

Brooklyn Journal of International Law

Volume 20

Issue 1

SYMPOSIUM:

Intellectual Property and Competition Law:

Changing Views in the European Community and
the United States of America

Article 6

9-1-1993

Intellectual Property Rights and the Free Movement of Goods in the European Union

David Keeling

Follow this and additional works at: <https://brooklynworks.brooklaw.edu/bjil>

Recommended Citation

David Keeling, *Intellectual Property Rights and the Free Movement of Goods in the European Union*, 20 Brook. J. Int'l L. 127 (1993).
Available at: <https://brooklynworks.brooklaw.edu/bjil/vol20/iss1/6>

This Article is brought to you for free and open access by the Law Journals at BrooklynWorks. It has been accepted for inclusion in Brooklyn Journal of International Law by an authorized editor of BrooklynWorks.

ARTICLES

INTELLECTUAL PROPERTY RIGHTS AND THE FREE MOVEMENT OF GOODS IN THE EUROPEAN UNION*

*David Keeling***

I. INTRODUCTION

There are two areas in which a conflict may arise between European Union law and intellectual property rights. On the one hand, there are the competition rules of the EC Treaty, in particular Article 85 which prohibits agreements in restraint of trade, and Article 86 of the Treaty which prohibits the abuse of a dominant position. On the other hand, there are the rules on the free movement of goods, which are set forth in Articles 30 through 36 of the Treaty. This morning Ben Smulders dealt with some aspects of illegal agreements under Article 85, and touched on abuse of a dominant position under Article 86, and Rosa Greaves will be dealing later on with the latter subject. I therefore propose to confine my remarks exclusively to the free movement of goods and the relationship—conflict if you like—between the free movement of goods and intellectual property rights.

II. THE FREE MOVEMENT OF GOODS UNDER ARTICLE 30

Article 30 of the EC Treaty prohibits prohibitions and quotas on imports of goods from other member states. To use the language of Article 30, it prohibits “quantitative restrictions on imports and all measures having equivalent effect” in

* The following is the transcribed speech of Mr. David Keeling which was given on April 15, 1994, at Brooklyn Law School. Mr. Keeling attended the April symposium in the place of Judge Christopher Bellamy, who spoke at the fall symposium in London and who was unable to attend in April.

** Barrister of GRAY'S INN, Law Clerk at the European Court of Justice.

trade between member states. The idea is very simple: once goods are on the market in any member state anywhere in the European Union, they may, in principle, be exported to other member states and placed on the market there.

It is not difficult to see how conflicts can arise between the basic principle of free movement of goods and intellectual property rights. Intellectual property rights are exclusive rights and they are limited, normally, to the territory of a single member state. I will give you a few examples of the conflicts that can arise as a result of the exclusivity and territoriality of these rights.

Suppose that I own a patent in the United Kingdom and for some reason, I have not taken out a patent in France—possibly I was not able to because my invention is not sufficiently novel under French substantive patent law. Suppose further that somebody else manufactures goods using the patented process in France, and he or a third party exports them to the United Kingdom. I might attempt to rely on my British patent and bring infringement proceedings to keep those goods off the British market. If I succeed, I have erected an obstacle to trade between member states. On the other hand, if I fail, the substance of my patent right will have been destroyed, and I will be unable to do anything about infringing goods coming from other member states. Thus we have a conflict between the patent right and the free movement of goods.

For another example, suppose that I manufacture margarine in the United Kingdom and I use a registered trademark "Bongo," while somebody in France, one of my competitors, is manufacturing margarine there under the name "Dongo." The two trademarks are arguably so similar as to engender confusion amongst consumers. If we are each allowed to rely on our trademark to exclude from our own territory goods manufactured by the other person, then again, we are going to have a barrier to trade between member states. On the other hand, if we are not allowed to keep the other manufacturer's goods out of our own territory, we are going to have a lot of confusion for consumers and also for the manufacturers. Each will lose some of his goodwill to the other and neither will be sure of his ability to maintain the reputation of his trademark by producing goods of high quality.

