

Intellectual Property in the EEC

Essential results of jurisprudence, administrative decisions, harmonization of laws, free trade area agreements are among topics discussed

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This paper is an update on the role of intellectual property in the common market: the relevant provisions of the Treaty of Rome, the role of the commission in this field, essential results of the jurisprudence of the Court of Justice in Luxembourg as well as the decisions of the commission in the competition field having regard to intellectual property. It also concerns harmonization measures and free trade agreements concluded by the commission.

The role of intellectual property in the common market, the way in which it is guaranteed by the treaty as well as its limitations are of direct concern to licensing. They determine to a large extent the field in which licensing can operate in the common market.

I am concerned with "intellectual property". This is a broad term covering what the text of the treaty calls "industrial and commercial property", i.e. patents and trademarks and also copyright. It is now accepted that other exclusive rights may be covered by "intellectual property" and may fall under Article 36 of the treaty: Indications of origin, models and designs, certain practices of unfair competition. It is in this large sense of the term "intellectual property" that I approach the problem posed by the treaty and I do not limit myself to patent and trade mark law, but also include, for example, developments in the field of copyright.

To situate the role of intellectual property in the treaty it is first necessary to look at the relevant provisions, namely: the provisions on free circulation of goods, the rules of competition, harmonization of legislation, conventions between Member States and regulations based on Article 235.

Of prime importance are the rules governing free circulation of goods in the community: Articles 30 and 36. The first prohibits quantitative restrictions on imports and all measures having equivalent effect. It is generally understood that prohibitions on imports based on intellectual property are measures having equivalent effect to quantitative restrictions. In this context Article 36 stipulates that this provision:

...shall not preclude prohibitions or restrictions on imports ... justified on grounds of ... the protection of industrial and commercial property.

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Article 36 constitutes an exception to the rule of Article 30. It contains a limitation:

Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States.

Thus, the Treaty of Rome acknowledges and guarantees the existence of intellectual property conferred by national legislation of the Member States. These exclusive rights justify restrictions and prohibitions on

From LES International Conference, London

imports. The same rule applies to prohibitions or restrictions on exports, but they have no practical significance for intellectual property rights.

Another area of the treaty where intellectual property rights come into play is that of the rules on competition, Articles 85 and 86 of the treaty. It is a common feature of legislations which on the one hand grant intellectual property rights and on the other hand regulate competition, that it is necessary to bring into harmony the exclusive or monopoly rights of intellectual property with the aim to protect and foster competition. A striking example of this conflict is furnished by antitrust legislation and practice in the United States.

Express Rules

The Treaty of Rome does not contain express rules on the delimitation between intellectual property rights and the application of the rules of competition. The jurisprudence of the Court of Justice has established a rule which in broad terms says that intellectual property rights are guaranteed by the treaty in their existence, but that their exercise may be caught by other provisions of the treaty, i.e. the competition rules. May it suffice for the moment to stay with these general remarks. I will come back to the practical significance of the rule.

Another important aspect of intellectual property in the community is approximation of laws. Article 100 enables the council to:

Issue directives for the approximation of such provisions laid down by law ... in Member States as directly affect the establishment or functioning of the common market.

Where national legislations on intellectual property differ substantially, they may be apt to affect the functioning of the common market. In this case approximation of laws by directive is the appropriate measure to be taken. The commission has made a proposal to the council for a directive on approximation of essential aspects of national trademark law.

Article 235 furnishes a basis for creating by way of regulation uniform rules for intellectual property rights in the community. The commission has based a proposal

for a regulation to create a community trademark on this provision. I will come back to that.

It should be noted that though the Community Patent Convention, signed in Luxembourg on December 15, 1975, is not based on any article of the treaty, its preamble emphasizes that the creation of a community patent system is "inseparable from the attainment of the objectives of the treaty" and thus linked with the community legal order. The convention confers jurisdiction on the Court of Justice.

Last but not least intellectual property plays an evergrowing part in the external relations of the community and Member States. I do not have to explain in detail to this audience the international organizations in which questions of intellectual property are discussed on a worldwide basis. Article 116 of the treaty obliges Member States:

In respect of all matters of particular interest to the common market, (to) proceed within the framework of international organizations of an economic character only by common action ...

This article governs the current negotiations on the revision of the Paris Convention in the framework of WIPO which is now a specialized agency of the United Nations. Article 229 of the treaty requires the commission to ensure the maintenance of all appropriate relations with WIPO and various other international organizations. A working agreement has been concluded between WIPO and the commission. WIPO is therefore represented at the deliberations on the Community Trademark Directive and Regulation.

ROLE OF THE COMMISSION

After this general description of the provisions of the treaty which bear on the role of intellectual property in the community — and before describing in more detail the jurisprudence of the Court of Justice and the activities of the commission in this field — I think it useful to explain briefly the tasks of the commission and the responsibilities of the different services of the commission in this field.

In the framework of the community institutions it is up to the commission to ensure the proper functioning and development of the common market. The commission has to ensure that the provisions of the treaty and the measures taken by the institutions pursuant thereto are applied. This task applies to the rules concerning free circulation and competition. In respect to competition rules the commission may take direct action against undertakings which infringe these rules.

Where legislative measures — directives and regulations — are required, the commission addresses a proposal to the council, which adopts the act. In most cases the council can only act on a proposal from the commission and the council can amend the proposal only by a unanimity vote.

Intellectual property is concerned with different provisions of the treaty. Accordingly, several members of the commission and correspondingly different services of the commission are in charge of the different aspects under which intellectual property is relevant.

For all questions concerning free movement of goods, approximation of laws and legislative measures based on Article 235, Directorate General III — Internal Market and Industrial Policy — is competent.

On the other hand, all questions relating to the application of the competition rules — Articles 85 and 86 — Directorate General IV — Competition — is competent.

The Legal Service of the commission, to which I belong, is closely connected with the activities of the Directorates General. It normally takes part at an early stage in the elaboration of legislative measures and the examination of the cases handled by these other services, which are obliged to consult the Legal Service on the legal aspects of any measure before the commission for collegiate decision. Another important task of the Legal Service consists of court work. In every case brought before the Court of Justice and involving the commission — as a party in contentious cases or as *amicus curiae* in references from national courts (Article 177) — it is a member of the Legal Service who acts as agent for the commission.

As in the intellectual property field nearly all cases on which the court had to decide were references from national courts asking for the interpretation of the treaty, the Legal Service of the commission has been able to take an active part in the definition of the commission's position and finally in the development of the court's jurisprudence.

In describing the role of the different services of the commission I have to add that all important questions concerning intellectual property are examined in close cooperation between the services concerned.

ESSENTIAL RESULTS OF THE JURISPRUDENCE OF THE COURT OF JUSTICE CONCERNING INTELLECTUAL PROPERTY

Broadly speaking, the jurisprudence of the Court of Justice since 1966 has on the one hand confirmed that Article 36 of the treaty guarantees the substance or the essential features of intellectual property rights conferred by national laws. On the other hand, the court has insisted upon that national intellectual property rights may not be used to enable holders of such rights to partition the national markets of the community.

