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Industrial Property Rights and the Free Movement of Goods in the European Communities

by *David R. Bumbak**

I. INTRODUCTION

A fundamental purpose of the European Economic Communities, also known as the European Community or Common Market, is to remove the traditional barriers to trade among its constituent Member States. Existing national laws of these Member States are frequently at odds with the concept of the free movement of goods across national frontiers. National laws regarding the protection of intellectual property, e.g., patent, trademark and copyright laws, for example, have the effect of isolating national markets from the enlarged single market created by the European Community. This effect of national intellectual property laws conflicts with the regional legal system established by the European Community which is designed to promote the economic integration of the Member States.

The Court of Justice of the European Communities, a prime function of which is to interpret provisions of the treaties establishing the Common Market for the guidance of national courts, has attempted to ameliorate this conflict through its interpretation of article 36 of the Treaty of Rome. Article 36 of the Treaty of Rome, also known as the European Economic Community Treaty (the EEC Treaty), recognizes that the protection of intellectual property rights, referred to in article 36 as industrial or commercial property, merits an exception to the fundamental Community policy of the free movement of goods. Several recent decisions of the Court of Justice of the European Communities, or simply the European Court, have addressed the scope of this exception, particularly with regard to copyrights.

This article addresses the extent to which exceptions to the fundamental principle of the free movement of goods may justify the protection of private, nationally created industrial property rights.¹ Community

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¹ The term "industrial property" is used here in its generic sense.

competition rules² and the free movement of services³ will be examined to the extent that these provisions also affect industrial property rights.

The European Court recently noted the potential conflict between the variety of national laws protecting industrial property and the fundamental Community goal of the free movement of goods as follows:

The national rules relating to the protection of industrial property have not yet been unified within the Community. In the absence of such unification, the national character of the protection of industrial property and the variations between the different legislative systems on this subject are capable of creating obstacles both to the free movement of [goods and, in this case] of the patented products and to competition within the Common Market.⁴

The balancing of these conflicting policies has been the primary focus of the Court's decisions involving article 36, and its interpretation of industrial property rights.

The article begins with a brief overview of the EEC Treaty and the Community legal system. The case law discussion focuses on three specific areas of national intellectual property law: trademarks, patents and copyrights. It concludes with a statement of the European Court's progress in resolving these conflicts and an indication of which issues await resolution through further case law or Community legislation.

II. THE COMMON MARKET, THE FREE MOVEMENT OF GOODS AND INDUSTRIAL PROPERTY

A. *Fundamental Goals of the European Community*

The European Community is a regional attempt to integrate selected areas of the economies of ten states in Western Europe—Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands and the United Kingdom.⁵ Spain and Portugal are currently negotiating terms of entry. One of the principal objectives of the European Community is the establishment of a Common Market to promote the

² Treaty Establishing the European Economic Community, Mar. 25, 1957, arts. 85-86, 298 U.N.T.S. 11, 47-49 [hereinafter cited as EEC Treaty].

³ *Id.* at 40-42 (arts. 59-66).

⁴ *Parke, Davis, & Co. v. Probel, Reese, Beintema-Interpharm & Centrafarm*, 1968 E. Comm. Ct. J. Rep. 55, 71, 1968 Comm. Mkt. L.R. 47, 58.

⁵ For an introduction to the history, laws and institutions of the European Community, see L. COLLINS, *EUROPEAN COMMUNITY LAW IN THE UNITED KINGDOM* (1975); T. HARTLEY, *THE FOUNDATIONS OF EUROPEAN COMMUNITY LAW* (1981); D. LASOK & J. BRIDGE, *AN INTRODUCTION TO THE LAW AND INSTITUTIONS OF THE EUROPEAN COMMUNITIES* (2d ed. 1976). For an introduction to the role of the European Court and its interpretive methodology, see A. BREDIMAS, *METHODS OF INTERPRETATION OF COMMUNITY LAW* (1978).

economic activities and approximate the economic policies of the Member States.⁶ The establishment of this Common Market "presupposes a high degree of economic and political cooperation" among its members.⁷ This factor distinguishes a Common Market from other less committed notions of international economic cooperation such as the customs union,⁸ or the free trade area.⁹

[W]hereas both free trade area and customs union are in their nature concerned with eliminating tariff and nontariff barriers to trade between their members, a common market has two additional features. First, it seeks to remove obstacles to the free movement of factors of production; at any rate labour and capital. Secondly, the common market adopts an extended notion of the nontariff barrier to trade. Where diverse national legislation and policy making tends to burden inter-state trade, the common market contemplates common standards and common policies.¹⁰

Elements of economic cooperation necessary to establish a common market are set out in article 3 of the EEC Treaty. Foremost among these is the elimination of custom duties and quantitative restrictions on the import and export of goods between Member States, and all measures having equivalent effect.¹¹ These elements also include: (1) the abolition of restrictions on the free movement of services, capital and persons;¹² (2) the institution of a system to ensure undistorted competition within the Community;¹³ and, (3) the approximation of the laws of the Member States, insofar as are needed to ensure the proper functioning of the

⁶ EEC Treaty, *supra* note 2, 298 U.N.T.S. at 15 (art. 2). The EEC Treaty, unlike other self-executing treaties in international law, has been described as:

[M]ore than an agreement which merely creates mutual obligations between the contracting states [T]he states have acknowledged that Community law has an authority which can be invoked by their nationals before [their national] courts and tribunals [T]he Community [therefore] constitutes a new legal order of international law for the benefit of which the states have limited their sovereign rights, albeit within limited fields, and the subjects of which comprise not only Member States but also their nationals.

N.V. Algemene Transport—en Expedite Onderneming van Gend & Loos v. Nederlandse administratie der belastingen, 1963 E. Comm. Ct. J. Rep. 1, 12, 1963 Comm. Mkt. L.R. 105, 129. See generally B. RUDDEN & D. WYATT, BASIC COMMUNITY LAWS (1980) (discussion of EEC Treaty as amended). For a more thorough treatment of treaties applicable to the European Community, see 1-6 H. SMIT & P. HERZOG, THE LAW OF THE EUROPEAN ECONOMIC COMMUNITY (1976) (with supplemental updates).

⁷ D. WYATT & A. DASHWOOD, THE SUBSTANTIVE LAW OF THE EEC 20 (1980).

⁸ For example, the Benelux countries—Belgium, the Netherlands and Luxembourg.

⁹ For example, the European Free Trade Area.

¹⁰ D. WYATT & A. DASHWOOD, *supra* note 7, at 20-21.

¹¹ EEC Treaty, *supra* note 2, 298 U.N.T.S. at 16 (art. 3(a)).

¹² *Id.* (art. 3(c)).

¹³ *Id.* (art. 3(f)).

Common Market.¹⁴B. *The Free Movement of Goods*

The elimination of quantitative restrictions on the import and export of goods and all measures having an equivalent effect is designed to promote the free movement of goods, a fundamental community policy. The EEC Treaty contains three basic sets of provisions designed to implement the establishment of this fundamental principle.¹⁵

Article 9 of the EEC Treaty states that the Community "shall be based upon a customs union which shall cover all trade in goods and which shall involve the prohibition between Member States of customs duties on imports and exports and of all charges having equivalent effect."¹⁶

Articles 30-36 require the elimination of quantitative restrictions on trade between Member States and measures having an equivalent effect,¹⁷ such as an import quota. These articles provide for the detailed implementation of the general principle established in article 3.¹⁸ The concept of "measures having an equivalent effect," under article 30, has been broadly construed to encompass virtually "all trading rules enacted by Member States which are capable of hindering, directly or indirectly, actually or potentially, intra-Community trade."¹⁹

¹⁴ *Id.* (art. 3(h)).

¹⁵ Usher, *The Consequences of the Notion of a Single Market: Recent Decisions of the Court on the Free Movement of Goods*, [1977] 2 LEGAL ISSUES EUR. INTEGRATION 39. See 1-6 H. SMIT & P. HERZOG, *supra* note 6 for commentary.

¹⁶ EEC Treaty, *supra* note 2, 298 U.N.T.S. at 18-19 (art. 9(1)). Part Two of the treaty which contains article 9 is entitled "Free Movement of Goods." Articles 9-11 are introductory and establish basic rules. For an introduction to the EEC Treaty, see 1-6 H. SMIT & P. HERZOG, *supra* note 6. Professors Smit and Herzog have noted that chapter 1 of the treaty "deals . . . with two symmetrical problems: the abolition of customs duties between Member States (Section 1) and the establishment of a common customs tariff against third countries (Section 2). Both of these aims had to be, and were, accomplished within the transitional period [i.e., prior to Jan. 1, 1970]." 1 H. SMIT & P. HERZOG, *supra* note 6, at 2-37. In fact, most of such restrictions were eliminated "with very minor exceptions by July 1, 1968." *Id.* at 2-39.

¹⁷ EEC Treaty, *supra* note 2, 298 U.N.T.S. at 26-30 (arts. 30-37). Articles 30-37 deal with the "elimination of quantitative restrictions between Member States." A familiar U.S. example of a quantitative restriction is the "voluntary agreement" (having the effect of an import quota) between the United States and Japan to limit the number of Japanese automobiles entering the United States.

¹⁸ *Id.* at 15-16 (art. 3).

¹⁹ Procureur du Roi v. Benoit & Gustave Dassonville, 1974 E. Comm. Ct. J. Rep. 837, 852, [1974] 2 Comm. Mkt. L.R. 436, 453-54. See 1 H. SMIT & P. HERZOG, *supra* note 6, at 2-127 to 2-129 and 2-131 to 2-132; Page, *The Concept of Measures Having an Effect Equivalent to Quantitative Restrictions*, 2 EUR. L. REV. 105 (1977) (theoretical analysis of the concept based on textual analysis of the Treaty and, primarily, the *Dassonville* case);

Articles 95-99 are the Community tax provisions. These require that the internal taxation policies of Member States be applied in a manner that does not discriminate against products imported from other Member States.²⁰

The concept of measures which have an effect equivalent to quantitative restrictions, covered by articles 30-36, unlike charges having an effect equivalent to customs duties (art. 9) or measures of internal taxation (arts. 95-99), include "restrictions of a variety which may be invoked by private individuals or undertakings."²¹ The result is that these treaty articles may affect "the exercise of what are traditionally thought of as private property rights."²² One such group of rights affected by articles 30-36 are industrial property rights.

C. *Industrial Property Rights and Article 36*

The term industrial property is used to describe specific valuable rights associated with the production and distribution of goods.²³ The principal industrial property rights are patents, trademarks and copyright.²⁴ Other rights include "industrial designs, trade names and in some

Van Gerven, *The Recent Case Law of the Court of Justice Concerning Articles 30 and 36 of the EEC Treaty*, 14 COMMON MKT. L. REV. 5 (1977).

²⁰ ECC Treaty, *supra* note 2, 298 U.N.T.S. at 53 (art. 95). The Community tax provisions are found generally in articles 95-99. See Usher, *supra* note 15, at 40, for commentary on the relationship between internal taxation policies and charges having an effect equivalent to customs duties. Subject to exceptions, the general rule is that financial charges equally applied by a Member State to domestic and imported products, i.e., using the same criteria, are not charges equivalent to customs duties. Such a financial charge will, however, be deemed equivalent to a customs duty if the charge is intended exclusively to support activities that specifically benefit a taxed domestic product. *Id.*

²¹ Usher, *supra* note 15, at 42.

²² *Id.*

²³ D. WYATT & A. DASHWOOD, *supra* note 7, at 341. As the authors note, a listing of such rights may be found in article 1(2) of the Paris Convention of March 20, 1883, recently revised at Stockholm, July 14, 1977. *Id.* See World Intellectual Property Organization Publication No. 415(F) (Geneva 1973) (defining the similar term "intellectual property"), cited in Harris, *The Application of Article 36 to Intellectual Property*, 1 EUR. L. REV. 515 (1976). The term often used in the United States is "intellectual" property. The drafters of article 36 used the terms "industrial" and "commercial" property. As will be noted below, the terms have been used interchangeably by the European Court to encompass virtually every form of intellectual or industrial property—from patents to theatrical performance rights. Hence, the terms shall be used interchangeably to denote the broad scope employed by the European Court.

²⁴ Jehoram, *The Delicate Balance Between Industrial Property and European Law: The Law as it Stands*, [1976] 2 LEGAL ISSUES EUR. INTEGRATION 71, 72. See *infra* notes 29-32 and accompanying text for a discussion of the extent to which specific rights are included within the phrase "industrial and commercial property" as used in article 36 of the EEC Treaty.

countries the existing service marks, utility models, indications of source, appellations of origin and the so-called neighbouring rights (that is neighbouring to copyright): exclusive rights in sound recordings, films and broadcasts . . . and performance rights."²⁵

Industrial property rights reserve some economic advantage to their owners. They are generally territorial in nature since they are exclusive within, but limited to, the territory of the legal system which creates them. Within this territory, the "protections afforded to these rights is proprietary in nature, [i.e., it is] good against the world in general."²⁶ As a consequence, the owner of the industrial property right may prohibit the unauthorized exploitation of that right by third parties within the Member State. This permits the proprietor "to erect watertight boundaries between national markets for his products, the purpose of which . . . is the setting and maintaining of different prices on the different markets for his products."²⁷ Hence, there is a "basic contradiction between . . . a Common Market that eliminates all economic barriers between the Member States and . . . the territorial monopolies resulting from the industrial property rights in the Member States."²⁸

The European Court's case law has traditionally covered trademarks and patents.²⁹ In *Musik-Vertrieb Membran GmbH and K-Tel Int'l v. GEMA*,³⁰ the Court held for the first time that copyright and related rights are also within the scope of article 36.³¹ *GEMA* involved copyright in sound recordings and royalties due to the holder when the goods are traded between Member States which have different royalty payment schedules. Copyrights as related to performance rights were held to be within the scope of article 36 in *Coditel v. Cine Vog Films*³² (*Coditel I*). *Coditel* concerned broadcast rights in films and the relationship between articles 36 and 59-66 (concerning the freedom to provide services). Recent case law³³ has expanded the application of article 36 to encompass, by analogy, the Community rules on the freedom to provide services.³⁴ The Court's challenge has been to reconcile the principles of article 36 with

²⁵ Jehoram, *supra* note 24, at 72.

²⁶ D. WYATT & A. DASHWOOD, *supra* note 7, at 341.

²⁷ Jehoram, *supra* note 24, at 74.

²⁸ *Id.* at 71.

²⁹ See *infra* sections III and IV in text.

³⁰ 1981 E. Comm. Ct. J. Rep. 147, [1981] 2 Comm. Mkt. L.R. 44. For a discussion of this case, see *infra* notes 235-53 and accompanying text.

³¹ 1981 E. Comm. Ct. J. Rep. at 161, [1981] 2 Comm. Mkt. L.R. at 64.

³² 1980 E. Comm. Ct. J. Rep. 881, [1981] 2 Comm. Mkt. L.R. 362. For a discussion of this case, see *infra* notes 213-34 and accompanying text.

³³ See, e.g., S.A. Compagnie General pour la Diffusion de la Television, *Coditel v. S.A. Cine Vog Films*, 1980 E. Comm. Ct. J. Rep. 881, [1981] 2 Comm. Mkt. L.R. 362. For a discussion of this case, see *infra* notes 213-34 and accompanying text.

³⁴ EEC Treaty, *supra* note 2, 298 U.N.T.S. at 40-42 (arts. 59-66).

various Community provisions, "insofar as they may provide grounds for opposing the application of national rules protecting industrial property, with Article 222 which preserves intact the system of property ownership in the Member States."³⁵

1. Textual Analysis of Article 36

Article 36 was designed to ameliorate the potential conflict between industrial property rights and Community law. It provides, in pertinent part, as follows:

The provisions of Articles 30 to 34 inclusive shall not be an obstacle to prohibitions or restrictions in respect of importation, exportation or transit which are justified on grounds of . . . the protection of industrial and commercial property. Such prohibitions or restrictions shall not, however, constitute either a means of arbitrary discrimination or a disguised restriction on trade between Member States.³⁶

The central theme of the Court's case law on industrial property has been the scope of the exceptions set forth in article 36, including the Community rules on the free movement of goods, and the freedom to provide services.³⁷

The first sentence of article 36 permits exceptions to the free movement of goods when justified by the need to protect industrial property rights.³⁸ Nevertheless, one scholar concluded that "[i]t is, in fact, by no means self-evident that the mere need to protect intellectual property necessarily justifies that exemption in any particular case."³⁹ The decision to grant an exemption is a matter for the European Court.⁴⁰ Since the general EEC Treaty principles are fundamental goals of the Community, the exemptions have consistently been interpreted narrowly.⁴¹

³⁵ D. WYATT & A. DASHWOOD, *supra* note 7, at 343. Article 222 states, "This Treaty shall in no way prejudice the system existing in Member States in respect of property." EEC Treaty, *supra* note 2, 298 U.N.T.S. at 88.

³⁶ EEC Treaty, *supra* note 2, 298 U.N.T.S. at 29.

³⁷ D. WYATT & A. DASHWOOD, *supra* note 7, at 344. See also Blok, *Articles 30-36 of the EEC Treaty and Intellectual Property Rights: A Danish View*, 13 INT'L REV. INDUS. PROP. & COPYRIGHT L. (IIC) 729 (1982).

³⁸ Harris, *supra* note 23, at 517.

