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THE PROTECTION OF INDUSTRIAL PROPERTY RIGHTS IN THE EUROPEAN ECONOMIC COMMUNITY

I. INTRODUCTION

This study of European Economic Community (EEC) industrial property rights discusses trademarks, patents, and copyrights. The legal foundation for the protection of these industrial property rights in the EEC is derived from article 36 of the EEC Treaty,¹ which expressly allows an exception to the prohibition of restrictions against the free movement of goods within the EEC when justified by the protection of industrial property, and article 222, which encompasses the protection of industrial property in the Member States. Although decisions of the Court of Justice on industrial property rights are infrequent, their ramifications are significant throughout the Community since these decisions necessarily overlap into areas of restrictive trade practices under article 85, abusive exploitation of a dominant position under article 86, and the free movement of goods under articles 30 through 36. A common element in these decisions is the interplay between the exercise of certain industrial property rights that are protected under national laws and the Community mandates for free movement of goods and the elimination of restrictions on trade and competition. To resolve questions on industrial property rights the Court of Justice has drawn and utilized a distinction between the *existence* of an industrial property right, which is within the sphere of national law, and the *exercise* of an industrial property right, which may fall within the ambit of Community law and regulation. Moreover, as the Court of Justice has interpreted Community law on industrial property, there has been a concomitant diminution of the territorial principle inherent in national protection of industrial property.

II. TRADEMARKS

A. *Introduction*

Thus far the Court of Justice has handed down four decisions on

1. Treaty Establishing the European Economic Community (EEC), March 25, 1957. The authoritative English text of the treaty may be found in TREATIES ESTABLISHING THE EUROPEAN COMMUNITIES (Office of Official Publications of the European Communities, 1973). An unofficial English text may be found in 298 U.N.T.S. 3 (1958).

trademarks. The cases were decided in the context of Council Regulation 17/62² and Commission Regulation 67/67,³ and decisions of the Commission interpreting those regulations. Article 3 of Regulation 67/67, for example, prohibits the use of industrial property rights to impair the purchase of goods in other Common Market countries and "codifies the Commission's determination to guarantee the possibility of parallel importations and not to allow any use of industrial property rights to create an 'absolute territorial protection,' and prevents a trademark license from being used to stop or restrain parallel importations in the contract territory."⁴

In *Scott Paper Company*⁵ the Commission granted a negative clearance⁶ for license agreements between Scott Paper Company and a Belgian company and an Italian company to use Scott trademarks in separate territories in the Common Market. Although approving the agreements, the Commission required a modifica-

2. Council Regulation No. 17/62, as amended by Council Regulation No. 59/62, [1962] Official Journal of the European Communities 204, 1655 [hereinafter cited as J.O.], 1 CCH COMM. MKT. REP. ¶ 2401 *et seq.* (1973). Council Regulation 17/62 instituted a system under which restrictive trade agreements are to be notified to the Commission for an exemption under article 85(3) of the EEC Treaty. In article 4(2)(2)(b) of Council Regulation No. 17/62, the notification procedure of article 85(3) and the exemption thereunder do not apply to agreements and concerted practices that impose restraints on the exercise of industrial property rights.

3. Commission Regulation No. 67/67 Concerning the Application of Article 85, Paragraph 3 of the Treaty to Groups of Exclusive Agreements, [1967] J.O. 849, 1 CCH COMM. MKT. REP. ¶ 2727 (1973). The Regulation provides for block exemptions of sole distributor agreements pursuant to Council Regulation No. 19/65 and article 85(3) of the EEC Treaty. In article 3(b)(1) of Regulation 67/67, the Commission excludes restrictions based on industrial property rights from the block exemption for sole distributor agreements: the block exemption of Regulation 67/67 does not apply when the contracting parties "exercise industrial property rights for the purpose of preventing distributors or consumers from supplying themselves in other parts of the Common Market with the products which are the subject matter of the contract, where such products are lawfully marked and brought into commercial circulation . . ." *Id.* at ¶ 2727C at 1883.

4. Arrigucci, *Impact of European Economic Community Regulations on Italian Trademark Licensing*, 63 TRADEMARK REP. 13, 18-19 (1973).

5. Communication of the Commission, [1968] J.O. C110, CCH COMM. MKT. REP. ¶ 9263 (New Developments Transfer Binder, 1965-69) (1968).

6. A negative clearance is given by the Commission under article 2 of Council Regulation 17/62 to undertakings if the Commission finds that the submitted agreement, decision, or practice of the undertaking neither violates article 85(1) nor article 86 of the EEC Treaty. A request for a negative clearance from an undertaking is not mandatory, but the Commission's determination is binding on the requesting parties.

tion that would prohibit the trademark proprietor and licensees from preventing the importation and marketing of products bearing the licensed trademarks by third parties, which had purchased from one of the licensees and imported into the territory of the other licensee. In another Commission decision,⁷ the Sperry Rand Corporation had granted the Italian trademark rights for its electric shavers to Remington Rand Italia, its Italian subsidiary. When shavers bearing the Remington trademark were imported into Italy from another Member State, Remington Rand Italia sued the importer in an Italian court for trademark infringement, and the importer filed a complaint with the Commission charging that Remington Rand Italia was violating article 85 of the EEC Treaty. In characterizing the use of the trademark as preventing the second Italian company from importing the shavers into Italy from Germany, the Commission determined that the intention was to allocate the market through the device of the trademark. "The agreement thus applied, ensuring absolute territorial protection to Remington Rand Italia, affected trade between Member States and restricted competition in the products in question, by pursuing objectives unconnected with the proper function of the trademark."⁸

The Commission, therefore, articulates its conception of the interaction of industrial property rights and Community precepts of competition and free movement of goods through decisions and regulations as well as through litigation before the Court of Justice. Pursuant to article 85(3) the Commission scrutinizes agreements notified to it to ascertain whether article 85(1) has been violated; thus under the notification procedure the Commission screens certain agreements that might involve the improper use of an industrial property right.⁹

7. *Remington Rand Italia SpA v. Innovazione Electromarket S.r.l.*, 7 Comm. Mkt. L.R. 249 (1966). The parties, however, settled out of court.

8. Alexander, *Market Division within the European Common Market by Means of Trademarks Belonging to an International Group of Companies*, 61 TRADEMARK REP. 14, 15 (1971). The action in the *Remington Rand Italia* decision was not an action against an infringing device, since the electric razors imported into Italy legitimately bore an authentic Remington trademark.

9. See note 2 *supra*. For a concise practitioner's guide to the notification procedure see B. CAWTHRA, *RESTRICTIVE AGREEMENTS IN THE EEC—THE NEED TO NOTIFY* (1972).

B. Overview of Trademark Cases

1. *Article 85 Rationale.*—*Grundig-Consten*,¹⁰ which dealt with the prohibition of re-imported products originally produced by the trademark holder, was the initial case in the area of trademark rights in the EEC. It clarified the jurisdictional requirement of article 85 through its interpretation of the “affecting trade between Member States” criterion of article 85(1).¹¹ Further, the Court of Justice found an agreement and an effect of restriction, distortion, and prevention of competition within the EEC. The Court construed the intentional use of the trademark, sanctioned in the agreement, as restrictive of competition since such an agreement and trademark use created a territorial division of markets, which barred parallel imports of Grundig products into France and which, therefore, distorted competition in the EEC in violation of article 85(1). The concepts enunciated in *Grundig-Consten* were expanded further in later cases such as *Sirena*¹² in which the Court applied article 85 to situations where the use of a trademark right prevents the import into a Member State of products originating in other Member States and legally bearing the same trademark—either through purchase of the mark or through contractual agreements. In *Hag*,¹³ which involved two independent holders of the same trademark, the Court of Justice did not find an article 85-type agreement since there was no legal, financial, technical, or economic link between the two trademark holders. Nor did the Court find an agreement within the meaning of article 85 in *Centrafarm v. Winthrop*.¹⁴ The agreement there was between a

10. *Établissements Consten and Grundig-Verkaufs-GmbH v. Commission*, 12 *Recueil de la Jurisprudence de la Cour (Cour de Justice de la Communauté Européenne)* 429 [hereinafter cited as *Recueil*], 2 *CCH COMM. MKT. REP.* ¶ 8046, 5 *Comm. Mkt. L.R.* 418 (1966).

11. EEC art. 85(1) provides in part: “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”

12. *Sirena S.r.l. v. Eda GmbH*, 17 *Recueil* 69; 2 *CCH COMM. MKT. REP.* ¶ 8101, 10 *Comm. Mkt. L.R.* 260 (1971).

13. *Van Zuylen Freres v. Hag AG*, [1974] *European Court Reports* 731 [hereinafter cited as *E.C.R.*], 2 *CCH COMM. MKT. REP.* ¶ 8230, 14 *Comm. Mkt. L.R.* 127 (1974).

14. *Centrafarm B.V. v. Winthrop B.V.*, [1974] *E.C.R.* 1183, 2 *CCH COMM. MKT. REP.* ¶ 8247, 14 *Comm. Mkt. L.R.* 480 (1974).

parent and its subsidiary. Article 85 is not concerned with agreements or concerted practices between undertakings belonging to the same concern as parent and subsidiary, which form an economic unit in which the subsidiary has no real freedom to determine its course of action on the market and whose agreements or practices are concerned merely with the internal allocation of tasks between the undertakings.

2. *Free Movement of Goods Rationale: Articles 30-34.*—The factual situations presented to the Court in *Hag* and *Centrafarm v. Winthrop* precluded use of the article 85(1)-type agreement. Thus, the Court turned to the “free movement of goods” rationale in articles 30-34 and found the disclaimer in article 36¹⁵ inapplicable. In *Hag*, the Court ruled that to prohibit the marketing in one Member State of a product legally bearing a trademark in another Member State for the sole reason that an identical trademark, having the same origin, exists in the first Member State, is incompatible with the provisions for the free movement of goods within the EEC. In *Winthrop* the Court ruled that when the owner of a trademark exercises his national trademark rights to prohibit the sale, in his Member State, of a product that has been marketed under the trademark in another Member State by the trademark owner or with his consent, such an exercise is incompatible with the rules concerning the free movement of goods within the EEC. The Court, therefore, has invoked the free movement of goods provisions of the EEC Treaty when that free movement of goods is hampered by national laws of industrial property. In the free movement of goods rationale, which serves to protect competition and trade against the restrictive aspects of industrial property usage, the Court of Justice has an alternative to the article 85 restrictive agreement rationale.