In the judgment 119/75, *Terrapin v. Terranova*¹, the court has, in a concentrated way, summarized the essential elements of the protection of intellectual property laid down in Article 36 as well as the limitations imposed on the holders of such rights.

The following quotation from the judgment — which concerned a trademark — is helpful to understand the attitude of the court in assessing intellectual property under the treaty:

By Article 36 these provisions nevertheless do not preclude prohibitions or restrictions on imports justified on grounds of the protection of industrial or commercial property. However, it is clear from the same article, in particular the second sentence, as well as from the context, that whilst the treaty does not affect the existence of rights recognized by the legislation of a Member State in matters of industrial and commercial property, yet the exercise of those rights may nevertheless, depending on the circumstances, be restricted by the prohibitions in the treaty. Inasmuch as it provides an exception to one of the fundamental principles of the common market, Article 36 in fact admits exceptions to the free movement of goods only to the extent to which such exceptions are justified for the purpose of safeguarding rights which constitute the specific subject matter of that property.

It follows from the above that the proprietor of an industrial or commercial property right protected by the law of a Member State cannot rely on that law to prevent the importation of a product which has lawfully been marketed in another Member State by the proprietor himself or with his consent. It is the same when the right relied on is the result of the subdivision, either by voluntary act or as a result of public constraint, of a trademark right which originally belonged to one and the same proprietor. In these cases the basic function of a trademark to guarantee to consumers that the product has the same origin is already undermined by the subdivision of the original right. Even where the rights in question belong to different proprietors the protection given to industrial and commercial property by national law may not be relied on when the exercise of those rights is the purpose, the means or the result of an agreement prohibited by the treaty. In all these cases the effect of invoking the territorial nature of national law protecting industrial and commercial property is to legitimize the insulation of national markets without this partitioning within the common market being justified by the protection of a legitimate interest on the part of the proprietor of the trademark or business name.

This summary takes up the essential results of the earlier judgments in the *Grundig/Consten, Sirena/Eda, Deutsche Grammophon/Metro, Cafe Hag and the Centrafarm/Winthrop and Centrafarm/Sterling Drug* cases.

But the court — in *Terrapin/Terranova* — continues to justify the right of a trademark holder successfully to oppose the importation of similar goods bearing a trademark which creates confusion. Here is what the court said:

On the other hand in the present state of Community law an industrial or commercial property right legally acquired in a Member State may legally be used to prevent under the first sentence of Article 36 of the treaty the import of products marketed under a name giving rise to confusion where the rights in question have been acquired by different and independent proprietors under different national laws. If in such a case the principle of the free movement of goods were to prevail over the protection given by the respective national laws, the specific objective of industrial and commercial property rights would be undermined. In the particular situation the requirements of the free movement of goods and the safeguarding of industrial and commercial property rights must be so reconciled that protection is ensured for the legitimate use of the rights conferred by national laws, coming within the prohibitions on imports "justified" within the meaning of Article 36 of the treaty, but denied on the other hand in respect of any improper exercise of the same rights of such a nature as to maintain or effect artificial partitions within the common market.

The court's jurisprudence started with cases concerning trademarks being used to restrict competition. *Grundig/Consten* and *Sirena/Eda* were of this kind? Later — the first time in *Deutsche Grammophon/Metro* — the court evaluated the justification coming out of Article 36 independently from any agreement restricting competition. Such agreements are caught by Article 85. But they are not a necessary requirement for limitations put on intellectual property rights. Article 36 comes also into play when holders of such rights act independently.

Distinction

The court draws a distinction between the different intellectual property rights. In evaluating whether a certain performance of the holder of an intellectual

property right is justified in order to protect the substance of the right in question, the court refers to "the specific subject matter" of the right. The court defined the specific subject matter of a trademark as "the guarantee to the proprietor of the trademark that he has the exclusive right to use that trademark for the purpose of putting a product into circulation for the first time and therefore his protection against competitors to take advantage of the status and reputation of the mark by selling products illegally bearing the trademark." It is "the essential function of the trademark" "to guarantee the identity of the origin of the trademarked product to the consumer or ultimate user."⁷³

For the *patent* the court has declared the specific subject matter to be "the guarantee that the patentee to reward the creative effort of the inventor, has the exclusive right to use an invention with a view to manufacturing industrial products and putting them into circulation for the first time, either directly or by the grant of licenses to third parties, as well as the right to oppose infringements."⁷⁴ In a recent case (no. 62/79, *Coditel v. Cinevog*)⁵ which concerned a copyright for representing a film, the court declared: "that the right of a copyright owner and his assigns to require fees for any showing of a film is part of the essential function of copyright in this type of literary and artistic work."

It follows from the distinction which the court makes according to the specific subject matters of intellectual property that it is not always possible to draw general conclusions from its judgments, especially where other intellectual property rights are concerned. What the court has said in connection with a trademark is not necessarily applicable to a patent. So it is for discussion whether the *Cafe Hag* principle (trademarks of common origin cannot be opposed one against the other) is valid also for patents.

RECENT JUDGMENTS

The judgments which followed *Terrapin/Terranova*, 1976, brought further clarification. I will limit myself to some of the more important judgments and then mention some recent judgments of the court which are not yet generally known. And, finally, I will describe cases actually pending before the court and involving intellectual property.

In *EMI Records Ltd. v. CBS United Kingdom Ltd.*, judgment of June 15, 1976, there was a series of parallel cases before national courts in England, Denmark, and Germany. Throughout the common market, the trademark Columbia was held by EMI, in the United States and the Eastern hemisphere by CBS. The partitioning of the trademark of common origin between the two companies went back to an agreement made in the 1920s. Records bearing the trademark Columbia were imported into Europe from the United States and EMI sued for trademark infringement. CBS argued that the principle of community law, especially the provisions of the free movement of goods and on competition, prevented EMI from exercising its rights. The Court of Justice held in favor of EMI that:

The exercise of a trademark right in order to prevent the marketing of products coming from a third country under an identical mark ... does not affect the free movement of goods between member states and thus does not come under the prohibitions set out in Article 30 et sequ. of the treaty.

This decision of the court makes it clear that trademark holders in the community are entitled to protection against importation of goods bearing the same trademark and having been lawfully marketed in third countries. Exhaustion of the right only arises when the goods have been lawfully marketed by the trademark holder in the community.

Michael Burnside, the President of our Congress, in an article published in *Les Nouvelles*, December 1980, rightfully put the question as to what the court would have said, if the goods had been marketed in another European country with which the community has a Treaty of Association—or, I should add, a Free Trade Area Agreement? This question is now before the court in the Polydor case, which I will come back to later.

In the *Hoffmann La Roche v. Centrafarm* judgment in 1978 the question put before the court was whether a firm, holding a trademark in Member States A and B, according to Article 36 of the Treaty was entitled to oppose its trademark right in Member State B to the importation of goods which had been lawfully marketed in Member State A, but had been unpacked by the importer, put into other packages on which the trademark was put and mention was made that the product is marketed by the importer. The facts of the case concerned the pharmaceutical product "Valium," produced by Hoffmann La Roche in the United Kingdom and in Germany. In the United Kingdom, Valium was sold at a lower price than on the continent, but in packages containing more tablets than the packages sold in Germany. For this reason the importer repacked the Valium bought in the United Kingdom to meet the requirements of the German Market.

