

1982

# The Limitation of Copyright and Patents by the Rules for the Free Movement of Goods in the European Common Market

Valentine Korah

Follow this and additional works at: <https://scholarlycommons.law.case.edu/jil>



Part of the [International Law Commons](#)

---

## Recommended Citation

Valentine Korah, *The Limitation of Copyright and Patents by the Rules for the Free Movement of Goods in the European Common Market*, 14 Case W. Res. J. Int'l L. 7 (1982)

Available at: <https://scholarlycommons.law.case.edu/jil/vol14/iss1/3>

This Article is brought to you for free and open access by the Student Journals at Case Western Reserve University School of Law Scholarly Commons. It has been accepted for inclusion in Case Western Reserve Journal of International Law by an authorized administrator of Case Western Reserve University School of Law Scholarly Commons.

## ARTICLES

### The Limitation of Copyright and Patents by the Rules for the Free Movement of Goods in the European Common Market

by *Valentine Korah*\*†

#### I. THE EEC CONSTITUTION

In 1957, six European States — France, Italy, West Germany, Belgium, Luxembourg and the Netherlands — established the European Economic Community (EEC).<sup>1</sup> The EEC signed and ratified the Treaty of Rome ('the Treaty') which was based on the foundations of the Community: the free movement of goods, persons, services and capital.<sup>2</sup> These rules have been generously interpreted by the Court of Justice of the European Communities ('the Court' or 'the Community Court') since they give effect to the basic principles of the Common Market. There are, of course many other provisions in the Treaty: rules of competition,<sup>3</sup> taxation, and the approximation of laws,<sup>4</sup> procedures for giving effect to economic and social policy,<sup>5</sup> and procedures for the creation of institutions.<sup>6</sup> If conceived of as a federation, however, the powers of EEC are slight.

The legislature is the Council of Ministers, composed of ministers of member States which are usually jealous of their sovereignty and national interests. Since 1966, when the French refused to attend its meetings for six months, no legislation has been passed which conflicted with the im-

---

\* Reader in English Law at University College London, Barrister.

† Mrs. Korah extends her gratitude to Professor Cornish of the London School of Economics; Peter Cottis, Peter Freeman, Chris Kerse, Hans Sachse, and George Wright of the Commission of the European Communities for their constructive criticisms.

<sup>1</sup> Treaty Establishing the European Economic Community, signed March 25, 1957, 295 U.N.T.S. 2 [hereinafter cited as EEC Treaty].

<sup>2</sup> *Id.* at arts. 9-84.

<sup>3</sup> *Id.* at arts. 85-94.

<sup>4</sup> *Id.* at arts. 95-102.

<sup>5</sup> *Id.* at arts. 103-28.

<sup>6</sup> *Id.* at arts. 129-30 and 137-98.

portant interests of any member State.<sup>7</sup> Legislation is passed, much in the same manner as international treaties are made, through package deals worked out by national politicians and by both national and Community officials in tough, confidential sessions.<sup>8</sup> With the accession of the United Kingdom, Denmark and Eire at the end of 1972,<sup>9</sup> and Greece at the end of 1980,<sup>10</sup> the problems of achieving major changes have been more complex. Recently, the European Parliament has been elected directly,<sup>11</sup> and no longer consists of members of national parliaments, but it still has far less legislative power than Congress.<sup>12</sup> The Parliament has limited control over the budget, is required to consider some secondary legislation, and has recently established the power to block certain provisions by prolonging its consideration of them.<sup>13</sup> It can also dismiss the Members of the Commission - a drastic power, never yet used.<sup>14</sup> The Members of the Commission are politicians acceptable to member States but owing their allegiance to the Communities. Its secretariat consists of Community officials, and the Commission has some power to make secondary legislation of minor kinds, especially in the fields of agriculture and competition.<sup>15</sup> It also proposes legislative measures to the Council.<sup>16</sup> This, however, is often a frustrating experience, as each Member of the Council is usually more concerned with the welfare of his own member State than that of the Community.

Article 2 of the EEC Treaty sets out the Community's basic objectives:

The Community shall have as its task, by establishing a common market and approximating the economic policies of Member States, to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increase in stability, an accelerated raising of the standard of living and closer relations between the States belonging to it.

---

<sup>7</sup> H. SMITH & P. HERZOG, *THE LAW OF THE EUROPEAN ECONOMIC COMMUNITY; A COMMENTARY* 10 (1980).

<sup>8</sup> See generally, Thompson, *The Common Market: A New Order*, 41 WASH. L. REV. 385 (1966).

<sup>9</sup> Treaty of Accession of Denmark, Ireland and the United Kingdom, done Jan. 22, 1972, reprinted in *Treaty Establishing the European Community* 981 (1978).

<sup>10</sup> Treaty of Accession of the Hellenic Republic, done May 28, 1979, 22 O.J. EUR. COMM. (No. L 291) 9 (1979).

<sup>11</sup> Act Concerning the Election of Representatives to the Assembly by Direct Universal Suffrage, 19 O.J. EUR. COMM. (No. L 278) 5 (1976).

<sup>12</sup> See generally, Thompson, *supra* note 8, at 393-95.

<sup>13</sup> See Jacobs, *Isoglucose Resurgent: Two Powers of the European Parliament Upheld by the Court*, 18 COMMON MKT. L. REV. 219 (1981).

<sup>14</sup> Thompson, *supra* note 8, at 387.

<sup>15</sup> See EEC Treaty, *supra* note 1, at arts. 39, 87.

<sup>16</sup> Thompson, *supra* note 8, at 387.

Other goals, such as the protection of the environment, are to be found in the preamble. The Community Court often interprets the more concrete provisions of the Treaty in light of these vague desiderata, thereby achieving greater freedom to further the integration of the market.

Article 3 outlines the activities of the Community to carry out the purposes stated in Article 2, including:

(a) the elimination, as between Member States, of customs duties and of quantitative restrictions on the import and export of goods, and of all measures having equivalent effect; . . .

(c) the abolition, as between Member States, of obstacles to freedom of movement for persons, services and capital; . . . [and]

(f) the institution of a system ensuring that competition in the common market is not distorted . . .

## II. THE FREE MOVEMENT OF GOODS

Over the transitional periods, customs duties were abolished among member states and a common external tariff was established for goods initially entering the Common Market.<sup>17</sup> An important form of protection in the 1950's was quotas. Two hypothetical examples of such quotas might be: 1) only 1,000 tons of widgets shall be imported to France from Germany, and 2) no widgets shall be so imported. These quantitative restrictions were also liberalized and finally abolished during the transitional periods, which have since expired apart from that for Greece.<sup>18</sup>

Article 30 provides that "quantitative restrictions on imports and all measures having equivalent effect shall, without prejudice to the following provisions, be prohibited between Member States." Export quotas are prohibited by Article 34. Since they implement one of the foundations of the Treaty, these provisions have been widely interpreted. The *Cassis de Dijon* case,<sup>19</sup> for instance, has confirmed that rules which do not openly

---

<sup>17</sup> See, e.g., Convention on the Transitional Provisions, signed April 8, 1951, reprinted in B ENCYCLOPEDIA OF EUROPEAN COMMUNITY LAW (K. Simmonds, ed.) B 9021 (1974).

<sup>18</sup> Treaty of Accession of the Hellenic Republic, *supra* note 10, at part 4, see, e.g. arts. 25 & 29.

<sup>19</sup> *Rewe-Zentral A.G. v. Bundesmonopolverwaltung für Branntwein*, [hereinafter cited as *Cassis de Dijon*] (120/78) [1979] E.C.R. 649, [1979] 3 Common Mkt. L.R. 494; see also Directive 70/50 Special Edition O.J. EUR. COMM. (No. L 13) 29 (1970). Some of the recent cases in this field are discussed by Derrick Wyatt in *Qualitative Restriction and Measures Having Equivalent Effect*, 6 EUROPEAN L. REV. 185 (1980), and Alan Dashwood, *Cassis de Dijon - A Major Step in the Liberalisation of Trade*, 9 EUROPEAN INTELLECTUAL PROP. REV. 268 (1981). The best text book discussion of measures equivalent to quantitative restrictions is probably in WYATT & DASHWOOD, *THE SUBSTANTIVE LAW OF THE E.E.C.*, ch. 10 (1980). Some justifications other than those cited in Article 36 for such restrictions were read by the Court into Article 30, for instance infringement of the rules of fair competition. With this important development, this article is not much concerned.

discriminate against imports, but bear more heavily on them than on local products, are prohibited by Article 30.<sup>20</sup> It was clearly envisaged that intellectual property rights might operate as measures of equivalent effect to quantitative restrictions since Article 36 provides that:

The provisions of Articles 30-34 shall not preclude prohibitions or restrictions on imports . . . justified on grounds of . . . the protection of industrial and commercial property. Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between member states.

Had the use of a patent, for instance, not been envisaged as a measure of equivalent effect to a quantitative restriction, there would have been no need to include industrial and commercial property in this proviso. Moreover, the exception is limited. The restriction on imports must be *justified* on one of the grounds set out, and there is a limiting proviso in the second sentence.

### III. ARTICLE 85

In the early 1960's, when the first transitional period came to an end and customs and quotas between member States were phased out, prices varied considerably. The laws and traditions in each country were different. Distribution systems varied, and local manufacturers of many products had enjoyed protection for a generation. Currencies were then pegged under the Bretton Woods Agreement, but from time to time there were substantial changes as one currency or another was devalued. It often paid a manufacturer to charge different prices in different parts of the Common Market, irrespective of cost differences, provided he could prevent goods from the lower priced areas from seeping back into those areas where higher prices could be charged. In the early days, few people realized the importance of the principle of the free movement of goods in relation to intellectual property rights,<sup>21</sup> although the advice was frequently given that any contractual ban on exports or imports was contrary to Article 85. This Article prohibits, as incompatible with the Common Market, collusion between firms that may affect trade between member States, and has as its object or effect the restriction, distortion or prevention of competition within the Common Market.

If contractual restrictions on the free movement of goods are prohibited and void under the competition rules, can not some segregation of markets be achieved by arranging that a particular mark, or the patent for a particular invention, should be held by different persons in different

---

<sup>20</sup> *Cassis de Dijon*, [1979] E.C.R. 652, [1979] 3 Common Mkt. L.R. at 510-11.

<sup>21</sup> See note 51 *infra* and accompanying text.

countries? The laws protecting such rights are still national and largely limited to acts within the country. The holder in the State that happens to support a high price for the protected product could then use his intellectual property right to restrain the sale of such products marketed with the consent of the person who holds the right in a State where prices are lower.

### A. *The Grundig Case*<sup>22</sup>

As early as 1957, Grundig established a network of exclusive dealers in member States other than Germany.<sup>23</sup> The company assumed responsibility for supplying the German wholesalers, but in other member States it agreed to supply through a single exclusive distributor who would advertise its apparatus, arrange a retail network, provide repair service both for machines under guarantee and older ones, along with generally promoting the mark.<sup>24</sup> Had this been the only provision, the agreement would probably have been exempted from the competition rules under Article 85(3). Grundig went further, however, in protecting its exclusive dealers. All of its dealers, both exclusive distributors and the German wholesalers, agreed not to export the goods, and the exclusive dealer in each country was able to register in his own name the national trade mark 'Gint' (Grundig International), which at that time was placed on all Grundig machines in addition to the widely known 'Grundig' mark.<sup>25</sup> When two large retailers, UNEF and Leissner, bought large quantities of Grundig apparatus far more cheaply from German wholesalers than was possible through the network set up by Consten, Grundig's distributor in France, Consten was able to bring an action claiming that this amounted to the tort of unfair competition<sup>26</sup> and a trademark infringement.

Eventually, the agreement was found by the Commission to infringe on Article 85(1) and to be incapable of exemption because of the absolute territorial protection that would be conferred upon Consten were the agreement upheld.<sup>27</sup> A difference in list prices between France and Germany of some 40 percent and, even after allowing for discounts, of over 20

---

<sup>22</sup> Re Grundig's Agreement, [1964] Common Mkt. L.R. 489, *on appeal* to the Community Court *sub nom.*, Consten and Grundig v. Comm'n, (56 & 58/64) [1966] E.C.R. 299, [1966] Common Mkt. L.R. 418 [hereinafter cited as Consten].

<sup>23</sup> *Consten* [1966] E.C.R. 303, [1966] Common Mkt. L.R. at 423.