³⁹ *Id.*

⁴⁰ *Id.*

⁴¹ See, e.g., *Merck & Co. Inv. v. Stephar B.V. & Petrus Stephanus Exler*, 1981 E. Comm. Ct. J. Rep. 2063, [1981] 3 Comm. Mkt. L.R. 463. For a discussion of this case, see *infra* notes 180-96 and accompanying text. See also Reischl, *Industrial Property and Copyright Before the European Court of Justice*, 13 INT'L REV. INDUS. PROP. & COPYRIGHT L. (IIC) 415 (1982). For additional examples of narrowly construed exceptions to article 36, see *SpA Salgoil v. Italian Ministry for Foreign Trade*, 1968 E. Comm. Ct. J. Rep. 453, 1969 Comm. Mkt. L.R. 181; *Re Advertising of Alcoholic Beverages: Commission of the European*

The second sentence of article 36, however, "provides in effect that there may be a further set of circumstances which reduces or nullifies the first set of circumstances."⁴² The second sentence has two additional hurdles. The sentence refers to restrictions on intra-Community trade that may constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States.⁴³ This is an express limitation on the use of industrial property rights when that use restricts Community trade. Even if exceptions to articles 30-34, which establish the basic rules regarding the free movement of goods, are justified by the need to protect industrial property, that will not suffice to qualify for the exemption under article 36(1) if the use of the industrial property right causes a disguised restriction on intra-Community trade.⁴⁴ The European Court has been very willing in industrial property cases to infer such a restriction.⁴⁵

2. Interpretive Concepts Derived from the European Court's Case Law

The European Court has introduced two basic concepts in its interpretation of article 36. The first concept is the European Court's distinction between the existence and exercise of industrial property rights. This distinction was introduced impliedly in the early case of *Consten and Grundig v. Commission*,⁴⁶ and was expressly applied in *Parke, Davis v. Probel and others*.⁴⁷ The distinction is that the existence of industrial property rights are determined solely by national law, whereas the exercise of those rights may be limited by the Community insofar as they affect trade between Member States.

The European Court articulated this distinction in the early case of *Sirena v. Eda*.⁴⁸ *Sirena* applied article 36 by analogy in examining the limits which articles 85 and 86—the Community competition rules—place on a proprietor's exercise of his national trademark rights.⁴⁹ The European Court noted, as in *Parke, Davis*, that the absence of uniformity of national laws on industrial property impeded the free movement of goods

Communities v. French Republic, 1980 E. Comm. Ct. J. Rep. 2299, [1981] 2 Comm. Mkt. L.R. 743.

⁴² Harris, *supra* note 23, at 517.

⁴³ These concepts are discussed *infra* in the sections dealing with specific industrial property rights. In short, the Court has not drawn a sharp distinction between the two.

⁴⁴ Harris, *supra* note 23, at 518.

⁴⁵ *Id.*

⁴⁶ 1966 E. Comm. Ct. J. Rep. 299, 1966 Comm. Mkt. L.R. 418; see D. WYATT & A. DASHWOOD, *supra* note 7, at 345.

⁴⁷ 1968 E. Comm. Ct. J. Rep. 55, 1968 Comm. Mkt. L.R. 47.

⁴⁸ 1971 E. Comm. Ct. J. Rep. 69, 1971 Comm. Mkt. L.R. 260.

⁴⁹ *Id.* at 81, 1971 Comm. Mkt. L.R. at 273.

and the Community's system of competition.⁵⁰ The Court held, therefore, that:

Article 36, although it appears in the Chapter of the Treaty dealing with quantitative restrictions on trade between Member States, is based on a principle equally applicable to the question of competition, in the sense that even if the rights recognized by the legislation of a Member State on the subject of industrial and commercial property are not affected, so far as their existence is concerned, by Articles 85 and 86 of the Treaty, their exercise may still fall under the prohibitions imposed by those provisions.⁵¹

The Community competition rules, therefore, could limit the manner in which a proprietor exercised his trademark rights.

The European Court's rationale for distinguishing between the existence and exercise of these rights is that: "Even where Community rules override national rules in this field, it is far from being the object of Community rules to prevent national legislation from granting intellectual property rights and from providing the means, within national boundaries of enforcing them."⁵² As a result, the interest of Community law is in limiting the effect of the exercise of these rights on trade between Member States. The exercise of industrial property rights which does not affect intra-Community trade was beyond the Court's concern.

A more useful distinction⁵³ than that between the existence and the exercise of an industrial property right was first introduced by the European Court in *Deutsche Grammophon v. Metro-SB-Grossmarkte*.⁵⁴ This distinction involved the concept of the "specific subject matter" or "specific object" (depending on the translation) of a particular industrial property right. The European Court distinguished between the specific subject matter of an industrial property right (which Community law must respect) and other "adventitious characteristics which have to yield

⁵⁰ *Id.* at 81, 1971 Comm. Mkt. L.R. at 272.

⁵¹ *Id.* at 81, 1971 Comm. Mkt. L.R. at 273.

⁵² Harris, *supra* note 23, at 532. The author also notes:

Although it has certain validity, there is a hint of sophistry about this distinction; and unfortunately it has given rise to a contrary sophistry, to the effect that, if the Court attacks the exercise of a right, it matters little that its existence is unimpaired: mere existence, without the chance of exercise, so the argument goes, is a hollow advantage. This would be true if it were the whole of the exercise of the right which were vitiated by a decision of the Court; but in practice it is not [T]he extent to which Community rules override national rules, at any rate in terms of the number of infringement cases likely to be affected, is relatively circumscribed.

Id. But see Blok, *supra* note 37, at 731.

⁵³ The comparison is by Harris, *supra* note 23, at 532.

⁵⁴ 1971 E. Comm. Ct. J. Rep. 487, 1971 Comm. Mkt. L.R. 631. The Court has elaborated on this concept. See discussion *infra* at sections IV and V of text.

to the rules on the free movement of goods because they do not put that specific object at issue."⁵⁵ The distinction between those rights collectively referred to by the European Court and other rights associated with industrial property has been succinctly stated:

[T]he Court's definition of the specific subject matter of a particular intellectual property right should be understood not as an isolated description of the purposes for which such a right is afforded to individuals—these purposes can only be defined by the national legislators—but as a description of the extent to which the purposes defined by the national legislator outweigh the Community's interest in the free movement of goods.⁵⁶

Community law will not permit intra-Community trade to be restricted by the exercise of industrial property rights when such rights do not constitute the specific subject matter of the particular industrial property right involved.

3. Industrial Property Cases and the Applicability of Articles 85 and 86

The earliest industrial property cases decided by the Court of Justice involved the application of articles 85 and 86.⁵⁷ Subsequent developments shifted the interpretation away from these articles and toward the express application of article 36. Although the focus of the European Court's industrial property cases has shifted to article 36, articles 85 and 86 have retained their application to industrial property cases in at least two ways. They serve as the basis for the competence of the European Commission to review certain cases, and they apply in cases of the importation of goods from outside the Community, "because in these cases Articles 30-36 neither apply directly nor by analogy."⁵⁸ This latter situation is important because articles 30-36 by their terms apply only to intra-Community trade. They do not apply to trade with countries outside the

⁵⁵ Harris, *supra* note 23, at 532-33. Harris cites, in support, a comment by Judge Mertens de Wilmars of the European Court: "The Court's task is to determine, by its case-law, the degree to which the exceptions permitted under Article 36 are justified. . . . The judge at Luxembourg, like his colleagues in the national courts, means to proceed step by step: extrapolating case-law is always a risky business." *Id.* at 517 n.11.

⁵⁶ Blok, *supra* note 37, at 730.

⁵⁷ See *Établissements Consten SARL and Grundig-Verkaufs-GmbH v. Commission of the European Economic Community*, 1966 E. Comm. Ct. J. Rep. 299, 1966 Comm. Mkt. L.R. 418. Article 85 prohibits agreements and concerted practices in restraint of intra-Community trade. Article 86 addresses single firm trading practices thought to abuse a dominant position. EEC Treaty, *supra* note 2, 298 U.N.T.S. at 47-49.

⁵⁸ Blok, *supra* note 37, at 732, provides examples of the continued application of articles 85 and 86 in industrial property cases.

European Community in the absence of a trade agreement containing a specific provision on point.⁵⁹ Nor do they apply, in general, where a trade agreement does not expressly invoke the application of articles 30-36 as interpreted under the EEC Treaty.⁶⁰

4. Community Legislative Responses

The case law discussion following highlights the need for a Community-wide resolution of this conflict between Community and national law, but the legislative responses by the Community institutions are beyond the scope of this article. They are noted here in brief only to suggest the rudimentary level of these attempts to resolve industrial property rights issues from a Community-wide basis.

The two areas where significant Community legislative developments have occurred are patents and trademarks. A Convention for the European Patent for the Common Market (known as the Community Patent Convention) was signed on December 15, 1975.⁶¹ "The general purpose of the Convention is to introduce a unitary patent for the Common Market, within the framework of the wider Convention on the Grant of European Patents."⁶² Article 81(1) of the Community Patent Convention provides a legislative basis for the exhaustion of rights principle as applied to patents by the European Court in *Centrafarm B.V. v. Sterling Drug, Inc.*⁶³ The Community Patent Convention is an attempt to provide a thorough legislative basis for the balancing of the conflicting interests of patent holders and principles of Community trade. But "areas of conflict will remain and the case law of the Court . . . has certainly not been superseded."⁶⁴

European Community legislation on trademarks is at a more primitive stage.⁶⁵ The European Commission undertook an extensive study ex-

⁵⁹ *EMI Records Ltd. v. CBS United Kingdom Ltd.*, 1976 E. Comm. Ct. J. Rep. 811, [1976] 2 Comm. Mkt. L.R. 235; *EMI Records Ltd. v. CBS Grammafon A/S*, 1976 E. Comm. Ct. J. Rep. 871, [1976] 2 Comm. Mkt. L.R. 235; *EMI Records Ltd. v. CBS Schallplatten GmbH*, 1976 E. Comm. Ct. J. Rep. 913, [1976] 2 Comm. Mkt. L.R. 235.

⁶⁰ *Polydor Ltd. & RSO Records Inc. v. Harlequin Record Shops Ltd. & Simons Records Ltd.*, 1982 E. Comm. Ct. J. Rep. 329, [1982] 1 Comm. Mkt. L.R. 677. *Cf. Pabst & Richarz K.G. v. Hauptzollamt Oldenbourg*, 1982 E. Comm. Ct. J. Rep. 1331, [1983] 3 Comm. Mkt. L.R. 11; *see infra* note 103. Regarding the general application of articles 85 and 86, Professor Dashwood has noted that these articles are more difficult procedurally for plaintiffs than article 36. D. WYATT & A. DASHWOOD, *supra* note 7, at 349. *See Reischl, supra* note 41, at 428-29.

⁶¹ 19 O. J. EUR. COMM. (No. L 17) 1 (1976).

⁶² D. WYATT & A. DASHWOOD, *supra* note 7, at 342.

⁶³ 1974 E. Comm. Ct. J. Rep. 1147, [1974] 2 Comm. Mkt. L.R. 480.

⁶⁴ D. WYATT & A. DASHWOOD, *supra* note 7, at 343.

⁶⁵ *See* 1 H. SMIT & P. HERZOG, *supra* note 6, at 2-160 (Supp. 1983).

ploring the need for a Community-wide trademark.⁶⁶ The study concluded that not all firms require that their trademarks cover the same geographic scope.⁶⁷ The Commission proposed two measures: (1) a directive, based on article 100, would require the approximation of the trademark laws of the Member States;⁶⁸ and, (2) a proposed Council Regulation on Community Trade Marks, based on article 235, would permit those firms requiring Community-wide coverage of their trademarks to register at a new Community Trade Mark Office (CTMO).⁶⁹ The Regulation would provide that decisions of the CTMO would be reviewable internally and by the European Court as a last resort.⁷⁰ Professors Herzog and Smit note that although these proposals would not eliminate the problems in this area, they would substantially reduce them since firms seeking Community-wide trademark coverage could opt for registry with the Community Trade Mark Office.⁷¹

The problems associated with copyrights and related rights are of more recent origin. As the following case law discussion demonstrates, a need exists for Community legislation in this area to resolve conflicts similar to, but more complex than the problems associated with trademarks and patents.

Some of the earliest cases before the European Court dealt with trademarks. These and subsequent trademark decisions of the European Court collectively constitute a concise statement of the concepts developed by the European Court. Hence, the case law discussion will begin with an analysis of these cases. Decisions regarding patents will follow. The newest phase of the European Court's interpretation of article 36 deals with copyrights and related rights and an analysis of these cases will complete the discussion.

III. TRADEMARKS

The majority of the European Court's case law in industrial property has involved trademarks. The major developments of the European Court's case law have been well documented elsewhere.⁷² The essential

⁶⁶ The Need for a European Trademark System: Competence of the European Community to Create One, Doc. No. III/D/1294/79 (Oct. 1979) (Commission of European Communities, Commission Working Paper Working Group on the Community Trademark), *reprinted in* 11 INT'L REV. INDUS. PROP. & COPYRIGHT L. (IIC) 58, 174 (1980).

⁶⁷ *Id.* at 60.

⁶⁸ 23 O.J. EUR. COMM. (No. C 351) 1 (1980).

⁶⁹ 23 O.J. EUR. COMM. (No. C 351) 5 (1980).

⁷⁰ *Id.* at 18-19.

⁷¹ 1 H. SMIT & P. HERZOG, *supra* note 6, at 2-160 (Supp. 1983). The authors also note the Commission's detailed study exploring the implications of a community trademark. See Blok, *supra* note 37, for criticism of the Commission proposals.

⁷² See, e.g., D. WYATT & A. DASHWOOD, *supra* note 7; Harris, *supra* note 23; Usher,

highlights of the concepts developed by the European Court in its earlier decisions dealing with intellectual property rights will be discussed to indicate the trends taken by recent developments in the European Court's jurisprudence.

A. *Van Zuylen Freres v. Hag A.G.*

The European Court's first trademark decision based squarely on its interpretation of article 36 was *Van Zuylen Freres v. Hag A.G. (Hag)*.⁷³ In the *Hag* case,⁷⁴ the original holder of the trademark "Hag" (for a brand of coffee) controlled the rights to that mark in Germany and Belgium before World War II. The trademark holder assigned its Belgian rights in "Hag" to a Belgian subsidiary. After World War II, the Belgian trademark rights were acquired by a firm unrelated to the original holder which had retained control of the German trademark rights. As a result, there were two unrelated holders of the identical trademark, one in Belgium and the other in Germany, which had no legal, financial, technical or economic links between them. Since there was no continuing agreement or concerted practice between the parties, there was no basis for the application of article 85, which had been the basis of earlier industrial property rights analysis. The European Court based its decision solely on its interpretation of article 36 for the first time.

The European Court's judgment in *Hag* articulated what have now become established principles. The European Court noted that Commu-

supra note 15.

⁷³ 1974 E. Comm. Ct. J. Rep. 731, [1974] 2 Comm. Mkt. L.R. 127. The European Court had addressed trademarks in the application of article 85 to exclusive distribution agreements in the early case of *Consten and Grundig*, 1966 E. Comm. Ct. J. Rep. 299, 1966 Comm. Mkt. L.R. 418. The Court also addressed the issue of trademarks by applying article 36 analogously to another competition case. *Sirena Srl v. Eda Srl*, 1971 E. Comm. Ct. J. Rep. 69, 1971 Comm. Mkt. L.R. 260. One point in *Sirena* is worth noting. The Court remarked that it may be possible to differentiate between certain categories of industrial property: other forms of industrial property "are usually more important, and merit a higher degree of protection, than the interests protected by an ordinary trade-mark." *Id.* at 82, 1971 Comm. Mkt. L.R. at 273. D. WYATT & A. DASHWOOD, *supra* note 7, at 347-48, emphasize that the Court was not establishing a universal rule, but rather indicating its perception of the normal case. See also Harris, *supra* note 23, at 521, wherein the author suggests that the significance of the Court's distinction between trademarks and other rights is as follows: When a proprietor pleads article 36 as an exception to the free movement of goods, the proprietor must establish that the "justification" required must be established by, inter alia, "the category and relative importance of the intellectual property right concerned." *Id.* As an example, Harris notes that the trademark "Shell" is, in economic terms, incomparable with a patent, such as that for a device to cut the top off a hard-boiled egg (U.K. Patent No. BP1 400 835). *Id.* at 521 n.23.

⁷⁴ This factual summary is taken from 1974 E. Comm. Ct. J. Rep. at 732, 743, [1974] 2 Comm. Mkt. L.R. at 129, 143.

nity law does not affect the existence of an industrial property right, which is a function of state law, but may affect the exercise of those rights.⁷⁵ Article 36 permits a derogation from the fundamental principle of the free movement of goods, and should be interpreted strictly.⁷⁶ A derogation is possible only to protect what the Court has termed the "specific subject matter" of an industrial property right,⁷⁷ the characteristics of which have been more fully articulated in subsequent cases.⁷⁸

In *Hag*, the nationally created rights which collectively constituted the specific subject matter of a trademark would have permitted the proprietor of a trademark to enjoin infringement of that right "on the part of persons who lack any legal title."⁷⁹ In *Hag*, however, both the Belgian and German proprietors held valid legal rights to the same mark, although the rights of each were derived under different state laws. The European Court, therefore, concluded:

[The specific subject matter of a trademark did not permit] the holder of a trademark to rely upon the exclusiveness of a trade mark right, which may be the consequence of the territorial limitation of national legislations with a view to prohibiting the marketing in a Member State of goods legally produced in another Member State under an identical trade mark having the *same origin* . . . Such a prohibition, which would legitimise 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.⁸⁰

The effect of the *Hag* decision on the holder of the Belgian trademark rights was to prevent it from exercising its mark to prohibit the importation of German coffee bearing an identical trademark because the marks had once been controlled by the same owner. The European Court justified this limitation on the exercise of the holder's nationally created trademark rights by the need to avoid partitioning segments of the Common Market.⁸¹ The need for this limitation existed especially in the case of trademarks, unlike other forms of industrial property, because: (1) trademark rights are of unlimited duration; and, (2) the trademark's utility as a guide to product origin "may be ensured by means other than such as would affect the free movement of goods" (at least where a single

⁷⁵ *Id.* at 743, [1974] 2 Comm. Mkt. L.R. at 143.

