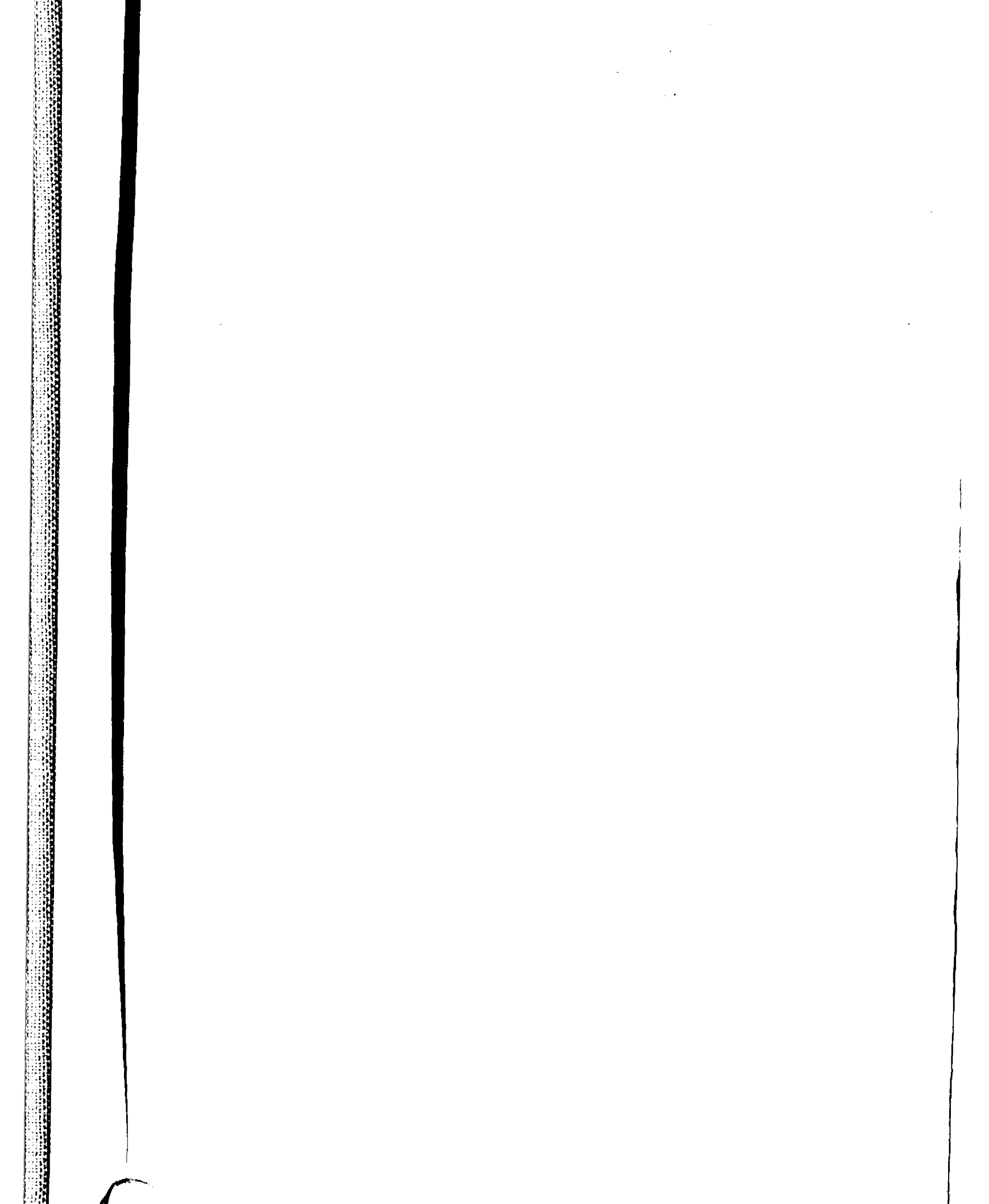


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EUROPEAN UNIVERSITY INSTITUTE

DEPARTMENT OF LAW

**EC LAW, INTELLECTUAL PROPERTY RIGHTS AND THE MARKET FOR
SPARE PARTS IN THE AUTOMOBILE SECTOR**

by **INGE GOVAERD**

VOLUME 1

Thesis submitted for assessment
with a view to obtain
the degree of Doctor
of the European University Institute
Department of Law
Florence

Supervisor: Prof. Dr. J. SCHWARZE
Co-supervisor: Prof. Dr. C. JOERGES

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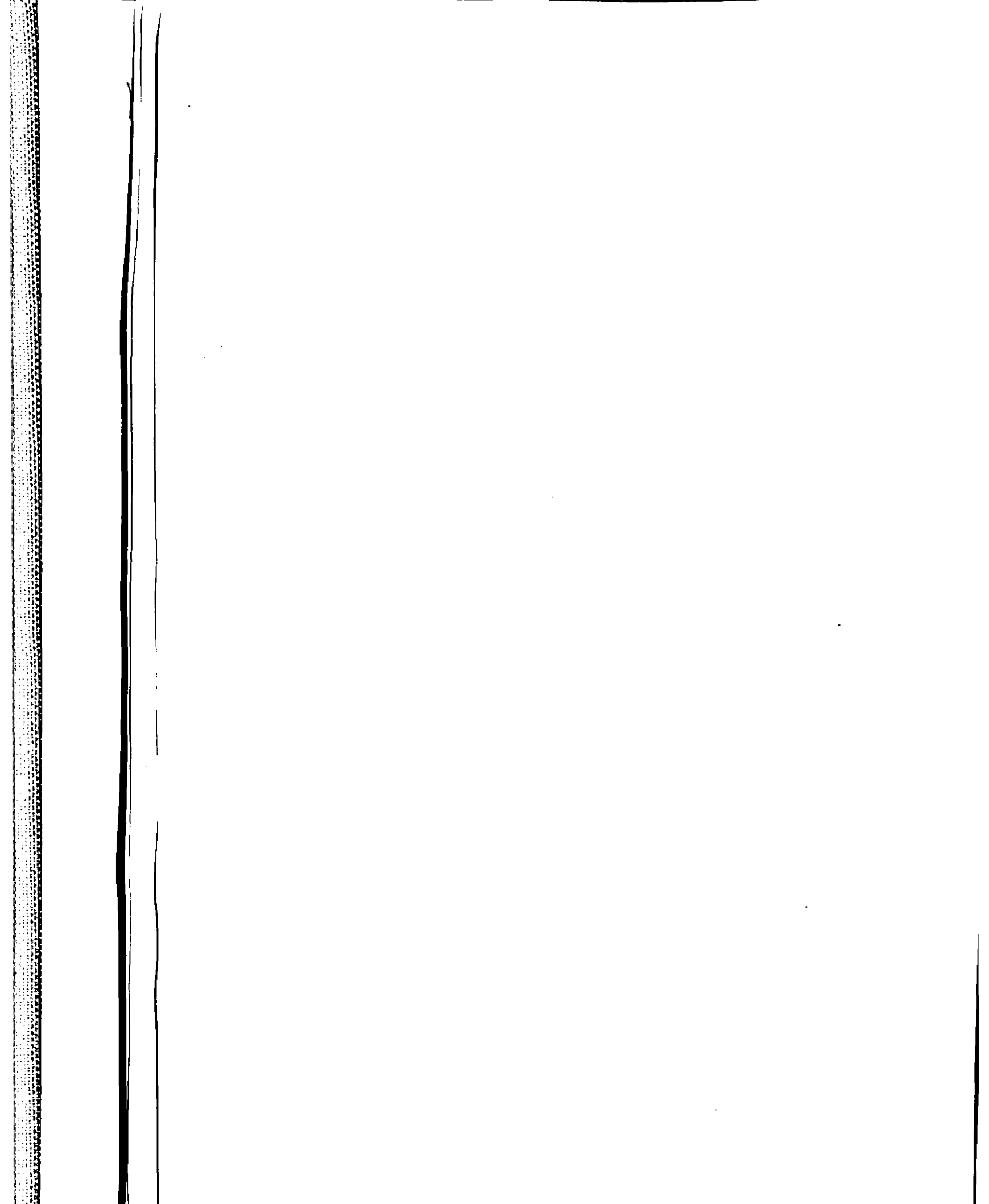


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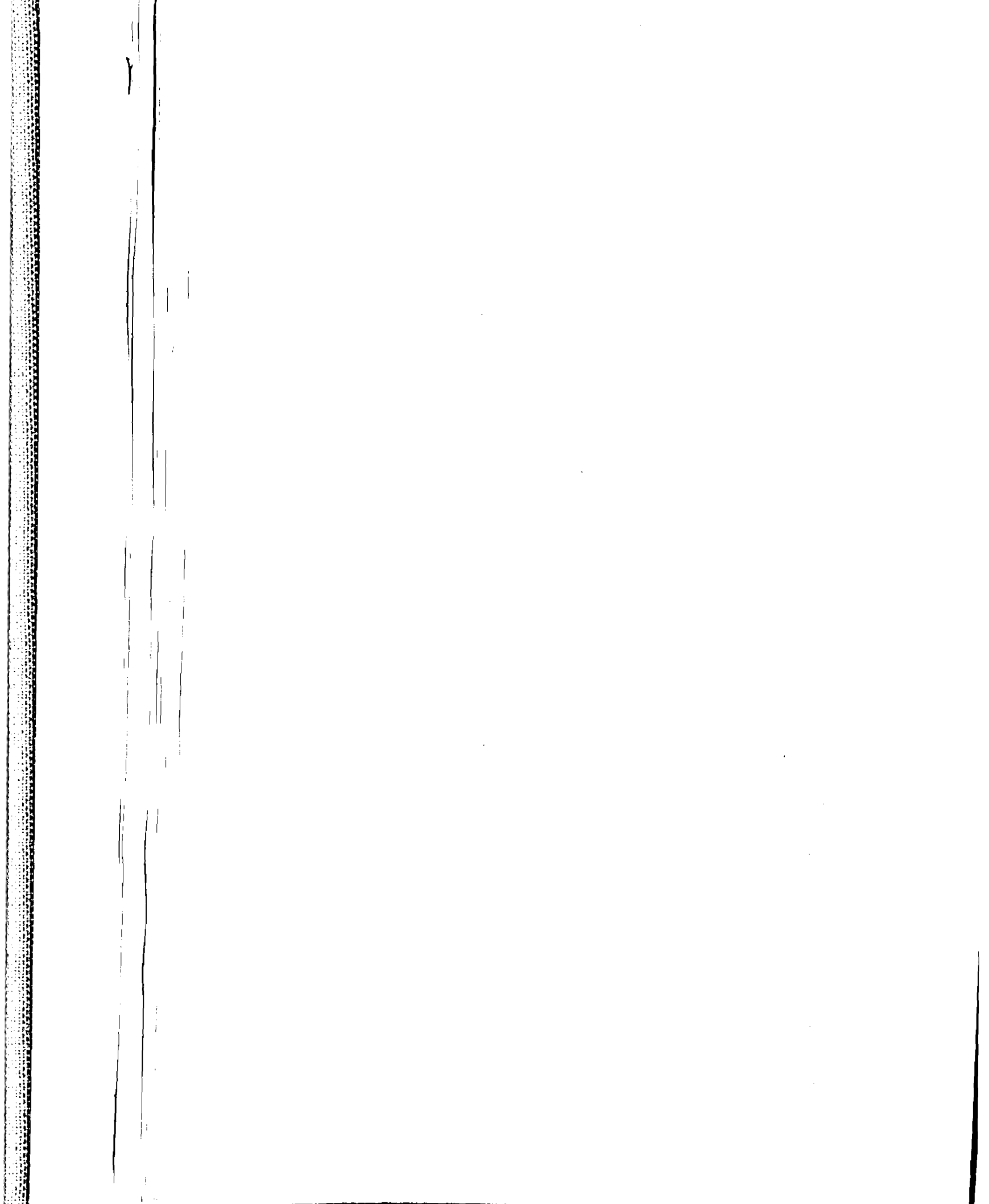
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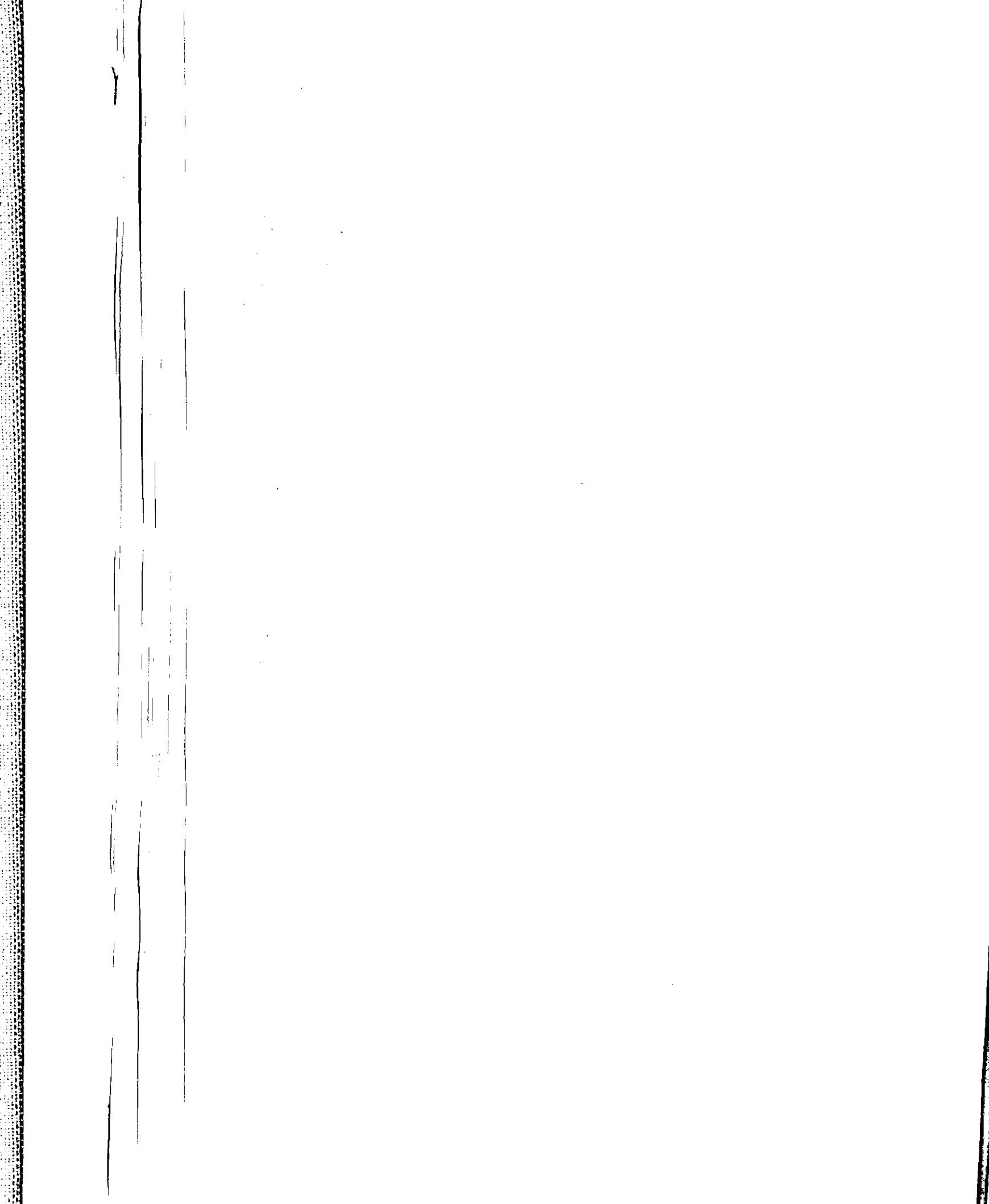
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GENERAL INTRODUCTION



