regulation (EC) No 807/2003 of 14 April 2003 (OJ L 122, 16.05.2003, p.36)
- Amended by Council Regulation (EC) No 1653/2003 of 18 June 2003 (OJ L 245, 29.09.2003, p.36)

Full consolidated text: http://europa.eu.int/eur-lex/en/consleg/pdf/1994/en_1994R0040_do_001.pdf

TITLE I GENERAL PROVISIONS

Article 1

Community trade mark

1. A trade mark for goods or services which is registered in accordance with the conditions contained in this Regulation and in the manner herein provided is hereinafter referred to as a 'Community trade mark'.
2. A Community trade mark shall have a unitary character. It shall have equal effect throughout the Community: it shall not be registered, transferred or surrendered or be the subject of a decision revoking the rights of the proprietor or declaring it invalid, nor shall its use be prohibited, save in respect of the whole Community. This principle shall apply unless otherwise provided in this Regulation.

Article 2

Office

An Office for Harmonization in the Internal Market (trade marks and designs), hereinafter referred to as 'the Office', is hereby established.

Article 3

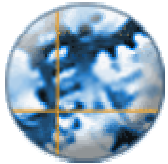
Capacity to act

For the purpose of implementing this Regulation, companies or firms and other legal bodies shall be regarded as legal persons if, under the terms of the law governing them, they have the capacity in their own name to have rights and obligations of all kinds, to make contracts or accomplish other legal acts and to sue and be sued.

[...]

5.2 Cases

5.2.1 Case C-9/93: IHT v Ideal-Standard and Wabco Standard



NOTE AND QUESTIONS

1. To what extent do trademark-rights differ from other intellectual property rights? What does the Advocate General mean by saying they are in some sense “territorial”?
2. Which economic interests are protected by trademarks? Do they have to be exclusive?
3. Would you agree with the ECJ that the Ideal Standard case is a case of parallel imports (see also (strictly speaking a parallel importer buys goods in one country and exports them to another)? Why is it, especially in the context of licenses, important to distinguish parallel import from direct import (no purchase in the country of export)

**IHT Internationale Heiztechnik GmbH and Uwe Danzinger
v
Ideal-Standard GmbH and Wabco Standard GmbH**

Case C-3/93

9 February 1994

AG Gulmann

[1994] ECR I-02789

<http://www.curia.eu.int/en/content/juris/index.htm>

[...]

G - Trade-mark rights

54. The legal basis of trade marks is to be found in national trade-mark laws. They must meet the conditions (registration or use) contained in the individual national trade-mark law, that is, the relevant trade-mark law which lays down the legal effects linked to the mark in the State concerned. In that sense trade marks are territorial. Since, as described above, no complete harmonization of national trade-mark laws has been carried out, various legal effects may be linked to trade marks in the various Member States.
55. Trade marks differ from other intellectual property rights inter alia inasmuch as in principle they are unlimited in time (It follows, however, from Articles 10, 11 and 12 of the directive on trade marks

that a trade-mark proprietor may forfeit his rights if he has not made genuine use of the trade mark in a Member State for a period of five years). That was emphasized by the Court in HAG I in which it stated: 'The exercise of a trade-mark right tends to contribute to the partitioning off of the markets and thus to affect the free movement of goods between Member States, all the more so since - unlike other rights of industrial and commercial property - it is not subject to limitations in point of time' (paragraph 11).

a. The subject-matter and function of the rights

56. In its judgment in HAG II the Court repeated, clarified and developed its case-law with regard to trade marks, emphasizing the essential significance to be attached to the protection of trade marks for fair competition, without which an open market economy cannot operate. The Court declared that trade-mark rights 'are... an essential element in the system of undistorted competition which the Treaty seeks to establish and maintain' (paragraph 13).
57. Important, indeed very important economic interests may be bound up with trade marks, which for those engaged in trade are an asset whose value depends on its protection against misuse by competitors. In HAG II the Court stated that in a system of undistorted competition 'an undertaking must be in a position to keep its customers by virtue of the quality of its products and services, something which is possible only if there are distinctive marks which enable customers to identify those products and services' (paragraph 13).
58. The most important of the general rights of the proprietor of a trade mark are his 'right to use that trade mark for the purpose of putting a product into circulation for the first time'. By this means he receives protection 'against competitors wishing to take advantage of the status and reputation of the trade mark by selling products illegally bearing that mark' (paragraph 14). That right constitutes the 'specific subject-matter' of the trade-mark right and its protection may therefore justify an encroachment upon free movement of goods.
59. The Court further declared in HAG II that 'in order to determine the exact scope of this right exclusively conferred on the owner of the trade mark, regard must be had to the essential function of the trade mark, which is to guarantee the identity of the origin of the marked product to the consumer or ultimate user by enabling him without any possibility of confusion to distinguish that product from products which have another origin' (paragraph 14). The capacity of the trade-mark right to represent for consumers a link between origin and quality is sometimes described as a distinguishing function. The application of the mark makes it possible for the proprietor to allow the consumer consciously to distinguish between his goods and those of his competitors.

A trade mark's economic value and its importance for fair competition are closely linked to the trade mark's capacity to perform this distinguishing function (This was expressed as follows by Advocate General Jacobs in his Opinion in HAG II: 'whereas patents reward the creativity of the inventor and thus stimulate scientific progress, trade marks reward the manufacturer who consistently produces high-quality goods and they thus stimulate economic progress. Without trade-mark protection there would be little incentive for manufacturers to develop new products or to maintain the quality of existing ones. Trade marks are able to achieve that effect because they act as a guarantee, to the consumer, that all goods bearing a particular mark have been produced by, or under control of, the same manufacturer and are therefore likely to be of similar quality.

[...]

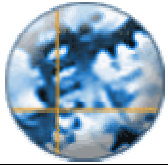
A trade mark can only fulfil that role if it is exclusive. Once the proprietor is forced to share the mark with a competitor, he loses control over the goodwill associated with the mark. The reputation of his own goods will be harmed if the competitor sells inferior goods. From the consumer's point of view, equally undesirable consequences will ensue, because the clarity of the signal transmitted by the trade mark will be impaired. The consumer will be confused and misled.' (Paragraphs 18 and 19)). The Court emphasized in HAG II that 'for the trade mark to be able to fulfil this 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' (paragraph 13).

b. The assignability of trade marks

60. The proprietor of a trade mark may inter alia make use of his exclusive right by transferring the use of the mark to a licensee. According to Article 8 of the trade mark directive, 'a trade mark may be licensed for some or all of the goods or services for which it is registered and for the whole or part of the Member State concerned. A licence may be exclusive or non-exclusive.'
61. The basis is also that a trade mark, like other property, may be assigned by agreement between the proprietor and another trader. However restrictions may be laid down in the assignment.
62. The position in certain countries is that an assignment may take place only for the whole of the territory for which protection has been obtained under the national trade-mark law, whilst in other countries that does not apply.
63. In certain countries the trade mark may be assigned only together with the relevant means of production, whereas in others, and as far as I know in most Member States, a trade mark may be assigned separately.
64. Finally, in some countries a trade mark may be assigned only for all the goods for which protection has been obtained. In other countries there are no such restrictions and in yet others the right of partial assignment is restricted only in so far as it might result in misleading the consumer.
65. It has been claimed in this case, and rightly, it seems to me, that the trend is in the direction of ever greater opportunity for the proprietor to assign his trade mark.
66. According to the Council Regulation on the Community trade mark, the Community mark may be assigned with or without the undertaking, in respect of some or all of the goods for which it is registered (See Article 17(1) of the regulation, which provides: 'A Community trade mark may be transferred, separately from any transfer of the undertaking, in respect of some or all of the goods or services for which it is registered'). On the other hand it may be assigned only for the whole of Community territory. See (Article 1(2) of the regulation, which provides: 'A Community trade mark shall have a unitary character. It shall have equal effect throughout the Community: it shall not be registered, transferred or surrendered or be the subject of a decision revoking the rights of the proprietor or declaring it invalid, nor shall its use be prohibited, save in respect of the whole Community. This principle shall apply unless otherwise provided in this regulation.')

[...]

5.2.2 Case 40/70: Sirena



NOTE AND QUESTIONS

1. Should the principles set down by the Court for patents also apply to trademarks? Do you agree with the Advocate General that “from a human point of view” this question should be answered in the negative? Why are they similar “from a legal point of view”?
2. Why does partitioning of markets conflict with the proper functions of trademarks?
3. Should the law treat the owner of a trademark differently if he enjoys his protection by reason of the terms of a contract or by the application of the provisions of legislation?

Sirena S.r.l. v Eda S.r.l. and others

Case 40/70

18 February 1971

Court of Justice

ECR [1971] 69

<http://www.curia.eu.int/en/content/juris/index.htm>

Summary of the facts and procedure

According to the order referring the matter, the facts on which this request is based may be summarized as follows: Sirena, the applicant in the main action, accuses the defendants of having infringed its trade-marks Nos 186046, 121719 and 112603, constituted by the words 'Prep' and 'Prep good Morning' and by other words or symbols. In fact, the defendants imported into Italy pots of medicinal cosmetic cream on which the said trade-marks had been appended at the outset and which had been supplied by a German undertaking holding a license from the American firm Mark Allen, the producer of 'Prep'.

Sirena based its claim:

- *on a contract concluded in 1937 with the firm Mark Allen in which the latter assigned to it the trade-mark 'Prep';*
- *on the quiet and exclusive enjoyment of the trade-mark 'Prep' since 1937;*
- *on enjoyment of this same trade-mark since 21 October 1944, the date from which the trade-mark*

which was originally registered in Italy by the firm Mark Allen began to lose its commercial validity and was not thereafter renewed or used by that firm;

- *on its status as proprietor of the trade-marks Nos 121719 and 112603, which it registered in Italy in 1952 at a time when the commercial validity of the trade-mark 'Prep' as the mark of the products of Mark Allen had already diminished.*

Novimpex, one of the defendants in the main action, contested the validity of the abovementioned contract. It states that the contract infringes Articles 85 and 86 of the EEC Treaty since it allows Sirena to prevent the importation from other Community countries of products to which the trade-mark 'Prep' had been lawfully attached in their place of origin. Furthermore, Novimpex claims that Italian law is incompatible with the Community rule in so far as it supports the claims made by Sirena.

II - Wording and grounds of the order referring the questions

By order of 12 June 1970 the Tribunale Civile e Penale, Milan, decided to refer to the Court the following questions:

'1. Are Articles 85 and 86 applicable to the effects of a contract of assignment of a trade-mark made before the Treaty entered into force?

2. Must the said Articles 85 and 86 be interpreted as preventing the proprietor of a trade-mark lawfully registered in one Member State from exercising the absolute right derived from the trade-mark to prohibit third parties from importing from other countries of the Community products bearing the same trade-mark, lawfully attached to them in their place of origin?

The order referring the matter is accompanied by the following reasoning:

- *The measures adopted by the Commission of the European Communities, and in particular Article 3 (b) of Regulation No 67/67 of 22 March 1967 (OJ English Special Edition 1967, p. 10) reveal a tendency to consider as incompatible with Community law agreements on the registration and use of trade-marks intended to create monopolies and dominant positions within a country of the Community;*
- *the abovementioned provision pronounces a general principle, valid even apart from any appraisal of the validity of exclusive agreements and making clear the need to coordinate Community law on competition and national law on industrial property rights, in so far as the latter allows the proprietor of a trade-mark to enjoy an absolute territorial protection;*
- *this coordination is rendered necessary even if the right in the trade-mark was acquired through a contract concluded before the entry into force of the EEC Treaty where the proprietor continues to use the trade-mark which he holds in order to bring about a partition of territory within the Community for the distribution of a particular product;*
- *in this case, the exercise of the national court's 'discretionary power' to refer the matter to the Court is rendered necessary 'in view of the seriousness of the consequences which might result from the proposed interpretation of the Community rules and the need to submit appraisal of them to the court which is the best qualified to ascertain the spirit of the rules in the context of the politico-economic interests which led to their adoption'.*

Judgment:

- 1 BY ORDER DATED 12 JUNE 1970, WHICH REACHED THE COURT OF JUSTICE ON 31 JULY 1970, THE TRIBUNALE CIVILE E PENALE, MILAN, REFERRED TO THE COURT UNDER ARTICLE 177 OF THE EEC TREATY TWO QUESTIONS CONCERNING THE INTERPRETATION OF ARTICLES 85 AND 86 OF THE SAID TREATY. THE COURT IS ASKED TO DECIDE WHETHER ARTICLES 85 AND 86 OF THE TREATY ARE " APPLICABLE TO THE EFFECTS OF A CONTRACT OF ASSIGNMENT OF A TRADE-MARK, MADE BEFORE THE TREATY ENTERED INTO FORCE ", AND WHETHER THOSE ARTICLES MUST BE INTERPRETED " AS

PREVENTING THE PROPRIETOR OF A TRADE-MARK LAWFULLY REGISTERED IN ONE MEMBER STATE FROM EXERCISING THE ABSOLUTE RIGHT DERIVED FROM THE TRADE-MARK TO PROHIBIT THIRD PARTIES FROM IMPORTING FROM OTHER COUNTRIES OF THE COMMUNITY, PRODUCTS BEARING THE SAME TRADE-MARK, LAWFULLY ATTACHED TO THEM IN THEIR PLACE OF ORIGIN ".

- 2 IT APPEARS FROM THE FILE THAT THE CONTRACT TO WHICH THE NATIONAL COURT REFERS IS AN AGREEMENT OF 1937 WHEREBY AN AMERICAN UNDERTAKING, AS PROPRIETOR OF A TRADE-MARK ON A COSMETIC AND MEDICINAL CREAM WHICH IT PRODUCED, " SOLD, ASSIGNED AND TRANSFERRED... ALL RIGHTS, TITLES AND INTERESTS IN THE SAID TRADE-MARK ", SO FAR AS CONCERNED ITALIAN TERRITORY, TO AN ITALIAN COMPANY, WHICH SINCE THEN HAS PRODUCED, AND PUT INTO CIRCULATION ON THAT COUNTRY' S MARKET, A CREAM BEARING THE SAME TRADE-MARK, DULY REGISTERED UNDER ITALIAN LAW. IT APPEARS ALSO FROM THE FILE THAT THE MAIN ACTION CONCERNS AN APPLICATION BY THE ITALIAN COMPANY ALLEGING INFRINGEMENT OF A TRADE-MARK, AND SEEKING AN INJUNCTION TO PREVENT THE DISTRIBUTION ON ITALIAN TERRITORY OF A CREAM OF THE SAME KIND IMPORTED FROM THE FEDERAL REPUBLIC OF GERMANY, AND PROVIDED WITH THE DISPUTED TRADE-MARK BY THE GERMAN PRODUCER, WHO HAS ENTERED INTO A SIMILAR AGREEMENT WITH THE AMERICAN UNDERTAKING, EXTENDING TO GERMAN TERRITORY.
- 3 THE QUESTION ASKED, THEREFORE, AMOUNTS TO THIS: ASSUMING THAT THE NATIONAL LAW RECOGNIZES THE RIGHT OF A TRADE-MARK PROPRIETOR TO IMPEDE IMPORTS FROM OTHER MEMBER STATES, DOES COMMUNITY LAW AFFECT THE EXTENT OF THIS RIGHT?
- 4 ARTICLE 85 AND SUBSEQUENT ARTICLES OF THE TREATY DO NOT DEAL EXPRESSLY WITH THE RELATIONSHIPS BETWEEN THE COMMUNITY SYSTEM OF COMPETITION AND NATIONAL LAWS CONCERNING INDUSTRIAL AND COMMERCIAL PROPERTY RIGHTS AND, MORE PARTICULARLY, TRADE-MARKS.