<sup>24</sup> *Id.*

<sup>25</sup> *Id.* at 303, [1966] Common Mkt. L.R. at 420.

<sup>26</sup> *Id.* at 304, [1966] Common Mkt. L.R. at 420-21. The tort of unfair competition involves the undermining of an exclusive dealing agreement made between other parties by buying goods for resale within the territory from dealers who were prohibited from selling outside their territory.

<sup>27</sup> *Id.* at 304, [1966] Common Mkt. L.R. at 435.

percent had been maintained.<sup>28</sup> It might have been higher were Consten able to prevent the parallel imports which in the very first year had attained 10 percent of the Grundig apparatus sold in France.<sup>29</sup> The parties were ordered by the Commission to do nothing which would make it difficult for independent French dealers to obtain Grundig apparatus from other sources.<sup>30</sup> If valid, this would restrain Consten from enforcing its French trademark rights to keep out genuine Grundig apparatus sold in Germany.

Consten and Grundig appealed to the Community Court. One ground of appeal was that this decision infringed on Article 222 of the Treaty: "The Treaty shall in no way prejudice the rules in Member States governing the system of property ownership."<sup>31</sup>

Before the Community Court issues a judgment, one of its members known as the Advocate General delivers an opinion. It is rather like a judgment at first instance, although the judgment of the Court invariably follows, and there is rarely an opportunity for the parties to argue that he is mistaken.<sup>32</sup> He gives his opinion on each of the issues, and frequently cites precedents and academic works. Opinions are often more cogent than the Court's judgments which are frequently the result of compromise, since no dissenting or individual judgments are given. Judgments are frequently very short and read like logical conclusions from selected premises.

Advocate General Roemer considered only that since the Grundig mark sufficed to indicate the origin of the apparatus to which it was affixed, the use of the second Gint mark was an abuse of trade mark law and, therefore, should be ineffective.<sup>33</sup>

By the time the Court issued its judgment, there was a crisis in the Community. Its legislature had broken down as a result of the French boycott of the meetings of the Council of Ministers.<sup>34</sup> The pro-European spirit of the founding fathers of the Community seemed to have died. The only remaining pro-European institutions were the Commission and the Court, and the former had been delegated only very minor legislative powers. In a judgment that proved to be a turning point, not only for its interpretation of Article 85 but also more generally, the Court distin-

---

<sup>28</sup> *Id.* at 321, [1966] Common Mkt. L.R. at 435.

<sup>29</sup> *Re Grundig's Agreement* [1964] Common Mkt. L.R. 489, 493.

<sup>30</sup> *Id.* at 504.

<sup>31</sup> The construction of the words 'system of property ownership' has long been controversial. It may merely reserve the right of member states to nationalize a sector of the economy. It clearly does not protect all property rights from the application of the Treaty.

<sup>32</sup> Herzog, *The Procedure Before the Court of Justice of the European Community*, 41 WASH. L. REV. 438, 481 (1966).

<sup>33</sup> *Consten*, [1966] E.C.R. 366, [1966] Common Mkt. L.R. at 444.

<sup>34</sup> See H. SMITH & P. HERZOG, *supra* note 7.

guished the *existence* (or, in the original French text, to whom it might belong) of the trademark right, which was protected by Article 222 from its *exercise*, which remained subject to the Treaty, including Article 85.<sup>35</sup> I have argued that the existence of a right consists of the various ways in which it may be exercised, so the distinction cannot be drawn by logical analysis save the extreme — when all methods of exercising the right are restrained, it ceases to exist.<sup>36</sup> This confers on the only body capable of applying the distinction authoritatively, the Community Court, a very free hand in deciding how far national property rights should be cut down by the Treaty in general and, in particular, how far intellectual property rights should be eliminated to speed up the integration of the market. The legislative body might be in the doldrums, but the Court could develop precedents which might prevent the Common Market from being divided along national boundaries. It must be admitted, however, that it does not seem to be widely accepted that the distinction was merely a device to enable the Court to develop the law; the Commission, whose rulings are not as authoritative, follows the Court and asserts that certain restrictions on competition do not go to the existence of intellectual property rights.<sup>37</sup>

In this paper, I shall consider the developments in the patent and copyright cases, and briefly refer to developments in the trademark cases. National laws confer the right to restrain the manufacture and/or first marketing, and in some cases subsequent sales and uses, in order to encourage selected types of investment.<sup>38</sup> Favored forms of investment have included technical research and development, the creation of an artistic or literary work and the production of recordings, films and broadcasts. There is a similar rationale for granting patent and copyright protection. If copying were permitted, there would be little incentive to pay for the original innovation and competition from free riders would make it uneconomical.<sup>39</sup>

---

<sup>35</sup> *Consten*, [1966] E.C.R. 345, [1966] Common Mkt. L.R. at 476.

<sup>36</sup> *Korah*, *Dividing the Common Market Through National Industrial Property Rights*, 35 MOD. L. REV. 634, 636 (1972).

<sup>37</sup> It does not seem to accept the distinction as being a device by which the ultimate court may change the law. It is submitted that its use by any other body tends to confuse readers who may try to draw the distinction by logical analysis in novel situations instead of realizing that the decision is based on policy considerations which only the Court can resolve authoritatively.

It has been suggested to the writer that the Commission is following American precedents on the misuse of patents. No doubt some of its ideas are so inspired, but there is some question whether this is the basis for its drawing the distinction between the existence and exercise of the national right.

<sup>38</sup> See generally, P. DEMARET, 2 PATENTS, TERRITORIAL RESTRICTIONS AND E.E.C. LAW 3-8 (1978).

<sup>39</sup> There are at least four theories in the case of patents: See F. MACHLUP, AN ECONOMIC



The justification of the right to restrain the sale of unauthorized goods bearing the mark is different. The mark enables buyers to associate with the goods bearing the mark the source from which they come. If this could not be done simply, suppliers would be able to compete only on price and on those elements of quality which are obvious on a cursory inspection.<sup>40</sup> Of course, goods that bear the same mark may not be identical. Many brand owners change the characteristics of the products over time, in accordance with various factors including local tastes. Some marks owned by multiple retailers are not peculiar to particular products. The consumer is assured, however, that unless the mark or business has been sold, the same person is able to prescribe the specification of the goods to which it is applied. His experience with an earlier acquisition will help him to select his purchase.

#### IV. PATENTS AND COPYRIGHTS

##### A. *Parke Davis v. Probel*<sup>41</sup>

Two years after *Grundig*, another action was brought primarily under the competition rules. Parke Davis held patents in five member States for the drug chloramphenicol, but had been unable to obtain patent protection in Italy, where, at that time, it was not possible to obtain patent protection for drugs for human treatment.<sup>42</sup> Parke Davis sought an injunction to prevent the import into and sale in the Netherlands of chloramphenicol coming from Italy.<sup>43</sup> The Court did not enquire as to whether the product had been made by third parties or by Parke Davis. Even if it had been made by Parke Davis, it had no exclusive right in Italy, and the drug would have had to have been sold at a price that could be obtained in a competitive market, since third parties might legally make and sell the drug there. The Dutch court asked the Community Court to rule on the construction of the competition rules and also on Articles 36 and 222.<sup>44</sup> It should be noted that the Community Court is

---

REVIEW OF THE PATENT SYSTEM, STUDY OF THE SUB-COMMITTEE ON PATENT, TRADEMARK AND COPYRIGHT OF THE SENATE COMMITTEE ON THE JUDICIARY, 85th Cong., 2d Sess. (Study No. 15); Joliet, *Patented Articles and the Free Movement of Goods Within the E.E.C.*, 28 CURRENT LEGAL PROBLEMS 15, 30 (1975); Waelbroeck, *The Effect of the Rome Treaty on the Exercise of National Industrial Property Rights*, 21 ANTITRUST BULL. 99 (1976).

<sup>40</sup> See, e.g., Richard Craswell, *Trademarks, Consumer Information and Barriers to Competition*, 1979, Policy and Planning Issues Paper, published by the Federal Trade Commission, but representing the views of the author only.

<sup>41</sup> *Parke Davis v. Probel*, (24/67) [1968] E.C.R. 55, [1968] Common Mkt. L.R. 47 [hereinafter cited as *Parke Davis*].

<sup>42</sup> *Id.* at 57, [1968] Common Mkt. L.R. at 48.

<sup>43</sup> *Id.*

<sup>44</sup> *Id.*

required to rule abstractly on the interpretation of those provisions, and it is then the task of the national court to apply the ruling to the facts of the particular case.

Advocate General Roemer observed that if Parke Davis could not exercise its rights over goods made where it could not obtain protection, there would be little value in its patent in any member State.<sup>45</sup> There would be no legal monopoly guaranteeing the inventor a chance for fair remuneration, since the entire Common Market could be supplied by the country denying patent protection. This would hinder technical progress, since the costs of research and development could not be recovered. The lack of a remedy would at least lead to inventions being kept secret wherever possible.

The learned Advocate General may have slightly overstated the case. Patents give an exclusive right to the holder, and if the invention is a breakthrough, the holder may make very high profits, while if it does not work, or the same task can be performed cheaply without using the protected invention, he may earn nothing. It is the interaction of supply and demand that determines the reward, not fairness.<sup>46</sup> The Court's judgment related largely to Article 86; the exclusive rights conferred by a patent do not necessarily lead to a dominant position because there may be competition from substitutes.<sup>47</sup> Nor does charging higher prices where the holder enjoys patent protection necessarily amount to abuse if such a position is in fact held.<sup>48</sup> Article 85 was not infringed in the absence of collusion.<sup>49</sup>

This judgment has been widely interpreted as meaning that the use of a patent to restrain imports from a country where a patent could not be obtained is entirely legal. It did refer once, briefly, to the rules for the free movement of goods and implied that the existence of such a right was not undermined by Community law. The Court recognized that differing national patent laws require harmonization since they distort the Common Market, but it did not refer to other policy considerations.

The next case to be decided by the Court was *Sirena v. Eda*,<sup>50</sup> a trademark case, similarly concerned with the construction of Article 85. Its importance has diminished since 1970, so let us proceed to *Deutsche*

---

<sup>45</sup> *Id.* at 77-78, [1968] Common Mkt. L.R. at 51.

<sup>46</sup> Herr Roemer did suggest that if after allowing for unsuccessful research costs monopoly profits were being earned, the price charged might be subject to control under Article 86 — which prohibits the abuse of a dominant position. *Parke Davis*, [1968] E.C.R. 79, [1968] Common Mkt. L.R. 56-7.

<sup>47</sup> *Parke Davis*, [1968] E.C.R. 73, [1968] Common Mkt. L.R. at 59.

<sup>48</sup> *Id.*, at 72, [1968] Common Mkt. L.R. at 61.

<sup>49</sup> *Id.*, [1968] Common Mkt. L.R. at 60.

<sup>50</sup> (40/70) [1971] E.C.R. 69, [1971] Common Mkt. L.R. at 260.

*Grammophon v. Metro*,<sup>51</sup> the first case clearly based on the rules for the free movement of goods.

B. *Deutsche Grammophon v. Metro*

Deutsche Grammophon was the holder of a right in a recording under German law, analogous to a copyright.<sup>52</sup> It supplied to its subsidiary in France quantities of records protected under German law.<sup>53</sup> These were sold in France and eventually made their way back to Hamburg, where Metro was selling them at less than the retail price then maintained by Deutsche Grammophon in Germany.<sup>54</sup>

Metro refused to sign an agreement to abide by Deutsche Grammophon's resale prices so, in order to protect its resale price maintenance system, Deutsche Grammophon had refused to supply Metro directly. Instead, it sought an injunction pursuant to its German property right to restrain Metro from selling the protected goods.<sup>55</sup> Under the German property law it was clear that a sale either by the holder or with his consent within Germany would exhaust his right; he could not control subsequent sales. It is not clear, however, whether a sale outside Germany - in this case one made in France - would do so.<sup>56</sup> The Hamburg Court of Appeal asked the Community Court to decide whether the German statute, conferring an exclusive distribution right, should be construed to allow the holder to restrain the sale in Germany of goods lawfully marketed in another member State by or with the consent of the holder.<sup>57</sup> The Court reformulated the question to conform to the procedure under Article 177,<sup>58</sup> and its judgment focused on Articles 30 and 36.<sup>59</sup>

After referring to the distinction between the existence and exercise of the right, developed earlier to limit the application of Article 222 but now applied to Article 36, the Court stated that:

---

<sup>51</sup> *Deutsche Grammophon v. Metro.*, (78/70) [1971] E.C.R. 487, [1971] Common Mkt. L.R. at 631 [hereinafter cited *Deutsche Grammophon*]; Alexander, *CASHIER DE DROIT EUROPEAN* 594 (1971); Van Empel, *European Patent Conventions*, 9 COMMON MKT. L. REV. 13, 25 (1972); JOHANNES, *INDUSTRIAL PROPERTY AND COPYRIGHT IN EUROPEAN COMMUNITY LAW* 56 (1976).