Opposes

Hoffmann La Roche opposed its German trademark "Valium" to the importation. It relied on the German law prohibiting any repacking of the goods protected by a trademark. Centrafarm invoked the principle of free movement of goods.

The court ruled:

- 1. (a) The proprietor of a trademark right which is protected in two member states at the same time is justified pursuant to the first sentence of Article 36 of the EEC Treaty in preventing a product to which the trademark has lawfully been applied in one of those states from being marketed in the other member state after it has been repacked in new packaging to which the trademark has been affixed by a third party.

It follows that in principle a parallel importer of goods protected by a trademark is not entitled to touch the original package of the trademark holder. The court draws this conclusion from Article 36's first sentence. But the court continues to reason that Article 36, second sentence ("such prohibitions shall not, however, constitute... a disguised restriction on trade between member states") could be infringed:

When it is established that the use of the trademark right by the proprietor having regard to the marketing system which he adopted, will contribute to the artificial partitioning of the markets between member states:

The court adds some further requirements:

It is shown that the repackaging cannot adversely affect the original condition of the product;

The proprietor of the mark receives prior notice of the marketing of the repackaged product; and

It is stated on the new packaging by whom the product has been repackaged.

If these requirements are fulfilled, the exercise of the trademark right to prohibit the importation is not justified.

Another aspect of this judgment concerns Article 86: misuse of a dominant position. The judgment makes clear that:

To the extent to which the exercise of a trademark right is lawful in accordance with the provisions of Article 36 of the treaty, such exercise is not contrary to Article 86 of the treaty on the sole ground that it is act of an undertaking occupying a dominant position on the market if the trademark right has not yet been used as an instrument for the abuse of such a position.

This judgment has given rise to a series of questions concerning its interpretation. There is a new case before the Court, *Pfizer v. Eurim Pharm* (1/81), involving questions similar to the Hoffmann La Roche/Centrafarm case, on which I will come back later on.

Again in the field of pharmaceuticals, the case 3/78 *Centrafarm v. American Home Products* ⁸ concerned a trademark. American Home Product Corporation is the proprietor in various member states of various trademarks for the same product. In the United Kingdom AHP is proprietor of the mark Serenid D, in the Netherlands of the mark Seresta. Those marks are used to designate a medicament whose active constituent is named Oxazepamum. Centrafarm imported that product from the United Kingdom, where it has been put on the market under the trademark Serenid, removed that mark and affixed to the product the mark Seresta, registered for the same product in the Netherlands for AHP. Centrafarm placed the product thus designated on the market in the Netherlands without the consent of the proprietor.

AHP sued Centrafarm for infringement of its Dutch trademark. The Dutch Court on application from AHP for interim measures prohibited Centrafarm from infringing AHP's rights in the mark in question. In the main action that court referred questions to the Court of Justice concerning the interpretation of Article 36 of the EEC Treaty.

The court ruled:

The proprietor of a trademark which is protected in one member state is justified ... in preventing a product from being marketed by a third party even if previously that product has been lawfully marketed in another member state under another mark held in the latter state by the same proprietor.

That is to say that an importer of marked goods is not entitled to affix to it the trademark which the proprietor uses in the country of importation.

Different Marks

But the question was raised as to how to look on the case when the proprietor of the mark uses different trademarks in different member states for the purpose of partitioning the markets.

The answer of the court in its judgment is that Article 36, second sentence, prevents the trademark holder to exercise his trademark right:

if it is established that the proprietor of different marks has followed the practice of using such marks for the purpose of artificially partitioning the markets.

More recent judgments of the court concern copyrights and unfair competition in combination with a copyright and a trademark.

In case 62/79, *Cine Vog v. Coditel*, judgment of 18 March, 1980⁹, a copyright concerning the representation of a film was involved. The French producer of the film "Le Boucher" had licensed it in 1970 to Cine Vog a Belgian distributor for exclusive theatrical and television distribution for seven years. It was stipulated in the contract that only after 40 months the film could be broadcast on Belgian television. Some time after the conclusion of the contract the French producer authorized a German television company to broadcast the film in its German version.

On January 5, 1971, the film was distributed on the first program of the German television. Coditel had captured the German transmission and relayed it by cable to the homes of its subscribers in Belgium. Cine Vog sued Coditel for breach of copyright and asked for damages, because the broadcast had harmed the commercial future of the film in Belgium. Coditel argued in reply that there was no copyright, that the exclusive license contract was void under Article 85 of the EEC Treaty and that an injunction would infringe the freedom of the German broadcasting station to supply services under Article 59.

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The Brussels Court of Appeal referred two questions to the Court of Justice. Both concerned the interpretation of Article 59—free provision of services—of the Treaty, namely: Is Article 59 only concerned with the provision of services between persons established in different member states? Is it in accordance with Article 59 if the holder of the distribution rights of a motion picture in one member state invokes these rights to prevent the transmission of the film in that state by means of a cable relay system?

Cable television being a relatively new technique, there were a series of questions involved in this reference. What services come into play, only the service provided by the cable television company to its subscribers, or the service provided by the television company to the cable distribution company? How is relay of an authorized broadcast by cable to be regarded under copyright law? Is it an autonomous publication or exploitation? What is, in a common market, the significance of the consent of the original copyright holder—the French producer of the motion picture—to the broadcast in another member state? Does Article 36—protection of intellectual property—apply to services?

The court answered these questions only partly.¹⁰ The judgment holds that:

the provisions of the treaty relating to the free provision of services did not preclude an assignee of the performing rights of a motion picture from invoking his copyright to prevent the showing of the film in that state without his consent, by means of cable relay, if the film thus shown is received and relayed after having been broadcasted in another member state with the consent of the licensor of the copyright assignment, the holder of the original copyright.

The essential considerations which led the court to this result were: Motion pictures belong to that category of

literary and artistic works which are made available to the public by means of exhibitions, and which can be repeated indefinitely. Thus, the copyright owner of a film and his assigns have a legitimate interest in calculating the royalties owed for an authorization to screen the film according to the actual or probable number of screenings. The court indirectly admitted that the protection conferred by Article 36 to intellectual property right also applies to rights which concern the free provision of services.

In *GEMA v. Musik-Vertrieb Membran and K'tel International*¹¹ the court rendered a single judgment on January 20, 1981. They concerned a copyright on records, where the royalties were collected by a "societe de gestion" representing its affiliated members who are musical composers, artists, editors and producers of sound recordings.

Imported Recordings

The defendant companies, Musik-Vertrieb Membran and K'tel International, had imported sound recording from different member states and the United Kingdom into Germany. The sound recordings in question had been produced and marketed in the member states with the consent of the holders of the respective copyrights and the royalties had been paid. As these royalties were lower than those claimed by GEMA for the marketing in Germany, GEMA claimed the payment of the difference between the royalties already paid in the other member state—especially the United Kingdom—and the amount claimed by GEMA in Germany.