CHAPTER I. GENERAL INTRODUCTIONI.1. INTELLECTUAL PROPERTY RIGHTS (IPR) REVISITED

Intellectual property rights have since long been the topic of many legal discussions and writings due to the complexity of the matter and the increasing awareness about the importance of the legal protection of innovatory and creative works for economic progress and development.¹ Though in the past controversies have arisen as to the necessity and purpose of these exclusive rights, nowadays the need for adequate protection is no longer seriously contested. Instead, the main concern has become where to draw the line between what constitutes a legitimate use and an abuse of intellectual property protection, as well as to clarify what these concepts entail. This is especially pertinent in view of the current tendency to resort to other types of intellectual property rights when the stringent conditions to obtain a patent monopoly are not met. More and more different types of intellectual property protection are readily interchanged in practice, whereas it thereby seems to be increasingly neglected that each type of intellectual property rights has a specific role and function to fulfil. It is precisely this apparent practical convergence of industrial, intellectual and commercial property that makes the need for clear guidelines on what constitutes a normal use -as opposed to misuse or abuse- of these inherently exclusive rights more urgent than before.

Though the elaboration of clear and consistent guidelines on

¹ The notion 'intellectual property rights' is here to be understood in a large sense, denominating industrial, commercial and intellectual property rights. Sometimes it will also be used stricto sensu as referring specifically to copyright and related rights. This will be the case when intellectual property protection is explicitly opposed or compared to industrial and/or commercial property protection.

intellectual property are indispensable to provide some legal security to the actors on the market, this seems to be particularly difficult to achieve in a European Community perspective. Whereas the national legislations still differ substantially owing to the lack of full harmonization in this field, the competence of the EC -and especially the Court of Justice- to deal with substantial matters of intellectual property rights is still not fully established. This is mainly due to the fact that intellectual property rights are -only- mentioned in Article 36 of the EC Treaty, which constitutes an exception to the fundamental principle of free movement of goods. But it obviously has wider implications, for instance for the application of the Community rules on competition. Intellectual property rights are inherently exclusive rights, so that the issue arises how and to what extent they can be reconciled with the concept of workable competition in the EC.

It is therefore submitted that the elaboration of coherent Community-wide guidelines as to what constitutes a legitimate use or an abuse of intellectual property protection will depend on the approach that will be taken to the following matters in the future: implications of diverging and sometimes even conflicting national laws, questions as to the scope and inherent function of intellectual property rights, delimitation of competences between the EC and its Member States, Community law implications, importance of a patent-antitrust debate, etc.. . The necessity to provide clear answers to all these to a large extent still unresolved issues is clearly demonstrated by the precarious situation which currently prevails in the EC market for spare parts of cars. The pertinence of the spare parts issue in EC context is illustrated by the fact that in the Maxicar and Volvo cases, the European Court of Justice was asked to rule on the compatibility of the enforcement of design rights on bodywork components of cars with the rules on the free movement of

goods and the rules on competition.² Though these cases implicitly raised the fundamental issues mentioned above, the Court did not grasp the opportunity to explicitly deal with them. It is submitted that this calls for a critical analysis of the place of intellectual property rights in European law in general, and of the Maxicar and Volvo judgments of the Court of Justice concerning spare parts of cars in particular.

I.2. INTRODUCTION TO THE SPARE PARTS ISSUE

The enforcement of design rights on spare parts of cars by European car manufacturers is a rather recent phenomenon. This is at first sight surprising if one considers that neither the existence of the system of design protection nor the distribution of similar competing spare parts by independent manufacturers is new or of a recent date. On the basis of this observation, the first question that readily comes to mind is why is design protection invoked now? Since they tolerated competition by independent manufactures before, it is obvious that at a certain point of time concerns other than the mere protection of creative expression have induced the car manufacturers to avail of design protection. Although the underlying reasons for which it is invoked of course does not in itself affect the legitimacy of design protection, it nevertheless raises the issue whether the practical implications sought to obtain are in accordance with the objectives of design legislation. This question is highly pertinent to the spare parts issue, since it can hardly be neglected that the recent enforcement of design rights on bodywork components of cars is particularly apt to have

² Case 53/87, Consorzio italiano della componentistica di ricambio per autoveicoli and Maxicar v. Régie nationale des usines Renault, Judgment of 5 October 1988, E.C.R. (1988) 6039; Case 238/87, AB Volvo v. Erik Veng (UK) Ltd, Judgment of 5 October 1988, E.C.R. (1988) 6211.

fundamental repercussions on the already existing competitive market structure.

In order to grasp the various implications of intellectual property issues in EC context, it is submitted that a detailed study of the spare parts issue is particularly relevant. Besides the interest and questions provoked by the rather recent occurrence of this issue in EC-context, it also presents multiple features and problems typical for intellectual property rights in the European Community, but which are usually not combined in any given intellectual property case. This is due precisely to the nature of both spare parts and design rights. As such, it is submitted that through analyzing the different aspects of this complex problem, it is possible to draw wider implications that supersede the spare parts debate.

Spare parts are peculiar in that they are components of a complex product, namely the car, which might also benefit from intellectual property protection. The spare parts market is ancillary to the car market, which implies that what happens in one of those markets necessarily has repercussions on the other. A car is a consumer durable with a relatively long life-time, so that in particular the question arises whether the car owner may be tied-in through the enforcement of design rights on the replacement parts thereof. This is especially pertinent in view of the fact that the Commission has consistently held that it is the consumer's basic right to have his car repaired wherever quality and price are most advantageous to him. In other words, the spare parts issue emphasizes the urgent need to establish clear guidelines as to whether and when intellectual property rights may be invoked and should be held to prevail over other legitimate interests, such as consumer protection and competition policy objectives.

Design rights are also peculiar in that it is currently

impossible to discern a specific design approach in national legislation. The approaches adopted to design protection in the Member States waiver between a copyright- and a patent-approach, though adapted to designs. The existing differences are furthermore accentuated when looking specifically at the protection provided to components of complex products, such as spare parts of cars. The fact that there are probably as many approaches as there are Member States implies that it is prima facie impossible to unequivocally state whether and when the enforcement of design protection on spare parts of cars is likely to be in conformity with national design legislation.

It is therefore obvious that in order to provide some legal certainty, the elaboration of a Community-wide approach is urgently needed. In this respect, it should be noted that the Commission has currently proposed harmonization measures with regard to legal protection of industrial designs to the Council. The importance of the spare parts issue in EC-context is once again illustrated here by the fact that one of the most -if not the most- controversial issue the Commission has to deal with in these proposals is precisely whether or not it should be possible to obtain design protection for spare parts of cars.

I.3. GLOBAL CONTEXT TO THE SPARE PARTS ISSUE

The existing controversy in the EC over the legitimacy of granting and enforcing design protection on spare parts of cars can hardly be dissociated from the economic context against which this issue has arisen. The spare parts market is of course stringently linked to the car market, whereas the European motor vehicle industry is probably the most crucial industry for the EC economy. But if the spare parts industry has become a highly lucrative market in its own right, it is impossible not to notice that the European automobile industry

is currently in crisis. The latter faces severe difficulties in adjusting to external competitive pressures, especially from Japan. Simultaneously, the car industry has to adapt to the creation of the internal market without national frontiers. In other words, the European car industry is currently subject to increased competition from both within and without the European Community. To assist the European motor vehicle industry in its adaptation process, both a specific commercial policy and an industrial policy for the automobile industry have been elaborated at EC level. Chapter II essentially analyses whether there is a possible relationship between this changed competitive environment, the elaboration of an automobile policy, and the occurrence of the enforcement of design rights on spare parts of cars by the car manufacturers.

A related question dealt with in Chapter II is why is it precisely design rights that are currently invoked. In this respect, attention is paid to whether there is a possible link with Regulation N° 123/85. It is this block exemption for selective automobile distribution and servicing agreements, including spare parts, that to a large extent determines the competitive environment of the motor vehicle industry in the EC. Regulation N° 123/85 already gave rise to a first spare parts controversy, namely concerning the extent to which the exemption of exclusivity clauses should be extended to spare parts. It was ultimately withheld that in order to safeguard both the competitive market structure in spare parts and the consumer's basic right to have his car repaired wherever price and quality are most advantageous to him, only a limited exclusivity on spare parts could be allowed. It is therefore interesting to see whether there is a possible relationship between the compromise found in Regulation N° 123/85 concerning the spare parts exclusivity controversy and the recent enforcement of design rights.

