

# British Law and the EEC

*How litigation in Great Britain is affected by membership in the EEC*

BY MICHAEL BURNSIDE\*

"This is the first case in which in this court we have had to consider the Treaty of Rome."

With these historic words, on May 18, 1974, the Master of the Rolls (Chief Judge) of the English Court of Appeal commenced his first judgment on the effects of membership of the European Economic Community on an action pending before his court. This was only some 17 months after the United Kingdom joined the European Economic Community. What was said in that judgment or opinion is very significant for those of us whose activities are affected in any way by British law. Moreover, as the case being considered was an Industrial Property case, it is important that everyone



*M. Burnside* concerned with licensing and the use of Industrial Property Rights should follow closely the developments and the changes in this new field of law.

This article is an analysis of how membership of the European Economic Community is affecting litigation in the British Courts. *Les Nouvelles* has published a number of articles and speeches analyzing the effect on Industrial Property Rights in the Member States of cases decided by the Commission of the E.E.C. or the European Court of Justice. The reverse process, how the national courts of a Member State have concluded that their jurisdiction has been changed or preempted, has been dealt with less frequently.

The aspect of European Economic Community Law with which we are primarily concerned is Articles 38, 85, 86 and 177 of the Treaty of Rome. Many readers of *Les Nouvelles* must know generally the content of one or more of these Articles but it is possible that Article 177, which may be the most important in the present context, is the least familiar. Its text is therefore set forth below.

"The Court of Justice shall have jurisdiction to give preliminary rulings concerning:

- (a) the interpretation of this Treaty;
- (b) the validity and interpretation of acts of the institutions of the Community;
- (c) the interpretation of the statutes of bodies

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established by an act of the Council, where those statutes so provide.

"Where such a question is raised before any court or tribunal of a Member State, that court or tribunal may, if it considers that a decision on the question is necessary to enable it to give judgment, request the Court of Justice to give a ruling thereon.

"Where any such question is raised in a case pending before a court or tribunal of a Member State, against whose decisions there is no judicial remedy under national law, that court or tribunal shall bring the matter before the Court of Justice."

Article 177 therefore provides the route by which a case can effectively be transferred from a United Kingdom Court to the European Court of Justice as the E.C.J. has jurisdiction to give preliminary rulings concerning the interpretation of the Treaty of Rome.

Article 36 is one of the less clear provisions of the Treaty. It specifically says that prohibitions or restrictions on imports or exports "justified on grounds of . . . . the protection of industrial and commercial property" may be permissible. This article has already led to a number of requests for preliminary rulings by the European Court of Justice.

There can be few readers of *Les Nouvelles* who are not familiar, in some way, with Articles 85 and 86 of the Treaty of Rome. Together these are known as the "competition clauses" of the Rome Treaty.

Article 85 deals with the effects on competition of agreements decisions, or concerted practices between undertakings. Its prime object is to make it illegal to prevent, restrict or distort competition within the Common Market.

Article 86 deals with the abuse of a dominant position within the Common Market or a substantial part of it.

## EUROPEAN COMMUNITIES ACT 1972.

The United Kingdom joined the European Economic Community on January 1, 1973. The legal instrument by which this was effected is the European Communities Act, 1972. Section 2(1) of this Act reads as follows:

"All such rights, powers, liabilities, obligations and restrictions from time to time created or arising by or under the Treaties, and all such remedies and procedures from time to time provided for by or under the Treaties, as in accordance with the Treaties are without further enactment to be given legal effect or used in the United Kingdom shall be recognized and available in law, and be enforced, allowed and followed accordingly; and the expres-

sion enforceable Community right and similar expressions shall be read as referring to one to which this subsection applies."

From this statutory provision, we have the sweeping change by which Community or Common Market Law takes precedence over United Kingdom Law. The quoted language also means that rights arising under Community law can be enforced in the law courts of the United Kingdom. The magnitude of the change becomes immediately apparent. No longer are the courts of this country the supreme arbiters of any disputes between two parties. No longer is the law of the United Kingdom the only law which must be considered. Litigants have not been slow to seize upon the opportunities of putting forward a new attack or defense and in the two years up to the end of 1974, there have been a number of reported cases, where the judges have been asked to consider the effect of membership of the European Economic Community.

