

# Brooklyn Journal of International Law

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Volume 18

Issue 3

Symposium: The Impact of European Integration on  
Intellectual Properties

Article 1

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4-1-1992

## An Introduction to the European Economic Community and Intellectual Properties

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### Recommended Citation

Beryl R. Jones, *An Introduction to the European Economic Community and Intellectual Properties*, 18 Brook. J. Int'l L. 665 (1992).  
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# SYMPOSIUM ARTICLES

## AN INTRODUCTION TO THE EUROPEAN ECONOMIC COMMUNITY AND INTELLECTUAL PROPERTIES

*Beryl R. Jones\**

### I. INTRODUCTION

Intellectual properties<sup>1</sup> have existed in Europe since at least as early as 1235, when King Henry III issued "letters patent" to one Bonafusus de Sancta Columba and his associates to make fabrics of various colors in Bordeaux, which was then under English rule.<sup>2</sup> Since that time, the power to define intellectual properties and to award ownership of them has been the prerogative of the sovereign<sup>3</sup> and these properties have always been territorial in their nature. Therein lie the facts which give rise to this symposium. The power of an individual nation to define, limit, and bestow intellectual properties can conflict with the principles of economic unity that form the foundation of the European Economic Community (the EC or the Community). A "Europe Without Frontiers" cannot exist if intellectual property rights vary widely from member state to member state. Differ-

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\* Beryl R. Jones is a Professor of Law at Brooklyn Law School. This article was presented in April 1992 at a symposium on the European Economic Community sponsored by the Brooklyn Journal of International Law and the Brooklyn Law School Center for the Study of International Business Law. I would like to thank my research assistants Cynthia Stone and Jacqueline Kagan for their help and Brooklyn Law School for providing a Summer Fellowship to write this piece. I would also like to thank Thomas Roberts and Silke von Lewinski for their assistance. Of course, all errors are my own. Copyright 1992 Beryl R. Jones-Woodin. All Rights Reserved.

1. The term "intellectual properties" refers to a broad range of rights including copyrights, trademarks, patents, trade secrets, know-how, rights of publicity, and design rights. This article will, however, discuss only copyrights, trademarks, patents, and rights concerning computers.

2. BRUCE BUGBEE, GENESIS OF AMERICAN PATENT AND COPYRIGHT LAW 14 (1967).

3. EDWARD W. PLOMAN & L. CLARK HAMILTON, COPYRIGHT 13 (1980).

ences in national legal schemes create serious obstacles to the free movement of intellectual properties across borders.<sup>4</sup>

During most of its existence, the European Community has played a limited role in the protection of intellectual properties in its member states, intervening in only a few modest ways to ensure the free flow of goods and services. Since the 1980's, however, there has been a startling turnabout in both the Community's vision of its role in the intellectual property arena and its willingness to execute that vision. To be sure, there were seeds of this future in the early rulings and policies of the Community, yet massive changes began in 1985 with the Community's *White Paper on Completing the Internal Market* (the White Paper). The White Paper foretold major changes in the general economic life of the Community and in the intellectual property regimes of the member states.<sup>5</sup> The recognition of the importance of intellectual properties and the need for Community involvement have spurred considerable activity. Since 1985, the Community has begun a substantial effort to harmonize the Community's intellectual property regimes and to create Community-wide intellectual property rights.

These developments are of considerable importance to United States trade and to the United States intellectual property community. Intellectual properties have become a major force in international trade, and their export is one of the most important positive factors in the United States balance of trade. The intellectual property changes now taking place in the EC — a region with a population of over 320 million people — will have an enormous impact on United States trade, not only as a result of the changes within the Community itself, but also because these changes will have international ramifications. EC member states are signatories to a number of international intel-

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4. This fact was learned early on by the founders of the American Union. Under the Articles of Confederation, the freedom of individual states to enact their own intellectual property laws created chaos for writers and inventors. With that experience in mind, the drafters of the United States Constitution included among the limited number of powers of the central government the power to create a uniform system of intellectual properties. U.S. CONST. art. I, § 8, cl. 8. See Beryl R. Jones, *Copyright and State Liability*, 76 IOWA L. REV. 701, 703 (1991) (discussing the background of the United States copyright clause).

5. It stated, "Differences in intellectual property law have a direct and negative impact on intra-Community trade and on the ability of enterprises to treat the Common Market as a single environment for their economic activities." *Completing the Internal Market: White Paper from the Commission to the European Council*, COM(85)310 final at 37 [hereinafter White Paper].

lectual property treaties. Intellectual property changes in the Community may well lead to changes in these treaties. Moreover, in the past, Europe has been a significant leader in the evolution of intellectual property rights. It is likely that the thoughtful and thorough deliberations that are occurring in the Community and the resulting measures that the Community adopts will be highly persuasive models for other nations.<sup>6</sup> Lawyers and academics, both European and non-European, have an important role to play in guiding these changes. We must participate in the process by which intellectual property legislation is drafted by the Community and implemented in the member states.

This paper is designed to serve as an introduction to the Community and to the intellectual property laws of the Community. The remaining papers in the symposium will examine particular aspects of the Community's harmonization efforts.

## II. STRUCTURE OF THE EUROPEAN ECONOMIC COMMUNITY

The European Economic Community finds its origins in the European Coal and Steel Community,<sup>7</sup> whose success led to the Treaty of Rome (the EEC Treaty) in 1957.<sup>8</sup> The EEC Treaty created the European Economic Community with the intention of "lay[ing] the foundation of an ever closer union among the peoples of Europe . . . [and] eliminat[ing] the barriers which divide Europe . . . ."<sup>9</sup> The Community is currently comprised of twelve member states, although its membership is likely to expand in the future.<sup>10</sup> While it is principally an economic union,

6. Hugh Hansen, Remarks at the Annual Meeting of the Copyright Society of the U.S.A. (June 15, 1992).

7. TREATY ESTABLISHING THE EUROPEAN COAL AND STEEL COMMUNITY [ECSC TREATY].

8. TREATY ESTABLISHING THE EUROPEAN ECONOMIC COMMUNITY [EEC TREATY].

9. EEC TREATY pmbl. To be sure, the Community is the product of the political, social and economic events of post-World War II Europe. It is simplistic to suggest that a single event or series of events created the Community. A summary of the recent history of the origins of the Community can be found in DEREK WYATT & ALAN DASHWOOD, *THE SUBSTANTIVE LAW OF THE EEC* 477-513 (1987); P.S.R.F. MATHIJSEN, *A GUIDE TO EUROPEAN COMMUNITY LAW* 5-13 (5th ed. 1990); and P.J.G. KAPTEYN & P. VERLOREN VAN THEMATAAT, *INTRODUCTION TO THE LAW OF THE EUROPEAN COMMUNITIES* 1-21 (2d ed. 1989).

10. The original members were Belgium, France, the Federal Republic of Germany, Italy, Luxembourg and the Netherlands. Denmark, and the Republic of Ireland, the United Kingdom joined in 1973. Treaty Concerning the Accession of the Kingdom of Denmark, Ireland, the Kingdom of Norway and the United Kingdom of Great Britain and Northern Ireland to the European Economic Community and the European Atomic

the Community is also committed to unifying many aspects of the social and political life of the member states.<sup>11</sup>

In 1987, the member states of the EC modified the Single European Act (the SEA) — one of the major legal instruments of the EC. The modified SEA calls for the creation, by December 31, 1992, of "an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured."<sup>12</sup> Since receiving this mandate for a "Europe Without Frontiers," the Community, in what seems to be an ever-expanding range of areas, has produced enormous changes in the regulation of economic life within the member states, including changes related to intellectual properties. The effort to create an internal market without barriers has its detractors, and considerable controversy has emerged on a number of fronts. For example, in the intellectual property area, the effort to secure a single European patent has been stymied for years over, among other issues, the appropriate type of judicial review to be applied in infringement actions. Nevertheless, the movement towards unification has begun and is unlikely to be reversed.

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Energy Community, Jan. 22, 1972, 1972 O.J. (L 73) 1 [hereinafter 1972 Accession Treaty] (Norway did not join at this time). Greece, in 1980, and Spain and Portugal, in 1986, also joined by signing Treaties of Accession. Documents Concerning the Accession of the Hellenic Republic to the European Communities, May 28, 1979, 1979 O.J. (L 291) 1 [hereinafter Greek Accession Treaty]; Documents Concerning the Accession of the Kingdom of Spain and the Portuguese Republic to the European Communities, June 12, 1985, 1985 O.J. (L 302) 9 [hereinafter Spanish Accession Treaty]. Turkey, Cyprus, Malta, Finland, Sweden, Switzerland, and Austria have applied to become members of the Community. Reuter Library Report, *EC Begins Processing Finland's Membership Application*, Apr. 6, 1992. In addition to formal membership, the Community has developed relationships with a number of other countries, which enable them to receive some benefits of the Community. For example, the Community recently completed negotiations with the European Free Trade Association (EFTA), whose members are Norway, Sweden, Denmark, Austria, Portugal, Switzerland, and Liechtenstein, to create a European Economic Area (EEA). The EEA seeks to establish a single market among the nineteen members of the Community and the EFTA. The EEA would obligate the EFTA nations to implement all existing Community single-market legislation and other rules ensuring the free flow of workers, capital, services, and goods. Int'l Trade Rep. (BNA), *General Developments* May 20, 1992. Full ratification of the EEA is expected by the end of the year. *EC/EFTA: European Parliament and EFTA prepare for EEA Ratification*, European Information Service, Europe Report, Section: v. External Relations; No. 1798 (Sept. 26, 1992), available in LEXIS, Europe Library, Eurrept File.

11. NEILL NUGENT, *THE GOVERNMENT AND POLITICS OF THE EUROPEAN COMMUNITY* 35 (2d ed. 1991).

12. Single European Act, tit. II, Provisions Amending the Treaties Establishing the European Communities, July 1, 1987, 1987 O.J. (L 169) 1 [hereinafter SEA].

### A. *Principal Institutions*

The Community is composed of four principal institutions: the Council, the Commission, the European Parliament (the Parliament), and the Court of Justice.<sup>13</sup>

#### 1. The Council<sup>14</sup>

The Council is the Community's main decision-making institution, with the principal responsibility for enacting Community law. It is responsible, along with the Commission, for coordinating national policies, setting common policies for the Communities,<sup>15</sup> administering the policies set forth in the treaties and implementing decisions, and ensuring the observance of Community law.<sup>16</sup> All major areas of lawmaking are within the Council's authority. The Council is made up of cabinet level representatives of the member state governments who participate under the authority of their national governments. The member states determine which representatives will be sent to any particular meeting of the Council. The Presidency of the Council rotates among the member states on a six-month basis. It is in the Council that the Community's legislation is adopted; however, the Council's legislative authority is not complete. It cannot introduce legislation.<sup>17</sup> Legislation can be initiated only by the Commission, which submits proposed legislation to the Council. In the vast majority of matters, after the Council receives a proposal from the Commission, it is obligated to seek a "reading" from the Parliament.<sup>18</sup> After receiving commentary

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13. There are a vast number of other Community bodies, for example, the European Investment Bank and the European Monetary Cooperation Fund. For a more complete discussion see KAPTEYN, *supra* note 9, at 173-76.