3. *Existence-Exercise Dichotomy.*—To preserve the national contours of trademarks and industrial property rights, yet diminish those rights to prevent a correlative restriction of trade, the Court of Justice has formulated a distinction between the existence and the exercise of industrial property rights. As differen-

15. EEC art. 36 provides in part: “The provisions of Articles 30 to 34 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.”

tiated in *Grundig-Consten*, the Court's injunction does not touch the grant of trademark rights, which is reserved to the Member States, but merely prohibits the abusive use of rights deriving from national trademark law. In subsequent trademark cases this distinction has been either cited or impliedly invoked. The legal attributes of the existence of a trademark right to which EEC law does not extend include: the indication of the origin of the product, the provenance of the product, and the right of the holder to protect the economic position that he has acquired by his financial means, by his technical efforts, and by his commercial activity. Thus, the trademark owner has the right to be the first to market the product and can legally insure this protection and, in particular, prohibit the unauthorized marketing of products covered by his trademark. The right to the trademark, therefore, confers upon the holder the power of preventing infringements on the part of third parties. The right or existence of a trademark does not encompass the exercise of a trademark in a manner restrictive of trade. Thus, the disclaimer in article 36 does not absolve the usage of industrial property rights to restrain trade or hinder the free movement of goods.

4. *Article 86.*—The prohibition of practices that are abusive of a dominant position is based on article 86.¹⁶ In *Sirena*, the Court of Justice pointed out that the owner of a trademark does not have a dominant position within the meaning of article 86 merely because the trademark owner can prohibit third parties from marketing products bearing the same mark in the territory of a Member State. It is necessary, in addition, that the trademark holder should be in a position to prevent the maintenance of effective competition in a considerable part of the market in question. Also the Court said that the higher price of the product, although it does not per se constitute an abuse of a dominant position within the meaning of article 86, may nevertheless do so if the price differential does not seem objectively justified.

A detailed discussion of the decisions of the Court of Justice concerning trademark rights in the EEC follows seriatim.

C. *Grundig-Consten*¹⁷

1. *Facts and Procedure.*—*Grundig-Verkaufs-GmbH* (Grun-

16. EEC art. 86 provides in part: "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."

17. *Établissements Consten and Grundig-Verkaufs-GmbH v. Commission*, 12

dig), a German firm, contracted to appoint Etablissements Consten (Consten), a French firm, as the exclusive distributor of Grundig in the metropolitan territory of France, the Saar, and Corsica for radios, tape recorders, dictating machines, television sets, spare parts necessary for repairs, and accessories manufactured by Grundig. Pursuant to the agreement, Consten undertook not to sell "either on its own account or on that of another, similar articles liable to compete with the goods which were the subject of the contract and not to make delivery, either direct or indirect, for or to other countries from the contract territory."¹⁸ To facilitate the distribution of the Grundig products, the contract authorized Consten to use but not register the Grundig trademark. Consten was allowed, however, to register in France in its own name the trademark GINT, which is affixed to all appliances manufactured by Grundig, even those sold on the German market. Further, Consten agreed to transfer to Grundig, as soon as it ceased to be the sole distributor, the registration of the GINT trademark or to cancel its registration in France. Grundig assumed the obligation not to sell directly or indirectly to other parties in the territory reserved for Consten and to prohibit other Grundig purchasers, German as well as foreign, from exporting or re-exporting. UNEF, a large French retailer, and others bought Grundig appliances from German traders and resold them to French retailers at a lower price than the price set by Consten.

As an outgrowth of litigation against UNEF, Grundig notified to the Commission the sole agency contracts concluded with Consten and with its concessionaires in the other Member States.¹⁹ In its decision, the Commission ruled that the contract with its ancillary agreement on the registration and use of the GINT mark contravened article 85 of the EEC Treaty. Consequently, the Commission declined to grant the declaration of inapplicability provided for in the notification scheme of article 85(3).²⁰

Recueil 429, 2 CCH COMM. MKT. REP. ¶ 8046, 5 Comm. Mkt. L.R. 418 (1966). See also Bicks, *Antitrust and Trademark Protection Concepts in the Import Field*, 49 TRADEMARK REP. 1255 ff (1959); Ebb, *The Grundig-Consten Case Revisited: Judicial Harmonization of National Law and Treaty Law in the Common Market*, 115 U. PA. L. REV. 855 (1967).

18. 2 CCH COMM. MKT. REP. ¶ 8046 at 7620, 5 Comm. Mkt. L.R. at 420.

19. 2 CCH COMM. MKT. REP. ¶ 8046 at 7620-21, 5 Comm. Mkt. L.R. at 420-21.

20. Grundig-Consten Decision, [1964] J.O. 2545, 1 CCH COMM. MKT. REP. ¶ 2743, 3 Comm. Mkt. L.R. 489 (1964). For a discussion of the Commission decision see Ladas, *Foreign Territorial Arrangements and the Theory of Exhaustion of*

2. *Decision of the Court of Justice.*—Dismissing the appeals of Grundig and Consten, the Court of Justice confirmed that an agreement in which the holder of a trademark permitted an exclusive distributor to register it in one Member State and, thus, obtain a monopoly right over that market would tend to restrict competition and violate article 85(1). The Court determined that the “affecting trade between Member States” criterion of article 85(1) was satisfied since the agreement prevented undertakings other than Consten from importing Grundig products into France and precluded Consten from re-exporting those products to other countries of the Common Market; thus the agreement “indisputably affects trade between member-States.”²¹ Having examined the entire Grundig system to ascertain the effect—economic as well as legal—upon competition, the Court of Justice concluded:

Since the agreement thus aims at insulating the French market for Grundig products and maintaining artificially, for products of a very widespread brand, separate national markets within the Community, it is therefore such as to distort competition in the Common Market. Therefore it was proper for the attacked decision [of the Commission] to consider that the agreement constitutes a breach of Article 85(1)²²

The Court of Justice construed this use of the trademark as restrictive of competition since the agreement created a territorial division of markets, barring parallel imports of Grundig products into France. Further, the Court envisaged no incongruity in applying article 85(1) to industrial property rights sanctioned by article 36 and article 222. The Court merely enunciated a distinction between the *exercise* of trademark rights and the *existence* of trademark rights; consequently the Court’s “injunction did not touch the *grant* of trade-mark rights but merely prohibited the *abusive* use of rights deriving from national trade-mark law.”²³ The Court,

Trademark Rights, 55 TRADEMARK REP. 820 (1965).

21. 2 CCH COMM. MKT. REP. ¶ 8046 at 7652, 5 Comm. Mkt. L.R. at 472.

22. 2 CCH COMM. MKT. REP. ¶ 8046 at 7653, 5 Comm. Mkt. L.R. at 474. That the economic and legal effects of the agreement are the decisive factors in deciding whether the agreement is prohibited by article 85(1) is called by Cawthra the “market effect criterion.” B. CAWTHRA, *INDUSTRIAL PROPERTY RIGHTS IN THE EEC* 39-40 (1973) [hereinafter cited as CAWTHRA]. Under this theory if the industrial property right contravenes the law against unfair competition then the use of the right cannot be tolerated. See also Callman, *The Law of Unfair Competition in the Member States of the European Economic Community*, 7 INT’L LAW. 855, 864 (1973) [hereinafter cited as Callman].

23. CAWTHRA, *supra* note 22, at 24. Some commentators have criticized the

thus, differentiated between rights guaranteed by article 36 and article 222, which uphold the substance of the trademark, and rights guaranteed by article 85 and articles 30 through 34, which relate to the detrimental usage of trademark rights. Since Community law can reach the deleterious exercise of trademark rights, but cannot alter the existence of trademark rights, "[t]he injunction in Article 3 of the *dispositif* of the attacked decision [of the Commission] not to use national law relating to trade marks to obstruct parallel imports, without touching the grant of those rights, limits their exercise to the extent necessary for the attainment of the prohibition deriving from Article 85(1)."²⁴

D. *Sirena v. Eda*²⁵

1. *Facts and Procedure.*—In 1933 Mark Allen, an American company, had registered the trademark 'Prep' in Italy and in 1937 transferred that trademark to Sirena, which manufactured and marketed a product in Italy under that trademark. Subsequently, a German company—authorized by Mark Allen to use the 'Prep' trademark in Western Germany—began to sell its products on the Italian market at a much lower price than Sirena. Thus, Sirena initiated litigation against the importing company, Novimpex S.r.l., and the retailers alleging an imitation of the trademarks that Sirena had registered in Italy. Since Novimpex claimed in the Tribunale Civile e Penale, Milano, that Sirena could not exercise its trademark rights to halt importation into Italy consistent with articles 85 and 86, which prohibit this type of exclusion, the proceedings were stayed while the relevant Community law questions were referred to the Court of Justice.

2. *Submissions of Advocate General de Lamothe.*—The Advocate General focused on three issues: (1) the extension of patent

distinction that the Court drew between the *exercise* and *existence* of industrial property rights. See, e.g., Jones, *Fundamentals of International Licensing Agreements and Their Application in the European Community*, 7 INT'L LAW. 78 (1973) [hereinafter cited as Jones] (the author finds the distinction to be untenable in practice); Korah, *Dividing the Common Market through National Industrial Property Rights*, 35 MODERN L. REV. 634 (1972) (this commentator maintains that since the right "cannot consist of more than the various ways in which it can be exercised [,t]he distinction between a right and its exercise . . . cannot be applied by logical analysis [and] confers a free discretion on the tribunal drawing the distinction . . ." *Id.* at 686).

24. 2 CCH COMM. MKT. REP. ¶ 8046 at 7654, 5 Comm. Mkt. L.R. at 476.