<sup>52</sup> *Deutsche Grammophon*, [1971] E.C.R. 494, [1971] Common Mkt. L.R. at 635.

<sup>53</sup> *Id.* at 503, [1971] Common Mkt. L.R. at 634.

<sup>54</sup> *Id.*, at 495, [1971] Common Mkt. L.R. at 633. Resale price maintenance is no longer permitted in West Germany, and indeed, may be contrary to Community Law. Until 1974, however, an individual trademark owner was allowed by German law to maintain resale prices subject to various provisions, one of which was that the system was 'watertight' - enforced fully and without discrimination.

<sup>55</sup> *Id.* at 503, [1971] Common Mkt. L.R. at 634.

<sup>56</sup> *Id.* at 504, [1971] Common Mkt. L.R. at 635.

<sup>57</sup> *Id.*, at 490, [1971] Common Mkt. L.R. at 636.

<sup>58</sup> *Id.* at 498, [1971] Common Mkt. L.R. at 656.

<sup>59</sup> *Id.* at 498-500, [1971] Common Mkt. L.R. at 654-55.

Although it permits prohibitions or restrictions on the free movement of products which are justified for the purpose of protecting industrial and commercial property, Article 36 only admits derogations from that freedom to the extent to which they are justified for the purpose of safeguarding rights which constitute the specific subject matter of such property.

12. If a right related to copyright is relied upon to prevent the marketing in a Member State of products distributed by the holder of the right or with his consent on the territory of another Member State on the sole ground that such distribution did not take place on the national territory, such a prohibition, which would legitimize the isolation of national markets, would be repugnant to the essential purpose of the Treaty, which is to unite national markets into a single market.

That purpose could not be attained if, under the various legal systems of the Member States, nationals of those States were able to partition the market and bring about arbitrary discrimination or disguised restrictions on trade between Member States.

13. Consequently, it 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 on 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.<sup>60</sup>

This judgment gave rise to a furor. Some commentators noted that in France, Deutsche Grammophon enjoyed no industrial or commercial property right in recordings, so the sale in France had not been protected, and *Parke Davis* was the relevant authority.<sup>61</sup> It would, however, have amounted to the tort of unfair competition for a pirate to have copied a Deutsche Grammophon record and sold the copies. Some protection was enjoyed in France, as has been recognized in the most recent cases in the Community Court, although it was not as easily enforceable as in Germany.<sup>62</sup> Moreover, the Court did not refer to any lack of protection in France, so it should not be interpreted as having said that it was irrelevant.

What is the specific subject matter of a particular kind of intellectual property? The French term *objet spécifique*<sup>63</sup> refers both to the nature of

---

<sup>60</sup> *Id.* at 500, [1971] Common Mkt. L.R. at 657-58.

<sup>61</sup> See *infra* note 62.

<sup>62</sup> DESBOIS, LE DROIT D'AUTEUR 208-09 (2d ed. 1966). The author cites no authority for his view. See also Waelbroeck, *supra* note 39, at 105. In H. JOHANNES, *supra* note 51, at 56, the author argued that the Court had rejected the reward theory since there were no parallel rights in France corresponding to the German Copyright Statute.

<sup>63</sup> The Community Court judges communicate with each other in French, and presum-

the right and the reason for conferring it. Before the Common Market was established, the function of such rights was to enable the holder to charge what the market would bear, free from competition from those taking advantage of his investment by copying a record or recording session. To the extent that sales abroad did not exhaust the national right in a high priced area, the holder could obtain the reward of a discriminating monopolist. This is often higher than the profit earned by an individual seller who can differentiate prices only in accordance with the cost of supplying different classes of persons.

The Community Court, from whose judgment there is no appeal, has been trying to reduce what it considers to be an improper and isolationist use of such rights, while leaving the holder with some incentive to make the initial investment. Unfortunately, however, the assertive style of its judgments has enabled it to do so without considering the very complex and unanswerable question: how large a profit is needed to call forth the optimal amount of investment? After the *Deutsche Grammophon* judgment, it seemed that the holder could protect its own sales by charging a high price on first sale, or demanding a license royalty, but could not charge more in one member State than in others without running the risk of the higher priced market being overrun by parallel imports from the lower priced country.

### C. *Centrafarm v. Sterling*<sup>64</sup>

In *Centrafarm v. Sterling*, the Community Court extended its ruling in *Deutsche Grammophon* to patents, and amplified the theory underlying this branch of the law, without spelling out its reasoning sufficiently to prevent another furor. *Sterling*, an American company, held patents in several member states for a drug which its subsidiaries sold under the mark 'Negram'.<sup>65</sup> Its English subsidiary made and sold Negram in England under a patent license. *Sterling*, which held the Dutch patent, sought to restrain a purchaser of its English subsidiary from selling Negram in the Netherlands, where the price was twice as high as in the United Kingdom.<sup>66</sup> In a companion case, its Dutch subsidiary *Winthrop* attempted to exercise the Dutch trademark rights, which it held, to exclude the goods sold by its sister subsidiary in England.<sup>67</sup>

---

ably agree on the French text which is then translated into the language of the case. Hence the French text is the most important one to study.

<sup>64</sup> *Centrafarm v. Sterling*, (15/74) [1974] E.C.R. 1147, [1974] 2 Common Mkt. L.R. at 480 [hereinafter cited as *Sterling*].

<sup>65</sup> *Id.* at [1974] E.C.R. 1149, [1974] 2 Common Mkt. L.R. at 484.

<sup>66</sup> *Id.*

<sup>67</sup> *Centrafarm v. Winthrop*, (16/74) [1974] E.C.R. 1183 [1974] 2 Common Mkt. L.R. 480 [hereinafter cited as *Winthrop*].

After observing that Article 36 derogates a fundamental principle of Community law and should be restrictively interpreted, and reciting the distinction between the existence and exercise of rights to explain Article 36, the Court stated:

9. In relation to patents, the specific subject matter of the industrial property is<sup>68</sup> 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.<sup>69</sup>

From this passage, it seems that the specific subject matter refers not only to the nature of the right, but also to the reason why the right is granted - to reward inventions.<sup>70</sup> The Court did not refer to any of the other reasons for granting patent protection:<sup>71</sup> encouraging invention or publication in the patent specification as Herr Roemer had stressed in *Parke Davis*, nor the natural law right of an inventor to the fruits of his work.

The Court's description of the exclusive right was also selective. On the other hand, a United Kingdom patent enables the holder to control more than the first sale: he can control sales by anyone acquiring the protected articles with notice of a restriction.<sup>72</sup> On the other hand, Professor Joliet has argued<sup>73</sup> that in Belgium, if the manufacture has been lawful, the patentee may have no right to control the first sale. Moreover, a patentee may have no right at all to manufacture or sell. The holder of an improvement patent, for instance, may not be able to exploit it without infringing on the rights of the holder of the original patent.<sup>74</sup> A patent is merely a right to restrain others from making or selling a product. It carries no positive rights. The members of the Court are not patent experts. They seem to be struggling to find a compromise between the free movement of goods and the functions served by the various intellectual property rights. As Professor Cornish observed, by defining the right without reference to existing laws or giving any reasons for its definition, the Court has asserted that control over subsequent sales cannot be justified

---

<sup>68</sup> In the other authentic texts the Court inserted 'in particular' at this point. The definition given in *Merck*, see note 128 *infra*, was rather different.

<sup>69</sup> *Sterling*, [1974] E.C.R. 1162, [1974] 2 Common Mkt. L.R. at 503.

<sup>70</sup> The Court spelled out the function of trademarks even more clearly in *Centrafram v. American Home Products*, (3/78) [1978] E.C.R. 1823, [1979] 1 Common Mkt. L.R. 326.

<sup>71</sup> See generally, *supra* note 39.

<sup>72</sup> Patents Act, 1977, c.37, § 60.

<sup>73</sup> Joliet, *La Circulation de Produits Brevetes en Droit Belge*, 64 REVUE DE DROIT INTELLECTUAL 197 (1974).

<sup>74</sup> *Id.*

under Article 36.<sup>75</sup>

The Court continued by stating that an obstacle to the free movement of goods may arise out of the provisions in national intellectual property laws that a patentee's right is not exhausted by a sale outside the particular member State.<sup>76</sup> The United Kingdom does not have a concept of exhaustion. There is an implied right conferred on a licensee or purchaser to sell the protected product freely, but it is subject to express exclusion. The doctrine of exhaustion by sale in another member State was widely thought to have become a part of Community law created by the Court on the basis of the patent laws in some member States and extended to apply to the Common Market as a whole. A license to sell in one member State enables subsequent purchasers to sell throughout the Common Market unless contractual terms, which qualify for an exemption under Article 85(3),<sup>77</sup> restrain the licensee.

By selecting those aspects of the patent laws of member States that suited its purpose, the Court has substantially reduced the value of a patent right. It went on to clarify the impact of its definitions for some situations, but left much of the middle ground for future case law:

11. Whereas an obstacle to the free movement of goods of this kind may be justified on the ground of protection of industrial property where such protection is invoked against a product coming from a member state where it is not patentable and has been manufactured by third parties without the consent of the patentee . . .<sup>78</sup>

It thus expressly excludes the *Parke Davis* situation where patent protection was not obtainable in the country of export. But note that the Court is very guarded. The use of a patent 'may be' justifiable in that situation: no positive assertion is made in relation to Article 36: "and in cases where there exist patents, the original proprietors of which are legally and eco-

---

<sup>75</sup> Cornish, *The Definitional Stop Aids the Flow of Patented Goods*, J. Bus. L. 50, 52 (1975).

<sup>76</sup> *Sterling*, [1974] E.C.R. 1162, [1974] 2 Common Mkt. L.R. at 507.

<sup>77</sup> Exclusive manufacturing licenses have been exempted under art. 85(3) *see, e.g.*, Re Davidson Rubber, SPECIAL ED. J. O. COMM. EUR. (No. L 143) 31 (1972), but only where the patentee and several licensees were free to sell throughout the common market. An export ban has never yet been exempted, but the draft regulation on patent licences does envisage export bans imposed to protect small licensees, provided that those to whom they sell can freely resell throughout the common market, 22 O.J. EUR. COMM. (No. L 110) 10 (1979), [1979] 1 Common Mkt. L.R. at 478. The writer has argued that where no one would be prepared to take the risk of investing to manufacture without the protection of an export ban, such a ban would not infringe art. 85(1). Korah, *The Rise and Fall of Provisional Validity— The Need for a Rule of Reason in EEC Antitrust*, 3 NORTHWESTERN J. OF INT'L L. AND BUS. 000 (1981).

<sup>78</sup> *Sterling*, [1974] E.C.R. 1162-63, [1974] 2 Common Mkt. L.R. at 503.

nominally independent . . ."<sup>79</sup> This situation rarely arises in relation to patents, since the first person to file in any one of a large number of countries, including all members of the Community, has the right to apply in others within one year, claiming priority from the original filing. It could arise, however, where rather different claims have been made in different countries, enabling an innovator to obtain a patent in one country but not in another. The situation is, however, more common in relation to trademarks.<sup>80</sup>

A derogation from the principle of the free movement of goods is not, however, justified where the product has been put onto the market in a legal manner, by the patentee himself or with his consent, in the Member State from which it has been imported, in particular in the case of a proprietor of parallel patents.<sup>81</sup>

The Court did not consider the position where a patent had not been obtained in the country of origin, but could have been or where the ability to obtain a patent was doubtful. Nor did it consider the position where a compulsory license had been granted by the patent office on the grounds that there had been insufficient local exploitation.

