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A New Look At The European Patent: Limited Availability

Harold G. Maier*

The question of whether or not nationals of non-EEC states should be permitted to acquire patents under the proposed European Patent Convention has been the subject of much legal commentary. In this article, Professor Maier re-examines the problem with emphasis on the interests of the EEC in developing a true Common Market Patent Law. Pointing out that it is in the long-range interests of the EEC to make the new patent freely available to nationals of other states, the author concludes that the United States should nevertheless support the adoption of a Community patent of initially limited availability as a means of encouraging the economic integration of the Common Market.

The promulgation of the Proposed Draft Convention relating to a European Patent Law in December 1962,¹ by the member states of the European Economic Community, and the continuing controversy surrounding it since that time have raised important questions for European and American businessmen. One of the most controversial is the extent to which the new patent should be made "available"² to nationals of states not parties to the proposed Convention. This article examines the question of "availability" from the standpoint of the interests of the EEC and its member states. Its objective is to demonstrate that although the legal arguments in favor of unlimited availability are strong, the primary consideration for the member states and for others interested in the Community's success should be the present need of the EEC for an agreement on a true Common Market Patent law.

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1. At least three unofficial texts of the EPC have been published in English: *Draft Convention Relating to a European Patent Law*, Her Majesty's Stationary Office (London, 1963); *Translation of a Draft Convention relating to a European Patent Law*, 45 J. PAT. OFF. SOC'Y 182 (1963); 2 CCH COM. MKT. REP. ¶ 5503-724; (the last two citations are authorized reprints of the first).

2. Use of the term "available" in place of the term "accessible" in this context was first suggested by David Ladd, former United States Patent Commissioner, to distinguish between the rights of nationals of non-contracting states to apply for patent protection under the new patent and the rights of other states to accede to the Convention. See Ladd, *The Industrial Property Revolution in the Common Market and the United States*, 1963 IND. PROP. 124. Compare *Minutes of the Presidents' Conference on the Study of the Draft Proposal for the European Patent*, Berlin Congress of A.I.P.P.I., ECBUSA-821, USEC Brussels, p. 1, where the term "accessibility" is used in this connection.

The abolition of artificial barriers to interstate trade is a basic objective of the Treaty of Rome³ creating the Community. Although the treaty took steps to remove tariffs, encourage competition and free the movement of labor and capital within the Community, it did not formulate a method for eliminating trade barriers created by the patent laws of the member states.

A patent right is territorial in character. It represents an exclusive right granted by a sovereign for the manufacture, use, or sale of a product or process embodying an inventive idea. It is the power of the sovereign which makes the right exclusive and where the power to enforce that exclusivity ceases, the patent right ceases as well. The granting of patent rights is, therefore, a direct function of territorial sovereignty. It is by sovereign authority that the patentee has the right to prevent, or to exact payment for, the importation of articles subject to his exclusive rights into the territory in which his sovereign's power is effective.

The proposed European Patent Convention (hereinafter EPC) is aimed at limiting and eventually eliminating as a barrier to trade within the Common Market the effects of the territorial exercise of patent rights.

Because the framers of the EPC were fully aware that the immediate abolition of national patent rights was neither practically nor politically possible, the initial report by Dr. Kurt Haertel⁴ on the feasibility of establishing a European patent recommended the creation of a completely autonomous patent to co-exist with patents granted under the laws of the national states.⁵ The effectiveness of the scheme depended on one basic assumption—that once the existence of a European patent was established and patent rights fully protected thereunder, the national patent laws would fall into disuse and finally disappear. In addition, the Convention was conceived as providing a “driving force” toward unification in other legal areas which would “contribute to the creation of legal systems corresponding to the economic and political necessities of the community. . . .”⁶ It is a basic disagreement concerning these economic

3. Treaty Establishing the European Economic Community, signed March 25, 1957, by France, Italy, the Netherlands, Belgium, Luxembourg, and the Federal Republic of Germany. Reprinted in 298 U.N.T.S. 11 (1958).

4. For an outline of the preliminary work on the proposed Convention and a discussion of prior European attempts to unify industrial property law, see Ulmer, *Europäisches Patentrecht im Werden*, 1962 *GEWERBLICHER RECHTSSCHUTZ UND URHEBERRECHT*, ausl. Teil. 531 [hereinafter cited as GRUR]; Robbins, *The Proposed New European Patent*, 5 PTC J. RES. & ED. 217 (1962).

5. See Ulmer, *supra* note 4, at 540.

6. Froschmaier, *The Draft Convention on Patents in the Common Market*, in *RESTRICTIVE PRACTICES, PATENTS, TRADEMARKS AND UNFAIR COMPETITION IN THE COMMON MARKET* 50-59 (INT. & COMP. L.Q. Supp. Publ. No. 4, 1962).

and political necessities which has slowed the progress of the Community during the past three years and prevented a final agreement on the terms of the proposed patent convention itself.⁷

I. THE PROBLEM OF ACCESSION BY OTHER STATES

Dr. Haertel, speaking before the German Society for Comparative Law in September 1965, set forth the following alternative approaches to the problem of establishing a multinational patent law: (1) the creation of a true EEC patent controlled by the EEC member states with participation open to non-members, or (2) the creation of an international patent, based on a general agreement between many participating states in which all would have equal rights. The second alternative would amount to the creation of a "package patent" (Bündel-Patent) based on separate rights under the national laws of the participating states. This latter approach would require an additional agreement within the EEC on a single patent for that organization if the original purpose of the present draft were to be accomplished.⁸

The original draft of the EPC did not set forth the second alternative but it did envision an "open-end" convention accessible to states other than those presently constituting the EEC.

Article 5 of the Draft Convention contains two variants:

ARTICLE 5—PERSONS ENTITLED TO APPLY FOR EUROPEAN PATENTS.

1st Variant

Any person desiring to obtain protection for his invention for the whole of the territory of the Contracting States, may apply for a European Patent.

2nd Variant

(1) Any natural or legal person or any body equivalent by virtue of national law, to a legal person, possessing the nationality of one of the Contracting States, who desires to obtain protection for his invention for the whole of the territory of the Contracting States, may apply for a European Patent.

(2) The application for a European patent must be based on one or more applications for a national patent filed in one of the Contracting States and constituting first filings within the meaning of Article 4 of the Paris Convention for the

7. See *Common Market Members Compromise Their Differences*, 2 CCH COM. MKT. REP. ¶ 9084.

8. Address by Dr. Kurt Haertel, *Die Bemühungen um eine Patentrechtsvereinheitlichung im Rahmen der Europäischen Wirtschaftsgemeinschaft*, speech before the *Convention of the Comparative Law Society*, Kiel, Germany, Sept. 10, 1965. This speech is scheduled for future publication in GRUR.

Protection of Industrial Property of 20th March, 1883, last revised at Lisbon on 31st October, 1958.

Neither of these variants implies the creation of a truly "international patent." Paragraph (1) of variant 2 indicates the "open-end" nature of the convention by making the patent available to a national of any "contracting state," but article 211 imposes additional restrictions which are not compatible with the usual multilateral convention agreement.

ARTICLE 211—ACCESSION.

(1) Any state which is a party to the Paris Convention for the Protection of Industrial Property may apply to accede to this Convention. It shall address its application to the [Administrative Council] whose decision must be unanimous.

(2) The terms of admission and, as far as necessary, the adaptations of this Convention called for by that admission, shall be the subject of a special agreement between the Contracting States and the State requesting admission. This special agreement shall be submitted for ratification by all Contracting States in conformity with their respective constitutional practice.

(3) Preparatory work for drawing up the special agreement shall be in the hands of the [Administrative Council].