25. *Sirena S.r.l. v. Eda GmbH*, 17 Recueil 69, 2 CCH COMM. MKT. REP. ¶ 8101, 10 Comm. Mkt. L.R. 260 (1971).

principles enunciated in *Parke Davis*²⁶ to the instant case, (2) the application of article 85, and (3) the application of article 86. Concerning the first point, the Advocate General reasoned that "trademark rights, like patent rights, are property rights, and . . . according to *Grundig-Consten* the exercise of rights derived from national trademark legislation could be restricted by the provisions of articles 85 and 86 of the Treaty."²⁷ In discussing the demarcation between patent rights and trademark rights, the Advocate General opined that trademarks were initially contemplated to guarantee for the consumer the quality of a product, but that the current trend was toward trademarks embodying "nothing more than a prop for advertising."²⁸ De Lamothe did, however, consider the cost of advertising and the "embezzlement of investments" that may occur when the infringer takes advantage of the good will of the trademark and advertising exposure behind the trademarks in this case. The Advocate General next considered circumstances in which the exercise of trademark rights may be affected by the provisions of article 85(1). In sum, he concluded: (1) that article 85(1) inhibits agreements intended to divide up markets within the Community, if they affect trade between the Member States and if their object or effect is to restrain competition in the products in question or pursue objects extraneous to the proper function of the trademark; and (2) that the Court of Justice must examine the totality of the relations between the parties to the contract, not merely the specific contractual provisions or concerted practices in isolation. Moreover, the Court's scrutiny must encompass an analysis of the position of consumers of the products in question.²⁹ Finally, literally applying article 86, the Advocate General reiterated that the exercise of trademark rights would not per se violate

26. *Parke, Davis & Company v. Probel*, 14 Recueil 81, 2 CCH COMM. MKT. REP. ¶ 8054, 7 Comm. Mkt. L.R. 47 (1968).

27. 2 CCH COMM. MKT. REP. ¶ 8101 at 7115, 10 Comm. Mkt. L.R. at 265-66.

28. 2 CCH COMM. MKT. REP. ¶ 8101 at 7115, 10 Comm. Mkt. L.R. at 264 (submission of Advocate General de Lamothe). For discussions of the differences between the values of patents and trademarks and the explanations for such a hierarchy see 2 CCH COMM. MKT. REP. ¶ 8247 at 9151-71, 10 Comm. Mkt. L.R. at 264; Callman, *supra* note 22, at 864-85; De Benedetti, *Trade Mark Rights in the European Economic Community: Evolution or Chaos?*, 4 INT'L REV. INDUS. PROP. & COPYRIGHT L. 90, 97 n.13 (1973) [hereinafter cited as De Benedetti]; Ladas, *Assignment of Trademarks and Antitrust Law—the Sirena Case of the Court of Justice of the European Communities*, 62 TRADEMARK REP. 566, 574 (1972).

29. 2 CCH COMM. MKT. REP. ¶ 8101 at 7117-18, 10 Comm. Mkt. L.R. at 269-70 (submission of Advocate General de Lamothe).

article 86 except in the context of a dominant position, an improper exploitation of that position, and the possibility that trade between the Member States may be affected by it.

3. *Decision of the Court of Justice.*—The Court of Justice held that article 85 of the EEC Treaty applies when the use of a trademark right prevents the import into a Member State of products originating in other Member States and legally bearing the same trademark—either through purchase of the mark or through contractual agreements.³⁰ On the article 86 issue the Court held:

The owner of a trademark does not enjoy a 'dominant position' within the meaning of Article 86 merely because he can prohibit third parties from marketing products bearing the same mark in the territory of a member-State. It is necessary, in addition, that he should be in a position to prevent the maintenance of effective competition in a considerable part of the market in question.

(b) The higher price of the product, although it does not *per se* constitute sufficient proof of the abuse of a dominant position within the meaning of this Article, may nevertheless become so, because of its size, if it does not seem objectively justified.³¹

The Court also pointed out, in apparent agreement with the Advocate General, that the discrepancy between trademark rights and patent rights springs from the inherent value of trademarks *vis-à-vis* patent rights, which are "often more important and worthy of greater protection than the object of the [trademark]."³²

E. *Van Zuylen Freres v. Hag AG*³³

1. *Facts.*—In 1927 a German corporation, Hag AG, the first holder of a patent for decaffeinating coffee, set up a subsidiary in Belgium—Hag/Belgium—to which Hag AG's Belgian and Luxembourg trademarks were assigned in 1935. In 1944, all the shares of Hag/Belgium were sequestered as enemy property by the Allies and were subsequently sold with the trademark to a third party.

30. Some commentators assert that the Court was stretching to find an agreement and, thus, bring the exercise of industrial property rights in this case within the ambit of article 85: "even though in this case the facts seem to show that the parties have not pursued any common commercial aim or interest in drawing up such a contract or subsequently as an effect of the assignment itself." De Benedetti, *supra* note 28, at 95. See also De Benedetti at 92-93; Jones, *supra* note 23, at 99.

31. 2 CCH COMM. MKT. REP. ¶ 8101 at 7112, 10 Comm. Mkt. L.R. at 275-76.

32. 2 CCH COMM. MKT. REP. ¶ 8101 at 7111, 10 Comm. Mkt. L.R. at 273.

33. *Van Zuylen Frères v. Hag AG*, [1974] E.C.R. 731, 2 CCH COMM. MKT. REP. ¶ 8230, 14 Comm. Mkt. L.R. 127 (1974).

In June 1971 Hag/Belgium assigned its Benelux Hag trademarks to Van Zuylen Frères (VZF). In 1972 Hag AG began delivering its coffees to Luxembourg retailers under its German Hag trademark. Consequently, VZF instituted proceedings for infringement of their trademark before the Tribunal d'Arrondissement of Luxembourg. VZF subsequently brought a second action for the cancellation of Hag AG's trademark registrations made after 1945 in Belgium and Luxembourg. Prior to the hearing, a German merchant applied to intervene in the first action to assert his rights to import Hag products bought by him from Hag AG into Luxembourg.

2. *Questions Before the Court of Justice.*—Pursuant to article 177 of the EEC Treaty, the Tribunal d'Arrondissement of Luxembourg requested the Court of Justice to give a preliminary ruling on the following questions: (a) Do articles 85 and 30-36 allow the holder of a trademark within one Member State to use his trademark rights to obstruct imports, bearing the same trademark, into the Member State by the original holder of the same trademark in another Member State when there is no legal, financial, technical, or economic link between the two trademark holders? (b) Would the result change if the trademarked goods were imported into the Member State not by the original holder of the trademark but by a third party who had duly purchased the goods from the original trademark holder?³⁴

3. *Submissions of Advocate General Mayras.*—The Advocate General separated the referred questions into two headings: (a) the application of article 85; and (b) the application of articles 5, 30, and 36. He used analogies drawn from *Grundig-Consten* and *Sirena* to substantiate his conclusion that if there is no agreement between the trademark owner and the licensee, article 85 does not apply. The Advocate General construed the 1934-35 assignment from Hag AG to Hag/Belgium as one from a parent to its subsidiary —“an internal agreement taking place within the same economic unit.”³⁵ Thus, article 85(1) is inapplicable to this agreement between the parent and the subsidiary since the subsidiary had no real autonomy in determining its course of action in the market.

Concerning the application of articles 5, 30, and 36, the Advocate General merely acknowledged article 5 as a broad, general

34. [1974] E.C.R. at 733-34, 2 CCH COMM. MKT. REP. ¶ 8230 at 9116, 14 Comm. Mkt. L.R. at 129-30.

35. [1974] E.C.R. at 751, 2 CCH COMM. MKT. REP. ¶ 8230 at 9129-30, 14 Comm. Mkt. L.R. at 137 (submission of Advocate General Mayras).

obligation that is imposed on Member States to abstain from jeopardizing the attainment of the aims of the EEC Treaty. Reading articles 30 and 36 together and relying on *Deutsche Grammophon*,³⁶ a case based on the provisions relating to the free movement of goods, the Advocate General formulated the pivotal question: "to what extent [does] Article 36 [affect] not only the very existence of a right to industrial property, but its exercise[?]"³⁷ This dichotomy between the existence and the exercise of trademark rights—originating in *Grundig-Consten*—forced the Advocate General to illustrate the legal attributes of the existence of the trademark right:

The specific object [flowing from the existence] of a trade mark right is essentially to indicate the origin, the provenance of the product, and by so doing to permit the holder to protect the economic position which he has acquired by his financial means, by his technical efforts and by his commercial activity.

It is by reason of his right to be the first to market the product that the holder can thus legally ensure this protection and, in particular, prohibit the marketing by persons not entitled thereto of products covered by his trade mark.

The right to the trade mark therefore confers upon him the power of preventing infringements on the part of third parties.³⁸

In contradistinction, the Advocate General maintained that the principle of territoriality does not arise from the existence of the trademark protection. In fact, he asserted that the territorial protection inherent in national trademark legislation is antithetical to the Community principle of free movement of goods.³⁹ Thus, the transferee of a trademark right cannot prohibit the importation into his "territory" of a product affixed with the same trademark, owned by the original holder of the trademark.

4. *Decision of the Court of Justice.*—The Court of Justice disposed of the article 85 contention as inapposite since there was no legal, financial, technical, or economic link between the two trademark holders and, thus, no article 85(1) agreement was involved.

36. *Deutsche Grammophon Gesellschaft mbH v. Metro-SB-Grossmarkte GmbH*, 17 Recueil 487, 2 CCH COMM. MKT. REP. ¶ 8106, 10 Comm. Mkt. L.R. 631 (1971).

37. [1974] E.C.R. at 753, 2 CCH COMM. MKT. REP. ¶ 8230 at 9131, 14 Comm. Mkt. L.R. at 140 (submission of Advocate General Mayras).

38. [1974] E.C.R. at 753, 2 CCH COMM. MKT. REP. ¶ 8230 at 9132, 14 Comm. Mkt. L.R. at 141 (submission of Advocate General Mayras).

39. [1974] E.C.R. at 754, 2 CCH COMM. MKT. REP. ¶ 8230 at 9132, 14 Comm. Mkt. L.R. at 141 (submission of Advocate General Mayras).

