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Intellectual Property Decisions of the European Court of Justice

John P. Spitals
New York Law School

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Introduction

The tremendous importance of systems of protection for intellectual property, such as patents, trademarks and copyrights, to the economic systems of most nations is scarcely to be questioned. The Treaty of Rome establishing the European Economic Community included specific provisions ostensibly designed for the preservation of municipal legislation in this area. As has been seen to be the case in many areas, the Treaty did not establish details; authority to work out the finer points of Community law was left to the Council and the Commission.

In a series of nine cases, the European Court of Justice has confronted the "conflict" between guarantees of respect for municipal systems of intellectual property protection and other provisions of the Treaty, in particular those relating to the free movement of goods and the protection of competition. In these confrontations, a body of Community law has been developed which is arguably inconsistent both with the Treaty as a whole and internally as well.

This paper will attempt to point out some of these inconsistencies. After a brief analysis of the factual situation presented, each of
the cases will be scrutinized with reference both to the Treaty and to earlier decisions. In a concluding section, a few broad generalizations will be proposed.

_Etablissements Consten and Grundig-Verkaufs GmbH v. EEC Commission_¹

Under an exclusive distributorship agreement with Grundig, a German manufacturer of radios and televisions, Consten was granted sales rights in France, Corsica and the Saar territory. Consten undertook, _inter alia_, to refrain from selling competing products or outside its sales territory. Grundig in turn would not deliver its merchandise to any other distributors in Consten’s market territory. In addition, Consten was allowed to register the trademark “GINT” (Grundig International) in France. The mark was “intended to be attached only to the equipment manufactured by the German Grundig firm”; Consten agreed to transfer the trademark rights to Grundig or to cancel the registration if it were to lose exclusive representative status.² Identification of the source of the goods throughout Europe was primarily through use of the “GRUNDIG” trademark; “GINT” was apparently employed solely to prevent parallel imports.³

The French firm U.N.E.F. purchased Grundig products from German wholesalers and began to import them for sale in Consten’s market territory; Consten, relying on the “GINT” mark, brought suit against U.N.E.F. on unfair competition and trademark infringement grounds. Proceedings⁴ in the French courts were stayed when U.N.E.F. petitioned the Commission to declare the Consten-Grundig agreement contrary to the Treaty of Rome under the authority delegated to it by Regulation 17/62.⁵

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³ _Id._
⁴ A similar case was pending against the French firm, Leissner; the litigation was also held in abeyance until resolution of the Commission’s conflict with Grundig and Consten.
⁵ Regulation No. 17, (1962) J. O. Comm. Eur. 204. Upon registration of an agreement not exempted by specific provisions of the regulations, the Commission could first decide that on the basis of the facts presented, no
The Commission determined that both the distribution agreement and the terms of the trademark registration were prohibited by Article 85(1) of the Treaty. The parties were required to refrain from obstructing parallel imports; further prosecution of U.N.E.F. was thus prevented. The Commission's decision was appealed under Article 173 of the Treaty.7

On appeal, Grundig et al.8 argued that the Commission had incorrectly considered effects on competition between Grundig distributors in determining whether there had been a Treaty violation. Far from being limited to products of a single brand, the plaintiffs and the intervening German government asserted that the proper scope of examination in any determination of restriction on competition was the market for similar goods of different brands.9 A consideration of actual effects on the market as a whole was a prerequisite to a finding of restraint of trade; in his conclusions, the Advocate General adopted a similar position.10 Since the Commission's decision did not "explain sufficiently why such competition between the various brands should not have been rightly considered," it was argued to be in violation of Article 190 of the Treaty.11

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7. Article 173 provides that any "natural or legal person may ... institute proceedings against a decision addressed to that person" when the legality of the acts of the Commission was questioned. Although this article applies to acts of the Council as well, it does not appear that the "constitutionality" of the delegation of power to the Commission by the Council was argued. Implicit in the Court's support for the action of the Commission, however, are the assumptions that (1) Article 87 authorized the Council to delegate the enforcement responsibility and (2) the Council would not be liable for any "excesses" of the Commission in policing under Articles 85 and 86, by virtue of that delegation. The EEC Treaty is reprinted in 298 U.N.T.S. 14 (1958).
8. In addition to U.N.E.F. and Leissner, who intervened on behalf of the Commission, the German and Italian Governments presented arguments for the plaintiffs.
10. Id. at 7657, 7663.
11. Id. at 7639.
The Commission responded that the "deciding criteria for bringing into play the prohibitions set forth in Article 85(1) does not depend on the part of the 'relevant market' held by the products in question"; a finding that an agreement "not only theoretically but also perceptibly affects the freedom of action of the parties or the position of third parties on the market" would be sufficient. Moreover, the "perceptible" character of the restriction on competition in the instant case was a result of the "special nature of the market for Grundig products—a market characterised by a small number of competitors on the producer level and by the fact that the goods are highly specialized." And in response to the argument that the agreements in question had the actual effect of increasing trade between France and Germany, the Commission took the position that the Treaty was designed "to protect the liberalized trade in goods against all distortions of competition."