The current spare parts debate is not, however, primarily concerned with the reasons that have induced the car manufacturers to resort to design protection, but rather with the legitimacy of enforcing design rights on spare parts of cars. In order to illustrate the specificity of design protection as compared to patents, copyright and trademarks, Chapter III gives a brief introduction to the functions and objectives of the different types of intellectual property rights. A common characteristic is that they are all based on the principle of territoriality and confer exclusive rights. At first sight, they are thus evidently apt to have a detrimental impact on the free movement of goods and competition in the Community. Still, it should be underlined that intellectual property rights have an essential role to fulfil as a stimulus to innovation and development, and thus for economic growth. It is therefore generally held that temporary restraints on competition are justified in view of ultimately furthering competition in the market.

The main question dealt with in Chapter III is whether all restraints on competition can be justified in terms of the need to safeguard intellectual property protection. It is submitted that in order to answer this question, regard must be had to the fact that different types of intellectual property right respond to different objectives and thus have a specific function to fulfil. In other words, there cannot be one unequivocal approach that satisfactorily covers the system of intellectual property protection in general, but instead an appraisal needs to be made as to the balance between each type of intellectual property on the one hand and competition on the other hand. In this respect, a lot of attention of both lawyers and economists has gone to the so-called patent-antitrust debate, because patents are most apt to confer monopoly power. Still, this debate cannot be unconditionally transposed to, for instance, design rights. The specificity of each system of intellectual property right needs to be

considered, since they each have a specific function to fulfil which might justify different restrictions on competition. But conversely, this obviously also implies that not all restraints on competition can be objectively justified in terms of safeguarding the essential objective of any given intellectual property right.

I.4. DIFFERENT APPROACHES TO DESIGN PROTECTION ON SPARE PARTS OF CARS

Spare parts may in principle be protected by various types of intellectual property rights, sometimes even cumulatively. Traditionally, especially patent protection and trade marks are invoked. However, patent protection only applies to the limited number of functional spare parts that live up to the stringent conditions for protectability, whereas trade marks only confer an exclusive right on the mere use of a brand name and not on a product. In order to obtain exclusive rights on the bodywork components of their cars, certain car manufacturers thus recently resorted to national design protection. But since national design legislation varies greatly from one Member State to another, the conditions under which design protection can -if at all- be obtained and enforced on spare parts of cars are not uniform throughout the Community.

The purpose of Chapter IV is to give an illustration of the potential detrimental impact of the diversity of the national approaches on the common market. Most significant in this respect is the degree to which cumulation of design with copyright protection is permitted under national legislation. The discrepancies between the national approaches is further accentuated when looking specifically at spare parts of cars, because these are components of complex products which may equally benefit from design protection and thus call for a

specific approach. The problems posed by national design legislation in EC context are illustrated by highlighting the divergences in national legislation which are particularly relevant for the spare parts issue. Also the national case-law on design and design/copyright protection on spare parts of cars is briefly looked at, in order to see to what extent the national courts take other legitimate interests, such as competition and consumer protection, into account. It is significant in this respect that it was the UK courts that gave the impetus to insert a 'must-fit' and 'must-match' exception to design protection in the 1988 UK Copyright, Designs and Patents Act, specifically in the objective to safeguard the consumers' interest in a competitive market structure for replacement parts of cars. This explains why besides the illustration of the situation currently prevailing in the six original Member States, particular attention has been paid to the evolution of the spare parts issue in the UK.

Although already in 1959, a working group was established to study the feasibility to harmonize national design legislation in EC-context, the Commission only forwarded its first proposals in that sense in its Green Paper on the legal protection of industrial designs of June 1991. The objective is dual, in that a uniform Community Design would be created by Regulation and simultaneously national design legislation, which continues to exist concurrently, would be harmonized by Directive. Chapter V gives an analysis of the Commission's proposals specifically in the light of the spare parts issue.

It is particularly significant in this respect that in the latest version of the proposals a -already largely criticized- compromise seems to have been found for the extremely controversial spare parts issue. In particular, a repair clause has been inserted in the proposed regulation in order to limit, specifically as spare parts of cars are concerned, the duration of design protection in time. This clause did not

occur in the highly contested Green Paper proposals, which merely provided in a 'must-fit' exception for spare parts. The main question which arises is of course whether the elaboration of such a compromise between the conflicting interests of car manufacturers on the one hand and independent manufacturers of spare parts and consumers on the other hand is also satisfactory from the point of view of the purpose of design legislation. Considering the ongoing controversy about the spare parts issue and the far-reaching implications of the Commission's proposals for the currently existing national design legislations, it remains to be seen whether and when the Council will formally adopt those proposals.

I.5. STRIKING THE BALANCE BETWEEN NATIONAL IPR AND COMMUNITY RULES

It was previously mentioned that the national character of intellectual property rights based on the territoriality principle is difficult to reconcile with the objective of creating a single market in which the free movement of goods prevails, whereas the conferment of exclusive rights might pose problems in terms of the rules on competition. The purpose of Chapters VI and VII is to give a critical analysis of the place that has been attributed to intellectual property rights in Community law, before engaging in a detailed study of the Court's approach to the spare parts cases.

If one accepts the premise that intellectual property rights have a major impact on the market and are an important stimulus for economic progress, then it is obvious that by their very nature and economic purpose they come within the ambit of the EC Treaty. But from the wording of the EC Treaty, it appears that the draftsmen were reluctant to subject national intellectual property legislation to EC principles. This found its expression in the fact that intellectual

property rights are only explicitly mentioned in Article 36 EC, which constitutes an exception to the rules on the free movement of goods. It is important to note in this respect that this is still so after the modifications brought about to the Rome Treaty by both the Single European Act and the Maastricht Treaty on a European Union. The formulation of the Treaty initially led to the question whether the EC was at all competent to deal with matters of intellectual property protection. Though it can no longer be seriously contested that both the Member States and the EC have a concurrent competence on this matter, the question how to delineate between those competences to a large extent still remains unanswered.

The purpose of Chapter VI is precisely to examine to what extent and on what basis the EC has appropriated the competence to deal with matters of intellectual property, and how this affects the application of the rules on competition. In principle, harmonization transfers the competences from the Member States to the Community. In particular, the Court has consistently held that Article 36 EC can no longer be invoked to justify derogations from the rules on the free movement of goods once harmonization measures have been taken. A first question is whether this principle also unconditionally applies to intellectual property. It seems that three problems arise in this respect. First of all, the Single European Act has introduced Article 100a(4) EC which potentially reinforces the exceptions laid down in Article 36 EC. But more importantly, harmonization of intellectual property legislation leaves the principle of territoriality intact, which implies that Article 36 EC does not become totally redundant. And finally, whereas the replacement of national legislation by a unification of intellectual property legislation might be a solution, this meets with the reluctance of the Member States who do not seem to be very eager to harmonize, let alone to unify, intellectual property

legislation and in so-doing to transfer competences to the EC. In the absence of transference of competences through harmonization measures, it is obvious that the Court's approach to intellectual property rights gains even more in importance.

The Court's approach to intellectual property rights has traditionally been to strike a balance with the Community objectives of workable competition and free movement of goods.³ The introduction of the existence/exercise dichotomy in the early cases where intellectual property rights were invoked was clearly meant to delineate between the competences of the EC and its Member States. The essence is that what constitutes a normal use of the exclusive rights is to be left untouched by Community law whereas what constitutes a misuse or an abuse may be curtailed by Community law. Chapter VI examines the origin and meaning of these concepts as originally used in competition law cases. The main question here is whether the existence/exercise dichotomy is a workable criterion in practice, or whether additional criteria are needed to come to a coherent application of this basic idea. In particular, it is analysed whether or not the notions 'normal use' and 'misuse' or 'abuse' are determined with reference to the function or objective of the exclusive right invoked.

In this respect, it is rather surprising to find that the Court has merely transposed the existence/exercise dichotomy as used in competition cases to the rules on the free movement of goods. This was first evidenced through the introduction of the principle of exhaustion of rights to curtail the exercise made of copyright. Although Articles 30-36 EC are addressed to the Member States rather than to individuals, the Court has

³ The relationship between intellectual property rights and services will not be dealt with here because this is not directly relevant for the spare parts issue.

traditionally refrained from applying the usual justification and proportionality tests under Article 36 EC to the intellectual property measure concerned. Instead, the Court has explicitly stated that it is the use made of intellectual property rights which is not in accordance with its specific subject-matter that is held to be contrary to Article 36 EC. But does this then imply that the delineation between normal use and misuse takes the function of the intellectual property right concerned into account? In case it does, then the definition of the concept 'specific subject-matter' would need to be different when applied to patents, copyright, trade marks or design rights, considering that each intellectual property rights has a specific function to fulfil. Exception made for trade marks, this currently does not seem to be the case. It is therefore submitted that this calls for an analysis of the notion 'specific subject-matter' as apparently understood by the Court.

Chapter VI also analyses the approach taken to the application of the rules on competition to intellectual property rights, and the incidence of the evolution of the Court's traditional case-law under the rules on free movement of goods. The main question is thereby whether or not intellectual property rights also occupy a special status under the rules on competition. In this respect, the Court has consistently held that the rules on competition are in principle fully applicable, but that the essence of intellectual property rights may not be curtailed. How does this apply in practice? The difficulties encountered to determine what constitutes the 'essence' of the exclusive right, which does not fall foul of Article 85 (1) EC, is best illustrated by the Commission's radical shift in approach to patent licensing between the 1962 Christmas Message and the issuing of the block exemption on patent licensing agreements in 1984. But delineating between normal use and abuse of intellectual property rights seems to be even more difficult in relation to unilateral measures

which are alleged to fall foul of Article 86 EC. Here again, reference is often made to the notion 'specific subject-matter' to delineate between a normal use and an abuse of intellectual property rights. But the main difference with the rules on the free movement of goods is that it is essentially held that an additional element to the use of the exclusive right in accordance with the specific subject-matter is needed to come under Article 86 EC. But what constitutes this additional element? In particular, the question is once again posed whether this relates to the need to safeguard the function of the right. The relevance of this question is in particular illustrated by two rulings of the Court of First Instance. In the Hilti case, the issue was raised whether a patent holder can eliminate competition on a related market in unprotected products,⁴ whereas in the Magill cases, the essential issue was to what extent a copyright holder can invoke his exclusive right to prevent the creation of a derivative market in a new product.⁵ These questions are complementary to the issue raised in the spare parts cases, namely to what extent the holder of an industrial design can invoke his exclusive right to eliminate competition in the after-sales market of replacement parts.

Over the past 5 to 6 years, there is a subtle though important shift noticeable, away from the traditional approach taken by the Court in its case-law on the application of the rules on the free movement of goods to intellectual property rights. Though in some cases, the Court still holds on to the

⁴ Case T-30/89, Hilti AG v. Commission, Judgment of 12 December 1991, not yet reported.

⁵ Case T-69/89, Radio Telefis Eireann v. Commission, Judgment of 10 July 1991, E.C.R. (1991) II-485; Case T-70/89, The British Broadcasting Corporation and BBC Enterprises Limited v. Commission, Judgment of 10 July 1991, E.C.R. (1991) II-535; Case T-76/89, Independent Television Publications Limited v. Commission, Judgment of 10 July 1991, E.C.R. (1991) II-575.

existence/exercise dichotomy, in other cases the Court seems to have put this basic principle aside through applying what resembles a justification-test to the national measure granting the exclusive right. In still some other cases, the Court has combined both approaches in that it only applies a justification-test under the second sentence of Article 36 EC. This shift in approach was most likely inspired by the newly-gained awareness about the fact that the exercise of intellectual property rights may be contrary to Community law simply because the exclusive right was abusively granted.