14. The Council (the European Council of Ministers) should not be confused with the European Council. The European Council is composed of the heads of government of the member states. SEA, *supra* note 12, art. 2. It has no legal mandate and its authority and power at any moment depend largely on the personalities and predilections of its members. As a result, the European Council's activities have varied over the years, as has its influence. See MATHIJSEN, *supra* note 9, at 42-43.

15. The Communities include the European Coal and Steel Community, the European Economic Community, and the European Atomic Energy Community.

16. KAPTEYN, *supra* note 9, at 123-24.

17. This limitation has been circumvented by the Council in a variety of ways. For example, the Council has used its power under art. 152 of the EEC Treaty to request the Commission to undertake studies and to provide the Commission with specific directions about proposed legislation. See NUGENT, *supra* note 11, at 101; MATHIJSEN, *supra* note 9, at 45.

18. The form and the frequency of the consultation with the Parliament depends on

from the Parliament and the Economic and Social Committee (ESC),<sup>19</sup> the Council may either adopt the proposed legislation, reject it, or send it back to the Commission for further consideration.<sup>20</sup> Prior to the recent modifications of the SEA, the Council acted unanimously except in a very limited number of circumstances. This severely hampered its ability to adopt legislation; therefore, following the recent modification of the SEA, the Council extended the circumstances in which it acts by a qualified majority, thereby enhancing its ability to act.<sup>21</sup>

Although there is officially only one Council under the EEC Treaty,<sup>22</sup> the Council has divided itself into a number of different bodies in order to carry out its various responsibilities. The principal meeting is the General Council, which is composed of the Foreign Ministers of the member states. It deals with general issues, external political relations, and politically sensitive matters.<sup>23</sup> Other Council meetings handle specific issues such as agriculture, economic policy, and environmental matters.<sup>24</sup> The member states' representatives at these Council meetings are the respective ministers of the member states, e.g., the agriculture ministers, the finance ministers, and the environmental ministers. Intellectual property matters are handled by the Internal Market Council.

The Council is assisted by various subsidiary bodies, the most important of which is the Committee of Permanent Representatives (COREPER). Because the Council meets only a few days each month, COREPER acts as the Council's ongoing body with respect to day-to-day matters. Each member state sends a number of high-level civil servants with the rank of ambassador

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the type of legislation proposed. *See infra* note 43 and accompanying text for a more detailed discussion.

19. The ESC is an advisory body comprised of representatives of various social and economic activities in the Community. The members of the ESC are proposed by national governments and appointed by the Council. They represent three groups: employers, workers, and a third group of either agriculture, small and medium sized businesses, the professions, public agencies, local authorities, consumer groups, environmental protection organizations, etc. The members of the ESC act in their personal capacities and do not represent either their member states or their affiliated organizations. MATHIJSEN, *supra* note 9, at 100-01.

20. *See* EEC TREATY art. 149 (detailing the procedure for some Council decision-making).

21. For example, EEC TREATY art. 14.

22. *See* EEC TREATY art. 145.

23. NUGENT, *supra* note 11, at 106.

24. Other Councils include the Ministers of Agriculture, Energy, and Environment. NUGENT, *supra* note 11, at 105-07.

to the Council to handle that nation's Community business. COREPER is made up of the heads of these national delegations.<sup>25</sup> One of its principal responsibilities is to develop matters for consideration by the Council. As a practical matter, some of the most significant work of the Council is accomplished by COREPER because after COREPER has reached an agreement on a proposal and submitted it to the Council, the Council frequently adopts the proposal without discussion.<sup>26</sup>

## 2. The Commission

The Commission is the administrative and executive branch of the Community. It is composed of seventeen commissioners who are selected by the member states to become Community servants.<sup>27</sup> In addition, a vast Commission bureaucracy serves the Commission.<sup>28</sup>

The Commission is charged with the responsibility of "ensuring the proper functioning of the Common Market,"<sup>29</sup> representing the Community in the international arena,<sup>30</sup> and proposing legislative measures to the Council to advance Community policies.<sup>31</sup> Its role in the legislative arena is of considerable importance as it is the only body with the power to initiate legislation. This power is limited to some extent because the Council can recommend that the Commission consider proposals submitted by the Council. The more detailed the recommendation, the more substantial the Council's input.<sup>32</sup> The Council can amend a Commission proposal only if it obtains the Commission's agreement or if the Council acts unanimously.<sup>33</sup> In the absence of the Commission's consent or the Council's unanimity, the Council can only accept the Commission's proposal as submitted, reject

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25. KAPTEYN, *supra* note 9, at 105.

26. See MATHIJSEN, *supra* note 9, at 39-41.

27. France, Germany, Italy, Spain, and the United Kingdom each have two Commissioners; the remaining seven member states each have one. MATHIJSEN, *supra* note 9, at 53 n.69.

28. The Commission is divided into twenty-three policy areas called Directorates General. An average Directorate has a staff of between 150 and 450 people. The largest, the Personnel and Administration, employs 2,500 people; the two smallest, the Coordination of Structural Policies and Enterprises' Policy, Distributive Trades, Tourism and Social Economy, each employ sixty people. NUGENT, *supra* note 11, at 66-67.

29. EEC TREATY art. 155.

30. NUGENT, *supra* note 11, at 72.

31. EEC TREATY art. 152.

32. See *supra* note 20 and accompanying text.

33. EEC TREATY art. 149. See generally MATHIJSEN, *supra* note 9, at 45-46.



it, or send it back for reconsideration.<sup>34</sup>

The Commission also has a number of responsibilities in connection with policy development and implementation. Concerning intellectual properties, the Commission's most important tool may be its rule-making authority. By issuing regulations and decisions that, in theory, merely implement Community law as embodied in earlier legislation or treaties, the Commission can have an enormous influence on the development of Community law. The EEC Treaty gives the Commission the power to define what constitutes unfair competitive practices and discrimination. This authority has enabled the Commission to wield a significant influence in the development of restrictions in the licensing of intellectual properties.<sup>35</sup>

The Commission also has the responsibility of ensuring that the treaties and the Community's legislation are respected.<sup>36</sup> It may do this by initiating proceedings in the Court of Justice against member states for failure to comply with Community measures.<sup>37</sup> The Commission has no power to penalize a member state for failure to comply with Community law, but it does have limited authority to impose fines on individuals or other legal persons.<sup>38</sup>

The Commission also represents the Community in the international arena. It is the Community's representative in various international organizations, including a number of which address intellectual property matters. For example, the Commission represents the Community in the United Nations and currently represents the Community in the ongoing intellectual property negotiations under the General Agreement on Tariffs and Trade (GATT).<sup>39</sup>

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34. EEC TREATY art. 149(2).

35. *E.g.*, the block-exemption for patent licensing was issued under this authority. Commission Regulation 2526/85, 1985 O.J. (L 240) 1.

36. EEC TREATY art. 155.

37. Initially, the Commission contacts the member state accused of infringing the Treaty. If the member state is able to persuade the Commission that there was no infringement or remedy the situation, the matter will be dropped. If, however, these discussions are fruitless, then the Commission will issue an opinion outlining its position, the steps necessary to remedy the situation and the deadline for action by the member state. If the state does not adhere to the opinion, then the Commission may take the matter to the Court of Justice. EEC TREATY art. 169. KAPTEYN, *supra* note 9, at 273-76.

38. EEC TREATY art. 87(2)a. An appeal may be taken to the Court of Justice by an individual from a decision of the Commission. EEC TREATY art. 173.

39. EEC TREATY arts. 228-31. The General Agreement on Tariffs and Trade, Oct. 30, 1947, T.I.A.S. No. 1700, 55 U.N.T.S. 194 [hereinafter GATT], is specifically mentioned in

### 3. The European Parliament

The European Parliament is an elected body with membership apportioned among the member states. Its members are elected by direct universal suffrage.<sup>40</sup> The members are representatives of the people of the Community; they do not serve as national representatives.

The Parliament is not a traditional legislative body in that its responsibilities are largely advisory and supervisory, and it is not empowered to initiate or adopt legislation. Prior to the modification of the SEA, the Parliament's only formal involvement in the legislative process was the requirement that it be consulted before legislation could be adopted. As a result, the Parliament had been criticized as an ineffectual institution with only a minimal role in the development of Community policies and laws.<sup>41</sup> This criticism is less accurate now that the SEA has significantly increased the role of the Parliament in the legislative process.<sup>42</sup>

The nature of the consultation with the Parliament varies with the subject matter of the legislation.<sup>43</sup> For legislation not adopted pursuant to the cooperation procedure of the SEA, the method of consultation is a single "reading." Under this procedure, the Council consults with the Parliament by obtaining the Parliament's view of pending legislation. Provisions of the Treaty calling for legislation to be adopted by the Council in "cooperation" with the Parliament require a second reading. This second reading permits the Parliament to propose amendments to legislation that can be rejected only if the Council acts unanimously.<sup>44</sup> For example, Article 100A requires a second reading.<sup>45</sup> Article 100A, which covers harmonization measures in

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EEC TREATY art. 229.

40. Until 1979, the members of the Parliament were appointed by the parliaments of the member states in accord with the procedures determined by the member states. See KAPTEYN, *supra* note 9, at 133; MATHIJSEN, *supra* note 9, at 18.

41. NUGENT, *supra* note 11, at 129.

42. EEC TREATY art. 149. SEA article 6 lists the Treaty provisions that require Parliamentary cooperation. Article 8 requires the assent of Parliament in approving the accession of new community members where previously Parliament need not have been consulted. SEA, *supra* note 12, arts. 6, 8.

43. Certain provisions of the EEC Treaty require the Council to act "in cooperation with the European Parliament." If measures are adopted "in cooperation" with the Parliament, second readings are required. EEC TREATY art. 149(2). MATHIJSEN, *supra* note 9, at 20; KAPTEYN, *supra* note 9, at 140-42.