The last passage quoted above does not correspond to paragraph 9, in which the specific subject matter of a patent was defined in terms of the possibility of gaining a reward. In fact, the Sterling group had had such a chance and it is not clear whether, in light of paragraph 9, the dicta should be limited to such a case.<sup>82</sup> It is submitted that the appropriate test should not be the consent of the holder, but the chance of obtaining a reward.<sup>83</sup> True, a patentee can normally charge for his consent, but there are anomalous situations. What if the marketing abroad was done by a parent or sister subsidiary company of the holder in the higher priced State? In that situation, the corporate group has had a chance to obtain a monopoly profit without requiring the consent of the holder in the country of import. The Court stated in paragraph 21 of the *Sterling* judgment that it was irrelevant that the company which marketed the drug in the United Kingdom was part of the same corporate group as the Dutch holder. As Demeret observes, the original patentee had a chance to

---

<sup>79</sup> *Sterling*, [1974] E.C.R. 1163, [1974] 2 Common Mkt. L.R. at 503.

<sup>80</sup> In *Terrapin Ltd. v. Terranova Industrie*, (119/75) [1976] E.C.R. 1039, [1976] 2 Common Mkt. L.R. 482, the Court confirmed that a trademark holder can restrain the sale of goods to which a confusing mark has been attached by or with consent of the holder in another member state.

<sup>81</sup> *Sterling*, [1974] E.C.R. 1163, [1974] 2 Common Mkt. L.R. at 503-04.

<sup>82</sup> It has been argued that since the Court starts with the words 'in particular' it did have in mind situations other than that in *Sterling*. It seems to the writer, however, dangerous to assume that its statement applied to any other particular situation.

<sup>83</sup> P. DEMERET, 2 PATENTS, TERRITORIAL RESTRICTIONS AND THE EEC LAW, ch. 4 (1978).



obtain a reward. In *Centrafarm v. Winthrop*,<sup>84</sup> the companion trademark case, the Court ruled that the holder of the Dutch mark could not enforce the mark against products to which the mark had been attached in another member State with his consent without appearing to notice that the Dutch holder, a sister subsidiary to the English holder, had not consented to the sale in England. Of course each had obtained the rights with the consent of Sterling, which may have been attributed to the Dutch subsidiary. Centrafarm had argued to the Court that the goods to which the mark was applied in both countries were made under license from Sterling, so there was no likelihood of public confusion as to the origin of the goods.

Perhaps the most disturbing aspect of the *Sterling* case was the Court's lack of concern with the amount of the reward. That the U.K. price was half of that obtainable in the Netherlands was due, to the extent of a third, to the bargaining power of the Department of Health, which pays for almost all of the drugs used in the United Kingdom, and which could have taken advantage of the Crown use provisions in the Patents Act of 1949.<sup>85</sup> The more important reason for the price difference was that the pound, by then floating after the end of the Bretton Woods regime, had fallen and the Dutch guilder had appreciated on the international currency markets.<sup>86</sup> The Court was asked whether the position was altered by the governmental measures adopted in the country of export which were directed toward controlling the price of the product. The Court stated that it is the task of the Community authorities to eliminate factors which are likely to distort competition among member States, although it gave no authority for this proposition.<sup>87</sup> It added that they could not justify measures in another member State ". . . which are incompatible with the rules concerning the free movement of goods, particular in the field of industrial and commercial property."<sup>88</sup>

This ruling also created an uproar. If the prices in the country of export did not allow the patentee a monopoly profit, there would be no reward for the inventor anywhere in the Common Market unless he decided not to market his goods in such countries. Had Sterling not exploited its invention in the United Kingdom, the drug probably would have been made there under a compulsory license which, at that time, was granted almost automatically under section 41 of the 1949 Patents Act,<sup>89</sup> or under the Crown use provisions.<sup>90</sup> We will see that the question

---

<sup>84</sup> *Winthrop*, [1974] E.C.R. 1183, [1974] 2 Common Mkt. L.R. at 480.

<sup>85</sup> Patents Act of 1949, 12, 13 & 14 Geo. 6, c. 87, § 46, revised to 30th April 1979.

<sup>86</sup> See, F. PICK, PICK'S CURRENCY YEARBOOK 1977-79 at 468 and 666.

<sup>87</sup> *Sterling*, [1974] E.C.R. 1164-65, [1974] 2 Common Mkt. L.R. at 505.

<sup>88</sup> *Id.*, at 1165, [1974] 2 Common Mkt. L.R. at 505.

<sup>89</sup> Patents Act of 1949 *supra* note 85, at § 41.

currently before the Community court is whether the import of products so made could be restrained.<sup>91</sup> If they could not be restrained, Sterling would presumably have sold throughout the Common Market at very nearly the same price, causing prices to rise in the low price countries and fall in the high priced countries. Inability to discriminate may lead to customers in the high priced countries benefiting at the expense of those in the lower priced ones.<sup>92</sup>

The judgment was not very clear as to what constituted the quantitative restriction. Was it the patent law, or the injunction which the national court was asked to grant? If it was the Dutch patent law, then under the Treaty of Accession of the United Kingdom it would be an existing provision. There was no requirement that the provision be eliminated as between the United Kingdom and the six original members until 1975. The Court rather surprisingly rejected this view without giving reasons.<sup>93</sup> Therefore, the restriction must be the injunction or the request therefor.<sup>94</sup>

Over the next seven years there were several important trademark cases,<sup>95</sup> but no additional judgments on patents and copyrights appeared

---

<sup>90</sup> Patents Act of 1949, *supra* note 85, at § 46.

<sup>91</sup> See text surrounding note 169 *infra*.

<sup>92</sup> See Bishop, *Price Discrimination Under Article 86: Political Economy in the European Court*, 44 MOD. L. REV. 282, 286-87 (1981).

<sup>93</sup> *Sterling*, [1974] E.C.R. 1166, [1974] 2 Common Mkt. L.R. at 505.

<sup>94</sup> See Joliet, *supra* note 39, at 27-8.

<sup>95</sup> See generally, W. CORNISH, INTELLECTUAL PROPERTY: PATENTS, COPYRIGHT, TRADEMARKS AND ALLIED RIGHTS. In *EMI Records Ltd. v. CBS United Kingdom Ltd.* (51/75) [1976] E.C.R. 811, [1976] 2 Common Mkt. L.R. 235, the Community Court ruled that Article 30 relates to the free movement of goods between member states, and so does not inhibit the use of trade mark rights to prevent goods lawfully bearing the mark in the U.S.A. from entering the Common Market. See the judgment of the German Supreme Court in *Deutsche Grammophon v. Firm Pop Import* [1982] 1 Common Mkt. L.R. 137, 146. The reasoning was quite general, and appears to apply to all forms of intellectual property. Once, however, the goods are lawfully imported into one member state, they may presumably circulate throughout the Common Market. Under English law, a subsidiary cannot always sue, for trademark infringement or passing off, a parallel importer who bought in the U.S. goods lawfully marketed there by another company in the same group - *Revlon v. Cripps* [1980] Fleet Street Rep. 85. CORNISH, see this note, at 570. The precise scope of the decision remains to be worked out. Under German law, goods marketed abroad by the same concern may lawfully be sold in Germany; *Cinzano v. Java Kaffeegeschäfte* [1974] 2 Common Mkt. L.R. 21. With these loopholes in the trademark laws of member states, a group of companies cannot divide the world by arranging for different companies within their group to hold the mark, even if it treats the Common Market as a single territory.

Not all the trademark cases are based on the concept of Community exhaustion: in *Van Zuylen v. Hag*, (192/73) [1974] E.C.R. 713, 2 Common Mkt. L.R. 127; some coffee bearing the mark was sold directly by the German holder in Belgium and Luxembourg and since the marks were of common origin, the Court held that the Belgian holder could not sue, although all links between the holders in the different member states had been severed by a

until 1981.

*D. Musik Vertrieb Membran and K-Tel International v. GEMA*<sup>96</sup>

GEMA is a copyright protection society for Germany. On behalf of its members it seeks to enforce their mechanical rights in musical works, and charges a fee of eight percent of the German price on records made there.<sup>97</sup> In 1971, the Commission<sup>98</sup> held that GEMA abused its dominant

governmental decree sequestering the assets of enemy aliens.

*Dansk Supermarked A.S. Arhus v. Imerco A.S. Clostrup Copenhagen* (58/80) [1981] E.C.R. 181 [hereinafter cited as *Dansk*], involved copyright and trademarks as well as unfair competition. Imerco had commissioned some services of china, bearing its name, and painted with Danish castles to such high quality standards that 20% of production failed to qualify. The English manufacturer was allowed to sell the seconds in England and did so. When a Danish supermarket acquired them from a parallel importer and offered them for sale at prices lower than Imerco, the latter sued for copyright and trademark infringement and for breach of a marketing law that served some of the functions of unfair competition law and protected consumers. Advocate General Caportorti considered that the Court had already established that neither copyright or trademark rights could be relied upon to prevent the marketing in Denmark of Services placed on the market in another member state with the consent of Imerco, and the Court followed him.

He went on to consider the *Italy v. Gilli* (788/79) [1980] E.C.R. 2071, [1981] 1 Common Mkt. L.R. 146 and the *Cassis de Dijon* cases, where the Court had gone beyond Article 36, and held that national measures might remain valid despite Article 30, 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." *Cassis de Dijon*, [1979] ECR 664; [1979] 3 Common Mkt. L.R. at 510. The Danish court might take into account whether the sale of substandard services, bearing the Imerco name, might harm its reputation; this seemed unlikely to Signor Caportorti, since Imerco had been prepared to allow the china to be sold in the U.K. Loss might also be caused if the sale took place in such a manner that consumers might believe that the quality was identical with the china being sold by Imerco itself. This would depend on the packaging and so forth. In relation to the marketing law, the Court ruled:

That the importation into a Member State of goods lawfully marketed in another Member State cannot as such be classified as 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 may not be relied upon or taken into consideration in order to classify the marketing of such goods as an improper or unfair commercial practice.

It may be that more protection can be obtained from the law of unfair competition than from copyright or trademark law. Had Imerco forbidden the English manufacturer to allow any purchaser from him to market within 30 kms. of any of its stores, might such marketing have been restrained on grounds of unfair competition?

<sup>96</sup> (55 and 57/80) *Musik Vertrieb Membran and K-Tel International v. Gema* [1981] 2 Common Mkt. L.R. 50 [hereinafter cited as *Musik Vertrieb*]. Hoffman, *Copyright and the Treaty of Rome — Recent Developments*, [1981] 9 EUR. INTELL. PROP. REV. 254.

<sup>97</sup> *Id.* at 50.

<sup>98</sup> *Re Gema*, [1971] Common Mkt. L.R. D35. The conflicting national decisions as to

position by charging an eight percent royalty on imported records; records on which royalties had already been paid in the country of first sale. The Commission, however, decided that it would not be abusive for GEMA to charge the difference between the royalty paid elsewhere and eight percent of the German price.<sup>99</sup> The Commission was not competent to intervene under Article 30, and did not do so. In 1981, both the Community Court and its Advocate General, Mr. Warner, stated that the charge on imports did infringe on the rules for the free movement of goods, a matter which was not the subject of the Commission decision.<sup>100</sup> GEMA would not be able to charge the differential without relying on its members' rights to restrain the import or marketing of the protected goods. The enforcement of the copyright was a quantitative restriction contrary to Article 30 and could not be justified. Allowing the copyright holders to exploit the differences in retail prices in the different member States was quite incompatible with the concept of a Common Market. The French Government had argued that Article 30 did not apply to copyright, which includes the author's right to object to distortion, mutilation, or other alterations of his work—the *droits moraux*.<sup>101</sup> The Court observed that copyright included the right to exploit the work by granting licenses, and that it was that aspect of copyright which was at issue.<sup>102</sup> The copyright was therefore subject to Articles 30 and 36.<sup>103</sup> The Court also rejected the argument of the Belgian and Italian Governments that, until national laws were harmonized, the principle of territoriality for copyright should be preserved.<sup>104</sup> Once a record has been marketed in the United Kingdom, by or with the consent of the copyright owner, anyone may make his own recording and sell it thereafter upon paying a statutory royalty of 6¼ percent of the net United Kingdom selling price.<sup>105</sup>

---

the validity of such post-licensing are cited in Reimer, *Copyright and Free Movement of Goods*, 12 INT'L R. IND. PROP. AND COPYRIGHT L. 493, 503-05 (1981).

<sup>99</sup> Re Gema, [1971] Common Mkt. L.R. at D61.

<sup>100</sup> *Musik Vertrieb*, [1981] 2 Common Mkt. L.R. at 55, 63.

<sup>101</sup> *Id.* at 55-56.

<sup>102</sup> *Id.* at 62-63.

<sup>103</sup> It had been feared that copyright might not be treated as 'industrial or commercial property' the protection of which may amount to a justification under Article 36.