Plaintiffs further argued that Article 85(1) did not reach vertical arrangements but only horizontal restraints on the market. The Italian government, intervening on behalf of the plaintiffs, proposed that since a contract between a producer and an exclusive distributor concerned the legal relationship between two parties and not an "economic phenomenon," it could not be assailed under the Treaty. To the Italian government, it was "inconceivable" that there could be competition between licensees, since they had not been given the legal capacity to engage in such competition. The Commission, however, did not feel a need to establish why Article 85(1) applied, alleging that the sole criterion for its consideration was whether there would be an "alteration of competition and trade."

The Advocate General's position on this point was somewhat different than that taken by either the plaintiffs or the Commission. Through a comparison of the Dutch, Italian and German texts of the Treaty with the French, he came to the conclusion that the French "affecter" should be given a negative connotation; thus, only "effects on trade" which impaired competition in the Community market as a whole were prohibited. He also joined the plaintiffs

12. Id. at 7640.
13. Id. at 7628.
14. Id. at 7642.
15. Id. at 7643.
16. Id. at 7624.
17. Id. at 7625-26.
18. Id. at 7624.
19. Id. at 7664.
and the German government in emphasizing the need to avoid a per se prohibition of exclusive distribution agreements, suggesting that the Court adopt the "rule of reason" approach employed by American courts in antitrust analysis. The Commission pointed to the existence of the exemption under Rule 85(3) for agreements which fell within the terms of 85(1) as a significant distinction between the American and Common Market systems; the authorities of the former had in effect been "forced to temper the manner in which they would view the degree of change in competitive conditions." In view of Article 85(3), such temperance was unnecessary in the application of Community law doctrines such as the free movement of goods.

The final major area of disagreement between the Commission and Grundig et al. was the applicability of Article 222 of the Treaty as a limitation on the Commission's authority under Regulation 17/62. Consten's trademark rights, as "intellectual property," were protected from interference by Community organs under the plaintiffs' interpretation; if there was any inconsistency between the Treaty and municipal trademark law, it could be remedied only by "improving and adapting the national laws in accordance with Articles 100 and 102" of the Treaty. In the Commission's view, the cartel prohibitions of the Treaty would necessarily be applicable to laws on the protection of intellectual property. Any other construction of the Treaty would leave a "way open to circumvention"; thus, "inroads" were necessary upon the authority of the Member States to grant industrial property protection.

In view of the amount of interest engendered and the wealth of arguments suggested, the facial simplicity of the Court's decision is, at least at first, confounding. The Court determined that it was sufficient for the purposes of Article 85(1) if an agreement had the object or effect of restricting competition, including that between distributors of the same brand of products. Thus, an agreement whereby one party authorizes another to register a trademark within

20. Id. at 7640.
21. Id. at 7663.
22. Id. at 7641.
23. Article 222 provides: "This Treaty shall in no way prejudice the rules in Member states governing the system of property ownership."
25. Id. at 7632-33.
26. Id. at 7652.
a portion of the Common Market in order to prevent parallel imports would be per se restrictive of competition. The fact that the overall effect of such an agreement might be to increase competition within the Market as a whole was to be disregarded; the only relevant consideration, in the opinion of the Court, was whether the agreement "directly or indirectly, actually or potentially, is capable of jeopardizing the freedom of trade between Member States in such a manner as to prejudice the realization of the objectives of a single market between States."  

With respect to the arguments under Article 222, that the Treaty should "in no way prejudice the rules in Member States governing the system of property ownership" including municipal intellectual property legislation, the Court decided that the Commission's decision had left these rights "untouched"; only the exercise of those rights had been limited to the extent "necessary to enforce the prohibition of Article 85, paragraph 1." This distinction between the existence of intellectual property rights and their exercise, introduced by the Court in its first encounter with a problem in the trademark area, provides the basis for all of the Court's subsequent analyses of patent and copyright questions as well. It therefore warrants careful scrutiny in its nascent state.

The Court did not address the method by which the existence/exercise distinction was to be carried out in practice. In the absence of an interpretive framework, it has been argued that such a distinction cannot be accepted as logically valid. An exclusive right, such as granted by municipal trademark law, would only exist in its exercise; the mere registration of a mark, without enforcement mechanisms to insure exclusive use, could not be viewed as the extent of trademark protection permitted by the Treaty. Such an approach would exalt form over substance, and violate Article 222 in the process.

The Court also did not address the plaintiffs' allegation of misuse of power, dismissed by the Commission in their brief as presented "in a manner that was too concise." The obvious conflict between municipal and Community law was nonetheless clearly

27. Id. at 7654.
28. Id. at 7652.
29. Id. at 7654.
raised by Grundig; the Commission's brief, they noted, did not "permit a determination of whether the defendant denies that it intruded itself into the field of trademark law or whether it feels that it has that right."32 The actual position taken by the Commission appears to have been that the various provisions of the Treaty were not mutually exclusive, perhaps in the belief that it could thereby avoid the allocation of power issue.33 The Court's affirmative duty to "review the legality of acts of the Council and the Commission" would not seem properly to have been avoided so easily.34

The willingness of the Court to adopt its own interpretation of the scope of intellectual property rights, and to ignore the ostensible goals of the municipal legislation in its analysis, is one of the most disturbing features which emerge from an evaluation of this and subsequent decisions. Many of the issues raised in this case reappear in the later cases, where at least some of them are given a less superficial treatment. The existence/exercise distinction, apparently raised *sua sponte* by the Court, is the primary legacy of the Grundig decision and the less than solid foundation for the Court's jurisprudence.