The court ruled that GEMA was not entitled to claim this difference. Sound recordings are goods which are subject to the rules of free movement between member states. Article 36 does not allow a holder of an intellectual property right to oppose the importation of protected goods which have been lawfully marketed in another member state. It is the economic aspect of a copyright which is at stake. There is no reason to distinguish according to Article 36 between a copyright and the other intellectual property rights. Commercial use of a copyright raises the same problems as the use of other commercial and industrial property rights. Therefore, national legislation cannot entitle a company, created for the purpose of administering copyright and enjoying a factual monopoly in the territory of one member state, to levy a duty on goods imported from another member state where they have been marketed with the consent of the copyright holder.

The judgment stresses that differences in the internal legal provisions of member states which are capable of distorting competition between these member states do not justify the protection of practices of a private company which are incompatible with the free movement of goods.

Finally, the court rendered on January 22, 1981, the judgment in the case *Dansk Supermarked v. Imerco*¹². This case had been referred to the court by the Supreme Court of Denmark.

The facts of the case: Imerco, a Danish Hardware Merchants Association, on the occasion of the celebration in 1978 of the 50th anniversary of its foundation had ordered in the United Kingdom—with Broadhurst—a set of china, the pieces of which on the front were decorated by images of the Royal Danish castles and on

the back indicated the objects of Imerco and mention was made of its 50th anniversary. The marketing of this set (service) was exclusively reserved to the hardware merchant members of Imerco. It had been agreed between Imerco and the English producer that all "seconds," which represented approximately 20% of the total production, could be sold by the producer in the United Kingdom, but in no case should be exported to Denmark or other Scandinavian countries.

Dansk Supermarked, proprietor of several supermarkets, had been able to get hold of a certain number of the sets sold in the United Kingdom and offered them at prices which were much lower than the sets sold by the members of Imerco. When Imerco protested, Dansk Supermarked refused to refrain from selling these sets. Imerco then obtained an injunction prohibiting Dansk Supermarked to commercialize the sets in question. This injunction was confirmed by the Sea and Commerce Tribunal in Copenhagen on the consideration that Dansk Supermarked had acted contrary to regular commercial habits and thus had infringed Articles 1 and 5 of the law on commercial practices. This judgment was appealed against before the Supreme Court of Denmark. Dansk Supermarked maintained that the provisions of the EEC Treaty, especially Articles 30 and 85, did not allow the application of the Danish law on commercial practices. In order to be able to decide on this question, the Danish Supreme Court referred the following question to the Court of Justice:

Certain provisions of the EEC treaty are acts adopted for their application do they in the present case prohibit the application of Danish laws on copyright, trademarks and commercial practices?

The court's answer to this question distinguishes between copyright and trademark on the one hand and commercial practices on the other. For the former, the court refers to its preceding jurisprudence on the exhaustion of rights and rules that Articles 30 and 36 of the treaty do not permit a judicial authority of a member state on the grounds of a copyright or a trademark to prohibit commercialization on the territory of that state of goods which have been regularly marketed by the holder of these rights with his consent on the territory of another member state.

Commercial Practices

With regard to commercial practices the court interprets Article 30 in the following way: In principle the commercialization of imported goods may be prohibited if the conditions under which their marketing is effected constitutes an infringement of commercial habits (usages commerciaux) which are considered as regular and fair in the state of importation. But the court—in referring to *Beguelin* (22/71 (1971) E.C.R. 949)—underlines that by itself the fact of importation of goods which have been regularly marketed in another member state might not be considered as an irregular or unfair commercial act. Any such qualification could only be attached to the marketing on the grounds of circumstances which are distinct from the importation itself. In any case agreements between private parties to the effect of prohibiting importation could not be taken into consideration to qualify the marketing of goods as an irregular or unfair commercial practice.

This judgment is of particular interest insofar as it delimits the extent to which the rules on unfair competition may be invoked in order to prohibit the importation of goods into another member state.

CASES ACTUALLY PENDING

I have come to the end of the description of the jurisprudence of the Court of Justice in the intellectual property field. There are some cases actually pending before the court, two concerning patents, one a planters' breeding right and another concerning a trademark. It may interest you to know the questions which have been put to the court in these cases. I must refrain from giving any opinion as these cases are sub iudice.

The patent cases

Case 187/80, *Merck & Co. v. Stephar*, concerns a pharmaceutical preparation called "Moduretic" for which the American firm Merck & Co. Inc. holds patents in all member states, except Italy, where until 1978 it was not possible to get patents for pharmaceutical products or their process of fabrication. The plaintiff Merck & Co. has marketed Moduretic in Italy. A Dutch dealer firm, Stephar, had acquired the Moduretic pills in Italy and sold them on the Netherlands market. Merck & Co. sued Stephar before a Netherlands court for infringement of its patent in the Netherlands.

The Court of Rotterdam referred to the Court of Justice the question whether the provisions of the EEC Treaty on free circulation of goods, and taking into consideration Article 36, impede the holder of the Netherlands patent to make use of the right which the Netherlands legislation on patents confers on him.

This case is different from *Parke, Davies*, 1968¹³. In that case it was a third person having produced and marketed the protected product in Italy. Importation to the Netherlands was regarded by the court as an infringement of the Netherlands patent. In the present case it was the patentee himself or a person authorized by him who put the protected product on the market in Italy. The question is whether by doing so the patent was exhausted and the product could circulate freely in the common market. The delicacy of this question flows from the fact that at the time there was no patent protection in Italy available. The oral hearing in this case took place on April 7, 1981. The judgment may be expected in the autumn.

In December 1979, a Dutch Court referred to the Court of Justice the case *Dymo Industries Inc. v. Etiketten Service Arnhem*. Dymo Industries had been granted patents for an invention in Germany and the Netherlands. The validity of the patent had subsequently expired in Germany but not in the Netherlands. Before the expiring of the patent in the Netherlands Dymo Industries granted "an ordinary license without charge under the patent" to an undertaking established in the Netherlands, referred to as "X". An undertaking "Y" purchases from "X" products which incorporate the said invention and sells them in Germany. The question put before the Court of Justice is: Does Article 36 of the EEC Treaty prohibit the patent holder from exercising its rights under the patent in Member State B—the Netherlands—in order to prevent Y from selling the product there?

This is an interesting case, but it has been suspended by the Court of Justice because an appeal on points of law has been entered in the Netherlands against the reference of the Dutch Court to the Court of Justice. Until recently the outcome of that appeal had not been known. But in the meantime the references of the Dutch Court has been withdrawn.

Still another patent case—also referred to the Court of Justice by a Dutch court—has been suspended because of an appeal against the reference: the case 271/80 *Hoechst v. Pharmon BV*. It concerns compulsory licenses for pharmaceutical products granted under U.K. legislation. The contested product is Fomesemide, a diuretic, for which Hoechst, the German chemical and pharmaceutical company, holds patents both in the Netherlands and in the U.K. However, a compulsory license was granted in the U.K. against Hoechst's will, to DDSA Pharmaceuticals. It is a condition of the license that the licensee shall neither export the product from the U.K. nor sell it to another whose intentions to export is known to him. However, a Dutch importer of pharmaceutical products, Pharmon BV, succeeded in buying the product in England, presumably at a lower price than that at which it is available in the Netherlands. Hoechst obtained from a Dutch court an injunction restraining Pharmon from distributing the drug in the Netherlands.

