

Conflicts: Property Rights, EEC Law

Case law of the European Court of Justice relating to the conflict between national industrial property rights and EEC law

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Conflicts between Common Market law and industrial property rights in the Member States have already led to an extensive jurisprudence of the European Court of Justice:



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1. Grundig: July 13, 1966 (trademark)
2. Parke Davis: February 29, 1968 (patent)
3. Sirena: February 18, 1971 (trademark)
4. Deutsche Grammophon: June 3, 1971 (exclusive right granted to the producer of sound recordings)
5. Kaffee Hag: July 3, 1974 (trademark)
6. Sterling Drug: October 31, 1974 (patent)
7. Winthrop: October 31, 1974 (trademark)

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All these cases dealt with one and the same issue: whether, or under what circumstances, the owner of an industrial property right can avail himself of the possibility, offered by the applicable municipal law, of preventing imports from other EEC member states.

The fact that this high Court has handed down so many decisions with respect to a single issue makes it clear that:

1. The matter is of great practical importance.
2. The problem is a difficult one.

The municipal laws of the several EEC member states allow the owner of an industrial property right, generally or in certain circumstances, to sue for infringement traders who resell in that state products purchased in another country.

In their effect such rules of municipal law create obstacles to international trade and in particular trade between EEC member states. They consequently give rise to a conflict with the principle of EEC law aiming at liberalizing trade between these member states.

SUMMARY OF THE CASE LAW FROM GRUNDIG TO DEUTSCHE GRAMMOPHON

Two fully different sets of rules have been applied in these cases:

- (i) The antitrust provisions addressed to private

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enterprises, and in particular Article 85 EEC, which prohibits restrictive agreements that may affect trade between member states. The prohibition of Article 85 applies, where the exercise of the exclusive right appears to be the object, the means or the result of a restrictive agreement.

- (ii) other provisions of the EEC Treaty addressed

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to the member states which prohibit import restrictions between member states and other public measures having an equivalent effect.

According to Article 36 EEC, this second set of provisions shall not preclude prohibitions or restrictions on imports justified on the grounds of the protection of industrial property. As from Parke Davis, the Court of Justice has accepted that the principle underlying this Article 36 can also apply to competition law. But as an exception to fundamental rules of the Treaty, it permits derogations from the freedom of movement of goods only to the extent that they are justified in order to safeguard rights that are the specific object of the industrial property involved.

KAFFEE HAG

The above-mentioned cases concern questions that often are to be dealt with in practice.

The *Kaffee Hag* decision, however, dealt with a somewhat extraordinary problem: i.e. consequences of postwar expropriation measures. *Kaffee Hag A.G.* Bremen had, before World War II, a Belgian subsidiary to which it had assigned its Belgian and Luxemburg trademarks. The shares of this Belgian company were sequestrated in 1944 as enemy property and then sold to a third party.

As a consequence *Hag/Deutschland* and *Hag/Belgique* became mutually independent companies, and the famous *Hag* trademark for decaffeinated coffee now belongs in Belgium and Luxemburg to a competitor of the owner of the same trademark in Germany.

Encouraged by *Sirena* and *Deutsche Grammophon*, the German producer set out to test whether he could reconquer the Belgian/Luxemburg market. Starting sales in Luxemburg, he exposed himself to a trademark infringement suit. The Luxemburg tribunal referred to the Court of Justice the question whether such a suit is barred by Community law.

The Court ruled that under these circumstances Article 85 is not applicable, which means that the question must be examined by reference only to the rules relating to the

free movement of goods.

The Court recalled that Article 36 only admits derogations from these fundamental rules to the extent that such derogations are justified for the purpose of safeguarding rights that constitute the specific matter of the industrial property involved.

Legitimate Holder

Thus the application of the legislation relating to the protection of trademarks at any rate protects the legitimate holder of the trademark against infringement on the part of persons who lack any legal title.