*Parke, Davis & Co. v. Probel et al.*35

The American firm Parke, Davis & Co. was the holder of Dutch patents on chemical and microbiological processes for the production of the antibiotic chloramphenicol. The defendant companies had purchased the drug from the Carlo Erba company in Italy, where it could legally be produced, since pharmaceutical compositions could not be the subject of patent protection under the Italian law. When defendants marketed the antibiotic in Holland without permission of the Dutch patentee, the latter brought suit in the Dutch courts for infringement. The Gerechtshof of the Hague, pursuant to Article 177 of the Treaty, submitted two questions to the Court: (1) Could the holder of a patent exercise his rights in one Member State to prevent imports from another Member State in which no such rights could be granted? (2) Would the answer to the first question be different if the licensee under the patent receives a higher price for the product than that asked of the consumer for the product in the

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32. *Id.* at 7632.
33. *Id.* at 7631.
34. *Cf.* note 7 supra.
Member State where no protection is granted.\textsuperscript{36}

With respect to the first question, one of the defendants' arguments, although rejected in the instant case, foreshadows later developments in the Court's jurisprudence. Defendants pointed out that in some Member States the patentee's rights were deemed "exhausted" after the first sale, and that subsequent sales could not be prevented once the patented product had been put into circulation. They argued that a product never patentable in one Member State should be regarded \textit{a fortiori} as not subject to restrictions on import or sale in another Member State.\textsuperscript{37}

The Court decided that a patent, independent of any agreement of which it might be the subject, would not bring Articles 85 or 86 into play. It then went on to indicate that "the utilization of one or more patents by enterprises acting in concert . . . creating a situation likely to fall within the concepts of agreements between enterprises, of decisions of associations of enterprises, or of concerted practices" could warrant scrutiny under Article 85. And while "a patent of invention . . . does not necessarily mean that the exercise of the rights thus conferred implies the presence" of abusive exploitation of a dominant position such as prohibited by Article 86, "it would be otherwise . . . if the utilization of the patent were to deteriorate" into such a state.\textsuperscript{38}

The Court then addressed Chapter 2 of the Treaty, relating to the free movement of goods, for the first time in the context of intellectual property rights:

Moreover, in a comparable area, Article 36 of the Treaty, after providing that Articles 30 through 34 shall not preclude import or export restrictions that are justified, among other things, in order to protect industrial and commercial property, stipulates, as has already been pointed out, that such restrictions "may not be used as a means of arbitrary discrimination nor as a disguised restriction on trade between Member States." Thus, since the existence of a patent right at present depends entirely on domestic legislation, only the use of such right could be subject to the rules of Community law, in the event such use were to contribute to a dominant position whose


\textsuperscript{37} \textit{Id.} at 7816.

\textsuperscript{38} \textit{Id.} at 7825.
abusive exploitation is likely to effect trade between Member States.\textsuperscript{39}

The exercise/existence distinction of Grundig, proposed for trademarks, was thus made directly applicable to patents as well; moreover, Articles 30-34 were introduced as yet another potential threat to municipal intellectual property legislation.

The Court then answered the second question in the negative, noting that there was "nothing to prevent the selling price of the protected product from being used as a factor in determining whether there is an abusive exploitation..."\textsuperscript{40} The higher price of the patented product alone would not constitute an abuse in itself; a greater showing than a price differential would be needed before a violation of the Treaty would be found.

The clear implication from the Court's analysis is that the lack of consent on the part of the patentee to the sale of the product was determinative in the absence of an agreement or an abuse of a dominant position. Rather than abandon this approach entirely, the Court in later decisions expands this notion of "consent" beyond its rational limit. Rather than eliminate some of the confusion arising from the Grundig decision, the Court had thus compounded it.


The Court again invoked the existence/exercise distinction of Grundig in the Sirena decision, holding that Article 85 would prevent the exercise of trademark rights in one Member State when the same mark was registered in another State by a different party if the rights in both countries had been under common ownership at one time. While the decision has attracted some interest for the Court's disparagement of trademarks,\textsuperscript{42} its main significance lies in the introduction of yet another novel doctrine into Community intellectual property law: the "common origin" doctrine. While the result reached by the Court may have been justified on the facts, the ultimate devel-

\begin{itemize}
\item \textsuperscript{39} \textit{Id.}
\item \textsuperscript{40} \textit{Id.}
\item \textsuperscript{42} "[T]he trademark right differs from other industrial property rights in that the things that are protected by the latter are often of greater importance and greater value than the rights deriving from a trademark." [1971-1973 Transfer Binder] Comm. Mkt. Rep. (CCH) ¶ 8101 at 7111.
\end{itemize}
opment of this doctrine serves as a prime example of the dangers of ad hoc judicial lawmaking, as will be discussed infra.