The requirement of unanimity in article 211(1) together with the requirement of a special agreement in article 211(2) place the Draft Convention outside the realm of the broader international patent convention to which Haertel referred. Article 211 presumes an initially limited group of contracting states which would admit others on a piecemeal basis at their own discretion. In addition, a note appended to article 211 indicates that a minority of the framers would prefer that accession be entirely restricted to European countries. By their terms and implication both article 5 and article 211 are based on the assumption that membership in the new patent convention would not be restricted to EEC member-states. Article 212 provides for "association" rather than accession but on essentially the same terms as article 211.⁹

Haertel, however, indicated a preference for creating a patent for the benefit of the EEC as such,¹⁰ and, despite its "open-end" nature,

9. 2 CCH COM. MKT. REP. ¶ 5721.

ARTICLE 212. ASSOCIATION

(1) Any State which is a party to the Paris Convention for the Protection of Industrial Property may apply to be associated with this Convention by virtue of a special agreement concluded with the Contracting States and involving reciprocal rights and obligations. It shall address its application to the [Administrative Council], whose decision shall be unanimous.

(2) Preparatory work for drawing up the special agreement shall be the responsibility of the [Administrative Council].

10. Haertel, *supra* note 8.

this same preference for a patent which will primarily serve Community purposes is an integral part of the structure of the Draft Convention itself.

II. RELATIONSHIP OF THE EPC TO THE EEC

It has already been pointed out that the concept of a European patent is intimately related to the projected economic (and, eventually, perhaps, political) union between the six EEC member states. The Convention was seen as an alternative to an immediate attempt to harmonize patent laws under article 100 of the Rome Treaty.¹¹ The proposal to make the Convention patent available to all patentees of whatever nationality has been justified in terms of the needs of the Community.¹² Conversely, the attempt to limit the availability of the patent to nationals of contracting states and the right of accession to European nations has been justified as a means of preventing external competition (generally, from United States' enterprises) from dominating the economic development of the Common Market.¹³

On the other hand, there is no express basis for the promulgation of the Convention in the Rome Treaty itself. Industrial property as such is mentioned only twice in the Rome document: once in article 106 and annex 3, which provide, together, for the unrestricted transfer of fees under industrial property licenses, and once in article 36 which specifically recognizes a state's right to protect industrial property as an exception to the general prohibition against quantitative restrictions on the interstate movement of goods.¹⁴ Even the Commission's action in recommending investigation into the feasibility of a European patent is not completely within the scope of its technical function.¹⁵

11. Froehmaier, *supra* note 6, at 59; Meller, *Towards a Multinational Patent System*, 44 J. PAT. OFF. SOC'Y 227, 247 (1962); see *Memorandum of the Commission of the European Economic Community on the Action Programme for the Second Stage*, issued at Brussels, October 24, 1962, reprinted in *International Legal Materials*, Current Documents, Vol. II, No. 1, Jan. 1963, p. 251.

12. See Behrman, *The Convention for European Industrial Property Rights*, 5 PTC J. RES. & ED. 233, 245 (1961); Froehmaier, *Patents, Trademarks and Licenses Within the Community* in *LEGAL PROBLEMS OF THE EUROPEAN ECONOMIC COMMUNITY AND 1961*; Weiser, *Patent and Antitrust Developments and Prospects of the European Economic Community*, 8 PTC J. RES. & ED. 1, 19 (1964), quoting Dr. Eberhardt Günther, President of the German Federal Cartel Office.

13. Armengaud, *Political Aspects of Accessibility to the European Patent*, 7 PTC J. RES. & ED. 314, 317 (1963); Meller, *supra* note 11, at 244; *Study Regarding International Cooperation in the Patents Field*, 5 IND. PROP. Q. 45-46 (1960).

14. See Verloren van Themaat, *Die Bedeutung von Art. 36 für die kartellrechtliche Beurteilung von Patentlizenzverträgen nach Art. 85. des EWG-Vertrages*, 1964 GRUR, ausl. Teil 21.

15. See Robbins, *supra* note 4, at 220.

The EPC contains no suggestion that accession to it should be limited exclusively to the six EEC countries. Although articles 211 and 212 correspond in their terms to the provisions for accession and association in the Treaty of Rome,¹⁶ there is no requirement that accession or association under the Convention be contingent upon membership in or association with the Community.

This apparent legal separation of the Community from the Convention is illusory at best. The entire structure of the Convention rests on an assumption of a degree of economic and political integration between participating states which can only be found among the six members of the EEC. Article 20(a) provides for the exhaustion of patent rights in all contracting states "after the proprietor of the patent has put that article on the market in one of these States."¹⁷ Article 29(2) provides for free importation of once-marketed patented products without regard to licensing restrictions. Article 142 provides for compulsory licensing in "the entire territories of all the Contracting States." Article 138 directly refers to and incorporates article 17 through 23 of the Euratom Treaty (relating to compulsory patent licensing). Articles 197, 198 and 200 impose restrictions on rights held under national patents in the "Contracting States." Even the provisions for financial contributions¹⁸ and for establishing official languages¹⁹ are couched in Treaty of Rome terms.²⁰ Also, it has been suggested that the judicial function under the Convention be placed in the Court of the European Communities at Luxembourg.²¹

In short, any state which acceded to the Convention in its present form would submit itself to policies designed primarily for implementing the political and economic integration of the EEC without receiving the additional economic benefits which the Treaty of Rome provides. Therefore, even if variant 1 of article 211 were adopted and a form of accession or association could be found which was not politically or legally unacceptable domestically, a non-EEC state desiring to accede to the EPC would be faced with significant practical difficulties. If accession were permitted on less stringent terms than those required for accession or association with the EEC, it seems

16. Compare Treaty of Rome, arts. 237, 238, 298 U.N.T.S. 92.

17. The second variant of article 20(a) does not make this provision.

18. Article 42 (3), 1st variant. The second variant suggests the scale in Article 13(3) of the Revised Convention of the Hague concerning the creation of an International Patents Institute.

19. Article 217 gives the official languages of the EPC as French, Dutch, German and Italian.

20. For a more complete discussion of the relationship between the EPC and the EEC see Davidson, *The Bond Between the Convention Relating to a European Patent Law and the Rome Treaty*, 1963 *IND. PROP.* 155.

21. Froschmaier, *Some Aspects of the Draft Convention Relating to a European Patent Law*, 12 *INT. & COMP. L.Q.* 886, 896 (1963).

likely that the primary function of the new patent to contribute to the development of the Community might be seriously hampered, especially if the accession agreement contained compromise measures not fully consonant with the efficient operation of the new patent within the Common Market. On the other hand, if accessibility to the new Convention were limited to EEC states, the adoption of the restrictive variant of article 5 would raise real difficulties for outsiders. Since that variant would prohibit granting a Convention Patent to anyone not a national of a contracting state, all nationals of non-EEC states would be denied protection under the new patent rights unless they could establish themselves as nationals of an EEC member state.²²

Even with the "open-end" nature of the presently proposed Convention, the proposal of restricted availability gave rise to a flood of legal commentary attacking variant 2 of article 5 as a violation of the Paris Union Convention of Industrial Property of 1883.²³ The following detailed analysis of the relationship between a European patent law and the legal obligations of the EEC member states as parties to multilateral and bilateral international agreements demonstrates that legal objections to limiting the availability of a true EEC patent are much less compelling than where an "openend" multilateral convention is contemplated.

III. THE EPC AND THE PARIS UNION

Two articles of the Paris Union agreement are relevant to the international legal status of the proposed EPC:

ARTICLE 2

(1) Nationals of each of the countries of the Union shall, as regards the protection of industrial property, enjoy in all other countries of the Union advantages that their respective laws now grant or may hereafter grant, to their own nationals, without prejudice to the rights especially provided by the present Convention. Consequently, they shall have the same protection as the latter, and the same legal remedy against any

22. There is a possibility that either section (1) or section (2) of variant 2 could be adopted without the other. Section (1) alone would probably allow filing by a Common Market subsidiary of a foreign company. Section (2) alone would allow anyone to file as long as his filing constituted a "first filing" under Article 4 of the Paris Convention for the Protection of Industrial Property of 1883. Sections (1) and (2) together would require not only nationality but also "first filing," a requirement which could not be met if the subject of the proposed patent were a product or process previously patented in a third country. See Weiser, *The European Common Market Patent Convention: The Right to Apply for a Common Market Patent*, 6 PTC J. Res. & Ed. 317, 319-20 (1963).