Rather, the Court based its holding on articles 30 and 36 pertaining to the free movement of goods, and held:

1. To prohibit the marketing in one Member State of a product legally bearing a trade mark in another Member State for the sole reason that an identical trade mark, having the same origin, exists in the first State, is incompatible with the provisions for the free movement of goods within the Common Market.
2. If the holder of a trade mark in a Member State may himself market the product bearing that trade mark in another Member State, then the same applies to a third party who has duly acquired this product in the first-named State.⁴⁰

F. *Centrafarm v. Winthrop*⁴¹

1. *Facts and Procedure.*—Winthrop B.V., a wholly owned subsidiary of Sterling-Winthrop Group Ltd. (Sterling-Winthrop), a British company, marketed a medicinal preparation in the Netherlands, with the consent of and under the trademark—Negram—of the parent company. Centrafarm, a Dutch firm, imported from Great Britain a quantity of this pharmaceutical, which it marketed in the Netherlands under the “Negram” trademark also. Centrafarm obtained this medicine from one of its associates in Great Britain, which procured it from Sterling-Winthrop, the Negram trademark holder in Great Britain. By importing Negram from Great Britain, Centrafarm could obtain it at approximately half the price of the Negram sold locally in the Netherlands. Consequently, Winthrop applied to the President of the Arrondissements-Rechtbank of Rotterdam for the immediate adoption of measures of conservation ordering Centrafarm to refrain from any direct or indirect infringement of Winthrop’s Negram trademark. The order was granted and, on appeal by Centrafarm, was affirmed by the Gerechtshof, the Hague. Centrafarm then appealed to the Hoge Raad, which stayed the proceedings pursuant to referral to the Court of Justice for a preliminary ruling under article 177.

40. [1974] E.C.R. at 745, 2 CCH COMM. MKT. REP. ¶ 8230 at 9125, 14 Comm. Mkt. L.R. at 144-45. According to Bruce Cawthra, the Court and the Commission are committed toward the creation of a single common market as soon as practicable. This explains the Court’s underlying disposition against the use of industrial property rights that would preserve national barriers and, thus, delay the attainment of a single, unified market. See Cawthra, *The Hag Judgment—II*, 124 NEW L.J. 1053 (1974).

41. *Centrafarm B.V. v. Winthrop B.V.*, [1974] E.C.R. 1183, 2 CCH COMM. MKT. REP. ¶ 8247, 14 Comm. Mkt. L.R. 480 (1974).

2. *Issues Before the Court of Justice.*—In the reference of questions to the Court of Justice, the Hoge Raad supplied the Court with three assumptions to provide the context for the Court's decision:

- (1) different undertakings in different [Member States—that form] . . . part of the same concern are entitled to the use of the same trademark for a certain product;
- (2) products bearing that trademark, after being lawfully marketed in one country by the trademark owner, are exported by third parties and marketed in one of the other countries;
- (3) the trademark laws in the last-mentioned country give the trademark owner the right to take legal action to prevent the trademarked goods 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 trademark and belonging to the same concern⁴²

The questions referred to the Court of Justice included the following: (a) Do the rules of free movement of goods, articles 30-36, prevent the trademark owner from prohibiting imports—which validly bear the same trademark and which have been lawfully marketed in another country by the trademark owner—to his country? (b) If the right exists, is the trademark owner precluded from exercising that right if it constitutes an attempt to partition the national markets of the relevant countries for those goods? (c) Can the trademark owner rely on governmental measures of the exporting country, which require prices to be kept lower, to justify the exercise of his trademark rights? (d) Can the trademark owner exercise his rights to protect the public from defects in the trademarked product? (e) Does article 85 apply to the trademark owner's use of his trademark rights in this case?⁴³

3. *Decision of the Court of Justice.*—The Court of Justice held:

1. The exercise, by the owner of a trademark, of the right he enjoys under the legislation of one Member State to prohibit the sale, in that State, of a product that has been marketed under the trademark in another Member State by the trademark owner or with his consent is incompatible with the rules of the EEC Treaty concerning the free movement of goods within the Common Market.
2. In this connection, it is immaterial that there are, as between

42. 2 CCH COMM. MKT. REP. ¶ 8247 at 9151-60, 14 Comm. Mkt. L.R. at 486-87.

43. 2 CCH COMM. MKT. REP. ¶ 8247 at 9151-60-61, 14 Comm. Mkt. L.R. at 487 (detailed questions referred to the Court).

the exporting and importing Member States, price differences resulting from governmental measures adopted in the exporting State for the purpose of controlling the price of the product.

3. The owner of a trademark relating to a pharmaceutical product cannot avoid the incidence of Community rules concerning the free movement of goods in order to control the distribution of the product with a view to protecting the public against defects therein.

. . . .

5. Article 85 of the Treaty is not concerned with agreements or concerted practices between undertakings belonging to the same concern as 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.⁴⁴

In reaching these conclusions the Court examined the effect of articles 30 and 36 on trademark rights. The Court reiterated that "Article 36 permits restrictions on the free movement of goods only to the extent that they are justified for the protection of rights that are the specific subject matter of such property."⁴⁵ The Court adopted the logic of Advocate General Mayras in *Hag* as to the nature of the specific subject matter of trademark rights.⁴⁶ Additionally, the Court mentioned that the free movement of goods is hampered by national laws of industrial property, which contain "provisions under which a trademark owner's right is not exhausted when the trademarked product is marketed in another Member State"⁴⁷ This allusion to the doctrine of exhaustion, however, did not constitute an emphatic acceptance of the doctrine by the Court. The Court also held that the existence of such factors as price differences resulting from governmental measures cannot justify restriction of the free movement of goods, particularly in the area of industrial property.

Moreover, the Court explored the ambit of article 36, particularly in the realm of the protection of the public against risks arising from defective pharmaceutical products. The Court indicated that under article 36 the Member States could deviate from the rules of the free movement of goods for reasons relating to the protection of the health and life of human beings and animals.

44. 2 CCH COMM. MKT. REP. ¶ 8247 at 9151-68, 14 Comm. Mkt. L.R. at 507-08.

45. 2 CCH COMM. MKT. REP. ¶ 8247 at 9151-66, 14 Comm. Mkt. L.R. at 503.

46. See note 38 *supra* and Part II(D)(3) of text.

47. 2 CCH COMM. MKT. REP. ¶ 8247 at 9151-66, 14 Comm. Mkt. L.R. at 503.

Implementation, the Court warned, must be properly applicable to the field of health control, and must not constitute an abuse of industrial property rights.⁴⁸

III. PATENTS

A. *Actions of the Commission Regarding Patents*

1. *Commission Regulations*.—Although the Council of Ministers empowered the Commission under Council Regulation No. 19/65⁴⁹ to grant block exemption to certain types of agreements, the Commission has only exercised its powers in the case of exclusive distributor agreements in Commission Regulation No. 67/67,⁵⁰ not in the case of agreements mainly involving industrial property rights. Article 3(b)(1) of Commission Regulation 67/67 states that the blanket exemption for exclusive distributor agreements should not apply when 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 . . . which are properly marked or otherwise properly placed on the market”

2. *Commission Decisions*.—The Commission has dealt with the dimensions of patent rights in a series of decisions. The two *Burroughs* cases⁵¹ delved into the relationship between the licensor and the licensees in exclusive patent licenses for carbon paper. The Commission “confirmed that the *exclusive right* granted to licensees under patents to manufacture and sell the patented products was not excluded from the scope of the prohibition of article 85(1).”⁵² *Davidson Rubber Company*⁵³ dealt mainly with the validity of two types of clauses in the patent license. The Commission requested the removal of a nonaggression clause⁵⁴ and ruled that

48. 2 CCH COMM. MKT. REP. ¶ 8247 at 9151-67, 14 Comm. Mkt. L.R. at 505.

49. Council Regulation No. 19/65, Application of Article 85, Paragraph 3, of the Treaty to Groups of Agreements and Concerted Practices, [1965] J.O. 533, 1 CCH COMM. MKT. REP. ¶ 2717 (1971).

50. See note 3 *supra*.

51. *Burroughs-Delplanque Decision*, [1972] J.O. L13/50, CCH COMM. MKT. REP. ¶ 9485, 11 Comm. Mkt. L.R. D67 (1972); *Burroughs/Geha-Werke Decision*, [1972] J.O. L13/53, CCH COMM. MKT. REP. ¶ 9486, 11 Comm. Mkt. L.R. D72 (1972).

52. CAWTHRA, *supra* note 22, at 76.

53. *Davidson Rubber Company Decision*, [1972] J.O. L143/31, CCH COMM. MKT. REP. ¶ 9512, 11 Comm. Mkt. L.R. D52 (1972).

54. A nonaggression clause obliges both the licensee and the sublicensee not to contest the validity of the licensed patents during the life of the agreement.

clauses that forbid the licensee or sublicensee from exporting the licensed products violate article 85. The Commission, however, did sanction the use of (1) improvements clauses when the obligation was nonexclusive and each licensee retained the right to license third parties, (2) a clause obliging the licensee not to grant sublicenses without the consent of Davidson, and (3) an arbitration clause.⁵⁵ In *Raymond-Nagoya*⁵⁶ the Commission required Raymond to alter its improvements clause in the original agreement; in the reworded version Nagoya was obliged to grant Raymond only a nonexclusive license concerning the improvements. The Commission upheld the nonaggression clause since it would not affect competition in the Common Market. Since it would be practically impossible for Nagoya to sell the licensed product to car manufacturers in the Community, the prohibition on export imposed on Nagoya by Raymond in the Far East could scarcely have an effect on competition within the Community. Thus, "a no-challenge clause implied a restriction on the freedom of action of the licensee which was not part of the essential nature of the patent."⁵⁷ According to Bruce Cawthra, "[r]ecent decisions show that the Commission's attitude to a particular clause in a combined patent license and know-how agreement will vary according to the effects of such a clause on competition in the common market"⁵⁸ The two criteria, which the Commission consistently appears to apply to restrictions in such agreements, are (1) whether the restriction is indispensable for the attainment of the objectives of the agreement and (2) whether the restriction enables the parties to eliminate competition—both mentioned in articles 85(3)(a)-(b).

B. Overview of Patent Cases

1. *Articles 85 and 86.*—Thus far, the Court of Justice has only decided two patent cases. In *Parke Davis*⁵⁹ the Court maintained

55. Cawthra comments that although *Davidson Rubber Company* distinguished exclusive manufacturing licenses—which the Commission allowed—from exclusive selling licenses—which the Commission rejected as violative of article 85—"I am not at all convinced that this distinction is correct either in theory or in practice." Cawthra, *Licensing Patents*, 124 NEW L.J. 115, 116 (1974) [hereinafter cited as Cawthra].

56. *Raymond-Nagoya Decision*, [1972] J.O. L143/39, CCH COMM. MKT. REP. ¶ 9513, 11 Comm. Mkt. L.R. D45 (1972).