The Italian firm Sirena had acquired local rights to the trademark "PREP," for use with shaving cream, from the American company Mark Allen in 1937. The German registration for the same mark was subsequently transferred to a German firm. When an Italian competitor began to import goods bearing the "PREP" mark and to sell them at a much lower price than that charged by Sirena, the latter brought suit for trademark infringement.

The Court first noted that the trademark right, "as a statutory right, does not in itself carry the elements of contract or concert required by Art. 85..." Nonetheless, the exercise of that right could come within the prohibitions "where it appears to be the object, the means, or the result of a cartel." In particular, the Court addressed the situation where one owner had assigned parallel rights to several parties, thereby partitioning the market:

If the concurrent assignment to several users of a national trademark protecting the same product results in the restoration of impenetrable frontiers between the Member States, such a practice can impair trade between the states and distort competition in the Common Market. The situation would be otherwise if, to avoid any partitioning of the market, the cartel agreements on the use of national rights to the same mark were reached in such a way that the generalized exercise of the trademark rights on the Community level is reconciled with compliance with the conditions of competition and the unity of the market that is so essential to the Common Market that Article 85 protects them through the sanction of automatic nullity.43

The Court then held that importation could not be prevented through an invocation of a trademark right "where the owners of the trademark acquired this mark or the right to use it under agreements between them or agreements with third parties."44

From the fact that Sirena instituted infringement proceedings, it is clear that there was no agreement between the parties to restrain trade under a classical cartel approach. The Court may have been correct in assuming that it had been the assignor's intention to partition the market; however, since Mark Allen was not a party to the

42a. Id. at 7112.
43. Id.
44. Id.
litigation, its intent would not seem relevant. Moreover, Sirena is in effect penalized through loss of its trademark rights in Italy with respect to “PREP” without there having been any showing of mala fides on its part. If other assignees are free to use the mark, it can no longer serve the purpose of indicating the origin of the goods.

In its suggestion of a “reconciliation” between the exercise of trademark rights and the conditions of competition, moreover, the Court sets a task not easily met under most patent or trademark systems. When intellectual property protection is granted by the State, such protection is limited territorially. A transfer of the rights received from one State could not purport to grant similar rights in other jurisdictions as well. On the other hand, a grant of licenses for all States in which rights are held would prevent the use of the mark as an indication of local origin of the goods, as was the purpose of “PREP” here. By deciding the case without a closer examination of the context, the Court once again failed to perceive the complexity of the interaction of municipal intellectual property systems with Community law and goals; a common link in the chain of interests would be in itself sufficient to destroy a property right lawfully acquired for good consideration. While a better formulated route to the same result might have been a laudable development in Community competition law, the Court’s adopted approach was easily susceptible to abuse in subsequent decisions and should be viewed as another usurpation of the power to make Community law from the Council and the Commission.


In the Deutsche Grammophon (DG) decision, the Court extended its analysis to include copyrights as well as trademarks and patents. DG, a German manufacturer, sold records in Germany under the Polydor label. In France, its products were distributed by its subsidiary Polydor SA. Metro, a retailer specializing in selling records at low prices, had acquired DG recordings originally sold in

45. See notes 52-57 and accompanying text infra.
46. Under Article 164, the Court’s only authority is to “ensure that in the interpretation and application of this Treaty the law is observed.” Such a formulation presupposes the existence of “the law” to be observed.
France by Polydor SA. When Metro sought to resell those records in
Germany at prices well below those charged by other DG distribu-
tors, DG sought an injunction in the German courts to prevent fur-
ther sales by Metro, relying on statutory protection afforded to
manufacturers of sound recordings under the municipal law.

The German court referred the following question to the Court:
Is Community law infringed if the exclusive right conferred on sound
recording manufacturers by national legislation to distribute the pro-
tected products can be used to prohibit domestic marketing of prod-
ucts that have been brought to the market in the territory of another
Member State by the manufacturer himself, or with his consent? The
Court determined that the question should be answered in the
affirmative.

Unlike the earlier cases presented to the Court, the DG litiga-
tion involved no agreement or licensing arrangement requiring scruti-
tiny under Article 85. Nonetheless, the Court held that the Treaty
would be violated if DG were to exercise its rights under German law
to prevent resale in Germany of the Polydor records originally sold in
France. To reach this result, the Court relied on the Treaty pro-
visions relating to the free movement of goods, first noted in the con-
text of intellectual property law in the Probel decision.

Article 36, which provides that restrictions on the free move-
ment of goods were permissible if necessary to protect “industrial
and commercial property,” would on its face have seemed to take
this matter out of the Court’s jurisdiction. The Court avoided this
possible conflict as follows:

Assuming that a right akin to a copyright can be covered
by these provisions, it nevertheless follows from that
article that while the Treaty does not affect the existence
of the rights recognized by the laws of a Member State in
the matter of industrial and commercial property, the ex-
ercise of such rights can, however, be subject to the prohi-
bitions set forth in the Treaty. While Article 36 permits
prohibitions or restrictions on the free movement of goods
that are justified for reasons of industrial and commercial
property protection, it permits exceptions from this free-
dom only to the extent that they are justified in order to
safeguard rights that are the specific object of such
property.48

7192.
While not defining what this "specific object" of intellectual property protection would be, the Court made it clear that it would not be the prevention of parallel imports.