It is obvious that if the legitimacy, or in other words the very existence, of an intellectual property right is no longer to be taken for granted under Articles 30-36 EC, this will most likely also have important repercussions on the current approach to the exercise of intellectual property rights under the rules on competition. The purpose of Chapter VII is mainly to analyze whether or not one can discern viable criteria to determine which approach the Court will in the future adopt to any given case, namely the exercise/consent-approach, the existence/justification-approach, or an in-between approach which will be called the marginal appraisal-approach. In this respect, the question is first of all posed whether the traditional application of the consent-theory based on the existence/exercise dichotomy is coherent in view of the remaining discrepancies in national intellectual property legislation and the need to safeguard the inherent function of the various exclusive rights. Considering that the traditional approach continues to be applied in certain cases, the fundamental question arises whether the recent cases in which the justification-test has been applied present particular features which explain the difference in approach, or whether to the contrary the application of one or the other approach currently seems to be arbitrary.

I.6. THE COMMUNITY RULES AND THE SPARE PARTS ISSUE

Against this background, the following question naturally arises: what kind of approach has the Court taken to the issue, raised in the Maxicar case, of the compatibility of the enforcement of design rights on spare parts of cars with the rules on the free movement of goods? It is important to note in this respect that the Maxicar case was peculiar in at least two respects. It was the first time that the Court had to deal with the enforcement of intellectual property protection on components of complex products. Furthermore, whereas all previous cases brought before the Court concerned the request of the holder of an exclusive right to obtain a legal injunction against third parties who manufacture, import and sell unauthorized products or to prevent parallel importation, the national procedure in the Maxicar case concerned a legal action brought by independent manufacturers claiming the annulment of certain design rights on bodywork components of cars. Since at first sight intra-Community trade does not seem to be affected, a first question which is examined in Chapter VIII is why the rules on the free movement of goods apply to such a case. The most important question is, however, whether the exception laid down in Article 36 EC can be successfully invoked by the car manufacturer in order to sustain his contested design rights. It is submitted in this respect that the issue at stake in the spare parts cases clearly was whether the grant and enforcement of design rights which leads to the elimination of competition in the spare parts market is covered by the expression industrial and commercial property as mentioned in the first sentence of Article 36 EC. This would apparently call for a justification-test approach in order to establish whether or not the grant of design rights on spare parts of cars is in accordance with the functions and objectives of design legislation as understood under Community law. Seen from this perspective, it is rather surprising to find that the Court merely adopted the marginal appraisal

approach. Though the justification-test was applied under the second sentence of Article 36 EC, the Court resorted to its traditional approach under the first sentence of Article 36 EC through upholding the existence/exercise dichotomy. In other words, the Court implicitly refuted the hypothesis that the design right concerned might have been abusively granted. Chapter VIII gives a critical analysis of the Court's approach both in view of its earlier case-law and in terms of the function of design rights. Attention is thereby also paid as to how this all affects the consumers' interest.

Since the Court upheld national measures conferring design rights on bodywork components of cars in the Maxicar case, the other preliminary question posed in the same case, namely whether or not this exclusive right can also be enforced to eliminate competition in the spare parts market without amounting to an abuse of a dominant position under 86 EC, became all the more pertinent. In the Volvo cases, the complementary question was posed whether the refusal to grant licences upon reasonable terms constitutes an infringement of Article 86 EC. Chapter IX essentially gives a critical analysis of the Court's extremely brief response to those questions. A first and crucial issue in this respect, which is analysed in Chapter IX though it had not been explicitly dealt with by the Court, is the determination of the relevant product market. Whereas the car manufacturers invoke the so-called package-theory to submit that the car and spare parts market is one and the same, the independent manufacturers maintain that the spare parts market is distinct from, though related to, the market in new motor vehicles. A related question that arises is whether there is or may be a relationship between the occurrence of design protection and the finding of a dominant position on the relevant market. Having established that the car manufacturers do occupy a dominant position in the relevant market, which is defined as the market in bodywork components of cars of their own brand,

the delicate issue arises to what extent Article 86 EC may curtail the use made of the design rights on those bodywork components of cars. The essential question posed in Chapter IX is whether the finding of an abuse may not be constituted by a use which is not in conformity with the function of design rights. However, this seems to deviate from the approach traditionally taken by the Court, which is based on the premise that to come to the finding of an abuse under Article 86 EC an additional element to the exercise already covered by the specific subject-matter of an intellectual property right is needed. In the spare parts cases, neither the elimination of competition nor the refusal to grant licences on reasonable terms seemed to constitute this additional element in the view of the Court. The Court did, however, clarify that the arbitrary refusal to sell to independents, the charging of unfair prices or prematurely terminating production of spare parts if many cars are still on the market might amount to an abuse. Chapter IX gives a critical analysis of those examples of abusive behaviour in terms of their practical applicability, before examining to what extent intra-Community trade might be held to be affected by this kind of behaviour. In other words, the feasibility of curtailing the potential abusive use of design rights on bodywork components of cars under the current state of Community law is evaluated.

A final question that needs to be posed to complete the spare parts picture under Community law is what the potential impact is of the Court's rulings in the spare parts cases on the objectives of Regulation N° 123/85. The unilateral enforcement of design rights on spare parts is obviously not prohibited under the block exemption. But it cannot be ignored that the enforcement of design rights on bodywork components of cars is particularly apt to change the competitive market structure on the basis of which the block exemption was drafted. The rationale of Regulation N° 123/85 was precisely that certain restrictions on intra-brand competition could be tolerated

because inter-brand competition existed in the markets of both cars and spare parts. But the enforcement of design rights entails the elimination of inter-brand competition in the market for bodywork components of cars. Is it in this new context still justified to exempt contractual restrictions on intra-brand competition under Article 85 (3) EC? If so, it is superfluous to point out that the car manufacturers may obtain a perfect legal monopoly in the market for bodywork components for cars. In order to answer this crucial question, Chapter X analyses the objectives put forward in Regulation N° 123/85 both as concerns cars and spare parts. Particular attention is thereby paid to the delicate relationship established between efficiency concerns and the objective to safeguard the consumers' interests in a competitive market structure. This raises the question to what extent these specific objectives are jeopardized by the outcome of the spare parts cases. A related question is whether something can still be undertaken by the Commission to try to uphold some competition in the market for bodywork components of cars. In particular, it is examined whether the Commission may impose compulsory licences under Regulation N° 17 or whether there is scope for action under Regulation N° 123/85. It is in this respect interesting to illustrate the dissenting approach taken by the Commission to the enforcement of design rights on bodywork components of cars and the refusal to grant licences on reasonable terms by the Ford Motor Company.

This last chapter thus essentially examines the possibility to use the competition rules, not to strike down or curtail the use made of intellectual property rights, but rather to respond to their potential detrimental consequences on competition policy objectives such as safeguarding a competitive market structure and consumers' interests. Although due to the existence of Regulation N° 123/85 the spare parts issue constitutes a prime example in this respect, it is once again obvious that this is a fundamental issue

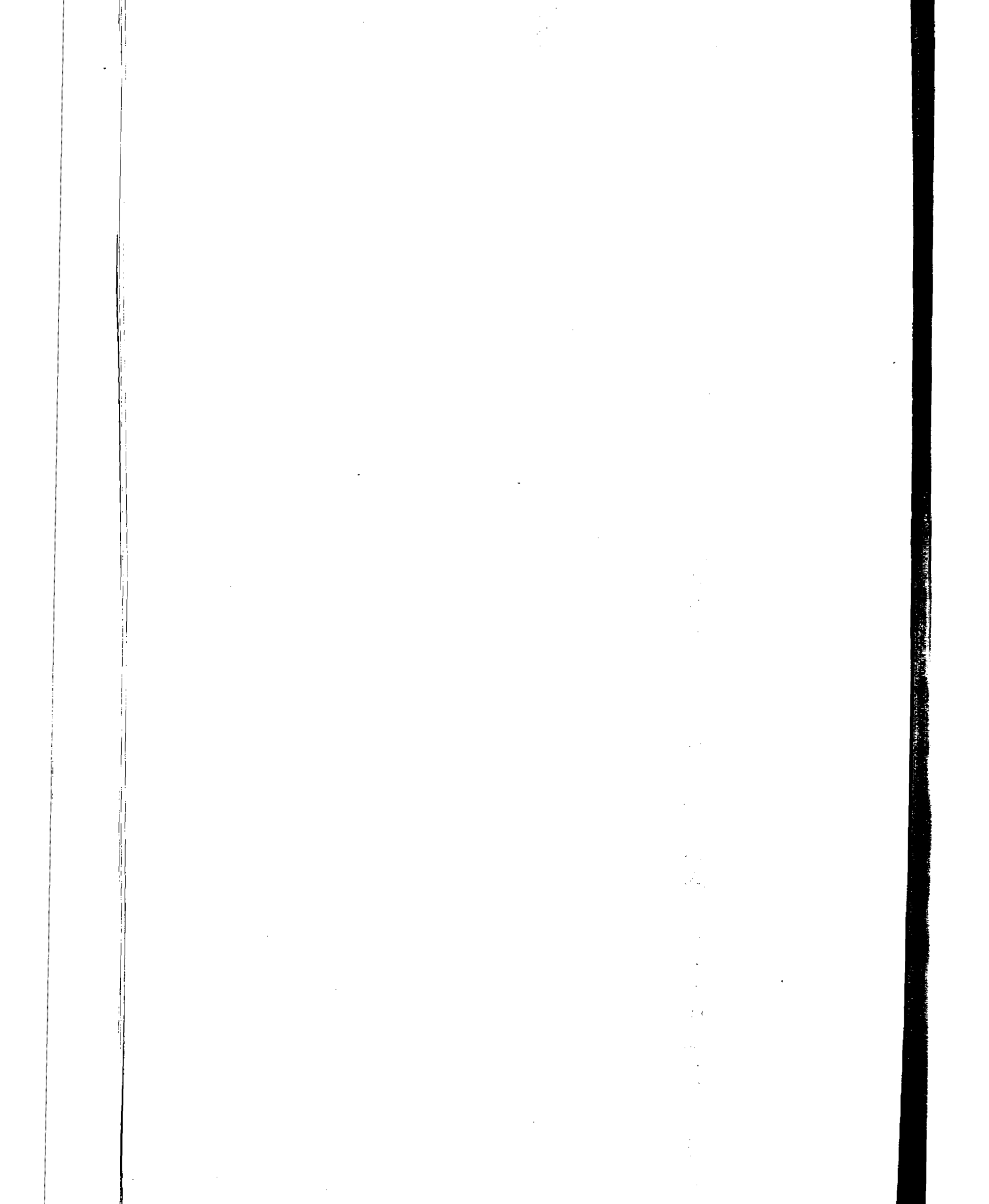
which largely supersedes the current spare parts debate. As is the case for the determination of what constitutes a normal use as opposed to a misuse or abuse of intellectual property rights under the EC rules on free movement of goods and competition, the spare parts issue also in this respect essentially fulfils an amplifier function.

PART ONE

*

GLOBAL CONTEXT

TO THE SPARE PARTS ISSUE



CHAPTER II. THE EC AUTOMOBILE MARKET IN PERSPECTIVE**II.1. ECONOMIC BACKGROUND**

The automobile industry (including both passenger cars and commercial vehicles) is one of the key industries -if not the most crucial industry- in the European Community, having regard to its size and economic importance.¹ The motor vehicle industry is the largest European industry, with a turnover in 1991 which exceeded 200 billion ECU and a value added of 7 billion ECU.² Although employment in the 1980's steadily decreased due to restructuring, in 1991 it was still close to 1.2 million people.³

Traditionally, motor vehicles present a surplus on the global EC trade balance.⁴ The EC is -with a share of about 40%- both the world's largest producer and consumer of motor vehicles.⁵ Even though the automobile industry thus clearly is of a vital

¹ See also VIGIER, P., "La politique communautaire de l'automobile: Ière partie: une stratégie industrielle", Revue du Marché Unique Européen (1992) 73-112, at pp. 76-77, where he describes the automobile sector as "une industrie-clef".

² See EC COMMISSION, Panorama of EC industry 1993, Luxembourg, 1993, NACE 351, at p. 11-8. Unless stated otherwise, the factual information in relation to the motor vehicle industry presented in this introduction is based on this publication by the Commission.