<sup>104</sup> *Musik Vertrieb*, [1981] 2 Common Mkt. L. R. at 65.

<sup>105</sup> *Id.* at 51. The factual situation is not made clear. We are told that a sister subsidiary of K-tel had made records in the U.K. under a license granted by the copyright holder. Yet the referring court, Advocate General and Community Court refer to records placed on the market, or which have been put into circulation in the country of export and to exhaustion. Had the records been made by the undertaking wishing to sell in Germany, there would be no exhaustion, since there would have been no sale in the U.K. Does a transfer between companies in the same group affect the position? Or is the Court departing from the concept of exhaustion on which it had laid stress in *Centrafarm v. Sterling*, as it did in the earlier trade mark ruling in *Van Zuylen v. Hag*. It is submitted that the Court was

The Court and Advocate General accepted that given the statutory license provisions, no one would pay more than 6¼ percent for a contractual license, as he might be undercut by competitors relying on the compulsory license.

Advocate General Warner pointed out that in *Parke Davis*:

The Court did not examine whether the products had been marketed in Italy by the patentee or with his consent. It is implicit in the judgment that that was in the circumstances immaterial, as indeed it must have been. There can be no exhaustion of rights where no rights exist. Putting it in another way, the patentee had had no opportunity in Italy of exacting a reward for the invention.<sup>106</sup>

After referring to the article by Professor Wealbroeck,<sup>107</sup> he concluded that *Deutsche Grammophon* and *Sterling* did not decide to the contrary. Had there been no copyright protection at all in the United Kingdom, he was satisfied that GEMA should have been entitled to enforce its members' rights under German law. He considered that it should be entitled to exercise the composers' rights under German law to the extent necessary to counteract the limiting effect of the statutory licence. He distinguished *Centrafarm v. Sterling* by delineating between 'ordinary price control measures, which merely affect market conditions, more or less temporarily, and a provision that cuts down the relevant industrial or commercial right itself.'<sup>108</sup>

However, it is submitted that in, *Sterling*, it was largely the Crown use and compulsory licensing provisions in the 1949 Patents Act that enabled the Department of Health to negotiate low prices for drugs required for the national health service. Even so, the attempt to circumvent a much criticized aspect of the earlier case can only be commended.

The Advocate General did not suggest that GEMA should be entitled to the difference between 6¼ percent of the U.K. price and 8 percent of the German price—that would be to disregard the common market. He thought it should be entitled to the difference between the 6¼ percent and what would have been obtainable in the United Kingdom in the absence of the statutory license.<sup>109</sup> Theoretically that may well have been

---

dealing with the abstract question asked by the referring court, and that its ruling should be confined to records bought from the license who could not be made to pay more than the royalty provided for by section 8. The referring court, the Bundesgerichtshoff, accepted this view it referred the case back to the Court of Appeals, directing an investigation into whether the records had been sold in the U.K. outside the holder's corporate group. If not, it ruled that the Community Court's judgment would not be applicable. See, EUROPEAN LAW LETTER 8-9 (Dec. 1981).

<sup>106</sup> *Musik Vertrieb*, [1981] 2 Common Mkt. L.R. at 62-63.

<sup>107</sup> Wealbroeck, *supra* note 39, at 99.

<sup>108</sup> *Musik Vertrieb*, [1981] 2 Common Mkt. L.R. at 61.

<sup>109</sup> *Id.*

the correct measure, but as Mr. Warner recognized, it would have been a difficult test for the national court to apply.<sup>110</sup>

The Court did not follow Mr. Warner's opinion. It referred to *Sterling* and at paragraph 24 repeated its statement that:

the existence of a disparity between national laws which is capable of distorting competition between member-States cannot justify the maintenance or introduction by a member-State of measures which are incompatible with the rules concerning the free movement of goods. Such disparities must be abolished by the means provided for to that end by the Treaty, and in particular by the harmonization of national laws.<sup>111</sup>

Harmonization of laws has proved slow and time-consuming. No doubt the Court wished to cut the Gordian knot. The French Government had argued that not to permit the author of a musical work to enforce his copyright, when his rights had been cut down by United Kingdom legislation, would contravene Article 13 of the Berne Convention<sup>112</sup> which took precedence over the Treaty by virtue of Article 234.<sup>113</sup> General Warner thought, *obiter*, that this construction was wrong because Article 234 applied not to Treaties among member States, but only to those with other countries.<sup>114</sup> Based on his view of Article 36, it was not necessary to decide the question. The Court did not mention the Convention, but since it considered that the use of the rights was not justified, it must have concluded either that its decision did not contravene the Berne Convention, or that the EEC provisions took precedence in relation to trade between member States, even if non-member States had ratified the Convention.

The Court's disregard of legal differences between the laws of member States may generate pressure by industries concerned with their national governments that may speed up harmonization. In some industries, however, although probably not this one, the position meanwhile may be unfair and distort the pattern of manufacture and trade. The United Kingdom Government green paper, *Reform of the Law Relating to Copyright, designs and Performers' Protection*<sup>115</sup> indicates that it would welcome comments on the implications of the judgment on the maintenance of the statutory license. It suggests repeal, since 'it is probable that the recording of music would be better left to the operation of the competitive forces of the market.'<sup>116</sup> The Deputy Director General of IFPI has objected stating that:

---

<sup>110</sup> *Id.* at 62.

<sup>111</sup> *Id.* at 66-67.

<sup>112</sup> Berne Convention, entered into force June 1, 1928, 47 Stat. 1789, T.S. No. 834.

<sup>113</sup> *Musik Vertrieb*, [1981] 2 Common Mkt. L.R. at 61.

<sup>114</sup> *Musik Vertrieb*, *supra* note 96, at [1981] 2 Common Mkt. L.R. at 61.

<sup>115</sup> CMND No. 8302 (1981).

<sup>116</sup> *Id.* at 18.

This view shows a lack of knowledge or understanding of the situation in Continental Europe, where the absence of a statutory license of the U.K. type has given rise to the BIEM system, a notable feature of which is that all producers of sound recordings are licensed in any one territory on precisely the same terms.<sup>117</sup>

Earlier in the same case note he stated:

The practical consequences of this decision are still emerging as far as the European record industry is concerned. For some it may be advantageous to import more records from the U.K., but it should be remembered that the retail price (less tax) on which the 6.25 per cent royalty is calculated under the U.K. statutory license system is not low by European standards. U.K. prices are no longer relatively low, as they were some years ago, and deductions (particularly for LP covers and cassettes) bring down the effective royalty rate in Continental countries to just over 7 percent, but this does not appear to influence the volume of exports from Ireland to other EEC countries. However, the trend for companies operating in more than one country to concentrate their manufacturing facilities will undoubtedly accelerate now that the last possible obstacle to the free movement of records within the EEC has been removed.<sup>118</sup>

#### *E. Merck*<sup>119</sup>

Patents are probably more important to the pharmaceutical industry than to any other industry. The firms spend a very large part of their turnover on discovering the new drugs and developing them through the safety tests now imposed by most large countries. Once developed and passed by national authorities, a drug is often fairly easy to copy. Consequently, manufacturers rely heavily on the possibility of bringing infringement suits. If the value of patent protection is reduced by Community law, drug manufacturers may be expected to make more negative decisions both as to the substances to be tested for therapeutic properties and the drugs already discovered and being developed to pass the stringent safety requirements.

Merck makes and markets throughout the Common Market a medication, known as 'Moduretic', used mainly for treating hypertension.<sup>120</sup> It has patents protecting the drug itself in the United Kingdom, Eire, Ger-

---

<sup>117</sup> Thomas, *The Membran/K-Tel Cases: U.K. Statutory Licensing Model Fees for the E.E.C.*, 8 EUR. INDUSTRIAL PROP. REV. 241 (1981).

<sup>118</sup> *Id.*

<sup>119</sup> *Merck & Co., Inc. v. Stephar B.V. and Petrus Stephanus Exler*, [1981] 3 Common Mkt. L.R. 463 [hereinafter cited as *Merck*].

<sup>120</sup> *Id.* at 465.

many, France, Belgium, Denmark and the Netherlands,<sup>121</sup> and process patents in the same countries other than Germany and Denmark. Its Dutch patents, both for the substance and the process, for producing it have a priority date of 1962, at which time it was impossible to patent the drug in Italy.<sup>122</sup> The Italian law denying patents for pharmaceuticals was quashed by the Italian Constitutional Court in 1978,<sup>123</sup> but by then the invention was no longer novel and legislation allowing late application for Italian patents had not been passed. Stephar bought 'Moduretic', which was made and sold by Merck in Italy, and imported it for sale in the Netherlands at prices below those charged there by Merck.<sup>124</sup> Merck brought an infringement action under its Dutch patents, and the Rotterdam court referred to the Community Court the question of whether the enforcement of the Dutch patent would infringe on the rules for the free movement of goods.<sup>125</sup>

The arguments in favor of allowing enforcement of the Dutch patent, although clearly presented to the Court, were rejected with little express consideration. It is unlikely that the judgment will be reversed unless the membership of the Court is altered by the retirement or appointment of at least one judge. The judges do not give individual opinions, so it is not possible to say how many, or which, approved the opinion.

Commentators were divided as to whether Community law does permit the use of a national patent to restrain the import and sale of products protected in the country of import, but which were incapable of protection in the country from which they came, if they were first put into circulation by the person holding a patent in the country of import. Almost all commentators agreed, however, that it should permit a remedy under national law.<sup>126</sup> Were Merck to charge a price in Italy that would reflect its research and development costs, other manufacturers would be free to manufacture and sell there at prices that would undercut Merck. The company, therefore, would be unable to obtain a monopoly profit.

Merck argued that under Dutch law, a sale abroad does not exhaust

---

<sup>121</sup> *Id.*

<sup>122</sup> *Id.*

<sup>123</sup> *Id.*

<sup>124</sup> *Id.* at 466.

<sup>125</sup> *Id.* at 466-67.

<sup>126</sup> Alexander, *L'Établissement du Marché Commun et le Problème des Brevets Parallèles*, [1968] *REVUE TRIMESTRIELLE DU DROIT EUROPÉAN* 513; Alexander, *Industrial Property Rights and the Establishment of the European Common Market* 9 *COMMON MKT. L. REV.* 35, 42 (1972); Joliet, *supra* note 39, at 37; Korah, *National Patents and the Free Movement of Goods Within the Common Market* 38 *Mod. L. Rev.* 333, 336 (1975); Waelbroeck, *supra* note 39, at 105-07; H. Ullrich, *Competition Law in Western Europe and the U.S.A.* CM/C, para. 34 (Ed. D.J. Gijlstra); P. DEMARET, 2 *PATENTS, TERRITORIAL RESTRICTIONS AND EEC LAW*, chapter 4 (1978). JOHANNES, *supra* note 51, at 47 and 57.



the patentee's right and, *a fortiori*, should not do so when the sale abroad occurred where patents were not obtainable, and where there was no exclusive right of exhaustion.<sup>127</sup> The law in Italy and the Netherlands was different.<sup>128</sup> Not to allow enforcement in the Netherlands would be contrary to the specific subject matter of the Dutch patent and enforcement would not amount to arbitrary discrimination contrary to the second sentence of Article 36.<sup>129</sup> Merck pointed out that in the *Cassis de Dijon* case,<sup>130</sup> and others which followed, the Court has accepted some limitations to Article 30—some reserved national powers—that go beyond those listed in Article 36.<sup>131</sup> In *Cassis de Dijon*, in the absence of common rules relating to the production and marketing of alcohol the Court stated in its judgment:

Obstacles to movement within the Community resulting from disparities between the national laws relating to the marketing of the products in question must be accepted insofar as those provisions may be recognized as being necessary in order to satisfy mandatory requirements relating in particular to the effectiveness of fiscal supervision, the protection of public health, the fairness of commercial transactions, and the defense of the consumer.<sup>132</sup>

In that case, the Court confirmed that the concept of 'quantitative restriction' includes measures that do not distinguish formally between imports and locally made products, but bear more heavily on imports.<sup>133</sup> At the same time, however, the Court limited the concept by reading into Article 30 this reservation for national law, which is not identical with the express reservations set out in Article 36.