ON THE OTHER HAND, SINCE NATIONAL RULES CONCERNING THE PROTECTION OF INDUSTRIAL AND COMMERCIAL PROPERTY HAVE NOT YET BEEN UNIFIED WITHIN THE FRAMEWORK OF THE COMMUNITY, THE NATIONAL CHARACTER OF THIS PROTECTION IS LIKELY TO CREATE OBSTACLES, BOTH TO THE FREE MOVEMENT OF PROPRIETARY PRODUCTS, AND TO THE COMMUNITY SYSTEM OF COMPETITION.

- 5 IN THE SPHERE OF PROVISIONS RELATING TO THE FREE MOVEMENT OF PRODUCTS, PROHIBITIONS AND RESTRICTIONS ON IMPORTS JUSTIFIED ON THE GROUNDS OF PROTECTION OF INDUSTRIAL AND COMMERCIAL PROPERTY ARE ALLOWED BY ARTICLE 36, SUBJECT TO THE EXPRESS CONDITION THAT THEY "SHALL NOT, HOWEVER, CONSTITUTE A MEANS OF ARBITRARY DISCRIMINATION OR A DISGUISED RESTRICTION ON TRADE BETWEEN MEMBER STATES". ARTICLE 36, ALTHOUGH IT APPEARS IN THE CHAPTER OF THE TREATY DEALING WITH QUANTITATIVE RESTRICTIONS ON TRADE BETWEEN MEMBER STATES, IS BASED ON A PRINCIPLE EQUALLY APPLICABLE TO THE QUESTION OF COMPETITION, IN THE SENSE THAT EVEN IF THE RIGHTS RECOGNIZED BY THE LEGISLATION OF A MEMBER STATE ON THE SUBJECT OF INDUSTRIAL AND COMMERCIAL PROPERTY ARE NOT AFFECTED, SO FAR AS THEIR EXISTENCE IS CONCERNED, BY ARTICLES 85 AND 86 OF THE TREATY, THEIR EXERCISE MAY STILL FALL UNDER THE PROHIBITIONS IMPOSED BY THOSE PROVISIONS.
- 6 SIMILAR CONSIDERATIONS, MOREOVER, FIND EXPRESSION IN ARTICLE 3 OF REGULATION NO 67/67/EEC OF THE COMMISSION WHEREBY THE EXEMPTION AFFORDED BY ARTICLE 1 (1) OF THAT REGULATION SHALL NOT APPLY "IN PARTICULAR WHERE THE CONTRACTING PARTIES EXERCISE INDUSTRIAL PROPERTY RIGHTS TO PREVENT DEALERS OR CONSUMERS FROM OBTAINING FROM OTHER PARTS OF THE COMMON MARKET OR FROM SELLING IN THE TERRITORY COVERED BY THE CONTRACT GOODS TO WHICH THE CONTRACT RELATES WHICH ARE PROPERLY MARKED OR OTHERWISE PROPERLY PLACED ON THE MARKETS". ALTHOUGH IT IS CLEAR FROM THE NINTH

RECITAL OF THE PREAMBLE THAT THE SAID REGULATION WAS NOT INTENDED THEREBY TO "PREJUDICE THE RELATIONSHIP BETWEEN THE LAW OF COMPETITION AND INDUSTRIAL PROPERTY RIGHTS", THE SAME RECITAL NEVERTHELESS EXPRESSES THE INTENTION NOT TO "ALLOW INDUSTRIAL PROPERTY RIGHTS... TO BE EXERCISED IN AN ABUSIVE MANNER IN ORDER TO CREATE ABSOLUTE TERRITORIAL PROTECTION".

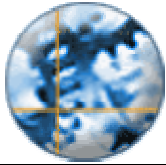
- 7 THE EXERCISE OF A TRADE-MARK RIGHT IS PARTICULARLY APT TO LEAD TO A PARTITIONING OF MARKETS, AND THUS TO IMPAIR THE FREE MOVEMENT OF GOODS BETWEEN STATES WHICH IS ESSENTIAL TO THE COMMON MARKET. MOREOVER, A TRADE-MARK RIGHT IS DISTINGUISHABLE IN THIS CONTEXT FROM OTHER RIGHTS OF INDUSTRIAL AND COMMERCIAL PROPERTY, INASMUCH AS THE INTERESTS PROTECTED BY THE LATTER ARE USUALLY MORE IMPORTANT, AND MERIT A HIGHER DEGREE OF PROTECTION, THAN THE INTERESTS PROTECTED BY AN ORDINARY TRADE-MARK.
- 8 THE REQUEST FOR INTERPRETATION IS PRIMARILY DIRECTED TO ASCERTAINING IN WHAT CIRCUMSTANCES THE EXERCISE OF TRADE-MARK RIGHTS MAY CONSTITUTE INFRINGEMENT OF THE PROHIBITION IMPOSED BY ARTICLE 85 (1).
- 9 BY VIRTUE OF THIS PROVISION, "ALL AGREEMENTS BETWEEN UNDERTAKINGS, DECISIONS BY ASSOCIATION OF UNDERTAKINGS, AND CONCERTED PRACTICES" WHICH MAY AFFECT TRADE BETWEEN MEMBER STATES, AND WHICH HAVE AS THEIR OBJECT OR EFFECT THE DISTORTION OF COMPETITION, ARE PROHIBITED AS INCOMPATIBLE WITH THE COMMON MARKET. A TRADE-MARK RIGHT, AS A LEGAL ENTITY, DOES NOT IN ITSELF POSSESS THOSE ELEMENTS OF CONTRACT OR CONCERTED PRACTICE REFERRED TO IN ARTICLE 85 (1). NEVERTHELESS, THE EXERCISE OF THAT RIGHT MIGHT FALL WITHIN THE AMBIT OF THE PROHIBITIONS CONTAINED IN THE TREATY EACH TIME IT MANIFESTS ITSELF AS THE SUBJECT, THE MEANS OR THE RESULT OF A RESTRICTIVE PRACTICE. WHEN A TRADE-MARK RIGHT IS EXERCISED BY VIRTUE OF ASSIGNMENTS TO USERS IN ONE OR MORE MEMBER STATES, IT IS THUS NECESSARY TO ESTABLISH IN EACH CASE WHETHER SUCH USE LEADS TO A SITUATION FALLING UNDER THE PROHIBITIONS OF ARTICLE 85.
- 10 SUCH SITUATIONS MAY IN PARTICULAR ARISE FROM RESTRICTIVE AGREEMENTS BETWEEN PROPRIETORS OF TRADE-MARKS OR THEIR SUCCESSORS IN TITLE ENABLING THEM TO PREVENT IMPORTS FROM OTHER MEMBER STATES. IF THE COMBINATION OF ASSIGNMENTS TO DIFFERENT USERS OF NATIONAL TRADE-MARKS PROTECTING THE SAME PRODUCT HAS THE RESULT OF RE-ENACTING IMPENETRABLE FRONTIERS BETWEEN THE MEMBER STATES, SUCH PRACTICE MAY WELL AFFECT TRADE BETWEEN STATES, AND DISTORT COMPETITION IN THE COMMON MARKET. THE MATTER WOULD BE DIFFERENT IF, IN ORDER TO AVOID ANY PARTITIONING OF THE MARKET, THE AGREEMENTS CONCERNING THE USE OF NATIONAL RIGHTS IN RESPECT OF THE SAME TRADE-MARK WERE TO BE EFFECTED IN SUCH CONDITIONS AS TO MAKE THE GENERAL USE OF TRADE-MARK RIGHTS AS COMMUNITY LEVEL COMPATIBLE WITH THE OBSERVANCE OF THE CONDITIONS OF COMPETITION AND UNITY OF THE MARKET WHICH ARE SO ESSENTIAL TO THE COMMON MARKET THAT FAILURE TO OBSERVE THEM IS PENALIZED BY ARTICLE 85 BY A DECLARATION THAT THEY ARE AUTOMATICALLY VOID.
- 11 ARTICLE 85, THEREFORE, IS APPLICABLE TO THE EXTENT TO WHICH TRADE-MARK RIGHTS ARE INVOKED SO AS TO PREVENT IMPORTS OF PRODUCTS WHICH ORIGINATE IN DIFFERENT MEMBER STATES, WHICH BEAR THE SAME TRADE-MARK BY VIRTUE OF THE FACT THAT THE PROPRIETORS HAVE ACQUIRED IT, OR THE RIGHT TO USE IT, WHETHER BY AGREEMENTS BETWEEN THEMSELVES OR BY AGREEMENTS WITH THIRD PARTIES. ARTICLE 85 IS NOT PRECLUDED FROM APPLYING MERELY BECAUSE, UNDER NATIONAL LEGISLATION TRADE-MARK RIGHTS MAY ORIGINATE IN LEGAL OR FACTUAL CIRCUMSTANCES OTHER THAN THE ABOVEMENTIONED AGREEMENTS, SUCH AS REGISTRATION OF THE TRADE-MARK, OR ITS UNDISTURBED USE.
- 12 IF THE RESTRICTIVE PRACTICES AROSE BEFORE THE TREATY ENTERED INTO FORCE, IT IS BOTH NECESSARY AND SUFFICIENT THAT THEY CONTINUE TO PRODUCE THEIR

EFFECTS AFTER THAT DATE.

- 13 BEFORE RESTRICTIVE PRACTICE CAN COME UNDER ARTICLE 85 (1), IT MUST AFFECT TRADE BETWEEN MEMBER STATES TO AN APPRECIABLE EXTENT, AND RESTRICT COMPETITION WITHIN THE COMMON MARKET.
- 14 FINALLY, THE REQUEST FOR INTERPRETATION SEEKS TO ESTABLISH IN WHAT CIRCUMSTANCES THE EXERCISE OF TRADE-MARK RIGHTS IS INCOMPATIBLE WITH THE COMMON MARKET, AND PROHIBITED UNDER ARTICLE 86 OF THE TREATY.
- 15 IT IS CLEAR FROM THE WORDING OF THIS PROVISION THAT WHAT IT PROHIBITS IS A COMBINATION OF THREE ELEMENTS: THE EXISTENCE OF A DOMINANT POSITION, ITS ABUSE, AND THE POSSIBILITY THAT TRADE BETWEEN MEMBER STATES MAY THEREBY BE AFFECTED.
- 16 IT SHOULD FIRST BE OBSERVED THAT THE PROPRIETOR OF A TRADE-MARK DOES NOT ENJOY A "DOMINANT POSITION" WITHIN THE MEANING OF ARTICLE 86 MERELY BECAUSE HE IS IN A POSITION TO PREVENT THIRD PARTIES FROM PUTTING INTO CIRCULATION, ON THE TERRITORY OF A MEMBER STATE, PRODUCTS BEARING THE SAME TRADE-MARK. SINCE THE ARTICLE REQUIRES THAT THE POSITION IN QUESTION SHOULD EXTEND TO AT LEAST A " SUBSTANTIAL PART " OF THE COMMON MARKET, IT IS ALSO NECESSARY THAT THE PROPRIETOR SHOULD HAVE POWER TO IMPEDE THE MAINTENANCE OF EFFECTIVE COMPETITION OVER A CONSIDERABLE PART OF THE RELEVANT MARKET, HAVING REGARD IN PARTICULAR TO THE EXISTENCE AND POSITION OF ANY PRODUCERS OR DISTRIBUTORS WHO MAY BE MARKETING SIMILAR GOODS OR GOODS WHICH MAY BE SUBSTITUTED FOR THEM.
- 17 AS REGARDS THE ABUSE OF A DOMINANT POSITION, ALTHOUGH THE PRICE LEVEL OF THE PRODUCT MAY NOT OF ITSELF NECESSARILY SUFFICE TO DISCLOSE SUCH AN ABUSE, IT MAY, HOWEVER, IF UNJUSTIFIED BY ANY OBJECTIVE CRITERIA, AND IF IT IS PARTICULARLY HIGH, BE A DETERMINING FACTOR.

[...]

5.2.3 Case 16/74: Centrafarm v Winthrop



NOTE AND QUESTIONS

1. Do you agree with the Court's interpretation of the exceptions Article 30 TEC (ex Article 36) grants?
2. In what ways do you think one could best balance the exclusive and territorial nature of intellectual property rights on the one hand and the policy of free movement of goods on the other hand?

Centrafarm BV and Adriaan De Peijper v Winthrop BV

Case 16/74

31 October 1974

Court of Justice

ECR [1974] 1183

<http://www.curia.eu.int/en/content/juris/index.htm>

Summary of the facts and procedure

1. *Winthrop BV, a wholly-owned subsidiary of the English concern Sterling-Winthrop Group Ltd., markets, in the Netherlands, with the consent of the concern and under the trade mark 'Negram' of which it is the owner in the Netherlands, acidum nalidixicum, a medicinal preparation for which the company Sterling-Winthrop Group Ltd., owns Dutch patent No 125 254.*

Centrafarm imported from England a certain quantity of this medicinal preparation, which it marketed in the Netherlands under the trade mark 'Negram'. This product had been obtained, by an English associate of Centrafarm, from the Sterling-Winthrop Group Ltd., which holds the right to use the trade mark 'Negram' in England.

By importing the goods from Great Britain Centrafarm took advantage of a considerable price differential. It appears that in Great Britain the product is sold for half the price at which it sells in the Netherlands.

2. *On 16 June 1971 Winthrop submitted to the president of the Arrondissements-Rechtbank of Rotterdam, sitting in chambers, an application for the immediate adoption of measures of conservation against the actions of Centrafarm and of its director, and requiring them to refrain from any direct or indirect infringement of the trade mark 'Negram', owned by Winthrop. In contrast with Case 15/74, Sterling Drug, the president granted the application.*

Centrafarm brought an appeal against the order of the president before the Gerechtshof (Court of Appeal) at The Hague. That court found in favour of Winthrop, and Centrafarm and De Peijper brought an appeal on a point of law before the Hoge Raad against the judgment of the Gerechtshof.