The nature of these new attacks or defenses will now be explained with reference to the Articles of the Rome Treaty referred to above.

#### ARTICLES 85 AND 86 — THE COMPETITION CLAUSES

The effect of these two articles on licensing and Industrial Property litigation in the United Kingdom may be startling. Antitrust causes of action may now be permissible in patent, trademark and copyright actions and must therefore be taken into account in any licensing program. So far, the most important pronouncement on this has been made by the Court of Appeal in *Application des Gaz S.A. v Falk Veritas*, the first case in which they considered the Treaty of Rome.

The plaintiffs were a French company which designed a gas cartridge suitable for fueling domestic camping equipment. They granted an English company, PTC-Langdon Ltd., the exclusive right to manufacture the cartridges of gas in the United Kingdom. They also granted the defendants in this action, Veritas, a license to make a similar cartridge, but of a different shape, in return for royalties. After some time, Veritas began producing cartridges of the same shape as the French company but of a different color. The plaintiffs applied for an injunction to prevent further breaches of copyright by Veritas who denied the existence of a copyright.

The pleadings in the action were drawn up in 1972. In June 1973 Veritas applied to amend their defense. They claimed that the French company, in conjunction with their English concessionaires, had abused their dominant position in the Common Market contrary to Article 86 of the Treaty of Rome and that the French company and its English concessionaires had joined in a concerted practise contrary to Article 85.

After a lengthy analysis of the effect of the Rome Treaty the Court of Appeal, through the Master of the Rolls, concluded as follows:

"Articles 85 and 86 are part of our law. They create new torts or wrongs. Their names are undue restriction of competition within the Common Market; and abuse of dominant position within the Common Market. Any infringement of those Articles can be dealt with by our English Courts. It is for our courts to find the facts, to apply the law, and to

use the remedies which we have available. If it should turn out, after finding the facts, that it is necessary to seek the opinion of the European Court — on a point of interpretation of the Treaty — the English courts can refer that point to the European Court. But the eventual decision of the case is for our English courts. It is for us to give the judgment and to enforce it. It is a task worthy of our mettle."

What exactly does this mean? Can we expect that, in the future, defendants in a High Court action in the United Kingdom will be able to plead antitrust defenses in a way which has been standard practice in the United States for many years? The Commission of the European Economic Community has already indicated that various clauses agreements which are commonly used in English patent licenses may be objectionable under Article 85(1) and not subject to negative clearance under Article 85(3). Only time and further decided cases may provide the answer but the door now appears to have been opened to the pleading of antitrust causes of action in Industrial Property Litigation in the United Kingdom.

#### Other Cases

Several other cases have also dealt with the effect of Articles 85 and 86. In *Aero Zip Fasteners v. YKK Fasteners* the defendants in an action for patent infringement pleaded that an injunction should not be granted against them because of the provisions of Articles 85 and 86. The judge said that these articles cannot be pleaded as a general defense without some form of justification and evidence of that justification. He was satisfied on this score because a complaint alleging violation of Articles 85 and 86 was lodged at Brussels and the EEC Commission had initiated proceedings in accordance with Regulation 17. The interesting point here is the sequence of events. The complaint was lodged in Brussels by affiliated companies of the defendants after an amended defense had been served in the High Court action in Britain. Whether the patent infringement action in the United Kingdom had prompted the defendants to start the proceedings in Brussels is unclear. What may happen, if the two sets of proceedings continue at the same time, is a legal situation which may pose Conflict of Laws problems of substantial complexity.

The judgment of the Master of the Rolls in *Application des Gaz S.A. v. Falk Veritas Limited* set out above clearly states that the English courts can consider whether there has been any infringement of Articles 85 and 86. Let us assume a situation where an English Court gives relief to a plaintiff on the basis that there has been no infringement of these articles. In separate, but related proceedings at Brussels, the Commission of the EEC reaches an opposite conclusion. What then will the English Court do? As yet, there is no authority on the point.