57. Cawthra, *supra* note 55, at 115.

58. CAWTHRA, *supra* note 22, at 81.

59. *Parke, Davis & Company v. Probel*, 14 Recueil 81, 2 CCH COMM. MKT. REP. ¶ 8054, 7 Comm. Mkt. L.R. 47 (1968).

that the exercise of a patent right would not in itself fall within the purview of article 85(1) in the absence of any agreement, decision, or concerted practice referred to in that decision. Moreover, the Court said that it would be necessary for the exercise of one or more patents, in concert between undertakings, to constitute an agreement that has as its object or effect to prevent, restrict, or distort competition in the EEC. No article 85 agreement was found in *Centrafarm v. Sterling Drug*.⁶⁰ For the usage of a patent to violate article 86, the exercise of the patent must constitute an improper exploitation of the patent protection in the context of a dominant position in the market so that the use of the patent would not be saved by the disclaimer provision of article 36 because it would amount to a disguised restriction on trade between Member States.

2. *Articles 30-34.*—Concerning the EEC Treaty provisions on the free movement of goods, the Court of Justice ruled in *Sterling Drug* that the exercise by the patentee of his national patent right to prohibit the sale in his Member State of a patented product that has been marketed in another Member State by the patentee, or with his consent, is incompatible with the rules of the EEC Treaty regardless of whether the patentee and the undertakings to which he granted licenses belong to the same concern. To distinguish *Sterling Drug* from *Parke Davis*, the Court of Justice differentiated between those obstacles to free movement of goods that are justifiable and those that are not. The Court stated that such obstacles could be justified on the ground of industrial property when the imported product comes from a Member State where it is not patentable and was manufactured by third parties without the consent of the patentee as in *Parke Davis*. Such obstacles are not justified, as in *Sterling Drug*, when the product was legally distributed, by the patentee himself or with his consent, in the Member State from which it is imported.

3. *Existence-Exercise Dichotomy.*—The existence-exercise dichotomy, discussed earlier in the context of trademark rights,⁶¹ also applies to patent rights (and copyrights as well). In *Parke Davis*, for example, the Court of Justice indicated that for article 85(1) to apply it would be necessary for the *exercise* of one or more patents, in concert between undertakings, to constitute an agreement that has as its object or effect to prevent, restrict, or distort

60. *Centrafarm v. Sterling Drug Inc.*, [1974] E.C.R. 1123, 2 CCH COMM. MKT. REP. ¶ 8246, 14 Comm. Mkt. L.R. 480 (1974).

61. See Part II(B)(3) of text.

competition within the EEC. Thus, although the use of patents or other industrial property rights alone does not violate either article 85 or 86, if there is a patent right coupled with an agreement and an effect on competition, article 85 can apply; if there is an abuse of a dominant position involving patent rights, article 86 can apply.

A detailed discussion of the decisions of the Court of Justice concerning patent rights in the EEC follows *seriatim*.

C. *Parke, Davis & Company*⁶²

1. *Facts and Procedure.*—The plaintiff, Parke, Davis & Co. (Parke Davis) held Dutch patents for a microbiological preparation and a chemical antibiotic preparation process—chloramphenicol. The defendant companies, Probel, Interpharm, and Centrafarm, marketed or re-sold and delivered chloramphenicol in the Netherlands without the permission of Parke Davis, which subsequently brought an action for patent infringement against the defendants in the Arrondissements-Rechtbank, Rotterdam. The decision of the Rechtbank in favor of Parke Davis was appealed to the Gerechtshof, The Hague, where Centrafarm pleaded that Parke Davis had violated articles 85 and 86 of the EEC Treaty by using its Dutch patent to prevent the import into the Netherlands of chloramphenicol that had been manufactured and sold in Italy where there is no patent protection for pharmaceuticals or processes for their preparation. The Gerechtshof held against the three defendant companies and issued an injunction against violation of the patents in question except for the products obtained from Italy. Concerning the issue of Italian imports of chloramphenicol into the Netherlands the Gerechtshof referred the following questions to the Court of Justice:

1. Do the prohibited and improper practices referred to in Articles 85(1) and 86 of the EEC Treaty, considered if necessary in conjunction with Articles 36 and 222, apply to the holder of a patent issued by the authorities of a member-State, when he by virtue of the patent requests the judicial authorities to prohibit all circulation, sale, hire, delivery, stocking or utilisation in the territory of that State of any product which comes from another member-State if the latter does not grant an exclusive right to manufacture and sell the product?

62. *Parke, Davis & Company v. Probel*, 14 Recueil 81, 2 CCH COMM. MKT. REP. ¶ 8054, 7 Comm. Mkt. L.R. 47 (1968).

2. Is the answer to question 1 different if the price at which the licensee markets the product in the territory of the first member-State is higher than that asked of the consumer in the same territory for the product when it comes from the second member-State?⁶³

2. *Submissions of Advocate General Roemer.*—In his submissions Advocate General Roemer concentrated his analysis on the question of the sale of chloramphenicol from Italy, the sole Member State where Parke Davis could not hold patent rights for the manufacture of that antibiotic, since Italian law does not allow drugs or their manufacturing processes to be patented. More specifically, Roemer shaped the crucial question as:

whether, under Dutch law, the holder of Dutch patents can obtain protection in the shape of damages and a judicial injunction against the imports, made without its agreement, of products protected by patents coming from a country in which they are not patentable and in which it has been possible to manufacture and market them without the authorization of the patent-holder, or whether the E.E.C. competition law does not permit such national patent laws to be invoked.⁶⁴

First, Roemer concluded briefly that article 85 applies only to cases of voluntary concerted action of undertakings, which restrict competition and affect commercial exchanges, and, thus, that article 85 does not apply to unilateral action by Parke Davis, the holder of the patent rights. Secondly, and in greater detail, Roemer considered the applicability of article 86. After construing articles 36 and 222 together to encompass all the essential elements of the national system of property, particularly the existence of industrial property rights, he maintained that the existence of these rights could not be altered.⁶⁵ Roemer continued:

But the substance and the essence of the national patent laws would obviously be affected if, in a case like that before us, one abandoned, on grounds of the requirements of the Common Market, the principle of independence of the national patent laws and the generally accepted principle of territoriality, in other words if one admitted that the patent right is exhausted or, putting it another way, that it is impossible to invoke defensive measures implied by that right

63. 2 CCH COMM. MKT. REP. ¶ 8054 at 7812, 7 Comm. Mkt. L.R. at 48.

64. 2 CCH COMM. MKT. REP. ¶ 8054 at 7828, 7 Comm. Mkt. L.R. at 51 (submission of Advocate General Roemer).

65. 2 CCH COMM. MKT. REP. ¶ 8054 at 7829, 7 Comm. Mkt. L.R. at 51-52 (submission of Advocate General Roemer).

when the product protected by a patent has been marketed in countries in which the product in question is not patentable.⁶⁶

Roemer outlined the bleak consequences of refusing to enforce the patent rights of Parke Davis: (1) the value of the legal monopoly of exploitation would be greatly diminished, and (2) nonpatent-holders could without difficulty supply the entire Community from one country in which no patents existed, and on more favorable terms than the patent-holder since the patent-holder would bear the costs of the research and development. Thus, inventors would have little chance of obtaining fair remuneration for their inventions; indeed, it might foster keeping inventions secret in an effort to insure the monopoly of exploitation of the fruits of the invention.

Concerning the applicability of article 86, Roemer determined that the "existence of a patent right thus would not be enough of itself to fulfill the first criterion [the existence of a dominant position on the Common Market or a substantial part of it] required by Article 86"⁶⁷ It would be necessary to ascertain the position that the patent-holder occupied in the relevant market and other operative forces: power to fix prices, competition among licensees, competition from other manufacturing processes, and competition from similar products. Additionally, Roemer interpreted an article 86 violation in the realm of patent rights to require an improper exploitation of the dominant position through an abuse of the exercise of the patent right. Roemer distinguished *Parke Davis* from *Grundig-Consten* in that in the latter "the transfer of a trade-mark right (the function of which differs perceptibly from that of a patent right) with a view to ensuring an exclusive distribution contrary to the Treaty and excluding parallel imports (*i.e.*, with a view to ensuring a division of the market) constitutes an abuse and is covered by neither the aim nor the function of the trade-mark right."⁶⁸

As to the second question before the Court, Roemer concluded that the mere discrepancy in price between the patent-holder's price and the price of the imported product, without an analysis of the size of or the reasons for the discrepancy, did not necessarily

66. 2 CCH COMM. MKT. REP. ¶ 8054 at 7829, 7 Comm. Mkt. L.R. at 53 (submission of Advocate General Roemer).

67. 2 CCH COMM. MKT. REP. ¶ 8054 at 7830, 7 Comm. Mkt. L.R. at 55 (submission of Advocate General Roemer).

68. 2 CCH COMM. MKT. REP. ¶ 8054 at 7830-31, 7 Comm. Mkt. L.R. at 55 (submission of Advocate General Roemer).

establish an article 86 violation. Roemer, however, did opine that the price of a patented product—which includes the costs of (1) research (such as in the pharmaceutical industry), (2) taking out the patent, (3) introducing the product onto the market, and (4) establishing good will for the product—would logically be higher than the price charged by an undertaking that could produce the product without such development costs and on the basis of the published registration of the patent.⁶⁹

3. *Decision of the Court of Justice.*—The Court of Justice held:

1. The rights granted by a member-State to the holder of a patent are not affected as regards their existence by the prohibitions of Articles 85(1) and 86 of the Treaty.
2. The exercise of those rights would not in itself fall under Article 85(1) in the absence of any agreement, decision or concerted practice referred to in that provision, or Article 86 in the absence of any improper exploitation of a dominant position.
3. The higher level of sales price of the patented product as compared with that of the non-patented product coming from another member-State does not necessarily constitute abuse.⁷⁰

From article 36 the Court of Justice determined that the exercise of patent rights granted under the national laws does not, of itself, establish a breach of the Community rules of competition.⁷¹ Further, a patent, taken by itself, does not fall within the purview of article 85(1) since a patent results from a legal status granted by a Member State to products meeting certain criteria, and does not result from a contract or concert of the article 85(1) type. The Court followed the reasoning of the Advocate General that for article 85(1) to apply it would be necessary for the exercise of one or more patents, in concert between undertakings, to constitute an agreement that has as its object or effect to prevent, restrict, or distort competition within the Common Market.⁷² To violate article 86, the Court continued, it is “necessary to find the existence of three elements: the existence of a dominant position, an

69. 2 CCH COMM. MKT. REP. ¶ 8054 at 7831, 7 Comm. Mkt. L.R. at 56-57 (submission of Advocate General Roemer). According to Cawthra, “[i]t is scarcely surprising that the Commission devoted merely eight lines to the Parke-Davis case in the First Report on Competition Policy at paragraph 66. Although in itself a fairly limited exception to the policy of the Commission not to prohibit parallel imports . . .” it could, if extended, impede the creation of a single common market. CAWTHRA, *supra* note 22, at 58.