Moving to the field of copyright, suppose, for example, that I am no longer an inventor or a margarine manufacturer, but

rather I am the grandson of a famous German author. I have inherited the exclusive rights in his works which are still in copyright in Germany where copyright lasts for the life of the author plus seventy years. Suppose that in Britain, where the term of protection is shorter, the works are out of copyright and a British publisher publishes them without my permission and then somebody else puts them on the market in Germany. Can I rely on my German copyright to prevent the sale of those goods? These are just three examples of the conflicts that can arise between intellectual property rights and the free movement of goods.

The authors of the EEC Treaty, or the EC Treaty as we must now call it, were very prescient—they foresaw this conflict between intellectual property rights and the free movement of goods. When they were drafting the first sentence of Article 36 of the Treaty, therefore, they included amongst the list of overriding requirements justifying restrictions on the free movement of goods—along with public health, public morality, the protection of life of animals, artistic treasures, and so forth—the protection of industrial and commercial property. The second sentence of Article 36 goes on to say, however, that the prohibitions or restrictions that are permitted under the first sentence must not constitute a means of arbitrary discrimination or a disguised restriction on trade between member states.

Thus, the Treaty recognizes the existence of a conflict between free movement and intellectual property rights, and resolves the conflict by giving preference to intellectual property rights. But it is a limited preference: The restrictions engendered by intellectual property rights must be justified and they must not lead to arbitrary discrimination or to a disguised restriction on trade.

III. THE UTOPIAN SOLUTION

The task of interpreting and applying these provisions—*i.e.*, the task of maintaining the balance between the two competing interests of free movement of goods and protection of intellectual property—has been given largely to the European Court of Justice. The Court has given forty or fifty judgments in this area in the course of the last thirty years. I am going to attempt to summarize the basic principles that

can be extracted from this body of case law. Before proceeding with that, however, I would just like to mention what would be the ideal, the utopian, solution to the problems created by this conflict.

Some of the problems can be removed by harmonization of national law. For example, in the copyright example I gave you, where you have a problem due to a difference in the term of protection, the problem may be removed by harmonization. The Council of Ministers of the European Union has moved toward this harmonization by adopting Directive 93/98/EEC of 29 October 1993¹ harmonizing the term of protection of copyright and certain related rights. The Council pursued harmonization in a somewhat surprising way. Under German law the term of protection is, as I mentioned earlier, the life of the author plus seventy years. In most of the member states the term of protection is the life of the author plus fifty years. The harmonization which has been adopted in the Council Directive is based on the German rule. The term of protection for copyright in all the member states will now have to be the life of the author plus seventy years.

I must say that, as an Englishman, this approach to the difficult question of harmonization of law does not strike me as entirely satisfactory, but that is the way it has been done.

As I say, harmonization of law can solve some of the problems in this area, but it cannot solve all of them. In fact, it cannot solve some of the most difficult ones, because they are due, not to discrepancies in national law, but to the territoriality of intellectual property rights—they are due to the fact that we have United Kingdom patents, German patents, French patents, that we have Italian trademarks, Spanish trademarks, and so forth. What I call the utopian solution is to replace all these national rights with a unitary Union right, in other words, have a Union patent, a Union trademark, and a Union concept of copyright.

There have been two initiatives in this area: the Community Patent Convention and the Community Trademark Regulation.² The Community Patent Convention, which was signed in Luxembourg as long ago as 1975, does envisage the creation

1. Council Directive 93/98, 1993 O.J. (L 290) 9.

2. Council Regulation 40/94, 1994 O.J. (L 11) 1.

of a single patent valid throughout the territory of all the member states of the European Union. That convention has not yet come into force, however, apparently because the member states cannot quite agree on how much of their linguistic sovereignty they are willing to sacrifice.