3. Before deciding further, the Hoge Raad stayed the proceedings and requested the Court of Justice, pursuant to Article 177 of the EEC Treaty, to give a preliminary ruling on the following questions:

1. As regards the rules concerning the free movement of goods:

(a) Assuming that:

1. different undertakings in different countries belonging to the EEC forming part of the same concern are entitled to the use of the same trade mark for a certain product;

2. products bearing that trade mark, after being lawfully marketed in one country by the trade mark owner, are exported by third parties and are marketed and further dealt in one of the other countries;

3. the trade mark legislation in the lastmentioned country gives the trade mark owner the right to take legal action to prevent goods with the relevant trade mark from being marketed there by other persons, even if such goods had previously been marketed lawfully in another country by an undertaking there entitled to that trade mark and belonging to the same concern,

do the rules set out in the EEC Treaty concerning the free movement of goods, notwithstanding the provisions of Article 36, prevent the trade mark owner from exercising the right mentioned under 3 above?

(b) If the rules concerning the free movement of goods do not in all circumstances preclude the trade mark owner from exercising the right mentioned under (a) 3, is he precluded from so doing if the exercise of that right arises exclusively or partially from an attempt to partition the markets of the relevant countries from each other in relation to the said goods or at least has the effect of thus partitioning those markets?

(c) Can the trade mark owner successfully rely in justification of the exercise of the abovementioned right on the fact that the price differences in the relevant countries, which make it profitable for third parties to market in one country products coming from another country, and give the trade mark owner in that other country an interest in taking action against such practices, are the consequence of governmental measures whereby in the exporting country the prices of those products are kept lower than would have been the case in the absence of those measures?

(d) At any rate where the relevant product is a pharmaceutical product, can the trade mark owner successfully rely in justification of the exercise of his trade mark right in the manner mentioned on the fact that the state of affairs described under (a) prevents him from controlling the distribution of the product, which control is considered by him necessary so that measures for the protection of the public can be taken in the event of defects appearing?

(e) Is it a consequence of Article 42 of the Treaty of Accession that, if the rules of the EEC Treaty relating to the free movement of goods prevent the exercise of a trade mark right as stated above, those rules cannot be invoked in the Netherlands until 1 January 1975 insofar as the relevant goods come from the United Kingdom?

II. As regards Article 85:

Can it be stated that the situation described under I (a) involves practices of the kind forbidden by Article 85 of the EEC Treaty, and must an action for infringement as mentioned therein, insofar as it is to be regarded as a consequence of such practices, be held impermissible for this reason?'

Judgment:

- 1 BY INTERIM DECISION OF 1 MARCH 1974, REGISTERED AT THE COURT ON 4 MARCH, THE HOGE RAAD DER NEDERLANDEN (DUTCH SUPREME COURT) REFERRED CERTAIN QUESTIONS, BY VIRTUE OF ARTICLE 177 OF THE EEC TREATY, ON TRADE MARK RIGHTS IN RELATION TO THE PROVISIONS OF THE TREATY AND OF THE ACT CONCERNING THE ACCESSION OF THE THREE NEW MEMBER STATES.
- 2 IN THE DECISION MAKING THE REFERENCE THE HOGE RAAD SET OUT AS FOLLOWS THE ELEMENTS OF FACT AND OF NATIONAL LAW IN ISSUE IN RELATION TO THE QUESTIONS REFERRED:
 - SEVERAL UNDERTAKINGS FORMING PART OF THE SAME CONCERN ARE ENTITLED TO USE THE SAME TRADE MARK FOR A CERTAIN PRODUCT IN VARIOUS STATES BELONGING TO THE EEC,
 - PRODUCTS BEARING THAT TRADE MARK, AFTER BEING LAWFULLY MARKETED IN ONE OF THE MEMBER STATES BY THE TRADE MARK OWNER, ARE SUBSEQUENTLY ACQUIRED AND EXPORTED BY THIRD PARTIES TO ONE OF THE OTHER STATES, WHERE THEY ARE MARKETED AND FURTHER DEALT IN,
 - THE TRADE MARK LEGISLATION IN THE LAST-MENTIONED STATE GIVES THE TRADE MARK OWNER THE RIGHT TO TAKE LEGAL ACTION TO PREVENT GOODS FROM BEING MARKETED THERE UNDER THE RELEVANT TRADE MARK BY OTHER PERSONS, EVEN IF SUCH GOODS HAD PREVIOUSLY BEEN MARKETED LAWFULLY IN ANOTHER COUNTRY BY AN UNDERTAKING THERE ENTITLED TO USE THAT TRADE MARK AND FORMING PART OF THE SAME CONCERN.

AS REGARDS QUESTION I (A)

- 3 THIS QUESTION REQUIRES THE COURT TO STATE WHETHER, UNDER THE CONDITIONS POSTULATED, THE RULES IN THE EEC TREATY CONCERNING THE FREE MOVEMENT OF GOODS PREVENT THE TRADE MARK OWNER FROM ENSURING THAT A PRODUCT PROTECTED BY THE TRADE MARK IS NOT MARKETED BY OTHERS.
- 4 AS A RESULT OF THE PROVISIONS IN THE TREATY RELATING TO THE FREE MOVEMENT OF GOODS, AND IN PARTICULAR ARTICLE 30, QUANTITATIVE RESTRICTIONS ON IMPORTS AND ALL MEASURES HAVING EQUIVALENT EFFECT ARE PROHIBITED BETWEEN MEMBER STATES.
- 5 BY ARTICLE 36 THESE PROVISIONS SHALL NEVERTHELESS NOT INCLUDE PROHIBITIONS OR RESTRICTIONS ON IMPORTS JUSTIFIED ON GROUNDS OF THE PROTECTION OF INDUSTRIAL OR COMMERCIAL PROPERTY.
- 6 NEVERTHELESS, IT IS CLEAR FROM THIS SAME ARTICLE, IN PARTICULAR ITS SECOND SENTENCE, AS WELL AS FROM THE CONTEXT, THAT WHILST THE TREATY DOES NOT AFFECT THE EXISTENCE OF RIGHTS RECOGNIZED BY THE LEGISLATION OF A MEMBER STATE IN MATTERS OF INDUSTRIAL AND COMMERCIAL PROPERTY, YET THE EXERCISE OF THESE RIGHTS MAY NEVERTHELESS, DEPENDING ON THE CIRCUMSTANCES, BE AFFECTED BY THE PROHIBITIONS IN THE TREATY.
- 7 INASMUCH AS IT PROVIDES AN EXCEPTION TO ONE OF THE FUNDAMENTAL PRINCIPLES

OF THE COMMON MARKET, ARTICLE 36 IN FACT ONLY ADMITS OF DEROGATIONS FROM THE FREE MOVEMENT OF GOODS WHERE SUCH DEROGATIONS ARE JUSTIFIED FOR THE PURPOSE OF SAFEGUARDING RIGHTS WHICH CONSTITUTE THE SPECIFIC SUBJECT-MATTER OF THIS PROPERTY.

- 8 IN RELATION TO TRADE MARKS, THE SPECIFIC SUBJECT-MATTER OF THE INDUSTRIAL PROPERTY IS THE GUARANTEE THAT THE OWNER OF THE TRADE MARK HAS THE EXCLUSIVE RIGHT TO USE THAT TRADE MARK, FOR THE PURPOSE OF PUTTING PRODUCTS PROTECTED BY THE TRADE MARK INTO CIRCULATION FOR THE FIRST TIME, AND IS THEREFORE INTENDED TO PROTECT HIM AGAINST COMPETITORS WISHING TO TAKE ADVANTAGE OF THE STATUS AND REPUTATION OF THE TRADE MARK BY SELLING PRODUCTS ILLEGALLY BEARING THAT TRADE MARK.
- 9 AN OBSTACLE TO THE FREE MOVEMENT OF GOODS MAY ARISE OUT OF THE EXISTENCE, WITHIN A NATIONAL LEGISLATION CONCERNING INDUSTRIAL AND COMMERCIAL PROPERTY, OF PROVISIONS LAYING DOWN THAT A TRADE MARK OWNER'S RIGHT IS NOT EXHAUSTED WHEN THE PRODUCT PROTECTED BY THE TRADE MARK IS MARKETED IN ANOTHER MEMBER STATE, WITH THE RESULT THAT THE TRADE MARK OWNER CAN PREVENT IMPORTATION OF THE PRODUCT INTO HIS OWN MEMBER STATE WHEN IT HAS BEEN MARKETED IN ANOTHER MEMBER STATE.
- 10 SUCH AN OBSTACLE IS NOT JUSTIFIED WHEN THE PRODUCT HAS BEEN PUT ONTO THE MARKET IN A LEGAL MANNER IN THE MEMBER STATE FROM WHICH IT HAS BEEN IMPORTED, BY THE TRADE MARK OWNER HIMSELF OR WITH HIS CONSENT, SO THAT THERE CAN BE NO QUESTION OF ABUSE OR INFRINGEMENT OF THE TRADE MARK.
- 11 IN FACT, IF A TRADE MARK OWNER COULD PREVENT THE IMPORT OF PROTECTED PRODUCTS MARKETED BY HIM OR WITH HIS CONSENT IN ANOTHER MEMBER STATE, HE WOULD BE ABLE TO PARTITION OFF NATIONAL MARKETS AND THEREBY RESTRICT TRADE BETWEEN MEMBER STATES, IN A SITUATION WHERE NO SUCH RESTRICTION WAS NECESSARY TO GUARANTEE THE ESSENCE OF THE EXCLUSIVE RIGHT FLOWING FROM THE TRADE MARK.
- 12 THE QUESTION REFERRED SHOULD THEREFORE BE ANSWERED TO THE EFFECT THAT THE EXERCISE, BY THE OWNER OF A TRADE MARK, OF THE RIGHT WHICH HE ENJOYS UNDER THE LEGISLATION OF A MEMBER STATE TO PROHIBIT THE SALE, IN THAT STATE, OF A PRODUCT WHICH HAS BEEN MARKETED UNDER THE TRADE MARK IN ANOTHER MEMBER STATE BY THE TRADE MARK OWNER OR WITH HIS CONSENT IS INCOMPATIBLE WITH THE RULES OF THE EEC TREATY CONCERNING THE FREE MOVEMENT OF GOODS WITHIN THE COMMON MARKET.

AS REGARDS QUESTION I (B)

- 13 THIS QUESTION WAS REFERRED TO COVER THE POSSIBILITY THAT COMMUNITY RULES DO NOT UNDER ALL CIRCUMSTANCES PREVENT THE TRADE MARK OWNER FROM EXERCISING THE RIGHT, UNDER HIS NATIONAL LAW, TO PROHIBIT IMPORTS OF THE PROTECTED PRODUCT.
- 14 IT FOLLOWS FROM THE ANSWER GIVEN TO QUESTION I (A) THAT QUESTION I (B) HAS BECOME DEVOID OF OBJECT.

AS REGARDS QUESTION I (C)

- 15 THIS QUESTION REQUIRES THE COURT TO STATE, IN SUBSTANCE WHETHER THE TRADE MARK OWNER CAN, NOTWITHSTANDING THE ANSWER GIVEN TO THE FIRST QUESTION, PREVENT IMPORTATION OF PRODUCTS MARKETED UNDER THE TRADE MARK, GIVEN THE EXISTENCE OF PRICE DIFFERENCES RESULTING FROM GOVERNMENTAL MEASURES ADOPTED IN THE EXPORTING COUNTRY WITH A VIEW TO CONTROLLING PRICES OF THOSE PRODUCTS.
- 16 IT IS PART OF THE COMMUNITY AUTHORITIES' TASK TO ELIMINATE FACTORS LIKELY TO

DISTORT COMPETITION BETWEEN MEMBER STATES, IN PARTICULAR BY THE HARMONIZATION OF NATIONAL MEASURES FOR THE CONTROL OF PRICES AND BY THE PROHIBITION OF AIDS WHICH ARE INCOMPATIBLE WITH THE COMMON MARKET, IN ADDITION TO THE EXERCISE OF THEIR POWERS IN THE FIELD OF COMPETITION.

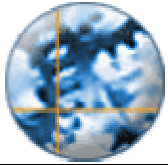
- 17 THE EXISTENCE OF FACTORS SUCH AS THESE IN A MEMBER STATE, HOWEVER, CANNOT JUSTIFY THE MAINTENANCE OR INTRODUCTION BY ANOTHER MEMBER STATE OF MEASURES WHICH ARE INCOMPATIBLE WITH THE RULES CONCERNING THE FREE MOVEMENT OF GOODS, IN PARTICULAR IN THE FIELD OF INDUSTRIAL AND COMMERCIAL PROPERTY.
- 18 THE QUESTION REFERRED SHOULD THEREFORE BE ANSWERED IN THE NEGATIVE.

AS REGARDS QUESTION I (D)

- 19 THIS QUESTION REQUIRES THE COURT TO STATE WHETHER THE TRADE MARK OWNER IS AUTHORIZED TO EXERCISE THE RIGHTS CONFERRED ON HIM BY THE TRADE MARK, NOTWITHSTANDING COMMUNITY RULES CONCERNING THE FREE MOVEMENT OF GOODS, FOR THE PURPOSE OF CONTROLLING THE DISTRIBUTION OF A PHARMACEUTICAL PRODUCT WITH A VIEW TO PROTECTING THE PUBLIC AGAINST THE RISKS ARISING FROM DEFECTS THEREIN.
- 20 THE PROTECTION OF THE PUBLIC AGAINST RISKS ARISING FROM DEFECTIVE PHARMACEUTICAL PRODUCTS IS A MATTER OF LEGITIMATE CONCERN, AND ARTICLE 36 OF THE TREATY AUTHORIZES THE MEMBER STATES TO DEROGATE FROM THE RULES CONCERNING THE FREE MOVEMENT OF GOODS ON GROUNDS OF THE PROTECTION OF HEALTH AND LIFE OF HUMANS AND ANIMALS.
- 21 HOWEVER, THE MEASURES NECESSARY TO ACHIEVE THIS MUST BE SUCH AS MAY PROPERLY BE ADOPTED IN THE FIELD OF HEALTH CONTROL, AND MUST NOT CONSTITUTE A MISUSE OF THE RULES CONCERNING INDUSTRIAL AND COMMERCIAL PROPERTY.
- 22 MOREOVER, THE SPECIFIC CONSIDERATIONS UNDERLYING THE PROTECTION OF INDUSTRIAL AND COMMERCIAL PROPERTY ARE DISTINCT FROM THE CONSIDERATIONS UNDERLYING THE PROTECTION OF THE PUBLIC AND ANY RESPONSIBILITIES WHICH THAT MAY IMPLY.
- 23 THE QUESTION REFERRED SHOULD THEREFORE BE ANSWERED IN THE NEGATIVE.