23. 25 Stat. 1372, T.S. No. 379; revised at Brussels, Dec. 14, 1900, 32 Stat. 1936, T.S. No. 411; at Washington, June 2, 1911, 38 Stat. 1645, T.S. No. 579; at the Hague, Nov. 6, 1925, 47 Stat. 1789, T.S. No. 834; at London, June 2, 1934, 53 Stat. 1748, T.S. No. 941; and at Lisbon, Oct. 31, 1958 [1962] 1 U.S.T. & O.I.A. 1, T.I.A.S. No. 4931. All further references are to the Lisbon revision, unless otherwise indicated.

infringement of their rights, provided they observe the conditions and formalities imposed upon nationals.

(2) However, no condition as to possession of a domicile or establishment in the country where protection is claimed may be required of persons entitled to the benefits of the Union for the enjoyment of industrial property rights.

ARTICLE 15

It is understood that the countries of the Union reserve the right to make separately between themselves special arrangements for the protection of industrial property, in so far as these arrangements do not contravene the provisions of the present Convention.

These articles raise two legal issues: Would the adoption of variant 2 of article 5, EPC, violate the "national treatment principle" of article 2 of the Paris Convention? Would the proposed EPC qualify as a "special arrangement" under article 15 of the Paris agreement? Answers to these questions require a consideration of the relationship of the EPC provisions to the national patent laws of the contracting states.

The national patent laws of the six members of the EEC differ substantially in many respects. Two different methods for determining patentability exist. Germany and the Netherlands have a strict examination system for novelty and patentability including a patent search, much like that in the United States. France, Belgium, Luxembourg, and Italy have a "registration" procedure under which a patent is granted upon application and its validity determined only if it is later challenged in court. The duration of patent protection varies with each national law. Some countries exclude certain types of products or processes from patent protection altogether while others grant patents on those same products or processes. Since six different patent offices and court systems are involved, standards of inventiveness vary from one country to another. Significant variations are found in the requirements for payment of fees and in working requirements to prevent compulsory licensing.²⁴

The EPC, on the other hand, contains its own provisions relating to many of these areas. Articles 76 through 87 provide for the initial grant of a "provisional patent" after an abbreviated search to determine novelty and patentability. Articles 88 through 104 provide for the issuance of a "final patent" within a period of five years

24. See generally Neumeyer, *Compulsory Licensing of Patents Under Some Non-American Systems*, Study of the Subcommittee on Patents, Trademarks, and Copyrights of the Committee on the Judiciary, U.S. Senate, 85th Cong., 2d Sess., #19 (1958); Goldsmith, *Patent Protection for United States Inventions in the Principal European Countries—Existing Systems*, 6 B.C. IND. AND COMM. L. REV. 533 (1965); Neumeyer, *Unification of European Patent Legislation on the Common Market*, 24 MOD. L. REV. 725 (1961); Ulmer, *The Availability of European Patents and the Paris Convention*, 1963 IND. PROP. 51.

following publication of the grant of the provisional patent after a more thorough search and investigation procedure. Articles 9 through 14 set forth definitions of patentability. Whether or not these definitions are met is to be determined by a European Patent Office.²⁵ Article 20 (1st variant) defines various infringing acts and allows an action for contributory infringement.²⁶ Although article 174 places suits for patent infringement in national courts, article 181 empowers a European Patent Court to issue declaratory judgments on the issue of infringement which would bind national tribunals. A judicial determination of the *validity* of a patent—that is, patentability—is, on the other hand, reserved to a European Patent Court.²⁷ This, in effect, eliminates the defense in a national court that a patent is invalid and therefore not infringed.²⁸

This brief comparison of the national patent laws and the proposed Convention makes it clear that if the right to obtain a European patent is limited to nationals of contracting states, those nationals will be given different substantive rights under the EPC than are available to nationals of other Paris Union states which have not acceded to the EPC. This difference could not be avoided even if an attempt were made to “harmonize”²⁹ the patent laws of the individual contracting states of the EPC because variations in interpretation would inevitably arise with six or more national courts interpreting national law and a supra-national court interpreting a different supranational law.

Article 7 of the EPC provides that rights under the European Patent and under national patent laws “may not be enjoyed simultaneously in so far as the invention originates from one and the same inventor.” Although dual protection of the same invention is thus prohibited, the fact that a choice of two patents is available to nationals of contracting states while only national patents are available to Unionist foreigners creates an obvious discrimination based on nationality—the exact effect which Article 2 of Paris Union was intended to prevent. Furthermore, a nationality requirement goes even further than a requirement of domicile or residence which

25. See Arts. 3, 15, 16, 55, 56, 94, 2 CCH COMM. MKT. REP. ¶¶ 5503, 5508, 5520, 5521, 5564, 5565, 5603.

26. Article 20, second variant, representing the minority position, defines infringement in terms of national patent provisions. 2 CCH COM. MKT. REP. ¶ 5525.

27. Arts. 105, 113. 2 CCH COM. MKT. REP. ¶¶ 5614, 5622.

28. See Johnston, *The Draft European Patent Convention—A Commentary*, 1 C.M.L. REV. 17, 26 (1963).

29. Article 100, Treaty of Rome, 298 U.N.T.S. 54 provides: “The Council, acting by means of a unanimous vote on a proposal of the Commission, shall issue directives for the approximation of such legislative and administrative provisions of the Member States as have a direct incidence on the establishment or functioning of the Common Market.”

article 2 specifically prohibits. This view of article 2 represents the German and American position on the legality of article 5, variant 2, EPC, under the Paris Union Agreement.³⁰

The French position challenges these contentions on the grounds that they have the effect of turning the national treatment provision of article 2 into a most-favored-nation clause. National treatment, they argue, means that Unionist states may claim for their nationals only those benefits which the *national laws* of other Union States grant to nationals of those states. Though the EPC may indeed confer different substantive rights on nationals of its contracting states, these rights are granted by treaty rather than by national law and, therefore, need not be granted to Unionist foreigners as well under article 2. The continued existence of the national laws emphasizes the nature of the EPC as creating supranational extraterritorial rights which "have no equivalence to national law."³¹ Although the French argument deliberately ignores the discriminatory *effect* of the proposed restrictive provisions in favor of emphasis on the technical language of article 2, it provides a basis for the contention that the EPC is an allowable special arrangement under article 15.

A note introducing the General Provisions of the EPC states that the preamble to the Convention should indicate that the Convention constitutes a special arrangement in the sense of article 15 of the Paris Union agreement. An examination of three existing special arrangements—The Madrid Arrangement for the International Registration of Trademarks,³² The Arrangement of the Hague for the International Registration of Designs or Industrial Models,³³ and The Madrid Ar-

30. See Frayne, *The EEC Patent and the National Treatment Principle*, 39 CAN. PAT. REP. 69 (1963); Ladas, *Common Market Patent and Trademark Treaties, Open or Closed?*, 51 TRADEMARK REP. 1203, 1207 (1961); Ulmer, *supra* note 24, at 60; Weiser, *supra* note 22, at 321.

31. Colas, *Would Non-Accessibility to the Benefits of the European Patent Convention to Nationals of Third Party Countries be Contrary to Article 2 of the Paris Convention of 1883*, 1963 IND. PROP. 48; see Saint-Gal, *Marques et Marché Commun* 39 REVUE DU MARCHÉ COMMUN 320, 325 (1961).