#### Lesser Cases

For completeness two other cases will be mentioned very briefly. They are either of limited importance or will act as no real precedent in view of the circumstances in which they were decided.

In *Esso Petroleum Co. Ltd. v. Kingswood Motors and Others*, the defendants argued that an agreement dating

from 1969, by which they had agreed to sell at a certain garage only gasoline or petrol distributed by Esso was unenforceable because of Article 85. The court rejected this contention and said that they were entitled to assume that such a solus agreement was valid until a declaration to the contrary had been made by the EEC Commission.

In August 1970, J. Bollinger S.A. and others sued Goldwell Ltd. for passing off, by the offer for sale of drinks not originating in the Champagne District of France with the assistance of advertising material bearing the word "Champagne". In October 1970 the defendants, Goldwell, Ltd., approached their trade association for assistance and, as a result, in October 1970 began, with other parties, a parallel action (*Bulmer v. Bollinger*, see below) against the present plaintiffs claiming that they were entitled to use the word 'Champagne' in connection with cider and perry.

J. Bollinger S.A. — the plaintiffs in the present action — attempted to amend their pleadings by adding these other parties as defendants, and extending the relief claimed so as to include a declaration that all the defendants had jointly conspired in breach of Article 85 of the Rome Treaty. The judge rejected the proposed amendment, on the basis that the action would then involve issues very different from those for which it had been started. This leaves open the question as to whether, in a newly started legal proceeding, one party might include a cause of action of this nature. It is a not uncommon practice in the United Kingdom for the defendant in a lawsuit to be financially assisted by the companies in his trade.

#### ARTICLE 177 — REQUESTS FOR A PRELIMINARY RULING.

This article says that the Court of Justice has jurisdiction to give preliminary rulings concerning the interpretation of the Treaty. Any court of a Member State may request the E.C.J. to give a ruling if it considers that this is *necessary* to enable a judgment to be given. It is by this procedure that litigants can effectively transfer a case from an English court, or other national court, to the European Court. What has been happening is that one party to a lawsuit has argued that the English court should ask for a preliminary ruling and the other party has argued that the law is clear and that no reference need be made at all, or that no reference is *necessary* at the particular stage of the action which has been reached. The judges have considered these conflicting contentions in several cases.

In *Löwenbrau Munchen and Another v. Grunhalle Lager International Ltd.*, the plaintiffs sued for passing off by the sale of a beer in England under the name "Grunhalle Löwenbrau". The beer had been brewed in the Channel Islands. In England, so said the plaintiffs, the word "Löwenbrau" was distinctive of a beer originating with them. The defendants countered by saying that in Germany there were many brewers who used the name "Löwenbrau". Thus, if the plaintiffs were allowed to stop them using the name "Löwenbrau" in England, this would amount to a disguised restriction on trade between Member States. The plaintiffs were seeking an interlocutory injunction and the defendants argued that the matter should be referred to the European Court of Justice for a preliminary ruling. They said there should be a stay in the proceedings while the reference was being made. As the

normal period for the E.C.J. to give such a preliminary ruling is about six months, and the essential purpose of an interlocutory injunction is quick relief, the defendant's argument, if accepted, would have considerably affected the normal British judicial process.

#### Law Clear

Fortunately for the plaintiffs the Judge ruled that no reference to the European Court of Justice was necessary to help him decide the case. The relevant law was clear. He did say that he, even as a judge of first instance, had the power at any stage of a case to make a reference if he feels that the interpretation of the E.C.J. was necessary and left open the question as to whether he would have granted the interlocutory injunction had he decided to order a reference.