Pharmon then applied to the District Court of Rotterdam, asking for the injunction to be lifted, and for damages for the loss of it suffered as a result of the injunction. Pharmon argues that the holder of the compulsory license put the product lawfully into circulation in the U.K. and that any attempt to stop its import into the Netherlands is tantamount to an abuse of Hoechst's Dutch patent, and to a partitioning of the common market.

Exhaustion Principle

This case is very interesting. Should the Court of Justice be called upon to decide it, the essential question is whether the exhaustion principle applies to the marketing of goods by the holder of a compulsory license. Up to now the court recognized exhaustion only in cases where the protected product had been marketed by the holder of the intellectual property right himself or with his consent by a third person. In the case of a compulsory license the licensee does not act with the consent of the holder of the right.

The case *Pfizer v. Eurim Pharm*¹⁴ is a follow up of *Hoffmann la Roche v. Centrafarm*. The facts are nearly the same. Pfizer produces an antibiotic called "Vibramycin". This name as well as "Pfizer" has been registered as a trademark in Germany. The same product is marketed under the same denomination in the United Kingdom by Pfizer Ltd. The packages used in the United Kingdom are different from those used by Pfizer in Germany.

The defendant is a German dealer in pharmaceutical products specialized in the importation of foreign pharmaceutical products into the Federal Republic of Germany. It sells inter alia in its range a wide-spectrum antibiotic from Pfizer's subsidiary in Great Britain, which is placed on the market under the name "Vibramycin." This name and the trademark "Pfizer" are found on the reverse side of the first wrapping of the pharmaceutical product, which takes the form of a blister package. In

order to comply with the German provisions relating to pharmaceuticals and in order to create units of trade corresponding to the practice of German doctors in prescribing drugs, which differs from those of English doctors, the defendant in each case repacks this blister package with the requisite number of tablets in folding boxes which it has produced and designed. On the reverse side of the box between the description "wide-spectrum antibiotic" mention is made of the manufacturer, Pfizer Ltd., the importer Eurim Pharm, and that the box has been packaged by the importer's sales department.

No information is printed on the front of the folding box. On the contrary, in the middle of the front an opening has been cut out with a transparent window through which, when the blister package has been slid in, the label contained on the reverse side of the blister package, in particular the name "Vibramycin" in bold type, is visible from outside. At the same time a leaflet corresponding to the German provisions is enclosed in this package.

Pfizer has sued Eurim Pharm before the Landgericht of Hamburg for infringement of its German trademark. This court has granted an injunction prohibiting Eurim Pharm to proceed in this way. On appeal the Oberlandesgericht Hamburg has referred the case back to the Landgericht because the Oberlandesgericht was of the opinion that Article 30 of the EEC Treaty does not permit the exercise of the trademark right by Pfizer. The justification according to Article 36—protection of intellectual property rights—did not come into play because the specific object of the trademark, i.e. the marking of the origin of the product, had not been touched by the way in which the defendant proceeded. The Oberlandesgericht pointed out that the requirements laid down by the Court of Justice in the case 102/77, *Hoffman La Roche v. Centrafarm*, for the application of Article 36 second phrase—i.e. the prohibition constitutes a disguised restriction on trade between member states—were fulfilled.

Refers Question

The Landgericht referred the question of the compatibility of the proceeding of Eurim Pharm with Article 36 to the Court of Justice. It formulated two questions, the first asking whether the holder of the trademark could oppose his right to the importation of goods which had been repacked in the way described. The second question asks whether it is sufficient for the application of Article 36 second sentence that a marketing system applied by the trademark holder is objectively apt to lead to a partitioning of the markets of member states or whether it has to be proved that the trademark holder practices a system of marketing with the intention to establish an artificial partitioning of the markets.

Finally, there is the *Maize case*, 258/78, which since December 1978 is pending before the Court of Justice. The plaintiff in this case, the firm Nungesser, Darmstadt, Germany, attacked a decision of the commission under Article 85 of the Treaty. It is the most important case in the intellectual property field actually pending. And it concerns directly licensing. The main question put before the court in this case is whether exclusive licenses are covered by the intellectual property rights—in the present case an exclusive plant breeding right—or

whether this is not the case and consequently exclusive licenses are caught by the competition rules. This question is highly contested. The court's judgment will clarify it. As plant breeding rights are very similar to patent rights, the court's judgment will be valid also for patent licensing.

I will limit myself to some remarks on the state of the procedure. Actually, the written procedure in this case is terminated. It has been delayed because of the fact that three governments of member states subsequently intervened on the side of the plaintiff and against the commission, holding that the exclusivity of licenses is covered by the exclusive right of intellectual property. The court invited the parties to clarify some questions of a factual character. It can be expected that the oral hearing will be held before the summer vacation of the court July 15. The judgment of the court should then be rendered about the end of this year.

With these remarks I terminate the description of the European Court's activity in the field of intellectual property. It is now appropriate to draw some conclusions on this activity. Generally speaking, the Court of Justice has endeavored to find an appropriate solution to conflicting interests, i.e. the interests of holders of national intellectual property rights and one of the main objectives of the community that movement of goods be as free as possible. It is possible to criticize one or other judgments of the court. But it must be recognized that the court's jurisprudence in establishing the demarcation line between these conflicting interests is well balanced and consequent. The court has recognized the substance of these exclusive rights. But he has on the other hand refused to sanction the exercise of these rights when this was not compatible with the requirements of free movements of goods in the common market, one of the main objectives of the EEC Treaty.

Looking at the different intellectual property rights, it appears that a substantial number of trademark cases have been brought before the court, whereas up to now relatively few patent cases have been referred to the Court of Justice by national courts. Even fewer are the cases involving a copyright. If one takes into consideration that since *Parke Davies*, which has decided in 1968, until now only 13 years have elapsed—a relatively short period—it is not surprising that there are many questions concerning intellectual property which the jurisprudence of the court still leaves open to discussion.

ADMINISTRATIVE DECISIONS OF THE COMMISSION

To complete the picture on the role of intellectual property in the community it is necessary to take into consideration also the activity of the commission in this field. As I pointed out in the beginning, the court's jurisprudence — in interpreting Article 36 of the Treaty — established the rule that intellectual property rights are guaranteed in their substance, but their exercise may be caught by other provisions of the treaty. Here the rules on competition come into play, and especially Article 85. This provision prohibits all agreements between undertakings ... which may affect trade between member states and which have as their object or effect the prevention, restriction or distortion of competition within the common market. Such agreements are automatically void. But according to Paragraph 3 of

Article 85 such agreements may be exempted — or in the terms of the provision, Article 85 Paragraph 1, may be declared inapplicable — if they fulfill certain conditions.

Article 85 concerns licensing agreements. These are agreements between undertakings. Generally speaking they are caught by the prohibition of Article 85 Paragraph 1 insofar as they contain contractual stipulations which are not covered by the essence or the substance of the intellectual property right in question and if these have as their object or effect a restriction of competition. Such agreements, in order to benefit from a decision of nonapplicability of the prohibition, have to be notified to the commission, which is solely competent to decide.