Merck argued by analogy that the interests expressly mentioned in Article 36 should be reserved.<sup>134</sup> Moreover, the Italian law should give way to the Dutch since Italy was the only Common Market State where drugs could not be patented.<sup>135</sup> Several commentators have reasoned that the free movement of goods extends to the whole Common Market approach to price control, as well as to other measures used by some member States to limit prices.<sup>136</sup> Merck argued that the Dutch law was necessary and not excessive; that it served a general interest sufficiently

<sup>127</sup> *Merck*, [1981] Common Mkt. L.R. at 481.

<sup>128</sup> *Id.* at 480.

<sup>129</sup> *Id.*, at 481-82.

<sup>130</sup> *Cassis de Dijon*, [1979] E.C.R. 649, [1979] 3 Common Mkt. L.R. at 494.

<sup>131</sup> *Id.* at 660-64, [1979] 3 Common Mkt. L.R. at 510.

<sup>132</sup> *Id.* at 652, [1979] 3 Common Mkt. L.R. at 508-09.

<sup>133</sup> *Id.* at 660-64, [1979] 3 Common Mkt. L.R. at 510.

<sup>134</sup> *Merck*, [1981] 3 Common Mkt. L.R. at 472-73.

<sup>135</sup> *Id.* at 475.

<sup>136</sup> Paulis, *The Danis Case: Reconciling Statutory Price Controls with the Free Movement of Goods*, 1 EUR. COMP. L. REV. 163, 174 (1980).

imperative to justify inclusion in the exceptions expressly laid down in Article 36.<sup>137</sup> Merck amplified its arguments by reiterating the reasons for which the Italian Constitutional Court had declared that patents should be allowed for drugs. Merck then analyzed the judgment in *Sterling* and observed that in that case, the Court was dealing with parallel patents and that only in that event would paragraph 11 of the judgment in *Sterling*, denying the enforcement of a patent to restrain the import and sale of products marketed by the holder in another member State, be compatible with paragraph 9, defining the specific subject matter of a patent in terms of reward.<sup>138</sup> It also noted that the headnote to the case prepared by the Court referred to parallel patents.<sup>139</sup>

Merck then analyzed the other case law of the Court and, at a time when the Court had not yet delivered its judgment in *Membran*, stressed Advocate General Warner's opinion in *Membran* that there can be no exhaustion where there is no exclusive right.<sup>140</sup> Merck also referred to the Convention for a Community patent.<sup>141</sup> Such a patent is exhausted only if marketed with the 'express' consent of the holder.<sup>142</sup> The Commission, however, observed that this was a compromise solution to a dispute between the member States and the Commission, and that the provisions of that Convention were expressly made subject to the EEC Treaty.<sup>143</sup> Advocate General Reischl dismissed the argument, not on the ground that the signed Convention had not yet been ratified, but because it represented a compromise between divergent views.<sup>144</sup> Merck's arguments were supported by the French and U.K. Governments.<sup>145</sup> Both Governments stressed the reward provided by the patent system in order to encourage innovation.<sup>146</sup> The U.K. Government defined this as "the ability of the patentee to fix the price of the patented product free from the competitive forces as would exist but for the exclusive rights given by the patent."<sup>147</sup> The Government added that it would result in deprivation to both Italian patients and Merck if Merck were to discontinue Italian sales

---

<sup>137</sup> *Merck*, [1981] 3 Common Mkt. L.R. at 472-73.

<sup>138</sup> *Id.* at 480.

<sup>139</sup> As stated in note 68, however in translations of the judgment into languages other than English, the Court prefaced its remarks by the words 'in particular'. From this it has been argued that the Court did have in mind cases where there were no parallel patents. If so, its language was obscure and may have been due to a compromise between the judges.

<sup>140</sup> Transcript for *Merck v. Stephar* at page 17. On file at Case Western Reserve University.

<sup>141</sup> 19 O.J. EUR. COMM. (No. L 17) 1 (1976).

<sup>142</sup> *Id.* See also, *infra* note 164.

<sup>143</sup> *Id.*

<sup>144</sup> *Merck*, [1981] 3 Common Mkt. L.R. at 477.

<sup>145</sup> *Id.* at 481.

<sup>146</sup> *Id.* at 481.

<sup>147</sup> Transcript, *supra* note 140, at 23.

in order to maintain higher prices elsewhere.<sup>148</sup>

The most telling point made by the parallel importer, Stephar, was the difference in prices charged in the countries that do grant patent protection. Taking the German price as 100, the prices charged by Merck in the other countries were: Netherlands 140, Belgium 102, Denmark 76, United Kingdom 58 and France 51.<sup>149</sup> The Italian price of 56 was not the lowest. The reasons for these differences are not given in the case, but in France, there are price controls<sup>150</sup> and in the United Kingdom the National Health Service is the main user of drugs, and enjoys bargaining power based partly on the size of its requirements, and partly on the Crown use provisions in the Patents Act.<sup>151</sup> In the higher priced market of Germany, however, there are rules dividing the functions of retailers and wholesalers which may have delayed or prevented the development of low cost forms of distribution.<sup>152</sup> In Belgium and the Netherlands there is a tradition of cartels, which bind entire markets from manufacture or import to retailing.<sup>153</sup> The writer has no information as to whether this pattern extends to the pharmaceutical industry. There have been no EEC proceedings published. It seems that in some member States, prices are depressed by government action, but it may be that in others, they are kept up by public regulation or cartel activity. The possibility was not investigated by the Court.

The defendant in the Dutch court also argued that Merck had had a choice; it was not necessary for Merck to market its drug in Italy. Since Merck elected that course of action, it must be presumed that the price in Italy gave Merck a reasonable return on its investment in innovation.<sup>154</sup> This seems to the writer to confuse *ex ante* with *ex post* considerations. In the absence of the possibility of patent protection there was no way in which Merck could obtain a return on that investment from sales in Italy. It would pay to sell there if Merck were able to recover the marginal costs of each sale. If, however, there were insufficient patent protection anywhere in the world, it might not have made the investment initially. The United Kingdom Government argued that there was no policy reasons for discouraging Merck from selling Moduretic in Italy.<sup>155</sup> Indeed, Italian patients would benefit from its sale there, and to the extent that Merck

---

<sup>148</sup> Transcript, *supra* note 140, at 25.

<sup>149</sup> *Id.* at 26.

<sup>150</sup> B. ABEL-SMITH AND P. GRANDJEAT, PHARMACEUTICAL CONSUMPTION, 45 Social Policy Series #38, printed by the Commission of the European Communities (1978).

<sup>151</sup> Patents Act of 1949 *supra* note 85, at § 46.

<sup>152</sup> Compare, SMITH & GRANDJEAT, *supra* note 150, at 53, citing the complex rules dealing with profit margins for wholesalers & pharmacists.

<sup>153</sup> *But cf.*, SMITH AND GRANDJEAT, *supra* note 150, at 44.

<sup>154</sup> *Merck*, [1981] 3 Common Mkt. L.R. at 481.

<sup>155</sup> Transcript, *supra* note 140, at 25.

could earn profits, it might recover some contribution towards its development costs.

The Commission argued that a patent does not guarantee protection to an inventor.<sup>156</sup> He has only a chance, not a certainty, of making a monopoly profit.<sup>157</sup> This may be true, but until now that chance depended only on commercial considerations: the innovatory expenditure might not produce useful results, another firm might apply for a patent with an earlier priority date, substitutes might be available at lower costs. If Merck is not allowed to enforce its patent to restrain the sale where it has a patent, then it has no chance of earning a profit to pay for its innovation on sales it makes in a member State where patent protection is not available.

The Court's judgment barely comments on this extensive argument. After reciting the parties' arguments quite clearly, and considering its judgment in *Sterling*, the Court redefined the specific subject matter of a patent: "That right of first placing a product on the market enables the inventor . . . to obtain the reward for his creative effort without . . . guaranteeing that he will obtain such a reward in all circumstances."<sup>158</sup> The patentee can choose whether and where to market the resulting product and whether to market it where he enjoys no protection. If he does sell in such a member State, he must accept the consequences of his choice in relation to the circulation of the product within the Common Market.<sup>159</sup> This comment is a conclusion and not a reason for refusing to permit the patentee to enforce his rights elsewhere. The patentee had not enjoyed an exclusive right to first marketing in this case. The Court continued by indicating that to allow enforcement of the Dutch patent would involve the isolation of national markets, contrary to objectives of the Treaty. It cited the *Membran* judgment and a trademark case in support of its views.<sup>160</sup>

It seems that the Court may have thought that the matter had already been decided in the *Sterling* case, when the Court refused to take into consideration the measures of the U.K. Government to reduce the price of the drugs. The case had, however, been subjected to so much criticism by almost everyone that many had hoped that the Court would reconsider the matter. Merck's case was stronger than *Sterling's* in that *Sterling* did enjoy some protection in the United Kingdom: the 'Crown use' and compulsory license provisions, if exercised, would have left *Ster-*

---

<sup>156</sup> *Merck*, [1981] 3 Common Mkt. L.R. at 473.

<sup>157</sup> *Id.*

<sup>158</sup> *Id.* at 481.

<sup>159</sup> *Id.*

<sup>160</sup> *Id.* at 482.

ling with royalty payments and some return on its innovation.<sup>161</sup> There is a case to be made for denying patent protection if the high priced markets, as well as those where government measures depress prices, are distorted, but no attempt to establish such distortions was made. No one can say how much protection is needed to encourage the optimal expenditure on research and development, and no attempt to do so was made by the Court. Once the Court had refused to follow advocate General Warner's opinion in *Musik Vertrieb Membran v. GEMA*, there was little hope of allowing Merck to enforce its Dutch patent.

#### F. Other Issues

1. Where a patent could have been obtained in the country of export

It may be that these precedents encompass the situation where patents could have been obtained in the country of export but were not applied for; although a requirement that an inventor should apply for patents in each member State if he wants protection in any makes neither commercial nor economic sense. It adds to the expense of obtaining patent protection, which is particularly burdensome for small firms — usually helped by the Community institutions.

Although patents for drugs are not available in Italy, the judgment in *Merck* remains important. Greece, which acceded to the Community at the beginning of 1981,<sup>162</sup> does not grant product patents for pharmaceutical products. Although there is some protection through process patents it is often difficult to enforce them in practice. The situation is similar in Spain, which has applied to join the Community, where it seems to be particularly difficult to enforce a process patent.<sup>163</sup> The problem can also arise for other products, when the patent expires in one member State before it expires in another, or where different claims have been made in existing patents in different member states.

2. Expiration of a patent in the country of export

If a third party should manufacture and sell a product after the patent in that country has expired, it is not entirely clear whether the product could be excluded from other countries.<sup>164</sup> The *Parke, Davis* case was

<sup>161</sup> Patents Act of 1949 *supra* note 85, at § 46.

<sup>162</sup> Treaty Concerning the Accession of the Hellenic Republic, *supra* note 10.

<sup>163</sup> F. Lobo, *Monopolistic Structures & Industrial Analysis in Spain: The Case of the Pharmaceutical Industry*, 9 INT'L J. HEALTH SERVICES, 663, 675-77.

<sup>164</sup> 19 O.J. EUR. COMM. (No. L 17) 1 (1976). Article 32 provides for Community wide exhaustion once goods have been sold within the Common Market with the express consent of the patentee. See also article 93 which provides for the precedence of the provisions of

decided under the competition rules, not those for the free movement of goods. The judgment in *Sterling* stated merely that the use of a patent in such circumstances *may* be justifiable, not that it *is*. Nevertheless, the judgment in *Merck* stressed that by choosing to sell in Italy, Merck had subjected the drug to free circulation.<sup>165</sup> Many reasonable expectations would be dashed, should the Court not permit the use of a patent where the goods were first marketed by a third party in a country where no exclusive rights could be obtained. The patentee may have obtained a substantial reward for its invention while the patent in the country of export continued in force, but the particular article imported would have earned no reward and would be sold in a market where the legislature had provided protection for a longer period of time. If the patentee cannot exercise its patent rights in this situation, once the first Common Market patent expires, no patents will be effective for products that can be cheaply transported.

### 3. Compulsory licenses

Additional issues have arisen, but have not yet been decided. In *Pharmon v. Hoechst*,<sup>166</sup> a court in Rotterdam asked the Community Court whether a patent in the Netherlands may be enforced to exclude goods sold by a compulsory licensee in the United Kingdom. Shortly afterwards, the referring judgment was also subject to an appeal and in this case too, the Community court agreed to delay its ruling. Consequently, the issue will not be decided in the near future. In such a case the patentee has presumably received some recompense for his innovative investment in the form of a royalty, albeit less than he would have been able to obtain normally without competition from the licensee. The patentee certainly did not consent to manufacture or sale by the licensee who obtained the patent rights from the Comptroller General of Patents.<sup>167</sup> The situation is not dealt with in paragraph 11 of the judgment in *Sterling*.<sup>168</sup> Prohibiting the use of the Dutch patent in such circumstances

---

the EEC Treaty. This question was posed to the court in *Dymo v. Etiketten Service*, 813, 79 23 O.J. EUR. COMM. (No. C17) 10 (1980), but the court has agreed to suspend proceedings while an appeal is heard in the Netherlands.