⁷⁶ *Id.* at 744, [1974] 2 Comm. Mkt. L.R. at 143.

⁷⁷ *Id.*

⁷⁸ *See, e.g.,* Centrafarm B.V. & de Peijper v. Sterling Drug Inc., 1974 E. Comm. Ct. J. Rep. 1147, [1974] 2 Comm. Mkt. L.R. 480.

⁷⁹ 1974 E. Comm. Ct. J. Rep. at 744, [1974] 2 Comm. Mkt. L.R. at 143. For discussion of persons who lack legal title and the categories of persons against whom infringement actions are likely to be taken, see Harris, *supra* note 23, at 523.

⁸⁰ 1974 E. Comm. Ct. J. Rep. at 744, [1974] 2 Comm. Mkt. L.R. at 143-44.

⁸¹ *Id.* at 744, [1974] 2 Comm. Mkt. L.R. at 143.

mark had been split between unrelated holders).⁸² The *Hag* decision articulated only a bare outline of the specific subject matter of trademarks. The Court offered a more detailed statement of the specific subject matter of trademarks in *Centrafarm B.V. and de Peijper v. Winthrop B.V.*⁸³

B. *Centrafarm v. Winthrop*

Winthrop involved the parallel importation of pharmaceuticals between two Member States.⁸⁴ In *Winthrop*, the Sterling Drug Corporation held parallel patents in the United Kingdom and the Netherlands for the drug marketed under the trade name "Negram." Sterling Drug's British and Dutch subsidiaries marketed Negram in their respective national markets. Each subsidiary held the relevant national trademark. The prevailing price for Negram in Britain was substantially lower than that in the Netherlands. Centrafarm B.V. (Centrafarm), a Dutch pharmaceutical firm, sought to take advantage of this price differential by importing Negram originally marketed in the United Kingdom, and reselling it in the Dutch market. Centrafarm effectively undersold Sterling Drug's Dutch subsidiary, Winthrop B.V. (Winthrop). Winthrop sought to enjoin Centrafarm from marketing Negram in the Netherlands on the basis that Centrafarm was infringing Winthrop's Dutch trademark rights. The Netherlands court referred a question of the interpretation of Community law to the European Court under article 177.⁸⁵

⁸² *Id.* at 744, [1974] 2 Comm. Mkt. L.R. at 144. Harris, *supra* note 23, at 524 n.35, wherein the author argues that alternative information on product packaging is seldom as effective in denoting product origin as a trademark. The Court apparently considers it *sufficiently* effective. See *Pfizer, Inc. v. Eurim-Pharm GmbH*, 1981 E. Comm. Ct. J. Rep. 2913, [1982] 1 Comm. Mkt. L.R. 406. See *Hendry, Repackaging and the Essential Function of Trade-Marks*, 7 EUR. L. REV. 403 (1982).

⁸³ 1974 E. Comm. Ct. J. Rep. 1183, [1974] 2 Comm. Mkt. L.R. 480.

⁸⁴ For a factual summary, see *id.* at 1185, [1974] 2 Comm. Mkt. L.R. at 484-85. Its companion case, discussed in section IV on Patents, is *Sterling*, 1974 E. Comm. Ct. J. Rep. 1174, [1974] 2 Comm. Mkt. L.R. 480.

⁸⁵ The text of article 177 is as follows:

The Court of Justice shall be competent to make a preliminary decision concerning:

- (a) the interpretation of this Treaty;
- (b) the validity and interpretation of acts of the institutions of the Community; and
- (c) the interpretation of the statutes of any bodies set up by an act of the Council, where such statutes so provide.

Where any such question is raised before a court or tribunal of one of the Member States, such court or tribunal may, if it considers that its judgment depends on a preliminary decision on this question, request the Court of Justice to give a ruling thereon.

Where any such question is raised in a case pending before a domestic court or tribunal from whose decisions no appeal lies under municipal law, such court or

The European Court responded by essentially repeating the principles it had established in *Deutsche Grammophon*⁸⁶ (an earlier copyright case discussed below) and *Hag*.⁸⁷ The European Court held that Community law does not affect the existence of national trademark law, but may restrict its exercise to preserve the free movement of goods within the Community.⁸⁸ Article 36 permits an exception to the free movement of goods, but only to protect the specific subject matter of the trademark,⁸⁹ which the European Court held to be:

[T]he guarantee that the owner of the trade mark has the exclusive right to use that trade mark for the purpose of putting products into circulation for the first time, and is therefore intended to protect him against competitors wishing to take advantage of the status and reputation of the trade mark by selling products illegally bearing that trade mark.⁹⁰

The European Court's response emphasized the commercial return due the trademark holder, as a reward for its marketing investments, rather than, as in *Hag*, on the protection of the product origin to the consumer or ultimate user.⁹¹ (This may have been a result of the different factual situations presented by the two cases, rather than due to a shift in the Court's emphasis on the specific subject matter of trademarks.⁹²)

The effect of the *Winthrop* decision was to prevent Winthrop, Sterling Drug's Dutch subsidiary, from enjoining Centrafarm's importation of Negram into the Netherlands. The European Court justified this result by stating that it must balance the need to protect certain aspects of national trademark rights while protecting the free movement of goods. The Court reasoned:

An obstacle to the free movement of goods may arise out of the existence, within a national legislation concerning industrial and commercial

tribunal shall refer the matter to the Court of Justice.

EEC Treaty, *supra* note 2, 298 U.N.T.S. at 76-77.

Except for a relatively small number of actions which originate at the European Court, known as direct actions, cases come before the European Court by referral from a national court. If a question of interpretation of Community law arises in a national court, that court can and in some cases must refer that question to the European Court for an interpretation by that body. The European Court renders an interpretation of the Community law in question in light of the facts of the case before the referring national court, but it is solely for the national court to apply the European Court's interpretation to the facts of the case. See A. MACKENZIE-STUART, *THE EUROPEAN COMMUNITIES AND THE RULE OF LAW* (1977).

⁸⁶ See 1971 E. Comm. Ct. J. Rep. 487, 1971 Comm. Mkt. L.R. 631.

⁸⁷ 1974 E. Comm. Ct. J. Rep. 731, [1974] 2 Comm. Mkt. L.R. 127.

⁸⁸ 1974 E. Comm. Ct. J. Rep. at 1194, [1974] 2 Comm. Mkt. L.R. at 503.

⁸⁹ *Id.*

⁹⁰ *Id.* at 1194, [1974] 2 Comm. Mkt. L.R. at 508.

⁹¹ *Id.*

⁹² See D. WYATT & A. DASHWOOD, *supra* note 7, at 353.

property of provisions laying down that a trade mark owner's right is not exhausted when the product protected by the trade mark is marketed in another Member State, with the result that the trade mark owner can prevent importation of the product into his own Member State when it has been marketed in another Member State. Such an obstacle is not justified when the product has been put onto the market in a legal manner in the Member State from which it has been imported, by the trade mark owner himself or with his consent, so that there can be no question of abuse or infringement of the trade mark.⁹³

The trademark owner's collective rights, include the right to market the trademarked goods somewhere in the Community prior to a third party. The holder's rights could not include the right to create submarkets within the Community, each supporting a different pricing structure, by assigning its rights to different persons within such submarkets.⁹⁴ The extent of the geographic scope of the market to which article 36 applied was considered in a series of cases known as the *EMI v. CBS* cases.⁹⁵

C. *EMI v. CBS*

The *EMI v. CBS* cases involved trademark infringement proceedings brought by EMI in the United Kingdom, Denmark and Germany to enjoin the importation into those states of records bearing the trademark "Columbia." The records had been manufactured by CBS in the United States.

Some years earlier, the world rights to the trademark "Columbia" had been assigned to different parties. At the time of these proceedings, EMI Records controlled the rights to "Columbia" throughout the Member States of the Community, while CBS held the American rights. There were no continuing agreements between EMI and CBS.⁹⁶ The respective

⁹³ 1974 E. Comm. Ct. J. Rep. at 1194-95, [1974] 2 Comm. Mkt. L.R. at 508-09.

⁹⁴ Professor Usher, in assessing the importance of both *Hag* and *Winthrop*, has written: [W]hat in reality *Hag* does, although it had the misfortune chronologically to be decided before *Centrafarm* [*Winthrop*], is to apply the *Centrafarm* principle to successors in title Just as a patentee or trade mark holder may not exercise his rights to prevent the sale in a Member State of goods marketed in another Member State by him or with his consent, so also it would appear that his successors in title cannot claim greater rights. The owner of an industrial property right cannot evade the restrictions on the exercise of his right by splitting it and granting its benefits to different assignees in different Member States.

Usher, *supra* note 15, at 46.

⁹⁵ *EMI Records Ltd. v. CBS United Kingdom Ltd.*, 1976 E. Comm. Ct. J. Rep. 811, [1976] 2 Comm. Mkt. L.R. 235; *EMI Records Ltd. v. CBS Grammafon A/S*, 1976 E. Comm. Ct. J. Rep. 871, [1976] 2 Comm. Mkt. L.R. 235; *EMI Records Ltd. v. CBS Schallplatten GmbH*, 1976 E. Comm. Ct. J. Rep. 913, [1976] 2 Comm. Mkt. L.R. 235.

⁹⁶ The cases involved an analysis of article 85(1) because CBS claimed, unsuccessfully, that the trademark agreements were part of a concerted practice to partition the world mar-

national courts each referred the interpretation of article 36 to the European Court which considered, inter alia, the extent of the geographic area to which article 36 applied.

Whereas *Hag* involved goods legally produced in another Member State under identical trademarks having a common origin,⁹⁷ and *Winthrop* involved the application of the exhaustion of rights doctrine to goods marketed in another Member State by the trademark holder,⁹⁸ *EMI* raised the issue of whether the common origin doctrine (derived from *Hag*) and the exhaustion of rights doctrine (derived from *Winthrop*) applied when one of the products had been lawfully manufactured outside the Community.⁹⁹ CBS argued that the common origin doctrine of *Hag* prohibited EMI from enjoining its marketing of "Columbia" marked records, which, although manufactured in the United States, bore a mark once held by the same proprietor as the mark now controlled by EMI.

The European Court rejected CBS' argument and held that the EEC Treaty applied only to trade between Member States not to trade between Member States and third countries. Consequently:

[T]he exercise of a trade mark right in order to prevent the marketing of products coming from a third country under an identical mark, even if this constitutes an effect equivalent to a quantitative restriction, does not affect the free movement of goods between Member States and thus does not come under the prohibitions set out (in Articles 30-36 of the Treaty).¹⁰⁰

The scope of the geographic market to which articles 30-36 apply "is the internal single market, a single market of trade between Member States."¹⁰¹

In *EMI*, the common origin of the trademark was irrelevant. No question of partitioning trade between Member States could arise between a manufacturer outside the Community and one controlling the trademark rights for the entire Community. The specific subject matter of trademarks permitted EMI, in principle, therefore, to enjoin the importation of records manufactured by CBS in the United States bearing the trademark "Columbia." Even had CBS sought to manufacture the records in the Community, the European Court concluded, the result would have been the same:

ket, a practice prohibited by article 85(1).

⁹⁷ See *supra* note 74 and accompanying text.

⁹⁸ See *supra* note 84 and accompanying text.

⁹⁹ See Usher, *supra* note 15, at 47.

¹⁰⁰ 1976 E. Comm. Ct. J. Rep. at 845, [1976] 2 Comm. Mkt. L. R. at 265.

¹⁰¹ Usher, *supra* note 15, at 47.

[T]he protection of industrial and commercial property established by Article 36 would be rendered meaningless if an undertaking other than the proprietor of a mark in the Member States could be allowed there to manufacture and market products bearing the same mark since such conduct would amount to an actual infringement of the protected mark.¹⁰²

To have allowed the marketing of "Columbia" records by CBS would have deprived EMI of its right to protect the specific subject matter of its trademark, that is, EMI's right first to market "Columbia" records within the Community.¹⁰³

D. *Terrapin v. Terranova*

One question that remained after *Winthrop, Hag* and *EMI* was whether the common origin doctrine would be applied to prevent the importation of products bearing the same or similar trademark, but which marks were acquired by unrelated proprietors in different Member States. The European Court's landmark¹⁰⁴ decision in *Terrapin (Overseas) Ltd. v. Fa. Terranova Industrie and A. Kapferer & Co.*¹⁰⁵ held that the common origin doctrine prohibited such an import practice. The *Terrapin* case contained a more precise definition of the specific subject matter of trademarks and a synthesis of the European Court's prior law concerning industrial property rights.

In *Terrapin*, the German proprietor of the trademark "Terranova" sought to enjoin the importation into Germany of British-manufactured products bearing the mark "Terrapin." Terranova argued in the German proceedings, and subsequently before the European Court, that "Terra-

¹⁰² 1976 E. Comm. Ct. J. Rep. at 847, [1976] 2 Comm. Mkt. L.R. at 266.

¹⁰³ The European Court has recently addressed the scope of the market to which articles 30-36 apply. *Polydor Ltd. & RSO Records Inc. v. Harlequin Record Shops Ltd. & Simons Records Ltd.*, 1982 E. Comm. Ct. J. Rep. 329, [1982] 1 Comm. Mkt. L.R. 677. This case involved trade in trademarked records between Portugal and the EEC and the interpretation of an EEC-Portugal trade agreement. One of the terms of the agreement was almost identical to article 30. The Court held that the case law principles developed under article 30 did not apply to the provision in the almost identically worded agreement with Portugal. *Id.* at 348-49, [1982] 1 Comm. Mkt. L.R. at 692-93. See Bronckers, *Transposing the Interpretation of EEC Treaty Concepts to Agreements Between the EEC and Third Countries—Exhaustion of Industrial and Intellectual Property Rights*, 76 AM. J. INT'L L. 857 (1982). Cf. *Pabst & Richarz K.G. v. Hauptzollamt Oldenbourg*, 1982 E. Comm. Ct. J. Rep. 1331, [1983] 3 Comm. Mkt. L.R. 11. *Pabst* involved a similarly worded provision in a trade agreement with Greece. The EEC case law developed under article 30 applied. For an analysis of the different results, see Bronckers, *supra*, at 862; Schermers, *The Direct Application of Treaties with Third States: Note Concerning the Polydor and Pabst Cases*, 19 COMMON MKT. L. REV. 563 (1982).

¹⁰⁴ The description is from Harris, *supra* note 23, at 527.

¹⁰⁵ 1976 E. Comm. Ct. J. Rep. 1039, [1976] 2 Comm. Mkt. L.R. 482. See *id.* at 1041, [1976] 2 Comm. Mkt. L.R. at 484-85 for a factual summary.

pin" and "Terranova" were confusingly similar under German trademark law. As a consequence, Terranova's sales and goodwill would be prejudiced by the continued importation into Germany of goods trademarked "Terrapin." There was no relationship between the trademark holders, nor was there a common origin to the marks, which were separately developed under different national laws.

In proceedings before the European Court, the Court of Justice noted that the determination of whether the marks were confusingly similar was for the national court.¹⁰⁶ The European Court cautioned the German court, however, that in making such a determination it could not permit a trademark holder to exercise its rights so as to create an "arbitrary discrimination or a disguised restriction on trade between Member States."¹⁰⁷ As a guide to the German court, the European Court stated that the German court should consider whether the trademark holder exercised its rights "with the same degree of strictness whatever the national origin of any possible infringer."¹⁰⁸ Impliedly, the European Court stated that inconsistent enforcement of its trademark rights could constitute a prohibited restriction on intra-Community trade, depending on the facts of the selective enforcement of its rights.

The European Court synthesized its previous interpretations of the specific subject matter of trademarks by restating, in more general terms, the principles developed in *Hag* and *Winthrop*. European Court reiterated the exhaustion of rights doctrine from *Winthrop*: the trademark holder cannot exercise its rights so as to prevent the importation into one Member State of products lawfully marketed in another Member State, by the holder or with his consent.¹⁰⁹ The exhaustion of rights doctrine applied "when the right relied upon is the result of the subdivision either by voluntary act [as in *Winthrop*] or as a result of public constraint of a trade mark right which originally belonged to one and the same proprietor [as in *Hag*]."¹¹⁰ The European Court underscored its statement from *Hag* that a basic function of the trademark was to guarantee to consumers the genuineness of the product origin. But the Court added that where a single trademark had been subdivided, the guarantee of origin "is already undermined."¹¹¹

The common origin doctrine from *Hag* did not, however, apply in *Terrapin* because the trademarks had no common origin; they had been

¹⁰⁶ *Id.* at 1060, [1976] 2 Comm. Mkt. L.R. at 505.

¹⁰⁷ *Id.*

¹⁰⁸ *Id.*

¹⁰⁹ *Id.* at 1061, [1976] 2 Comm. Mkt. L.R. at 505-06.

¹¹⁰ *Id.* (referring to the factual situation in *Hag*).