The practical importance of this situation is considerable. According to the Report of the Commission on Competition Policy for 1979 an ever growing part of the notifications or complaints addressed to the Commission concern licensing agreements. At the end of 1980 64% of the agreements concerned—nearly 2,600—were licensing agreements.

In order to give some guidance to undertakings about the compatibility with Article 85 the commission has taken a series of individual decisions on licensing agreements notified to it. These decisions — which I cannot examine here in detail — inform about the attitude of the commission in respect of what clauses are covered by the intellectual property right, what clauses are not and in case they restrict competition fall under the prohibition of Article 85 Paragraph 1 and what clauses can be exempted under Article 85 Paragraph 3.

The first decisions of the commission on notified patent and know-how licensing agreements go back to 1971.¹⁵ The commission pointed out that the granting of a patent license for specified areas and the prohibition against granting sub-licenses cannot be regarded as restrictions on competition. The same applies with regard to the obligation on the part of the licensee to produce the patented product in sufficient quantity, to follow specialized quality standards, the obligation for the parties to communicate to one another technical improvements, as well as the obligation of the licensee not to divulge the know-how. In 1972 the commission granted a negative clearance to a patent licensing agreement by which a community firm granted an exclusive license to a Japanese licensee.¹⁷ In another decision¹⁶ the commission exempted under Article 85(3) exclusive patent licensing and know-how concession contract concluded by an American company with its licensees in Germany, France, and Italy. In 1975 the commission adopted three decisions concerning patent licensing agreements. *Kabelmetall/Luchaire*¹⁸ confirmed that an exclusive manufacturing license may be exempted where it gives the licensee an incentive to carry on research and development work involving new investment and the parties remain free to export to other member states. It also stated that in given circumstances most-favored-licensee and grant-back clauses may be prohibited. *AOIP/Berad*,¹⁹ on the other hand, prohibited an agreement because the exclusivity clause and export ban formed part of the totality of restrictions, which could not be granted exemption, including a no-challenge and noncompetition clause. The provisional decision in the *Bronbemaling/Heidemaatschappij* case²⁰ prohibited a clause in a licensing agreement whereby the patent holder undertook not to issue licenses to third parties

without the prior consent of a majority of the licensees.

A valuable source of information on the activity of the commission in this field are the annual Reports on Competition Policy which are presented to the European Parliament. Not only are the decisions on licensing agreements described, but so are the cases which by way of complaints are brought to the attention of the commission and which in many cases are settled without a decision being necessary.

Mass Problem

As it became very soon apparent that it was impossible for the commission to decide on all licensing agreements notified by way of individual decisions, this being a mass problem for which the competent service of the commission is not equipped, a Council Regulation of 1965²¹ authorized the commission to make a Block exemption on patent licensing agreements. In 1974 the commission issued a first draft for such a regulation. It was discussed several times, in 1976 and 1978, with the Consultative Committee on Cartels and Monopolies established with the commission. In March 1979 the commission published a draft Regulation for a Block exemption for patent licensing agreements²² and asked the interested associations and undertakings for observations. In October 1979 the commission held a public hearing on the draft of the Block exemption. Fifty-three national and international organizations, many undertakings, Advocates and Patent Attorneys attended this hearing which took place on 8, 9, and 10 October 1979. In this hearing the legal and economic aspects of the draft regulation were intensively discussed.

The object of the draft regulation is to exempt to a large extent patent licensing agreements from the prohibition contained in Article 85 Paragraph 1 of the Treaty. Its scheme is as follows: Article 1 enumerates contractual obligations for licensor and licensee which are exempted from the prohibition. Article 2 contains obligations or clauses which if present in a licensing agreement are compatible with the exemption. And Article 3 lists up restrictions and clauses which, if they are contained in a licensing agreement, exclude the exemption.

The following provisions characterize the essential content of the draft regulation:

1. Article 1 Paragraph 1 exempts generally exclusive licenses for fabrication or use from the prohibition of Article 85 Paragraph 1.
2. Article 1 Paragraph 2 limits the exemption for licenses for selling and corresponding export prohibitions to small and middle-sized undertakings and equivalent licensees. The reason for this limitation is that undertakings of this kind normally are financially not strong and so depend on licensing.
3. Article 2 contains a lot of clauses which do not invalidate the exemption: They concern in particular: the obligation to secrecy, to respect quality standards, to grant reciprocal licenses for the improvement of the invention, the limitation of fabrication to certain fields of use.
4. Article 3 lists the clauses which are not compatible with the exemption: Nonattack clauses (Nichtan-

griffsklauseln), indeterminate duration of the agreement, restriction of quantities and imposed prices. Such clauses restrict competition in a way which makes it necessary to decide on them individually.

These are the essential provisions of the draft regulation. In the written observations and during the public hearing the commission received a great number of proposals to ameliorate the draft. The commission will seriously consider these proposals. The actual text of the draft regulation will be redrafted.

The draft has on the other hand been strongly criticized because the commission considers exclusive licenses to fall under Article 85 Paragraph 1 and export prohibitions toward member states of the community to be incompatible with the common market. These questions are actually pending before the Court of Justice in the Maize case. As it can be expected that the court will give its judgment in this case at the end of this year, it is appropriate for the commission to wait for the judgment before continuing to work on the block exemption for patent licensing agreements.

HARMONIZATION OF INTELLECTUAL PROPERTY IN THE COMMUNITY

Actually, intellectual property rights in the community are rights conferred by national legislation of the member states. They are limited to the territory of each member state, and to some extent they differ from one member state to the other. The fact that protection of intellectual property rights is limited to the territory of member states is not wholly satisfactory in a unified common market. The territorial character of such rights is a source of conflicts at the national borders in the community.

This situation led member states to create by convention a community patent, valid for the whole territory of the community. The Luxembourg Convention, signed in 1975 by nine member states, was inspired by the conviction that a community patent was necessary for undertakings whose activities covered the whole common market. Unhappily, the entry into force of this convention has been delayed. Three member states, the Netherlands, Ireland and Denmark, have not yet ratified it. Whereas ratification by the Netherlands is assured, Ireland and Denmark have not yet ratified because of internal constitutional problems. As ratification by all nine member states is a prerequisite to the entry into force of the convention, ratification by these two member states is absolutely necessary. In case they cannot overcome their internal difficulties for ratification, the other member states are prepared to seek another solution which will permit the entry into force of the convention. A special group of the Council of Ministers is actually examining this question. It was only a fortnight ago that the Irish Permanent Representative declared his government's intention to ratify the convention.

The commission in November 1980 has put before the Council of Ministers two proposals concerning trademarks²³. One proposal concerns approximation of national trademark laws in the community. The other concerns a proposal for a regulation to create a community-wide trademark.