The exercise of a trademark right tends to contribute to the partitioning off of the markets and thus to affect the free movement of goods between member states, all the more so since, unlike other rights of industrial and commercial property, it is not subject to limitations in point of time.

Accordingly, one cannot allow the holder of a trademark to rely upon the exclusiveness of a trademark right, which may be the consequence of the territorial limitation of national legislations, with a view to prohibiting the market in a member state of goods legally produced in another member state under an identical trademark having the same origin.

Such a prohibition, which would legitimize the isolation of national markets would collide with one of the essential objects of the Treaty, which is to unite national markets in a single market.

Whilst in such a market the indication of origin of a product covered by a trademark is useful, information to consumers through this point may be ensured by means other than such as would affect the free movement of goods.

Consequently, the Court of Justice ruled that to prohibit the marketing in a member state of a product legally bearing a trademark in another member state, for the sole reason that an identical trademark having the same origin exists in the first state, is incompatible with the provisions providing for free movement of goods within the Common Market.

These two decisions must be discussed together for two reasons:

- (i) They deal with a single set of facts which gave rise to parallel suits for patent and trademark infringement;
- (ii) The Court of Justice has used this opportunity to sum up its present views, to explain to what extent they apply to the exercise of industrial property rights in general and to what extent differences between the objects of such property call for distinctions.

First the facts. Sterling Drug U.S.A. is the parent company of the Sterling-Winthrop Group U.K., which has in its turn a subsidiary Winthrop in the Netherlands. Sterling Drug U.S.A. has parallel patents in the U.K. and in the Netherlands, for the preparation of a certain drug, to which I may refer by its trademark Negram. In the several member states of the EEC Sterling Drug had granted to various companies of the group patent licenses for manufacture and sale, respectively for sale only, of the drug. The trademark Negram has been registered in the several member states of the EEC by a local company belonging to the group.

When the Dutch firm Centrafarm resold in Holland Negram lawfully marketed in the United Kingdom by the local company of the group, it was sued in Holland: (i) by Sterling Drug for infringement of its Dutch patent and (ii) by Winthrop Holland for infringement of its Dutch trademark.

The Dutch Supreme Court referred to the European Court of Justice a long list of questions, boiling down essentially to whether the Community rules providing for the free movement of goods or Article 85 EEC prohibited such legal action by the patentee and by the trademark owner, respectively.

With respect to the scope of the rules of free movement of goods the European Court gave the following explanations:

It repeated its previous explanation with respect to the applicability of these rules and the narrow exception made by Article 36, which only admits derogations to the extent that they are justified for the purpose of safeguarding rights that constitute the specific subject matter of this industrial property. It set out to define this specific subject matter, and the extent to which this may justify import restrictions as between member states. In doing so, it distinguished between patents and trademarks.

With respect to patents (*Sterling Drug*), this specific subject matter is, in particular, in view of remunerating the creative effort of the inventor, to assure for the owner the exclusive right to use the invention for manufacture and for a first marketing of industrial products, either directly or by the grant of licenses to third parties, as well as the right to prevent any infringement.

A restriction on imports from other member states, based on municipal patent law, may be justified in two cases:

- (i) if the product originates from a member state where it is not patentable and where it was manufactured by a third party without the consent of the patentee (those were the assumptions on which the *Parke Davis* case had been decided), and
- (ii) in the case of patents which had from the origin belonged to legally and economically independent owners.

Such restrictions on imports are not justified if the product had been lawfully marketed by the patentee himself or with his consent in the member state from which it is imported, in particular in the case of parallel patents owned by one person.

The identity of the protected invention constitutes the essential element of the concept of parallel patents.

With respect to trademarks (*Winthrop*) the specific subject matter referred to is, in particular, to assure for the owner the exclusive right to use the mark for a first marketing of the product and to protect him thus against competitors who would want to make abuse of the goodwill and reputation of the trademark by selling products bearing falsely this mark.

A restriction on imports of other member states is not justified where the product has been lawfully marketed, by the owner himself or with his consent, in the member state from which it is imported, so that there can be no question of abusing or infringing the trademark.