¹¹¹ *Id.* See D. WYATT & A. DASHWOOD, *supra* note 7, at 356-57, wherein the authors note that this statement completes the rationale developed originally by the Court in *Hag*, 1974 E. Comm. Ct. J. Rep. 731, [1974] 2 Comm. Mkt. L.R. 127.

independently acquired by different proprietors under the laws of different Member States.¹¹² The European Court concluded that given "the present state of Community law," a trademark holder could prohibit the importation of goods bearing a mark considered, under the law of the state of importation, to be confusingly similar to a mark already there in force.¹¹³ Otherwise, "the specific objective of industrial and commercial property rights would be undermined."¹¹⁴ The confusing similarity of the imported goods would prevent the trademark holder in the state of importation from exercising his exclusive right to the first marketing of the trademarked products.¹¹⁵

Although the *Terrapin* decision synthesized the European Court's prior case law, it raised several new questions that remain as yet unresolved. One such question is to what extent are differing national standards compatible with the free movement of goods?¹¹⁶

E. Hoffmann-LaRoche v. Centrafarm and Centrafarm v. American Home Products Corp.

In two 1978 cases, *Hoffmann-LaRoche & Co. A.G. v. Centrafarm Vertriebsgesellschaft (HLR)*¹¹⁷ and *Centrafarm Vertriebsgesellschaft v. American Home Products Corp. (AHPC)*,¹¹⁸ the European Court was faced with two market rivals which sought to enjoin Centrafarm from repackaging and reselling their trademarked drugs.

In *HLR*,¹¹⁹ the Swiss-based pharmaceutical firm, Hoffmann-LaRoche, manufactured the Diazepam tranquilizer bearing the trademark "Valium." Subsidiaries of Hoffmann-LaRoche in West Germany and Britain each marketed Valium in their respective countries. Prices for

¹¹² 1976 E. Comm. Ct. J. Rep. at 1041, [1976] 2 Comm. Mkt. L.R. at 484-85.

¹¹³ *Id.* at 1061, [1976] 2 Comm. Mkt. L.R. at 505-06.

¹¹⁴ *Id.* at 1061-62, [1976] 2 Comm. Mkt. L.R. 506.

¹¹⁵ The European Court reasoned that:

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 exercises of the same rights of such a nature as to maintain or effect artificial partitions within the common market.

Id. at 1062, [1976] 2 Comm. Mkt. L.R. at 506.

¹¹⁶ *Usher, supra* note 15, at 47; see *Dansk Supermarked A/S v. Imerco A/S*, 1981 E. Comm. Ct. J. Rep. 181, [1981] 3 Comm. Mkt. L.R. 590. For a discussion of this case, see *infra* notes 254-74 and accompanying text.

¹¹⁷ 1978 E. Comm. Ct. J. Rep. 1139, [1978] 3 Comm. Mkt. L.R. 217.

¹¹⁸ 1978 E. Comm. Ct. J. Rep. 1823, [1979] 1 Comm. Mkt. L.R. 326.

¹¹⁹ See 1978 E. Comm. Ct. J. Rep. at 1141-42, [1978] 3 Comm. Mkt. L.R. at 219-20 for a factual summary.

Valium in Britain were substantially lower than those prevailing in Germany. The German subsidiary of Centrafarm purchased quantities of Valium in the United Kingdom, repackaged it in different containers in the Netherlands, and resold it in Germany. In so doing, Centrafarm re-affixed Hoffmann-LaRoche's mark on the new container with an indication that it had been repackaged by Centrafarm. Centrafarm acted without the permission of Hoffmann-LaRoche which, therefore sought to enjoin Centrafarm in a suit filed in the Netherlands. The Dutch court referred the interpretation of article 36 to the European Court.

In *AHPC*,¹²⁰ Centrafarm went even farther. American Home Products Corporation of New York controlled undertakings in the United Kingdom and the Netherlands. The British firm held the U.K. trademark rights in "Serenid D" and the Dutch firm held the rights for "Seresta." The different marks were for nearly identical drugs whose therapeutic effects were identical. Centrafarm attempted to circumvent American Home Products Corporation's international brand differentiation by importing the lower priced Serenid from Britain into the Netherlands. Centrafarm then relabelled it "Seresta" and marketed it in the Netherlands, Belgium and Luxembourg. The new labels informed purchasers of the repackaging. Centrafarm again had acted without permission from the original drug manufacturer. American Home Products Corporation sought to enjoin Centrafarm in Dutch proceedings and the Dutch court referred the interpretation of article 36 to the European Court.

In *HLR*, the European Court held that under article 36(1) a holder was entitled to exercise its trademark rights to limit trade between Member States to prevent "a product to which the trade mark 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 trade mark has been affixed by a third party [without the holder's consent]."¹²¹

The European Court's decision again restated its familiar distinction between the functions of Community law and national law. The existence of an industrial property right is a function of state law, whereas the exercise of such a right may be restricted by Community law.¹²² Article 36 permits exceptions to the free movement of goods only to protect the specific subject matter of individual property rights. The specific subject matter of a trademark is the holder's exclusive right to the trademarked good's first marketing within the Community, by himself or with his

¹²⁰ See 1978 E. Comm. Ct. J. Rep. at 1824-25, [1979] 1 Comm. Mkt. L.R. at 328-29 for a factual summary.

¹²¹ 1978 E. Comm. Ct. J. Rep. at 1166, [1978] 3 Comm. Mkt. L.R. at 243.

¹²² *Id.* at 1163, [1978] 3 Comm. Mkt. L.R. at 240-41.

consent.¹²³

The European Court in *HLR* further concluded that the essential function of the trademark was "a test of whether a given right falls within the category of specific subject matter."¹²⁴ The Court described the essential function of a trademark as a guarantee of "the identity of the origin of the trade marked product to the consumer or ultimate user, by enabling him without any possibility of confusion to distinguish that product from products which have another origin."¹²⁵ The purpose of the guarantee of origin is to ensure the consumer that:

[A] trade marked product which is sold to him has not been subject at a previous stage of marketing to interference by a third person, without the authorization of the proprietor of the trade mark, such as to affect the original condition of the product.¹²⁶

The trademark holder, therefore, has the right to limit intra-Community trade in his marked products to prevent third parties from impairing the guarantee of origin of his products.

The European Court qualified this general rule, however, in an attempt to balance the interests of consumers in being assured of a product's origin with the rights of trademark holders to the first marketing of a product within the Community. The European Court hypothesized that trademark rights could be used as part of a marketing strategy designed to partition segments of the Common Market.¹²⁷ Such a use was not protected by the exception to the free movement of goods contemplated by article 36.

The European Court concluded that if a trademark is so used, the mark holder could not prohibit trade in his marked product if three conditions were met: (1) the repackaging by a third party was done so that it could not affect the original condition of the product; (2) the proprietor of the mark received advance notice of the marketing of the repackaged goods; and, (3) the new package stated by whom the product had been repackaged.¹²⁸

In both *HLR* and *AHPC*, Centrafarm repackaged goods purchased in

¹²³ *Id.* at 1164, [1978] 3 Comm. Mkt. L.R. at 241.

¹²⁴ D. WYATT & A. DASHWOOD, *supra* note 7, at 358.

¹²⁵ 1978 E. Comm. Ct. J. Rep. at 1164, [1978] 3 Comm. Mkt. L.R. at 241. See D. WYATT & A. DASHWOOD, *supra* note 7, at 358-59, wherein the authors note a certain "inelegance in juxtaposing" the consumer's guarantee of origin with the specific subject matter of the trademark holder's right to first market the goods. Professor Dashwood synthesized the Court's statement here with its decisions in *Hag* and *Terrapin*, concluding that the Court tried to repair any imbalance in its policies toward trademark protection created by those earlier decisions.

¹²⁶ 1978 E. Comm. Ct. J. Rep. at 1164, [1978] 3 Comm. Mkt. L.R. at 241.

¹²⁷ *Id.* at 1166, [1978] 3 Comm. Mkt. L.R. at 243.

¹²⁸ *Id.*

one country and affixed the mark held by the original manufacturer in the country into which the goods were exported. In *HLR*, the trademarks were identical whereas in *AHPC*, the marks were different.

In *AHPC*, the European Court reiterated the basic points outlined in *HLR*. The specific subject matter of trademarks was to guarantee to the proprietor his exclusive right to the first marketing of his products in the Community. This right is the trademark holder's "protection against competitors wishing to take advantage of the status and reputation of the mark by selling products illegally bearing that trade mark."¹²⁹

The European Court reasoned that the scope of this exclusive right may be determined by the essential function of trademarks. In *AHPC*, as in *HLR*, the essential function of the trademark was "to guarantee the identity of origin of the trade marked product to the consumer or ultimate user."¹³⁰ That guarantee is destroyed when a third party places the proprietor's mark on the product without its consent. It is, therefore, consistent with the essential function of a trademark that, where a proprietor holds two or more marks with respect to identical or similar products, national law should prohibit a third party from altering or replacing the trademarks. This applies even where a proprietor holds different marks in different Member States.¹³¹

The Court hypothesized, however, that the control of different trademark rights for similar products in various Member States could be manipulated to restrict trade within the Community, which is prohibited under article 36.¹³² Whether trademark rights had been so used in a particular case was an issue to be resolved by the national court.¹³³ The European Court acknowledged that it was legal to engage in international brand differentiation under certain market conditions.¹³⁴ Such a practice could, however, be used as part of marketing strategy designed within the Community. In such a case, the proprietor could not exercise his trademark rights to prohibit a third party from so affixing his mark.¹³⁵

The European Court's reference in *AHPC* to the intentional use of a

¹²⁹ 1978 E. Comm. Ct. J. Rep. at 1840, [1979] 1 Comm Mkt. L.R. at 342.

¹³⁰ *Id.* at 1840, [1979] 1 Comm. Mkt. L.R. at 342-43.

¹³¹ *Id.* at 1840-41, [1979] 1 Comm. Mkt. L.R. at 343.

¹³² *Id.* at 1841-42, [1979] 1 Comm. Mkt. L.R. at 343.

¹³³ *Id.* at 1842, [1979] 1 Comm. Mkt. L.R. at 343.

¹³⁴ D. WYATT & A. DASHWOOD, *supra* note 7, at 360, wherein the authors note that this may be so where the trademark used in one Member State cannot be acquired by the same manufacturer in another Member State because it is confusingly similar to one already in force in the second Member State.

¹³⁵ 1978 E. Comm. Ct. J. Rep. at 1841-42, [1979] 1 Comm. Mkt. L.R. at 343. For a critical comment on the effect of this decision and *HLR* from an economic perspective, see Fuller, *Economic Issues Relating to Property Rights in Trademarks: Export Bans, Differential Pricing, Restrictions on Resale and Repackaging*, 6 EUR. L. REV. 162 (1981).

marketing strategy to partition market segments was more direct than in the hypothetical situation discussed in *HLR*. This raised the as yet unanswered question of whether the test for a disguised restriction on trade is subjective or objective. In *HLR*, the European Court referred to effects on the market, an objective standard.¹³⁶ The European Court in *AHPC* concentrated on intentional marketing strategy, a subjective standard.¹³⁷ The European Court has addressed this question in its latest trademark case, *Pfizer, Inc. v. Eurim-Pharm GmbH*.¹³⁸

F. Pfizer, Inc. v Eurim-Pharm GmbH

Pfizer can be construed as essentially a continuation of the prior case law and merely explains the essential function of trademarks, which is to protect product origin. *Pfizer* is consistent with other recent cases¹³⁹ which narrow industrial property right holders' ability to hinder intra-Community trade through the exercise of their respective property rights.

*Pfizer*¹⁴⁰ involved the importation of pharmaceuticals from England into Germany. Pfizer was an American firm holding the trademark rights to the drug Vibramycin throughout the European Community. British and West German subsidiaries of Pfizer each held the respective national trademarks to Vibramycin and distributed the drug within their respective countries.

Eurim-Pharm GmbH was an importer operating in West Germany. It purchased lower priced quantities of Vibramycin in the United Kingdom, repackaged the drug and marketed it in West Germany in competition with Pfizer's subsidiary. The large price differential for the drug in the two markets, as in the *Centrafarm* cases, was the trade incentive.

Pfizer packaged its Vibramycin in Britain in "blister" sheets containing five capsules individually protected by plastic blisters or bubbles on each sheet. Either two or ten of these sheets were enclosed in each container. To conform to different prescription practices in Germany, Eurim-Pharm repacked the blister sheets individually. It left the sealed capsules and sheets intact. Eurim-Pharm's new outer container was clear on one side permitting the back portion of the original sheets, on which the original manufacturer's trademark was printed, to show through. The outer container clearly indicated the name of the original manufacturer, the name of the importer, and the fact that the sheets were repackaged

¹³⁶ 1978 E. Comm. Ct. J. Rep. at 1164-65, [1978] 3 Comm. Mkt. L.R. at 241-42.

¹³⁷ 1978 E. Comm. Ct. J. Rep. at 1841-42, [1979] 1 Comm. Mkt. L.R. at 343.

¹³⁸ 1982 E. Comm. Ct. J. Rep. 2913, [1982] 1 Comm. Mkt. L.R. 406; see Hendry, *supra* note 82.

¹³⁹ See *infra* at sections IV and V in text.

¹⁴⁰ See 1982 E. Comm. Ct. J. Rep. at 2914-15, [1982] 1 Comm. Mkt. L.R. at 407-09 for a factual summary.

by Eurim-Pharm.

Pfizer's German subsidiary sought to enjoin Eurim-Pharm's conduct in German proceedings on the grounds that Eurim-Pharm's repackaging had infringed Pfizer's trademark rights under German law. The German regional court in Hamburg (the Landgericht) held for Pfizer's subsidiary and granted it an injunction.¹⁴¹ The Landgericht characterized the "package" to which German trademark law applied as the "unit" formed by the product and its outer packing.¹⁴² Because Pfizer's original trademark showed through Eurim-Pharm's new package, it constituted an integral part of the "unit" and was, therefore, a violation of Pfizer's trademark.

The Landgericht reasoned that the essential function of trademarks under Community law, the guarantee of origin to the customer, also applied to this complete "unit." The Landgericht further held that Pfizer had exhausted its trademark rights within the meaning of Community law only with regard to the mark affixed on the outer packing. It still retained, therefore, its rights with respect to the mark affixed on the inner packing.

The Landgericht relied on its interpretation of the European Court's decisions in *HLR* and *AHPC*. It interpreted *AHPC* to require that Pfizer must have had the subjective intent to partition segments of the Community market to fall within the prohibition of article 36 against "disguised restrictions" or "arbitrary discriminations" on trade between Member States.¹⁴³

Eurim-Pharm appealed this adverse decision to the Hanseatic Regional Court of Appeal in Germany (the Oberlandesgericht) which reversed and remanded.¹⁴⁴ The appeals court ruled that Eurim-Pharm's repackaging did not interfere with the guarantee of the product's origin. The consumer could clearly see the original trademark on the blister sheets and could note the fact that the drug had been repacked and by whom. It was also obvious to the appeals court that the original factory seal around the capsules had not been altered or interfered with. Consequently, Eurim-Pharm had not interfered with the consumer's guarantee of product origin or quality.

The appeals court reversed the lower court finding that subjective intent to partition a segment of the Community market was required to constitute a disguised restriction on trade. It was sufficient, held the Oberlandesgericht, that the measures which had the effect of partitioning

¹⁴¹ For a summary of the Landgericht judgment of Aug. 10, 1979, see *id.* at 2915-16, [1982] 1 Comm. Mkt. L.R. at 408-09.

¹⁴² *Id.* at 2916, [1982] 1 Comm. Mkt. L.R. at 409.

¹⁴³ *Id.*

¹⁴⁴ For a summary of the Oberlandesgericht judgment of Jan. 24, 1980, see *id.* at 2916-17, [1982] 1 Comm. Mkt. L.R. at 409-10.

the market were attributable to the owner of the trademark and were of an arbitrary nature. No specific intent to partition the market was required.

On remand from the Oberlandesgericht, the Landgericht challenged this interpretation of Community law and, therefore, referred two questions to the European Court: (1) whether the prohibition by a trademark holder of the type of repackaging undertaken by Eruim-Pharm¹⁴⁵ is consistent with article 36; and, (2) whether the test for establishing a disguised restriction on trade among the Member States, within the meaning of article 36(2), was objective or subjective.¹⁴⁶

The European Court answered the first question by denying, in principle, Pfizer's right to exercise its German trademark so as to enjoin Eruim-Pharm's conduct.¹⁴⁷ Holding that its answer to the first question was sufficient to permit the Landgericht to dispose of the issues before it,¹⁴⁸ the European Court did not address the second question.

The parties in *Pfizer*, both before the European Court and in state court proceedings, generally agreed on the applicable law. The European Court, therefore, essentially restated its jurisprudence, principally from *HLR* and *AHPC*: the importance of the free movement of goods, enshrined in articles 30-36, is well established. Article 36 accepts that the protection of industrial property rights constitutes an exception to that fundamental principle, but only insofar as the measures taken to protect

¹⁴⁵ *Id.* at 2918, [1982] 1 Comm. Mkt. L.R. at 411. The full text is as follows:

1. Is the proprietor of a trade mark protected in his favour in member-State A entitled under Article 36 of the EEC Treaty, in reliance upon this right, to prevent an importer from buying pharmaceutical products to which the proprietor's trade mark has been lawfully affixed by a subsidiary undertaking of the proprietor of the trade mark with his consent in member-State B of the Community and which have been placed on the market under this trade mark, from re-manufacturing those products in accordance with the different practices of doctors in prescribing medicaments prevailing in member-State A and from placing those products on the market in member-State A in an outer package designed by the importer on the reverse side of which there is a transparent window through which is visible the label of the proprietor of the trade mark which is on the reverse side of the blister pack directly surrounding the product?