The other initiative in this area, the Community Trademark Regulation adopted last December, envisages setting up a Community trademark office (called, rather inappropriately, the Office for Harmonization in the Internal Market); such an office is, in fact, going to be established in Alicante, Spain. Thus, it will be possible for manufacturers to register their trademark at this single office and obtain a trademark which is valid throughout the European Union. Of course, that would prevent new trademark conflicts from arising in the future, such as the Bongo/Dongo example which I mentioned earlier. However, it would not solve the problems caused by existing trademark conflicts.

These are merely utopian solutions, and the problems are going to continue to exist long after these organizations have been set up, long after these unitary rights come into being, because national patents will continue to exist alongside the Community patent, and national trademarks will continue to exist alongside the Community trademark. It would be difficult, at least as regards trademarks, to envisage anything else because there are already many existing conflicts between identical or confusingly similar trademarks within the European Union. As a result of the existence of ten separate trademark offices in the different member states (I say ten because the Benelux countries—Belgium, Luxembourg, and the Netherlands—have a single unitary system) it is inevitable that we have many such conflicts. Three hundred thousand is the estimate given by one distinguished author.³ Obviously it is a big problem and it is not going to disappear just because we establish a Community trademark office in Alicante.

3. Friedrich K. Beier, *Trademark Conflicts in the Common Market: Can They be Solved by Means of Distinguishing Additions?*, 9 INT'L REV. INDUS. PROP. & COPYRIGHT L. 221 (1978).

IV. THE EUROPEAN COURT OF JUSTICE: BALANCING THE COMPETING INTERESTS

What I want to do with the remaining time is to try and summarize some of the basic principles established by the European Court of Justice regarding the balancing exercise that has to be carried out between intellectual property rights and the requirements of the free movement of goods. There are four principles that I would like to deal with, but it is going to have to be rather superficial, I'm afraid, because of the limited time.

A. *Procedures and Conditions*

The first principle is that in the absence of harmonization of laws, it is national law—the law of each member state—that determines the procedures and conditions governing the grant of intellectual property rights. This principle was established in 1982 in *Keurkoop v. Nancy Kean Gifts*.⁴ If we are talking about minor procedural conditions, such as a rule that patent applications have to be filed in triplicate between 9:00 A.M. and 5:00 P.M. Monday through Friday, then I have no argument with this principle; obviously it would be unwise for the European Court, or for any other Union body, to start interfering with member states' prerogatives in that area. It is questionable, however, whether that rule should be extended beyond the area of these minor procedural rules into the area of substantive conditions governing the creation of valid intellectual property rights. If I quote briefly the facts of *Nancy Kean Gifts*, I think I can explain why I am rather skeptical about this line of the Court's case law.

In that case, Nancy Kean Gifts had registered a design for a ladies' handbag in the Benelux register of designs. Nancy Kean Gifts was not the author of the design, and it had not acquired the design from the author; it had, as appears from reading the report on the case, simply copied the design from the United States register of designs. That was no obstacle to obtaining a valid design right in Benelux which was enforceable against everyone except the author himself, who did not appear to have been involved in these proceedings. Under the

4. Case 144/81, *Keurkoop BV v. Nancy Kean Gifts BV*, 1982 E.C.R. 2853, 2 C.M.L.R. 47 (1983).

Benelux Uniform Design Law, you did not have to be the author of the design, and you did not have to show that you had acquired the design from the author, you simply had to be the first person to register the design. And if you had arrived at the office half an hour before another person who wanted to register the same design, you got a valid design right giving you an exclusive right throughout Belgium, the Netherlands, and Luxembourg to market products using that design.

What happened in this case was that another firm (Keurkoop) wanted to import more or less identical handbags which clearly infringed Nancy Kean Gifts' exclusive right. It was a rather funny case, because, as far as one could make out, both of the firms were importing the handbags directly from Taiwan, so you may wonder what this had to do with the free movement of goods between member states of the European Union. Well, the fact is that Keurkoop *could* have been importing the goods from another member state. They could have been goods originating in Taiwan that were on the market in Germany, for example, and were then imported into the Netherlands, and there should not be any difference between, on the one hand, goods manufactured in a member state and, on the other, goods manufactured outside the European Union once they have been properly imported, and customs duties and other formalities have been carried out.