70. 2 CCH COMM. MKT. REP. ¶ 8054 at 7826, 7 Comm. Mkt. L.R. at 60-61.

71. 2 CCH COMM. MKT. REP. ¶ 8054 at 7825, 7 Comm. Mkt. L.R. at 58.

72. 2 CCH COMM. MKT. REP. ¶ 8054 at 7825, 7 Comm. Mkt. L.R. at 59.

improper exploitation of it, and the possibility that trade between member-States may be affected by it.”⁷³ Consequently, for the usage of a patent to violate article 86 the exercise of the patent must constitute an improper exploitation of the protection in which case the use of the patent would fall within the disclaimer provision of article 36 because it would amount “to a disguised restriction on trade between member-States.”

D. *Centrafarm v. Sterling Drug Inc.*⁷⁴

1. *Facts and Procedure.*—Sterling Drug Inc. (Sterling Drug), an American company, was the titular holder of national patents in several countries including the Netherlands and Great Britain for the process for the preparation of the drug *acidum nalidixicum*. Centrafarm, a Dutch company, imported pharmaceuticals manufactured according to the method patented by Sterling Drug in both Great Britain and the Netherlands. In fact, some of the medical products bore the Negram trademark of Sterling-Winthrop, Sterling Drug’s subsidiary in Great Britain. Centrafarm did not have the consent of Sterling Drug to import these products into the Netherlands. The imported drugs, however, had been put on the market in a regular manner by subsidiaries of Sterling Drug in Great Britain and Germany where they were purchased for import and re-sale in the Netherlands. Sterling Drug applied to the President of the Arrondissements-Rechtbank, Rotterdam for the immediate adoption of measures of conservation against the actions of Centrafarm and its director to require them to refrain from further infringing the Sterling Drug patent. Sterling Drug appealed an adverse ruling to the Gerechtshof, which reversed. Thereupon, Centrafarm appealed to the Hoge Raad, which stayed the proceedings pending a preliminary ruling from the Court of Justice on certain questions referred to it under article 177.

2. *Issues Before the Court of Justice.*—The Hoge Raad referred to the Court of Justice the following questions on the free movement of goods (articles 30-36): (a) Do the rules of the EEC Treaty concerning the free movement of goods, regardless of article 36, prevent the patentee from taking legal action to prevent others from marketing the patented products within the territory encompassed by the patent, even when these products had been pre-

73. 2 CCH COMM. MKT. REP. ¶ 8054 at 7825, 7 Comm. Mkt. L.R. at 59.

74. *Centrafarm v. Sterling Drug Inc.*, [1974] E.C.R. 1123, 2 CCH COMM. MKT. REP. ¶ 8246, 14 Comm. Mkt. L.R. 480 (1974).

viously lawfully marketed in another country by the patentee or the patentee's licensee? (b) If the rules of the free movement of goods do not prohibit the patentee, then can he exercise the patent right if the exercise of that right arises exclusively or partially from an attempt to partition the national markets of the relevant countries for products protected by the patent? (c) Does it make any difference if the patentee and the licensee do or do not belong to the same concern? (d) Can the patentee justify the exercise of the patent right if the discrepancies in price in the relevant countries are the result 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) When the patent is related to pharmaceutical products can the patentee justify the exercise of his patent rights on the need to control the distribution of his products to insure the protection of the public from defects that might occur? As regards article 85 the following questions were referred to the Court: (a) Does article 85 prohibit (as impermissible agreements or concerted practices) the scheme in which a patentee owns parallel patents in different countries belonging to the EEC and under which the patentee has granted in those countries licenses to manufacture and sell to different undertakings economically associated with the patentee? (b) Is there a different result when the agreements or concerted practices referred to in the above question are between undertakings belonging to the same concern?⁷⁵

3. *Submissions of the Advocate General.*—The Advocate General first focused upon whether the prohibition of parallel imports constituted a measure equivalent to a quantitative restriction contrary to articles 39 *et. seq.* of the EEC Treaty. He argued that the dictates of Community law to insure the free movement of goods (articles 30 *et. seq.*) must be juxtaposed against the exemption (article 36) that protects certain private rights or public interests that the Community deems of overriding importance. In balancing these two considerations in the context of patents, the Advocate General admitted that national patent legislation could legitimately enable the patent-holder to prevent imports of products (within the ambit of his patent protection) manufactured or placed on the market for the first time without his consent, but that this patent right does not extend to the importation of goods that have been placed on the market with the consent of the patentee—thus, parallel imports by third-party purchasers are protected from

75. 2 CCH COMM. MKT. REP. ¶ 8246 at 9148, 14 Comm. Mkt. L.R. at 484-86.

patentee prohibition, which is not justified, under these circumstances, by article 36. The Advocate General, agreeing with the Commission, found that the exercise of patent rights in this case "lies outside the specific subject matter of the protection provided by the [patent] right concerned."⁷⁶ Moreover, he analogized from *Deutsche Grammophon*⁷⁷ that "the specific subject matter of the two property rights [patent and a right analogous to copyright] consists of the exclusive right to manufacture, to reproduce, and to market for the first time a specific intellectual or industrial product."⁷⁸ Having examined the economic and legal context of the agreements, the Advocate General characterized the patent use as a practice to partition national markets, thus, the only salvation for the agreements had to be found in the protection of rights forming the specific object of the patents, but concluded, however, that the patents did not justify such agreements.⁷⁹

4. *Decision of the Court of Justice.*—The Court held:

1. The exercise by the patentee of the right he enjoys under the legislation of a Member State to prohibit the sale, in that State, of a patented product that 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.

2. In this connection, it is immaterial whether the patentee and the undertakings to which he granted licenses do or do not belong to the same concern.

3. It is also immaterial that there are, as between the exporting and importing Member States, price differences resulting from governmental measures adopted in the exporting State for the purpose of controlling the price of the product.

4. The owner of a patent relating to a pharmaceutical product cannot avoid the incidence of Community rules concerning the free movement of goods in order to control the distribution of the product with a view to protecting the public against defects therein.

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6. Article 85 of the Treaty is not concerned with agreements or concerted practices between undertakings belonging to the same concern as parent company and subsidiary, if the undertakings form

76. 2 CCH COMM. MKT. REP. ¶ 8246 at 9151-74, 14 Comm. Mkt. L.R. at 489-97 (submission of Advocate General Trabucchi).

77. *Deutsche Grammophon Gesellschaft mbH v. Metro-SB-Grossmarkete GmbH*, 17 Recueil 487, 2 CCH COMM. MKT. REP. ¶ 8106, 10 Comm. Mkt. L.R. 631 (1971).

78. 2 CCH COMM. MKT. REP. ¶ 8246 at 9151-73, 14 Comm. Mkt. L.R. at 487-97 (submission of Advocate General Trabucchi).

79. 2 CCH COMM. MKT. REP. ¶ 8246 at 9151-77-9152, 14 Comm. Mkt. L.R. at

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.⁸⁰

The Court of Justice viewed article 36 as permitting restrictions on free movement of goods only to the extent that they are justified for the protection of rights that are the specific subject matter of such property. Thus, the Court adhered to the reasoning of the Advocate General in seeing the specific subject matter of the patent as giving the patentee "the exclusive right to use an invention with a view to manufacturing industrial products and putting them on the market for the first time, either directly or by granting licenses to third parties, as well as the right to oppose infringements."⁸¹

Drawing a distinction between obstacles to free movement of goods, the Court of Justice stated that such obstacles could be justified on the ground of industrial property when the imported product comes from a Member State where it is not patentable and was manufactured by third parties without the consent of the patentee; such obstacles are not justified, however, when the product was legally distributed, by the patentee himself or with his consent, in the Member State from which it is imported.⁸²

487-502 (submission of Advocate General Trabucchi). The Advocate General argued that the prohibitions in article 85 can embrace agreements between the component undertakings within a single economic group when the agreements erect barriers against third-party purchasers and re-sellers and, thus, impede trade and competition.

80. 2 CCH COMM. MKT. REP. ¶ 8246 at 9151-58, 14 Comm. Mkt. L.R. at 507-08. Although not going as far as the Commission or the Advocate General suggested, the Court did confirm the doctrine of "economic entity." There might be situations, according to the Commission and the Advocate General, when the agreements between undertakings belonging to the same group could have anti-competitive effects, and article 85 should be invoked. "The Commission gave as an example agreements which made it more difficult for outside firms to enter a particular market. The Advocate General referred to restrictions in agreements which made it more difficult for third parties to compete." Cawthra, *Parallel Patents in the European Community—I*, 125 NEW L.J. 157, 158 (1975).

81. 2 CCH COMM. MKT. REP. ¶ 8246 at 9151-56, 14 Comm. Mkt. L.R. at 503.

82. 2 CCH COMM. MKT. REP. ¶ 8246 at 9151-56, 14 Comm. Mkt. L.R. at 503-04. One criticism of *Sterling Drug* is voiced by Bruce Cawthra, who faults the Court for not adequately answering whether a series of license agreements involving parallel patents intended to regulate *differently* the conditions in various Member States under which the patented products are sold would be prohibited

IV. COPYRIGHT

A. Overview of Copyright Cases

1. *Article 85*.—In neither of the copyright cases was article 85 employed by the Court of Justice in reaching its decision. In *Deutsche Grammophon*⁸³ since the agreement was between a parent and subsidiary—thus within the economic entity concept—article 85 was not applicable. In *BRT*,⁸⁴ article 85 was not important; the Court concentrated on articles 86 and 90(2).

2. *Articles 30-34*.—In *Deutsche Grammophon* the Court found that it would conflict with the free movement of goods in articles 30-34 of the EEC Treaty if a manufacturer of recordings exercised the exclusive “copyright” granted to him by the legislation of a Member State to market the protected articles in order to prohibit the marketing in that Member State of products that had been sold by the manufacturer himself or with his consent in another Member State solely because this marketing had not occurred in the territory of the first Member State.