44. EEC TREATY art. 149.

45. EEC TREATY art. 100A. See also EEC TREATY arts. 7 and 49 requiring "coopera-

connection with establishing a functioning internal market, has been the basis of a number of intellectual property directives.<sup>46</sup> When a second reading is required, the Council may not adopt legislation after its first consultation with the Parliament, in which the Council receives the opinion of the Parliament on the proposed legislation. After obtaining the first opinion, the Council can then take a "common position" and refer the matter back to the Parliament for a second reading. At that time the Parliament may adopt, reject, or amend the proposal.<sup>47</sup> Although, at this second reading, the Parliament may not prevent the adoption of legislation that it disapproves, its rejection or amendment of proposed legislation may only be overridden by a unanimous vote of the Council. This new process has the effect of heightening the Parliament's influence on legislation that is ultimately adopted and has resulted in changes to legislation.<sup>48</sup>

The Parliament also exerts influence through the budget process. The budget is proposed by the Commission and adopted by the Council.<sup>49</sup> Consultation with the Parliament is required.<sup>50</sup> In the past, the Parliament had been very aggressive in asserting its budgetary authority.<sup>51</sup>

Finally, the Parliament has a limited supervisory role over both the Commission and the Council. Commentators suggest, however, that the Parliament has had very little influence in Community affairs in this way.<sup>52</sup>

#### 4. The Court of Justice

The Court of Justice is the judicial branch of the Community.<sup>53</sup> It sits in Luxembourg and consists of thirteen judges who are assisted by six advocates general. The judges and advocates

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tion" for matters pertaining to discrimination and free movement of persons.

46. For example, the software directive refers to art. 100A, as does the rental rights directive. Council Directive 91/250, 1991 O.J. (L 122) 45; Amended Proposal for Council Directive on Rental Rights, 1992 O.J. (C 128) 5.

47. MATHIJSEN, *supra* note 9, at 21.

48. NUGENT, *supra* note 11, at 129-36.

49. EEC TREATY art. 203. See MATHIJSEN, *supra* note 9, at 27-28.

50. EEC TREATY art. 203. See MATHIJSEN, *supra* note 9, at 27-28, 109.

51. See NUGENT, *supra* note 11, at 137-38.

52. See, e.g., MATHIJSEN, *supra* note 9, at 30.

53. The Court of Justice was created in 1952 pursuant to the Treaty of Paris which established the European Coal and Steel Community. Following the signing of the EEC and the Euratom Treaties in 1957, it became the common Court of Justice for the ECSC, the EEC, and Euratom. See generally Richard Mahfood, *Outside Counsel: The EEC: "European" Law in the Court of Justice*, N.Y.L.J., Jan. 5, 1990, at 1.

general are appointed for terms of six years by mutual agreement of the governments of the member states and do not serve as representatives of individual member states.<sup>54</sup> The president of the Court of Justice is selected by the judges for a three-year term. The advocates general are independent advisors to the Court of Justice and provide it with opinions on cases after oral proceedings are closed. More often than not, the rationales of the advocates general are adopted.<sup>55</sup> The Court of Justice sits in plenary session when it hears cases brought by a member state or a Community institution, or when it has to give a preliminary ruling; other cases are heard by chambers of three or five judges.<sup>56</sup>

The Court of Justice has jurisdiction over actions brought against member states either by the Commission or by other member states;<sup>57</sup> actions initiated by either member states, community institutions, or, in limited circumstances, by individuals who seek to challenge the actions of Community institutions;<sup>58</sup> and, references from the national courts of the member states that seek advisory or preliminary rulings on the interpretation of the EEC Treaty or the interpretation and validity of Community acts.<sup>59</sup>

The SEA created a Court of First Instance to assist the Court of Justice in handling its increasingly burdensome case load and to deal with complex factual issues.<sup>60</sup> The Court of First Instance may consider disputes between the Community and its staff, actions brought against the Commission under the European Coal and Steel Community Treaty, and certain actions under the competition rules.<sup>61</sup> Questions of law are appealable to the Court of Justice.<sup>62</sup>

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54. *But see* NUGENT, *supra* note 11, at 187-88 (asserting that the judges are not particularly independent).

55. Over the past few years, however, the Court of Justice has not followed the advice of the advocate generals in a number of important intellectual property cases. *See, e.g.*, Case 193/83, *Windsurfing Int'l, Inc. v. Commission*, 1986 E.C.R. 611, 3 C.M.L.R. 489 (1986).

56. EEC TREATY art. 165; MATHJSEN, *supra* note 9, at 70-71.

57. EEC TREATY arts. 169, 170.

58. EEC TREATY arts. 173, 175.

59. EEC TREATY art. 177.

60. SEA, *supra* note 12, art. 4(1), amending EEC Treaty to provide for art. 168A.

61. *See* NUGENT, *supra* note 11, at 189 for a further discussion.

62. EEC TREATY art. 168A.

## B. Sources of Community Law

The principal sources of Community law are the founding treaties — the ECSC Treaty, the EEC Treaty and the Treaty Establishing the European Atomic Energy Community (the Euratom Treaty);<sup>63</sup> the Merger Treaty;<sup>64</sup> the Treaties of Accession signed by the member states;<sup>65</sup> and, the SEA.<sup>66</sup> There is also a large body of law comprised of decisions of the Court of Justice, as well as regulations, directives, decisions, opinions, and recommendations written by Community institutions.<sup>67</sup>

Community law has supremacy over national law.<sup>68</sup> Community law may be enforced in the Court of Justice or in national courts.<sup>69</sup> National courts do not have the power to declare invalid any act of a Community institution.<sup>70</sup>

The Court of Justice has given "direct effect" and "direct applicability" to many provisions of Community law. An EC legal rule has "direct effect" if it creates rights or imposes obligations on those who are subject to Community laws that are enforceable in member state courts. Such measures impose obligations on all member states, institutions or persons covered by the measures, and can be invoked by the beneficiaries of these obligations in national courts regardless of whether the measures conflict with national law. A measure has "direct applicability" if it immediately becomes binding upon the member states and does not need any implementing legislation by the member states in order to take effect.<sup>71</sup>

63. ECSC TREATY, *supra* note 7; EEC TREATY, *supra* note 8.

64. Merger Treaty, *supra* note 10.

65. 1972 Accession Treaty, *supra* note 10; Greek Accession Treaty, *supra* note 10; Spanish Accession Treaty, *supra* note 10.

66. SEA, *supra* note 12.

67. In addition, there are a significant number of other measures that must be considered: for example, there are agreements concluded by the Community and third countries or international organizations. A discussion of these measures is outside the scope of this article. See MATHIJSEN, *supra* note 9, at 119-21.

68. Case 26/62, N.V. Algemene Transport — en Expeditie Onderneming van Gend & Loos v. Nederlandse administratie der belastingen, 1963 E.C.R. 1, 1963 C.M.L.R. 105; Case 6/64, Costa v. ENEL, 1964 E.C.R. 585, 1964 C.M.L.R. 425.

69. Alan Dashwood, *Enforcement Actions Under Article 169 and 170 EEC*, 14 EUR. L. REV. 388 (1989); Josephine Steinor, *How To Make The Action Suit The Case: Domestic Remedies for Breach of Community Law*, 12 EUR. L. REV. 102 (1987) (discussing the use of EC law in national courts as a means of obtaining damages, declaratory and injunctive relief).

70. Case 314/85, Firma Foto-Frost v. Hauptzollamt Lubeck-Ost, 1987 E.C.R. 4199, 3 C.M.L.R. 57 (1988).

71. This contrasts with measures which require implementing acts by a member

The treaties are the most significant source of Community law. They establish the institution described above and lay down principles which, either in the treaties or in acts of implementation, constitute a set of rules that directly impose obligations upon and create rights for the benefit of member states, as well as natural and legal persons within the Community.<sup>72</sup>

The Community has a variety of different legal instruments which have specialized significance within the context of Community law. These include regulations, directives, decisions, recommendations, and opinions.<sup>73</sup> The legal instruments can have significant effect on United States intellectual property owners seeking either to exploit or protect their rights in the Community. As a result, many United States intellectual property rights owners have participated in the process by which these legal instruments are adopted, either by responding to Community calls for comments on proposed legislation or by contacting Community institutions and lobbying directly. For example, the United States motion picture and television industries were heavily involved in the adoption of the Broadcasting Directive.<sup>74</sup>

*Regulations* are legislative acts of general applicability. Regulations are not directed to a limited number of persons, but rather to a general category of people or entities.<sup>75</sup> As a practical matter, to date, many regulations have pertained to highly specific and technical matters of Community law.<sup>76</sup> They are binding on member states and persons, and have direct applicability,<sup>77</sup> as well as direct effect, in the member states. Regulations may be adopted by the Council and Commission,<sup>78</sup> and are subject to judicial review. Regulations are published in the *Official Journal of the European Communities* (Official Journal) and

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state. See *infra* notes 81-86 and accompanying text. In general, measures have direct applicability when there is no need for the member states to take action to make the measures binding. Measures with direct effect confer rights or impose obligations on individuals that national courts must enforce. NUGENT, *supra* note 11, at 177. To have direct effect, measures must define the obligation of individuals clearly and precisely, the wording must make the obligation unconditional and unqualified, and the measure must not allow for discretion in its implementation. KAPTEYN, *supra* note 9, at 333-38.

72. MATHJSEN, *supra* note 9, at 112.

73. EEC TREATY art. 189.

74. See Council Directive 89/552, 1989 O.J. (L 298) 23.

75. Joined Cases 16 & 17/62, *Producteurs de fruits v. Council*, 1962 E.C.R. 471, C.M.L.R. 160 (1963).

76. NUGENT, *supra* note 11, at 168-69.

77. EEC TREATY art. 189.

78. NUGENT, *supra* note 11, at 169.

enter into force on the date set forth in the regulation.<sup>79</sup>

Regulations have been used in the intellectual property arena in a number of circumstances. For example, the Commission has adopted regulations which describe classes of patent and know-how licensing agreements that do not violate the EEC Treaty's anti-competition rules.<sup>80</sup>

*Directives* are addressed to member states which must modify or enact national laws so as to conform with the directive. They are issued when there is a need to lay down general principles and goals. Member states must take the necessary steps to achieve the results required by the directive.<sup>81</sup> Directives are binding upon member states insofar as they direct that certain goals are to be achieved. Each member state, however, is free to determine exactly how a particular directive may best be implemented.<sup>82</sup> Although most directives are written in general terms, some are quite specific and leave little room for interpretation. If a member state fails to adopt implementing legislation, the Community may take corrective action.

Directives generally do not have direct effect and direct applicability. Nonetheless, if a member state has failed to adopt implementing legislation by the date designated in the directive, the directive may have direct effect by creating rights that are enforceable by individuals in national courts against the non-implementing state.<sup>83</sup> Directives do not create rights against individuals, but instead, if sufficiently clear and precise, may create rights that individuals can enforce against member states in national courts.<sup>84</sup>

Directives are most often issued by the Council; however, the Commission also has the power to issue directives. Directives are adopted by the legislative process described above. Judicial review of a directive, which is quite rare, can be sought by the

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79. See KAPTEYN, *supra* note 9, at 191-93 for a more detailed discussion of regulations.

80. See *infra* note 176 discussing patent licensing.

81. NUGENT, *supra* note 11, at 169.

82. EEC TREATY art. 189.

83. See Case 9/70, Grad v. Finanzamt Traunstein, 1970 E.C.R. 825, 1971 C.M.L.R. 1 (1971); see also Joined Cases C-6 & C-9/90, Francovich & Ors v. Italian Republic, 4 Common Mkt. Rep. (CCH) ¶ 96,199 (1992) (damages are available against a state for its failure to enact a directive).