³ Compare to the figure of 1.8 million direct employment advanced for the late 1980's in EC COMMISSION, Panorama of EC industry 1990, Luxembourg, 1990, NACE 351, at pt. 13-6.

⁴ For instance in 1990, net Community exports of passenger cars and light commercial vehicles contributed to around 11 billion ECU to the balance of payments. See EC COMMISSION, Information Memo of 29 April 1992, "Motor vehicle industry: the challenge of competitiveness between now and the year 2000. The European Commission proposes a series of actions".

⁵ See COM (92) 166 final of 8 May 1992, "The European motor vehicle industry: situation, issues at stake, and proposals for action", at p. 2.

importance for the European economy, it should be noted that not all EC Member States produce cars. The five main car producing countries in the Community are Germany, France, the United Kingdom, Spain and Italy. As is evidenced by Figure 1, Germany accounts for a value added which is almost three times larger than the second most productive Member State, namely France.⁶ Furthermore, about 75% of the total sales in Western Europe is accounted for by the 6 largest European companies, as is illustrated by Figure 2.

The motor vehicle parts and accessories industry is clearly ancillary to the motor vehicle industry. The demand for original equipment manufacturing (OEM) is directly linked to the sales of new vehicles, whereas the demand for replacement parts is obviously also indirectly linked to the performance of the motor vehicle industry. Over the past years, the motor vehicle parts and accessories industry, including the OEM and the repair markets, has steadily but surely emerged as an important industry in its own right. Whereas in 1988, this sector already accounted for a turnover of around 65 billion ECU and employed more or less 0.6 million people, in 1991 it employed around 1 million people -or in other words more or less the same number of people as the motor vehicle industry- and accounted for a turnover estimated at almost 100 billion ECU -or about half the turnover of the motor vehicle industry.⁷

⁶ The production by Member State refers to a geographical criteria, namely all the production taking place in that Member State, including that of subsidiaries of foreign countries and excluding the output of subsidiaries located elsewhere.

⁷ EC COMMISSION, Panorama of EC industry 1990, Luxembourg, 1990, NACE 353, at p. 13-14 and EC COMMISSION, Panorama of EC industry 1993, Luxembourg, 1993, NACE 353, at pt. 11-17, respectively. These figures should probably be higher, because the NACE-data exclude for example most of the electronics and electrical components. All the data listed hereafter with regard to the motor vehicle parts and accessories sector are based on the 1993 Panorama, unless stated otherwise.

FIGURE 1: Motor vehicles
 Value added by Member State, 1991
 *Source: Panorama of EC industry 1993

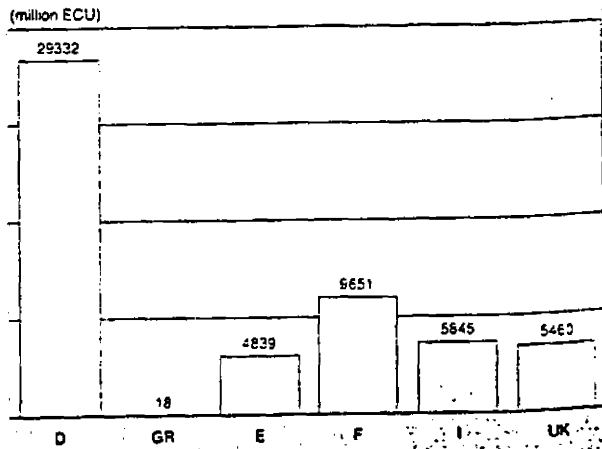
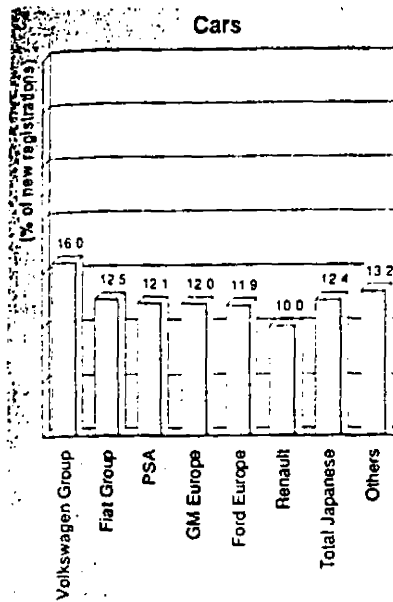


FIGURE 2: Motor Vehicles
 Market shares in Western Europe, 1991
 *Source: Panorama of EC industry 1993

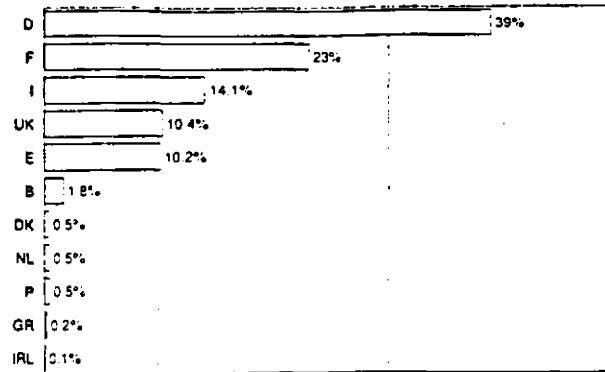


Although all Member States produce motor vehicle parts and accessories, it is illustrated by Figure 3 that the main car producing countries also account for about 96% of the motor vehicle parts and components production.

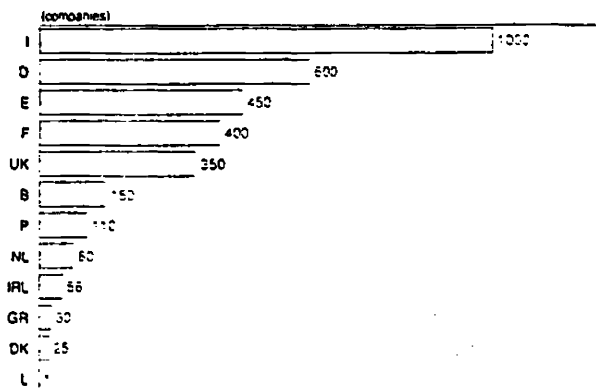
However, contrary to the motor vehicle industry, a typical feature of the parts and accessories sector is that it is constituted by large diversified producers, larger producers specialized in motor vehicle parts, as well as a large number of small or medium-sized firms. Figure 4 lists the estimated number of motor vehicle parts and accessories suppliers by Member State. Independent manufacturers are held to account for nearly 90% of both production and employment in this sector, whereas subsidiaries of vehicle manufacturers only produce and employ the remaining 10%. A detail of the independent manufacturers production by component type is given in Table I, which shows that body components rank very highly. In order to increase their efficiency and to sustain their competitive position in the world market, the car manufacturers are increasingly outsourcing the manufacture of original equipment parts to independent manufacturers. However, though technically autonomous, the latter have to conceive, design and produce the parts in accordance with the manufacturers' specifications. With regard to replacement parts, it is estimated that the car manufacturers control about 30% through their distribution and service networks, even though they only account for about 10% of the industrial origin of those parts. The remaining 70% are supplied by the numerous independent manufacturers.

Taking all related sectors, such as the materials extraction industry and the parts and accessories industry, into account, it is estimated that about 10% of all jobs in the European Community are either directly or indirectly dependent on the

**FIGURE 3: Motor vehicle parts and accessories
Distribution of production by Member State, 1991**
*Source: Panorama of EC industry 1993



**FIGURE 4: Motor vehicle parts and accessories
Number of suppliers by country, 1988**
*Source: Panorama of EC industry 1993



**TABLE 1: Motor vehicle parts
Structure of EC production by component type,
Independent manufacturers
*Source: Panorama of EC industry 1993**

Component type	% of total
Body parts	18.1
Electrical parts (2)	15.6
Engine parts	11.8
Interior parts	10.8
Drive train	7.3
Braking	6.4
Suspension	5.9
Wheels (1)	5.5
Fuel systems	4.4
Cooling systems	3.3
Exhaust systems	3.3
Transmissions	3.0
Steering	2.5
Others	2.3

(1) Excluding tyres

(2) Excluding electronics

motor vehicle sector.⁸

II.2. THE AUTOMOBILE SECTOR AND EC POLICY MAKING

II.2.1. THE EC COMMERCIAL POLICY WITH REGARD TO JAPANESE CARS

Although it is not the aim of this study to analyze the Community's commercial policy with regard to the automobile sector, it is nevertheless important to point out that the changing international competitive context has put the European motor vehicle market under a lot of strain. In the next section, it will be briefly illustrated what the Community's response to this changing competitive environment has been.

As mentioned before, the European motor vehicle industry is up to date the world's largest market. Still, ever since the 1973 oil crisis, both the Northern American and Western European motor vehicle industries suffer from a substantial brake on the continued growth which resulted in a cyclical rather than a regular annual expansion as before. As is illustrated by Table 2, the Japanese car industry has in the same period managed to adapt itself to rapid change and to continuously expand its output.⁹ The Japanese motor vehicle manufacturers not only increased their market shares in third markets at the expense of the European producers,¹⁰ but furthermore steadily increased their share in the Community market either through direct exports or through the establishment of transplant industries in the Community and especially the United Kingdom.

⁸ See COM (92) 166 final of 8 May 1992, o.c., at p. 2.

⁹ See BLOOMFIELD, G., "The world automotive industry in transition", in LAW, C., (ed.), Restructuring the global automobile industry: national and regional impacts, Routledge, London, pp. 19-60, at pp. 21-29.

¹⁰ See COM (92) 166 final, at p. 3.

TABLE 2: World production of motor vehicles
 *Source: Panorama of EC industry 1990

(millions)	EC	North America	Japan	Total world
1970	11.4	9.5	5.3	29.7
1980	11.7	9.4	11.0	38.8
1981	10.9	9.2	11.2	37.4
1982	11.3	8.2	10.7	36.4
1983	12.0	11.0	11.1	40.0
1984	11.1	12.8	11.4	42.2
1985	11.3	13.6	12.3	44.3
1986	12.6	13.3	12.3	45.1
1987	13.2	12.6	12.2	45.7
1988	13.8	13.2	12.7	48.0
1989	13.8	12.8	12.6	48.0

TABLE 3: Motor vehicles
 Productivity of car assembly plants, 1989
 (automotive activities only)
 *Source: Panorama of EC industry 1993

	Japanese in Japan	Japanese in North America	American in North America	Europe
Productivity (hours/vehicle)	16.8	21.2	25.1	36.2
Quality (assembly defects/100 vehicles)	60.0	65.0	82.3	97.0

Still, this market penetration in the past varied greatly from one Member State to another due to protectionist measures in the form of national quota.¹¹

With the establishment of the internal market by 1993 and the subsequent disappearance of the national quota maintained by France, Italy, Spain, Portugal and the United Kingdom, it was feared that especially the Japanese motor vehicle manufacturers would benefit from the elimination of the internal frontiers. Considering the important discrepancies in productivity and quality performance as illustrated in Table 3, it was held that the European car industry needed a transitional period to structurally adapt itself to the new competitive environment, after which competition would be totally free.¹² On 31 July 1991, the EC and Japan reached a so-called 'grey zone agreement' in GATT terms, whereby Japan undertook to voluntarily restrain its automobile export to the EC until the end of 1999 and which is continuously monitored by the EC.¹³

It is generally thought that the main success of the Japanese motor vehicle industry resides in that instead of striving for

¹¹ See for instance GOYBET, C., "Automobiles: la réponse européenne au défi japonais", *R.M.C.* (1991) 337-339, at p. 337, where she gives the following penetration rates of Japanese cars: Italy and Spain 0,5%; France 3%; Portugal 4,5%; UK 11%, GDR 15%; Belgium 19%; Netherlands 25%; Denmark 30%; and in Ireland 42% of the national market.

¹² For a debate on whether or not, and if so for how long a transitional period was needed, as well as on the issue whether or not Japanese transplant industries in the UK are to be considered as British or Japanese, see HOUSE OF LORDS, 22nd Report, Select Committee on the European Communities, "A single market for cars", 24 July 1990, London, HMSO, HL Paper 76.