[...]

5.2.4 Case 102/77: Hoffmann - La Roche



NOTE AND QUESTIONS

1. Why is this case not simply a question of parallel imports?
2. To what extent can a connection be established between the re-packaging of pharmaceutical products and the requirement of safeguarding public health?
3. Do you think the Court has defined satisfactorily what a “disguised restriction on trade” is?

Hoffmann-La Roche & Co. AG v Centrafarm

Case 102/77

23 May 1978

Court of Justice

ECR [1978] 1139

<http://www.curia.eu.int/en/content/juris/index.htm>

- 1 BY ORDER DATED 20 JUNE 1977 RECEIVED AT THE COURT ON 2 AUGUST 1977 THE LANDGERICHT FREIBURG REFERRED TO THE COURT UNDER ARTICLE 177 OF THE EEC TREATY TWO QUESTIONS CONCERNING THE EFFECT OF CERTAIN PROVISIONS OF THE TREATY ON THE EXERCISE OF THE RIGHTS APPERTAINING TO THE PROPRIETOR OF A TRADE-MARK. THOSE QUESTIONS HAVE ARISEN IN PROCEEDINGS BETWEEN TWO UNDERTAKINGS IN THE PHARMACEUTICALS SECTOR, ONE OF WHICH, THE PLAINTIFF IN THE MAIN ACTION (HEREINAFTER REFERRED TO AS “HOFFMANN-LA ROCHE”), WHICH IS THE PROPRIETOR OF A CERTAIN TRADE-MARK IN SEVERAL MEMBER STATES, HAS TAKEN ISSUE OVER THE FACT THAT THE OTHER, THE DEFENDANT IN THE MAIN ACTION (HEREINAFTER REFERRED TO AS “CENTRAFARM”), WHICH HAD PURCHASED A PRODUCT COVERED BY THAT TRADE-MARK MARKETED IN A MEMBER STATE, DISTRIBUTES THAT PRODUCT IN ANOTHER MEMBER STATE AFTER REPACKAGING IT AND RE-AFFIXING THE PROPRIETOR ' S TRADE-MARK TO THE NEW PACKET.
- 2 THE PRODUCT IN QUESTION, VALIUM, IS MARKETED IN GERMANY BY HOFFMANN-LA ROCHE FOR INDIVIDUAL BUYERS IN PACKAGES OF 20 OR 50 TABLETS AND FOR HOSPITALS IN BATCHES OF FIVE PACKAGES CONTAINING 100 OR 250 TABLETS, WHILE THE BRITISH SUBSIDIARY OF THE HOFFMANN-LA ROCHE GROUP, WHICH MANUFACTURES THE SAME PRODUCT, MARKETS IT IN PACKAGES OF 100 OR 500

TABLETS AT CONSIDERABLY LOWER PRICES THAN THOSE OBTAINING IN GERMANY. CENTRAFARM MARKETED IN GERMANY VALIUM PURCHASED IN GREAT BRITAIN IN THE ORIGINAL PACKAGES WHICH IT PUT UP INTO NEW PACKAGES OF 1000 TABLETS, TO WHICH IT AFFIXED THE TRADE-MARK OF HOFFMANN-LA ROCHE TOGETHER WITH A NOTICE THAT THE PRODUCT HAD BEEN MARKETED BY CENTRAFARM. CENTRAFARM ALSO GAVE NOTICE OF ITS INTENTION TO REPACK THE TABLETS INTO SMALLER PACKAGES INTENDED FOR SALE TO INDIVIDUALS.

- 3 IN ITS ORDER MAKING THE REFERENCE THE LANDGERICHT HELD, IN ACCORDANCE WITH AN OPINION EXPRESSED BY THE SUPERIOR COURT IN A PREVIOUS PROCEDURAL STAGE OF THE SAME CASE, THAT WHAT CENTRAFARM HAS DONE CONSTITUTES AN INFRINGEMENT OF THE RIGHTS OF HOFFMANN-LA ROCHE ACCORDING TO THE GERMAN LAW ON TRADE-MARKS.
- 4 THE QUESTION WHETHER THE LAWS OF THE OTHER MEMBER STATES IN THE MATTER ARE THE SAME HAS BEEN DISCUSSED BEFORE THE COURT BUT HAS NOT RECEIVED A CLEAR ANSWER.

THE FIRST QUESTION

- 5 THE FIRST QUESTION IS WORDED AS FOLLOWS:

“IS THE PERSON ENTITLED TO A TRADE-MARK RIGHT PROTECTED FOR HIS BENEFIT BOTH IN MEMBER STATE A AND IN MEMBER STATE B EMPOWERED UNDER ARTICLE 36 OF THE EEC TREATY, IN RELIANCE ON THIS RIGHT, TO PREVENT A PARALLEL IMPORTER FROM BUYING FROM THE PROPRIETOR OF THE MARK OR WITH HIS CONSENT IN MEMBER STATE A OF THE COMMUNITY MEDICINAL PREPARATIONS WHICH HAVE BEEN PUT ON THE MARKET WITH HIS TRADE-MARK LAWFULLY AFFIXED THERETO AND PACKAGED UNDER THIS TRADE-MARK, FROM PROVIDING THEM WITH NEW PACKAGING, AFFIXING TO SUCH PACKAGING THE PROPRIETOR ' S TRADE-MARK AND IMPORTING THE PREPARATIONS DISTINGUISHED IN THIS MANNER INTO MEMBER STATE B?”

- 6 AS A RESULT OF THE PROVISIONS IN THE TREATY RELATING TO THE FREE MOVEMENT OF GOODS, AND IN PARTICULAR ARTICLE 30, QUANTITATIVE RESTRICTIONS ON IMPORTS AND ALL MEASURES HAVING EQUIVALENT EFFECT ARE PROHIBITED BETWEEN MEMBER STATES. PURSUANT TO ARTICLE 36 THOSE PROVISIONS NEVERTHELESS DO NOT PRECLUDE PROHIBITIONS OR RESTRICTIONS ON IMPORTS JUSTIFIED ON GROUNDS OF THE PROTECTION OF INDUSTRIAL AND COMMERCIAL PROPERTY. HOWEVER, IT IS CLEAR FROM THAT SAME ARTICLE, IN PARTICULAR ITS SECOND SENTENCE, AS WELL AS FROM THE CONTEXT, THAT WHILST THE TREATY DOES NOT AFFECT THE EXISTENCE OF RIGHTS RECOGNIZED BY THE LAWS OF A MEMBER STATE IN MATTERS OF INDUSTRIAL AND COMMERCIAL PROPERTY, YET THE EXERCISE OF THOSE RIGHTS MAY NEVERTHELESS, DEPENDING ON THE CIRCUMSTANCES, BE RESTRICTED BY THE PROHIBITIONS CONTAINED IN THE TREATY. INASMUCH AS IT CREATES AN EXCEPTION TO ONE OF THE FUNDAMENTAL PRINCIPLES OF THE COMMON MARKET, ARTICLE 36 IN FACT ADMITS OF DEROGATIONS FROM THE FREE MOVEMENT OF GOODS ONLY TO THE EXTENT TO WHICH SUCH EXCEPTIONS ARE JUSTIFIED FOR THE PURPOSE OF SAFEGUARDING THE RIGHTS WHICH CONSTITUTE THE SPECIFIC SUBJECT-MATTER OF THAT PROPERTY.
- 7 IN RELATION TO TRADE-MARKS, THE SPECIFIC SUBJECT-MATTER IS IN PARTICULAR TO GUARANTEE TO THE PROPRIETOR OF THE TRADE-MARK THAT HE HAS THE EXCLUSIVE RIGHT TO USE THAT TRADE-MARK FOR THE PURPOSE OF PUTTING A PRODUCT INTO CIRCULATION FOR THE FIRST TIME AND THEREFORE TO PROTECT HIM AGAINST COMPETITORS WISHING TO TAKE ADVANTAGE OF THE STATUS AND REPUTATION OF THE TRADE-MARK BY SELLING PRODUCTS ILLEGALLY BEARING THAT TRADE-MARK. IN ORDER TO ANSWER THE QUESTION WHETHER THAT EXCLUSIVE RIGHT INVOLVES THE RIGHT TO PREVENT THE TRADE-MARK BEING AFFIXED BY A THIRD PERSON AFTER THE PRODUCT HAS BEEN REPACKAGED, REGARD MUST BE HAD TO THE ESSENTIAL

FUNCTION OF THE TRADE-MARK, WHICH IS TO GUARANTEE THE IDENTITY OF THE ORIGIN OF THE TRADE-MARKED PRODUCT TO THE CONSUMER OR ULTIMATE USER, BY ENABLING HIM WITHOUT ANY POSSIBILITY OF CONFUSION TO DISTINGUISH THAT PRODUCT FROM PRODUCTS WHICH HAVE ANOTHER ORIGIN. THIS GUARANTEE OF ORIGIN MEANS THAT THE CONSUMER OR ULTIMATE USER CAN BE CERTAIN THAT A TRADE-MARKED PRODUCT WHICH IS SOLD TO HIM HAS NOT BEEN SUBJECT AT A PREVIOUS STAGE OF MARKETING TO INTERFERENCE BY A THIRD PERSON, WITHOUT THE AUTHORIZATION OF THE PROPRIETOR OF THE TRADE-MARK, SUCH AS TO AFFECT THE ORIGINAL CONDITION OF THE PRODUCT. THE RIGHT ATTRIBUTED TO THE PROPRIETOR OF PREVENTING ANY USE OF THE TRADE-MARK WHICH IS LIKELY TO IMPAIR THE GUARANTEE OF ORIGIN SO UNDERSTOOD IS THEREFORE PART OF THE SPECIFIC SUBJECT-MATTER OF THE TRADE-MARK RIGHT.

- 8 IT IS ACCORDINGLY JUSTIFIED UNDER THE FIRST SENTENCE OF ARTICLE 36 TO RECOGNIZE THAT THE PROPRIETOR OF A TRADE-MARK IS ENTITLED TO PREVENT AN IMPORTER OF A TRADE-MARKED PRODUCT, FOLLOWING REPACKAGING OF THAT PRODUCT, FROM AFFIXING THE TRADE-MARK TO THE NEW PACKAGING WITHOUT THE AUTHORIZATION OF THE PROPRIETOR.
- 9 IT IS, HOWEVER, NECESSARY TO CONSIDER WHETHER THE EXERCISE OF SUCH A RIGHT MAY CONSTITUTE A ' DISGUISED RESTRICTION ON TRADE BETWEEN MEMBER STATES ' WITHIN THE MEANING OF THE SECOND SENTENCE OF ARTICLE 36. SUCH A RESTRICTION MIGHT ARISE, INTER ALIA, FROM THE PROPRIETOR OF THE TRADE-MARK PUTTING ONTO THE MARKET IN VARIOUS MEMBER STATES AN IDENTICAL PRODUCT IN VARIOUS PACKAGES WHILE AVAILING HIMSELF OF THE RIGHTS INHERENT IN THE TRADE-MARK TO PREVENT REPACKAGING BY A THIRD PERSON EVEN IF IT WERE DONE IN SUCH A WAY THAT THE IDENTITY OF ORIGIN OF THE TRADE-MARKED PRODUCT AND ITS ORIGINAL CONDITION COULD NOT BE AFFECTED. THE QUESTION, THEREFORE, IN THE PRESENT CASE IS WHETHER THE REPACKAGING OF A TRADE-MARKED PRODUCT SUCH AS THAT UNDERTAKEN BY CENTRAFARM IS CAPABLE OF AFFECTING THE ORIGINAL CONDITION OF THE PRODUCT.
- 10 IN THIS RESPECT THE ANSWER MUST VARY ACCORDING TO THE CIRCUMSTANCES AND IN PARTICULAR ACCORDING TO THE NATURE OF THE PRODUCT AND THE METHOD OF REPACKAGING. DEPENDING ON THE NATURE OF THE PRODUCT REPACKAGING IN MANY CASES INEVITABLY AFFECTS ITS CONDITION, WHILE IN OTHERS REPACKAGING INVOLVES A MORE OR LESS OBVIOUS RISK THAT THE PRODUCT MIGHT BE INTERFERED WITH OR ITS ORIGINAL CONDITION OTHERWISE AFFECTED. NEVERTHELESS, IT IS POSSIBLE TO CONCEIVE OF THE REPACKAGING BEING UNDERTAKEN IN SUCH A WAY THAT THE ORIGINAL CONDITION OF THE PRODUCT CANNOT BE AFFECTED. THIS MAY BE SO WHERE, FOR EXAMPLE, THE PROPRIETOR OF THE TRADE-MARK HAS MARKETED THE PRODUCT IN A DOUBLE PACKAGING AND THE REPACKAGING AFFECTS ONLY THE EXTERNAL PACKAGING, LEAVING THE INTERNAL PACKAGING INTACT, OR WHERE THE REPACKAGING IS INSPECTED BY A PUBLIC AUTHORITY FOR THE PURPOSE OF ENSURING THAT THE PRODUCT IS NOT ADVERSELY AFFECTED. WHERE THE ESSENTIAL FUNCTION OF THE TRADE-MARK TO GUARANTEE THE ORIGIN OF THE PRODUCT IS THUS PROTECTED, THE EXERCISE OF HIS RIGHTS BY THE PROPRIETOR OF THE TRADE-MARK IN ORDER TO FETTER THE FREE MOVEMENT OF GOODS BETWEEN MEMBER STATES MAY CONSTITUTE A DISGUISED RESTRICTION WITHIN THE MEANING OF THE SECOND SENTENCE OF ARTICLE 36 OF THE TREATY IF IT IS ESTABLISHED THAT THE USE OF THE TRADE-MARK RIGHT BY THE PROPRIETOR, HAVING REGARD TO THE MARKETING SYSTEM WHICH HE HAS ADOPTED, WILL CONTRIBUTE TO THE ARTIFICIAL PARTITIONING OF THE MARKETS BETWEEN MEMBER STATES.
- 11 ALTHOUGH THIS CONCLUSION IS UNAVOIDABLE IN THE INTERESTS OF FREEDOM OF TRADE, IT AMOUNTS TO GIVING THE TRADER, WHO SELLS THE IMPORTED PRODUCT WITH THE TRADE-MARK AFFIXED TO THE NEW PACKAGING WITHOUT THE AUTHORIZATION OF THE PROPRIETOR, A CERTAIN LICENCE WHICH IN NORMAL

CIRCUMSTANCES IS RESERVED TO THE PROPRIETOR HIMSELF. IN THE INTERESTS OF THE PROPRIETOR AS TRADE-MARK OWNER AND TO PROTECT HIM AGAINST ANY ABUSE IT IS THEREFORE RIGHT TO ALLOW SUCH LICENCE ONLY WHERE IT IS SHOWN THAT THE REPACKAGING CANNOT ADVERSELY AFFECT THE ORIGINAL CONDITION OF THE PRODUCT.