¹⁴⁶ *Id.* The text is as follows:

2. Is it sufficient, for the purpose of establishing that there is an unlawful restriction of trade within the meaning of the second sentence of Article 36 of the EEC Treaty, for the use of the national trade mark right in connection with the marketing system adopted by the proprietor of the trade mark objectively to lead to a partitioning of the markets between member-States, or is it necessary, on the contrary, for it to be shown that the proprietor of the trade mark exercises his trade mark right in connection with the marketing system which he employs with the ultimate objective of bringing about an artificial partitioning of the markets?

¹⁴⁷ *Id.* at 2925-27, [1982] 1 Comm. Mkt. L.R. at 420-21.

¹⁴⁸ *Id.* at 2927, [1982] 1 Comm. Mkt. L.R. at 421.

such rights are necessary to protect the specific subject matter of the intellectual property rights involved.¹⁴⁹ In the case of trademarks, the specific subject matter is the holder's exclusive right to the first marketing of the trademarked goods in a Member State. This protects the holder from competition from those who would take unfair advantage of the status and reputation of the mark.¹⁵⁰ The European Court stated that the specific subject matter of a trademark is its essential function:

[T]o guarantee the identity of the origin of the trade-marked product to the consumer or final user by enabling him to distinguish without any possibility of confusion between that product and products which have another origin. This guarantee of origin means that the consumer or final user may be certain that a trade-marked product which is offered to him has not been subject at a previous stage in the marketing process to interference by a third person, without the authorisation of the proprietor of the trade mark, affecting the original condition of the product.¹⁵¹

Whereas the parties in *Pfizer* had generally agreed on the applicable law, they disagreed on its application. *Pfizer* relied principally on the European Court's holding in *HLR* that a trademark holder could prevent an importer from repackaging and reaffixing the holder's mark without his consent.¹⁵² *Eurim-Pharm* distinguished *HLR* by contending that it had not reaffixed *Pfizer*'s mark, but had merely displayed it as originally placed on the product by the manufacturer.¹⁵³

Advocate-General Capotorti¹⁵⁴ and the European Commission agreed with *Eurim-Pharm*. The Commission contended that one who did no

¹⁴⁹ *Id.* at 2925, [1982] 1 Comm. Mkt. L.R. at 420.

¹⁵⁰ *Id.* at 2931, [1982] 1 Comm. Mkt. L.R. at 413.

¹⁵¹ *Id.* at 2926, [1982] 1 Comm. Mkt. L.R. at 420.

¹⁵² *Id.* at 2925, [1982] 1 Comm. Mkt. L.R. at 420. See 1978 E. Comm. Ct. J. Rep. at 1164, [1978] 3 Comm. Mkt. L.R. at 241; 1978 E. Comm. Ct. J. Rep. at 1840, [1979] 1 Comm. Mkt. L.R. at 342.

¹⁵³ 1982 E. Comm. Ct. J. Rep. at 2916-17, [1982] 1 Comm. Mkt. L.R. at 409-10.

¹⁵⁴ An Advocate-General is an officer of the European Court. There are five, chosen from among the same body of jurists and legal scholars as are the members of the European Court itself. The status of the Advocate-General, in terms of protocol is equivalent to the members of the court. The Advocate-General is analagous to the Commissar du Gouvernement before the French Conseil d'Etat, the supreme French administrative court. The function of the Advocate-General, like that of the Commissar du Gouvernement, is to present a balanced, judicial perspective to the members of the European Court, in addition to the submissions presented in each case by the parties thereto. One Advocate-General is assigned to each case. The status of the Advocate-General's opinion, which is formally printed alongside the European Court's, is uncertain. It is similar in form to a concurring or dissenting opinion in U.S. practice, and may be cited as persuasive authority on a point of Community law. Because all of the opinions of the European Court itself are rendered in banc, the Advocate-General's opinion is the only personally identifiable opinion available on a point of Community law. See T. HARTLEY, *supra* note 5, at 29; D. LASOK & J. BRIDGE, *supra* note 5, at 158-60.

more than present the trademark as originally affixed by the manufacturer did not affix the mark within the meaning of *HLR*.¹⁵⁵ Advocate-General Capotorti supported this view with the Court's statement from *HLR*,¹⁵⁶ to the effect that the repackaging by a third party would be permitted if done in such a way as to leave unaffected the original condition of the product.¹⁵⁷ The Advocate-General also raised the issue whether, assuming Pfizer's argument that article 36(1) permitted it to enjoin Eurim-Pharm's activity, Pfizer's conducted nevertheless a disguised restriction on trade prohibited by article 36(2).

The European Court based its decision in *Pfizer* solely on its interpretation of the essential function of trademarks. The European Court held that the product origin could not be compromised "where the importer, in re-packaging the product, confined himself to replacing the external wrapping without touching the internal packaging."¹⁵⁸ "In such circumstances, the re-packaging . . . involves no risk of exposing the product to interference or influences which might affect its original condition"¹⁵⁹

Under these circumstances, the European Court held that the consumer would not be misled as to the product origin, especially where "the parallel importer [had] clearly indicated on the external wrapping that the product was manufactured by a subsidiary of the proprietor of the trade mark and [had] been re-packaged by the importer."¹⁶⁰

The European Court has, therefore, extended its holding in *HLR*.¹⁶¹ The Court's dictum in *HLR* suggested that the holder of a marked product could not prohibit repackaging (that did not affect the product origin) only where the holder's marketing strategy was used to partition the market which would constitute a disguised restriction on trade prohibited under article 36(2).¹⁶² The European Court's decision in *HLR* stated, in dictum, that a third party's notice to the trademark holder, prior to repackaging, was a requirement. *Pfizer* required no notice to the trademark holder. The European Court was concerned less with the commercial effect of the repackaging on the holder, and concentrated on insuring an informed purchase by the consumer and the free availability of goods throughout the Community. The effect of *Pfizer* is to limit further the ability of a trademark holder to protect his marked products when that conduct hinders trade between Member States.

¹⁵⁵ 1982 E. Comm. Ct. J. Rep. at 2932-36, [1982] 1 Comm. Mkt. L.R. at 414-18.

¹⁵⁶ 1978 E. Comm. Ct. J. Rep. at 1165, [1978] 3 Comm. Mkt. L.R. at 242.

¹⁵⁷ 1982 E. Comm. Ct. J. Rep. at 2932-33, [1982] 1 Comm. Mkt. L.R. at 414-15.

¹⁵⁸ *Id.* at 2927, [1982] 1 Comm. Mkt. L.R. at 421.

¹⁵⁹ *Id.* at 2926, [1982] 1 Comm. Mkt. L.R. at 421.

¹⁶⁰ *Id.* at 2926-27, [1982] 1 Comm. Mkt. L.R. at 421.

¹⁶¹ See *supra* notes 121-23 and accompanying text.

¹⁶² 1978 E. Comm. Ct. J. Rep. at 1166, [1978] 3 Comm. Mkt. L.R. at 243.

The subjective/objective test issue raised in *HLR* and *AHPC* remained unanswered by the European Court. *HLR* arguably used an objective test. The European Court looked only to the adverse effects on trade of the mark holder's exercise of its national trademark rights. In *AHPC*, which involved international brand differentiation, the European Court, in dicta, arguably used subjective criteria in considering the hypothetical that trademark rights could be used with the intent to partition the markets.

In *Pfizer*, Advocate-General Capotorti and the European Commission argued that *AHPC* should be limited to its facts as a special case.¹⁶³ Capotorti's opinion stressed the objective evaluation of artificial partitioning of the markets.¹⁶⁴ This position admits, the Advocate-General conceded, "an implied subjective element since what is under review is the commercial strategy adopted by a particular manufacturer. [But] what is not required is identification of intention as the determining factor."¹⁶⁵ This test would place primary emphasis on the free movement of goods while accepting the need to afford some protection for trademark holders.

The European Court has been criticized for not having addressed the objective/subjective test issue.¹⁶⁶ One commentator has raised the issue whether the Court has stepped beyond its power to interpret Community law and has attempted to resolve the factual issue itself.¹⁶⁷ If the European Court has done so, argued the commentator, it would upset a system "founded on a judicial co-operation and separation between national courts and the European Court."¹⁶⁸

One factor in the European Court's decision not to address the subjective/objective test issue in *Pfizer* may be found in the Oberlandesgericht's decision. The appellate court reversed the Landgericht's holding that *AHPC* required a showing of subjective intent on the part of the trademark holder to establish an artificial partitioning of the market.¹⁶⁹ The appeals court held it sufficient that the measures partitioning the markets be attributable to the trademark holder and be of an arbitrary nature.¹⁷⁰ Given the European Court's silence on the question, it is suggested that that holding, combined with the *Pfizer* decision, is sufficient for the Landgericht "to decide the issues before it."¹⁷¹ The European

¹⁶³ 1982 E. Comm. Ct. J. Rep. at 2935, [1982] 1 Comm. Mkt. L.R. at 417.

¹⁶⁴ See Hendry, *supra* note 82, at 406-07.

¹⁶⁵ *Id.*

¹⁶⁶ *Id.*

¹⁶⁷ *Id.*

¹⁶⁸ *Id.*

¹⁶⁹ 1982 E. Comm. Ct. J. Rep. at 2916, [1982] 1 Comm. Mkt. L.R. at 409.

¹⁷⁰ *Id.* at 2917, [1982] 1 Comm. Mkt. L.R. at 410.

¹⁷¹ The European Court's answer to the Landgericht is, in effect, equivalent for that

Court's silence, however, leaves open the question for other courts.

IV. PATENTS

A. *Centrafarm v. Sterling*

In *Centrafarm B.V. and de Peijper v. Sterling Drug, Inc.*,¹⁷² the European Court first considered the specific subject matter of patents. Sterling Drug held parallel patents in the United Kingdom and the Netherlands for the drug marketed under the trade name "Negram." Centrafarm sought to import lower priced Negram from the United Kingdom, repackage it, and resell it in the Netherlands in competition with Sterling Drug's Dutch subsidiary. Sterling Drug responded by bringing suit in Dutch proceedings alleging violation of its Dutch patent. The Netherlands court sought guidance on the issues of Community law involved and made a referral to the European Court under article 177.

The European Court's decision in *Sterling Drug* applied the exhaustion of rights principle, holding that article 36 did not permit a patent holder to restrict the free movement of goods where the products subject to its patent has previously been marketed in another Member State by the holder or with its consent.¹⁷³ The decision provided the first definition for the specific subject matter of a patent, insofar as Community law defines it for the purpose of permitting exceptions to the free movement of goods.¹⁷⁴ With regard to the nature of patents, the Court stated:

[T]he specific subject matter of the industrial property is 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.¹⁷⁵

The thrust of *Sterling Drug* is to protect the patent holder's right to a financial reward from the initial sale or licensing of his patented product. The patent holder could invoke its nationally created patent rights to prevent the importation of a product subject to such rights, "from a Member State where it is *not patentable* and has been manufactured by

court's purposes to the decision of the Oberlandesgericht. One may speculate on the dynamics between the two national courts and the rationale for the Landgericht's referral to the European Court.

¹⁷² 1974 E. Comm. Ct. J. Rep. 1147, [1974] 2 Comm. Mkt. L.R. 480. For a factual summary, see *supra* note 84 and accompanying text.

¹⁷³ 1974 E. Comm. Ct. J. Rep. at 1162-63, [1974] 2 Comm. Mkt. L.R. at 503-04.

¹⁷⁴ See *supra* note 56 and accompanying text.

¹⁷⁵ 1974 E. Comm. Ct. J. Rep. at 1162, [1974] 2 Comm. Mkt. L.R. at 503.

third parties without the consent of the patentee.”¹⁷⁶ The patent holder could not, however, exercise his national rights to limit the free movement of goods “where the product [had] been put onto the market in a legal manner, by the patentee himself or with his consent, in the Member State from which it [had] been imported, in particular in the case of a proprietor of parallel patents.”¹⁷⁷

The effect of *Sterling Drug* was that *Sterling Drug* was prohibited from enjoining Centrafarm’s importation of Negram from the United Kingdom to the Netherlands. Focusing on the marketing with consent doctrine and the guarantee of first marketing, a logical development from *Sterling Drug*, from a Community perspective, would be to disregard whether the goods were patentable in the Member State of first marketing.¹⁷⁸ The effect of this would be to disregard a patent holder’s right to a particular financial reward in order to increase the potential for the free movement of goods within the entire Community, irrespective of national variations in patent protection. This is precisely the course adopted by the Court in its latest patent case, *Merck v. Stephar and Exler*.¹⁷⁹

B. *Merck v. Stephar and Exler*

*Merck v. Stephar and Exler*¹⁸⁰ involved a parallel import situation. The holder of a Dutch patent for the drug Moduretic (used in the treatment of hypertension) marketed it in the Netherlands and Italy. The Dutch patent holder sought to prevent a third party from importing into the Netherlands Moduretic previously marketed by the holder himself in Italy. At the time of this case, Italian law provided no patent protection for pharmaceuticals.¹⁸¹ Consequently, drug prices in Italy were substan-

¹⁷⁶ *Id.* at 1162-63, [1974] 2 Comm. Mkt. L.R. at 503 (emphasis added). *Cf.* 1968 E. Comm. Ct. J. Rep. 55, 1968 Comm. Mkt. L.R. 47.

¹⁷⁷ 1974 E. Comm. Ct. J. Rep. at 1163, [1974] 2 Comm. Mkt. L.R. at 503-04.

¹⁷⁸ D. WYATT & A. DASHWOOD, *supra* note 7, at 353.

¹⁷⁹ 1981 E. Comm. Ct. J. Rep. 2063, [1981] 3 Comm. Mkt. L.R. 463.

¹⁸⁰ *See id.* at 2065-67, [1981] 3 Comm. Mkt. L.R. at 465 for a factual summary. True parallel importation in the case of a patent holder or a licensee exists typically where “a sole distributor or a subsidiary company—who himself imports the goods[—]seeks to prevent a third party from importing similar goods deriving from the same producer.” Blok, *supra* note 37, at 741. In *Merck/Stephar*, the patent holder or licensee placed the drug into two national markets within the Community and sought to prevent importation from one market to the other by the exercise of his national patent rights in force in the state of importation.

¹⁸¹ Section 14(1) of the Italian Patent Act (Royal Decree 1127 of June 29, 1939) did not provide protection for pharmaceuticals at the time of this case. Subsequent to *Merck/Stephar*, this section of the Patent Act was held unconstitutional by the Italian Constitutional Court in a judgment on Mar. 20, 1978. *Ciba SA v. Ufficio Centrale Brevetti*, 1979 Eur. Com. Cases 67. Since this judgment, pharmaceutical patent protection has been available in Italy. To obtain protection, however, the drug for which a patent is sought must meet the

tially lower than elsewhere in the Community.

The Dutch patent holder, Merck, joined by France and the United Kingdom, argued before the European Court that a patent holder ought to be able to enjoin the reimportation. Otherwise, the patent holder would be "unable to collect the reward for his creative effort because he [would] not enjoy a monopoly in first placing the product first on the market."¹⁸² If the reimportation were allowed, it would force the holder to compete with a lower priced drug which itself had been placed on the market in the Community. This would destroy the monopoly of the Dutch patent holder in the Netherlands. Consequently, it followed that the specific subject matter of patents ought to permit Merck to enjoin the reimportation of its own product previously marketed elsewhere in the Community.

Stephar, the importer and the European Commission argued that once the drug had been marketed by the patent holder anywhere within the Community, trade in the product so marketed could not be restrained, regardless of national variations in the availability of patent protection.¹⁸³ In *Merck/Stephar*, the patent holder had marketed the drug of its own choice and must, therefore, accept the financial return available in the Italian market.¹⁸⁴

Advocate-General Reischl's opinion agreed with this view. He argued that Community law must permit a limitation on the free movement of goods to protect a patent holder's "chance to make a profit" by his first marketing or licensing of the product within the Community.¹⁸⁵ But the holder operates "in complete freedom of decision"¹⁸⁶ as to his marketing choice. Community law will not, therefore, "guarantee him any particular profit."¹⁸⁷

The European Court agreed with the Advocate-General's opinion. The European Court's decision elaborated on the specific subject matter of patents. The Court repeated its concern, expressed earlier in *Sterling Drug*, that the patent holder ordinarily obtains his commercial return on the investment in his product through his first marketing or licensing of it.¹⁸⁸ The Court added, however, a new qualification to that right based on reasoning similar to that expressed by the Advocate-General:

novelty requirements. The effect of the judgment, therefore, applies only to new drugs marketed after that date. See 1981 E. Comm. Ct. J. Rep. at 2065, [1981] 3 Comm. Mkt. L.R. at 465.

¹⁸² 1981 E. Comm. Ct. J. Rep. at 2081, [1981] 3 Comm. Mkt. L.R. at 481.

¹⁸³ *Id.*

¹⁸⁴ *Id.*

¹⁸⁵ *Id.* at 2091, [1981] 3 Comm. Mkt. L.R. at 474; see Reischl, *supra* note 41, at 421-22.

¹⁸⁶ 1981 E. Comm. Ct. J. Rep. at 2091, [1981] 3 Comm. Mkt. L.R. at 474.

¹⁸⁷ *Id.*

¹⁸⁸ *Id.* at 2080, [1981] 3 Comm. Mkt. L.R. at 480.

That right of first placing a product on the market enables the inventor, by allowing him a monopoly in exploiting his product, to obtain the reward for his creative effort without, however, guaranteeing that he will obtain such a reward in all circumstances.