¹³ On the nature, the content, and the main criticisms in relation to this Voluntary Export Restraint agreement, see VIGIER, P., *o.c.*, at pp. 98-112.

vertical integration as in Western Europe, they operate in industrial groups, which consists of "as many as several hundred legally separate but operationally coordinated companies surrounding each of the major assembler firms",¹⁴ which makes it possible to better allocate over-all investment and increase flexibility and efficiency. These industrial groups are furthermore part of a keiratsu structure or in other words a "system of conglomerate grouping that links an auto producer to a major bank and a host of other industrial enterprises",¹⁵ which essentially provides for the industrial group's financial backing whilst blocking foreign ownerships. As concerns the European motor vehicle industry, it has been pointed out that the existing product distinctiveness represents a major competitive advantage as compared to the Japanese, so that one of the future strategies for the European producers "will lie in stressing the diversity (even the nationalism) of their design philosophies and refusing to present a unified target to Japanese product designers".¹⁶ However, this finding does not alter the fact that the European car industry obviously faces an urgent need for structural adjustments, in order to eliminate or at least to substantially reduce the productivity and quality performance-gap as mentioned before and as illustrated in Table 3.

II.2.2. A COMMUNITY AUTOMOBILE POLICY

Although the Commission rather optimistically maintains that

¹⁴ See the following MIT-study: ALTSHULER, A., a.o., The future of the automobile, George Allen & Unwin Ltd., London, 1984, at pp. 147-149.

¹⁵ See ALTSHULER, A., a.o., o.c., at p. 149.

¹⁶ See ALTSHULER, A., a.o., o.c., at p. 168.

"the European motor vehicle industry is not in crisis",¹⁷ it cannot go unnoticed that in recent years there has been a significant downward trend as concerns European car production and employment despite the increased consumer demand due to the German unification.¹⁸ Against the background of rapid technological change, the increasingly fierce competition from third countries -and especially Japan- calls for a modernization of the European industry -which faces severe internal adjustment problems- at the latest by year 2000, the date on which the Japanese Voluntary Restraint agreement expires. Considering the major importance of the motor vehicle industry for the European economy, it is obvious that meeting the challenge to enhance the competitiveness of the European car industry in an international context is of a major concern not only to the European motor vehicle industry but also to European policy makers.

The nature of competition in the car industry has been described as follows:

"Actually, the competition is of two kinds. One is intense commercial competition across the world between transnational producers. Although these competitors are only indirectly concerned with where their production takes place, this is the key question for governments involved in the intense political competition to protect or increase national shares of world auto manufacture. It is vital to keep this dual aspect of automotive competition continuously in mind".¹⁹

Keeping this dual nature of automotive competition in mind, it is not surprising to find that the European Community and especially the European Commission seems to have adopted over

¹⁷ EC COMMISSION, Information Memo of 29 April 1992, "Motor vehicle industry: the challenge of competitiveness between now and the year 2000. The European Commission proposes a series of actions".

¹⁸ See COM (92) 166 final of 8 May 1992, o.c., at p. 2.

¹⁹ See ALTSHULER, A., a.o., o.c., at p. 121.

the past years what could be called a specific 'Community automobile policy', in order to provide a framework which should facilitate the task of the European car industry in its strive for future competitiveness.²⁰ The main features of this industrial policy with regard to the automobile sector are laid down in the COM-document "The European motor vehicle industry: situation, issues at stake, and proposals for action".²¹

A major policy objective consists in the achievement of a single market in automobiles, through the harmonization of technical and environmental regulations and standards in order to come to an EC type-approval (see Table 4)²² and the approximation of indirect taxes.²³ It is thought that the resulting elimination of the fragmentation of the European car market should enhance intra-Community collaboration in

²⁰ EC COMMISSION, Information Memo of 29 April 1992, o.c., at p. 2, where it is held that "...the Commission proposes a series of practical measures to overcome the handicaps of the European motor vehicle industry. The Commission does not intend to adopt a "tailor-made" approach to the motor vehicle sector or indulge in interventionist policies. Manufacturers themselves bear the main responsibility for future competitiveness".

²¹ COM (92) 166 final of 8 May 1992. This document is largely based on the following SEC-documents: SEC (89) 2118 of 18 January 1990, "A single Community motor vehicle market"; SEC (89) 2275, "The future of the motor industry - a sectoral analysis".

²² See especially Council Directive N° 92/53 of 18 June 1992 amending Directive 70/156 on the approximation of the laws of the Member States relating to the type-approval of vehicles and their trailers, O.J. L 225/1 of 10 August 1992. Table 2 represents Annex IV to this directive, which lists the technical and environmental regulations that have to be complied with in order to obtain an EC type-approval.

²³ On the achievements with regard to this matter, see VIGIER, P., "La politique communautaire de l'automobile: IIe partie: l'action communautaire", Revue du Marché Unique Européen (1992) 73-126, at p. 76-77.

TABLE 4: Annex IV to Directive 70/156
List of requirements for the purpose of vehicle type-approval
***Source: O.J. L 225/43 of 10.8.1992**

Subject	Directive number	Official Journal reference	Applicability																	
			M ₁	M ₂	M ₃	N ₁	N ₂	N ₃	O ₁	O ₂	O ₃	O ₄								
1. Sound levels	70/157/EEC	L 42, 23. 2. 1970, p. 16	x	x	x	x	x	x												
2. Emissions	70/220/EEC	L 76, 6. 4. 1970, p. 1	x	x	x	x	x	x												
3. Fuel tanks/rear protective devices	70/221/EEC	L 76, 6. 4. 1970, p. 23	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
4. Rear registration plate space	70/222/EEC	L 76, 6. 4. 1970, p. 25	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
5. Steering effort	70/311/EEC	L 133, 18. 6. 1970, p. 10	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
6. Door latches and hinges	70/387/EEC	L 176, 10. 8. 1970, p. 5	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
7. Audible warning	70/388/EEC	L 176, 10. 8. 1970, p. 12	x	x	x	x	x	x	x											
8. Rear visibility	71/127/EEC	L 68, 22. 3. 1971, p. 1	x	x	x	x	x	x												
9. Braking	71/320/EEC	L 202, 6. 9. 1971, p. 37	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
10. Suppression (radio)	72/245/EEC	L 152, 6. 7. 1972, p. 15	x	x	x	x	x	x												
11. Diesel smoke	72/306/EEC	L 190, 20. 8. 1972, p. 1	x	x	x	x	x	x												
12. Interior fittings	74/60/EEC	L 38, 11. 2. 1974, p. 2	x																	
13. Anti-theft	74/61/EEC	L 38, 11. 2. 1974, p. 22	x	x	x	x	x	x												
14. Protective steering	74/297/EEC	L 165, 20. 6. 1974, p. 16	x			x														
15. Seat strength	74/408/EEC	L 221, 12. 8. 1974, p. 1	x	x	x	x	x	x												
16. Exterior projections	74/483/EEC	L 256, 2. 10. 1974, p. 4	x																	
17. Speedometer and reverse gear	75/443/EEC	L 196, 26. 7. 1975, p. 1	x	x	x	x	x	x												
18. Plates (statutory)	76/114/EEC	L 24, 30. 1. 1976, p. 1	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
19. Seat belt anchorages	76/115/EEC	L 24, 30. 1. 1976, p. 6	x	x	x	x	x	x												
20. Lighting installations	76/756/EEC	L 262, 27. 9. 1976, p. 1	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
21. Reflex reflectors	76/757/EEC	L 262, 27. 9. 1976, p. 32	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
22. Lamps (side, rear, stop)	76/758/EEC	L 262, 27. 9. 1976, p. 54	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
23. Direction indicators	76/759/EEC	L 262, 27. 9. 1976, p. 71	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
24. Lamps (number plate)	76/760/EEC	L 262, 27. 9. 1976, p. 85	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
25. Headlamps (including bulbs)	76/761/EEC	L 262, 27. 9. 1976, p. 96	x	x	x	x	x	x												
26. Fog lamps (front)	76/762/EEC	L 262, 27. 9. 1976, p. 122	x	x	x	x	x	x												
27. Towing hooks	77/389/EEC	L 145, 13. 6. 1977, p. 41	x	x	x	x	x	x												
28. Fog lamps (rear)	77/538/EEC	L 220, 29. 8. 1977, p. 60	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
29. Lamps (reversing)	77/539/EEC	L 220, 29. 8. 1977, p. 72	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
30. Lamps (parking)	77/540/EEC	L 220, 29. 8. 1977, p. 83	x	x	x	x	x	x												
31. Seat belts	77/541/EEC	L 220, 29. 8. 1977, p. 95	x	x	x	x	x	x												
32. Forward vision	77/649/EEC	L 267, 19. 10. 1977, p. 1	x																	
33. Identification of controls	78/316/EEC	L 81, 28. 3. 1978, p. 3	x	x	x	x	x	x												
34. Defrost/demist	78/317/EEC	L 81, 28. 3. 1978, p. 27	x																	
35. Wash/wipe	78/318/EEC	L 81, 28. 3. 1978, p. 49	x																	
36. Heating systems	78/548/EEC	L 168, 26. 6. 1978, p. 40	x																	
37. Wheel guards	78/549/EEC	L 168, 26. 6. 1978, p. 45	x																	
38. Head restraints	78/932/EEC	L 325, 20. 11. 1978, p. 1	x																	
39. Fuel consumption	80/1268/EEC	L 375, 31. 12. 1980, p. 36	x																	
40. Engine power	80/1269/EEC	L 375, 31. 12. 1980, p. 46	x	x	x	x	x	x												

Subject	Directive number	Official Journal reference	Applicability											
			M ₁	M ₂	M ₃	N ₁	N ₂	N ₃	O ₁	O ₂	O ₃	O ₄		
41. Diesel emissions	88/77/EEC	L. 36, 9. 2. 1988, p. 33	x	x	x	x	x	x						
42. Lateral protection	89/297/EEC	L. 124, 5. 5. 1989, p. 1					x	x					x	x
43. Safety glass	92/22/EEC	L. 129, 14. 5. 1992, p. 11	x	x	x	x	x	x	x	x	x	x	x	x
44. Masses and dimensions (cars)	92/21/EEC	L. 129, 14. 5. 1992, p. 1	x											
45. Tyres	92/23/EEC	L. 129, 14. 5. 1992, p. 95	x	x	x	x	x	x	x	x	x	x	x	x
46. Couplings	92/ /EEC	...	x	x	x	x	x	x	x	x	x	x	x	x
47. Anti-spray devices	92/226/EEC	L. 103, 24. 4. 1991, p. 5					x	x					x	x
48. Masses and dimensions (other than vehicles referred to in item 44)	92/ /EEC	...		x	x	x	x	x	x	x	x	x	x	x
49. Flammability	92/ /EEC	...			x									
50. External projections of cabs	92/ /EEC	...				x	x	x						
51. Speed limiters	92/24/EEC	L. 129, 14. 5. 1992, p. 154			x		x	x						
52. Public service vehicles	92/ /EEC	...	x	x										

accordance with the rules on competition, create economies of scale and further the competitiveness of the European car industry. Under the rules on competition, specific measures have been taken which benefit the automobile market, such as a sectoral framework for public investment aid²⁴ and a flexible approach towards intra-Community co-operation of both motor vehicle and equipment manufacturers.²⁵

Other policy objectives which should help the car industry to modernize its structures consist in: vocational training, considering the relatively aged and under-qualified workforce as compared to Japan; the elaboration of an adequate research and development policy, considering the current lack of ability to translate R&D into innovative products and/or processes; as well as improving the Community industry's

²⁴ See "Community framework on state aid to the motor vehicle industry", 89/C 123/03, O.J. C 123/3 of 18.5.1989. In point 1, it is mentioned that the dual objective of the framework is "...to establish full transparency of aid flows to the industry and impose at the same time a stricter discipline to the granting of aids in order to assure that the competitiveness of the Community industry is not distorted by unfair competition". It is interesting to note that all parts and accessories for both motor vehicles and motor vehicle engines are excluded from its scope. For the renewal for two years in 1991, see 91/C 81/05, O.J. C 81/4 of 26.3.1991. The renewal in 1993, which was done merely through a letter sent by the Directorate-General of competition to the Member States, is currently contested by Spain before the Court of Justice, see Case C-135/93, Kingdom of Spain v. Commission, Proceedings of the Court, 26 to 30 April 1993.