In *Van Duyn v. The Home Office*, Van Duyn was a scientist from the Netherlands who was refused permission to enter England on the grounds of public policy. She claimed that this refusal was a breach of Article 48 of the Rome Treaty and requested that the case should be referred to the E.C.J. for a preliminary ruling on the interpretation of Article 48. The Home Office (the British Government) argued that the English courts should first try the action and the reference, if made at all, should follow thereafter. The judge concluded that there was no point in him trying the action when there was no substantial issue of fact and no issue of national law. On February 14, 1974 he ordered an immediate reference to the E.C.J. This is believed to be the first such order made by an English court.

Thus in a little over 12 months after joining the European Economic Community, an English judge had decided that there was no point in his trying a case without a preliminary ruling from the E.C.J. A few months after this, on May 22, 1974, the Court of Appeal was asked to consider the issue for the first time.

*Bulmer v. Bollinger* was a passing-off action started in 1970 and the issue was the use of the word "Champagne" by English producers of "Champagne" Cider and "Champagne" Perry. The French Champagne producers claimed that the word "Champagne" was a term that could only be used in respect of wine produced in the Champagne district of France. In 1973, after the accession of the United Kingdom to the E.E.C., the French producers also claimed that the use of the word "Champagne" by the English producers was contrary to certain E.E.C. regulations. In other words, membership of the E.E.C. had changed a simple passing-off action into something that was quite different. Once again, a request was made that the matter should be referred to the E.C.J. for a preliminary ruling. The Court of Appeal considered the effect of the Rome Treaty in some detail and in a passage, which is bound to be much quoted in the future, observed as follows:

"But when we come to matters with a European element, the Treaty is like an incoming tide. It flows into the estuaries and up the rivers. It cannot be held back. Parliament has decreed that the Treaty is henceforward to be part of our law. It is equal in force to any statute."

The supremacy of the Rome Treaty was clearly acknowledged but, in this particular case, they held that

no reference was necessary. A High Court judge was not bound to refer a question of law within the meaning of S2(1) of the European Communities Act 1972 to the E.C.J. Under Article 177(a) he had a *discretion* whether to refer such a question to the E.C.J. or to decide it himself. In deciding it himself he should apply the principles of interpretation applied by the E.C.J. A judge is only entitled to refer questions on which he considers that a decision is *necessary* to enable him to give judgment. References should be made sparingly and only if serious problems of interpretation arise. Generally it would not be possible to ascertain whether it was "necessary" to refer a point until all the facts had been established. The judge should take into account when deciding whether to obtain a ruling from the E.C.J., the expense involved, the time that it would take, the wishes of the parties, and the importance and difficulty of the point.

#### Courts Seek Guidance

Thus by the middle of 1974, the Court of Appeal had recognized that the English courts were no longer independent and should, when appropriate, seek guidance from the European Court of Justice.

Only a short time ago, on March 13, 1975, in *E.M.I. Records Ltd. v. C.B.S. United Kingdom Ltd.*, a judge decided that he could not continue a case without a preliminary ruling from the E.C.J. E.M.I. sued C.B.S. for trademark infringement by the use of the word "Columbia" on gramophone records. They asked for an interlocutory injunction. In English law, so said the judge, E.M.I. were clearly entitled to relief. However, it might be that in EEC law the defendants had a complete answer. He therefore ordered an interlocutory injunction but directed that all further proceedings in the action should be stayed while a reference was made to the court in Luxembourg for a ruling under Article 177.

#### ARTICLE 36 AND THE EXHAUSTION OF THE INDUSTRIAL PROPERTY RIGHT

Some years ago it was felt by many people that because of Article 36, the value of Industrial Property Rights was substantially undisturbed or unaffected by the Treaty of Rome. It is only in recent years that we have seen the growth of the distinction drawn by the E.C.J. between the grant of a patent or trademark right or the like and the exercise of that right. The principle of the exhaustion of a right, once it has been exercised by the patentee is now becoming more widely recognized.

*LeRose Ltd. and Another v. Hawick Jersey International Ltd.* was decided on November 29, 1972. The complaint was an alleged infringement of Statutory Copyright by the sale of certain fabrics.