- 12 SINCE IT IS IN THE PROPRIETOR ' S INTEREST THAT THE CONSUMER SHOULD NOT BE MISLED AS TO THE ORIGIN OF THE PRODUCT, IT IS MOREOVER RIGHT TO ALLOW THE TRADER TO SELL THE IMPORTED PRODUCT WITH THE TRADE-MARK AFFIXED TO THE NEW PACKAGING ONLY ON CONDITION THAT HE GIVES THE PROPRIETOR OF THE MARK PRIOR NOTICE AND THAT HE STATES ON THE NEW PACKAGING THAT THE PRODUCT HAS BEEN REPACKAGED BY HIM.
- 13 IT FOLLOWS FROM WHAT HAS BEEN STATED ABOVE THAT, SUBJECT TO CONSIDERATION OF THE FACTS OF A PARTICULAR CASE, IT IS IRRELEVANT IN ANSWERING THE LEGAL QUESTION RAISED REGARDING THE SUBSTANCE OF TRADE-MARK LAW THAT THE QUESTION REFERRED BY THE NATIONAL COURT IS EXCLUSIVELY CONCERNED WITH MEDICINAL PRODUCTS.
- 14 THE FIRST QUESTION MUST THEREFORE BE ANSWERED TO THE EFFECT THAT:
- (A) THE PROPRIETOR OF A TRADE-MARK RIGHT WHICH IS PROTECTED IN TWO MEMBER STATES AT THE SAME TIME IS JUSTIFIED PURSUANT TO THE FIRST SENTENCE OF ARTICLE 36 OF THE EEC TREATY IN PREVENTING A PRODUCT TO WHICH THE TRADE-MARK HAS LAWFULLY BEEN APPLIED IN ONE OF THOSE STATES FROM BEING MARKETED IN THE OTHER MEMBER STATE AFTER IT HAS BEEN REPACKED IN NEW PACKAGING TO WHICH THE TRADE-MARK HAS BEEN AFFIXED BY A THIRD PARTY.
- (B) HOWEVER, SUCH PREVENTION OF MARKETING CONSTITUTES A DISGUISED RESTRICTION ON TRADE BETWEEN MEMBER STATES WITHIN THE MEANING OF THE SECOND SENTENCE OF ARTICLE 36 WHERE:
- IT IS ESTABLISHED THAT THE USE OF THE TRADE-MARK RIGHT BY THE PROPRIETOR, HAVING REGARD TO THE MARKETING SYSTEM WHICH HE HAS ADOPTED, WILL CONTRIBUTE TO THE ARTIFICIAL PARTITIONING OF THE MARKETS BETWEEN MEMBER STATES;
 - IT IS SHOWN THAT THE REPACKAGING CANNOT ADVERSELY AFFECT THE ORIGINAL CONDITION OF THE PRODUCT;
 - THE PROPRIETOR OF THE MARK RECEIVES PRIOR NOTICE OF THE MARKETING OF THE REPACKAGED PRODUCT; AND
 - IT IS STATED ON THE NEW PACKAGING BY WHOM THE PRODUCT HAS BEEN REPACKAGED.

THE SECOND QUESTION

- 15 THE SECOND QUESTION IS WORDED AS FOLLOWS:

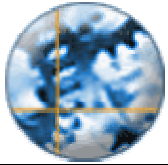
“IS THE PROPRIETOR OF THE TRADE-MARK ENTITLED TO DO THIS OR DOES HE THEREBY INFRINGE PROVISIONS OF THE EEC TREATY - IN PARTICULAR THOSE CONTAINED IN ARTICLE 86 THEREOF - EVEN IF HE ACQUIRES A DOMINANT POSITION WITHIN THE MARKET IN MEMBER STATE B WITH REGARD TO THE MEDICINAL PREPARATION IN QUESTION, WHEN PROHIBITION ON IMPORTS OF A REPACKED PRODUCT TO WHICH THE PROPRIETOR ' S TRADE-MARK HAS BEEN AFFIXED HAS IN ACTUAL FACT A RESTRICTIVE EFFECT ON THE MARKET, BECAUSE DIFFERENT SIZES OF PACKAGES ARE USED IN COUNTRIES A AND B AND BECAUSE THE IMPORTATION OF THE PRODUCT IN ANOTHER MANNER HAS NOT YET IN FACT MADE ANY APPRECIABLE PROGRESS ON THE MARKET, AND WHEN THE ACTUAL EFFECT OF THE PROHIBITION IS THAT BETWEEN THE MEMBER STATES THERE IS MAINTAINED A SUBSTANTIAL - IN CERTAIN CIRCUMSTANCES DISPROPORTIONATE - PRICE DIFFERENTIAL, WITHOUT ITS BEING POSSIBLE TO PROVE

THAT THE OWNER OF THE MARK IS USING THE PROHIBITION SOLELY OR MAINLY TO MAINTAIN THIS PRICE DIFFERENTIAL?"

- 16 IT IS SUFFICIENT TO OBSERVE THAT TO THE EXTENT TO WHICH THE EXERCISE OF A TRADE- MARK RIGHT IS LAWFUL IN ACCORDANCE WITH THE PROVISIONS OF ARTICLE 36 OF THE TREATY, SUCH EXERCISE IS NOT CONTRARY TO ARTICLE 86 OF THE TREATY ON THE SOLE GROUND THAT IT IS THE ACT OF AN UNDERTAKING OCCUPYING A DOMINANT POSITION ON THE MARKET IF THE TRADE-MARK RIGHT HAS NOT BEEN USED AS AN INSTRUMENT FOR THE ABUSE OF SUCH A POSITION.

[...]

5.2.5 Case 1/81: Pfizer



NOTE AND QUESTIONS

1. What is the economic meaning of a guarantee of origin of a product? How is this connected with packaging and re-packaging of products?
2. Which marketing activities are essential in maintaining a brand name?
3. Do you agree with the Advocate General that in order to establish that there is a restriction on trade under the second sentence of Art. 30 (ex Art. 36) TEC it is sufficient that the exercise of the trademark right should objectively be capable of partitioning the national markets, whatever the objective pursued by the owner might be?

Pfizer Inc. v Eurim-Pharm GmbH

Case 1/81

31 December 1981

Court of Justice

ECR [1981] 2913

<http://www.curia.eu.int/en/content/juris/index.htm>

Summary of the facts and procedure

The facts of the case, the course of the procedure and the observations submitted in accordance with Article 20 of the Protocol on the Statute of the Court of Justice of the EEC may be summarized as follows:

1. The plaintiff in the main proceedings, Pfizer Inc., is a major American manufacturer of pharmaceutical products, with subsidiaries in most of the Member States of the Community, in particular the Federal Republic of Germany and the United Kingdom. It produces inter alia a wide-spectrum antibiotic marketed under the name "Vibramycin". In the Federal Republic of Germany the present company is the proprietor of that trade-mark and the trade-mark "Pfizer", both of which are entered in its name on the German trade-mark register.

The German subsidiary of the plaintiff, Pfizer GmbH, sells the antibiotic "Vibramycin" in packages which reflect the practice of German doctors in prescribing medicaments, namely in packs of eight, sixteen and forty capsules and also a pack of one hundred capsules intended for clinics.

The defendant in the main proceedings, Eurim-Pharm GmbH, imports pharmaceutical products into the Federal Republic of Germany from other Member States of the Community. It imports the antibiotic "Vibramycin" from Pfizer Ltd., the plaintiff's subsidiary in the United Kingdom, for marketing in the Federal Republic of Germany after re-packaging.

In Great Britain the product is distributed in packs of ten and fifty capsules, sealed in groups of five in blister strips. The words "Vibramycin" and "Pfizer" appear on the sheet incorporated in the back of the strip.

In order to conform to German rules and practices, the defendant re-packages the blister strips of five capsules in folding boxes designed by it, without changing the strip or its contents. On the front side, the box has an opening with a transparent covering which enables the word "Vibramycin" and, in small letters, the word "Pfizer", which appear on the backing sheet of the strip to be clearly seen; the following words are placed on the back of the box by the importer: "Wide-spectrum antibiotic; manufacturer: Pfizer Ltd., Sandwich, Kent, GB...; importer: Eurim-Pharm GmbH, wholesalers of pharmaceutical products, 8229 Piding; packaged by the importer: Eurim-Pharm GmbH, 8229 Piding...". A leaflet giving information about the medical preparation, in accordance with the requirements of German law, is inserted in the packaging.

2. The plaintiff in the main proceedings considers that the practice of re-packaging in that way constitutes an infringement of its rights in respect of the trade-mark "Vibramycin", of which it is the proprietor in the Federal Republic of Germany.

Initially, on 27 June 1979, it obtained an injunction from the Landgericht [Regional Court] Hamburg, confirmed by judgment of 10 August 1979, prohibiting the defendant, subject to the usual penalties, from re-packaging "Vibramycin" capsules produced by Pfizer company in a new wrapping, in such a manner that the trade-mark "Vibramycin" remains visible from the outside and, moreover, from marketing articles re-packaged in that way.

In its judgment of 10 August 1979 the Landgericht held that by marketing the product in the packaging designed by it the defendant was infringing the national trade-mark right of which the plaintiff was the proprietor. In fact, from the point of view of the public, the name "Vibramycin", visible on the blister strips through a transparent opening in the external packaging, appeared to be an integral part of the external packaging. That practice constituted an infringement of the trade-mark right within the meaning of paragraph 15 of the German trade-mark law ("Waren-Zeichengesetz"). That law refers not only to the object contained in the packaging but also to the unit constituted by that object and its packaging. The guarantee of origin, which is the essential function of a trade-mark, particularly in the field of pharmaceutical products, and constitutes part of the specific subject-matter of the trade-mark right recognized by Community law, relates to the whole item offered for sale bearing the trade-mark of the manufacturer. Furthermore, the fact that the trade-mark was affixed to the blister strip did not mean that the trade-mark right no longer subsisted as regards inclusion of the mark on the outer wrapping.

Moreover, the Landgericht considered that the plaintiff's reliance on national trade-mark law was not adverse to Community law. In fact, it may be seen from the judgments of the Court given on 23 May 1978 in Case 102/77 (Hoffmann-La Roche v Centrafarm [1978] ECR 1139) and on 10 October 1978 in Case 3/78 (Centrafarm v American Home Products [1978] ECR 1823) that the application of the concepts of "disguised restriction" and "arbitrary discrimination" within the meaning of the second sentence of Article 36 of the Treaty presupposes the existence of a subjective factor in the form of the proprietor's use of his trade-mark right for the purpose of hindering the free movement of goods within the Common Market and thus partitioning the national markets. The existence of such a factor must be demonstrated to the court of trial (cf. paragraph 23 of the decision in Case 3/78 cited above).

The defendant appealed and by judgment of 24 January 1980 the Hanseatische Oberlandesgericht [Hanseatic Higher Regional Court] reversed the judgment of the Landgericht and lifted the injunction.

In the statement of reasons on which its judgment was based, the Oberlandesgericht explicitly left open the question of infringement of the national trade-mark law, considering that the exercise of the trade-mark right in the case in point was excluded in any event by Articles 30 and 26 of the EEC Treaty. In fact, it was not open to the plaintiff to rely upon the first sentence of Article 36 of the Treaty because the exercise of the trade-mark right by its proprietor, having regard to the marketing system adopted by it, contributed to an artificial partitioning of the markets of the Member States, leading to a disguised restriction on importation within the meaning of the second sentence of Article 36. Such a restriction existed by virtue of the fact that the packaging of the pharmaceutical product intended for the British market was inappropriate for the German market because of the different practices of German doctors in prescribing medicinal products.

Moreover, the appellate court considered that the re-packaging carried out by the defendant did not detract from the specific subject-matter of the trade-mark right, namely its function by identifying the origin of the product. In this case, the re-packaging carried out by the defendant in fact caused the original packaging to be seen in the form of the blister strip bearing the trade-mark affixed by the manufacturer. It did not therefore have the appearance of simulation as to the origin of the product in question.

Furthermore, the Oberlandesgericht stated that it was of little importance whether the plaintiff intended in fact to partition the markets of the two Member States by putting different packagings of the medical preparation "Vibramycin" into circulation in the United Kingdom and the Federal Republic of Germany. On the contrary, it was sufficient to show that the measures whose effect is to partition the markets are attributable to the trade-mark proprietor and that they are of an arbitrary nature.

3. In the proceedings now pending before the Landgericht, the plaintiff stated that, in the pharmaceuticals sector, only the product together with its complete packaging accompanied by all the prescribed information may be regarded as a marketable product. By substituting a new packaging for the original packaging and the accompanying information provided by the original manufacturer, a new marketable product is created which must be designated as a trade-marked product if a trade-mark clearly appears on it. In this case, the defendant's expedient of allowing the trade-mark "Vibramycin" printed on the blister strip to appear through an opening in the new packaging constituted an "affixing" of the trade-mark within the meaning of the German law on trade-marks. The trade-mark proprietor's right to oppose any unauthorized affixing of the trade-mark on his product was part of the specific subject-matter of the trade-mark right and therefore justified an exception such as is provided for in the first sentence of Article 36 of the EEC Treaty.

Moreover, the conditions laid down in the second sentence of Article 36 of the Treaty were not met, since in this case there was no subjective factor attributable to the proprietor of the trade-mark associated with any means of imposing arbitrary discrimination or a disguised restriction. Any partitioning of the markets arose solely because of the differing practices of doctors in prescribing medicinal products in the United Kingdom and the Federal Republic of Germany.

The defendant in the main proceedings before the Landgericht contended that its practice of re-packaging did not encroach upon the plaintiff's national trade-mark right because it left untouched the trade-mark affixed by its proprietor to the product in question. Moreover, the specific subject-matter of the trade-mark right, referred to in the first sentence of Article 36 of the EEC Treaty, did not confer the power which the proprietor has under the national law to take action to stop the purchaser of a product lawfully bearing the mark from "showing" the mark after re-packaging the product.

On the other hand, for the reasons stated by the Hanseatische Oberlandesgericht, the plaintiff's exercise of his trade-mark right was incompatible with the second sentence of Article 36 of the EEC Treaty.

In the statement of the reasons on which the order making the reference is based, the Landgericht states that it adheres to the point of view expounded in the judgment of 10 August 1979 to the effect that the defendant is infringing the plaintiff's German trade-mark right. The national court is however of the opinion

that the plaintiff's exercise of its trade-mark right gives rise in the present case to a quantitative restriction on imports, which in principle is prohibited by Article 30 of the EEC Treaty. In that connection, it should be determined whether the defendant's exercise of its trade-mark right is admissible by virtue of the exception provided for in the first sentence of Article 36 of the EEC Treaty or whether such exercise constitutes a disguised restriction on trade between Member States prohibited by the second sentence of Article 36 of the Treaty.