32. Original at Madrid, April 14, 1891; revised at Brussels, Dec. 14, 1900; at Washington, June 2, 1911; at The Hague, Nov. 6, 1925; at London, June 2, 1934; and at Nice, June 15, 1957. This arrangement originally provided that once a trademark had been registered in the "home" country, a national of that country might use it internationally and the mark would then be considered to have been applied for in each of the contracting states without the necessity of actual application being filed there. Each state retains the right to reject a mark under provisions of its own national law. See OCTROOBUREAU LOS EN STICHTER, *MANUAL FOR THE HANDLING OF APPLICATIONS FOR PATENTS, DESIGNS AND TRADEMARKS THROUGHOUT THE WORLD*, General Part, International Design Registration [hereinafter cited as *MANUAL*].

33. Original at The Hague, Nov. 6, 1925; revised at London, June 2, 1934; at The Hague, Nov. 28, 1960; with an additional arrangement at Monaco, Nov. 18, 1961. This agreement is similar to the Madrid Trademark Arrangement except that no prior home registration is necessary. See *MANUAL*, General Part, International Design Registration.

rangement for the Suppression of False and Misleading Indications of Origins³⁴—discloses major functional differences between these agreements and the EPC. Opponents of restricted availability contend that *these* arrangements do not work inherent discrimination against non-nationals of the contracting states. The arrangements on trademarks and designs do not affect the national law of the signatory states so as to discriminate against nonnationals, and the indications of origins arrangement operates to give protection to all countries, not merely to its own signatories.³⁵ Further, none of these arrangements involves the degree of sacrifice of internal sovereignty that is required of contracting states under the EPC. Any nation acceding to an EPC containing variant 2 would lose some control over its own patent system and would thus preclude itself from carrying out its obligations under the Paris Convention.³⁶

A contrary view has been stated by the International Association for the Protection of Industrial Property on the grounds that requiring accessibility under article 2 “would run the risk . . . of making article 15 meaningless since it permits special arrangements to be entered into.”³⁷ This reasoning begs the question.

Two other contentions which are quasi-legal in nature are made by the proponents of the restrictive variant of article 5, EPC. Both deal with the concept of reciprocity. The first is that the signers of the EPC will grant better protection to each others' nationals through the medium of the Convention only in return for the assumption of specific reciprocal obligations. Therefore, no other state should be allowed to benefit from this improved protection unless it too is willing to assume obligations to grant similar improved protection.³⁸ This contention fails in the light of the legislative history of the Paris agreement. At the preliminary conference on the Paris Convention in 1880, the following provision was suggested in place of the present article 2: “The subjects and citizens of each of the con-

34. Original at Madrid, April 14, 1891; revised at Washington, June 2, 1911; at The Hague, Nov. 6, 1925; at London, June 2, 1934; and at Lisbon, Oct. 31, 1958. The Arrangement provides for the seizure or prohibition of importation of any product bearing a false or misleading indication of origin, where the indicated origin is one of the countries signing the Arrangement. See *MANUAL*, General Part, Indications of Origin.

35. Professor Ulmer points out that although the Hague Arrangement for the Protection of Designs as revised makes the international registration also valid in the country of origin and that this applies only to nationals of states who are members of the Arrangement, there is no incompatibility with the Paris Union Convention because the international filing does not give rise to substantive rights more extensive than those granted to nationals. See Ulmer, *supra* note 24, at 58.

36. See Buckman, *Access to the European Patent System*, 7 *PTC J. RES. & ED.* 427, 430 (1963).

37. *Minutes*, *supra* note 2, at 1.

38. See Colas, *supra* note 31, at 51; Frayne, *supra* note 30, at 79.

tracting countries shall enjoy reciprocally, in all other countries of the Union . . . etc." After considerable discussion, the provision was changed to eliminate the word "reciprocally" in order to avoid the possible interpretation that the principle of reciprocity had been made a part of that article.³⁹

The second contention concerning reciprocity is that since the contracting states will have ceded a portion of their sovereignty under the EPC in return for certain benefits, it would be unfair to require them to make the benefits gained under the Convention available to other states who have not been willing to make this sacrifice.⁴⁰ Although this argument has a surface validity, it does not bear analysis. While the non-contracting *states* would not sacrifice sovereignty reciprocally with members of the EPC, the individual patent applicant, by applying for an EPC patent, would of necessity submit *himself* to the jurisdiction of the Convention machinery with only those rights and duties which member states, through the Convention, had granted to or imposed upon their own nationals—no more, no less.⁴¹ It is on this level that the Paris Union Convention seeks to grant protection, not on the level of state-state relationships as such.

Many of the legal complications under the Paris Union agreement would be avoided if the proposed patent convention were incorporated into the legal structure of the EEC. The supranational nature of the Community sets it apart from other multilateral agreements. The delegation of significant powers by the members of the Community to the Community institutions makes it unique as an international organization. It is more than a customs union but less than a new political entity. Even though the creation of a Common Market patent involves measures which are not consistent

39. The following quotation is taken from a semi-verbatim report of the proceedings: "M. Herich, délégué de la Hongrie et M. Veniers van der Loeff, délégué des Pays-Bas, ont demandé la suppression du mot réciproquement, qui leur paraissait pouvoir donner lieu à un malentendu, en ce qu'il pouvait faire supposer à tort que les dispositions de l'article 2 reposaient sur l'application non pas seulement du traitement national, mais aussi du principe de la réciprocité. Sans partager ces appréhensions, la Commission considérant que ce mot n'est pas essentiel, a cru devoir donner satisfaction à cette demande, en la supprimant." [M. Herich, the delegate from Hungary, and M. Veniers van der Loeff, the delegate from the Netherlands, requested the removal of the word 'reciprocally' which appeared to them to give rise to a misconstruction by making it possible to suppose that the application of article 2 rested not only on national treatment but also on the principle of reciprocity. Without sharing these apprehensions, the Commission, considering that this word was not essential, was able to satisfy this request by removing it. (translation by the author.)] *Conférence Internationale Pour la Protection de la Propriété Industrielle*, (Paris, 1880), j. 43. For additional relevant discussion, see *id.*, pp. 39-40.

40. See Armengaud, *supra* note 13, at 318; Ladas, *supra* note 30, at 1205; Saint-Gal, *supra* note 31, at 325.

41. See Ladas, *supra* note 30, at 1204; Ulmer, *supra* note 24, at 57.

with specific provisions of the Paris agreement, the fact that the Paris Union was originally promulgated and adopted prior to the emergence of the EEC and that the present article 2 and article 15 do not contemplate the existence of a supranational entity with the Community's singular aims and goals should militate against an attempt to hold the EEC member states strictly to their Paris Union obligations.⁴²

This is not to say that discrimination against nonnationals or refusal to abide by the Paris Union requirements would be justified if it could not be shown that such action was necessary to accomplish the purposes of an EEC patent. On the other hand, recognition of what the Community is trying to do and of the necessity for doing it should provide the basis for a recognition by other Paris Union members that strict enforcement of their legal rights may be inappropriate in the present context. Such would not be the case were the EPC intended to operate as an entity separate from, though closely related to, the Community. Practical justifications for avoiding Paris Union requirements are not as strong when one thinks in terms of an "international" or European patent aimed only at creating a more efficient operation for the benefit of several unrelated states.

IV. BILATERAL LEGAL RIGHTS

The legality of the restrictive approach to article 5, EPC, may be questioned under bilateral international agreements as well. The United States has commercial treaties with all six of the Community countries.⁴³ These treaties contain both national treatment and most-favored-nation clauses. The Treaty of Rome apparently takes the position that although the six member nations of the EEC may be individually bound to other states on a most-favored-nation basis, such provisions in bilateral treaties will not necessarily extend to third countries the advantages accruing to each EEC member state under

42. Compare Jecies, *Non-Accessibility of Proposed Common Market Patents of Third Party Nationals and its Effect on U.S. Convention Rights*, 9 *IDEA* 61, 71-72 (1965), suggesting that United States courts refuse to recognize prior foreign patent filings in member states of the EPC if availability of the new patent is restricted.