²⁵ EC Merger Regulation N° 4064/89, O.J. L 395/1 of 1989. This flexible attitude can best be illustrated by the fact that the Commission at p. 9, COM (92) 166 final, takes as a premise that "The motor vehicle market has become a world market. Thus the risk of dominant positions emerging has been considerably reduced in a Community that is traditionally open to trade..", whereas before it did not refrain to use the national market as the reference market. See also VIGIER, P., o.c., at p. 102.

access to third markets.²⁶

Another major concern of the Commission consists in improving the efficiency of activities both upstream and downstream of motor vehicle assembly. Upstream, it is held that there is an urgent need to change radically the current relationship between the European car manufacturers and their original equipment manufacturers. It is thought that the future tendency should go along the same lines as in Japan,²⁷ namely increased outsourcing of OEM towards fewer suppliers with enhanced systems capability, with as an expected result improved competitiveness in terms of specialization, flexibility and economies of scale.²⁸ With regard to downstream activities, it is held that an efficient system of selective and exclusive distribution, which is in principle exempted under Article 85 (3) EC by virtue of Regulation N° 123/85,²⁹ can ensure that the objectives of the EC/Japan arrangement "are not endangered by large-scale importation of vehicles built in Japan".³⁰ On the other hand, it is spelled out that if

²⁶ Especially the difficulties the European car manufacturers face to penetrate the Japanese market whereas the Japanese car manufacturers have relatively easy access to the EC market has been strongly criticized. On the Commission's endeavour to open up the Japanese markets to EC products in general -but to cars in particular-, see COM (92) 219 final of 21 May 1992, "A consistent and global approach: a review of the Community's relations with Japan".

²⁷ See for instance EC COMMISSION, Information Memo of 29 April 1992, o.c., at p. 4, where it is pointed out that "the European market has a total of some 3.200 equipment manufacturers, compared with about 1.000 in Japan".

²⁸ See COM (92) 166 final, o.c., at p. 15.

²⁹ On this block exemption, see infra, at pt. II.3.

³⁰ See COM (92) 166 final, o.c., at p. 17. Vigier points out that the Commission's underlying reasoning is that since intra-Community trade is unrestricted, "...seule le système de distribution sélective permet - avec la concentration des efforts des concessionnaires japonais sur leur zone d'exclusivité- d'éviter des contournements à grande échelle",

the selective distribution system were to be used by the car manufacturers to enforce major price differences between the various Member States, then an important parallel market might emerge which could render the implementation of the EC/Japan arrangement more difficult. As such, the Commission calls upon all interested parties to demonstrate that the selective distribution system is not a cause to the fragmentation of the single market, through rendering the "safety valves" built into Regulation N° 123/85, such as intra-Community dealer to dealer sales and purchases by consumers and intermediaries in other Member States,³¹ fully operational in practice.³²

Still, it has been pointed out that although the Commission has adopted a specific industrial policy in relation to the automobile industry, this cannot be said to constitute a sectoral policy in the traditional sense of the word.³³ The reason for this is that it is not meant to create a privileged status for the automobile industry under Community law, so that logically speaking the motor vehicle industry cannot call for deviations from the existing rules which are generally

see VIGIER, P., o.c., at p. 95.

³¹ See the Commission's notice concerning the clarification of the role and status of intermediaries, O.J. C 320/20 of 18.12.1991.

³² See COM (92) 166 final, o.c., at p. 17. For the rationale behind the 'safety valves' of Regulation N° 123/85, see also infra, at pt. II.3.2.2.

³³ See VIGIER, P., "La politique communautaire de l'automobile: Ière partie: une stratégie industrielle", Revue du Marché Unique Européen (1992) 73-112, at p. 75. He writes: "L'existence de la politique automobile de la Commission Européenne constitue a priori un paradoxe, qui a longtemps freiné l'articulation même d'une telle politique. En effet, la Communauté ne mène pas de politique sectorielle au sens traditionnel du terme, dans la mesure où une telle politique consiste à adopter des règles dérogeant au droit commun dans le but de privilégier un secteur pour des motifs stratégiques, sociaux ou commerciaux".

applicable in the European Community.

II.3. THE COMPETITIVE FRAMEWORK FOR THE AUTOMOBILE SECTOR IN THE INTERNAL MARKET

II.3.1. INTRODUCTION

The above-mentioned policies and envisaged measures which aim at improving the competitiveness of the European automobile industry in international context in principle do not and should not prejudice the creation of a Single European market in cars, nor the application of the EC rules on competition to that sector. To the contrary, the Commission clearly pointed out that restrictions posed on intra-Community trade in automobiles might endanger the commercial policy objectives. This implies that both Articles 85 and 86 EC continue to be fully applicable to the automobile sector despite the rather recent elaboration of a specific Community automobile policy.

Previous to the elaboration of a Community automobile policy regarding a single car market, the Community market in automobiles was -and to a large extent still is³⁴- characterized by important price differences between the Member States, partly due to diverging national measures. The subsequent increase in intra-Community trade caused by these price divergences between the national markets have led certain car manufacturers to try to protect the higher-priced national markets against this type of intra-brand competition. The Court of Justice thus was essentially confronted with

³⁴ See the conclusions of the Commission's report on car price differentials in the common market, XXI Report on Competition Policy 1991, Luxembourg 1992, at pt. 121. In January 1991, 14 out of 21 car models exceeded the price differential of 18%.

attempts to restrict parallel importation by various means,³⁵ for instance through the refusal to sell cars with right hand driving in Germany in order to protect the higher-priced UK market which was found to be contrary to Article 85 EC (Ford case),³⁶ or through charging disproportionate fees for type-approval in order to dissuade re-importation which was found to be contrary to Article 86 EC (British Leyland case).³⁷

Although attempts to unduly restrict parallel importation in automobiles was and continuous to be contrary to either Article 85 or Article 86 EC, this does not imply that all forms of restrictions posed to intra-brand competition in the car sector are prohibited. Considering that an automobile is a highly complex consumer product with a relatively long life-time requiring after-sales services, the Commission has already early on taken the view that selective and exclusive distribution agreements in this sector could under certain conditions be exempted under Article 85 (3) EC.³⁸ The reason to resort to Article 85 (3) EC lies in the fact that the selective distribution systems are based on quantitative rather than qualitative criteria, so that they indisputably come under the scope of Article 85 (1) EC.³⁹ Considering that

³⁵ See also DELSAUX, P., "La jurisprudence de la Cour de Justice relative aux importations parallèles et les voitures", in Collard, M., a.o., L'automobile et le droit européen, Editions du Jeune Barreau de Liège, 1986, pp. 159-179, at p. 162.

³⁶ Joined Cases 25 and 26/84, Ford Werke AG and Ford of Europe Inc. v. Commission, Judgment of 17 September 1985, E.C.R. (1985) 2725.

³⁷ Case 226/84, British Leyland v. Commission, Judgment of 11 November 1986, E.C.R. (1986) 3263.

³⁸ See the BMW-decision of 13 December 1974, O.J. L 29/1 of 3 February 1975.

³⁹ See Case 31/80, L'Oréal v. De Nieuwe AMCK, Judgment of 11 December 1980, E.C.R. (1980) 3775, at para 17. See also MÖSCHEL, W., "La distribution sélective d'automobiles en droit

establishing a selective distribution system is the quasi-general rule in the motor vehicle sector, it is not surprising that the Commission was faced with numerous demands for individual exemption, so that in 1984 Regulation N° 123/85 was issued on the application of Article 85 (3) of the Treaty to certain categories of motor vehicle distribution and servicing agreements.⁴⁰

II.3.2. REGULATION N° 123/85 AND AFTER-SALES SERVICES

II.3.2.1. Selective distribution and after-sales services

Neither the finding of the compatibility of selective distribution agreements with the Community rules on competition,⁴¹ nor the issuing of group exemptions are peculiar under Community law. Still, it has been pointed out that Regulation N° 123/85 is very special in that it is the first time that a group exemption has been issued with regard to

européen de la concurrence", R.T.D.C. (1991) 1-26, at p. 8. It should be noted that the Court of Justice has consistently held that selective distribution agreements whereby the resellers are chosen on the basis of objective criteria of a qualitative -and not of a quantitative- nature may be compatible with Article 85 (1) EC (Case 26/76, Metro, see infra).

⁴⁰ Commission Regulation N° 123/85 of 12 December 1984, O.J. L 15/16 of 18.1.1985. On the "raison d'être" of this block exemption, see the following article written by the person who conceived the regulation: STÖVER, K., "Les règlements d'exemption catégorielle relatifs à la distribution des voitures et aux stations-service", in Collard, M., a.o., O.C., pp. 181-204, especially at p. 187.

⁴¹ On the Community approach to selective distribution, see for instance CESARINI, P., "Les systèmes de distribution sélective en droit communautaire de la concurrence", Revue du Marché Unique Européen (1992) 81-105.

selective distribution.⁴² The peculiarity resides in the fact that the Court in its case-law on selective distribution agreements seems to have attached a great importance to the co-existence of a variety of distribution channels in order to fulfil the requirements of the various categories of consumers. For instance, in the Metro case, the Court explicitly held that:

"In the sector covering the production of high quality and technically advanced consumer durables, where a relatively small number of large and medium-scale producers offer a varied range of items which, or so consumers may consider, are readily interchangeable, the structure of the market does not preclude the existence of a variety of channels of distribution adapted to the peculiar characteristics of the various producers and to the requirements of the various categories of consumers."

"..the Commission must ensure that this structural rigidity is not reinforced, as might happen if there were an increase in the number of selective distribution networks for marketing the same product".⁴³

The issuing of a group exemption to selective distribution agreements, in a market in which selective distribution networks are the quasi-general rule, thus seems to point to an underlying sectoral competition policy as concerns the application of Article 85 EC.

The Commission mainly justifies the restrictions on competition caused by the selective and exclusive nature of the agreements through invoking the need to establish a specialized after-sales service for the product concerned. In the words of the Commission:

"The exclusive and selective distribution clauses can be

⁴² See SCHMITZ, B., "Le point de vue des consommateurs", in Pizzio, J., (ed.), Droit des consommateurs, Story Scientia, 1987, pp. 104-111, at p. 105.

⁴³ Case 26/76, Metro v. Commission, Judgment of 25 October 1977, E.C.R. (1977) 1875, respectively at pts. 20 and 22.

regarded as indispensable measures of rationalization in the motor vehicle industry because motor vehicles are consumer durables which at both regular and irregular intervals require expert maintenance and repair, not always in the same place. Motor vehicle manufacturers cooperate with the selected dealers and repairers in order to provide specialized servicing for the product. On grounds of capacity and efficiency alone, such a form of cooperation cannot be extended to an unlimited number of dealers and repairers".⁴⁴

As such, it at first sight seems that the Commission adhered to the so-called 'package theory', meaning that the sale of a new car and the after-sales services -including spare parts but not accessories- have to be considered as a single package offered by the car manufacturers to the consumers for the latter's benefit.⁴⁵

However, the inclusion of after-sales services in the group exemption for selective distribution in the motor vehicle sector has been strongly contested. Considering the underlying justification for Regulation N° 123/85, it is rather paradoxical that it is especially consumers organisations that have pointed out that the market structure as concerns after-sales services is much more lively and responds to different consumer needs than the market of the sale of new cars.⁴⁶ In particular, the attention was drawn to the fact that the extension of the exclusivity-clauses to spare parts would in practice mean that the consumers would be tied-in once they had purchased a car.

⁴⁴ See point 4 of the preamble to Regulation N° 123/85.

⁴⁵ Similarly, see CROCKFORD, P., "Trucks, parts and summing up", Paper presented at the SMMT conference, London, 5 March 1985, at p. 5.