It is for the proprietor of the patent to decide, in the light of all the circumstances, under what conditions he will market his product, including the possibility of marketing it in a Member State where the law does not provide patent protection for the product in question. If he decides to do so he must then accept the consequences of his choice as regards the free movement of the product within the Common Market, which is a fundamental principle forming part of the legal and economic circumstances which must be taken into account by the proprietor of the patent in determining the manner in which his exclusive right will be exercised.¹⁸⁹

Merck/Stephar is consistent with the European Court's recent case law on industrial property in that the characteristics of such property which Community law will protect are being more narrowly defined in favor of the free movement of goods.¹⁹⁰ Economic analysis should be undertaken to establish that the free movement of goods is, in fact, promoted by these decisions.¹⁹¹

After *Merck/Stephar*, a patent holder has several alternatives. It can choose to exclude itself from markets where patent protection is unavailable for its product. This would not promote intra-Community trade and may isolate the segment of the Community market in which no such protection exists. Alternatively, the holder could limit the quantity of goods introduced into states in which no patent protection exists, and, thereby, limit the price lowering effect of the re-exported goods. A third alternative is to accept the lower pricing scheme which is inevitable once goods are placed in the unprotected market and re-exported elsewhere within the Community. The benefits from this latter choice, for some patent holders, will be in the increased revenue available from sales in the Community-wide market. Ultimately, a reasonable solution to this problem requires a Community-wide legislative response.¹⁹²

Merck/Stephar has been criticized for being inconsistent with the *Sterling Drug* definition of the specific subject matter of patents. Under *Merck/Stephar*, "the patent holder would not have had the advantage of marketing the product under monopoly conditions, while its importation

¹⁸⁹ *Id.* at 2081-82, [1981] 3 Comm. Mkt. L.R. at 481.

¹⁹⁰ See, e.g., *Pfizer*, 1982 E. Comm. Ct. J. Rep. 2913, [1982] 1 Comm. Mkt. L.R. 406. For a discussion of this case, see *supra* notes 140-71 and accompanying text.

¹⁹¹ See Fuller, *supra* note 135; P. DEMARET, PATENTS, TERRITORIAL RESTRICTIONS AND EEC LAW (1978).

¹⁹² For a discussion of the early stages of Community legislation in this area, see P. DEMARET, *supra* note 191; see also *supra* notes 61-64 and accompanying text.

at a lower price would tend to undermine the value of the patentee's exclusive right in the State where protection was available."¹⁹³

Advocate-General Reischl emphatically supported the European Court's rationale in *Merck/Stephar* in a recent article.¹⁹⁴ The Advocate-General noted that a patent holder is free to market goods made under its patent in any or all Member States. But once the product has been marketed in any Member State, either by the holder or with his consent, "the product can then be dealt with *throughout the whole Common Market* and it is irrelevant whether the proprietor of the patent had or did not have the possibility of obtaining a patent in the particular Member State."¹⁹⁵ The proprietor has, in effect, elected his financial returns by its choice of Member State in which to first release the product. If the product commands a lower price in that Member State, because there is no patent protection available, the proprietor cannot subsequently limit trade in that product to isolate other segments of the Community market in order to obtain a higher product price.

In *Merck/Stephar*, the European Court has carried the consent doctrine, with regard to patents, to its logical conclusion in support of the free movement of goods. A similar development is beginning in the emerging area of copyrights.¹⁹⁶

V. COPYRIGHT AND RELATED RIGHTS

A. *Early Case Law*

The specific subject matter of copyright and related rights, such as theatrical performance rights, is the most difficult to define, as the cases discussed in this section demonstrate. The difficulty is that these rights include a tremendous variety of activities and diverse forms of rights of use. Each right is protected under different national rules "for which it would not be possible to define the specific subject matter . . . in general terms."¹⁹⁷ The cases discussed in this section have begun the process of defining the concept of particular rights. Defining the specific subject matter of the variety of these rights must await further decisions.

The early case of *Deutsche Grammophon Gesellschaft v. Metro-S.B.-Grossmarkte*¹⁹⁸ introduced the relationship between copyrights and the

¹⁹³ D. WYATT & A. DASHWOOD, *supra* note 7, at 353. Professor Dashwood's quote anticipated a *Merck/Stephar* type decision prior to the Court's actual judgment in that case.

¹⁹⁴ Reischl, *supra* note 41.

¹⁹⁵ *Id.* at 421.

¹⁹⁶ See *GEMA*, 1981 E. Comm. Ct. J. Rep. 147, [1981] 2 Comm. Mkt. L.R. 44. For a discussion of this case, see *infra* notes 235-53 and accompanying text.

¹⁹⁷ Reischl, *supra* note 41, at 425.

¹⁹⁸ 1971 E. Comm. Ct. J. Rep. 487, 1971 Comm. Mkt. L.R. 631.

EEC Treaty articles on the free movement of goods and the freedom to provide services. *Deutsche Grammophon* was the first case to consider the legality under Community law of the exercise of an industrial property right solely under articles 30 and 36.¹⁹⁹ The European Court articulated its distinction between the existence of industrial property rights which is determined by state law, and the exercise of those rights which is subject to restrictions imposed by Community law.²⁰⁰ The European Court introduced the now fundamental concept of the specific subject matter of industrial property in this important case.²⁰¹

Deutsche Grammophon involved the exclusive right to the distribution of sound recordings (a right similar to copyright) under German law.²⁰² Deutsche Grammophon (DG) produced and distributed records within the Community. DG's subsidiary, Polydor Records, sold DG records in the Paris market. Metro at one time had marketed records for DG in Germany, but DG had terminated its relationship. Subsequent thereto, Metro purchased a quantity of DG's records from DG's subsidiary in Paris, Polydor, through an unrelated third party. Metro then sold the records in Germany, undercutting DG's established retail price structure.

DG instituted proceedings in a German court to enjoin Metro from selling in the German market, alleging that Metro was violating DG's exclusive distribution rights. DG argued in the German proceedings that its exclusive distribution right could be exhausted under German law only when DG had placed the records in the German market. DG argued that it was entitled, therefore, to prohibit Metro's importation and sale of records that had originally been marketed by DG through its Paris subsidiary.

On a reference from the German court, the European Court held as follows:

[I]t would be in conflict with the provisions prescribing the free movement of products within the common market for a manufacturer of sound recordings to exercise the exclusive right to distribute the protected articles, conferred upon him by the legislation of a Member State, in such a way as to prohibit the sale in that State of products placed on the market by him or with his consent in another Member State solely because such distribution did not occur within the territory of the first Member State.²⁰³

The Court articulated the distinction between the existence and ex-

¹⁹⁹ *Id.* at 499-500, 1971 Comm. Mkt. L.R. at 657.

²⁰⁰ *Id.*

²⁰¹ *Id.*

²⁰² See *id.* at 489-90, 1971 Comm. Mkt. L.R. at 633-34 for a factual summary.

²⁰³ *Id.* at 500, 1971 Comm. Mkt. L.R. at 657-58.

ercise of industrial property rights and suggested that only the latter was subject to limitations created by Community law.²⁰⁴ Limitations on the free movement of goods, permitted by article 36, would be allowed only to protect the rights associated with the specific subject matter of a particular industrial property right. The specific subject matter of an initial distribution right was exhausted when the holder placed its goods on the market in any Member State.²⁰⁵ As a result, DG could not prohibit Metro from selling records in Germany, which had originally been marketed by DG in France. Had the European Court held otherwise, it would have permitted the segregation of the French and German markets which would have been inconsistent with article 30.

The European Court interpreted article 36 in this manner only "[o]n the assumption that those provisions *may* be relevant to a right related to copyright"²⁰⁶ without expressly deciding the point. The European Court has addressed copyright and related rights more directly in subsequent cases.

B. Recent Case Law Developments

The next four cases are among the European Court's most recent decisions on the relationship between industrial property rights and Community law. All deal with copyright or related rights and two deal directly with articles 30 and 36. In one of the four, the Court expressly included copyright within the definition of article 36's phrase "industrial and commercial property right" for the first time.²⁰⁷ The cases collectively illustrate the variety of rights that fall within the general category of "copyright and related rights." They also illustrate the difficulty of identifying the specific subject matter of these varied rights.

These cases will be dealt with chronologically in order to highlight the incremental development of Community law in this area. *Coditel v. Cine Vog Films*²⁰⁸ (*Coditel I*) examines the distinction between broadcasting rights and the distribution of goods aspects of copyright (dealt with in *Deutsche Grammophon*). *Musik-Vertrieb Membran and K-Tel Int'l v. GEMA*²⁰⁹ involves trade in copyrighted sound recordings. It presents the issue of whether the copyright protection society, charged with collectively representing the rights of copyright holders, in one

²⁰⁴ *Id.* at 499-500, 1971 Comm. Mkt. L.R. at 657.

²⁰⁵ *Id.* at 502, 1971 Comm. Mkt. L.R. at 659.

²⁰⁶ *Id.* at 499-500, 1971 Comm. Mkt. L.R. at 657.

²⁰⁷ See *infra* notes 242-44 and accompanying text.

²⁰⁸ 1980 E. Comm. Ct. J. Rep. 881, [1981] 2 Comm. Mkt. L.R. 362; see Harris, *Community Law and Intellectual Property: Recent Cases in the Court of Justice*, 19 COMMON MKT. L. REV. 61 (1982).

²⁰⁹ 1981 E. Comm. Ct. J. Rep. 174, [1981] 2 Comm. Mkt. L.R. 44.

Member State can enforce the prevailing royalty rate on records imported from another Member State where the records were originally subject to a lower rate.

The third case is *Dansk Supermarked v. Imerco*.²¹⁰ *Imerco* represents an important extension of the European Court's jurisprudence because it analyzes the status of copyright holders and trademark owners, with regard to the exhaustion of rights principle, in language similar to those employed in patent and trademark cases. The fourth case is *Coditel v. Cine Vog Films*²¹¹ (*Coditel II*). *Coditel II* elaborates on the principles established in *Coditel I* regarding the application of the principles relating to industrial property to the freedom to provide services.

All four cases illustrate the Court's assimilation of "the various branches of intellectual property" as applied to fundamental treaty provisions respecting the free movement of goods and provisions of services.²¹² The variety of property rights involved and the difficulty in determining the specific subject matter of each underscores the difficulty and incompleteness in resolving the conflicting interests of national and Community decisional law. These cases emphasize the need for a Community-wide legislative response in this area.

1. *Coditel v. Cine Vog Films*

Coditel I involved assignments to copyright in a film and the relationship of the assignment to the Community rules on the freedom to provide services.²¹³ *Films la Boetie* is a French firm that owned the rights to the film "Le Boucher." By an agreement of July 8, 1969, la Boetie granted the exclusive rights to show "Le Boucher" in Belgium for seven years to a Belgian film distribution company, *Cine Vog Films S.A.* There was to be no showing of the film on Belgian television for forty months. Belgian theatres began showing "Le Boucher" May 15, 1970. In a separate agreement with the German television authorities, *Films la Boetie* granted German television the right to broadcast a German version of "Le Boucher" subtitled "Der Schlachter." German television broadcast the film on January 5, 1971.

Three Belgian cable television companies, known collectively as the *Coditel* companies, provided cable television service for part of Belgium. *Coditel* recorded the German broadcast on January 5 and rebroadcast it over its cable system to Belgian viewers. *Cine Vog*, the Belgian owner of

²¹⁰ 1981 E. Comm. Ct. J. Rep. 181, [1981] 3 Comm. Mkt. L.R. 590.

²¹¹ 1982 E. Comm. Ct. J. Rep. 3381, [1983] 1 Comm. Mkt. L.R. 49.

²¹² Harris, *supra* note 208, at 76.

²¹³ See 1980 E. Comm. Ct. J. Rep. at 883-84, 899-901, [1981] 2 Comm. Mkt. L.R. at 367-70, 391-93 for a factual summary.

the rights to "Der Schlachter" objected on the grounds that the rebroadcast jeopardized the commercial future of the theatre showings in Belgium.

Cine Vog, consequently, initiated Belgian proceedings against Films la Boetie for breach of its exclusive showing agreement. Cine Vog also proceeded against Coditel for its rebroadcast of the film by cable on the grounds that this breached Cine Vog's exclusive showing rights under Belgian copyright law.

The trial court held for Cine Vog.²¹⁴ In appellate proceedings, the Cour d'Appel, Brussels, held that "the authorization given by the copyright owner to German television to broadcast the film did not include authority to relay the film over cable . . . at least . . . in Belgium."²¹⁵

In its defense, Coditel had argued that the exhaustion of rights doctrine, established by the European Court in trademark and patent cases, applied by analogy to the freedom to provide services. Coditel reasoned that since the provision of film broadcasts for remuneration is a service,²¹⁶ Cine Vog would be prohibited from restricting that freedom by the exercise of its copyright.²¹⁷

The Cour d'Appel referred two questions to the European Court to aid in its resolution of the issue:

1. Are the restrictions prohibited by Article 59 of the Treaty establishing the European Economic Community only those which prejudice the provision of services between nationals established in different Member States, or do they also comprise restrictions on the provision of services between nationals established in the same Member State which however concern services the substance of which originates in another Member State?

2. If the first limb of the preceding question is answered in the affirmative, is it in accordance with the provisions of the Treaty on freedom to provide services for the assignee of the performing right in a cinematographic film in one Member State to rely upon his right in order to prevent the defendant from showing that film in that State by means of cable television where the film thus shown is picked up by the defendant in the said Member State after having been broadcast by a third party in another Member State with the consent of the original owner of the right?²¹⁸

The European Court first responded to the second question, because a negative answer to that question would obviate the need to reply to the

²¹⁴ *Id.* at 884, [1981] 2 Comm. Mkt. L.R. at 369.

²¹⁵ *Id.* at 900, [1981] 2 Comm. Mkt. L.R. at 392.

²¹⁶ *Id.* at 902-03, [1981] 2 Comm. Mkt. L.R. at 393-94 (construing article 60). Articles 59-66 deal with the freedom to provide services. See Harris, *supra* note 208, at 64.

²¹⁷ 1980 E. Comm. Ct. J. Rep. at 890-91.

²¹⁸ *Id.* at 901-02, [1981] 2 Comm. Mkt. L.R. at 398-99.

first question. The second question raised the issue of whether articles 59 and 60, which establish the freedom to provide services within the Community, prohibited assignments of copyright in a film when such assignments were restricted to the territory of a single Member State. The potential for harm to Community trade is that such an assignment could lead to partitioning segments of the Community market in the film industry.

Three general positions were argued before the European Court by Coditel, the Federal Republic of Germany and the European Commission respectively.²¹⁹ Coditel, relying on the same theory that it presented to the Cour d'Appel, argued that the exhaustion of rights doctrine applied to the freedom to provide services by analogy with the free movement of goods cases.²²⁰ Hence, once the copyright holder had licensed the performance of its work anywhere in the Community, it could not prohibit the rebroadcast of that work anywhere within the Community. Coditel also argued that the common origin doctrine applied in that *Cine Vog* could not use its performance rights to restrict the provision of services by Coditel because *Cine Vog's* rights had a common origin with those of German television,²²¹ since both derived their rights from *la Boetie*.

The argument advanced by the Federal Republic of Germany was to deny that the exhaustion of rights doctrine applied to copyright.²²² They argued that copyright was a fundamentally different right from other intellectual property rights. It comprised "a lasting right of prohibition which derives from its function in terms of property, remuneration and reputation which is not exhausted when the right is exploited."²²³

The European Commission accepted that a copyright could be subsumed in the term industrial property (as used in article 36), but argued that performance rights were distinguishable from rights in material media such as books and records.²²⁴ Performance rights are distinguishable "by the fact that they are not exhausted at the first performance of the works they protect . . . [E]ach performance gives rise to copyright and, therefore, remuneration,"²²⁵ whereas only the first sale of a copy of a book is subject to copyright restrictions.

The European Court agreed with the Commission. Performance rights were distinct from other forms of copyright such as in material media:

²¹⁹ *Id.* at 884-98; see Harris, *supra* note 208, at 65-67 for a summary of these positions.

²²⁰ 1980 E. Comm. Ct. J. Rep. at 890-91.

²²¹ See *Hag*, 1974 E. Comm. Ct. J. Rep. 731, [1974] 2 Comm. Mkt. L.R. 127. For a discussion of this case, see *supra* notes 73-82 and accompanying text.

²²² 1980 E. Comm. Ct. J. Rep. at 887-89.

²²³ Harris, *supra* note 208, at 66.

²²⁴ 1980 E. Comm. Ct. J. Rep. at 893-94.

²²⁵ *Id.* at 894.

A cinematographic film belongs to the category of literary and artistic works made available to the public by performances which may be infinitely repeated. In this respect the problems involved in the observance of copyright in relation to the requirements of the [EEC] Treaty are not the same as those which arise in connexion with literary and artistic works the placing of which at the disposal of the public is inseparable from the circulation of the material form of the works, as in the case of books or records.²²⁶

Following on this characterization, the European Court noted that the copyright owner had a legitimate interest in receiving fees based upon the number of performances.²²⁷ The right of the 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."²²⁸

The European Court stated that although article 59 prohibited restrictions on the freedom to provide services, it did not "encompass limits upon the exercise of certain economic activities which have their origin in the application of national legislation for the protection of intellectual property," except where it would constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States.²²⁹

The Court thus held that the principles of article 36 applied by analogy to the freedom to provide services as the European Commission had contended. Article 36 expressed a general principle not confined to the free movement of goods, it argued, and this principle "must also apply to the freedom to provide services to the extent to which literary and artistic property rights may give rise to the provision of services."²³⁰

One question remained, however: whether an assignment of a copyright limited to the territory of a Member State constituted a restriction on the freedom to provide services. The European Court noted that the copyright owner and his assigns had a legitimate interest in collecting fees for each performance of this type of artistic work.²³¹ In addition, television is organized in the Member States largely on the basis of legal monopolies restricted to the territorial limits of each state. As a consequence, any "limitation other than the geographical field of application of an assignment is often impracticable."²³² The Court held, therefore, that Community law did not prohibit a copyright owner in films or its assignee from enforcing geographical limitations in the licensing of the protected

²²⁶ *Id.* at 902, [1981] 2 Comm. Mkt. L.R. at 399.