Consequently, the national court referred the following preliminary questions to the Court of Justice:

"1. Is the proprietor of a trade-mark protected in his favour in Member State A entitled under Article 36 of the EEC Treaty, in reliance upon this right, to prevent an importer from buying from a subsidiary undertaking of the proprietor of the trade-mark medicinal preparations to which the proprietor's trade-mark has been lawfully affixed with his consent in Member State B of the Community and which have been placed on the market under that trade-mark, from re-packaging those products in accordance with the different practices of doctors in prescribing medicaments prevailing in Member State A and from placing those products on the market in Member State A in an outer packaging designed by the importer on the reverse side of which there is a transparent window through which is visible the label of the proprietor of the trade-mark which is on the reverse side of the blister strip directly surrounding the product?"

2. Is it sufficient, for the purpose of establishing that there is an unlawful restriction of trade as envisaged by the second sentence of Article 36 of the EEC Treaty, for the use of the national trade-mark right in connection with the marketing system adopted by the proprietor of the trade-mark objectively to lead to a partitioning of the markets between Member States, or is it necessary, on the contrary, for it to be shown that the proprietor of the trade-mark exercises his trade-mark right in connection with the marketing system which he employs with the ultimate objective of bringing about an artificial partitioning of the markets?"

Judgment:

[...]

FIRST QUESTION

- 6 IT SHOULD IN THE FIRST PLACE BE BORNE IN MIND THAT, ACCORDING TO THE CASE-LAW OF THE COURT, AS EVINCED IN PARTICULAR IN THE JUDGMENT OF 23 MAY 1978 (CASE 102/77 HOFFMANN-LA ROCHE V CENTRAFARM (1978) ECR 1139), ALTHOUGH THE TREATY DOES NOT AFFECT THE EXISTENCE OF THE RIGHTS RECOGNIZED BY THE LEGISLATION OF A MEMBER STATE IN THE FIELDS OF INDUSTRIAL AND COMMERCIAL PROPERTY, THE EXERCISE OF THOSE RIGHTS MAY NEVERTHELESS, DEPENDING ON THE CIRCUMSTANCES, BE SUBJECT TO THE PROHIBITIONS CONTAINED IN THE TREATY. INASMUCH AS IT CREATES AN EXCEPTION TO THE FUNDAMENTAL PRINCIPLE OF FREE MOVEMENT OF GOODS IN THE COMMON MARKET, ARTICLE 36 IN FACT PERMITS DEROGATIONS FROM THAT PRINCIPLE ONLY TO THE EXTENT TO WHICH THEY ARE JUSTIFIED FOR THE PURPOSE OF SAFEGUARDING THE RIGHTS WHICH CONSTITUTE THE SPECIFIC SUBJECT-MATTER OF THAT PROPERTY.
- 7 THE SPECIFIC SUBJECT-MATTER OF THE TRADE-MARK RIGHT IS IN PARTICULAR TO GUARANTEE TO THE PROPRIETOR THAT HE HAS THE EXCLUSIVE RIGHT TO USE THAT TRADE MARK FOR THE PURPOSE OF PUTTING A PRODUCT INTO CIRCULATION FOR THE FIRST TIME AND THEREFORE TO PROTECT HIM AGAINST COMPETITORS WISHING TO TAKE ADVANTAGE OF THE STATUS AND REPUTATION OF THE TRADE MARK BY SELLING PRODUCTS ILLEGALLY BEARING THAT TRADE MARK.
- 8 IN ORDER TO ANSWER THE QUESTION WHETHER THAT EXCLUSIVE RIGHT INVOLVES THE

RIGHT TO PREVENT THE TRADE MARK FROM BEING AFFIXED BY A THIRD PERSON AFTER THE PRODUCT HAS BEEN RE-PACKAGED, REGARD MUST BE HAD TO THE ESSENTIAL FUNCTION OF THE TRADE MARK, WHICH IS TO GUARANTEE THE IDENTITY OF THE ORIGIN OF THE TRADE-MARKED PRODUCT TO THE CONSUMER OR FINAL USER BY ENABLING HIM TO DISTINGUISH WITHOUT ANY POSSIBILITY OF CONFUSION BETWEEN THAT PRODUCT AND PRODUCTS WHICH HAVE ANOTHER ORIGIN. THIS GUARANTEE OF ORIGIN MEANS THAT THE CONSUMER OR FINAL USER MAY BE CERTAIN THAT A TRADE-MARKED PRODUCT WHICH IS OFFERED TO HIM HAS NOT BEEN SUBJECT AT A PREVIOUS STAGE IN THE MARKETING PROCESS TO INTERFERENCE BY A THIRD PERSON, WITHOUT THE AUTHORIZATION OF THE PROPRIETOR OF THE TRADE MARK, AFFECTING THE ORIGINAL CONDITION OF THE PRODUCT.

- 9 IN CONSEQUENCE, THE RIGHT ATTRIBUTED TO THE PROPRIETOR OF THE TRADE MARK ENABLING HIM TO PREVENT ANY USE THEREOF WHICH IS LIKELY TO IMPAIR THE GUARANTEE OF ORIGIN AS DEFINED ABOVE, IS THEREFORE PART OF THE SPECIFIC SUBJECT-MATTER OF THE TRADE-MARK RIGHT.
- 10 NO USE OF THE TRADE MARK IN A MANNER LIABLE TO IMPAIR THE GUARANTEE OF ORIGIN TAKES PLACE IN A CASE SUCH AS THE ONE IN POINT WHERE, ACCORDING TO THE FINDINGS OF THE NATIONAL COURT AND THE TERMS OF THE QUESTION SUBMITTED BY IT, A PARALLEL IMPORTER HAS RE-PACKAGED A PHARMACEUTICAL PRODUCT MERELY BY REPLACING THE OUTER WRAPPING WITHOUT TOUCHING THE INTERNAL PACKAGING AND BY MAKING THE TRADE MARK AFFIXED BY THE MANUFACTURER ON THE INTERNAL PACKAGING VISIBLE THROUGH THE NEW EXTERNAL WRAPPING.
- 11 IN SUCH CIRCUMSTANCES THE RE-PACKAGING IN FACT INVOLVES NO RISK OF EXPOSING THE PRODUCT TO INTERFERENCE OR INFLUENCES WHICH MIGHT AFFECT ITS ORIGINAL CONDITION AND THE CONSUMER OR FINAL USER OF THE PRODUCT IS NOT LIABLE TO BE MISLED AS TO THE ORIGIN OF THE PRODUCT, ABOVE ALL WHERE, AS IN THIS CASE, THE PARALLEL IMPORTER HAS CLEARLY INDICATED ON THE EXTERNAL WRAPPING THAT THE PRODUCT WAS MANUFACTURED BY A SUBSIDIARY OF THE PROPRIETOR OF THE TRADE MARK AND HAS BEEN RE-PACKAGED BY THE IMPORTER.
- 12 THE FACT THAT THE PARALLEL IMPORTER INSERTED IN THE EXTERNAL PACKAGING A LEAFLET CONTAINING INFORMATION RELATING TO THE MEDICINAL PRODUCT - A FACT WHICH IS NOT EVEN MENTIONED IN THE QUESTION SUBMITTED - DOES NOT AFFECT THIS CONCLUSION.
- 13 THE ANSWER TO THE FIRST QUESTION SHOULD THEREFORE BE THAT ARTICLE 36 OF THE TREATY MUST BE INTERPRETED AS MEANING THAT THE PROPRIETOR OF A TRADE-MARK RIGHT MAY NOT RELY ON THAT RIGHT IN ORDER TO PREVENT AN IMPORTER FROM MARKETING A PHARMACEUTICAL PRODUCT MANUFACTURED IN ANOTHER MEMBER STATE BY THE SUBSIDIARY OF THE PROPRIETOR AND BEARING THE LATTER 'S TRADE MARK WITH HIS CONSENT, WHERE THE IMPORTER, IN RE-PACKAGING THE PRODUCT, CONFINED HIMSELF TO REPLACING THE EXTERNAL WRAPPING WITHOUT TOUCHING THE INTERNAL PACKAGING AND MADE THE TRADE MARK AFFIXED BY THE MANUFACTURER TO THE INTERNAL PACKAGING VISIBLE THROUGH THE NEW EXTERNAL WRAPPING, AT THE SAME TIME CLEARLY INDICATING ON THE EXTERNAL WRAPPING THAT THE PRODUCT IS MANUFACTURED BY THE SUBSIDIARY OF THE PROPRIETOR AND RE-PACKAGED BY THE IMPORTER.

SECOND QUESTION

- 14 AS A RESULT OF THE ANSWER GIVEN TO THE FIRST QUESTION AN ANSWER TO THE SECOND QUESTION IS NO LONGER NECESSARY TO ENABLE THE NATIONAL COURT TO DECIDE THE CASE BEFORE IT.

[...]

5.2.6 Case C-349/95: Loendersloot v. Ballantine&Sons

Frits Loendersloot v George Ballantine & Son and Others

Case C-349/95

11 November 1997

Court of Justice

ECR [1997] I-6227

<http://www.curia.eu.int/en/content/juris/index.htm>

- 1 By judgment of 3 November 1995, received at the Court on 13 November 1995, the Hoge Raad der Nederlanden (Supreme Court of the Netherlands) referred to the Court for a preliminary ruling under Article 177 of the EC Treaty four questions on the interpretation of Article 36 of that Treaty.
- 2 Those questions were raised in proceedings between Frits Loendersloot, residing in the Netherlands, trading as F. Loendersloot Internationale Expeditie (hereinafter 'Loendersloot'), and George Ballantine & Son Ltd and 14 other companies established in Scotland or England (hereinafter 'Ballantine and others').
- 3 Ballantine and others produce and market alcoholic drinks, particularly whisky. Their products enjoy a high reputation and are sold in almost all countries of the world.
- 4 Those drinks are marketed in bottles to which the manufacturers affix labels bearing their respective trade marks. Those marks also appear on the packaging of the bottles. In addition, Ballantine and others place identification numbers both on the labels or elsewhere on the bottles and on the packaging.
- 5 Loendersloot is a transport and warehousing firm. Its customers include traders who engage in 'parallel' trade. They buy the products of Ballantine and others in countries where prices are relatively low, and resell them in countries where prices are higher.
- 6 In 1990 Ballantine and others brought proceedings against Loendersloot in the Arrondissementsrechtbank (District Court) Breda seeking an order restraining Loendersloot from doing certain actions which infringed their trade mark rights or were otherwise unlawful, in particular:
 - removing the labels bearing their trade marks and reapplying them by reaffixing the original labels or replacing them with copies,
 - removing the identification numbers on or underneath the original labels and on the packaging of the bottles,
 - removing the English word 'pure' and the name of the importer approved by Ballantine and others from the original labels, and in certain cases replacing that name by the name of another person, and
 - exporting the products thus treated to traders in France, Spain, England, the United States and Japan.
- 7 Loendersloot argued that even if it had carried out those actions, they did not constitute infringements of trade mark rights, nor were they unlawful on other grounds. It submitted in particular that the actions were necessary to allow parallel trade in the products in question on

certain markets.

- 8 The Arrondissementsrechtbank held that the removal of the identification numbers constituted an unlawful act for reasons not connected with trade mark rights, and prohibited Loendersloot from removing them from the bottles and packaging and from exporting the products thus treated. It also found that removing the trade marks from the bottles and packaging and reapplying them constituted infringements of trade mark rights, and therefore ordered Ballantine and others to produce evidence of the trade mark rights they claimed.
- 9 Loendersloot appealed against that judgment to the Gerechtshof (Regional Court)'s-Hertogenbosch. Ballantine and others cross-appealed.
- 10 The Gerechtshof set aside the judgment of the Arrondissementsrechtbank in so far as it prohibited the removal of the identification numbers and the export of the products in question. With respect to the alleged infringements of trade mark rights, however, the Gerechtshof held that the Arrondissementsrechtbank had rightly concluded that the removal and reapplication of a trade mark by a third party constituted an unlawful use of that mark. It rejected Loendersloot's argument that Articles 30 and 36 of the EC Treaty precluded the court from ordering the injunctive relief sought by Ballantine and others, on the ground that the exclusive right of a trade mark owner to affix that mark formed part of the specific subject-matter of trade marks.
- 11 Loendersloot appealed on a point of law to the Hoge Raad, and Ballantine and others cross-appealed. Loendersloot argued in particular that the possibility for the owner of a trade mark, under his national legislation, to prevent a third party from removing and reapplying his mark did not form part of the specific subject-matter of trade mark rights, and that Ballantine and others were using their trade mark rights in order to be able to maintain a system of identification numbers whose sole purpose was to combat parallel trade by means incompatible with Community law.
- 12 Ballantine and others argued that the exclusive right they relied on formed part of the specific subject-matter of trade mark rights, and that the identification numbers pursued only legitimate interests such as the recall of defective products and the need to combat counterfeiting.
- 13 In the judgment making the order for reference, the Hoge Raad held that the removal and reapplication of a trade mark by a third party without the consent of the trade mark owner were prohibited by the relevant national law. Since it considered that it could not rule on the arguments relating to Article 36 of the Treaty without first making a reference to the Court of Justice, the Hoge Raad stayed the proceedings and referred the following questions to the Court for a preliminary ruling:

1. Is the specific subject-matter of the rights attaching to a trade mark to be regarded as including the possibility afforded to the proprietor of a trade mark under national law to oppose, with regard to alcoholic drinks manufactured by him, the removal by a third party of labels affixed by the proprietor on bottles and on the packaging containing them, and bearing his mark, after the drinks have been placed by him on the Community market in that packaging, and the subsequent reapplication of those labels by that third party or their replacement by similar labels, without thereby in any way damaging the original condition of the product?

2. In so far as the labels are replaced by other similar labels, is the position different where the third party omits the indication "pure" appearing on the original labels and/or, as the case may be, replaces the importer's name with another name?

3. If Question 1 falls to be answered in the affirmative, but the proprietor of the trade mark avails himself of the possibility referred to in that question in order to prevent the third party from removing the identification marks which the trade mark proprietor has affixed on or underneath the labels in order to enable the trade mark proprietor to detect shortfalls within his sales organization and thus to combat parallel trade in his products, must such an exercise of the trade mark right be regarded as a "disguised restriction on trade between Member States" aimed at achieving an artificial compartmentalization of the markets?

4. To what extent is the answer to Question 3 affected where the trade mark proprietor has affixed those identification marks either pursuant to a legal obligation or voluntarily, but in any event with a

view to making a "product recall" possible and/or in order to limit his product liability and/or to combat counterfeiting, or, as the case may be, solely in order to combat parallel trade?'