43. Treaty of Friendship, Establishment and Navigation with Luxembourg, Feb. 23, 1962 [1963] 14 U.S.T. & O.I.A. 251, T.I.A.S. No. 5306; Treaty of Friendship, Establishment and Navigation with Belgium, Feb. 21, 1961 [1963] 14 U.S.T. & O.I.A. 1284, T.I.A.S. No. 5432; Treaty of Establishment, Convention, with Protocol and Joint Declaration with France, Nov. 25, 1959 [1960] 11 U.S.T. & O.I.A. 2398, T.I.A.S. No. 4625; Treaty of Friendship, Commerce and Navigation with The Netherlands, March 27, 1956 [1957] 8 U.S.T. & O.I.A. 2043, T.I.A.S. No. 3942; Treaty of Friendship, Commerce and Navigation with Italy, Sept. 26, 1951 [1961] 12 U.S.T. & O.I.A. 131, T.I.A.S. No. 4685; Treaty of Friendship, Commerce and Navigation with Italy, Feb. 2, 1948, 63 Stat. 2255, T.I.A.S. No. 1965.

the Rome Treaty.⁴⁴ This position is based on the special nature of the Rome Treaty and on the "integral part" which these mutually ceded advantages play in the establishment of the Community.⁴⁵ The United States has not objected to this unilateral denial of the most-favored-nation provisions.

Four of these commercial treaties (those with France, the Netherlands, Germany and Belgium) accord national treatment regarding patent rights to United States nationals.⁴⁶ Although these clauses would not necessarily extend the *interstate* benefits of the EPC to third-party nationals,⁴⁷ it appears that the national treatment provisions would require the extension of any new *internal* right to United States nationals as well.⁴⁸ This argument parallels the one raised by the proponents of free availability under article 2 of the Paris Union with the important difference that in the trade treaties there is no recognized exception like that in article 15 of the Paris agreement.⁴⁹

The United States' treaty with Italy requires most-favored-nation treatment where patent rights are concerned.⁵⁰ It has been suggested

44. Treaty of Rome, art. 234, 298 U.N.T.S. 91. Although paragraph (1) of article 234 provides that rights and obligations under prior international conventions to which the EEC member states are parties shall not be affected, paragraph (2) calls for a "common attitude" toward the elimination of any prior obligations incompatible with the Rome Treaty and paragraph (3) provides: "Member States shall, in the application of the conventions referred to in the first paragraph, take due account of the fact that the advantages granted under this treaty by each Member State form an integral part of the establishment of the Community and are therefore inseparably linked with the creation of common institutions, the conferring of competences upon such institutions and the granting of the same advantages by all other Member States."

45. See Hay, *The European Common Market and the Most-Favored-Nation Clause*, 23 U. PITT. L. REV. 661, 676 (1962).

46. Belgium, art. V; France, art. VIII; Netherlands, art. X; Germany, art. X. The Belgian clause, which is typical, reads: "Nationals and companies of either Contracting Party shall be accorded, within the territories of the other Party, National treatment with respect to obtaining and maintaining patents of invention, and with respect to rights in trade marks, trade names, trade labels and industrial property of all kinds."

47. Cf. Ulmer, *supra* note 24, at 59-60.

48. See Hay, *supra* note 45, at 670.

49. This statement is not absolutely correct. An exchange of notes appended to the Treaty with The Netherlands, *supra* note 43, provides: "The Netherlands should continue to be able to participate in European regional arrangements which serve these areas and the broad interests of both parties, even though the Netherlands may thereafter be obliged to grant some reciprocal advantages to other participating countries which it is unable to grant to non-participating countries." In addition, article XXII(4) of the Netherlands Treaty incorporates exceptions to most-favored-nation treatment recognized under the General Agreement on Tariffs and Trade [hereinafter cited as GATT]. See text accompanying note 55 *infra*.

50. See Treaty of Friendship, Commerce, and Navigation with Italy, Sept. 26, 1951 [1961] 12 U.S.T. & O.I.A. 131, T.I.A.S. No. 4685. "The nationals, corporations and associations of either High Contracting Party shall enjoy, within the territories of the other High Contracting Party, all rights and privileges of whatever nature in regard

that this most-favored-nation clause could serve as a legal basis for a demand by the United States government that United States nationals be accorded all rights (other than those relating to trade barriers)⁵¹ which Italy would grant to nationals of other contracting states under the EPC.⁵²

Since the adoption of the General Agreement on Tariffs and Trade, to which each of the Six and the United States are parties, an exception to most-favored-nation treatment has come into existence where regional preference systems, customs unions and free trade areas involving GATT members are concerned.⁵³

ARTICLE XXIV (8)(a), GATT, provides:

A customs union shall be understood to mean the substitution of a single customs territory⁵⁴ for two or more customs territories, so that

(i) duties and other restrictive regulations of commerce . . . are eliminated between the constituent territories of the union or at least with respect to substantially all the trade in products originating in such territories, and,

(ii) . . . substantially the same duties and other regulations of commerce are applied by each of the members of the union to the trade of territories not included in the union

The "customs union exception" applies only to agreements relating to actual interstate "trade barriers." It does not permit the raising of trade barriers against other GATT members not parties to the customs union or other regional arrangement.⁵⁵ Where agreements among customs union members are not related to the destruction of internal trade barriers, an excellent argument has been made that there is no legally supportable means by which most-favored-nation treatment could be denied if it is specifically provided for in a bilateral treaty to which one of the members of the customs union is a party.⁵⁶

to patents. . . . upon compliance with the applicable laws and regulations respecting registration and other formalities, upon terms no less favorable than are or may hereafter be accorded to the nationals, corporations and associations of any third country."

51. Article XXIV, para. 3(b) of the Italian Treaty makes rights accorded a third country "by virtue of a customs union" an exception to most-favored-nation treatment. 63 Stat. 2290, T.I.A.S. No. 4685.

52. Hay, *supra* note 45, at 669.

53. Art. XXIV, paras. 5(a), 8(a), 62 Stat. 2014, T.I.A.S. No. 1765 (effective March 24, 1948).

54. Art. XXIV, para. 2 defines a customs territory as "any territory with respect to which separate tariffs or other regulations of commerce are maintained for a substantial part of the trade of such territory with other territories." 62 Stat. 2013, T.I.A.S. No. 1765.

55. Art. XXIV, para. 4, 62 Stat. 2014, T.I.A.S. No. 1765.

56. Hay, *supra* note 45, at 676-84. Mr. Hay points out that the EEC has argued for an *implied* extension of the customs union exception to areas other than those involving trade barriers on the grounds that the EEC constitutes a new economic entity

Although where the EEC is concerned this technical right to enforce bilateral treaty provisions may give way in the face of the United States' desire to encourage the growth of the Community, it is important to note that these considerations may not carry such weight where the question of availability of a general European patent or an "international" patent, not legally integrated with the EEC, is involved.

The proposed EPC contains no provision comparable to article 234, paragraphs (2) and (3), of the Rome Treaty.⁵⁷ Article 8 of the EPC provides only: "This Convention shall be without prejudice to any commitments entered into by the Contracting States by virtue of other international agreements." Furthermore, despite the close relationship between the EEC and the EPC, the EPC as a separate entity could hardly qualify under the customs union or regional arrangements exceptions of GATT. The EPC provisions for accession or association by other states in articles 211 and 212 take it out of the GATT definition since such accession or association is not contingent upon the removal of interstate trade barriers. The purpose of the EPC, as presently drafted, is not aimed at lifting trade barriers as such.