<sup>165</sup> *Merck*, [1981] 3 Common Mkt. L.R. at 481.

<sup>166</sup> *Pharmon v. Hoechst* (271/80) 23 O.J. EUR. COMM. (No. C347) 28 (1980).

<sup>167</sup> The case would be more arguable had a license been given by the patentee under threat of applying for a compulsory license. There may be something to be said for letting the would-be licensee go to the Comptroller for his license. The Court was more realistic in *Musik Vertrieb* in treating an express license as a statutory one, but the statutory license was automatic for mechanical rights, whereas compulsory licenses under a patent are less easily obtained.

<sup>168</sup> *Sterling*, [1974] E.C.R. 1162-63, [1974] Common Mkt. L.R. at 503.

would enable the British official to grant compulsory licenses.<sup>169</sup> Thus far, member States have agreed in the Community Patent Convention (which has not yet been ratified by all of the signatory States and, therefore, is not yet in force) not to grant compulsory licenses for failure to manufacture within the State where demand is being met by goods imported from another member State.<sup>170</sup> This should enable a patentee to manufacture on an economic scale for the supply of the whole.<sup>171</sup>

#### 4. Copyright in designs

United Kingdom law is peculiar<sup>172</sup> in treating as a breach of copyright in a drawing, the copying of the functional configuration of a three dimensional object based on the drawing. Therefore, many spare parts enjoy copyright protection lasting for the artist's life plus 50 years. British Leyland, the large vehicle manufacturer, has been relying on copyright protection for many of the spare parts for its vehicles to restrain the sale of parts made by third parties within the United Kingdom or in

<sup>169</sup> B.M.W. *Belgium v. Commission* (32 & 36-82/78) [1979] E.C.R. 2435, [1980] 1 Common Mkt. L.R. 370.

<sup>170</sup> 19 O.J. EUR. COMM., *supra* note 164, at arts. 47 and 82.

<sup>171</sup> In the U.K. this provision may be implemented by Order in Council made under section 54 of the Patents Act 1977. That Act repeals the provisions in earlier statutes for obtaining compulsory licenses more or less automatically for food and drugs, but under section 48(3) such licenses may be obtained for all products where the invention is not being used in the U.K. to the fullest extent that is reasonably practicable, or when demand is not being met on 'reasonable terms' (whatever that may mean), or is being met to a substantial extent by importation.

Can it be argued that this final possibility encourages a patentee to manufacture in the U.K. rather than import from another member state and so bears more heavily on imported products, contrary to the *Cassis de Dijon* ruling?

The issue was raised slightly differently in *Re Heathways Machine Sales Ltd. and Heathway Engineering Co. Ltd.* [1981] Common Mkt. L.R. 379. The patentee argued that the demand in the U.K. had been met from Eire, and that to grant a compulsory license on the ground that the demand in the U.K. had been met substantially by imports from a member state would discourage interstate trade. Whitford, J. in a judgment delivered on June 18, 1981 said that even if imports from Eire were reduced because of the competition the patentee would meet in the U.K., this would not be a quantitative restriction or a measure of equivalent effect. The compulsory license would encourage competition and be in accord with the general concept of the Treaty. Leave to appeal to the Court of Appeal was refused both by Whitford, J. and the Court of Appeal, without any reference being made to the Community court, so the case can go no further.

<sup>172</sup> Artistically meritorious designs may be registered in the U.K. under the Design Copyright Act and enjoy some protection for 15 years, but if incapable of registration, it was unanimously held by the Court of Appeal in *Dorling v. Honor Marine* [1965] Ch. 1; [1964] R.P.C. 160, that any drawings on which they are based and the objects themselves enjoy artistic protection for far longer. See, e.g., CORNISH, INTELLECTUAL PROPERTY: PATENTS COPYRIGHT TRADE MARKS AND ALLIED RIGHTS, 414.

other member states where there is no such protection.<sup>173</sup> The compatibility of this protection with Community law was raised in *British Leyland v. T.I. Silencers*.<sup>174</sup>

### 5. Free trade agreements

The Community has entered into Free Trade Agreements with the former members of Economic Free Trade Association (EFTA)<sup>175</sup> along with other countries. Most of these Agreements contain provisions rather similar to Articles 30 and 36,<sup>176</sup> and the question arises whether these provisions of the Treaties directly affect the law of the member States of the Community or of the other party to the Agreement.<sup>177</sup> The matter has arisen in relation to a copyright license to manufacture and sell only in Portugal, where records were inexpensive. A purchaser from the licensee imported the records to sell in the United Kingdom, and when sued for copyright infringement claimed that Articles 14 and 23 of the Free Trade Agreement<sup>178</sup> between the Community and Portugal had a direct effect in the United Kingdom. In *Polydor v. Harlequin Records*<sup>179</sup> the Court of Appeal thought that these Articles of Agreement might well do so, but the issue of whether or not they have an effect in Portugal was referred to the Community Court. It is being argued that these Agreements, quite unlike the Community Treaties, should be treated like most international

<sup>173</sup> *British Leyland v. T.I. Silencers* [1981] 2 Common Mkt. L.R. 75, 77.

<sup>174</sup> *Id.* In *British Leyland*, the defendants made spare parts in the U.K. for Leyland vehicles. *British Leyland* claimed a copyright on some of these spare parts. *T.I. Silencers* did not wish to pay royalties for a license and argued that the unusual scope of U.K. copyright law was contrary to Community law. If the defendants had to pay a royalty to make such parts in the U.K., they would be at a disadvantage when exporting to other member states, where local manufacturers would be free to make and sell parts without a license. They also claimed that the copyright royalties of 6% and the 3% royalty on all Leyland parts were an abuse of a dominant position contrary to Article 86 of the EEC Treaty. The High Court struck out these defenses as not being arguable, but they have been restored by the Court of Appeal, and a reference to the Community Court at some stage seems likely.

The British Government has issued a green paper, REFORM OF THE LAW RELATING TO COPYRIGHT, DESIGNS AND PERFORMERS' PROTECTION, CMND. No. 8302, with a view to discussions whether to abolish the protection for functional designs. At paragraph 12 it argues that the protection is against British interests, but does not mention that it may be contrary to Community law or policy.

<sup>175</sup> E.P. Wellenstein, *The Free Trade Agreements Between the Enlarged European Communities and the EFTA - Countries*, 10 COMMON MKT. L. REV. 137-38 (1973).

<sup>176</sup> See EEC Treaty, *supra* note 1, at arts. 30 and 36.

<sup>177</sup> See M. Waelbroeck, 'L' effect direct de l'accord relatif aux échanges commerciaux du 22 Joliet 1972 entre la Communauté Economique Européenne et la Confédération Suisse, [1973] ANNUIRE SUISSE DE DROIT INTERNATIONAL 113.

<sup>178</sup> *Polydor v. Harlequin Record Shops*, (270/80) [1980] 2 Common Mkt. L.R. 413.

<sup>179</sup> *Id.*



treaties which have no direct effect on member States.<sup>180</sup> Those arguing for this position provide for enforcement through a mixed committee, which eliminates the need for direct effect to be given to them. The Court has decided that these provisions in the Treaty between the EEC and Portugal have no direct effect on Community countries, but it is too early to obtain the judgment.

## 6. Relationship between Articles 85 and 30

In its decision on *Maize Seed*,<sup>181</sup> currently on appeal to the Community Court, the Commission condemned a series of agreements as restricting competition within the Common Market and affecting trade between member States contrary to Article 85 of the EEC Treaty.<sup>182</sup> INRA had developed new varieties of maize seed and held the plant breeder's rights in France.<sup>183</sup> In 1960, it permitted Eisle to obtain the rights in Germany, and some years later, it granted him exclusive rights to propagate and sell the seed only in Germany.<sup>184</sup> INRA agreed that neither it nor its licensees, who grew the varieties in France, would produce the seeds in Germany or sell them there, and that it would prevent those deriving title to the seed from so doing.<sup>185</sup> Eisle agreed not to produce or sell other varieties of maize, to sell the seed only to particular dealers, and to buy two thirds of his requirements for Germany from France.<sup>186</sup> The Commission also objected to the settlement of an action in a German court which Eisle brought against David, a trader who bought seed in France and exported it to Germany, restraining David from continuing the practice.<sup>187</sup>

It is being argued that the agreement that enabled Eisle to register the plant breeder's rights cannot infringe on Article 85; it is merely the transfer of a right.<sup>188</sup> Otherwise, the sale of a patent or even of a subsidiary holding intellectual property rights would be subject to the competition rules. Of course, the transfer of rights may amount to part of the mechanism of a cartel, in which case it would be caught, but the assignment by itself would not suffice. It is odd that Eisle was able to restrain

---

<sup>180</sup> *Id.* at 417.

<sup>181</sup> Re the Agreement between Kurt Eisle and the Institut National de Recherche Agronomique [hereinafter cited as *Maize Seed*] (78/823) 21 O.J. EUR. COMM. (No. L 286) 23 (1978), [1978], 3 Common Mkt. L.R. 434.

<sup>182</sup> *Id.* at 36, [1978] 3 Common Mkt. L.R. at 436.

<sup>183</sup> *Id.*

<sup>184</sup> *Id.* at 27, [1978] 3 Common Mkt. L.R. at 437, 444.

<sup>185</sup> *Id.* at 28, [1978] 3 Common Mkt. L.R. at 444.

<sup>186</sup> *Id.*

<sup>187</sup> *Id.* at 29, [1978] 3 Common Mkt. L.R. at 444-45.

<sup>188</sup> *Id.* at 30, [1978] 3 Common Mkt. L.R. at 447. This view was confirmed by the Advocate General, Madame Rozes. Feb. 2, 1982 Transcript of the *Maize Seed* decision at 72, verified by author.

David from selling seed in Germany which was bought from the French growers. Article 30 should have prevented him from doing so.<sup>188.1</sup> The Commission has alleged that the agreements resulted in the maintenance of prices at far higher levels than in France, although there is a dispute as to the appropriate prices to be used for comparison.<sup>189</sup>

If the Commission has rightly condemned the restrictions on the French growers exporting to Germany themselves or allowing others to do so as infringing Article 85(1) and not meriting exemption in the present case, the rules for the free movement of goods enable purchasers from the growers to export to Germany, thereby limiting the price differences that can be maintained even if Eisle owns the plant breeder's rights in that country. Are the cases on free movement still based on the concept of exhaustion? If so, Eisle would be entitled to exercise his German right to restrain the French growers from their selling directly in Germany. He would be protected to the extent that a parallel importer needs a margin within which to operate. I shall consider at the end of this article, however, the possibility that the Court may now have abandoned the doctrine of exhaustion—there were no rights to exhaust in *Merck*—in which case it may not be possible to restrain sales made by French growers directly to Germany.

The *Maize Seed* judgment has been eagerly anticipated for several years, but the proceedings have been unusually slow. The hearing was in October, 1981 and judgment is expected early in 1982. The Court may

---

<sup>188.1</sup> The Advocate General gave some additional facts that explain the matter. The seeds sold by David were 2½ years old, they may have been of sizes inappropriate to the sieves used in Germany for sowing seed, and they may have been disinfected by chemicals not permitted by German law. Thus Nungasser was legitimately concerned that sale in Germany might damage the company's reputation. Feb. 2, 1982 Transcript of the Maize Seed decision at 94, verified by author. In any event, Madame Rozes considered that the settlement of litigation in Court was a judicial act and not an agreement between undertakings subject to Article 85. *Id.* at 53 verified by author.

<sup>189</sup> *Id.* at 29, [1978] 3 Common Mkt. L.R. at 446-47. Madame Rozes concluded that prices in France in 1972 had been substantially higher on the average than those charged by 10 co-operatives on which the Commission's finding was based.

In the long opinion, Madame Rozes advised the Court to quash the Commission's decision in respect to all the matters that were subject to appeal. She objected to the Commission confusing the free movement of goods with competition. *Id.* at 63 verified by author.