84. Case 152/84, Marshall v. Southampton & South-West Hampshire Area Health Auth. (Teaching), 1986 E.C.R. 723, 1 C.M.L.R. 688 (1986).

member state to whom the directive is addressed.<sup>85</sup> Directives are published in the *Official Journal*. They take effect when member states to whom they are addressed are notified.

Recently, directives have been used in the intellectual property arena to implement the Community's harmonization efforts. One example is the Software Directive.<sup>86</sup>

*Decisions* are generally administrative acts or adjudications which implement other Community rules. They are quite specific and are binding upon those to whom they are addressed — either member states or legal or natural persons.<sup>87</sup> Decisions may be issued by either the Council or the Commission,<sup>88</sup> and they are subject to judicial review by the addressee as well as by third parties for whom the decision has direct and individual concern.<sup>89</sup> Decisions may be enforced in national courts by the rules of civil procedure in force within the member state in which the decision is to be carried out.<sup>90</sup> Decisions are published in the *Official Journal*<sup>91</sup> and take effect upon notification of the addressees.

Decisions have been used in the intellectual property area, *inter alia*, to inform licensors whether their agreements are permitted under the Community's anti-competition rules.

*Recommendations* are generally promulgated in order to produce specific action on the part of the addressees. They have no binding force and do not create rights; therefore, they are not technically part of Community law. Recommendations cannot be reviewed by the Court of Justice or submitted to the Court for a preliminary ruling. They can be issued by the Council and the Commission.

*Opinions* are similar to recommendations in that they have no binding force and are directed to specific individuals or entities. They, too, are not formally part of Community law. They may be issued when one Community institution wishes to react to an initiative by another institution. They are most frequently

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85. EEC TREATY art. 173.

86. Council Directive 91/250, 1991 O.J. (L 122) 45. See Leo J. Raskind, *Protecting Computer Software in the European Economic Community: The Innovative New Directive*. 18 BROOK. J. INT'L L. 729 (1992).

87. EEC TREATY art. 189.

88. EEC TREATY art. 189.

89. MATHIJSEN, *supra* note 9, at 117-18.

90. EEC TREATY art. 192.

91. See KAPTEYN, *supra* note 9, at 197-201 for a more detailed discussion of decisions.



used to express an opinion on a certain situation or event. The Commission often adopts opinions and they are often issued at the request of a third party.

### III. BASIC FRAMEWORK FOR THE PROTECTION OF INTELLECTUAL PROPERTY RIGHTS

#### A. *In General*

None of the treaties of the Community contains measures specifically addressed to the regulation of intellectual properties. Intellectual properties are created and protected by the law of each of the member states. To the extent that the Community has regulated intellectual properties in the past, it has done so principally under the authority of its foundational principles, which protect the free movement of goods (Article 30),<sup>92</sup> services (Article 59),<sup>93</sup> workers (Article 48),<sup>94</sup> and capital (Article 67),<sup>95</sup> and prevent the distortion of competition in the Community (Articles 85 and 86).<sup>96</sup>

Prior to the adoption of the 1985 White Paper,<sup>97</sup> the Community generally regulated intellectual property through restrictions on the anti-competitive aspects of licensing agreements and prohibitions against geographical divisions of the Common Market. Since the advent of the 1985 White Paper and the SEA, the Community has moved to harmonize the intellectual property laws of the member states and to establish Community-wide property rights.<sup>98</sup> The four freedoms and the anti-competition principles set out in the Treaties provide the principal authority for these actions, along with Article 100A from the SEA, which provides the Community with increased authority "to create an internal market."

#### 1. Free Movement of Goods and Services, Workers and Capital

Central to the creation of the European Economic Commu-

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92. EEC TREATY arts. 3, 30-37. *See infra* notes 103, 104 and accompanying text.

93. EEC TREATY arts. 3, 59-66. *See infra* note 106 and accompanying text.

94. EEC TREATY arts. 3, 48-58. *See infra* note 111 and accompanying text.

95. EEC TREATY arts. 3, 67-73. *See infra* note 115 and accompanying text.

96. EEC TREATY arts. 85-94. *See infra* notes 118-20 and accompanying text.

97. White Paper, *supra* note 5, at 37.

98. *See* James Mellor & Daniel Alexander, *Current Developments: EC Law*, 39 INT'L & COMP. L.Q. 695-99 (1990) (discussing generally recent developments).

nity are the four economic freedoms: the free movement of goods, services, workers, and capital. These freedoms are mentioned in the introductory provisions of Article 3 of the EEC Treaty and provide the basis for much of the Community's legislation creating the Common Market.<sup>99</sup> They prevent member states from adopting or enforcing measures which, either through regulation of interstate or intrastate activity, have the effect of restricting trade with other member states. These provisions are the foundation for much of the Community's intellectual property activity.<sup>100</sup>

All intellectual property regimes restrict the *free movement of goods and services*<sup>101</sup> in that they prevent unrestrained trade in intellectual products. Those who wish to sell or use protected goods may need to seek the authorization of the owners of the intellectual properties. The circumstances in which authorization must be sought will vary from nation to nation, as the particular contours of intellectual properties are not uniform throughout the world. As a result, a good lawfully produced and sold in one state might be prohibited from sale in another.<sup>102</sup> Most intellectual property regimes, therefore, include, *inter alia*, measures restricting the importation of protected goods.

In a number of cases, the Court of Justice has held that particular elements of a member state's intellectual property regime are inconsistent with the EC's principles found in Articles 30 and 36, which allow for the free movement of goods and services within the Community. However, the prohibition against restrictions on the movement of goods in Article 30 is not unlimited. The EEC Treaty explicitly recognizes the right of member states to protect property rights in general<sup>103</sup> and, under Article 36, to

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99. The EEC Treaty also has a number of specific provisions which flesh out these broad mandates. See, e.g., EEC TREATY arts. 30-37 (discussing free movement of goods); EEC TREATY art. 5 (demanding that "member states shall take all appropriate measures . . . to ensure fulfillment of the obligations arising out of this Treaty or resulting from actions taken by the institutions of the Community.") It also requires member states to refrain from measures that would prevent the obtainment of these objectives.

100. See Council Directive 89/552, 1989 O.J. (L 298) 23 (discussing how all of the freedoms effect broadcasting).

101. WYATT & DASHWOOD, *supra* note 9, at 478. See Giuliano Marengo & Karen Banks, *Intellectual Property and the Community Rules on Free Movement: Discrimination Unearthed*, 15 EUR. L. REV. 224 (1990).

102. George A. Lehner, *Intellectual Property in the European Economic Community*, 39 Pat. Trademark & Copyright J. (BNA) at 15 (Nov. 2, 1989).

103. EEC TREATY art. 222 ("This Treaty shall in no way prejudice the rules in member states governing the system of property ownership.").

protect intellectual properties in particular.<sup>104</sup> Similarly, the Court of Justice has held that the principle of free movement of services is also limited by the need to protect intellectual properties.<sup>105</sup> In interpreting these provisions, the Court of Justice has held that the elements of an intellectual property regime which are fundamental to the existence of the property right — the specific subject matter of the property — do not violate free movement principles.<sup>106</sup> Thus, if a rule only affects the exercise of a right and not the specific subject matter of the right, the rule can be prohibited. As with any property interest, intellectual properties are merely "bundles of rights" which permit the owner of the rights to control the work. The question of which rights are so important as to form the property itself (and thus cannot be prevented), and which ones are not, is mired in complexity. No clear rule has yet to emerge, and those who are considering this question must look at the specifics of the Court of Justice cases.

One of the major bodies of cases in which the free movement principles have been applied to intellectual properties pertains to "grey market" goods. Grey market goods are goods lawfully produced in one country that are imported into another country without the permission of the owner of the intellectual property right.<sup>107</sup>

Two traditional intellectual property principles come into conflict in the determination as to whether the importation of grey market goods is permissible. The first principle is that intellectual properties are territorial. Their existence and the scope of their protection arises only through the prerogative of

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104. EEC TREATY art. 36 (This provision, although it speaks only of industrial properties has been applied to copyrights.) Art. 36 states:

The provisions of Arts. 30 to 34 shall not preclude prohibitions or restrictions on imports, exports or goods in transit justified on grounds of public morality, public policy or public security; the protection of health and life of humans, animals or plants; the protection of national treasures possessing artistic, historic or archeological value; or 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.

105. Case 262/81, Coditel S.A. v. Cine-Vog Films S.A. and others, 1982 E.C.R. 3381, 1 C.M.L.R. 49 (1983).

106. Case 15/74, Centrafarm BV and Adriaan DePeijper v. Sterling Drug Inc., 1974 E.C.R. 1147, 1162, 2 C.M.L.R. 480 (1974); Terrapin Overseas Ltd. v. Terranova Industrie C.A. Kapferer & Co., 1976 E.C.R. 1039, 2 C.M.L.R. 482 (1976).

107. They differ from counterfeit goods. Counterfeit goods are produced unlawfully without the permission of the intellectual property right owner.

individual sovereign nations. Thus, intellectual property regimes traditionally permit an intellectual property holder to control the use and distribution of a work within one country. They do not provide those rights outside of the country. Thus, the owner of the French copyright to Albert Camus', *The Stranger*, cannot, by virtue of the French copyright, control the reproduction and sale of the work outside of France. It is therefore possible that the book may have been lawfully printed in another member state without the permission of the owner or its assignees. For example, the copyright term may have expired in another state. Although the books were lawfully produced and sold outside of France, their distribution in France could seriously impair the French copyright owner's ability to control the sale and distribution of its work in France. Intellectual property laws traditionally permit intellectual property owners to prevent the importation of protected works.

If this principle alone were applied to grey market goods, such goods could not be imported. A second principle of intellectual properties, however, also comes into play — the exhaustion principle. Under the exhaustion principle, an intellectual property owner has the right to control the production and first sale of copies of his work. Thus, the owner of the copyright to *The Stranger* can decide whether or not to print a copy of the book and whether or not to sell the copy. Once the first sale takes place, however, the owner's rights are "exhausted,"<sup>108</sup> and the owner cannot control future transfers of the work. In this example, therefore, the owner could not halt a second-hand market in copies of *The Stranger*. If the exhaustion principle alone was applied to the question of the grey market, lawfully produced goods could clearly be imported. The owner's rights would then be exhausted, and no further right could be invoked to prevent importation.

In a number of cases, the Court of Justice has struggled to determine how these competing doctrines should be applied within the context of the EC's free movement principles. It has established the basic rule that once a copy of an intellectual property has been lawfully sold with the owner's permission in one member state, the copy can be freely imported into any

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108. Unless, of course, some other right is implicated. For example, the derivative work right would prevent someone from cutting and pasting copies of the work and selling them as abridged versions.

other member state.<sup>109</sup> Thus, for example, if the French owner of the rights to *The Stranger* authorized the publication of the work in Germany, copies of the work which were produced under the licensing agreement may be lawfully sold by a third party in any member state, even if the author granted the publisher a limited license covering only sales in Germany. There have been significant caveats placed on this general rule. For example, it does not apply when the author has not authorized the production of that copy, nor does it apply to goods produced outside of the Community.<sup>110</sup> Particular attention must be applied to the individual circumstances of each case in order to determine the applicability of the basic rule.