The Common Market, however, is a customs union as defined by the GATT. Although barriers raised by national patent rights are not technically trade barriers under the GATT definition, their abolition within the EEC would perform much the same function as the abolition of tariffs on intra-Community trade. The need for an EEC patent law is directly related to the achievement of economic integration and the valid distinction between national patent boundaries and tariff barriers in a non-Community context weakens considerably when the functional interrelationship between national patent rights and tariff barriers within the EEC is recognized. If the EPC were incorporated into the Rome Treaty and made an integral part of the general law of the Community, an excellent argument could be made that the customs union exception to most-favored-nation treatment should apply to the provisions of the new patent law as well.

The national treatment provisions of the treaties create somewhat more difficulty. One possible solution, if the new patent convention were incorporated into the EEC Treaty, would be the renegotiation

and therefore must be treated as a unit. Thus, none of the *inter sese* advantages need be extended under a bi-lateral most favored nation clause since this would play one part of an "economic unit" off against the other. The author indicates, however, that this argument lacks legal validity since the most favored nation principle is designed to prevent discrimination in favor of other *political* entities and until the EEC attains this status as a whole, the separate political entities which make up the economic unit should remain bound by their treaty obligations.

57. See note 44 *supra*.

of the bilateral treaties containing national treatment provisions relating to patents to insert a specific exception for the new EEC Patent. On the other hand, the rationale suggested in connection with the national treatment provisions of the Paris Union agreement would have equally valid application here without renegotiation of the treaty provisions.

The special nature of the Rome Treaty and its role in creating a supranational organization should be a valid reason for denying general rights under the Community treaty to United States nationals claimed by virtue of either most-favored-nation provisions or national treatment clauses,⁵⁸ but this reasoning cannot apply to the proposed patent convention as long as it is not integrated into the Rome Treaty as exclusively Common Market law.

The practical value of legal arguments based on treaty provisions as a means of forcing admittance of United States nationals to the benefits of the EPC is doubtful, even if the new convention were treated as an agreement separate from the Rome Treaty. On the other hand, the legal validity of the EPC under prior international agreements has caused considerable concern to its drafters. Incorporation of the EPC into the Rome Treaty should help resolve some of these doubts and put the Six in a better position to agree among themselves on the adoption of an EEC Patent, based on the proposals of the Convention.

V. THE NEED FOR AN EEC PATENT

The most practical solution to the needs of the Common Market is the creation of a Community patent with control and administration resting in the executive and judicial branches of the EEC. The proposed patent convention leans in that direction and, for the good of the Community, considerations aimed at "internationalizing" patent law should be of secondary importance to Community members. In the same vein, the question of availability should be considered, not in purely legalistic terms, but in the context of its value or detriment to the development of the Community. The economic and political interests of the United States, as well, lie in encouraging the development of the EEC. The more intimate the economic bonds within the EEC become, the less likely it will be that one nation could take the risk of withdrawing or, perhaps, of even threatening withdrawal, from the Community without serious damage to itself as well as to its partners. Further positive steps toward economic integration are especially important now in the light of the "compromise solution" reached at the January meeting of the Council of

58. Compare Hay, *supra* note 45, at 678-82.

Ministers which may have the effect of slowing the progress of the Community by encouraging unilateral economic action by the member states.⁵⁹

Since the publication of the draft of the proposed Convention, there has been considerable discussion concerning the possible effects on the EEC of limiting or not limiting the availability of the new patent. Since some of the contentions raised are specious and most have already been adequately considered elsewhere, they will not be treated here.

It is the purpose of the remainder of this article to demonstrate the validity of two propositions: (1) That a common patent law based on the aims and needs of the EEC is a necessary adjunct to the goals of economic integration; and (2) that making the patent freely available to nationals of non-EEC states, while a necessary element in the achievement of those goals, need not be a stumbling block to the initial adoption of a new Community patent system.

A. *The Rules of Competition and the European Patent*

The rules of competition of the EEC are set forth in articles 85 and 86 of the Treaty of Rome. They are implemented by regulation No. 17, issued by the Commission under the authority of article 87. The rules presuppose that enterprises within the Community are engaged in competition for a share of a "common" market.⁶⁰ The key factor in this presupposition is the existence of a market which is truly "common" to the six member states. The rules of competition are designed not only to preserve competition between enterprises in such a market but to encourage the free flow of goods across national boundaries by preventing restrictive agreements which would divide the market into separate economic segments.

The lack of uniformity in the national patent laws tends to encourage, rather than discourage the division of the Common Market into separate economic units by forcing prospective patentees and licensees to think and act in terms of territorial borders rather than in terms of a market common to all competing interests. Consequently, where patented products are concerned, a distortion of

59. The Ministers agreed that in the case of decisions which may be taken by a majority vote on a proposal of the Commission, if "very important interests" of one or more of the member states were at stake, an attempt would be made to reach a decision unanimously. The Council noted, however, a "divergence of views" as to whether such discussions *must* be continued until a unanimous decision had been reached. 2 CCH COMM. MKT. REP. ¶ 9084. See also note 7 *supra*.

60. See Kronstein, *The Significance of Provisions Concerning Restraints of Competition Within the Total Perspective of the European Coal and Steel Community Treaty and the European Economic Community Treaty*, in I CARTEL AND MONOPOLY IN MODERN LAW 132 (1961).

trade within the Community occurs. Patented products cannot cross national borders without reference to the rights granted by individual states under their national patent laws. Under the present system of national laws, protection throughout the Community cannot be obtained unless the same product or process is patented in each of the six member states. Whenever such multiple patenting occurs, the patentee is given the power to divide the market for his product on national lines because the operation of the doctrine of "exhaustion" of patent rights is confined to the territory of the state which has granted the patent in question.

The doctrine of "exhaustion" is based on the theoretical justifications of the patent system itself. A patentee is granted a monopoly for a limited time to allow him to gain a greater reward for his inventive efforts than would be available if he were forced to compete with other producers of articles embodying his inventive idea. The availability of such a preferred position is intended to encourage inventive activity and thereby benefit society in general. It is presumed that when the patentee sells an article embodying his inventive idea, he may charge whatever a purchaser is willing to pay for that article without facing the rigors of competition—usually the offer of the same product by a competitor at a lower price. The purchaser may resell or use the patented article without restriction, though he may not reproduce it. To do so would amount to a general use of the inventive idea for which the patent was granted rather than use of the specific article for which the patentee's "tribute" has been paid. Once the patentee has sold a patented article he is presumed to have reaped his reward—represented by a presumed increment in the selling price attributable to his monopoly position—and may therefore no longer exercise monopoly powers over that particular article.

If a patentee holds a patent on the same invention under each of the six national patent systems within the EEC, he possesses six separate patent rights. Therefore, although sale of a patented article "exhausts" his monopoly over that article in the state of the sale, the patentee retains the right to prevent the importation or sale of that same article in each of the other five states. Furthermore, since he may license rights under each of his national patents separately, he may grant to others the right to restrict the movement of that particular article in the flow of commerce within the "common" market. This is precisely the kind of trade restriction which the rules for the regulation of competition are designed to prevent.

It is for this reason that article 20 (a) was included in the proposed patent convention.

ARTICLE 20(a).

The rights attached to a European Patent shall not extend to acts concerning a patented article covered by the said patent which are done on the territory of Contracting States after the proprietor of the patent has put that article on the market in one of these States.

In addition article 2 (2) provides that a patent "may only be assigned or permitted to lapse in respect of the whole of this territory [of the Contracting States]." Article 7 prohibits the simultaneous enjoyment of rights under the Convention Patent and under national patent laws "in so far as the invention originates from one and the same inventor." These three articles, together, represent a major step toward solving the problems created by the simultaneous existence of national patent systems and supranational regulations aimed at preserving interstate competition.