Some people may well criticize the opinion for a few elementary errors, for example *Consten*, *supra* note 22, and *Deutsche Grammophon*, *supra* note 51 related to patents. It is hoped that this will not lead the Court to ignore its merits, which seem far more important. Contrary to many Commission decisions, Madame Rozes states that certain activities will not take place unless a licensee can be protected. In other words, an exclusive production license may not give enough protection without an exclusive sales license as well. She has even been prepared to admit that absolute territorial protection from competition in the same item may be necessary, and not anti-competitive, when there is competition from other similar items. These are most welcome innovations in official Community thinking.

establish how far an assignment and an exclusive license of plant breeder's rights (and presumably also of patents and copyright) are capable of infringing on Article 85. In *Grundig*, the Court has already held that the exercise of rights obtained by an agreement to confer absolute territorial protection on a dealer can be restrained, otherwise it would be futile to condemn the agreement under which the rights were obtained.<sup>190</sup> The Court may also say how far a limited license to sell only in Germany can be treated as an agreement not to export, which may infringe on Article 85(1); whether a limited license to sell in one member State, unless exempted under Article 85(3), amounts to a license to sell throughout the Common Market. It is argued by many that there would be more licensing and more exploitation of innovation if limited licenses were possible. Some holders of rights may be too small to exploit them throughout the Common Market, but may not wish to expose the territories reserved for themselves or another licensee to competition. The Division of the Commission that deals with industrial property rights is, however, more disposed to exempting export restrictions than is the Directorate that deals with other kinds of cases, even though it will not countenance export restrictions on buyers from the limited licensee.<sup>191</sup>

### G. Cable Television

*Coditel v. Ciné Vog Films*<sup>192</sup> involved the provisions for the free movement of services, not goods, and will be considered shortly. Coditel, a Belgian cable television company, picked up a German television transmission of a film and relayed it to its subscribers in Belgium.<sup>193</sup> In a test case, the exclusive Belgian licensee of the right to a film relayed by Coditel claimed that to do so without a license amounted to a copyright infringement — a claim upheld by the Cour d'Appel of Brussels under national law,<sup>194</sup> although certain questions of Community law were referred to the Community Court.<sup>195</sup>

Both the Court and Advocate General Warner recognized that Article 59<sup>196</sup> applies to broadcasting and television services.<sup>197</sup> The services of-

<sup>190</sup> See *Consten and Grundig*, [1966] E.C.R. 299, [1966] Common Mkt. L.R. 418.

<sup>191</sup> Proposal for a Commission Regulation on the Application of Art. 85(3) of the Treaty for certain Categories of Patent Licensing Agreements, 22 O.J. EUR. COMM. (No. C 58) 12 (1979).

<sup>192</sup> *Coditel v. Cine Vog Films*, (62/79) [1980] E.C.R. 881, [1981] 2 Common Mkt. L.R. 362 [hereinafter cited as *Coditel*].

<sup>193</sup> *Id.* at 884, [1981] 2 Common Mkt. L.R. at 369.

<sup>194</sup> *Id.*

<sup>195</sup> *Id.*

<sup>196</sup> Article 59. Within the framework of the provisions set out below, restrictions on freedom to provide services within the Community shall be progressively abolished during the transitional period in respect of nationals of member-states who are established in a

ferred by Coditel to its subscribers would not come within its provisions, since both were in Belgium. Advocate General Warner, however, made it clear that the services of the German broadcasting station were intended for Belgian viewers since prices in Belgian francs were included in the station's advertisements.<sup>198</sup> Article 59 was so applicable.<sup>199</sup> The Court did not specify the service to which Article 59 applied; whether by Coditel to German advertisers to extend the audience, or by the German station to subscribers to Coditel.<sup>200</sup> The rules for the free movement of services include no express provision similar to Article 36, but Mr. Warner believed that this was due to inadvertance, and was prepared to infer such limitations. Again, the Court's decision was cryptic but it used language very similar to the second sentence of Article 36. Both Advocate General Warner and the Court refused to extend the doctrine of exhaustion to broadcast and television transmissions. The Court said:

11. The second question raises the problem of whether Articles 59 and 60 of the Treaty prohibit an assignment, limited to the territory of a member-State, of the copyright in a film, in view of the fact that a series of such assignments might result in the partitioning of the Common Market as regards the undertaking of economic activity in the film industry.

12. 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 Treaty are not the same as those which arise in connection 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.

13. In these circumstances the owner of the copyright in a film and his assigns have a legitimate interest in calculating the fees due in respect of the authorization to exhibit the film on the basis of the actual or probable number of performances and in authorizing a television broadcast of the film only after it has been exhibited in cinemas for a certain period of time. It appears from the file on the present case that the contract made between the producer of the film and Ciné Vog stipulated that the exclusive right which was assigned included the right to exhibit the film *Le Boucher* publicly in Belgium by way of projection in cinemas and on television but that the right to have the film diffused by Belgian television could not be exercised until 40 months after the first showing of the film in Belgium.

---

State of Community other than that of the person for whom the services are intended. *reprinted in Coditel* at [1980] E.C.R. 871.

<sup>197</sup> *Coditel*, [1980] E.C.R. 875, [1981] 2 Common Mkt. L.R. at 386.

<sup>198</sup> *Id.*

<sup>199</sup> *Id.* at 903, [1981] 2 Common Mkt. L.R. at 399.

<sup>200</sup> *See generally, Coditel*, [1980] E.C.R. 903, [1981] 2 Common Mkt. L.R. at 399.

14. These facts are important in two regards. On the one hand, they highlight the fact that the right of a copyright owner and his assigns to require fees from any showing of a film is part of the essential function of copyright in this type of literary and artistic work. On the other hand, they demonstrate that the exploitation of copyright in films and the fees attaching thereto cannot be regulated without regard being had to the possibility of television broadcasts of those films. The question whether an assignment of copyright limited to the territory of a member-State is capable of constituting a restriction on freedom to provide services must be examined in this context.<sup>201</sup>

The Court went on to declare that restrictions on the right to provide services might be imposed by national law to protect intellectual property, unless this constitutes "a means of arbitrary discrimination or a disguised restriction on trade between member-States"—language that reflects Article 36:<sup>202</sup>

16. . . whilst copyright entails the right to demand fees for any showing or performance, the rules of the Treaty cannot in principle constitute an obstacle to the geographic limits which the parties to a contract of assignment have agreed upon in order to protect the author and his assigns in this regard.<sup>203</sup>

The Court's ruling was, therefore, quite different from those previously made regarding physical articles protected by patents or other forms of copyright.<sup>204</sup> The judgments in *Musik-Vertrieb*, *Membran* and *Merck*, however, show that the *Coditel* judgment is not being extended to patents or mechanical rights. Performing rights have been treated as *sui generis*.

## V. CONCLUSION

The Court's judgments have met with more criticism than might oth-

<sup>201</sup> *Coditel*, [1980] E.C.R. 902-903, [1981] Common Mkt. L.R. at 399-400.

<sup>202</sup> *Id.* art. 903, [1981] Common Mkt. L.R. at 400.

<sup>203</sup> *Id.*

<sup>204</sup> It was also quite different from its decisions on trademarks. In *Van Zuylen Freres v. Hag* (192/73) [1974] E.C.R. 731, [1974] 2 Common Mkt. L.R. 127 the Court held that where marks had a common origin, even if that link had been severed by a governmental decree sequestering the property of an enemy alien, the holder of the mark in one member state could not enforce the mark to prevent the goods to which the mark had been lawfully fixed by the original owner in Germany, whether they had been marketed there, or not. The trade mark case went beyond the doctrine of exhaustion laid down a month or so after the *Hag* ruling in *Centrafarm v. Sterling*. In relation to performing, as opposed to mechanical rights, the court has allowed the market to be divided by exclusive licenses granted for different areas, even if they are divided along national boundaries. Such limited exclusive licenses might, however, be subject to control under Article 85, as an agreement restricting competition. The Brussels Cour d'Appel has decided to refer these questions in relation to Article 85 to the Community Court. Case No. 262/81.

erwise have been expected because of their form. The Court tends merely to repeat assertions made in earlier cases, even when these have been criticised. The apparent logic of its judgments often depends on a selective statement of those aspects of national law which lead to the result it has chosen. Its Advocate Generals prepare opinions that are more cogent and often consider what policy should be adopted. The Court, however, gives but a single judgment, which makes for obscure passages that may conceal disagreement. Some of the judges have had little experience with commercial law and practice, a number having been more concerned with public and administrative law. Yet most of the cases have been decided by seven or nine judges who must agree on the text of their ruling and the reasons for giving it.

The policy and law that support the grant of an exclusive right to the patentee are complex. Seen *ex post*, after the investment in innovation has been made, such a right appears strongly anticompetitive, and the territorial limitation of national laws appears to insulate national markets. Seen *ex ante*, before the investment has been committed to innovation, the anticipated exclusive right may increase competition by encouraging investments which pay the community as a whole, but which would otherwise not pay the person financing the innovation. The exclusive right may encourage the development of a new product. Where national laws relate to compulsory patents, lack of patent protection or price control differ, and allowing the import into the high priced member States of goods first marketed in those countries giving less protection will discourage some innovation that would otherwise occur and may also reduce the amount of marketing done in those member States which give less protection to the holder of the right.

On the other hand, the policy favoring the integration of the market leads to clear and simple rules. Perhaps we should not be surprised that the free movement of goods has been preferred to the encouragement of investment in innovation when the objectives appear to conflict.

In the early cases it seemed as if the Court was adopting a rule that once the patentee had obtained some reward through a patent license or on first sale within the Community, his rights were exhausted, although this is not quite what it said in *Centrafarm v. Sterling*. It expressly stated only that the rule in the member States whereby exhaustion did not apply to sales in other member States which was an obstacle to free movement that must be justified under Article 36. In *Membran* it may have rejected the basis of exhaustion for its rule since, as Advocate General Warner had pointed out, there can be no exhaustion where there is no exclusive right to exhaust. In its absence, there is no opportunity to earn a monopoly reward free from competition by those taking a free ride on the investment of the person holding the right. In that case, however, the copyright holder was entitled to a royalty, even if he could not prevent

the production and sale of records that would have infringed his copyright but for the statutory license. In *Merck*, of course, the patentee could have obtained no monopoly profits in Italy since he enjoyed no rights at all.

It is particularly difficult for the Community Court to develop the law when giving abstract rulings to questions of interpretation of the Treaty submitted by national courts. The submissions made to it on behalf of Merck were cogent and thorough, but the Court did not deal with them. Apart from reciting some of the arguments, the reasons which the Court gave for its ruling were in six paragraphs. It merely asserted that a patent does not guarantee a reward, and that the patentee can choose whether or not to sell in a country where he enjoys no protection, and must accept the consequences of his choice as it will be legal for his purchasers to sell in other member States where he does enjoy protection. No policy reasons are given for discouraging the patentee from selling in a country where he does not enjoy protection and the Court does not attempt to say why it is extending its earlier judgment in *Centrafarm v. Sterling*. The writer fears that until the Court is able to publish dissenting and individual opinions, important policy issues will be ignored by the Court's judgments. Their apparent logic also makes critical appraisal difficult.

The European developments must seem strange to Americans. The Supreme Court held in *Adams v. Burke*<sup>205</sup> that under U.S. patent law, the country could not be divided into segments. The exclusive licensee for an area that excluded Boston could not prevent coffin lids, protected by the patent and legitimately made and sold by another licensee in Boston from being resold outside that isolated area.<sup>206</sup> The member States of the Community, however, have laws far less similar than the commercial ones of the United States. The European problem arises not only from the territorial limitation to the intellectual property rights under national law, but also from diverse laws of other kinds, including the differing ways in which governments try to reduce prices. This is especially apparent with pharmaceutical products, the demand for which is irresponsive to price levels, since the doctor's prescription and most of the bill is usually paid by an insurance fund, private or state.

The best solution would doubtless be to harmonize the national laws. By ignoring the distortions they create, the Court may be increasing the pressure that industry will bring to bear on national governments to reduce the distortions. However, it is hard on some firms and may result in less being spent on innovation in the interim. Except in *Coditel*, the Court has established a rule against discrimination along national bound-

---

<sup>205</sup> 84 U.S. 453 (1973).

<sup>206</sup> *Id.* at 456-57.

aries. The Common Market cannot be divided by national industrial property rights, nor by export bans and deterrents, if investment activity is to be encouraged.