The principle of *free movement of workers* permits workers of one member state to work and reside in other member states.<sup>111</sup> The EEC Treaty and implementing laws have broadly construed this right of movement of individuals. For example, under this principle, discrimination based on nationality is prohibited,<sup>112</sup> and workers and their families may not be prevented from residing where they work.<sup>113</sup> While this right has less bearing on intellectual properties than on some of the other freedoms, it nevertheless has a significant effect in certain matters.<sup>114</sup> For example, a French film director may employ a German cinematographer without concerns about work visas.

The principle of *free movement of capital* is necessary to implement the basic EEC Treaty principles.<sup>115</sup> Without the ability of businesses and workers to move capital across national borders, there would be little incentive to create transnational transactions. Again, this provision has been applied in a number

109. See generally LAURENCE GORMLEY, PROHIBITING RESTRICTIONS ON TRADE WITHIN THE EEC (1985) (reviewing cases on restrictions on importation in the intellectual property field).

110. Case 270/80, Polydor Ltd. and RSO Records Inc. v. Harlequin Record Shops Ltd. and Simon Records Ltd., 1982 E.C.R. 329, 1 C.M.L.R. 677 (1982) (refusing to extend the prohibitions and restrictions on importation to imports from non-member states).

111. See EEC TREATY arts. 48-51. See generally WYATT & DASHWOOD, *supra* note 9, at 161-97; KAPTEYN, *supra* note 9, at 411-52.

112. EEC TREATY art. 48(2).

113. See EEC TREATY art. 48(3).

114. See Council Directive 89/552, 1989 O.J. (L 298) 28, 29 (discussing how the freedoms affect broadcasting).

115. See EEC TREATY arts. 3, 67-73. The free movement of payments is also protected. See EEC TREATY arts. 67(2) & 106.

of areas such as real estate transactions,<sup>116</sup> stock exchanges,<sup>117</sup> and exchange rates,<sup>118</sup> and is indirectly important to intellectual property trade.

## 2. Anti-Competition Measures

Intellectual property rights are also affected by the prohibitions in Articles 85 and 86 of the EEC Treaty.<sup>119</sup> These articles prohibit any measure by a private party which restrains competition within the common market.<sup>120</sup> Article 85 prohibits agreements that affect trade between member states and which have as their object the prevention, restriction, or distortion of competition within the common market. Article 86 prohibits the "abuse" of a dominant position in the market. As with the four freedoms, the prohibitions of Article 85 and 86 are also limited by both the explicit provisions of the EEC Treaty<sup>121</sup> and judicially created exceptions. Article 85(3) allows the Commission to exempt agreements which restrict competition but have pro-competitive aspects that outweigh their anti-competitive effects. The Court of Justice has used Article 36,<sup>122</sup> recognition of intellectual property rights, to limit the effects of Articles 85 and 86 even though, by its terms, Article 36 does not limit Articles 85 and 86.<sup>123</sup>

Under Community law, ownership of intellectual property rights does not by itself create anti-competitive effects.<sup>124</sup> Anti-

116. See Case 305/87 *Commission v. Greece*, 1989 E.C.R. 1461, 1 C.M.L.R. 611 (1991).

117. See, e.g., Case 157/85, *Luigi Brugnoni and Roberto Ruffinengo v. Cassa di Risparmio di Genova e Imperia*, 1986 E.C.R. 2013, 1 C.M.L.R. 440 (1986); Cases 424-425/85, *Coöperatieve Melkproducentenbedrijf Noord-Nederland BA v. Voedselvoorziening in Verkoopbureau*, 1987 E.C.R. 2755, 3 C.M.L.R. 733 (1988).

118. For a more complete discussion of the free movement of capital see KAPTEYN, *supra* note 9, at 452-65.

119. A complete discussion of EC anti-competition law is beyond the scope of this article. For a more complete discussion, see BARRY HAWK, *UNITED STATES, COMMON MARKET AND INTERNATIONAL ANTITRUST: A COMPARATIVE GUIDE* (1990).

120. EEC TREATY arts. 85, 86. Case 65/86, *Bayer AG and Maschinenfabrik Hennecke GmbH v. Heinz Sullhofer*, 1988 E.C.R. 5249, 4 C.M.L.R. 182 (1990) (holding that art. 85 applies to settlements in litigations which include no challenge provisions).

121. See, e.g., EEC TREATY art. 56(1) (permitting restrictions if they are "on grounds of public policy, public security or public health.") and art. 64.

122. See *supra* note 104 and accompanying text for a description of art. 36.

123. Case 119/75, *Terapin v. Terranova*, 1976 E.C.R. 1039, 2 C.M.L.R. 482 (1976); Case 24/67, *Parke Davis & Co. v. Probel, Reese, Beintema-Interpharm and Centrafarm*, 1968 E.C.R. 55, C.M.L.R. 47 (1968). See *supra* note 104 for text of EEC TREATY art. 36.

124. See Case 40/70, *Sirena S.r.L. v. Eda S.r.L. & Others*, 1971 E.C.R. 69, C.M.L.R.

cles 85 and 86 become relevant to intellectual properties only if the owner dominates a market or commands a substantial share of that market. If such an owner attempts to divide the market along national lines or to link the licensing of intellectual properties to other matters, those efforts may violate the Treaty. In general, it is permissible for an owner of an intellectual property to convey an exclusive right of exploitation in exchange for a payment of a royalty. The granting of the license may raise problems, however, if the agreement restricts the licensee in ways that are unnecessary for the protection of the intellectual property.

Under the Commission's rules, licensing agreements that might create a non-competitive effect can be "notified" to the Commission. Notification entails applying to the Commission for clearance where the Commission confirms that an agreement does not violate the prohibition of Articles 85 or 86 or determines that the agreement is exempt under Article 85(3).<sup>125</sup> An approved application assures that the agreement does not violate the Treaty.<sup>126</sup> This notification process applies not only in the patent area, where it has been used frequently, but also to copyright and trademark licensing, where, to date, there has been infrequent notification, if any.

### 3. Harmonization

As noted above, there is no uniform body of Community intellectual property law. Protection is available only through national laws in national courts. Nonetheless, there is some degree of uniformity in that all of the member states are members of the World Intellectual Property Organization (WIPO) — the agency of the United Nations which has principal responsibility for intellectual property matters.<sup>127</sup> In addition, the member states have signed the major intellectual property treaties —

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260 (1971) (a trademark case in which the Court of Justice held that a dominant position does not arise merely from the ownership of an intellectual property).

125. See *supra* text accompanying note 119 for a description of EEC TREATY art. 85(3)'s exemption.

126. Mellor, *supra* note 98, at 3-4. The Commission can also issue unofficial clearances called comfort letters, stating that in the Commission's view the agreement does not violate the Treaty. See *EEC Competition Policy in The Single Market* 45 (1989) (this is an official EC document).

127. WIPO is responsible for developing international agreements on intellectual property. Convention Establishing World Intellectual Property Organization, July 14, 1967, 21 U.S.T. 1749.

such as the Paris Convention,<sup>128</sup> the Universal Copyright Convention,<sup>129</sup> and the Berne Convention.<sup>130</sup>

Difficulties arise because of differences in substantive rights. There are also high transaction costs associated with protecting intellectual property rights in individual member states. Harmonization of the laws of the member states would eliminate many of these problems.

Early efforts at creating uniformity were largely unsuccessful; two measures dating from before the recent modification of the SEA are still awaiting implementation.<sup>131</sup> The recent efforts involve both the development of a uniform system of protection, such as a Community trademark and a Community patent, and the harmonization of the intellectual property laws of the member states. Recent efforts in both areas have been substantial, and several directives have been adopted by the Council. We can clearly anticipate further developments of this kind in the future.

## B. Copyrights

### 1. Harmonization<sup>132</sup>

In June 1988 the Commission issued a *Green Paper on Copyright*,<sup>133</sup> in which the Commission began its efforts to harmonize the Community's copyright laws. Rather than adopting a comprehensive approach, the *Green Paper* presented positions on five specific copyright issues: piracy; audio-visual home copying; distribution and rental rights; computer programs; and, data bases. The Commission invited comments from third parties and indicated that, after a period of consultation, it would propose appropriate legislation.<sup>134</sup> Criticism and praise abounded. The

128. Convention Revising the Paris Convention of March 20, 1883, July 14, 1967, 21 U.S.T. 1583 (covering trademarks and patents.)

129. Universal Copyright Convention, July 24, 1971, 25 U.S.T. 1341.

130. Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1886, 16 Martens Nouveau Recueil (Ser. 2) 803 (covering copyrights).

131. See discussion on proposals for a community trademark and a community patent *infra* notes 156-182 and accompanying text and notes 183-193 and accompanying text discussing community patents.

132. For a more complete discussion in this issue, see Dr. Silke von Lewinski, *Copyright in the European Communities: The Proposed Harmonization Measures*, 18 BROOK. J. INT'L L. 703 (1992).

133. Green Paper on Copyright and the Challenge of Technology -- Copyright Issues Requiring Immediate Action, COM(88)172 final.

134. Lehner, *supra* note 102, at 16.



principal criticism was that the proposal focused mainly on the economic rights of copyright owners and ignored artists' rights. As a result, the Commission announced it would study moral rights, term, reprography, resale rights, *droite de suite*, and collective management of rights.<sup>135</sup> Since the adoption of the *Green Paper*, a directive on computer software has been adopted<sup>136</sup> and draft directives on term, rental rights, broadcasting, personal data privacy, and databases have been issued.

## 2. Free Movement

As noted above, the principle of free movement of goods has been construed to prohibit rules that restrict the movement of copyrightable works across national borders if those rules do not form the specific subject matter of copyright, but rather only go to the exercise of the copyright. The distinction between the copyright and the exercise of the copyright is not easily made. So far, the Court of Justice has described the specific subject matter of copyright to include the exclusive right to reproduce and the right of performance in a series of cases.<sup>137</sup> In addition, the Court of First Instance recently held that the copyright is intended to protect both the moral and economic rights of the author.<sup>138</sup>

One important effect of this distinction has been to prohibit measures that restrict the importation of authorized copies under the theory of exhaustion of rights. In *Deutsche Grammophon v. Metro*,<sup>139</sup> the Court of Justice considered a parallel importation claim involving records and the right of distribution under German law. Using a free movement of goods analysis, the Court prevented an effort to bar the importation of French records into Germany. In *Musik-Vetriebs Membran v. GEMA*,<sup>140</sup> the claim involved not an effort to halt importation, but an at-

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135. See Remarks of Bridget Azarnota, Conference, *supra* note 6, at 335.