²²⁷ *Id.* at 902-03, [1981] 2 Comm. Mkt. L.R. at 399.

²²⁸ *Id.* at 903, [1981] 2 Comm. Mkt. L.R. at 399-400.

²²⁹ *Id.* at 903, [1981] 2 Comm. Mkt. L.R. at 400.

²³⁰ *Id.* at 894.

²³¹ *Id.* at 902, [1981] 2 Comm. Mkt. L.R. at 399.

²³² *Id.* at 903-04, [1981] 2 Comm. Mkt. L.R. at 400.

works.²³³ As a practical matter, this was the only means by which the owner or his assignee could protect the essential function of their rights which was the right to collect fees on a performance basis.

The European Court responded to the questions put by the Cour d'Appel in *Coditel I* by stating that Community law did not preclude the owner of a copyright in a film, or his assigns, from prohibiting the unauthorized broadcast of the film by cable television companies which had picked up the transmission broadcasts of an assignee of the owner in another Member State.²³⁴ As a consequence, Community law did not affect national copyright legislation in this case. The European Court, therefore, had no need to respond to the Cour d'Appel's first question.

2. *Musik-Vertrieb Membran and K-Tel Int'l v. GEMA*

*GEMA*²³⁵ involved two cases brought by the German Copyright Protection Society, GEMA (the German acronym), against firms importing records and sound recordings into the Federal Republic of Germany.²³⁶ In the first case, Musik-Vertrieb imported phonograph records and cassettes from various countries including other Member States. In the second case, K-Tel International imported a supply of records from the United Kingdom. In both cases, the recordings contained works protected under German copyright laws.

Due to international agreements and industry practice, the royalty rate in continental Europe, including the Federal Republic of Germany, was 8 percent.²³⁷ The prevailing rate in the United Kingdom, however, was 6.25 percent.²³⁸ The royalty paid on the recordings imported into Germany was calculated upon the rate prevailing in the country where they were manufactured and first marketed. Since this was below the 8 percent due on the German market, GEMA sought to charge the importer the difference between the German rate and the amount paid on the records in the country of manufacture.

GEMA brought proceedings in German courts on the basis that the importation of the records without the payment of the prevailing German

²³³ *Id.* at 904, [1981] 2 Comm. Mkt. L.R. at 400-01.

²³⁴ *Id.* at 905, [1981] 2 Comm. Mkt. L.R. at 401.

²³⁵ 1981 E. Comm. Ct. J. Rep. 147, [1981] 2 Comm. Mkt. L.R. 44.

²³⁶ *See id.* at 159-66, [1981] 2 Comm. Mkt. L.R. at 47-49 for a factual summary.

²³⁷ *Id.* at 168, [1981] 2 Comm. Mkt. L.R. at 50.

²³⁸ *Id.* at 164-65, [1981] 2 Comm. Mkt. L.R. at 50. This was due to the application of section 8 of the Copyright Act of 1956. In effect, section 8 established a maximum royalty of 6.25 percent because it permitted any manufacturer to reproduce records lawfully placed on the United Kingdom market by the copyright holder upon the payment of a fixed royalty of 6.25 percent. As a consequence, no manufacturer would offer a copyright holder more than the statutory 6.25 percent. *Id.*

royalty rate violated German copyright law. The German courts agreed, holding that GEMA was entitled to the prevailing German rate less amounts paid in the country of manufacture.²³⁹ In appellate proceedings, the German Federal Supreme Court (the Bundesgerichtshof), questioned the compatibility of these provisions of German law with articles 30 and 36 of the EEC Treaty. The Bundesgerichtshof referred the following question to the European Court:

Is it compatible with the provisions of the EEC Treaty concerning the free movement of goods (Articles 30 *et seq.*) that a collecting society empowered to exercise authors copyrights—should make use of the exclusive right of the author in Member State A, to fix his musical works on a material support, to reproduce and distribute them, when it claims the following: in respect of the marketing in Member State A of sound carriers which have been manufactured and put into circulation in Member State B and in return for payment of a license royalty based on the number of copies and the retail price in the Member State—payment of an amount corresponding to the license royalty usually received in Member State A for manufacture and marketing after deduction, however of the (lower) royalty paid in Member State B for the manufacture and marketing of the said sound carriers.²⁴⁰

This question illustrates the conflict between nationally created rights in industrial property and fundamental principles of Community law. The copyright owner would prefer that copyrighted goods sold in a Member State pay the prevailing (hopefully higher) rate in that state. This is to the owner's financial benefit, even if it must charge an additional fee on imported goods, already marketed in another Member State, because the lower fee is permitted only in the first state. From a Community perspective, the concern is that the levying of an additional fee on imported goods, already lawfully marketed by the owner in another Member State, will act as a barrier to trade. The Bundesgerichtshof's question asked whether this additional fee could be charged, as provided for by German copyright law, or did state law which permitted the fee to be levied violate articles 30 and 36.

The response of the European Court first emphasized that sound recordings are products to which the system of free movement of goods under articles 30 and 36 applied.²⁴¹ National legislation which obstructed trade in sound recordings constituted a measure equivalent to a quantitative restriction under article 30. This was true even when national legislation permitted a copyright protection society to restrict intra-Community

²³⁹ *Id.* at 150, [1981] 2 Comm. Mkt. L.R. at 47-48.

²⁴⁰ *Id.* at 151, [1981] 2 Comm. Mkt. L.R. at 49.

²⁴¹ *Id.* at 161, [1981] 2 Comm. Mkt. L.R. at 63. This paragraph summarizes consideration 8 of the Court's judgment.

trade in sound recordings based on the protection society's exclusive right of exploitation on behalf of the copyright holders.

The European Court acknowledged that article 36 created an exception to the free movement of goods for the protection of industrial and commercial property. The European Court expressly stated that this phrase included copyrights, "especially when exploited commercially in the form of licenses capable of affecting distribution in the various Member States of goods incorporating the protected literary or artistic work."²⁴² In fact, the parties in *GEMA* had unanimously agreed that copyright was within the protection of article 36.²⁴³ The European Court restated the general proposition that an owner of industrial property could not prohibit the importation into one Member State of goods already lawfully marketed in another Member State.²⁴⁴

The French government in argument before the European Court, has strongly opposed the application of the exhaustion principle to copyrighted goods because, it argued, that right was not comparable to other industrial property rights.²⁴⁵ It argued that copyrights included moral rights such as the right to claim authorship and the right to prohibit distortions or alterations of the work, together with other similar rights relating to the author's reputation and the status of the work. The European Court agreed with the French government's position that copyrights included such moral rights, but it included other economic rights as well,²⁴⁶ such as the right to control the commercial exploitation and marketing of the protected works.²⁴⁷ From an economic perspective, however, the European Court held that the "commercial exploitation of copyright [raised] the same issues as that of any other industrial or commercial property right."²⁴⁸

The European Court concluded that it would be incompatible with Community law for national legislation to permit a copyright protection society in one Member State to levy a royalty fee on imported goods already lawfully marketed by the copyright holder in another Member State.²⁴⁹ Such a charge would be levied merely because the protected work had crossed an internal Community frontier. It would, therefore, have the effect of "entrenching the isolation of national markets which

²⁴² *Id.* at 161, [1981] 2 Comm. Mkt. L.R. at 64.

²⁴³ *Id.* at 176, [1981] 2 Comm. Mkt. L.R. at 58.

²⁴⁴ *Id.* at 161, [1981] 2 Comm. Mkt. L.R. at 64.

²⁴⁵ *Cf. Coditel* (No.1), 1980 E. Comm. Ct. J. Rep. 881, [1981] 2 Comm. Mkt. L.R. 362 (argument by the German government discussed *supra* notes 222-23 and accompanying text).

²⁴⁶ 1981 E. Comm. Ct. J. Rep. at 162, [1981] 2 Comm. Mkt. L.R. at 64.

²⁴⁷ *Id.*

²⁴⁸ *Id.*

²⁴⁹ *Id.* at 164-65, [1981] 2 Comm. Mkt. L.R. at 65-66.

the Treaty seeks to abolish."²⁵⁰

The European Court held that the fact that national legislation within the Community permitted different royalty rates in different countries was no defense; such disparity could "not be used to impede the free movement of goods in the Common Market."²⁵¹ The European Court foreshadowed its remarks in *Merck/Stephar*,²⁵² decided subsequently, by stating that the copyright holder was free to market its goods within the Community as market conditions and varying national laws dictated. In exchange, however, for the enhanced marketing facilities of the Common Market, the copyright holder would not be permitted to isolate national markets within the Community.²⁵³

The European Court's decision had the effect of prohibiting GEMA from charging additional royalty fees on records imported into Germany from another Member State where they had been first marketed by the copyright holder. The European Court held that the holder's release of its protected goods in one Member State exhausted its ability to restrict trade in those goods throughout the Community.

3. *Dansk Supermarked v. Imerco*

The European Court's decision in *Imerco*²⁵⁴ involved a combination of two basic issues: (1) trade in copyrighted or trademarked products (addressed in *GEMA*); and, (2) the relationship between national laws on unfair trade practices and the principles of article 36 EEC (addressed in *Terrapin*).

A/S Imerco was a Danish organization established to purchase hardware goods for its shareholders on a wholesale basis.²⁵⁵ Its shareholders were Danish retailers who marketed their goods throughout Denmark. Imerco commissioned Broadhurst, a British manufacturer, to produce a special china service to commemorate Imerco's fiftieth anniversary. The service contained Imerco's trademarked logo as well as pictures of various Danish castles in which Imerco held the relevant copyrights under Danish law.

Imerco imposed stringent quality control standards on the production of the commemorative china services. Consequently, it rejected several hundred china services as substandard. Imerco marketed the high

²⁵⁰ *Id.*

²⁵¹ *Id.* at 165, [1981] 2 Comm. Mkt. L.R. at 67.

²⁵² 1981 E. Comm. Ct. J. Rep. 2063, [1981] 3 Comm. Mkt. L.R. 463. For the discussion of the case, see *supra* notes 180-96 and accompanying text.

²⁵³ 1981 E. Comm. Ct. J. Rep. at 165, [1981] 2 Comm. Mkt. L.R. at 67.

²⁵⁴ 1981 E. Comm. Ct. J. Rep. 181, [1981] 3 Comm. Mkt. L.R. 590.

²⁵⁵ See *id.* at 191, 197, [1981] 3 Comm. Mkt. L.R. at 591-93, 599-600 for a factual summary.

quality services exclusively through its shareholders and permitted Broadhurst, the manufacturer, to sell the rejected services in the United Kingdom and elsewhere. Imerco required, however, that Broadhurst covenant on the condition not to market the china services in Denmark or any other Scandinavian country.

Dansk Supermarked A/S, a Danish retailer unconnected with Imerco, acquired several hundred of the substandard china services from Broadhurst through third parties. Dansk then marketed the substandard services in Denmark, in direct competition with Imerco. Dansk sold the substandard services at substantially lower prices than those services sold by Imerco, without indicating the difference in quality, thereby violating Danish laws on unfair competition.

Following Dansk's rejection of Imerco's suggestion that it cease this practice, Imerco obtained an injunction against Dansk's marketing of the substandard services in Denmark. In the Danish proceedings Imerco contended, inter alia, that Dansk had also violated the relevant trademarks and copyrights which it held in the china services.

The Danish trial court's judgment was affirmed on appeal and Dansk then sought a second appeal from the Danish Supreme Court. The latter referred the question of Community law to the European Court. The referral called for an interpretation of article 30, on the elimination of quantitative restrictions on imports and measures having equivalent effect, and article 36 which provides an exception to article 30 for the protection of industrial and commercial property.

The European Court interpreted the Danish referral as asking the following:

[W]hether goods which have been lawfully marketed in one Member State with the consent of the undertaking which is entitled to sell them may be prohibited, under an agreement concluded between that undertaking and the manufacturer, from being marketed in another Member State either on the basis of national provisions on the protection of copyright or trade marks or under legislation on marketing.²⁶⁶

The question raised two issues: (1) whether Imerco could assert its copyright or trademark rights to enjoin Dansk from marketing the substandard services; and (2) whether Imerco could assert provisions of Danish unfair competition law to prohibit Dansk from trading in goods that Imerco had already permitted to be marketed in another Member State.

The European Court decision first restated its well established interpretations of articles 30 and 36, citing *Terrapin* for support.²⁶⁷ The

²⁶⁶ *Id.* at 192, [1981] 3 Comm. Mkt. L.R. at 601.

²⁶⁷ *Id.* at 193, [1981] 3 Comm. Mkt. L.R. at 601-02, citing *Terrapin*, 1976 E. Comm. Ct. J. Rep. 1038, [1976] 2 Comm. Mkt. L.R. 482.

Treaty did not affect the existence of industrial property rights but, depending on the circumstances, could limit the exercise of those rights. Article 36 permitted exceptions to the free movement of goods only to protect the specific subject matter of the particular industrial property rights. A proprietor's exclusive rights in its industrial and commercial property were "exhausted when a product [had] been lawfully distributed on the market in another Member State by the actual proprietor of the right or with his consent."²⁵⁸

Applying these well established principles, the European Court responded to the first issue raised by the Danish Supreme Court's question as follows:

[T]he judicial authorities of a Member State may not prohibit, on the basis of a copyright or of a trade mark, the marketing on the territory of that State of a product to which one of those rights applies if that product has been lawfully marketed on the territory of another Member State by the proprietor of such rights or with his consent.²⁵⁹

The European Court's analysis at this point was a straight-forward application of its prior case law. The decision is particularly noteworthy, however, for the court's language in interpreting article 36. The Court expressly treated copyright on the same basis as trademark rights for the first time.²⁶⁰

The second issue facing the Danish Supreme Court was whether national legislation on unfair marketing practices may be asserted to justify an exception to the free movement of goods. The European Court established the basis for its response to the second issue in its discussion of the Danish law on unfair competition. "[T]hat law is comparable in certain respects to the legislation in force in other Member States against unfair competition, but it has in addition other objectives in that sphere, in particular the protection of consumers."²⁶¹

The European Court then stated that Community law did not prohibit applying national legislation to unfair competition. Such legislation may restrict trade in goods if the marketing of those goods is considered to be improper or unfair.²⁶² The mere fact that the goods are imported, however, is not sufficient to constitute an unfair trade practice.²⁶³ The conditions constituting an unfair trade practice must be "distinct from

²⁵⁸ 1981 E. Comm. Ct. J. Rep. at 193, [1981] 3 Comm. Mkt. L.R. at 601-02.

²⁵⁹ *Id.* at 194, [1981] 3 Comm. Mkt. L.R. at 602.

²⁶⁰ *Id.*

²⁶¹ *Id.* at 194, [1981] 3 Comm. Mkt. L.R. at 602. For a description of Danish Law No. 297 of June 14, 1974, see *id.* at 184, [1981] 3 Comm. Mkt. L.R. at 592.

²⁶² *Id.* at 194, [1981] 3 Comm. Mkt. L.R. at 602.

²⁶³ *Id.*

the importation itself."²⁶⁴ Private agreements between individuals, as between Imerco and Broadhurst, could not alter the mandatory provisions of Community law. The Court held, therefore, that a private agreement requiring that goods not be imported into a Member State may not be used to characterize a sale of goods as an unfair trade practice.²⁶⁵ Imerco, therefore, could not use its agreement with Broadhurst as the basis for characterizing Dansk's sale of the substandard services as an unfair trade practice under Danish law. Some other condition of Dansk's sale of the service, such as its failure to note that they were seconds or substandard, would have to be relied upon to make such a characterization.²⁶⁶

In summary, the European Court interpreted article 30 for the Danish Supreme Court as follows:

That the importation into a Member State of goods lawfully marketed in another Member State could not as such be classified as an improper or unfair commercial practice, without prejudice however to the possible application of legislation of the State of importation against such practices on the ground of the circumstances or methods of offering such goods for sale as distinct from the actual fact of importation; and that an agreement between individuals intended to prohibit the importation of such goods could not be relied upon or taken into consideration in order to classify the marketing of such goods as an improper or unfair commercial practice.²⁶⁷

Imerco is noteworthy for the European Court's placement of copyrights on the same basis as trademark rights in its interpretation of article 36. Commentary on *Imerco* had centered on the Court's failure to place national legislation on unfair competition on the same basis as the Court's view of industrial property so as to justify an exception to article 30.²⁶⁸ "Both in international law and in general content, there is if anything an even closer relationship between trade mark rights and rights arising from the repression of unfair competition than between trade mark rights and copyright."²⁶⁹

Advocate-General Capotorti, in his opinion in *Imerco*, had argued that the reasoning applied to industrial property rights equally applied to national laws regulating unfair competition.²⁷⁰ The Advocate-General had conceded that such provisions were not expressly included in article 36 as

²⁶⁴ *Id.* at 195, [1981] 3 Comm. Mkt. L.R. at 602-03.

²⁶⁵ *Id.* at 195, [1981] 3 Comm. Mkt. L.R. at 603.

²⁶⁶ *Id.*

²⁶⁷ *Id.*

²⁶⁸ Harris, *supra* note 208, at 76.