Preliminary remarks

- 14 The national court put its questions on the basis of the following three premisses:
 - the removal and reapplication or replacement of the trade marks of Ballantine and others constitute infringements of their trade mark rights under national law;
 - the injunctive relief sought by Ballantine and others create barriers to the free movement of goods between Member States, which are contrary in principle to the relevant provisions of the Treaty, and
 - such barriers may be permitted under Article 36 of the Treaty if they are justified for reasons of the protection of industrial and commercial property, provided that they constitute neither an arbitrary means of discrimination nor a disguised restriction on trade between Member States.
- 15 As to the second premiss, Ballantine and others deny that the injunctive relief sought constitutes barriers to intra-Community trade, since there is nothing to prevent Loendersloot from exporting the products in question in their original condition to other Member States.
- 16 On this point, as the Advocate General has observed in point 25 of his Opinion, there is no reason to question the national court's assessment that prohibitory measures such as those sought by Ballantine and others constitute barriers to the free movement of goods between Member States laid down by Articles 30 and 34 of the EC Treaty.
- 17 As to the third premiss, it has been suggested that the national court's questions should be answered within the framework not of Article 36 of the Treaty but of First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks (OJ 1989 L 40, p. 1), which was to be transposed into the national laws of the Member States by 31 December 1992 at the latest.
- 18 On this point, it suffices to note that it is for the national court to determine whether, from the point of view of the national rules applicable to orders such as those sought in the main proceedings, the dispute before it is to be resolved on the basis of Article 36 of the Treaty or of Directive 89/104, Article 7 of which regulates the question of exhaustion of trade mark rights in relation to goods which have been put on the market in the Community. However, Article 7 of that directive, like Article 36 of the Treaty, is intended to reconcile the fundamental interest in protecting trade mark rights with the fundamental interest in the free movement of goods within the common market, so that those two provisions, which aim to achieve the same result, must be interpreted in the same way (Joined Cases C-427/93, C-429/93 and C-436/93 Bristol-Myers Squibb and Others v Paranova [1996] ECR I-3457, paragraph 40; Joined Cases C-71/94, C-72/94 and C-73/94 Eurim-Pharm v Beiersdorf and Others [1996] ECR I-3603, paragraph 27, and Case C-232/94 MPA Pharma v Rhône-Poulenc Pharma [1996] ECR I-3671, paragraph 13).

The questions

- 19 By its four questions, which should be considered together, the national court essentially asks whether Article 36 of the Treaty is to be interpreted as meaning that the owner of trade mark rights may, even if that constitutes a barrier to intra-Community trade, rely on those rights to prevent a third party from removing and then reaffixing or replacing labels bearing the mark which the owner has himself affixed to products he has put on the Community market, where the original condition of the products is not affected.
- 20 The questions concern more particularly situations where the relabelling is done for the purpose of
 - removing the identification numbers placed by the trade mark owner on or underneath the labels and on the packaging of the bottles, and
 - removing the English word 'pure' and the name of the approved importer from the labels, and in certain cases replacing that name with the name of another person.

With respect to the first situation, the Court is asked to rule on whether it is significant, first, that the trade mark owner makes use of his rights in order to prevent a third party from removing the identification numbers which enable him to detect weaknesses in his sales organization and so combat parallel trade and, second, that the identification numbers have other purposes, such as complying with a legal obligation, making it possible to recall the product, limiting the manufacturer's liability or combating counterfeiting.

The case-law of the Court

- 21 In answering those questions, it should be noted that, according to the Court's case-law, Article 36 allows derogations from the fundamental principle of the free movement of goods within the common market only in so far as such derogations are justified in order to safeguard the rights which constitute the specific subject-matter of the industrial and commercial property in question.
- 22 With respect to trade mark rights, the Court has held that they constitute an essential element in the system of undistorted competition which the Treaty is intended to establish. In such a system, undertakings must be able to attract and retain customers by the quality of their products or services, which is made possible only by distinctive signs allowing them to be identified. For the trade mark to be able to fulfil that function, it must constitute a guarantee that all products which bear it have been manufactured under the control of a single undertaking to which responsibility for their quality may be attributed (see, in particular, Case C-10/89 CNL-SUCAL v HAG GF (hereinafter 'HAG II') [1990] ECR I-3711, paragraph 13, and Bristol-Myers Squibb, cited above, paragraph 43). Consequently, the specific subject-matter of a trade mark is in particular to guarantee to the owner that he has the exclusive right to use that mark for the purpose of putting a product on the market for the first time and thus to protect him against competitors wishing to take unfair advantage of the status and reputation of the trade mark by selling products illegally bearing it (see, in particular, Case 102/77 Hoffmann-La Roche v Centrafarm [1978] ECR 1139, paragraph 7; HAG II, paragraph 14; and Bristol-Myers Squibb, paragraph 44).
- 23 It follows in particular that the owner of a trade mark protected by the legislation of a Member State cannot rely on that legislation in order to oppose the importation or marketing of a product which has been put on the market in another Member State by him or with his consent (see, in particular, Bristol-Myers Squibb, paragraph 45). Trade mark rights are not intended to allow their owners to partition national markets and thus assist the maintenance of price differences which may exist between Member States (see Bristol-Myers Squibb, paragraph 46).
- 24 With respect more particularly to the question whether a trade mark owner's exclusive right includes the power to oppose the use of the trade mark by a third party after the product has been repackaged, the Court has held that account must be taken of the essential function of the trade mark, which is to guarantee to the consumer or end user the identity of the trade-marked product's origin by enabling him to distinguish it without any risk of confusion from products of different origin. That guarantee of origin means that the consumer or end user can be certain that a trade-marked product offered to him has not been subject at a previous stage of marketing to interference by a third party, without the authorization of the trade mark owner, in such a way as to affect the original condition of the product (see, in particular, Hoffmann-La Roche, paragraph 7, and Bristol-Myers Squibb, paragraph 47).
- 25 The Court has thus held that the right conferred upon the trade mark owner to oppose any use of the trade mark which is liable to impair the guarantee of origin, as so understood, forms part of the specific subject-matter of the trade mark right, the protection of which may justify derogation from the fundamental principle of the free movement of goods (Hoffmann-La Roche, paragraph 7, Case 1/81 Pfizer v Eurim-Pharm [1981] ECR 2913, paragraph 9, and Bristol-Myers Squibb, paragraph 48).
- 26 Applying those principles in the context of disputes concerning the repackaging of pharmaceutical products for purposes of parallel trade, the Court has held that Article 36 of the Treaty must be interpreted as meaning that a trade mark owner may in principle legitimately oppose the further marketing of a pharmaceutical product where the importer has repackaged it and reaffixed the trade mark (see, in particular, Hoffmann-La Roche, paragraph 8, and, with respect to Article 7(2) of

Directive 89/104, Bristol-Myers Squibb, paragraph 50).

- 27 Contrary to Loendersloot's assertion, that case-law applies also to cases such as that in the main proceedings. The product bearing the trade mark has in the present case likewise been subject to interference by a third party, without the authorization of the trade mark owner, which is liable to impair the guarantee of origin provided by the trade mark.
- 28 It should be noted, however, that according to the case-law of the Court (see, in particular, Hoffmann-La Roche, paragraph 10, Case 3/78 Centrafarm v American Home Products [1978] ECR 1823, paragraphs 21 and 22, and Bristol-Myers Squibb, paragraphs 49 and 50) Article 36 does not permit the owner of the trade mark to oppose the reaffixing of the mark where such use of his trade mark rights contributes to the artificial partitioning of the markets between Member States and where the reaffixing takes place in such a way that the legitimate interests of the trade mark owner are observed. Protection of those legitimate interests means in particular that the original condition of the product inside the packaging must not be affected, and that the reaffixing is not done in such a way that it may damage the reputation of the trade mark and its owner.
- 29 It follows that under Article 36 of the Treaty the owner of trade mark rights may rely on those rights to prevent a third party from removing and then reaffixing or replacing labels bearing the trade mark, unless:
- it is established that the use of the trade mark rights by the owner to oppose the marketing of the relabelled products under that trade mark would contribute to the artificial partitioning of the markets between Member States;
 - it is shown that the repackaging cannot affect the original condition of the product, and
 - the presentation of the relabelled product is not such as to be liable to damage the reputation of the trade mark and its owner.
- 30 According to the Court's case-law a person who repackages pharmaceutical products is also required to inform the trade mark owner of the repackaging, to supply him, on demand, with a specimen of the repackaged product, and to state on the repackaged product the person responsible for the repackaging (see, in particular, Bristol-Myers Squibb).
- 31 The application of those conditions to circumstances such as those of the main proceedings must therefore be examined.
- 32 As to the original condition of the product, the wording of Question 1 indicates that in the national court's opinion the relabelling at issue in the main proceedings has no adverse effect upon it.
- 33 As to protection of the reputation of the trade mark, a third party who relabels the product must ensure that the reputation of the trade mark - and hence of its owner - does not suffer from an inappropriate presentation of the relabelled product (see, in particular, Bristol-Myers Squibb, paragraphs 75 and 76). To assess whether that is the case in the main proceedings, the national court must take into account in particular the interest of Ballantine and others in protecting the luxury image of their products and the considerable reputation they enjoy.
- 34 It appears from the case-file that the crux of the dispute is, in particular, application of the condition relative to the owner's use of the trade mark contributing to artificial partitioning of the markets between Member States.
- 35 On this point, the Court held in Bristol-Myers Squibb, paragraph 52, that use of trade mark rights by their owner in order to oppose the marketing under that trade mark of products repackaged by a third party would contribute to the partitioning of markets between Member States, in particular where the owner has placed an identical pharmaceutical product on the market in several Member States in various forms of packaging and the product may not, in the condition in which it has been marketed by the trade mark owner in one Member State, be imported and put on the market in another Member State by a parallel importer.
- 36 The Court went on to hold, in paragraphs 56 and 57 of that judgment, that the possibility for the owner of trade mark rights to oppose the marketing of repackaged products under his trade mark

should be limited only in so far as the repackaging undertaken by the importer is necessary in order to market the product in the Member State of importation. It need not be established, on the other hand, that the trade mark owner has deliberately sought to partition the markets between Member States.

- 37 In the main proceedings Loendersloot submits that the owner's use of trade mark rights to prevent it from carrying out the relabelling at issue contributes to artificial partitioning of the markets between Member States thereby maintaining price differences which are not justified by differences in real costs. It considers that the relabelling is necessary for two reasons. First, it is essential in order to make it possible to remove the identification numbers placed on the bottles by Ballantine and others, that being necessary to preserve the anonymity of the dealers engaged in parallel trade. Without that anonymity Loendersloot would be unable to obtain supplies from traders authorized by Ballantine and others, who fear the imposition of sanctions on them by the producers if they know the identity of the dealers engaged in parallel sales. Second, relabelling is necessary in order to make it possible to remove the word 'pure' or alter the references to the importer, so as to permit marketing in the country of destination.
- 38 It should be observed that the task of the national courts, who have to assess whether the relabelling is necessary in order to prevent artificial partitioning of the markets between Member States, is different in cases such as that in the main proceedings and cases concerning the repackaging of pharmaceutical products. In the latter the national courts must consider whether circumstances in the markets of their own States make repackaging objectively necessary. In the present case, on the other hand, the national court must assess whether the relabelling is necessary to protect the sources of supply of the parallel trade and to enable the products to be marketed on the various markets of the Member States for which they are intended.

Removal of the identification numbers

- 39 With respect to the removal and reaffixing or replacing of labels in order to remove the identification numbers, Ballantine and others observe that that removal is not necessary to enable the products in question to be marketed on the markets of the various Member States in accordance with the rules in force there.
- 40 It should be observed that, while that statement is correct, removal of the identification numbers might nevertheless prove necessary, as Loendersloot has observed, to prevent artificial partitioning of the markets between Member States caused by difficulties for persons involved in parallel trade in obtaining supplies from distributors of Ballantine and others for fear of sanctions being imposed by the producers in the event of sales to such persons. Even if, as Ballantine and others state, such conduct on the part of the producers would be in breach of the Treaty rules on competition, it cannot be excluded that identification numbers have been placed on products by producers to enable them to reconstruct the itinerary of their products, with the purpose of preventing their dealers from supplying persons carrying on parallel trade.
- 41 It must also be acknowledged, however, that for the producers application of identification numbers may be necessary to comply with a legal obligation, in particular under Council Directive 89/396/EEC of 14 June 1989 on indications or marks identifying the lot to which a foodstuff belongs (OJ 1989 L 186, p. 21), or to realise other important objectives which are legitimate from the point of view of Community law, such as the recall of faulty products and measures to combat counterfeiting.
- 42 In those circumstances, where identification numbers have been applied for purposes such as those mentioned in the preceding paragraph, the fact that an owner of trade mark rights makes use of those rights to prevent a third party from removing and then reapplying or replacing labels bearing his trade mark in order to eliminate those numbers does not contribute to artificial partitioning of the markets between Member States. In such situations there is no reason to limit the rights which the trade mark owner may rely on under Article 36 of the Treaty.
- 43 Where it is established that the identification numbers have been applied for purposes which are legitimate from the point of view of Community law, but are also used by the trade mark owner to enable him to detect weaknesses in his sales organization and thus combat parallel trade in his

products, it is under the Treaty provisions on competition that those engaged in parallel trade should seek protection against action of the latter type.

Removal of the word 'pure' and the importer's name on the labels

- 44 Loendersloot submits that the interest of its customers in removing the word 'pure' and the importer's name from the labels, and in certain cases substituting the parallel importer's name, is bound up with the provisions on labelling in force in the country of destination. By those actions Loendersloot merely makes the product marketable on the markets in question. Loendersloot observes here that some countries prohibit the use of the word 'pure' and that it may be necessary to remove the name of the official importer on the label or substitute for it the name of the parallel importer in order to comply with the rules of the country of destination of the product, even though those rules were harmonized in the Community by Council Directive 79/112/EEC of 18 December 1978 on the approximation of the laws of the Member States relating to the labelling, presentation and advertising of foodstuffs for sale to the ultimate consumer (OJ 1979 L 33, p. 1).
- 45 On this point, it must be stated that use by Ballantine and others of their trade mark rights to prevent relabelling for the purposes mentioned by Loendersloot would contribute to artificial partitioning of the markets between Member States if it were established that the use of the English word 'pure' and the name of the approved importer on the original labels would prevent the products in question from being marketed in the Member State of destination because it was contrary to the rules on labelling in force in that State. In such a situation, relabelling would be necessary for the product to be marketed in that State.
- 46 The person carrying out the relabelling must, however, use means which make parallel trade feasible while causing as little prejudice as possible to the specific subject-matter of the trade mark right. Thus if the statements on the original labels comply with the rules on labelling in force in the Member State of destination, but those rules require additional information to be given, it is not necessary to remove and reattach or replace the original labels, since the mere application to the bottles in question of a sticker with the additional information may suffice.