Where a right akin to a copyright is invoked to prohibit the sale in a Member State of products that are distributed by its holder, or with the holder's consent, in the territory of another Member State, for the sole reason that the distribution does not take place on the domestic territory, such prohibition, since it serves to isolate national markets, conflicts with the essential goal of the Treaty, which is to merge the national markets into a single market. This goal could not be achieved if, because of the various legal systems of the Member States, nationals of such States were able to partition the market and bring about arbitrary discriminations or disguised restrictions on trade between the Member States. That is why the exercise, by a producer of sound recordings, of the exclusive right under the laws of a Member State to distribute the protected products, in order to prohibit the sale in that State of products that were distributed in another Member State by the producer or with its consent, solely for the reason that such distribution did not take place in the territory of the first Member State, is contrary to the rules providing for the free movement of goods within the Common Market.49

Thus, regardless of the rights purportedly granted by a Member State, once the goods have been marketed anywhere within the Community, such rights have, as a matter of Community law, been "exhausted."

Insofar as the Court relies on Articles 30 et seq. to prevent DG from invoking German copyright law, it must be DG's attempt at court enforcement of the law which is a "measure having equivalent effect" to a quantitative restriction or disguised discrimination.50 The exception under Article 36 would seem on its face to make the copyright law of Germany a valid exception to the strictures of Chapter 2 of the Treaty; the Court seems to hold that its enforcement is improper only to the extent that it could be used to prohibit

49. Id.
the import of goods into one Member State lawfully marketed in another.

If this concept of "lawful marketing" is limited to the situations where the producer itself or parties with its consent have distributed the goods, this constitutes a Community adoption by judicial ruling of the principle of "exhaustion of rights" upon first sale. This does not appear to have been a part of the substantive law of all Member States;\(^1\) in any event, even if it were, it must be questioned whether the Court was the proper organ of the Community to promulgate such a rule. As another example of the Court's grasp extending its constitutional reach, this decision must be condemned.

Van Zuylen Freres v. Hag A.G.\(^2\)

The extreme extension of the principles of *Sirena* in the *Hag* case must be viewed as the Court's most flawed analysis in the area of intellectual property. The decision, which in effect limited the exercise of trademark rights only to prevent use of a mark by one "who lacks any legal title,"\(^3\) takes the Community law still further from the principles which underlie the municipal systems, while at the same time illustrating the lack of doctrinal coherence of the system introduced by the Court in its earlier decisions.

From about 1908 Hag A.G., a German firm, was the holder of the trademark "HAG" in Germany, Belgium and Luxembourg. The mark was applied to decaffeinated coffee, prepared by a patented process developed by the company. Before World War II had begun, Hag AG had assigned its Belgian and Luxembourg rights to Cafe Hag S.A., a wholly-owned subsidiary. During the war, the Belgian company was sequestered as enemy property and sold to the Van Oevelen family. The trademark was eventually acquired by Van Zuylen Freres, a trade distributor of Hag Belgium coffee. Neither Van Zuylen nor Hag Belgium engaged in retail sales of the product bearing the "HAG" mark. The German rights were still owned by Hag AG; when it began to market "HAG" products in Luxembourg, Van Zuylen brought an action against Hag AG in the Luxembourg courts.

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The exercise of a trademark right tends to contribute to the partitioning of the markets and thus to impair the free movement of goods between Member States, particularly since—unlike other industrial and commercial property rights—it is not subject to limitations of time. Accordingly, the holder of a trademark cannot be permitted to rely on the exclusiveness of a trademark right—which may be the consequence of the territorial limitation of national legislations—with a view to prohibiting the marketing in a Member State of goods legally produced in another Member State under an identical trademark having the same origin.\textsuperscript{54}

Thus, the implied limitation in \emph{Sirena} that an intent to partition the market via the system of assignments would be necessary to find a violation of the Treaty was eliminated.

With respect to the argument that trademarks primarily serve the function of indicating the source of or origin of goods, the Court merely noted that "information on this point to consumers can be ensured by means other than such as would impair the free movement of goods."\textsuperscript{55} And, adhering to the "exhaustion of rights" principle, the Court also pointed out that the case would not be different if the goods were imported by a third party who had lawfully acquired them in another Member State.\textsuperscript{56}

Since the use of the mark "HAG" to indicate the origin of decaffeinated coffee products in Belgium and Luxembourg was precluded by the Court's decision, the trademark lost its value to Van Zuylen, who had lawfully acquired it in good faith and for good consideration. Moreover, this deprivation occurs even though Van Zuylen could in no way be considered as blameworthy. In the Court's failure to weigh properly the interests of the plaintiffs, this decision must be regarded as "unacceptable."\textsuperscript{57} As an illustration of the absurdity to which the Court's doctrine could lead if adhered to, the decision should also be recognized as a warning.

\textit{The Centrafarm Cases

In a pair of related cases, the Court effectively completed its
expansion of Community limits on municipal protection of intellectual property by describing the "specific object" of patents and trademarks, as it had failed to do with respect to copyrights in the DG decision. In Sterling, the Court issued its pronouncement on patents; in Winthrop, the Court provided an analysis which appears inconsistent with its holding in the Hag case.