3. *Article 86*.—The Court in *Deutsche Grammophon* ruled that a manufacturer of recordings who is granted an exclusive distribution right—analogueous to copyright—by national legislation does not have a dominant position within the meaning of article 86 merely because he exercises this right. The situation, as was the case in *Deutsche Grammophon*, is different if the copyright owner is able to prevent effective competition in a considerable part of the market in question. In *BRT* the Court ruled that an abuse of a dominant position within the meaning of article 86 of the EEC Treaty can derive from an undertaking entrusted with the exploitation of copyrights when it imposes on its members obligations that are not absolutely necessary for the attainment of its object and that, therefore, encroach unfairly on a member’s freedom to exercise his copyright. Once an abusive practice has been discovered, however, the national court should decide whether and to what extent such practices affect the interests of authors or concerned third parties, and should ascertain the consequences of such practices upon the validity and the effect of the copyright

by article 85. See Cawthra, *Parallel Patents in the European Community—I*, 125 *NEW L.J.* 157, 158 (1975).

83. *Deutsche Grammophon Gesellschaft mbH v. Metro-SB-Grossmarkete GmbH*, 17 *Recueil* 487, 2 *CCH COMM. MKT. REP.* ¶ 8106, 10 *Comm. Mkt. L.R.* 631 (1971).

84. *Belgische Radio en Televisie v. SV SABAM*, [1974] *E.C.R.* 313, 2 *CCH COMM. MKT. REP.* ¶ 8269, 14 *Comm. Mkt. L.R.* 238 (1974).

contracts. Such a process is to be implemented through a balancing test. Thus, the requirement of maximum freedom for authors, composers, and publishers to dispose of their works is to be juxtaposed against the effective management of such copyrights by an undertaking whose object is to protect the rights and interests of its individual members against major exploiters and distributors of musical material.

4. *Existence-Exercise Dichotomy*.—The existence-exercise dichotomy as stated above also applies to copyrights in the EEC.

A discussion of the decisions of the Court of Justice concerning copyrights in the EEC follows seriatim.

B. *Deutsche Grammophon*⁸⁵

1. *Facts and Procedure*.—Deutsche Grammophon, a German company, produces gramophone records and markets its products under a number of trademarks. In Germany, Deutsche Grammophon supplies records directly to retailers and book-wholesalers, which adhere to a retail price maintenance system for "Polydor" records; pursuant to agreements between German retailers and Deutsche Grammophon, records bearing the Polydor trademarks can only be imported into Germany with the authorization of Deutsche Grammophon. Outside of Germany, Polydor records are marketed through subsidiaries of Deutsche Grammophon. In 1970 Metro-SB-Grossmarkte GmbH, Hamburg, obtained Polydor records from a Hamburg wholesaler. Apparently, these Polydor records had been supplied by Deutsche Grammophon to its Paris subsidiary, Polydor Paris, S.A., and had then reached the Hamburg wholesaler through a Strasbourg branch and a Swiss enterprise. Metro sold these records in Germany to retail customers at a price below that fixed for Germany by Deutsche Grammophon. Consequently, in the Landgericht Hamburg, Deutsche Grammophon sought a provisional injunction prohibiting Metro from selling or distributing the Deutsche Grammophon records with the Polydor mark, and in accordance with sections 85 and 97 of the German copyright statute,⁸⁶ the Landgericht Hamburg granted the

85. *Deutsche Grammophon Gesellschaft mbH v. Metro-SB-Grossmarkte GmbH*, 17 Recueil 487, 2 CCH COMM. MKT. REP. ¶ 8106, 10 Comm. Mkt. L.R. 631 (1971).

86. The relevant sections are translated in 10 Comm. Mkt. L.R. 635 (1971) as follows: Section 85 provides: "The manufacturer of a sound recording has the exclusive right to reproduce and to distribute the recording." Section 97 provides: "Any person who unlawfully infringes the copyright or any other right protected

provisional injunction. Metro then appealed to the Hanseatische Oberlandesgericht, which suspended the appeal and referred to the Court of Justice two questions on the interpretation of articles 5(2), 85(1), and 86 of the EEC Treaty.

2. *Submissions of the Advocate General.*—In his submissions to the Court of Justice, Advocate General Roemer suggested that the facts of this case compel the conclusion that industrial property rights held by Deutsche Grammophon should be ruled extinguished. To substantiate this position Roemer concentrated on three articles of the EEC Treaty: 36, 85(1), and 86. Roemer reiterated the standard interpretation of article 85(1)—there must be an agreement between the holder of industrial property rights and another party and that agreement must have as its object or effect the prevention, restriction, or distortion of competition within the Common Market. He next examined the argument of Deutsche Grammophon that article 36, which deals with industrial and commercial property, and article 222, which preserves the existing property system in the Member States, justified its use of industrial property rights for controlling marketing within the Community.⁸⁷ Roemer, however, placed much credence in the disclaimer provision of article 36, which provides that industrial property rights cannot be used as a “means of arbitrary discrimination or . . . [as] a disguised restriction on trade between member-States.”

Considering the *existence-exercise* dichotomy, previously expounded in *Grundig*, *Parke Davis*, and *Sirena*, Roemer expressed doubts that the territoriality principle forms part of the existence or substance of the industrial property right.⁸⁸ Finally, he discussed the exhaustion of industrial property rights even though he did not characterize his analysis in terms of the “doctrine of exhaustion” of industrial property rights:

Here it should be decisive that the purpose of the industrial protection right was fulfilled when the goods were first marketed, since it was possible to use the monopolistic opportunity for gain. On the other hand, it would *undoubtedly go beyond the purpose of the protection rights conferred if the holder was permitted to control*

by this statute may, at the suit of the person whose rights are infringed, be ordered to abate the infringement, or, if there is a danger of repetition, be restrained by injunction, and if he is found to have acted with intent or negligence he may be ordered to pay damages.”

87. 2 CCH COMM. MKT. REP. ¶ 8106 at 7196-97, 10 Comm. Mkt. L.R. at 647.

88. 2 CCH COMM. MKT. REP. ¶ 8106 at 7197, 10 Comm. Mkt. L.R. at 647-48.

further marketing, in particular to prohibit re-imports, and free trade in goods was prevented. Thus in view of the proviso in article 36, the fundamental aims of the Treaty and the principles of the Common Market, and in spite of the guarantee of the subsistence of industrial property rights, in a situation such as that in the present case it may be held that *the rights have been extinguished*, i.e., *the exercise of the distribution rights is precluded*.⁸⁹ (emphasis added).

3. *Decision of the Court of Justice.*—The first issue with which the Court dealt was whether Community law is infringed if the exclusive right conferred on a manufacturer of recordings by national legislation to distribute the protected products can be used to prohibit the domestic marketing of products that have been brought into the market in another Member State by this manufacturer or with his consent. The Court summarily answered the threshold question of the extent under article 85(1) to which marketing of products imported from another Member State may be prohibited in the exercise of an industrial property right. The Court merely stated that if the exercise of the exclusive right is proved to be “the object, means or consequence of a cartel agreement which effects a division of the Common Market by prohibiting imports from other member-States of products duly brought onto the market in those States”⁹⁰ there would be a violation of article 85(1).

It appears that the Court accepted *sub silento* the conclusion of the Advocate General that the agreement between Deutsche Grammophon and Polydor, Paris

is obviously an agreement between a parent company and a subsidiary, i.e., an agreement between two market participants who probably did not compete with one another since the subsidiary does not act independently but is subject to the instructions and control of the parent company. If this is in fact the situation, if there is merely a distribution of tasks within a uniform economic complex, it does not constitute an impairment of competition and Article 85 does not apply⁹¹

Having found article 85 inapplicable, the Court concentrated its scrutiny upon whether the exercise of the copyright conflicts with other provisions of the EEC Treaty, in particular those relating to

89. 2 CCH COMM. MKT. REP. ¶ 8106 at 7197-98, 10 Comm. Mkt. L.R. at 648-49.

90. 2 CCH COMM. MKT. REP. ¶ 8106 at 7191-92, 10 Comm. Mkt. L.R. at 656.

91. 2 CCH COMM. MKT. REP. ¶ 8106 at 7199, 10 Comm. Mkt. L.R. at 650-51.

the free movement of goods in articles 30-34. The logic of the Court endorses the doctrine of the exhaustion of industrial property rights—even though the Court did not specifically mention the doctrine—which provides that when the licensee or patentee has put into circulation, here by transferring the records to a wholly owned subsidiary in another Member State, the products manufactured under the patent, he may no longer prevent their free movement within the Community.⁹²

Coupling articles 30-34 (free movement of goods) with article 85(1) (prohibition of agreements restricting trade) and article 36 (protection and limitation on industrial property rights), the Court held that

it would conflict with the provisions regarding the free movement of goods in the Common Market if a manufacturer of recordings exercised the exclusive right granted to him by the legislation of a member-State to market the protected articles in order to prohibit the marketing in that member-State of products that had been sold by him himself or with his consent in another member-State solely because this marketing had not occurred in the territory of the first member-State.⁹³

The second issue before the Court was whether the exercise by the manufacturer of recordings of the exclusive right to distribute the protected articles can be regarded as abusive if the tied selling price in the domestic market is higher than the price of the original product re-imported from another Member State.⁹⁴ In other words,

92. See Cawthra, *supra* note 55, at 116. Another commentator, Melville, agrees that the Court supported by implication the doctrine of exhaustion of rights. See Melville, *Trade Marks in Europe*, 124 NEW L.J. 433, 433-34 (1974).

93. 2 CCH COMM. MKT. REP. ¶ 8106 at 7192, 10 Comm. Mkt. L.R. at 657-58. "The Court of Justice, in fact, contrary to prior cases such as *Parke Davis*, has this time emphasized not the first but the second part of Article 36. The interpretation whereby Article 36 generally legitimates the full exercise of industrial property rights is opposed here by the argument that such a recourse, inasmuch as it departs from the principle of free circulation set forth by the Treaty, is limited by the provision on the abuse of those rights, so that it would be possible to resort to it only in so far as this would be justified for their safeguard." De Benedetti, *supra* note 28, at 98 n.14.