The argument raised by Keurkoop was that this registered design was not worthy of protection under Article 36 of the Treaty and was not really intellectual property at all, but rather it was just a design that had been copied. The Court rejected that argument and established this principle: in the absence of harmonization, it is national law which determines the procedures and conditions governing the grant of intellectual property rights. So as a result, Nancy Kean Gifts was, in effect, able to seal off the Benelux market with this exclusive right to sell the handbag in those countries and with the right to keep out goods from other member states. I cannot see what the justification is, frankly, for giving somebody an exclusive right if all he has done is just copy a design from someone else.

The European Court of Justice has so far recognized just one exception to that principle in the recent *Phil Collins*⁵

5. Joined Cases C-92/92 and C-326/92, *Phil Collins et al.*, 1993 E.C.R. I-5145.

judgment where the Court held that the rule is, in effect, subject to the overriding prohibition of discrimination on grounds of nationality which is laid down in Article 7 of the EC Treaty.⁶ Phil Collins, a well-known rock star, was having difficulty opposing the sale of bootleg CDs in Germany—CDs produced as a result of illegal recordings made at a concert given in California. It appeared that under German law he would have been able to prevent the bootleg sales if he had been German. He was not able to do so because he was British, however, and the Court held that this sort of discrimination in the granting of intellectual property rights was contrary to the Treaty.

Unfortunately, this principle is not going to be of much use to your American clients because Article 6 of the EC Treaty only prohibits discrimination on grounds of nationality as regards nationals of member states of the European Union. There was, in fact, a case in Germany in which Bob Dylan attempted to act against the sale of bootleg recordings. The case was not referred to the European Court. Even if it had been, I doubt whether there was much the Court could have done for Bob Dylan because he is not, so far as I know, a national of a member state of the European Union.

B. Existence versus Exercise

The Court has consistently held that Article 36 derogates from a fundamental principle of Union law—the principle of free movement—and as such, it must be interpreted narrowly. The Court has made a rather mysterious distinction between the “existence” and the “exercise” of intellectual property rights on this basis. The Court says that the Treaty, Article 36 in particular, protects the existence of intellectual property rights, but may nonetheless limit the exercise of those rights. I have always found this distinction rather unhelpful, and in some recent judgments the Court has not in fact bothered to refer to it.

C. Specific Subject Matter

A slightly more helpful criterion that one can extract from the Court's case law is the “specific subject matter” test. This

6. This has now become Article 6 of the EC Treaty as a result of the Maastricht Treaty.

sounds very arcane and esoteric, and when I give a talk on this subject I notice that the eyes of people in the audience start to glaze over and they start to look at me as though they are wondering about my sanity. I will try to explain it: The Court has said that because Article 36 must be construed narrowly, since it derogates from the fundamental principle of free movement, it only protects the rights that constitute the specific subject matter of the intellectual property in question. The Court first said this in the *Deutsche Grammophon*⁷ case in 1971, but it did not go on to say what it meant by this expression.

The meaning of this puzzling concept will, I hope, become clearer if we look at another case, *Centrafarm v. Sterling Drug*,⁸ decided three years later. Sterling Drug owned patents in the Netherlands and in the United Kingdom for a pharmaceutical product. In the United Kingdom at that time, price control legislation was in force, and the company was not able to charge the sort of high price that one would expect a patentee to be able to impose by taking advantage of the monopolistic position conferred by his patent. In the Netherlands, on the other hand, no price control legislation existed and the prices were accordingly higher. A firm called Centrafarm bought goods that had been marketed in the United Kingdom by Sterling Drug and exported them to the Netherlands. An infringement action was brought against the parallel importer by Sterling Drug, which tried to rely on its Netherlands patents to keep those goods off the market. The European Court held that the specific subject matter of a patent is the guarantee that the patentee, in order to reward his creative effort, has the exclusive right to use the invention, for manufacturing industrial products and putting them into circulation for the first time, whether directly or indirectly by the grant of licenses to third parties, as well as the right to impose infringements. Now that is quite a definition of the specific subject matter of a patent. And it does not leave much room for further debate as to the outcome of the case.