Patents in the United Kingdom and the Netherlands had been licensed to Sterling-Winthrop Group, Ltd. and Winthrop B.V., respectively, for a drug marketed under the trade name "NEG RAM." Each company was the local owner of the trademark. Defendant Centrafarm purchased the drug in England and sold it in the Netherlands, thereby benefiting from the fact that the price in the United Kingdom was fixed by law well below that obtained in the Netherlands by Winthrop B.V. in a free market. Sterling Drug Inc., owner of the patent, brought an action in the Dutch courts for patent infringement; Winthrop BV sued for infringement of the trade name.

In responding to the similar questions submitted in both cases by the Dutch court under Article 177, the Court began by reiterating that derogations from the rule of free movement of goods were permissible only to the extent justified for the protection of the "specific object" of such property. This time, however, the Court decided to explain this concept somewhat. With reference to patent, the Court opined in Sterling:

In relation to patents, the specific subject matter of the industrial property is the guarantee that the patentee, to reward the creative effort of the inventor, has the exclusive right to use an invention with a view to manufacturing industrial products and putting them on the market for the first time, either directly or by granting licenses to third parties, as well as the right to oppose infringements.

Similarly, in Winthrop, the Court delineated the scope of trademark protection:

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In relation to trademarks, the specific subject matter of the industrial property is the guarantee that the trademark owner has the exclusive right to use that trademark, for the purpose of putting products protected by the trademark on the market for the first time, and is therefore intended to protect him against competitors wishing to take advantage of the status and reputation of the trademark by selling illegally products bearing that trademark.\(^6^0\)

In both cases, the Court then decided that neither differences in prices resulting from government control, nor the need for a manufacturer to retain control over his distribution system in order to protect the public from defective goods, were sufficient to justify an exception from the general principle.

With respect to the effects of government price controls, the Court should have recognized the serious distortions of a "free market" involved. In his submissions, the Advocate General dismissed the problem, suggesting that a pharmaceutical company should simply withdraw from the market if its prices were artificially maintained at too low a level.\(^6^1\) In any event, the Commission argued that the price differentials could be "explained in terms of perfectly normal factors, such as a greater volume of sales in Great Britain and slightly less intense competition on the Dutch market."\(^6^2\) Under either approach, it could nonetheless be the case that the particular drug at issue was of choice in particular instances, Sterling's withdrawal from the English market would be questionable on moral grounds, regardless of the analytical approach taken to the matter of economic policy.\(^6^3\)

Moreover, the Court in these opinions made it clear that Article 85 would not be applicable to agreements between "undertakings belonging to the same concern as parent company and subsidiary,"\(^6^4\) subject to the limitation that they have the aim of establishing the "internal allocation of tasks as between the undertakings."\(^6^5\) Since the Court then finds the Treaty provisions relating to the free move-

61. Id. at 9151-75.
62. Id. at 9151-66.
64. Sterling, supra note 57a at 9151-57.
65. Id. at 9151-58.
ment of goods a bar to just such an "internal allocation of tasks," it is difficult to perceive the means the Court envisions to achieve such an end. By simultaneously exempting the parent/subsidiary relationship yet preventing the fulfillment of its express purpose, the Court has made an empty promise.

**EMI v. CBS**

In an apparent limitation of the "common origin" doctrine to only those trademarks not wholly protected within the Common Market, the Court in the *EMI* case allowed the use of a trademark right to prohibit imports into the Community. In the process, the shallowness of "common origin" reasoning is made more evident, although its unsuitability as a means for principled decision-making is most poignantly illustrated perhaps in *Hag*. The decision is nonetheless one of the few in which intellectual property rights are respected, and thus should be viewed in that light.

The "COLUMBIA" trademark had been under common ownership in both the United States and Europe prior to 1917. By a series of transfers, the mark subsequently came to be held by CBS in the United States and by EMI throughout the Common Market. Although there was no connection between the later owners other than their common source for rights to the mark, a principled application of the *Hag* approach would seem to make only such common origin relevant. When the question was referred to the Court by tribunals in the United Kingdom, Denmark and Germany, however, the expected ruling was not forthcoming.

Instead, the Court held that the exercise of a trademark right to prevent the marketing of products coming from a third country did not affect the movement of goods between Member States and thus would not come within the provisions of the Treaty, even if such ac-

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66. There were actually three separate cases, although the Court's analysis is substantially the same in all three; see notes 68-70 infra.

67. In fact, CBS appeared to rely on just such an approach. See notes 72-73 and accompanying text, infra.


tions constituted "measures having an effect equivalent to a quantitative restriction."\textsuperscript{71} The common origin of the trademark rights would not preclude their use to prevent imports into the Community.

The straightforward approach of the Court seems to belie the actual complexity of the factual situation presented. Defendants argued that after division of the rights in 1917, the parties had continued to collaborate to divide the world market. Although the relevant agreements had expired,\textsuperscript{72} the exercise of EMI's rights, in defendants' view, should have been prevented, since the results of a restrictive agreement to partition the world market continued to produce the same barriers to trade under municipal intellectual property law.\textsuperscript{73}

The Court accepted the principle that it was not necessary for an agreement to be in force in order that Article 85(1) apply, noting that it would be sufficient that such an agreement still produce its effects. An agreement would be given such an evaluation, however, only if from the "behavior of the persons concerned there may be inferred the existence of elements of concert and coordination peculiar to the agreement and producing the same result as that envisaged by the agreement."\textsuperscript{74} This would not be the case when the "effects" do not exceed those "flowing from the mere exercise" of national trademark rights.