Other possible requirements

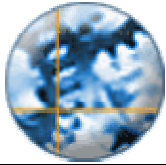
- 47 Finally, it is necessary to consider the other requirements of the Court's case-law as regards repackaging of pharmaceutical products and referred to in paragraph 30 above, namely that a person who repackages products must inform the trade mark owner of the repackaging, must supply him, on demand, with a specimen of the repackaged product, and must state on the repackaged product the person responsible for the repackaging. Ballantine and others submit that if, in cases such as that in the main proceedings, Community law limits their right in accordance with national rules on trade marks to oppose the reattachment of the trade marks, then those same conditions must apply. Loendersloot, on the other hand, considers that those conditions apply only to the repackaging of pharmaceutical products.
- 48 On this point, the Court has considered that the imposition of such conditions on the person carrying out repackaging is justified by the fact that the essential requirements of the free movement of goods mean that that person is recognized as having certain rights which, in normal circumstances, are reserved for the trade mark owner himself (see Bristol-Myers Squibb, paragraph 68). In formulating those conditions, account was taken of the legitimate interests of the trade mark owner with regard to the particular nature of pharmaceutical products.
- 49 However, in circumstances such as those in the main proceedings, having regard to the nature of the action of the person carrying out the relabelling, the interests of the trade mark owner, and in particular his need to combat counterfeiting, are given sufficient weight if that person gives him prior notice that the relabelled products are to be put on sale.
- 50 In the light of the foregoing, the answer to the national court's questions must be that Article 36 of the Treaty is to be interpreted as meaning that the owner of trade mark rights may, even if that constitutes a barrier to intra-Community trade, rely on those rights to prevent a third party from removing and then reattachment or replacing labels bearing the mark which the owner has himself affixed to products he has put on the Community market, unless:

- it is established that the use of the trade mark rights by the owner to oppose the marketing of the relabelled products under that trade mark would contribute to artificial partitioning of the markets between Member States;
- it is shown that the relabelling cannot affect the original condition of the product;
- the presentation of the relabelled product is not such as to be liable to damage the reputation of the trade mark and its owner; and
- the person who relabels the products informs the trade mark owner of the relabelling before the relabelled products are put on sale.

51 It is for the national court to assess whether those conditions are satisfied in the case before it, taking account of the considerations mentioned above.

[...]

5.2.7 Case C- 355/96: Silhouette



NOTE AND QUESTIONS

1. Weather the exhaustion of rights doctrine should remain limited to the Community market (and states of the European Economic Area) is an issue which has been raised for the first time in the Silhouette case. Do you agree with the decision and reasoning of the Court in this case?

The court has later reaffirmed and refined the scope of its ruling in Silhouette in Case C-173/98 Sebago and Maison Dubois [1999] ECR I-4103; Joined Cases C-414/99 to C-416/99 Zino Davidoff and Levi Strauss [2001] ECR I-8691 and most recently in Case C-244/00 Van Doren + Q. GmbH v Lifestyle sports + sportswear Handelsgesellschaft mbH and Michael Orth [2003] ECR 000.

2. The Court of Justice has had increasing experience with intellectual property cases and now has approximately forty IP cases pending. The Court of First Instance has established two chambers devoted to trademark appeals from OHIM (the Community Trademark and Designs Office).

Member State courts have had many important Court of Justice cases to follow. Have they followed these cases closely, loosely, or hardly at all?

In one recent case in the United Kingdom, Arsenal Football Club v. Reed, the Chancery Court, a court of first instance, challenged the Court of Justice's conclusions as improperly deciding questions of fact reserved to Member State courts. It then rejected the Court's finding in favor of its own. (In the Arsenal judgment (of 12 November 2002, C-206/01), on trade mark law, the Court has held that in a situation which is not covered by Article 6(1) of the First Council Directive 89/104/EEC to approximate the laws of the Member States relating to trade marks, where a third party uses in the course of trade a sign which is identical to a validly registered trade mark on goods which are identical to those for which it is registered, the trade mark proprietor of the mark is entitled, in circumstances such as those in the present case, to rely on Article 5(1)(a) of that directive to prevent that use. It is immaterial that, in the context of that use, the sign is perceived as a badge of support for or loyalty or affiliation to the trade mark proprietor.)

How successful has the judicial harmonization process been? Does it still have the normally expected growing pains? Is it maturing nicely? Is it in constitutional crisis? Are practitioners able to identify rules that can guide clients? Is the current situation intrinsic to any judicial scheme?

Silhouette International Schmied GmbH & Co. KG v Hartlauer Handelsgesellschaft mbH

Case C- 355/96

16 July 1998

Court of Justice

ECR [1998] I- 4799

<http://www.curia.eu.int/en/content/juris/index.htm>

Summary of the facts and procedure:

The Austrian company Silhouette produces high-quality spectacles and markets them worldwide under the trade mark "Silhouette", registered in Austria and most countries of the world. In Austria, Silhouette supplies spectacles direct to opticians; in other States it sells them through subsidiary companies or distributors. In order to maintain its top-of-the-range image, Silhouette decided not to deliver frames to Hartlauer, on the ground that distribution by that company would be harmful to its high-quality fashion image, since "low prices" are Hartlauer's chief selling point.

In 1995 Silhouette sold 21 000 outmoded spectacle frames in Bulgaria. Hartlauer acquired those frames and launched a press campaign announcing that they were being put on sale in Austria.

Silhouette then brought an action for interim relief before the Landesgericht Steyr to restrain Hartlauer from offering spectacle frames for sale under its trade mark where they had not been put on the market within the EEA.

The action was dismissed by the Landesgericht and, on appeal, by the Oberlandesgericht Linz. Silhouette appealed to the Oberster Gerichtshof which stayed proceedings and referred to the Court of Justice for a preliminary ruling the question, in particular, whether national rules providing for exhaustion of trade-mark rights in respect of products put on the market outside the European Economic Area under that mark by the proprietor or with his consent (international exhaustion) are contrary to Community legislation relating to trade marks. In other words, must the proprietor of a trade mark be able to restrain parallel imports from non-member countries of goods under his mark or may the Member States provide for the proprietor to lose that right once he has marketed them, irrespective of where they were put on the market.

Judgement:

[...]

- 15 By its first question the Oberster Gerichtshof is in substance asking whether national rules providing for exhaustion of trade-mark rights in respect of products put on the market outside the EEA under that mark by the proprietor or with his consent are contrary to Article 7(1) of the Directive.
- 16 It is to be noted at the outset that Article 5 of the Directive defines the 'rights conferred by a trade mark' and Article 7 contains the rule concerning 'exhaustion of the rights conferred by a trade mark'.

- 17 According to Article 5(1) of the Directive, the registered trade mark confers on the proprietor exclusive rights therein. In addition, Article 5(1)(a) provides that those exclusive rights entitle the proprietor to prevent all third parties not having his consent from use in the course of trade of, inter alia, any sign identical with the trade mark in relation to goods or services which are identical to those for which the trade mark is registered. Article 5(3) sets out a non-exhaustive list of the kinds of practice which the proprietor is entitled to prohibit under paragraph 1, including, in particular, importing or exporting goods under the trade mark concerned.
- 18 Like the rules laid down in Article 6 of the Directive, which set certain limits to the effects of a trade mark, Article 7 states that, in the circumstances which it specifies, the exclusive rights conferred by the trade mark are exhausted, with the result that the proprietor is no longer entitled to prohibit use of the mark. Exhaustion is subject first of all to the condition that the goods have been put on the market by the proprietor or with his consent. According to the text of the Directive itself, exhaustion occurs only where the products have been put on the market in the Community (in the EEA since the EEA Agreement entered into force).
- 19 No argument has been presented to the Court that the Directive could be interpreted as providing for the exhaustion of the rights conferred by a trade mark in respect of goods put on the market by the proprietor or with his consent irrespective of where they were put on the market.
- 20 On the contrary, Hartlauer and the Swedish Government have maintained that the Directive left the Member States free to provide in their national law for exhaustion, not only in respect of products put on the market in the EEA but also of those put on the market in non-member countries.
- 21 The interpretation of the Directive proposed by Hartlauer and the Swedish Government assumes, having regard to the wording of Article 7, that the Directive, like the Court's case-law concerning Articles 30 and 36 of the EC Treaty, is limited to requiring the Member States to provide for exhaustion within the Community, but that Article 7 does not comprehensively resolve the question of exhaustion of rights conferred by the trade mark, thus leaving it open to the Member States to adopt rules on exhaustion going further than those explicitly laid down in Article 7 of the Directive.
- 22 As Silhouette, the Austrian, French, German, Italian and United Kingdom Governments and the Commission have all argued, such an interpretation is contrary to the wording of Article 7 and to the scheme and purpose of the rules of the Directive concerning the rights which a trade mark confers on its proprietor.
- 23 In that respect, although the third recital in the preamble to the Directive states that 'it does not appear to be necessary at present to undertake full-scale approximation of the trade mark laws of the Member States', the Directive none the less provides for harmonisation in relation to substantive rules of central importance in this sphere, that is to say, according to that same recital, the rules concerning those provisions of national law which most directly affect the functioning of the internal market, and that that recital does not preclude the harmonisation relating to those rules from being complete.
- 24 The first recital in the preamble to the Directive notes that the trade mark laws applicable in the Member States contain disparities which may impede the free movement of goods and freedom to provide services and may distort competition within the common market, so that it is necessary, in view of the establishment and functioning of the internal market, to approximate the laws of Member States. The ninth recital emphasises that it is fundamental, in order to facilitate the free movement of goods and services, to ensure that registered trade marks enjoy the same protection under the legal systems of all the Member States, but that this should not prevent Member States from granting at their option extensive protection to those trade marks which have a reputation.
- 25 In the light of those recitals, Articles 5 to 7 of the Directive must be construed as embodying a complete harmonisation of the rules relating to the rights conferred by a trade mark. That interpretation, it may be added, is borne out by the fact that Article 5 expressly leaves it open to the Member States to maintain or introduce certain rules specifically defined by the Community legislature. Thus, in accordance with Article 5(2), to which the ninth recital refers, the Member States have the option to grant more extensive protection to trade marks with a reputation.

- 26 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 trade mark in respect of products put on the market in non-member countries.
- 27 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 provided for Community exhaustion only would inevitably give rise to barriers to the free movement of goods and the freedom to provide services.
- 28 Contrary to the arguments of the Swedish Government, it is no objection to that interpretation that since the Directive was adopted on the basis of Article 100a of the EC Treaty, which governs the approximation of the laws of the Member States concerning the functioning of the internal market, it cannot regulate relations between the Member States and non-member countries, with the result that Article 7 is to be interpreted as meaning that the Directive applies only to intra-Community relations.
- 29 Even if Article 100a of the Treaty were to be construed in the sense argued for by the Swedish Government, the fact remains that Article 7, as has been pointed out in this judgment, is not intended to regulate relations between Member States and non-member countries but to define the rights of proprietors of trade marks in the Community.
- 30 Finally, the Community authorities could always extend the exhaustion provided for by Article 7 to products put on the market in non-member countries by entering into international agreements in that sphere, as was done in the context of the EEA Agreement.
- 31 In the light of the foregoing, the answer to be given to the first question must be that national rules providing for exhaustion of trade-mark rights in respect of products put on the market outside the EEA under that mark by the proprietor or with his consent are contrary to Article 7(1) of the Directive, as amended by the EEA Agreement.

Question 2

- 32 By its second question the Oberster Gerichtshof is in substance asking whether Article 7(1) of the Directive can be construed as meaning that the proprietor of a trade mark is entitled, on the basis of that provision alone, to obtain an order restraining a third party from using its mark for products which have been put on the market outside the EEA under that mark by the proprietor or with his consent.
- 33 In its order for reference, as clarified subsequently by letter, the Oberster Gerichtshof has pointed out:
- that the second question was put because the Markenschutzgesetz does not provide for any right to obtain a prohibitory injunction, nor does it contain any provision corresponding to Article 5(1)(a) of the Directive. A prohibitory injunction may be sought in respect of a trade mark infringement only if there is at the same time a breach of Paragraph 9 of the UWG, the application of which presupposes the risk of confusion, which is not the case where the original products of the trade-mark proprietor are concerned;
 - in Austrian law, at least according to current academic legal writing, the proprietor of a trade mark has no right to obtain a prohibitory injunction against a person who makes parallel imports or reimports of trade-marked goods, unless the right to a prohibitory injunction is already available under Paragraph 10a(1) of the Markenschutzgesetz. The question thus arises, under Austrian law, whether Article 7(1) of the Trade Marks Directive, which has the same content as Paragraph 10a(1) of the Markenschutzgesetz, provides for such a right to apply for a prohibitory injunction and whether the proprietor of the trade mark can therefore seek, solely on the basis of that provision, an order that a third party cease using the trade mark for goods which have been put on the market under that mark outside the EEA.
- 34 Under the scheme of the Directive the rights conferred by a trade mark are defined by Article 5,

while Article 7 contains an important qualification with respect to that definition, in that it provides that the rights conferred by Article 5 do not entitle the proprietor to prohibit the use of the trade mark where the conditions laid down in that provision are satisfied.

- 35 Accordingly, while it is undeniable that the Directive requires Member States to implement provisions on the basis of which the proprietor of a trade mark, when his rights are infringed, must be able to obtain an order restraining third parties from making use of his mark, that requirement is imposed, not by Article 7, but by Article 5 of the Directive.
- 36 That being so, it is to be remembered, first, that, according to settled case-law of the Court, a directive cannot of itself impose obligations on an individual and cannot therefore be relied upon as such against an individual. Second, according to the same case-law, when applying domestic law, whether adopted before or after the directive, the national court that has to interpret that law must do so, as far as possible, in the light of the wording and the purpose of the directive so as to achieve the result it has in view and thereby comply with the third paragraph of Article 189 of the Treaty (see, *inter alia*, Case C-106/89 *Marleasing v La Comercial Internacional de Alimentación* [1990] ECR I-4135, paragraphs 6 and 8, and Case C-91/92 *Faccini Dori v Recreb* [1994] ECR I-3325, paragraphs 20 and 26).
- 37 The answer to be given to the second question must therefore be that, subject to the national court's duty to interpret, so far as possible, domestic law in conformity with Community law, Article 7(1) of the Directive cannot be interpreted as meaning that the proprietor of a trade mark is entitled, on the basis of that provision alone, to obtain an order restraining a third party from using his trade mark for products which have been put on the market outside the EEA under that mark by the proprietor or with his consent.

[...]

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