What does this expression "specific subject matter" mean?

7. Case 78/70, *Deutsche Grammophon GmbH mbH v. Metro-SB-Grossmärkte GmbH & Co. KG*, 1971 E.C.R. 487, 496, 10 C.M.L.R. 631 (1971).

8. Case 15/74, *Centrafarm BV v. Sterling Drug, Inc.*, 1974 E.C.R. 1147, 2 C.M.L.R. 480 (1974).

As I say, it is a very esoteric concept, and if you are having difficulty in understanding it, all I can say is don't worry, because a lot of other people have difficulty, and I rather suspect that the Court of Justice itself doesn't really always understand what it means by this expression. I think that I just about understand it, and I think the thing that you have got to remember is that the Court of Justice drafts its judgments in French. The French for "specific subject matter" is *objet spécifique*, and I think there is a little bit of a double meaning in the word *objet* in French. It can mean, on the one hand, the core of essential rights that are granted by a patent or by a trademark, or by some other form of intellectual property. But it can have another meaning, a less descriptive meaning; it can imply the objective or the purpose of granting an exclusive right. I think that the second meaning is evident in the Court's definition of the specific subject matter of the patent right because the Court referred to rewarding the creative efforts of the inventor. That was the *raison d'être*, the objective, the purpose of the patent. This second meaning of the expression *objet spécifique* is of course lost in the English translation.

Esoteric though it is, the concept of specific subject matter is undoubtedly useful. Its value is best illustrated by a case in which the Court made no reference to the concept. I return to my favorite subject, namely ladies' handbags. In *Keurkoop v. Nancy Kean Gifts*, the Court of Justice made no attempt to define the specific subject matter of a design right. If it had done so, it would surely have made some reference to rewarding the creativity of the designer, by analogy with the definition—given in *Centrafarm v. Sterling Drug*—of the specific subject matter of a patent. It would then have been apparent that there was no justification for granting an exclusive right to a mere copyist. The concept of specific subject matter, when it is properly applied, reminds us that there must always be some fundamental justification, pertaining to the public interest, for granting an exclusive right that is capable of restricting the free movement of goods.

D. The Exhaustion of Rights

The concept of exhaustion of rights also sounds rather mysterious, but fortunately I think I can explain this one with greater facility because you have an equivalent in American

law known as the "first sale doctrine." What does it mean? Suppose that I own a United States patent, I sell goods using the patented process here in New York, and somebody else buys them and resells them in California. I would not be able to rely on my United States patent to prevent the further marketing of goods that I have marketed myself in another part of the United States. That is what a German lawyer would call the principle of exhaustion—I would be said to have exhausted my patent by placing the goods on the market for the first time.

Most countries, I think, have some sort of principle of exhaustion. Most countries have a national principle of exhaustion whereby you cannot oppose the further sale of goods that you have yourself sold in the country in question, by relying on an intellectual property right under the law of that country. Some countries, on the other hand, have an international principle of exhaustion whereby, if you market goods anywhere in the world, you cannot rely on your trademark or patent to prevent further dealing in the goods. The European Court of Justice, consistent with its philosophy of regarding the territory of the member states as constituting a single market, has opted for a principle of Union-wide exhaustion. And this is really the Court's great achievement in this area.