The defendants said that they had many competitors in the Common Market and that when the United Kingdom joined the Common Market in some five weeks time, they were hoping for an increase in business with customers in Common Market countries. If they were prevented from manufacturing in the general way they proposed, the effect on their business would be catastrophic. They claimed, *inter alia*, that after the 1st January 1973 an injunction against them would amount to a breach of Article 36. The court held that where there is no evidence that the

plaintiffs in an action for breach of copyright are using the provisions of the Copyright Act 1956 to bring about an arbitrary discrimination, or disguised restriction on trade, no question of a breach of Article 36 arises. As both plaintiff and defendant were British companies, it is unclear why the defense could not have been dismissed without reference to Article 36.

In *Minnesota Mining and Manufacturing Co. v. Geerpres Europe Ltd.*, the defendants were attempting to sell in the United Kingdom, abrasive pads which had been effectively obtained from a licensee under one of the plaintiff's United States patents. The plaintiffs sued for infringement of their British Patent by the importation of these abrasive pads from the United States. The defendants referred to the principle of exhaustion of the patent right which EEC law was tending to adopt. No argument was apparently directed to the fact that the alleged license under a parallel patent related to a United States patent rather than a patent in another Common Market country. Again their argument was unsuccessful.

#### Extended Analysis

It was not until towards the end of 1973 that we had the first extended analysis of the concept of the exhaustion of the Industrial Property Right. *Löwenbrau Munchen v. Grunhalle Lager* is referred to above in discussing the powers of a British judge to make a reference to the European Court of Justice under Article 177. Here the judge held that the exercise of the common law right to prevent passing-off in respect of the name Löwenbrau in England was not an illegal act, in terms of Article 36, because he was dealing with the situation in England and the Plaintiff's reputation in England. He was not concerned with the fact that in Germany the plaintiffs had no monopoly in the use of the name Löwenbrau. Thus the plaintiffs possibly had wider rights in England than in their home country of Germany. This is a somewhat surprising conclusion.

As yet there is no consistent pattern to the decisions dealing with the applicability of Article 36. This is aptly brought out by a quotation from *E.M.I. Records Ltd. v. C.B.S. United Kingdom Ltd.*, which, as mentioned above, was decided on March 13, 1975. The Judge is reported as saying that, "Common Market law at the moment is still in many respects, certainly so far as industrial property is concerned, in a formative stage, and the doctrine of free circulation of goods has not yet been fully worked out. Decisions sometimes even inconsistent and illogical, may well be given by the various courts concerned until wider Common Market rights displace existing national rights."

#### THE FUTURE

As stated at the beginning of this article, the analysis of cases decided so far in the United Kingdom has been meant to show how the courts of one national jurisdiction have attempted to meet their obligations under the Treaty of Rome; how they have attempted to follow the decisions of the European Court of Justice or to refer to them for a ruling on a point of law, if it was felt necessary.

What may not be clear from a discussion of the cases is

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that the great majority of those reported have dealt with Industrial Property. Thus the field of licensing is one of the prime areas affected by membership of the European Economic Community. It follows therefore that any consideration of a significant licensing program involving the United Kingdom is incomplete unless the Treaty of Rome is borne in mind. However, the future is shrouded with confusion and uncertainty. To quote from the Master of the Rolls in *Bulmer v. Bollinger*:

"The European Court is not absolutely bound by its previous decisions. It has no doctrine of *stare decisis*. Its decisions are much influenced by considerations of policy and economics and, as these change, so may their rulings change. It follows from this that if the House of Lords in a subsequent case thinks that a previous ruling of the European Court was wrong — or should not be followed — it can refer the point again to the European Court and the European Court can reconsider it. On reconsideration it can make a ruling which will bind the parties in that particular case, but not in subsequent cases, and so on."

To those of us who have been brought up in a Common Law jurisdiction with the reverence held due to the doctrine of the binding effect of previously decided cases, this is a difficult new principle by which to be governed!