It has been suggested that some of these same benefits could be obtained without the adoption of a Common Market Patent Law. Dr. Norbert Koch and Dr. Franz Froschmaier, staff members of the EEC Commission in the General Directorate for Competition, suggested last year that the problems of parallel patenting and national patent boundaries limiting the operation of the doctrine of exhaustion could be solved within the Community under the rules for the protection of competition alone.⁶¹ Pointing out the "fictional independence of parallel patents in the context of the field of competition,"⁶² Koch and Froschmaier advocated the use of "the competitive concept of economic policy under the Rome Treaty"⁶³ to achieve two goals: First, that an attempt to prevent the export of a patented article from a state in which it has been sold to another state in which it still enjoys patent protection be treated no differently under the Treaty competition rules than any other export prohibition where patents are not involved;⁶⁴ and, secondly, that the

61. Koch & Froschmaier, *Patentgesetze und Territorialitätsprinzip im Gemeinsamen Markt*, 1965 GRUR, ausl. Teil 121, reprinted as *The Doctrine of Territoriality in Patent Law and the European Common Market*, 9 IDEA 343 (1965) (English translation).

62. *Id.* at 126 ("die fiktive Unabhängigkeit paralleler Patente für den wettbewerbsrelevanten Raum"), 356.

63. *Id.* at 125 ("die wettbewerbspolitischen Ordnungsvorstellungen des EWG-Vertrags"), 354.

64. The EEC Commission has already indicated a willingness to disregard traditional industrial property concepts in favor of unrestricted intra-Community competition. In September 1964, the Commission ruled that a German manufacturer of electrical appliances could not, by means of exclusive distributorship agreements, prevent the export of its products from one member state to another by persons not parties to the distributorship contract. This was true even though a special trademark (GINT) was registered in the name of each exclusive distributor in the country in which he operated and the products imported by third parties without the distributor's or the manufacturer's permission also carried the GINT mark.

application of the competition rules be independent of the patent legislation of each member state.⁶⁵ To achieve this end, the writers suggested that "exhaustion" of all parallel patent rights in a single article take place whenever the protected article is introduced, by the patentee or one authorized by him, into commerce in a state in which it has patent protection.⁶⁶

The Koch-Froschmaier approach admittedly does violence to the traditional territorial theory of patents.⁶⁷ But the entire structure and operation of the EEC does violence to traditional theories on every hand. The EEC is a "new animal." Its supranational character and its successful future development require a fresh approach to the solution of new problems. If it allows itself to be bound by tradition or by theories developed in a different context, it can never achieve the degree of economic, social and, eventually, political integration which its most avid supporters seek.

Adoption of the Koch-Froschmaier suggestion will not remedy all of the difficulties which the proposed European Patent is designed to cure. There would still remain the problem of varying provisions and interpretations of national patent laws, the different examination systems, and the multiplicity of patent offices, rules and regulations. Therefore, it is in no sense a substitute for a true EEC patent. But even under the new patent convention it is necessary that national patent laws be retained to continue patent protection already granted under them and to avoid the political difficulties inherent in an immediate elimination of national patent systems. If the territorial nature of patents is preserved under these laws, their operation side-by-side with the new patent system would militate against the achievement of the major goals which the new patent is designed to accomplish—freeing the flow of intra-Community trade and elimi-

In summarizing its position, the Commission said: "Absolute territorial protection appears as particularly noxious to the realization of the Common Market in making more difficult or in preventing the alignment of the market conditions of the products covered by the contract in the Common Market. . . . [I]t appears expedient to require Grundig and Consten to refrain from obstructing or impeding, by any means whatsoever including the use to this end of the "GINT" trade mark, the parallel import of Grundig products into France. This obligation does not prevent Consten from exercising its rights over the "GINT" mark against third parties, in so far as it does not act to obstruct or impede the parallel imports of Grundig products into the contract territory." Re the Agreement of Grundig Verkaufs-GmbH [1964] C.M.L.R. 489, 504.

This case was viewed by many as a test of the Commission's power to apply the principles of the Competition Rules to the exercise of industrial property rights within the Community.

65. Koch and Froschmaier, *supra* note 61, at 124, 351.

66. *Id.* at 127, 358.

67. See, for example, the criticism of the Koch-Froschmaier suggestion in Monnet, *Die Territoriale Wirkung von Patenten im Gemeinsamen Markt*, 1965 GRUR, ausl. Teil 302.

nating restrictions on intra-Community competition. Application of the Koch-Froschmaier proposal to the remaining national patent rights, therefore, appears essential to the success of the new European patent in the context of the aims of the Community.

B. *The Practical Effect of Free Availability*

Despite the fact that the EEC can adopt a legal position which would justify limiting the availability of the new patent to nationals of its member states, such a limitation, imposed indefinitely, would defeat the purpose of the new patent as a means of advancing economic integration.

The most prevalent practical argument in favor of restricting the availability of the proposed patent is that free availability would permit the domination of the Community by nations which have large research and development facilities, *e.g.*, the United States, resulting in "economic subjugation" of the EEC by outside interests.⁶⁸ This contention is of doubtful validity.

Patents are obtained by nonnationals in foreign countries for one or more of three general purposes: To protect patented products exported into the country where patent protection has been procured; to protect products to be manufactured in that country by a branch or subsidiary; and to serve as the subject matter of a license to a national of that country allowing him to make, use or sell the product in return for royalties or for licenses on patents held by the foreign licensee in the licensor's own country (cross-licensing or grant-back).

Limiting the availability of the proposed patent would have little effect on the operations of those foreign firms which actually have "establishments" within the member states of the EPC.⁶⁹ Where a manufacturing subsidiary has been established, that subsidiary would normally receive the status of a national under article 58 of the Treaty of Rome.⁷⁰ Thus, even under variant 2 of article 5, EPC, an American company, having a subsidiary in the Common Market,

68. Armengaud, *Political Aspects of Accessibility to the European Patent*, 7 PTC J. RES. & ED. 314, 317 (1963); Meller, *Towards a Multinational Patent System*, 44 J. PAT. OFF. SOC'Y 227, 244 (1962); Weiser, *Patent and Antitrust Developments and Prospects of the European Economic Community*, 8 PTC J. RES. & ED. 1, 8-9 (1964) (quoting M. André Armengaud, Patent Attorney and Member of the French Senate); *Study Regarding International Cooperation in the Patents Field*, 5 IND. PROP. Q. 45-46 (1960).

69. Compare note 22 *supra*.

70. Treaty of Rome, art. 58, para. 1, 298 U.N.T.S. 40, provides: "Companies constituted in accordance with the law of a Member State and having their registered office, central management or main establishment within the Community shall, for the purpose of applying the provisions of this Chapter, be assimilated to natural persons being nationals of Member States."

could protect its inventions through its "captive national" in an EEC state.⁷¹ A branch operation, of course, would not receive this same benefit.

Where an American firm exploits its foreign patents primarily by licensing them to European companies, it is difficult to understand how such activities could have an adverse effect on the economy of the EEC since this practice makes available the products of American research for local use. Limiting the availability of an EEC patent would make it more difficult to license American-held patents within the Community since any EEC firm would probably hesitate to accept a license or a series of them under national patents unless patent protection could be guaranteed throughout the entire area of the Common Market.⁷² Smaller American companies which cannot afford to set up their own operations within the Community would be put at a special disadvantage.

The amount of foreign licensing activity engaged in by United States companies is to a large extent still unknown. One survey of 186 larger United States firms included the following table showing the extent of their foreign licensing activities:⁷³

Per cent of Responding Companies	Per cent of Foreign Patents Licensed
17%	0%
15	1-5
7	10
15	11-49
20	50-95
16	100

From these figures it would appear that licensing is not a primary motive of the larger companies for procuring foreign patent protection since only a little more than one-third of these companies license more than fifty per cent of the patents they hold abroad. Eighty per cent of the firms reporting indicated that obtaining protection within a foreign market for their *own* products was their primary objective in acquiring foreign patents.⁷⁴ Many firms use licensing only as a last resort when opportunities for exporting as a means of

71. See Armengaud, *supra* note 68, at 318; Ladas, *supra* note 30, at 1207; Robbins, *The Proposed New European Patent*, 5 PTC J. RES. & ED. 217, 232 (1962).