The principle, which was laid down in *Centrafarm v. Sterling Drug*, amongst other judgments, is very simple. If you place goods on the market anywhere in the territory of a member state, you cannot rely on your intellectual property rights to oppose further dealings in those goods anywhere in the European Union. That is why *Centrafarm* was unable to rely on its Dutch patent to prevent the sale of the goods it had marketed itself in the United Kingdom, notwithstanding that it had been prevented from fully exploiting its patent rights in the United Kingdom as a result of the price control legislation in force there. The Court even held in a subsequent judgment in 1981, *Merck v. Stephar*,⁹ that where a person had marketed pharmaceutical products in Italy, where it was not at the time possible to obtain a patent for such products, he could not rely on his patent in another member state in order to oppose the

9. Case 187/80, *Merck & Co., Inc. v. Stephar BV*, 1981 E.C.R. 2063, 3 C.M.L.R. 463 (1982).

importation of those goods. Some people have criticized that judgment because it can have unfortunate consequences; it could lead the owner of the patent to say, "well if these goods I sell in Italy are going to be able to circulate freely in other countries where I have got a patent, I am just not going to sell my goods in Italy, I will withdraw from the market altogether." The Court seems willing to accept that consequence rather than the alternative, which would be the additional undesirable fragmentation of the common market.

V. CONCLUSION

There are many other things I could say, if time permitted; I could tell you all about the rise and fall of the doctrine of common origin, in relation to trademarks, in two cases known as *HAG I*¹⁰ and *HAG II*¹¹ and about its possible rebirth, as a result of the recent opinion of Advocate General Gulmann in the *Ideal Standard* case, in which judgment is pending. Unfortunately I am not going to have time. I could also tell you about the fascinating question of confusingly similar trademarks and entertain you with stories about such judgments as the *Schöller-Nucki*¹² case, where a German court held that an English product called "Lucky Whip," a sort of powder for making an instant desert cream, could not be sold in Germany because the trademark might be confused with the German trademark "Schöller-Nucki," registered for ice cream. Now, Lucky Whip/Schöller-Nucki, you might not think there is much similarity there, but the German judge decided there was enough similarity to justify a restriction on the free movement of goods. The question was never referred to the European Court. I hope that if it had been, the matter would have been decided differently.

My hope is possibly unfounded in light of the Court's recent judgment in *Deutsche Renault v. Audi*.¹³ In that case the German automobile manufacturer Audi, which uses the name

10. Case 192/73, Van Zuylen Freres v. HAG AG, 1974 E.C.R. 731, 2 C.M.L.R. 127 (1974).

11. Case C-10/89, SA CNL-Sucal v. HAG GF AG, 1990 E.C.R. I-3711, 3 C.M.L.R. 571 (1990).

12. Judgment of Mar. 28, 1973, Bundespatentgericht (BPatG) (cited by Advocate General Jacobs in his opinion in *HAG II*, *id.*).

13. Case C-317/91, Deutsche Renault v. Audi, 1993 E.C.R. I-6227.

"Quattro" to designate the four-wheel drive version of its vehicles, objected to the use by Renault—a French car-maker—of the term "Quadra" to designate the four-wheel drive version of a model called the "Renault Espace." The European Court repeated the familiar formula that in the absence of harmonization it is for national law to determine the conditions governing the grant of intellectual property rights. It then held, somewhat surprisingly perhaps in view of its general approach to Article 36 of the EC Treaty, that the Treaty does not require the national courts to appraise the risk of confusion narrowly when the supposedly similar trademarks are registered in different member states. I must say that the idea of someone going into a car showroom and buying a Renault Espace Quadra in the mistaken belief that he is buying an Audi 100 Quattro, or even that the two cars must somehow have the same technology because one element of their names is similar, strikes me as implausible. Moreover, the two names coexist peacefully in France and other countries, so it is difficult to see why they cannot coexist in Germany.

The *Deutsche Renault* case is a good one to close on because it reminds us that intellectual property is above all about striking a balance between the competing claims of the person who invokes an exclusive right and the entitlement of other persons to pursue their lawful business free of unjustified restraint. I cannot help feeling that in this case the Court gave too little weight to the requirements of free trade and thus failed to strike the right balance. Let us hope that it does not signal the inauguration of a new trend.