The inconsistency of this approach with the earlier \textit{Sirena} and \textit{Hag} decisions should be readily apparent. In both cases, the trademark owners had been precluded from the "mere exercise" of their rights precisely because of "effects" which would "flow" from such exercise. Moreover, legally marketed goods had previously been entitled to free movement once sold. While the Court was probably correct in limiting the concept of "legally marketed" to include only sales within a Member State, this limitation was not apparent from its earlier decisions. Thus, the Court should have been put on notice that there were substantial flaws in their mode of reasoning, and that accordingly the doctrinal basis should be reconsidered. Again, the Court failed to withdraw from its logically, as well as perhaps constitutionally, insecure position.

\textsuperscript{71} CBS United Kingdom, \textit{supra} note 68, [1976 Transfer Binder] COMM. MKT. REP. (CCH) ¶ 8350 at 7362.
\textsuperscript{72} \textit{Id.} at 7343.
\textsuperscript{73} \textit{Id.} at 7348.
\textsuperscript{74} \textit{Id.} at 7363.
Terrapin v. Terranova

In another of its few decisions favorable to owners of intellectual property rights, the Court decided that national standards concerning the "likelihood of confusion" by consumers of similar trademarks would not necessarily be considered violative of the Treaty. Nonetheless, by again complicating the Community law doctrines, the Court may once more have limited the extent of the trademark grant.

Registered owners in Germany of the trademarks "TERRA" and "TERRANOVA" sought to prevent the importation from the United Kingdom of goods bearing the lawfully registered "TERRAPIN" mark. The Bundesgerichtshof had considered the risk of confusion on the part of consumers sufficient to conclude that sale of "TERRAPIN" goods would constitute infringement of the German trademarks. The "TERRAPIN" mark was applied to prefabricated houses; the German marks were used on construction materials. The propriety of this ruling was submitted to the Court under Article 177.

The Court concluded that "the specific objectives of industrial and commercial property rights would be undermined" if the prohibition were rejected. Nonetheless, the national judge was to consider "whether the exercise in a particular case of industrial and commercial property rights may or may not constitute a means of arbitrary discrimination or a disguised restriction on trade"; in particular, the court should determine whether "the rights in question are in fact exercised by the proprietor with the same strictness whatever the national origin of any possible infringer." If the plaintiff had not objected to the marketing within the territory for which he had protection of goods bearing a mark arguably as similar as the one accused as an infringement, he would presumably be estopped by his earlier failure to protest. A novel defense in trademark infringement actions might thus have been created, apparently by accident.

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77. Id.
78. The only obstacle to such a defense would be notice on the part of the trademark owner of the "confusingly similar" national registration. If publication in the official government trademark journal would constitute notice under municipal law, the defense would necessarily be valid by virtue of the Terrapin decision.
The Court is to be praised for its refusal to lay down rules for
deciding what amounted to "confusion" as a matter of Community
law. In rejecting the Commission's invitation to still further en-
croachments on the powers of the Member States,\textsuperscript{79} the Court for
once remained within the proper scope of the reference.

\textit{Hoffman-LaRoche & Co. A.G. v. Centrapharm Vertriebsgesellschaft
Pharmaceutischer Erzeugnisse mbH}\textsuperscript{80}

The most recent case before the Court again involved the action
of the "maverick" company Centrafarm. In this instance, Centra-
farm's parallel imports into Germany of Valium in 500-unit packages
were from the United Kingdom, where regulations kept the price suf-
ficiently lower than on the continent to allow for substantial resale
profits as well as the costs of repackaging into 1000-unit form. The
trademark "VALIUM" was used on the new packages without per-
mission. On reference from the Landgericht Freiburg, the Court held
that national trademark law may be used to resist marketing in a
Member State after such repackaging and use of the mark without
permission.

As in virtually every situation in which there is a deference to
domestic law, however, the Court also noted that the use of national
law could, under similar circumstances, be viewed as a "disguised re-
striction on trade." In order to initiate this type of "strict scrutiny,"
it would first be necessary to show that the trademark rights could
contribute to an artificial partitioning of the market if exercised. In
light of the earlier decisions, this would reduce to a showing that the
mark was not owned by one party for the entire market. Upon an
additional showing that repackaging does not affect product condi-
tion, prior notice to the proprietor of the mark that such repackag-
ing will take place, and some indication on the new packaging to
show who had reintroduced the goods on the market would be suffi-
cient for a Treaty violation if the trademark rights were enforced.

By thus directing the potential "infringer" on how to achieve
his ends, the Court has quite clearly shown its animus towards
holders of intellectual property rights. While nominally affirming
the trademark holder's rights, their viability would be so quickly
sapped by "approved" infringements that their "existence" would

\textsuperscript{79} Terrapin, supra note 75, at 7603.
COMM. MKT. REP. (CCH) ¶ 8414, Case 102/77.
revert to a formal registration without effect. The Court has at least remained consistent in its low evaluation of intellectual property rights in this most recent decision.