²⁶⁹ *Id.*

²⁷⁰ 1981 E. Comm. Ct. J. Rep. at 200-02, [1981] 3 Comm. Mkt. L.R. at 596-97.

an exception to the free movement of goods.²⁷¹ But the Advocate-General argued that the European Court's prior case law interpreting article 30 supported the following proposition: in the absence of Community rules on fair marketing standards, it was necessary to accept obstacles to the free movement of goods resulting from national laws "which apply without discrimination to both domestic and imported products . . . in order to satisfy imperative requirements relating in particular to . . . the fairness of commercial transactions and the defence of the consumer."²⁷² The Advocate-General concluded that the European Court had, therefore, extended the scope of lawful restrictions on the free movement of goods beyond article 36.²⁷³ These restrictions were permitted, provided that they "serve a purpose which is in the general interest and such as to take precedence over the requirements of the free movement of goods, which constitutes one of the fundamental rules of the Community."²⁷⁴ The European Court had an opportunity to expand on its interpretation of article 36 and the freedom to provide services in a second case involving *Coditel* and *Cine Vog Films*.

²⁷¹ *Id.* at 200, [1981] 3 Comm. Mkt. L.R. at 596.

²⁷² *Id.*

²⁷³ 1981 E. Comm. Ct. J. Rep. at 200, [1981] 3 Comm. Mkt. L.R. at 596.

²⁷⁴ *Id.*, citing *REWE*, 1979 E. Comm. Ct. J. Rep. 649, 664, [1979] 3 Comm. Mkt. L.R. 494, 510. The European Court has recently addressed this question in *Industrie Diensten Groep B.V. v. J.A. Beele Handelmaatschappij B.V.*, 1982 E. Comm. Ct. J. Rep. 707, [1982] 3 Comm. Mkt. L.R. 102. In *Beele*, a Swedish firm had been importing goods into Member States of the Community including the Netherlands and Germany since 1963. After the expiration of the patent covering these products, a West German firm started manufacturing the identical product and exporting it to the Netherlands. The Dutch importer of the Swedish product sought to enjoin this conduct arguing that, under Dutch marketing law, the German products were confusingly similar to the Swedish goods. The Dutch Court granted the injunction. Although the goods had been lawfully marketed in Germany, Dutch law regarded the products as confusingly similar and, therefore, their importation into the Netherlands was considered an unfair trade practice. The Dutch appellate court questioned the compatibility of this judicially created rule of unfair competition with articles 30 and 36, and referred the question to the European Court. The European Court held:

[I]n the absence of common rules relating to the production and marketing of products, obstacles to movement within the Community resulting from disparities between national legislation must be accepted in so far as such legislation, applying without discrimination to both domestic and imported products, may be justified as being necessary in order to satisfy mandatory requirements relating in particular to the protection of consumers and fairness in commercial transactions.

Id. at 716, [1982] 3 Comm. Mkt. L.R. at 127. The Court cited *Cassis de Dijon*, 1979 E. Comm. Ct. J. Rep. 649, [1979] 3 Comm. Mkt. L.R. 494, and *Commission v. Ireland*, 1981 E. Comm. Ct. J. Rep. 1625, [1982] 1 Comm. Mkt. L.R. 706, for support. The position regarding the equation of national rules on unfair trade practices to the industrial property exceptions of article 36 appears not to have changed. See *Beele*, 1982 E. Comm. Ct. J. Rep. at 711, [1982] 3 Comm. Mkt. L.R. at 120, for the Court's rationale.

4. *Coditel v. Cine Vog Films*

*Coditel II*²⁷⁵ elaborated on the European Court's application of the principles relating to industrial property to the freedom to provide services, discussed initially in *Coditel I*.²⁷⁶ *Coditel II* was a second referral from Belgian courts in the same national proceedings involved in *Coditel I*. A review of the procedural history will place the second case in perspective.²⁷⁷

By a judgment of March 30, 1979, the Belgian Cour d'Appel, or civil appellate court, in a case brought by a Belgian film distribution company known as Cine Vog, stayed the proceedings against cable television companies collectively known as Coditel. The Cour d'Appel referred two questions on the interpretation of articles 59 and 60 (on the freedom to provide services) to the European Court. The European Court replied to those questions in its judgment on March 18, 1980, in *Coditel I*. By its judgment of March 30, 1979, however, the Cour d'Appel had held that article 85, which prohibits agreements or concerted practices restraining intra-Community trade, had no application to the facts of the case.²⁷⁸ Coditel appealed the Cour d'Appel's decision of March 30, 1979, to the Belgian Cour de Cassation, the supreme administrative court. In a judgment of September 3, 1981, which was after the European Court's decision in *Coditel I*, the Cour de Cassation referred the interpretation of articles 85 and 36 in this case to the European Court. The European Court's reply to this referral by the Cour de Cassation is the subject of *Coditel II*.

The Belgian Cour de Cassation had asked the European Court the following question:

Where a company which is the proprietor of the rights of exploitation of a cinematographic film grants by contract to a company in another Member State an exclusive right to show that film in that State, for a specified period, is that contract liable, by reason of the rights and obligations contained in it and of the economic and legal circumstances surrounding it, to constitute an agreement, decision or concerted practice which is prohibited between undertakings pursuant to Article 85 (1) and (2) of the Treaty or are those provisions inapplicable either because the right to show the film is part of the specific subject-matter of copyright and accordingly Article 36 of the Treaty would be an obstacle to the application of Article 85, or because the right relied on by the assignee of the right to show the film derives from a legal status which confers on the

²⁷⁵ 1982 E. Comm. Ct. J. Rep. 3381, [1983] 1 Comm. Mkt. L.R. 49.

²⁷⁶ 1980 E. Comm. Ct. J. Rep. 881, [1981] 2 Comm. Mkt. L.R. 362.

²⁷⁷ See 1982 E. Comm. Ct. J. Rep. at 3383-84, [1983] 1 Comm. Mkt. L.R. at 51-53 for a factual summary.

²⁷⁸ *Id.* at 3384, [1983] 1 Comm. Mkt. L.R. at 52.

assignee protection *erga omnes* and which does not fall within the class of agreements and concerted practices referred to by the said Article 85?²⁷⁹

In essence, the issue was whether a contract for the exclusive showing of a film, which was limited to the territory of a Member State, was prohibited as a concerted practice in restraint of intra-Community trade under article 85, or whether article 85 was inapplicable because the contract involved the specific subject matter of copyright in film showings which was protected under article 36.

The European Court noted, however, that *Coditel II* involved the freedom to provide services rather than the freedom to move goods to which article 36 expressly applied. Copyrights in film showings, unlike copyrights in media such as books or records, "belong to the category of literary and artistic works made available to the public by performances, which may be infinitely repeated, and the marketing of which is a matter of the provision of services, irrespective of the method of public diffusion, whether cinema or television."²⁸⁰

Article 36 contained a general principle, however, which applied beyond the free movement of goods. The distinction underlying that article is that whereas an industrial property right is created solely by national law,²⁸¹ Community law may affect the exercise of that right if it constituted a restriction on trade within the Community under article 36(2). This general principle, the European Court concluded, applied equally to the freedom to provide services.²⁸²

This much had been established in the earlier case, *Coditel I*. The European Court added, however, that this general principle also applied to article 85, if the means of exercising industrial property rights took "the form of an agreement, decision or concerted practice capable of having as their object or effect the prevention, restriction or distortion of competition within the Common Market."²⁸³ The Court stated:

The mere fact that the proprietor of a film copyright has granted to a single licensee the exclusive right to exhibit the film in the territory of a member-State, and therefore to prohibit its diffusion by others, for a

²⁷⁹ *Id.* at 3385, [1983] 1 Comm. Mkt. L.R. at 53. Article 85(1) provides as follows: The following shall be deemed to be incompatible with the Common Market and shall hereby be prohibited: all agreements between enterprises, any decisions by associations of enterprises and any concerted practices which are likely to affect trade between Member States and which have as their object or result the prevention, restriction or distortion of competition within the Common Market . . .

EEC Treaty, *supra* note 2, 298 U.N.T.S. at 47.

²⁸⁰ 1982 E. Comm. Ct. J. Rep. at 3400, [1983] 1 Comm. Mkt. L.R. at 65.

²⁸¹ *Id.* at 3401, [1983] 1 Comm. Mkt. L.R. at 65-66.

²⁸² *Id.*

²⁸³ *Id.* at 3401, [1983] 1 Comm. Mkt. L.R. at 66.

specified period, is not sufficient however for a finding that such a contract must be considered as the object, means or consequence of an agreement, decision or concerted practice.²⁸⁴

The European Court in *Coditel II* cautioned, however, that certain methods of exercising copyrights in the exclusive showing of a film could constitute an agreement or concerted practice which is prohibited by article 85. This would be the case if the exercise of exclusive showing rights were made "under economic or legal circumstances which have the effect of substantially restricting distribution of films or distorting competition in the film market, having regard to its [the market's] special characteristics."²⁸⁵

The European Court concluded, however, that the special characteristics of the European film market indicated that it was unlikely that an exclusive showing agreement of the kind at issue in *Coditel II* would prevent, restrict or distort competition.²⁸⁶ These special features included: (1) the different language groups which create submarkets and require a special language dubbing industry; (2) the national regulation of television broadcasting; and (3) the industry practice in film financing.²⁸⁷

The European Court concluded in *Coditel II* that the determination of whether the exercise of a copyright resulted in a concerted practice in violation of article 85 was a task for the national court.²⁸⁸ The European Court suggested four factors for the national court to consider in making its determination:

(1) Whether a copyright holder or his assign's exercise of the exclusive showing rights in a film create "artificial and unjustified" barriers, given the characteristics of the European film industry.

(2) Whether the royalties exceeded a "fair" return relative to the investment in the film.

(3) Whether the time period of the exclusive agreement is excessive.

(4) Whether the exercise of this right "within a given geographical area is such as to prevent, restrict or distort competition" within the Community.²⁸⁹

The European Court's decision in *Coditel II* did not address the issue of whether, if an exclusive showing agreement was deemed to restrict intra-Community trade, the agreement could be justified so as to protect the specific subject matter of this form of intellectual property.

Advocate-General Reischl provided a more detailed analysis of this

²⁸⁴ *Id.*

²⁸⁵ *Id.*

²⁸⁶ *Id.*

²⁸⁷ *Id.*

²⁸⁸ *Id.*

²⁸⁹ *Id.* at 3402, [1983] 1 Comm. Mkt. L.R. at 66-67.

issue in his opinion in *Coditel II*. The European Court seemed to assume the conclusion expressed by the Advocate-General when it concluded in *Coditel II* that "Article 85 is excluded from the outset where the issue is one of safeguarding rights which form the specific subject-matter of an industrial or other property right."²⁹⁰

The Advocate-General elaborated on *Coditel I* to explain his interpretation of the specific subject matter of copyright in a film showing.²⁹¹

What matters is not only the *mode of calculating* the remuneration, but also the guarantee of a *proper* remuneration for the intellectual accomplishment which the creation of the film represents, requiring as it does the exploitation of a variety of forms of copyright (in music, literature, etc.) and involving appreciable financial risks.²⁹²

The characteristics of the European film industry, as described by the European Court's judgment above, would, in the Advocate-General's opinion, justify certain methods of exploiting film rights, such as exclusive showing contracts.²⁹³

The European Court's judgment impliedly adopted the reasoning of the Advocate-General's opinion without expressly so doing. The European Court suggested that national courts consider the special characteristics of the European film industry. Specific provisions, to be deemed a restraint on competition within the industry must involve excessive royalties or unduly long exclusive arrangements. These considerations imply that the copyright owner and its assignees will be allowed to protect the specific subject matter of their rights in films. As Advocate-General Reischl suggested, this included the calculation of and reasonable arrangements for the securing of a reasonable return on the film investment.²⁹⁴ The European Court's opinion suggested that only attempts to obtain an excessive return on a film investment would constitute a restraint on competition within the Community in violation of article 85.²⁹⁵

In summary, the European Court responded to the Belgian Cour de Cassation in the following terms:

A contract conferring the exclusive right to exhibit a film on the territory of a member-State for a specific period, granted by the owner of the copyright in that work, is not as such subject to the prohibitions contained

²⁹⁰ *Id.* at 3409, [1983] 1 Comm. Mkt. L.R. at 59.

²⁹¹ *Id.* at 3407-08, [1983] 1 Comm. Mkt. L.R. at 59-63.

²⁹² *Id.* at 3411, [1983] 1 Comm. Mkt. L.R. at 61. Much of this analysis is based on Reischl's interpretation of L.C. Nungesser K.G. & Eisele v. E.C. Commission, Judgment of June 8, 1982, Case 258/78 (unreported), discussed in 1982 E. Comm Ct. J. Rep. at 3412, [1983] 1 Comm. Mkt. L.R. at 57-58.

²⁹³ 1982 E. Comm. Ct. J. Rep. at 3412, [1983] 1 Comm. Mkt. L.R. at 61-62.

²⁹⁴ *Id.* at 3411-12, [1983] 1 Comm. Mkt. L.R. at 61-62.

²⁹⁵ *Id.* at 3402, [1983] 1 Comm. Mkt. L.R. at 66.

in Article 85 of the Treaty. It is, however, where appropriate, for the national court to ascertain whether in a given case the manner in which the exclusive right conferred by that contract is exercised is subject to arrangements the object or effect of which is to prevent or restrict the distribution of films or to distort competition on the cinematographic market, in the light of the specific characteristics of that market.²⁹⁶

The effect of the two *Coditel* cases may be stated as follows: Community law permits an exception to the fundamental freedom to provide services within the Community for the protection of the specific subject matter of an industrial property right. In the case of copyright in film, the essential function is to allow the owner or its assignee to collect royalties based on the number of performances of the protected film. This includes the right of the owner or its assignee to prohibit unauthorized commercial showings of its film for which a fee is charged the public. In effect, this prohibits unauthorized parallel imports of film broadcasts into Member States where the film is protected by domestic copyright laws.

Exclusive film showing agreements that are limited to specific geographical areas and time periods are not, per se, a violation of article 85. Such exclusive agreements may act as a restraint on competition in the European film industry depending on their specific provisions. Scrutiny of these provisions by national courts should include several factors. Included among these are whether, under the specific commercial requirements of the European film industry, the agreement is for an excessive period of time or seeks an excessive return on the copyright holder's investment.

VI. CONCLUSION

The European Court's decisions have held that article 36 applies to virtually all forms of industrial property rights, including patents, trademarks, copyrights, performance rights and industrial designs. The specific subject matter of both trademarks and patents is well defined, although *Pfizer* and *Merck/Stephar* suggest that the Court is further narrowing the ability of trademark or patent holders to restrict intra-Community trade. *GEMA* suggests that the same is true for copyrights and related rights.

The European Court has recognized that copyright and related rights are more complex than patents or trademarks for example. The decisions of the Court of Justice have principally addressed the economic and commercial aspects of copyrights and related rights. This suggests that the European Court will not necessarily apply the same analysis to the moral aspects of these rights, such as the author's right to protect the integrity

²⁹⁶ 1982 E. Comm. Ct. J. Rep. at 3403, [1981] 1 Comm. Mkt. L.R. at 67.

and authorship of his work. The European Court has shown a great willingness, however, to consider individually the function of each different form of copyright and to define the specific subject matter of each accordingly. Hence, the moral aspects of intellectual property rights may be subsumed into the European Court's traditional analysis, albeit with perhaps greater deference to national law.

Technological developments will greatly complicate the task of defining the specific subject matter of intellectual property rights. Videotape recording devices, for example, raise new questions of copyright law, as does the development of direct broadcasting from satellites which, among other things, makes the application of inconsistent national copyright rules less compatible with Community goals. Advances in bio-technology, such as the development of new hybrid agricultural products or commercially useful microorganisms, present new wrinkles in patent law. Such rapid and continuing technological advances underscore the need for, and the difficulty of, resolving the conflict between national and community law from a Community-wide perspective.

In a related area, the general principles of article 36 are now applicable to the freedom to provide services. The European Court has also suggested that it will analyze national rules on unfair competition in the same manner as rules protecting industrial property. The European Court, however, has not so expressly held. But its analytical approach in *Imerco* and *Beele*²⁹⁷ is analogous to its analysis in industrial property cases, although the rationale for its conclusions is different. The European Court has held that the protection of industrial property justifies an exception to the free movement of goods because of the express terms of article 36. The European Court appears to accept national rules on unfair competition as an exception to the free movement of goods because such rules are a mandatory protection for consumers. In both types of cases, the European Court has focused on the elements justifying each exception. Only those elements merit an exception to fundamental Community policies such as the free movement of goods or the freedom to provide services.

The European Court's interpretation of article 36 has had an impact beyond the narrow but important question of the extent to which a holder of an intellectual property right, such as a trademark or copyright, may exercise that right within the European Community. These cases have also addressed the limitations on the exercise of that right based on a second fundamental Community policy—the freedom to provide services anywhere within the Community irrespective of national boundaries. Collectively, these cases have significantly promoted the overall

²⁹⁷ *Industrie Diensten Groep B.V. v. J.A. Beele Handelmaatschappij B.V.*, 1982 E. Comm. Ct. J. Rep. 711, [1982] 3 Comm. Mkt. L.R. 102.

Community goal of the economic integration of the Member States.

The inherently sporadic and uneven nature of decisional law, however, emphasizes the need for Community wide legislation in the area of intellectual property. The pace of technological change will make it more difficult in the future to achieve a satisfactory resolution of conflicts between diverse national laws and the goal of establishing a single Common Market through the medium of decisional law alone.