It appeared that currently trademark laws of member states differ substantially one from the other. *Terrapin v. Terranova* made this perfectly clear. The German Bundesgerichtshof in its reference to the Court of Justice showed that according to German jurisprudence in the trademark field the scope of protection of trademark was very wide. That is to say that the two elements which determine the protection of a trademark, namely the standards by which similarity of signs and goods and risk of confusion is determined, are very widely interpreted. This is not the case within other member states. The commission thought it necessary to propose to the Council of Ministers a directive for the approximation of laws of the member states on trademarks in order to establish some common standards on trademark rights. This is the objective of the proposed directive.

The proposal for a directive is designed to bring about conditions of trade for marked goods within the community similar to those existing in a national market. It seeks to reduce the legal obstacles to freedom of movement for marked goods and services in the common market, while acknowledging the existence of rights recognized by domestic legislation to the property in a trademark. By this first directive it is proposed to approximate the provisions of trademark law which currently have the strongest and most direct influence on the establishment and functioning of the common market in marked goods. These are the rules governing the scope of the protection afforded to trademark, the necessity of trademark being used, amicable settlement of conflicts and the relative and absolute grounds for the refusal of registration or invalidation of trademarks.

Can Wait

The widely advocated approximation of further major areas of national trademark law, such as the definition of registrable signs and the introduction of service, collective and guarantee marks, and also the approximation of procedural rules, can in the commission's opinion wait until a later directive.

The most important rule in the proposed directive is that governing the scope of the protection afforded to trademarks. The principles which have been developed on this question in member states' legal systems, particularly with regard to the concepts of the likelihood of confusion between the signs and the similarity of the goods, have a direct effect on trade. If these concepts are given a broad interpretation, a considerable number of conflicts will arise in interstate trade due to discrepancies between the trademark rights recognized independently of one another in different member states. It is therefore one of the main aims of the directive to align the national rules, so that national trademarks in all member states confer the same degree of protection. Restriction of trade is permissible only when a serious risk of confusion on the part of the public exists between two competing signs and when the goods or services are identical or similar. The definition of the scope of protection given in the directive is the same as that given in the regulation for a community trademark with the only difference that in the directive special protection of trademarks having wide reputation is excluded.

Another rule worth mentioning here is that the directive — as well as the regulation — stipulate the principle of international exhaustion. That is to say: Once

a marked good has been commercialized by the trademark owner or with his consent anywhere in the world, he is deprived of the right to invoke his trademark in order to prohibit importation. This rule is accompanied by exceptions intended to protect legitimate interests of the trademark owner.

Approximation of national trademark laws is certainly useful, but its effect on free movement of goods in the common market is necessarily limited. It can reduce the number of trademark conflicts, but it can not eliminate their underlying cause. Approximation of the national systems of trademark protection cannot affect the restraints upon inter-state trade which arise because the laws of the member states are founded on the principle of territoriality. Where the domestic laws relating to trademarks allow so, a number of persons who are independent of each other can obtain protection of the same mark, or of similar marks, in different member states and thereby prevent the importation of the relevant goods into their country.

The only way in which these conflicts can be eliminated is by making trademark protection coextensive with the area of the common market. The creation of a community trademark existing alongside national trademarks is the only means whereby a common market in marked goods can eventually be achieved. For this reason the commission made a proposal to the council for the creation — by way of regulation — of a community trademark. The community system of trademarks will make it possible to obtain *one* trademark for *one* territory comprising all the member states by means of *one* application submitted to *one* trademarks office under *one* procedure governed by *one* law.

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Careful Preparation

The proposal for a regulation of a community trademark has been carefully prepared. The commission issued a memorandum in 1976. An initial draft of the regulation was discussed in 1977 and 1978, a second in 1978 and 1979. On the basis of an exhaustive dialogue between the commission's services and governmental experts solutions acceptable to everyone were found to the majority of questions. The interested bodies have made written and oral submissions which have been carefully studied.

The proposal contains all the substantive and procedural rules necessary for the creation of a community trademark. It is envisaged to create a Community Trademark Office. Trademarks need to be applied for, examined, registered, protected and monitored in accordance with appropriate official procedures. The same applies to earlier trademarks. Substantive trademark laws, its implementation by the administrative and the legal protection of the parties are mutually dependent.

The Trademarks Office is intended not as a new institution but as a community body supervised from the legal point of view by the commission. The Trademarks Office is to receive no legislative powers. These remain reserved to the council. It is to be monitored in many respects by the commission. The acts of the office and the commission will be reviewed in turn by the Court of Justice. The seat of the office and the question of what languages will be admitted for procedural proposes are still open.

The commission has chosen as legal basis for its draft the form of a regulation based on Article 235 — the gap filling provision of the EEC Treaty — and not a convention between member states. It is true that the experience made with the Luxembourg Convention on a community patent played an important role in this choice. As opposed to conventions between member states. It is true that the experience made with the Luxembourg Convention on a community patent played an important role in this choice. As opposed to conventions between member states — which need ratification by the national parliaments — regulations under Article 235 need a unanimous vote of the member states in the council after consultation with the European Parliament. But regulations are binding and directly applicable in all member states. In case of an enlargement of the community by the accession of new member states a regulation does from the date of the accession automatically apply to the new member state. Whereas a convention needs, after each accession, protracted negotiations concerning adjustments and a new ratification by all member states.

As I mentioned, the proposals of the commission for a directive and a regulation on trademarks was submitted to the Council of Ministers in December 1980. Meanwhile, they have been referred to the European Parliament and the Economic and Social Council for advice. The commission is hopeful that the advice of these two bodies can be given in the course of 1981 and that the council will finally adopt them in 1984.

FREE TRADE AGREEMENTS AND INTELLECTUAL PROPERTY

The community has concluded a series of international agreements with third countries. Of particular importance are those which the community has concluded with the former EFTA countries. When the United Kingdom and Denmark — former members of EFTA — were about to accede to the community on January 1, 1973, it was accepted that their existing trading relations with their EFTA partners should be carried over into the community and should be generalized to apply to the whole of the community. The negotiations resulted in the conclusion of free trade area agreements with Sweden, Finland, Norway, Iceland, Austria, Switzerland and Portugal. These agreements have been concluded by the community individually with each of these states. For most practical purposes the seven agreements are identical. They have in common that all the essential rules of the EEC Treaty which abolish trade barriers between the member states have been incorporated in these agreements. For instance, the prohibition of customs duties on imports and exports and all charges having equivalent effect,²⁴ the prohibition of quantitative restrictions on imports and all measures having equivalent effect,²⁵ including the exceptions laid down in Article 36, the rules on competition in a general form,²⁶ and the prohibition of fiscal discrimination.²⁷

The question has been put whether the provisions in the Free Trade Agreements concerning the prohibition of measures equivalent to quantitative restrictions and the respective justification on the grounds of intellectual property are "self executing," that is to say whether they may be invoked in private cases before national courts.

The same question has been put in respect to the provision prohibiting fiscal discrimination. The first case of this kind was decided by the Swiss Federal Court: *Bosshard Partners Intertrading AG v. Sunlight AG*²⁸ concerning the trademark "OMO." Pending before the Court of Justice is *Polydor v. Harlequin*. It concerns an exclusive right on sound recordings imported from Portugal into the United Kingdom.