Comments

A review of the case law of the Court in the area of intellectual property leads one first to the conclusion that the scope of the Court's activity was less than proper. The total avoidance of the express terms of Article 222, providing that the "rules in Member States governing the system of property ownership" should not be prejudiced, is difficult to justify. It must be remembered that amendments to the Treaty are properly effected through the procedure provided in Article 236. Upon consideration of the Treaty as a whole, the judicial branch of the Communities had not been granted such authority, nor should it be allowed to usurp it.

It is certainly arguable whether the Court's insistent invocations of the principle of "free movement of goods" are justified in the context of limitations on the exercise of intellectual property rights. If Articles 30 through 34 can be extended to apply to the actions of corporate entities under the rubric of municipal "measures having equivalent effect" to quantitative restrictions on imports, one is left with the feeling that Articles 85 and 86 have been rendered superfluous. To expect individual enterprises to abstain from measures which could jeopardize the attainment of the objectives of the Treaty is to place upon them a burden not required by the Treaty in the absence of an agreement in restraint of trade.

It can also be argued that the Court's "free movement of goods" arguments do not take proper account of the goals of the Member States. If one believes that the whole purpose of patent systems is to procure the publication of information and the dissemination of know-how, a flexible licensing system, in which the parties were free to divide the patent monopoly among themselves, predictably would contribute much more significantly to this goal. Under the rules established by the Court, it would be much more desirable to most enterprises to keep patents and know-how within parent-subsidiary control; although parallel imports could not be prevented, the original sales prices could be set by the parent to prevent disruption. Since this concentration of technical information is precisely what a

82. Cunningham, supra note 51, at 135.
patent system is intended to prevent, a divergence of views on what should be considered "adequate" protection for intellectual property should properly be considered outside the courtroom.

By adopting a position of "minimum protection" for intellectual property, in which no further protection could be afforded than reasonably necessary to attain the minimum level accorded in any Member State, the Court seems determined to restrict the autonomy of the Member States to legislate in this area. In vigorously promulgating its economic theories, the Court has thus interfered to an unacceptable degree with the law-making process in the individual states as well as on the Community level. The Court's ultimate failure is, however, the lack of consistency and of logic in its applications of its "judicial legislation."

If the "specific object" of trademark rights is to grant the proprietor first sales privileges, as enunciated in Winthrop, the the Hag case was improperly decided. The reprehensibility of this decision, moreover, is clear in light of the Court's subsequent statement in EMI:

> The requirement that [a party] must, for the purposes of his exports to the Community, obliterate the mark on the products concerned and perhaps apply a different mark forms part of the permissible consequences of the protection which the national laws of each Member State afford to the proprietor of the mark against the importation of products from third countries bearing a similar or identical mark.  

Yet if the burden of "obliteration" were a permissible one to place on imports from outside the market, why was it necessarily impermissible, when there was no question of a potential agreement "in restraint of trade"? The Court's decisions provide no principled answer.

While the principle of "exhaustion of rights" will become a part of the "official" law of the Common Market upon ratification of the Luxembourg Convention, the Court's earlier adoption of the principle by judicial fiat loses none of its unconscionable character. Since a procedure in accord with the Treaty allocations of power has

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83. CBS United Kingdom, supra note 68, at 7364.
been shown to achieve the same purpose, the need for the Court to effect amendments of national intellectual property law through decisions under Article 177 has been shown to be nonexistent.

Finally, the lack of clarity in the Court's employment of the concept of a "measure having equivalent effect" to a disguised restriction or arbitrary discrimination on trade leaves the law in a less than orderly state. If attempts to implement provisions of municipal law are to be viewed as "equivalent measures," Articles 30 through 34 now impose direct obligations upon individuals, in spite of their facial applicability only to Member States. On the other hand, if one accepts the Commission's argument in Sterling that judgments given by national courts prohibiting the importation of goods constitute such measures, a municipal court improperly applying the tortured logic of the Court would, perhaps totally inadvertently, violate Community law. Since the Court itself often appears to fail to understand its own reasoning, the situation is totally perverse.

In conclusion, the Court's forays in the area of intellectual property are at best confused and in many ways unjustifiable. While the Community Patent Convention will at least alleviate the problem of the Court-made doctrine of "exhaustion of rights," applying it both on the municipal and the Community level, the provisions giving the Court of Justice appeal jurisdiction on some acts of the European Patent Office actually increase the likelihood of further judicial limitations on patent rights. The other forms of intellectual property might eventually receive similar treatment. Unless the Court strives to improve the logic of its decision-making process and abandons its doctrinaire approach, it will become increasingly more difficult for it to command the respect necessary for its effective functioning as an important Community organ.

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85. Van Gerven, supra note 50, at 10.
86. Decision of January 26, 1976, supra note 84, art. 73.
87. Id., art. 32.
88. Id., art. 63
89. A similar convention on trademarks has been proposed; it would be reasonable to suppose that copyrights will receive further attention.