94. 2 CCH COMM. MKT. REP. ¶ 8106 at 7192, 10 Comm. Mkt. L.R. at 658. One commentator has sought to minimize the weight given to this section of the judgment: "The holding of *Deutsche Grammophon* on exhaustion of the German record-manufacturer's protection against imports was made independently of Article 85 or 86, and is best understood as an industrial property law decision, based on the principle of free movement of goods." Jones, *supra* note 23, at 100. Thus, the Court would perhaps have reached the same conclusion regardless of

the question alludes to the abusive exploitation of a dominant position within the meaning of article 86. With little discussion on the article 86 issue the Court held:

(a) A manufacturer of recordings who is granted an exclusive distribution right by national legislation [analogous to copyright] does not have a dominant position within the meaning of Article 86 of the Treaty merely because he exercises this right. The situation is different if in the circumstances he is able to prevent effective competition in a considerable part of the market in question.

(b) A difference between the tied price and the price of the product re-imported from another member-State does not justify without qualification a finding of an abuse of a dominant position, although it may be conclusive evidence of such an abuse if it is large and cannot be explained on any objective grounds.⁹⁵

C. *BRT v. SABAM*⁹⁶

1. *Facts and Procedure.*—The Belgian Association of Authors, Composers, and Publishers (SABAM),⁹⁷ a cooperative association governed by Belgian law with the object of exploiting, administering, and managing all copyrights and similar rights, on its own behalf as well as for its clients and affiliated undertakings, signed standard form contracts with the composer, Davis, and with the song writer, Rosenstraten, in 1963 and 1967. Pursuant to these contracts the composer and the song writer assigned and transferred to SABAM the copyright in all present or future compositions under their ownership, and in all their present and future

whether the article 86 argument was applicable since the free movement of goods rationale was dispositive of the case. For another commentator in accord with the position of Jones see De Benedetti, *supra* note 28, at 97-98.

95. 2 CCH COMM. MKT. REP. ¶ 8106 at 7193, 10 Comm. Mkt. L.R. at 659. According to the Advocate General "the fact that in the member-State in which he has the dominant position he applies prices without any objective basis which are considerably above the price-level in other member-States must be regarded as *substantial evidence of an abusive exercise of the dominant position*. In such a case, the exercise of the distribution rights included in the industrial protection rights to prevent the import of original products from other member-States is also abusive." (emphasis added). 2 CCH COMM. MKT. REP. ¶ 8106 at 7201, 10 Comm. Mkt. L.R. at 654-55.

96. *Belgische Radio en Televisie v. SV SABAM*, [1974] E.C.R. 313, 2 CCH COMM. MKT. REP. ¶ 8269, 14 Comm. Mkt. L.R. 238 (1974).

97. Even though SABAM is a cooperative association representing its members in the exercise of their copyrights, SABAM still qualifies as an undertaking because it exploits, in its own name, rights assigned to it. [1974] E.C.R. at 323, 2 CCH COMM. MKT. REP. ¶ 8269 at 9185-40, 14 Comm. Mkt. L.R. at 275.

rights as performers and producers of gramophone records. According to the contracts, SABAM had not only the right to retain the rights that had been assigned to it but also the right to exercise these rights for five years following the member's withdrawal from the association.

In separate contracts in 1969 with Belgische Radio en Televisie (BRT), Davis and Rosenstraten assigned to BRT certain copyrights to the words and the music of a song, "Sperciebonen." The BRT contracts required the composer and the song writer to assign exclusively to BRT all their rights in the script, without any limitation, for a period of two years; if the agreement was incompatible with existing contracts, the other parties to such prior contracts were to sign a declaration permitting the composer and the song writer to enter into the BRT transaction.

A contract between the Bureau International d'Édition Mécanique (BIEM), which managed the granting of permission for mechanical reproduction for SABAM's repertoire, and NV Fonior gave Fonior the non-exclusive right to exploit phonographically works from the repertoire of BIEM including the song in controversy. NV Fonior, therefore, recorded on tape the words of the song in question and marketed it in its own version on Decca records. Consequently, in 1969 SABAM and BRT attempted, separately and unsuccessfully, to prohibit NV Fonior from publishing the song and selling the record and, hence, initiated actions before the Tribunal de première instance of Brussels against NV Fonior for this alleged illegal reproduction and infringement of the copyrights. The central issue, however, concentrated on the ownership of copyrights since both SABAM and BRT claimed title to the rights that would have prohibited NV Fonior's reproduction of the records in question.

The Tribunal de première instance of Brussels stayed the proceedings and requested from the Court of Justice a preliminary ruling on the following questions: (1) Does an article 86 abuse of a dominant position occur when an undertaking—that has a *de facto* monopoly in a Member State for the management of copyrights—requires the global assignment of all copyrights without drawing any distinction between specific categories? (2) Does an article 86 abuse of a dominant position occur when such an undertaking (here an association) stipulates that an author shall assign his present and future rights, and when that undertaking may continue to exercise the assigned rights for five years following the withdrawal of the member from the association? (3) Should the expression "undertaking entrusted with the operation of services

of general economic interest" be understood to grant an undertaking definite privileges that are denied to other undertakings? (4) Do the provisions of article 90(2) of the EEC Treaty create rights for private parties that national courts must safeguard?⁹⁸

2. *Submissions of Advocate General Mayras.*—First, the Advocate General discussed the issue of the applicability of article 86. Taking the Commission's position, the Advocate General argued that any author, composer, or publisher would be obliged to utilize the services of a national copyright association because (a) the individual management of the copyrights is impossible in most cases, (b) there is a *de facto* monopoly exercised by each association within its Member State, (c) there is a uniform limitation of the direct activities of the association to its national territory, and (d) there exist reciprocal agreements between the associations for the exploitation of their repertoires.⁹⁹ Advocate General Mayras found an element of unfairness in the duration of the exclusive assignment, which applied both to present and future rights and for five years following the withdrawal of the member from the association. Mayras concluded: "In fact, not only can one find no real justification for these provisions in the practical requirements inherent in the exercise of copyrights but they seem rather to have the aim of binding members completely and of inhibiting their membership of [*sic*] any other association."¹⁰⁰

The Advocate General objected also to the SABAM contract because it discriminated against nationals of Member States other than Belgium; indeed, article 6 of the contract excluded nationals of other Member States from membership in SABAM as associates or trainees. Further, the Advocate General determined (a) that parallel provisions existed in the statutes of the other national copyright associations and (b) that these associations had agreed among themselves to confine their activity to the State where each one had its registered office. He concluded, therefore, that the operation of these undertakings had the effect of dividing national markets in musical material and thus derogated from the aims of the Common Market and was likely to affect trade between

98. The facts and a discussion of the procedural route taken are discussed in *Belgische Radio en Televisie v. SV SABAM*, [1974] E.C.R. 51, 2 CCH COMM. MKT. REP. ¶ 8268, 14 Comm. Mkt. L.R. 238 (1974).

99. [1974] E.C.R. 321, 2 CCH COMM. MKT. REP. ¶ 8269 at 9185-39, 14 Comm. Mkt. L.R. at 273 (submission of Advocate General Mayras).

100. [1974] E.C.R. at 325, 2 CCH COMM. MKT. REP. ¶ 8269 at 9185-42, 14 Comm. Mkt. L.R. at 278.

Member States.¹⁰¹

Next, the Advocate General commented on the applicability of article 90(2) of the EEC Treaty. Mayras found that there was no connection between SABAM and the State. Thus, the association had not been entrusted with its task by the public authority; instead, Mayras characterized the association as a cooperative association created solely by private initiative and governed by the ordinary Belgian law relating to that category of association. Consequently, the association enjoyed no special legal privilege under article 90(2) of the EEC Treaty.¹⁰²

3. *Decision of the Court of Justice.*—The Court of Justice first ruled that an abuse of a dominant position within the meaning of article 86 of the EEC Treaty can derive from an undertaking entrusted with the exploitation of copyrights when it imposes on its members obligations that are not absolutely necessary for the attainment of its object and that, therefore, encroach unfairly on a member's freedom to exercise his copyright. Concomitantly, the Court ruled that when an abusive practice has been discovered, the national court should decide whether and to what extent such practices affect the interests of authors or concerned third parties, and should ascertain the consequences of such practices upon the validity and effect of the copyright contracts. The Court then ruled that the provisions of article 90(2) of the EEC Treaty do not encompass a situation involving an undertaking that manages private interests, including intellectual property rights protected by national law, and to which the Member State has not assigned any task.¹⁰³

Since an abusive exploitation of a dominant position, according to article 86(a), may consist in directly or indirectly imposing unfair trading conditions, the Court examined whether the copyright association, through its statutes or contracts concluded with its members, imposed, directly or indirectly, unfair conditions on members or third parties in the exploitation of works, which it has the duty to protect. To determine whether the practices of the copyright association constitute an abuse within the meaning of article 86, account must be taken of the need to insure a balance

101. [1974] E.C.R. at 326, 2 CCH COMM. MKT. REP. ¶ 8269 at 9185-42, 14 Comm. Mkt. L.R. at 279.

102. [1974] E.C.R. at 327, 2 CCH COMM. MKT. REP. ¶ 8269 at 9185-43-9186, 14 Comm. Mkt. L.R. at 280-81.

103. [1974] E.C.R. at 319-20, 2 CCH COMM. MKT. REP. ¶ 8269 at 9185-38, 14 Comm. Mkt. L.R. at 285.

between (a) the requirement of maximum freedom for authors, composers, and publishers to dispose of their works and (b) the effective management of such copyrights by an undertaking whose object is to protect the rights and interests of its individual members against major exploiters and distributors of musical material, such as radio broadcasting bodies and record manufacturers. For effective protection of its rights and interests, an association must occupy a position based on the receipt of assignments of the authors' rights to the extent required for the association to conduct its activity on the necessary scale. Consequently, it is crucial to determine whether the association's practices exceed the limit absolutely necessary for the attainment of its object, and are compatible with the interest of the individual author that his freedom to utilize and dispose of his work is not limited unnecessarily.

Thus, in the logic of the Court of Justice:

a compulsory assignment of all copyrights, both present and future, no distinction being drawn between the different generally accepted types of exploitation, may appear an unfair condition, especially if such assignment is required for an extended period after the member's withdrawal.

The inequitable nature of such provisions must be determined by the relevant court, bearing in mind both the intrinsic effect of those clauses and their effect when combined.¹⁰⁴

Ronald L. Smallwood

104. [1974] E.C.R. at 317, 2 CCH COMM. MKT. REP. ¶ 8269 at 9185-37, 14 Comm. Mkt. L.R. at 283-84.