The OMO Case: The facts are as follows: Sunlight AG, a Swiss company which belongs to the Unilever group, markets, in addition to soap and cleaning agents, a detergent which it manufactures in Switzerland and sells, again only in Switzerland, under the registered trademark OMO. In 1976 Sunlight AG found that Bosshard Partners was offering detergents and soap of German and Dutch origin under the names OMO and others. The products originated from the works of a subsidiary company of the Unilever group in Hamburg. Their price was considerably lower than the current price for packs of Swiss origin.

Sunlight AG sued Bosshard Partners and applied for an injunction which was granted. In the course of the judicial procedure it was argued by the defendant that the Free Trade Agreement made between Switzerland and the EEC excludes the plaintiff's claim from being granted. Reference was made to Articles 13 — prohibition of measures equivalent to quantitative restrictions — and 20, containing the exceptions corresponding to Article 36 of the EEC Treaty. The Swiss Federal Court in its judgment of January 25, 1979 held.

Trade Agreement

The EEC-Switzerland Free Trade Agreement of 1972 is purely a trade agreement which, unlike the EEC Treaty, does not aim to create a uniform internal market with supra-national regulations governing competition, but merely a free-trade area. Consequently, although in Swiss constitutional law duly ratified treaties form part of Swiss internal law, Article 13 Free Trade Agreement is not directly effective. Even if it were, it would not, as in Article 30 EEC Treaty, apply to the enforcement of municipal trademark rights against goods which had been imported bearing the same trademark lawfully affixed in their state of origin.

This judgment shows clearly that Switzerland is not willing to accept for the free trade area the principle — established by the Court of Justice of the community since its judgment in *Deutsche Grammophon v. Metro* in 1970 — that goods lawfully put on the market by the holder of an exclusive right or with his consent, can circulate freely. The Swiss Federal Court insists on the territoriality of intellectual property rights in the free trade area.

As far as *Polydor v. Harlequin* is concerned, because it is pending before the court, I am limited to describing the facts of the case and pointing out the legal questions involved.

The facts: The case concerns the importation in the United Kingdom of gramophone records from Portugal. The recording from which the gramophone records were made is subject to copyright both in the United Kingdom and Portugal. RSO is the owner of that copyrights, Polydor is the exclusive licensee of that copyright in the United Kingdom, Phonogram and Polygram are the

licensees of the same copyright in Portugal. They manufacture records in Portugal from the recording which is the subject of copyright. RSO, Polydor, Phonogram and Polygram are members of the same group of companies. Simons imported into the United Kingdom a quantity of records manufactured in Portugal. Some of these records were sold by Harlequin to members of the public at a retail shop. The importation and sale by Simons, and the sales by Harlequin were made without a license from Polydor or RSO.

Polydor brought an action against Harlequin in the High Court of Justice in England, seeking an injunction against infringement of copyright. The High Court granted the injunction. The Court of Appeal refused to confirm the injunction. Instead it referred to the Court of Justice four questions concerning the interpretation of Articles 14(2) and 23 of the Free Trade Agreement between the community and Portugal of 1972.

These questions are in essence:

1. Is the enforcement by a company of its United Kingdom copyright against a gramophone record lawfully made and sold in Portugal by its licensees under the equivalent Portuguese copyright a measure having equivalent effect to quantitative restrictions on imports within the meaning of Article 14(2) of the Free Trade Agreement — the equivalent of Article 30 of the EEC Treaty.
2. If the answer is affirmative: Does Article 23 of the Agreement — the equivalent of Article 36 of the EEC Treaty — justify such enforcement?
3. Are these provisions of the Free Trade Agreement directly enforceable by individuals within the community?

In its reference to the Court of Justice the Court of Appeal examines the legal situation under domestic English law and under Community law. With regard to English domestic law, the Court of Appeal concludes that the defendants have infringed the Copyright Act of 1956.

The Court of Appeal then examines whether community law prohibits the application of the relevant provisions of the English Copyright Act. It refers to the European Communities Act of 1972 and the Council Regulation of December 19, 1972, which concluded, adopted and confirmed the agreement between the EEC and the Portuguese Republic on behalf of the community. The Court of Appeal came to the conclusion that the effect of this regulation was "to make the Portuguese Agreement part of Community law and enforceable in the United Kingdom." Looking at the Portuguese Treaty more specifically, the Court of Appeal states that "if Article 30 of the Treaty is the kind of article which is enforceable by individuals, then it seems ... to me that the regulation which brought into effect Article 14 of the Portuguese Treaty is a regulation which, so far as Article 14 is concerned, does confer rights on individuals."

The Court of Justice will have to decide on the following questions:

- What is the meaning of the Council Regulation of December 19, 1972, by which the Free Trade Agreement with Portugal was concluded, adopted confirmed? Does it bind only the community and member states, or does it confer rights on individuals?
- Is the meaning of the provision equivalent to Article 30 of the treaty "self executing"?
- Can the provision equivalent to Article 36 of the treaty be interpreted in the same way as the Court of Justice interpreted it for the community?

NOTES

1. (1976) E.C.R. 1039.
2. It is true that in *Parke, Davies v. Proble* (1968, C.M.L.R., 47 the court also applied the competition rules.
3. Case 3/78, *Centrafarm v. American Home Products*, (1978) E.C.R. 1823.
4. Case 15/74, *Centrafarm v. Sterling Drug*, (1974) E.C.R. 1147 at p. 1162.
5. Judgment of March 18, 1980, paragraph 14 (1980) E.C.R. 881 at p. 903.
6. (1976) E.C.R. 811.
7. Case 102/77, judgment of May 23, 1978, (1978) E.C.R. 1139.
8. Judgment of October 10, 1978, (1978) E.C.R. 1823.
9. (1980) E.C.R. 881.
10. See the interesting and critical annotation to this judgment by Neville March Hunnings in *Common Market Law Review - Vol. 17 - N° 4, Nov. 1980.*
11. Cases no. 55/80 and 57/80, not yet published.
12. Case 58/80, not yet published.
13. loc. cit.
14. Nr. 1/81.
15. Decisions of December 22, 1971, *Burroughs-Delplanque and Burroughs-Geha*, OJ no. L13 of January 17, 1972, pp. 50 and 53.
16. Decision of June 9, 1972, *Raymond-Nagoya*, OJ no. L 143, June 23, 1972, p.31.
17. Decision of June 9, 1972, *Davidson Rubber Company*, OJ no. L 143, June 23, 1972, p. 31.
18. OJ no. L 222 of 22.8.1975.
19. OJ no. L 6 of 13.1.1976, p.8.
20. OJ no. L 249 of 25.9.1975.
21. Regulation no. 19/65/EEC of 2.3.1965 concerning the application of Article 85 par. 3 on Block exemptions for agreements and concerted practices, Official Journal no. 36 of 6.3.1965, p.533.
22. Official Journal c 58 of 3.3.1979, p. 12 and C 110 of 3.5.1979, p.10.
23. OJ No. C 351 of December 31, 1980.
24. Articles 13, 14., 16 and 17 of the EEC Treaty.
25. Articles 30 and 31.
26. Articles 85, 86 and the rules on State aids, Art. 92.
27. Articles 95, 96.
28. (1980) 3 CMLR 664.