136. Commission Proposal 90/586, 1991 O.J. (C 53) 35. See Leo J. Raskind, *Protecting Computer Software in the European Economic Community: The Innovative New Directive*, 18 BROOK. J. INT'L L. 729 (1992).

137. Case 158/86, Warner Bros. Inc. and Metronome Video ApS v. Erikviuff Christiansen, 1988 E.C.R. 2605, 3 C.M.L.R. 684 (1990).

138. Case T-70/89, British Broadcasting Corp. and BBC Enters., Ltd. v. Commission, 4 C.M.L.R. 669 (1991).

139. Case 78/70, Deutsche Grammophon v. Metro, 1971 E.C.R. 487, C.M.L.R. 631 (1971).

140. Cases 55 & 57/80, Musik-Vetriebs Membran GmbH and K-tel Int'l v. GEMA, 1981 E.C.R. 147, 2 C.M.L.R. 44 (1981).

tempt to collect German royalties in France. The Court rejected the effort. It argued that the distinction with respect to the royalty was irrelevant because the action had the effect of an attempt to bar importation. The royalty rates, which had the effect of setting limits on license fees, did not create an absence of choice because the author was still making a free choice to enter the market.

Not all efforts to bar importation are prohibited. For example, in *EMI Electrola GmbH v. Patricia Im-und Export Verwaltungen GmbH*,<sup>141</sup> the Court held that the owner of a copyright could prevent the importation of a work into an area when the work had been published, without the owner's consent, in a territory where the term of the work had expired.<sup>142</sup>

The Court of Justice has held that the exhaustion principle cannot be applied to performing rights because, by their very nature, such rights are never exhausted. In *Coditel v. Cine Vog Films* (No. 1),<sup>143</sup> the Cour d'Appel of Brussels made a reference with respect to an authorized German transmission of a film.<sup>144</sup> The film had been picked up by a Belgian company and relayed over its networks. Coditel argued that the permission of the Belgian licensee was not needed. The Court of Justice held that each performance was the right of the copyright owner and, therefore, transmission required the authorization of the owner.<sup>145</sup>

141. Case 341/87, *E.M.I. Electrola GmbH v. Patricia Im-und Export Verwaltungen gesellschaft GmbH*, 1989 E.C.R. 79, 2 C.M.L.R. 413 (1989).

142. See also *infra* note 160.

143. Case 62/79, *Coditel S.A. Compagnie Générale pour la diffusion de la télévision v. S.A. Cine Vog Films & Others* (No. 1), 1980 E.C.R. 881, 2 C.M.L.R. 362 (1981). See also Case 262/81, *Coditel v. Cine Vog Films* (No. 2), 1982 E.C.R. 3381, 1 C.M.L.R. 49 (1983) (different question raised in second reference during appeal to the Cour de Cassation of the Kingdom of Belgium).

144. Under EEC TREATY art. 177, national courts may apply to the Court of Justice to have it interpret community law and thereby affect national law in a particular case.

145. See also Case 402/85, *G. Basset v. SACEM*, 1987 E.C.R. 1747, 3 C.M.L.R. 173 (1987), involved a suit by the SACEM, the French performing rights society seeking payment of royalties from a French disco owner in French Courts. The disco owner argued that the royalty scheme violated the guarantees with respect to the free movement of goods. The royalty scheme included a fee for the performance right and a fee for the reproduction right representing the increased price charged to purchasers of copies of records intended for public, not private use. The disco owner argued that because the records had been purchased in a different member state and a performance royalty had been paid, the additional royalty assessed in France was impermissible as it burdened free movement of goods. The Cour d'Appel of Versailles referred the question to the Court of Justice, which held that the royalty scheme was acceptable because it was a measure which formed the normal use of the copyright and therefore was not a disguised

In 1985, the Court of Justice held in *Leclerc v. Au Ble Vert* that the French law which required books to be sold by retailers at 95 to 100 percent of the price set by the publishers did not violate the Community law. It reasoned, in part, that the Community had not yet developed policies on point, and thus, member states were free to adopt legislation such as that adopted in France. It did, however, prevent legislation covering books published in France, exported, and then re-imported.<sup>146</sup> This rule has since been sustained in a series of cases.<sup>147</sup>

To date, the free movement principles have not been tested fully in the copyright arena. For example, publishing agreements traditionally create geographical restrictions, but the Community has yet to examine these agreements aggressively.

### 3. Anti-Competition Measures

The anti-competition rules of the Community have not yet had a significant impact on the licensing of copyrights. As discussed below, licensing agreements of patented goods have been scrutinized in a number of court cases, and the Commission has issued a regulation which provides clear guidance on the Community's positions.<sup>148</sup> Although copyright licensing arguably can have a significantly anti-competitive impact, the Commission has not issued any regulations covering copyright licensing.

Those seeking to determine how the Community might rule on the issue should refer to the patent licensing and know-how licensing regulations<sup>149</sup> and a number of non-binding statements

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restrictions on trade. An anti-competition claim under EEC TREATY art. 86 was also rejected. *See also* Case 62/79, *Coditel S.A. v. Cine Vog Films*, (No. 1), 1980 E.C.R. 881, 2 C.M.L.R. 362 (1981); Case 262/81, *Coditel S.A. v. Cine Vog Films*, (No. 2), 1982 E.C.R. 3961, 1 C.M.L.R. 49 (1983) (applying the free movement of services rules rather than the goods rules to prevent international film pirating and adopting an exemption similar to art. 36 for the services rule). *See generally* Josephine Shaw, *The Common Market*, 13 EUR. L. REV. 45, 47 (1988).

146. *See* Case 229/83, *Association des Centres Distributeurs Leclerc v. Au Blé Vert S.a.r.l.*, 1, 1985 E.C.R. 1, 2 C.M.L.R. 286 (1985).

147. Case 299/83, *Saint Herblain Distribution S.A. v. Syndicat des Librairies de Loire-Océan*, 1985 E.C.R. 2515. Case 355/85, *Driancourt v. Cogné*, 1986 E.C.R. 3231, 3 C.M.L.R. 942 (1987); Case 168/86, *Procureur-Général v. Rousseau*, 1987 E.C.R. 995; Case 160/86, *Ministère Public v. Verbrugge*, 1987 E.C.R. 1783, 2 C.M.L.R. 51 (1989); Case 254/87, *Syndicat des Librairies de Normandie v. L'Aigle Distribution S.A., Centre Leclerc*, 1988 E.C.R. 4457, 4 C.M.L.R. 37 (1990).

148. *See infra* notes 171, 172 & 174 and accompanying text.

149. *See infra* note 177 and accompanying text for a discussion of the patent and know-how block exemptions.

made by the Commission in documents such as the Commission's annual competition reports.

The development of anti-competition restraints on copyrights has come principally from case law in the Court of Justice. For example, in *Coditels v. Line Voq Film*, the Court of Justice held that performance rights were not inconsistent with the anti-competition rules of Article 86.<sup>150</sup>

An interesting group of cases currently pending before the Court of Justice include *Radio Telefis Eireann v. Commission of The European Communities*,<sup>151</sup> *Independent Television Publications Ltd. v. Commission of the European Communities*,<sup>152</sup> and *British Broadcasting Corporation and BBC Enterprises, Ltd.*<sup>153</sup> In these cases, a broadcaster published and sold weekly listings of his programs, refused requests to license others to publish the information, and enforced copyrights on the weekly publications in order to prevent competing magazines from publishing the information. The Court of First Instance<sup>154</sup> held that the refusal of the copyright owners to license their copyrights when they had dominant market positions was, by itself, a violation of the anti-competitive provisions of Article 86.<sup>155</sup>

## C. Patents

### 1. Harmonization

As with the other major areas of intellectual property, the Community has been unable to develop, either through a Community patent or through the development of a substantial body of harmonization provisions, a single set of patent rules that are applicable Community-wide. Currently, laws of the member states have some measure of uniformity because the states are members of the Paris Convention<sup>156</sup> and because several mem-

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150. Case 262/81, *Cotidel S.A. v. Cine Vog Films (No.2)*, 1982 E.C.R. 3381, 1 C.M.L.R. 49 (1983).

151. Case T-69/89, 4 C.M.L.R. 586 (Ct. First Instance July 10, 1991).

152. *Id.*

153. *Id.*

154. The cases are on appeal to the Court of Justice. See *supra* notes 60-62 and accompanying text for a description of the Court of First Instance.

155. For further discussion see John Somorjai, *The Evolution of a Common Market: Limits Imposed on the Protection of National Intellectual Property Rights in the European Economic Community*, 9 INT'L TAX & BUS. HEARINGS 431 (1992) (discussing the present principles and promoting unified community intellectual property laws).

156. See *supra* note 128.

ber states are signatories to the European Patent Convention.<sup>157</sup>

The European Patent Convention, which was initiated by the Community, permits the filing of a single patent application with the European Patent Office (EPO) in Munich. This patent is not a Community patent because the patent holder does not receive a single Community patent; instead, the holder receives a series of patents enforceable in each member state. Once granted, the patents are then treated as if granted by the patent offices of the member states. The sole exception to this treatment occurs when an opposition to the grant is filed within nine months of the application. If the opposition is successful, the patent is revoked for all of the designated countries. The European Patent is, however, of limited value because it does not replace national patents. Moreover, the patent is expensive to obtain, in large part, because of translation costs.

The efforts to create Community patent law and to eliminate the territorial aspects of patent law gained considerable momentum with the adoption of a Community Patent Convention (CPC) in December 1989.<sup>158</sup> The CPC created a single Community-wide patent. The Convention is not yet in force because Denmark and Ireland have not yet ratified it.<sup>159</sup> There have been some discussions about modifying the Convention so as to permit it to go into effect in those countries which have ratified it. So far, this proposal has been unsuccessful.<sup>160</sup> Yet, there are hopes that the CPC impasse will be resolved by the end of 1992.<sup>161</sup>

When the Convention enters into force, questions of invalidity will be handled by a central authority in the EPO. The benefit for the patent owner will be a savings in renewal fees, reduced assignment requirements, and a reduced requirement for main-

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157. The member states that have joined are Belgium, Denmark, France, Germany, Greece, Italy, Luxembourg, the Netherlands, Spain, and the United Kingdom. The non-member states that have joined are Austria, Liechtenstein, Monaco, Sweden, and Switzerland. See CHARTERED INSTITUTE OF PATENTS, EUROPEAN PATENT HANDBOOK (1989).

158. Agreement Relating to Community Patents, COM(89)695 final, O.J. (L 401) 1. The effort to adopt the CPC has taken several years. It began in 1975.

159. The principle obstacle to the coming into force of the Convention has been the issue of enforcement of the Convention. See Christopher Wadlow, *The Community Patent Appeal Court*, 11 EUR. L. REV. 295 (1986) (discussing a proposal for a court which could review decisions of national courts concerning the infringement of or validity of Community patents).