With respect to the scope of Article 85, the Court ruled that this provision does not apply to agreements or concerted practices between parent companies and subsidiaries of a same group, if these enterprises constitute an economic unity within which the subsidiary does not enjoy real autonomy in the determination of its market conduct, and if these agreements or practices intend to establish an internal division of tasks between these enterprises.

CONCLUSIONS

1. The following rules are applicable when the exercise of industrial property rights prevents imports from other member states.
2. The jurisprudence shows a coherent structure, applicable to industrial property in general, even when the answer in a single case depends on the specific object of the industrial and commercial property right concerned.
3. Two different groups of Common Market rules may be applicable:
 - (i) rules providing for the free movement of goods (Articles 30-36);
 - (ii) rules of competition (Articles 85 and 86)
4. The scope of application and the consequences of infringement of either of these groups of rules must be clearly distinguished.
5. The Commission can only come into action against certain companies, and impose upon them fines and/or obligations, in case of infringement of Articles 85 and/or 86. This requires the finding that a dominant position is being abused within the meaning of Article 86, or that the exercise of the industrial property right is the object, the means or the effect of an agreement which significantly restricts competition.
6. The easiest defense in a suit for infringement of an industrial property right is to claim that the exercise does not comply with the rules on the free movement of goods. Then the proof of a dominant market position or of a restrictive agreement is not required.
7. For the interpretation of either group of rules the principle underlying Article 36 is of great importance.
8. The Court of Justice attaches great importance to the Treaty's objectives with respect to the establishment of a Common market and the free movement of goods between the member states. It, therefore, inclines to a very restrictive interpretation of Article 36.
9. The Court of Justice has ruled that the Treaty does not affect the existence of the national industrial property rights. This statement, however, should not be taken literally.

According to national law, the actions for infringement of national industrial property rights in *Sirena*, *Deutsche Grammophon*, *Kaffee Hag* and *Sterling Drug* should have been granted. Community law has made this impossible. Insofar these rights have really been limited.

10. The owner of a patent can prevent imports of products marketed by an independent third party in a member state where the invention is not patentable (the assumptions in the *Parke Davis* case). Open question: if no patent has been applied for, or the patent has expired, in that other member state.
11. He can prevent imports of products marketed by an independent third party under protection of a competing patent.
12. The owner of a patent cannot prevent imports of products which he had marketed himself
 - in particular under a parallel patent,
 - but also in a member state where the invention is not patented.
13. He can neither prevent imports of products marketed with his consent; that may refer to various situations:
 - the product was marketed by his licensee under a parallel patent;
 - the product was marketed, in a member state where the invention is not patented, by a licensee of his know-how (the real situation in the *Parke Davis* case).
14. He probably can neither prevent imports of products marketed by:
 - a related company or its licensee;
 - an independent patent owner or its licensee, if the patents, the patent applications or the right to apply for a patent had originally belonged to a single person.
15. An open question—in contrast to trademarks—is whether the patentee can prevent the owner of a parallel patent or licensees under a parallel patent from selling directly in another member state.
16. The owner of a trademark can prevent the import of products originating from persons who (in the words of *Kaffee Hag*;) lack any legal title or (in the words of *Winthrop*) have falsely affixed that mark on their products.
17. He cannot prevent imports of products marketed in another member state:
 - by himself or with his consent,
 - by a related company or with its consent,
 - by an independent company or with its consent, if the trademark rights had once belonged to a single person.
18. In these situations he cannot even prevent the owner of that parallel right, or his licensee, from selling directly in another member state.
19. An open question—in certain contrast to patents—is whether he can prevent imports if, in the import state, the use of that trademark would constitute an infringement.
20. These rules make it advisable to apply for patents and register trademarks in every EEC member state.
21. Patents or trademarks may be filed, or subsequently assigned, for a single member state only. But that will not affect the applicability of the aforementioned rules.