72. See Robbins, *supra* note 71, at 232.

73. Behrman, *Licensing Abroad Under Patents, Trademarks, and Know-How by United States Companies*, 2 PTC J. OF RES. & ED. 181, 185 (1958).

74. *Ibid.*

expanding foreign markets seem to have irreparably declined.⁷⁵ It is no doubt true that restricting the availability of the proposed patent could have a drastic effect on United States export trade in patented products with the EEC member states, particularly if it were impossible to obtain national patent protection in all six states to assure that a product would not be the target of wholesale copying and sale in those states where it was not protected.

It seems, however, that the threat of domination of the EEC as a whole by United States firms who export patented products is negligible. American firms appear to acquire foreign patents in terms of individual business policy rather than on a whole-sale "let's patent in Europe" plan.⁷⁶ The Berman Survey bears this out. Of those companies having 1000 or more United States' patents, the number of foreign patents held, excluding patents in Canada, ranged from 1% to 100% of the patents held domestically. The overall figure, based on returns from ninety United States firms showed that only 28% of the inventions patented in the United States were also the subject of foreign patents held by those firms or their subsidiaries.⁷⁷ United States nationals stood third (behind Great Britain and Germany) in the percentage of domestic patented products also patented abroad.⁷⁸ There is no indication that a significant change in this pattern would occur if the European patent were made available to nationals of non-EEC states.

It is conceivable that a combination of the common tariff wall and the reduction of trade barriers within the Common Market could lead to an increase in patenting there by foreigners, particularly with the introduction of a true EEC patent. But these factors would also tend to increase the use of patent licenses and direct investment, both of which would be beneficial to the EEC economy. While fear of American domination is strong in Europe, particularly among the French,⁷⁹ it appears to be generally recognized by the Europeans that a continual flow of United States capital is necessary if the Com-

75. Behrman, *Advantages and Disadvantages of Foreign Licensing*, 2 PTC J. RES. & ED. 137, 143 (1958).

76. For example, Westinghouse does most of its foreign business via licenses; General Motors concentrates on direct investment; General Electric falls somewhere between the two. Each approach would have different implications relevant to the number of patents needed and the extent to which foreign patenting would be required. See *id.* at 142.

77. See Behrman, *New Data on Foreign Licensing*, 3 PTC J. RES. & ED. 357, 358 (1959). The author points out that "these averages are not 'representative' since they are strongly affected by the policies of the few large companies included, which patent most of their inventions abroad."

78. Sanders, *American Inventiveness v. Foreign Inventiveness*, 5 PTC J. RES. & ED. 114 (1961).

79. See *France Says Policies Reflect Determination Not to Become an Economic Colony of U.S.*, Wall Street Journal, Feb. 24, 1966, p. 8, col. 2.

munity is ever to develop industries of sufficient size and efficiency to compete in the world market.⁸⁰

The contention that individual member states might be dominated by American investment at the outset before the Community has achieved complete economic integration⁸¹ is refuted by the continuing power of these states to control foreign investment within their borders when such investment is made by non-EEC nationals, subject, of course, to the provisions of article 73. This argument tends to reflect the desire on the part of some groups within the Community to be treated as individual states when it suits their purposes and to be considered as members of an economic unit when that would be most beneficial. It is somewhat difficult to determine whether the expression of these fears concerning "economic subjugation" is meant seriously in all quarters or whether it merely represents a desire on the part of the proponents of limited availability to establish a bargaining position to be discarded if other concessions can be gained.⁸²

Furthermore, limiting the availability of the new patent indefinitely would serve to defeat one of the major aims of adopting an EEC patent—the eventual disappearance of the national patent laws. If the availability of the new patent is limited to nationals of EEC states, nonnationals would be effectively forced to continue to seek protection under the national patent systems, thus encouraging their continued use by a substantial number of patentees. The second paragraph of variant 2, article 5, would require the preservation of national patent rights as an integral part of the new Convention.

In terms of the continued development of the Community, a restrictive attitude toward foreign investment—and, thus, toward foreign patentees—is hardly compatible with the general trade policies, both internal and external, established by the Treaty of Rome. In the words of Dr. Haertel, it is "unduly idealistic and unrealistic" where industrial property is concerned.⁸³ There is no need to establish an economic *Festung Europa*.

On the other hand, the need for a true EEC patent should make a compromise solution attractive to the Six as well as to the United States if a reasonable alternative to total availability or total non-availability can be found. In 1963 Dr. D. A. Was of the Netherlands suggested the creation of a patent of initially restricted availability

80. See Smith, *Nationalism Threatens U.S. Investment*, *Fortune*, Aug., 1965, pp. 126, 230.

81. See e.g., Armengaud, *Political Aspects of Accessibility to the European Patent*, 7 *PTC J. Res. & Ed.* 314, 317 (1963), stressing the fact that the EEC should not yet be considered economically unified.

81. See Weiser, *supra* note 68, at 9, 10, 19.

83. *Id.* at 8.

with full availability accruing after the new patent system had been in operation for a sufficient length of time to observe its merits.⁸⁴ Dr. Was's suggestion was based on technical and financial problems but he recognized the political considerations involved as well. This suggested compromise should be reexamined in the light of present political realities. If substantial agreement can be obtained within the Community on such a measure, it should be implemented.

Neither United States policy nor the policy of the states of the Common Market should be based on legalisms or on nationalistic considerations unrelated to practicalities. If the Community is to grow, the problem of national industrial property rights must be solved. The legal claims which the United States has under the Paris Union Convention or under its bilateral treaties may be valid ones, but the admonition of Raymond Vernon, former chief of the State Department's International Business Practices Division, prior to the Lisbon revision conference, is valid in the present context as well.

The extraordinary character of the right sought through an international patent should condition both what we demand in such a convention and the insistence with which we demand it. Where we are convinced that a mutual interest exists in having another nation grant exclusionary rights to foreigners through patent grants, we should have no hesitation in trying to persuade it to our point of view. But we must always recognize the extraordinary nature of our demands, especially as seen through the eyes of nations which view the domination of foreigners in their international economic affairs as a real possibility.⁸⁵

Representatives of the United States should encourage agreement within the EEC on the question of industrial property, even if this involves the sacrifice of short-term interests for the sake of long range goals on both sides of the Atlantic. The legal and practical considerations favoring "availability" of an EEC patent are strong in terms of the interest of both the United States and the Common Market. If the EEC would incorporate the proposed patent system into the Treaty of Rome and guarantee a right of availability at a specified later date, perhaps by an agreement at the 1968 revision conference of the Paris Union Convention in Stockholm, the United States should accept a limited availability for the time being.

This approach would accomplish three ends. It would assure American nationals and nationals of all Paris Union countries that the patent would become freely available at a fixed date. Secondly,

84. See generally Was, *Access to the European Patent*, 7 PTC J. RES. & ED. 7 (1963).

85. Vernon, *The International Patent System and Foreign Policy*, Publications of the Subcommittee on Patents, Trademarks, and Copyrights of the Committee on the Judiciary, U.S. Senate, 85th Cong. 1st Sess., No. 5, p. 34 (1957).

confining the new patent to the EEC would provide assurance that other nations could not join in the limitation of multilateral patent protection merely by acceding to an "open-end" EPC. Full accession, or at least association, with the Community would be required as well, a step which could not be undertaken lightly. Thirdly, if the legal justification for allowing the limitation were couched in terms of the special needs of the EEC, no precedent for future avoidance of article 2 of Paris Union would be established unless those same special needs could be shown, a condition not very likely to occur within the immediately foreseeable future, and then only in the context of another "community" undertaking which it might well be to American advantage to encourage.