160. *Progress Seen in Breaking Deadlock Over Community Patent Convention*, 6 WORLD INTELL. PROP. REP. (BNA) 90 (Apr. 1992).

161. *Id.*

taining infringement actions in separate jurisdictions.<sup>162</sup> This system, however, would still retain a large degree of national independence. For example, each contracting state may issue a simultaneous national patent that may create different conditions of invalidity.<sup>163</sup> Further, national compulsory licenses may be available, although they will not be required. Infringement actions will remain in national courts, although they will have Community-wide effect. Additionally, the CPC provides for a Community Patent Appeal Court which will have jurisdiction over disputes and will hopefully provide a unifying effect on EC patent law.

Finally, the Commission has issued harmonization directives in a number of specific patent-related areas: biotechnical inventions;<sup>164</sup> breeder rights;<sup>165</sup> semi-conductor chips;<sup>166</sup> and, computer programs.<sup>167</sup>

## 2. Free Movement

Free movement principles have operated in the patent area as they have in the copyright context. To the extent that a right is fundamental to the patent interest, restraints on the movement of potential goods have been tolerated. To the extent that the restraint is deemed to constitute an exercise of the right, it is prohibited if it restrains movement across national borders. Also, as with copyrights, the Community has failed to provide a

162. Lehner, *supra* note 102, at 16.

163. See Victor Vandebek, *Realizing the European Common Market by Unifying Intellectual Property Law: Deadline 1992*, 1990 B.Y.U. L. REV. 1605, 1614.

164. Proposal for a Council Directive on The Legal Protection of Biotechnological Inventions, 32 O.J. En. Comm. (No. 10/3) S (1989).

165. *Draft Council Reg. on Community Breeders' Rights*, 2376/VI/88 EN Rev. A major problem has been a disagreement between plant breeder's rights and industrial biotechnology inventions. In April 1991 in an attempt to resolve the matter, the Commission issued a policy paper entitled *Biotechnology: Ending The Fragmentation of the European Market to Produce an Even More Competitive Industry*. See *EC Proposes Biotech Strategy to Cut Regulatory Binders*, 5 WORLD INTELL. PROP. REP. (BNA) 143 (1991).

166. Council Directive 87/54/EEC on Legal Protection of Topographies Semi-Conductor Products, 1987 O.J. (L 24) 36 [hereinafter Directive on Topographies Semi-Conductor Products]. The directive on semi-conductive chips has been implemented throughout the Community. See Commission of the European Communities, *National Implementing Measures to Give Effect to the White Paper of the Commission on the Completion of the Internal Market — Situation at 31 October 1991* (1991).

167. 2 C.M.L.R. 180, 1989 F.S.R. 550. See *infra* notes 198-99 and accompanying text; see also Leo J. Raskind, *Protecting Computer Software in the European Economic Community: The Innovative New Directive* 18 BROOK. J. INT'L L. 729 (1992).

clear statement as to the right of patent ownership. It is, therefore, difficult to determine which rights are fundamental and which are not, unless the Court of Justice has considered the right.

The leading case on restrictions in patents is *Centrafarm v. Sterling Drug*.<sup>168</sup> There the Court of Justice stated that the central purpose of patent rights was to reward creators by giving them the right to manufacture and put into circulation industrial products. The Court stated that importation could be barred if the product was not patentable in a member state, was manufactured in that state without the patent owner's consent, and was imported without the patent owner's consent into a state where there was a valid patent. The Court also stated that where there are valid patents in each of the states, but the patent holders are not connected, importation could be barred.

In *Merck v. Stephar*,<sup>169</sup> the Court of Justice held that if goods are placed into the market by the patent holder, they can be imported even if no patent was available in that state. The Court held that patent holders have the choice to exploit or not to exploit. Once they do exploit, they must accept the consequence of the Community's free movement principles. In another case, however, the Court held that products produced under a compulsory license could be excluded, reasoning that the goods were not produced as a result of a decision by the patent holder.<sup>170</sup>

Of recent note are *Commission v. United Kingdom of Great Britain and Northern Ireland*<sup>171</sup> and *Commission v. Italy*.<sup>172</sup> In these cases, the Court of Justice reviewed compulsory license provisions of the laws of the United Kingdom and Italy.<sup>173</sup> These

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168. Case 15/74, *Centrafarm v. Sterling Drug, Inc.*, 1974 E.C.R. 1147, 1173-1176, 2 C.M.L.R. 480, 503 (1974).

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

170. See Case 19/84, *Pharmon v. Hoechst*, 1985 E.C.R. 2282, 2298-99, 3 C.M.L.R. 775, 788-79 (1985) (British compulsory license of drug). See also Case C-30/90, *Commission v. United Kingdom of Great Britain and Northern Ireland*, 2 C.M.L.R. 709 (1992); Case C-235/90, *Commission v. Italy*, 2 C.M.L.R. 709 (1992) (restricting compulsory licenses).

171. Case C-30/90, *Commission v. United Kingdom of Great Britain and Northern Ireland*, 2 C.M.L.R. 709 (1992).

172. Case C-235/89, *Commission v. Italy*, 2 C.M.L.R. 709 (1992).

173. For a discussion of compulsory license laws in the United Kingdom and Italy see *id.*; Case C-30/90, *Commission v. United Kingdom of Great Britain and Northern Ireland*, 2 C.M.L.R. 709 (1992).

laws permitted compulsory licenses to be issued if there was no domestic working of a patent, regardless of whether the domestic need was met by imports from the Community. The Court of Justice held that the laws could not be utilized when Community goods were available. The holding is significant because it substantially restricts a member state's ability to permit compulsory licensing — an element of many national regimes.<sup>174</sup>

### 3. Anti-competition Measures

Patents, like other intellectual properties, are traditionally exploited by the granting of exclusive or non-exclusive licenses that permit the licensee to create or exploit the product covered by the patent. This type of agreement has the potential for running afoul of the anti-competition concerns reflected in Articles 85 and 86.<sup>175</sup> On the other hand, patent licensing can be quite beneficial because it permits firms that would not be able to have access to new technologies to gain the necessary access and allows patents to be exploited even though the inventor or owner of the patent right may not have either the financial or technical resources with which to exploit the patent.

After the legality of patent licensing was considered in a number of Court of Justice decisions, the Commission adopted regulations to cover this area that exempted certain classes of patent licensing from the anti-competition restrictions.<sup>176</sup> The principal thrust of the patent block exemption is that patent holders, for a limited time, can enter into exclusive sales licenses so long as the licenses do not prohibit passive sales. The regulation provides for limited, exclusive licensing of the patented product and permits certain restrictive conditions that are supportive of the patent license. For example, the regulation permits the granting of exclusive territorial licenses for a period of five years from the time the products are first put on the market within the Community. After this five-year period, licensees may not actively solicit sales outside of their territory, but may fill

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174. Although the United States does not have compulsory licensing provisions, many states do, including Canada, China, Brazil, New Zealand, and Singapore. *See generally* MICHAEL MELLOR, *INTERNATIONAL PATENT LITIGATION* (1991).

175. *See, e.g.*, Case 193/83, *Windsurfing Int'l Inc. v. Commission*, 1986 E.C.R. 611, 3 C.M.L.R. 489 (1986) (parts of licensing agreement covering the manufacture and sale of sailboards held in violation of Art. 85(1) because of provisions covering non-patented components of the sailboards).

176. Commission Regulation 2349/84, 1984 O.J. (L 219) 15.



orders from outside the granted area if the orders are the result of the unsolicited demands of customers.

The regulation contains a list of permitted and non-permitted restrictions on licensee obligations. Among the obligations which can be included are agreements by the licensee to obtain from the licensor products that are necessary for the exploitation of the invention, to pay a minimum royalty, and to keep a know-how secret. The regulation also contains a list of covenants which cannot be exempted unless they are permitted by an individual determination of the Commission. These covenants include non-challenge clauses, agreements of indefinite duration, and quantity and price restrictions.

In a related matter, using reasoning similar to that which it employed with respect to patent licensing, the Commission, in 1988, adopted a regulation permitting certain know-how<sup>177</sup> licenses, on the grounds that these agreements further rather than harm competition.<sup>178</sup> The regulation covering know-how licensing is similar in content to the patent licensing agreement. Protection is available for ten years from the date of the first licensing agreement entered into for each relevant territory. Like the patent regulation, it also permits certain restrictions to be included in the agreement.<sup>179</sup> For example, post-term use bars are

177. Know-how licenses are agreements between parties to transfer secret information that cannot be protected under any separate body of intellectual property law.

Commission Regulation 556/89, 1989 O.J. (L 61) 43. Know-how protected by the regulation is a body of technical information that is secret, substantial and identified. See also Commission Regulation 556/89 ENC, O.J. (L 61) 1, 4 C.M.L.R. 774 (1989). See generally Valentine Korah, *Critical Comments on the Commission's Recent Decisions Exempting Joint Ventures to Exploit Research that Needs Further Development*, 12 EUR. L. REV. 18 (1987).

178. See BP/Kellogg, IV/30.971, 1985 O.J., in which the Commission held that joint ventures between non-competitors might violate article 85(1) because of ancillary restrictions in the agreement pertaining to the separate exploitation of research and development efforts by one of the joint ventures. There exemption was permitted because the agreements were necessary to the desirable joint venture. 1985 Common Mkt. Rep. (CCH) ¶ 10,747. 1985 O.J. (L 369) 6, 2 C.M.L.R. 619 (1986). Some have challenged the Commission's approach, arguing that these ventures do not violate article 85(1). See Korah, *supra* note 177, at 20-21. See also, Case 42/84, Remia v. Commission, 1985 E.C.R. 2545, 1 C.M.L.R. 1 (1987) and Case 161/84, Pronuptia de Paris GmbH v. Irmgard Schillgals, 1986 E.C.R. 353, 1 C.M.L.R. 414 (1986) (the Court of Justice holding that reasonable restrictions in procompetitive transactions do not fall within EEC TREATY art. 85(1)).

179. For example, the licensee may agree not to divulge the know-how to third parties, grant sub-licenses or assign the license. There are provisions which are not subject to the protection of the block exemption, including non-challenge clauses, agreements providing automatic prolongation, and quantity and price restrictions. Again, these agreements must be individually cleared by the Commission.

allowed, as are the return of know-how and limited terms of use. In addition, the regulation permits the use of know-how licensing in connection with the use of property which is protected by intellectual property law.

Of similar interest is the 1988 Commission block exemption under Article 85<sup>180</sup> for franchise licensing.<sup>181</sup> As with the patent licensing exemption, the 1988 exemption lists permitted and prohibited activities.<sup>182</sup>

#### D. Trademarks

##### 1. Harmonization<sup>183</sup>

In order to eliminate the need to apply for trademarks in each of the individual states of the Community, the Community has undertaken two separate efforts. First, it has sought to harmonize existing national trademark laws, and, second, it has sought to develop a Community trademark applicable throughout the Community.<sup>184</sup> The effort to create a Community law on trademarks has encountered considerable problems.