Another area where there is little authority for guidance is the confusion that may arise where there are related proceedings before both the English Courts and the Commission of the European Economic Community. It is not too difficult to visualize situations where conflicting decisions may be given through these separate channels of judicial and administrative review.

Where we shall probably see much argument in the future is in the general field of antitrust cases of action in Industrial Property litigation. The United Kingdom has a well-developed statute law and case law in the field of Restrictive Trade Practices or Antitrust law. Industrial Property litigation has hitherto been conducted very much in a separate watertight compartment. We are now beginning to see a significant change and can expect that in the future the new torts of undue restriction of competition within the EEC and abuse of a dominant position within the EEC will be pleaded more frequently. The barrier, which some of us may think is artificial, between Industrial Property Law and Restrictive Trade Practices law has not been breached, but it is certainly cracking.

## CITATIONS

*LeRose Ltd. and Another vs. Hawick Jersey International Ltd.*, (1973) CMLR 83; (1974) RPC 42.

*Minnesota Mining and Manufacturing Co. v. Geerpres Europe Ltd.*, (1973) CMLR 259; (1974) RPC 35.

*Esso Petroleum Co. Ltd. v. Kingswood Motors and Others* (1973), CMLR 665; (1973) 3 All ER 1057.

*Aero Zip Fasteners and Another v. YKK Fasteners (U.K.) Ltd.* (1973), CMLR 819; (1974) RPC 624.

*Löwenbrau München and Another v. Grunhalle Lager International Ltd.*, (1974) CMLR 1; (1974) RPC 492.

*Application des Gaz S.A. v. Falks Veritas Ltd.*, (1974) 2 CMLR 75; (1974) 3 All ER 51.

*J. Bollinger S.A. and Others v. Goldwell Ltd.*, (1974) FSR 256.

*H. P. Bulmer Ltd. and Another v. J. Bollinger S.A. and Others*, (1974) CMLR 91; (1974) 2 All ER 1226.

*Van Duyn v. The Home Office*, (1974) 3 All ER 178; (1975) CMLR 1.

*E.M.I. Records Ltd., v. C.B.S. United Kingdom Ltd.*, Times Law Report, March 13th 1975.

## When a License Agreement Fails

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excess of \$100,000. So that lawsuit cost them more than \$160,000. There is no way to measure the additional peripheral expenses of the lawsuit to the licensee. If they had just lived with the license, it would have cost them only about \$120,000. The point that I make is that here is the history of a licensor-licensee fall-out which went to mat and in which the licensee was successful in invalidating a not obviously invalid patent and paid more than he would have had he lived with his license.

### A Final Look

Coming back to the theme of what to do when a license agreement comes apart, the best advice is to be extremely cautious in entering into the license agreement. If sufficiently cautious and perceptive, you may not have to worry about what to do when the agreement comes apart. But if the agreement does come apart, then your planning should tell you what to do. You should be decisive in whatever you do, whether it is suit or abandonment of the license arrangement. Remember if the license agreement comes apart, it's because one of the parties is inclined to make a gamble and play a game. Your only resort is either to enter into the game determined to win or to completely refuse to play. And that decision should be based upon the economics of the circumstance.

## Licensor/Licensee Research

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Please don't confuse this word feasibility with reduction to practice. It is much more than that. It perhaps can best be defined as the point in development when a potential licensee can be convinced the idea is worth spending money for development.

Naturally, this strategy has an effect on the type of idea we accept for development. If, in our estimation, the amount of time and money necessary to get feasibility is too long or great, it is no longer an attractive business proposition. We place the upper limit on time at 18 months with the amount of money limitation depending on what our estimate of the potential return might be. We are interested in returns that throughout the licensing of the patent will give us 10 to 1 on our investment.

We know that potential licensees would much rather pick up a license at a point further down the line towards commercialization. Therefore, we attempt to design our license package to take this into consideration. When we license at the feasibility point, we reduce front-end payments to an absolute minimum. In addition, the license is such that it gives the licensee an opportunity to invest money in contract research on the subject at a Battelle laboratory. This provides an obvious advantage to the