In 1988, the Council adopted a directive to start the harmonization of trademark legislation.<sup>185</sup> The time table for implementation of the directive was three years. At this time, it has not yet been implemented throughout the Community. The directive is not a full-scale effort at harmonization; rather, it only relates to registered trademarks and is intended to complement the proposed Regulation of the Community Trademark. As such, it seeks to have uniform conditions for obtaining and maintaining trademarks. The directive, which applies to all national trademarks, provides for a definition of signs that can be used as trademarks, sets forth rules for the refusal or invalidity of a

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180. Commission Regulation 4087/88, 1988 O.J. (L 359) 46 (discussing the application of Article 85(3) and franchising agreements regulations).

181. Council Directive, 4087/88 EEC of December 28, 1988 on Franchising Agreements, 1980 O.J. (L 359) 46, 4 C.M.L.R. 387 (1989). See also Case 161/84, Pronuptia de Paris GmbH v. Irmigard Schillgails, 1986 E.C.R. 353, 1 C.M.L.R. 414 (1986).

182. For further discussion see Hanns Ullrich, *Free Trade, Inter-enterprise Cooperation and Competition within the Internal European Market*, 23 INT'L REV. INDUS. PROP. & COPYRIGHT L. 583 (1992).

183. For more complete discussion see Bailia H. Celedonia, *Trademarks in the European Communities from an American Prospective*, 18 BROOK. J. INT'L L. 751 (1992).

184. Lehner, *supra* note 102, at 15.

185. Council Directive 89/104 to Approximate the Laws of Member States Relating to National Trademarks, 1989 O.J. (L 40) 1.

trademark, and defines the rights of the trademark owner.<sup>186</sup>

The Community Trademark Directive, first proposed in 1980, would establish a Community-wide system for trademarks and the enforcement of Community trademarks in national courts;<sup>187</sup> however, it is not yet effective. The Community trademark would be available to nationals of member states and nationals of states who are parties to the Paris Convention.<sup>188</sup> This Directive is being held up by disagreements as to the official languages to be used;<sup>189</sup> the location of the Trademark Office; whether an applicant for a Community trademark should be required to search all existing national and Community marks before a Community mark will be granted; and, whether national trademark provisions should be preserved along with the Community trademark.

## 2. Free Movement

Trademark rights, like copyrights, require a delicate balancing of the free movement principles and the need to restrict the movement of improperly marked products. In striking this balance, the Court of Justice has noted that the essential function of a trademark is to guarantee to consumers the identity of the origin of the marked product by enabling consumers to distinguish those products from products of another origin.<sup>190</sup>

In *Centrafarm v. Winthrop*,<sup>191</sup> the Court reasoned that the trademark owner's interest was the exclusive right to put a product into circulation for the first time with a mark that protected against someone else taking advantage of the status and reputation of the mark. If the mark on the imported good was used with the authorization of the trademark owner, there was no abuse and, therefore, the ban on importation did not affect the

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186. Lehner, *supra* note 102, at 15.

187. Amended Proposal for a Council Regulation on the Trademark, COM(84)470 final; COM(85)844 final; Proposal for Council Regulation on Rules of Procedure of the Boards of Appeal Institutes by Regulation of the Community Trademark, COM(86)731 final.

188. See Paris Convention, *supra* note 128. The United States is a member of the Paris Convention.

189. The Commission favors English; the French oppose this suggestion and a number of member states support a three-language system using English, French, and German.

190. Case 3/78, *Centrafarm v. American Home Prods. Corp.*, 1978 E.C.R. 1823, 1 C.M.L.R. 326 (1979).

191. Case 16/74, *Centrafarm v. Winthrop*, 1974 E.C.R. 1183, 2 C.M.L.R. 480 (1974).

core of the right.

In two other interesting cases, *Centrafarm Hoffman La-Roche v. Centrafarm* and *Centrafarm v. American Home Products*,<sup>192</sup> the Court of Justice held that when the labelling on parallel imports had been changed, the importation could be barred. In these cases, the importer had changed the marks to conform the products to the marks used by the company in that state. For example, in *American Home Prods.*, Centrafarm had purchased the drug in the United Kingdom with the label SERENIP affixed to the package. It then sold the drug in the Netherlands with the mark SEPESTA. Both were the lawfully used marks for the drugs in the respective countries. The Court held that Centrafarm's acts would mislead the consumer as to the origin of the product with the SEPESTA mark. In dicta, however, it limited the scope of the decision. It stated, *inter alia*, that under certain conditions, if the different marks had been used merely to geographically divide the markets, the outcome might be different.

### 3. Anti-Competition Measures

The Community's efforts to restrain the anti-competitive effects of trademark law, like such efforts in copyright law, are in a nascent state. There is no block exemption available. For those seeking to determine how the Community might view trademark matters, reference to the patent block exemption would be fruitful. Also, as with copyright law, the Community's anti-competition law has grown principally through cases in the Court of Justice.

One important case in the trademark area is *Hoffman La-Roche v. Centrafarm*, which involved restrictions on trade prohibited by Article 36.<sup>193</sup> The Court stated that an effort by a trademark holder to prevent importation of repacked goods

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192. Case 102/77, *Hoffman LaRoche & Co. AG v. Centrafarm Vertrieb osgesellschaft Pharmazeutischer Erzeugnisse MbH*, 1978 E.C.R. 1139, 3 C.M.L.R. 217 (1978); Case 3/78, *Centrafarm v. American Home Prods.*, 1978 E.C.R. 1823, 1 C.M.L.R. 326 (1978). See also Case No. C-10/89, *Hag CNL v. SA GF AG — SUCAL Nv*, 1990 E.C.R. 3711, C.M.L.R. 571 (1990) (a trademark holder may oppose importation from another state of similar goods with an identical mark when the marks are owned by different entities). Accord Case 119/75, *Terrapin Ltd. v. Terranova Industrie C.A. Kapferer & Co.*, 1976 E.C.R. 1039, 2 C.M.L.R. 482 (1976).

193. Case 102/77, *Hoffman LaRoche & Co. AG et al. v. Centrafarm Vertrieb osgesellschaft Pharmazeutischer Erzeugnisse MbH*, 1978 E.C.R. 1139, 3 C.M.L.R. 217 (1978).

could be a disguised restriction on trade. If so, although normally repacked goods could be excluded, they would be admitted.

### E. Computers

Until recently, there was virtually no Community law which specifically applied to computers.<sup>194</sup> Protection of matters relating to computers was mentioned as an important area of development in the 1988 Green Paper,<sup>195</sup> and as of late, the Community has spent considerable resources developing intellectual property law in this area. Rather than slavishly adopting more traditional intellectual property rights, the Commission has undertaken separate studies to determine the proper scope of protection. So far,<sup>196</sup> the Council has issued a Directive on Semiconductor Chips that has been implemented in all of the member states<sup>197</sup> and a draft directive on computer programs that was issued in 1989.<sup>198</sup> A proposed directive on databases was issued in 1992.<sup>199</sup>

## IV. CONCLUSION

The current trend toward harmonization in the European Community presents favorable opportunities for United States intellectual property owners. Centralized registration systems, Community-wide rights, and consistent national legislation will make it much easier for United States rights to be exploited and protected within Europe. Moreover, as the number of nations who are members or affiliates of the Community grows, the events in the Community cannot be ignored. Important opportu-

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194. All member states are signatories to the Berne Convention, *supra* note 130, which provides for limited protection for computers. Max W. Laun, Comment, *Improving the International Framework for the Protection of Computer Software*, 48 U. PITT. L. REV. 1151 (1987).

195. For further discussion see Somorjai, *supra* note 155.

196. See Leo J. Raskind, *Protecting Computer Software in the European Economic Community: The Innovative New Directive*, 18 BROOK. J. INT'L L. 729 (1992).

197. Directive on Topographies of Semi-Conductor Products, *supra* note 166. The directive on semi-conductive chips has been implemented throughout the Community. Commission of the European Communities, National Implementing Measures to Give Effect to the White Paper of the Commission on the Completion of the Internal Market — Situation at 31 October 1991 (1991).

198. This was adopted in 1991. Council Directive 91/250, 1991 O.J. (L 122) 42.

199. Commission Proposal for a Council Directive on the Legal Protection of Databases, COM(92)94 final.

nities are available to influence the scope and terms of Community intellectual property measures through participation in the development process. These opportunities should not be overlooked.

### Appendix A

#### EC HARMONIZATION UPDATE AS OF NOVEMBER 1992

<u>ISSUE</u>	<u>INSTRUMENT (IF ANY)</u>
<u>Copyright</u>	
Green Paper	COM(88)582 final Oct. 14, 1988  COM(90)584 final Brussels, Jan. 17, 1991 (follow-up to Green Paper)
Harmonization (Berne)	COM(90) 582 final Brussels, Jan. 11, 1991 (proposal for council decision)  Council Resolution of May 14, 1992 on increased protection for copyright and neighboring rights, 1992 O.J. (C 128) 5.
Rental Rights	Amended Proposal for Council Directive on Rental Rights 1992 O.J. (C 128) 5. COM(92)159 final. Amendment submitted, Apr. 30, 1992.
Satellite & Cable Re-Transmissions	COM(91)276 final Brussels, Sept. 11, 1991
Copyright Term	COM(92)33 final Brussels, Mar. 23, 1992
Piracy & Resale Rights	1988 Green Paper Proposed direction on performing rights to authorize or prohibit recording of performances or broadcasts COM(90)586
Originality & Reprography	
<u>Patents</u>	
EC Patent Convention	Convention for European patent for Common Market, 1976 O.J. (L 17) 1.

Pharmaceutical Products	COM(90)101 final Brussels, Apr. 11, 1990 (proposal for a Council regulation)
Renewal Fees	
Plant Variety Patents	COM(90)347 final Brussels, Aug. 30, 1990 1990 O.J. (C. 244) 1.
Biotechnical Inventions	COM(88)496 final Oct. 17, 1988 (presented by Commission)
<u>Trademark</u>	
EC Trademark	COM(80)635 final Brussels, Nov. 19, 1980
Date of effect of EC Trademark	COM(85)793 final Dec. 17, 1985 (Amended proposal for a 1st Council Directive)
Falsified Trademark Protection	Council Regulation 3842/86 Dec. 1986
<u>Computers</u>	
Topography of Semi-conductors	Council Directive 87/54, EEC 1987 O.J. (L 24) 36.
Extension of Topography of Semi-conductor Protection	COM(90)418 final Brussels, Sept. 10, 1990 (Amendment to proposal for a council decision)
Database Protection	COM(92)24 final Brussels, May 13, 1992
Software	Council Directive 91/250, 1991 O.J. (L 122) 42 Issued May 1991
Green Paper	COM(90)456 final Brussels, Oct. 8, 1990