⁴⁶ See for instance SCHMITZ, B., "Free movement of motor vehicles and spare parts in view of 1992; the consumer experience with Regulation 123/85", Paper presented at a Conference in Sienna, 8/9 July 1988, at p. 1; SCHMITZ, B., "Le point de vue des consommateurs", in Pizzio, J., (ed.), Droit des consommateurs, 1987, Story Scientia, pp. 104-111, at p. 109.

II.3.2.2. 'Safety valves' in the consumers' interest

The Commission stressed the importance of safeguarding the consumers' interests in its notice concerning Regulation N° 123/85, through maintaining that the European consumers must derive a fair share of the benefits which flow from the distribution and servicing agreements.⁴⁷ Although the Commission acknowledged that the package offered by the car manufacturers may contain certain advantages for the consumers, such as specialized servicing, the car manufacturers' contention that enforcing the package deal is necessarily tantamount to protecting the consumers' overall interests was rejected.⁴⁸ In the words of the Commission:

"..the European consumers' basic rights include above all the right to buy a motor vehicle and to have it maintained or repaired wherever prices and quality are most advantageous to him".⁴⁹

With regard to the sale of new motor vehicles, the Commission thus held that dealer to dealer sales and purchases by consumers and intermediaries in other Member States should not be prohibited or obstructed.⁵⁰ But simultaneously, the Regulation provides that there should be no substantial price

⁴⁷ Commission notice concerning Regulation (EEC) N° 123/85 of 12 December 1984 on the application of Article 85 (3) of the Treaty to certain categories of motor vehicle distribution and servicing agreements, O.J. C 17/4 of 18.1.1985.

⁴⁸ On the balance sought to achieve between efficiency concerns and the protection of consumers' interests, see infra, Chapter X.

⁴⁹ Commission notice, o.c., at pt. 1.

⁵⁰ See especially Article 10, point 2 of Regulation N° 123/85, where it is held that such a practice may lead to the withdrawal of the block exemption. See also supra, at pt. II.2.2.

differences maintained between the Member States, so that eventually the incentive to buy cars in other Member States should be significantly reduced.⁵¹

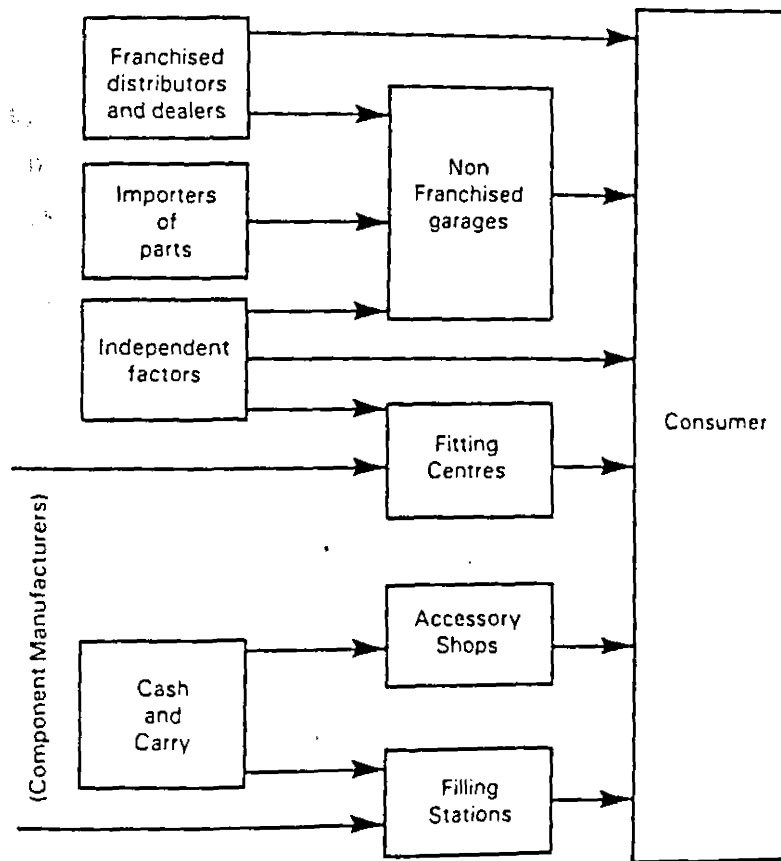
In order to safeguard the basic consumer right to have his motor vehicle maintained and repaired wherever prices and quality are most advantages, the Commission went much further in that it essentially prohibited the extension of the exclusive purchasing and distribution clauses to the spare parts sector. Contrary to new cars which are virtually exclusively distributed through the authorized distribution network, the consumer can obtain spare parts from a variety of sources, as is illustrated by Figure 5, which respond to different consumer needs. Surveys have shown that especially low income consumers and users of older and second-hand cars make use of after-sales services offered by non franchised garages, specialized workshops or do-it-yourself outlets, whereas the franchised network is especially turned to during the first five years of a cars life-time.⁵² As mentioned before, the independent manufacturers of spare parts currently supply about 70% of all replacement parts.⁵³

⁵¹ See Article 10, point 3 of Regulation N° 123/85, as well as the figures of what is acceptable as advanced in point II. of the Notice on Regulation N° 123/85. For different studies on the remaining price differentials, see for instance the MMC Report on New Motor Cars, Cm 1808, HMSO 1992, at pp. 119-148.

⁵² See JOERGES, C., "The Commission Regulation N° 123/85 on automobile distribution and servicing agreements: competition policy objectives and their implications for the consumer interest", in Joerges/Hiller/ Holzcheck/Micklitz, Vertriebspraktiken im Automobil-ersatzteilsektor, Verlag Peter Lang, Frankfurt am Main, 1985, pp. 353-386, at p. 364. See this article for a comprehensive and critical analysis of the block exemption concerning spare parts from the consumers' point of view.

⁵³ See supra, at pt. II.1.

FIGURE 5: Retail supply of spare parts
*Source: MMC Car parts report 1982, at p. 12



In order to perpetuate the specificity of the after-sales market structure, the main idea expressed in Regulation N° 123/85 is that the selective and exclusive distribution and servicing network should not be foreclosed to spare parts produced by independent manufacturers, whereas the independent garages should be able to obtain spare parts for repair purposes. In other words, the Commission acknowledged that the spare parts sector is a related but distinct market to the market in motor vehicles,⁵⁴ in which as much as possible inter-brand competition should prevail in the consumers' interest.⁵⁵

II.3.3. REGULATION N° 123/85 AND SPARE PARTS

II.3.3.1. No tying of spare parts

Article 3, point 4 of Regulation N° 123/85 allows for the imposition of a limited non-competition clause upon the authorized dealer with regard to spare parts of cars. He may only be contractually obliged not to sell or use for repair purposes competing spare parts which do not match the quality of the parts supplied by the car manufacturer. Or in other words, the dealer must be free to obtain and use spare parts from third parties which match or exceed the quality of the parts supplied by the car manufacturer.⁵⁶ The main limitations to this rule consist in the obligation to inform the customers

⁵⁴ Similarly, see JEANTET, F., KOVAR, R., "Les accords de distribution et de service des véhicules automobiles et l'article 85 du traité CEE: Etude du projet de règlement de la Commission des Communautés Européennes", R.T.D.E. (1983) 547-573, at p. 573, although they do not agree with this point of view.

⁵⁵ This was also the conclusion reached by the UK Monopolies and Mergers Commission in its 1982 Car Parts Report, HC 318, HMSO, London, 1982.

⁵⁶ See also point 8 of the preamble to Regulation N° 123/85.

about the use of spare parts from other sources⁵⁷ and the obligation to use genuine, or in other words approved, parts for guarantee work.⁵⁸

It is obvious that this 'safety valve' can only apply if there are spurious, or in other words non-approved, parts on the market. For those spare parts that are only distributed through the manufacturer's own distribution network, i.e. the so-called captive parts, the dealer will necessarily have to turn to the car manufacturer as the sole supplier. Furthermore, a much debated and controversial question is how to establish when a spurious part is of an equal or superior quality as compared to genuine parts.⁵⁹ In some cases, this debate becomes superfluous because the spurious parts have the same commercial origin as the genuine or the OEM parts and are thus likely to be of the same quality. This situation occurs where the car manufacturer does not manufacture the spare parts himself but merely attaches his trade mark to parts purchased from the same independent component manufacturer who also supplies the market himself under a different trade mark.⁶⁰ According to point 8 of the preamble to Regulation N° 123/85, the dealer must be free to use those spurious spare parts.

⁵⁷ See also DUBOIS, J., "Cas d'application: la distribution automobile dans le marché commun: le point de vue de la Commission", in Pizzio, J., (ed.), Droit des consommateurs, 1987, Story Scientia, pp. 91-97, at p. 93.

⁵⁸ See Article 4, point 1 (7), (8) and (9) of Regulation N° 123/85.

⁵⁹ See for instance DAVIDOW, J., "EEC proposed competition rules for motor vehicle distribution: an American perspective", Antitrust Bull. (1983) 863-882, at p. 878, where he points out that it is not clear who will have the burden of proof.

⁶⁰ See also GROVES, P., "Motor vehicle distribution: the block exemption", E.C.L.R. (1987) 77-87, at p. 79.

Besides these limitations inherent to the specificity of the spare part concerned, another restriction may arise from the specificity of the relationship between the car manufacturer and his dealers. It has been pointed out that although the Regulation aims at providing some security and independence to the dealers, their relationship with the car manufacturer is so unequal that even when their interests diverge, the dealer is unlikely to behave to a large extent independently from the car manufacturer.⁶¹

II.3.3.2. Supply of spare parts for repair purposes

As mentioned before, certain spare parts, the so-called captive parts, are exclusively distributed through the car manufacturers' distribution network. A first set of captive spare parts are constituted by the slow-moving parts. These are not usually manufactured by independents due to their low turn-over rate which make large investments, for instance installing a production chain, uneconomical. A second set of captive parts consist of either slow- or fast-moving parts on which the car manufacturer has a monopoly right, for instance through patent protection.

The fact that the car manufacturer has the supply monopoly with regard to those captive parts does not necessarily mean that he also manufactures those parts. Increasingly often the production of those parts is outsourced to independent suppliers, who may be contractually obliged to exclusively supply the car manufacturer or to assign related intellectual property rights to the latter. Whether or not he manufactures

⁶¹ See especially BEALE, H., "Car distribution contracts and block exemption regulation 123/85", paper presented at the Giessen-Warwick Colloquium, November 1987, at pp. 7-10. At p. 10 he writes: "I am sceptical as to whether a relationship which is structurally so unequal (because of the differences in size if nothing else) can ever be changed significantly by controls which govern only part of the relationship".

the parts himself, the car manufacturer thus is the pivot of the supply chain as concerns captive parts.

Articles 1 and 2 of Regulation N° 123/85 acknowledge the right of the car manufacturer to distribute genuine, thus including captive parts, exclusively through the selective distribution network. But to avoid the tying-in of consumers and to safeguard the possibility to have repair work effected outside the approved network, Article 3, point 10 (b) stipulates that the dealer may not be contractually prohibited to supply spare parts to third parties for the purpose of repair or maintenance work.⁶² However, it has been pointed out that Regulation N° 123/85 does not offer guarantees as to the conditions under which the dealers may supply those parts.⁶³

II.4. THE SPARE PARTS DEBATE REVISITED

II.4.1. THE CONTEXT

From Regulation N° 123/85, it is clear that the specificity of the spare parts market, with its variety of supply channels living up to diverging consumer interests and responding to different economic and commercial realities than the market in motor vehicles, has to a certain extent been taken into account for the elaboration of a competition policy specific to the automobile sector. But, whereas before the car manufacturers seemed to accept the presence of independent manufacturers on the related market of spare parts, since the early 80's they are increasingly reluctant to tolerate inter-brand competition in that market.

⁶² See also Point 5 of the preamble to Regulation N° 123/85.

⁶³ See SCHMITZ, B., o.c., (1987), at p. 110.

The reasons for the car manufacturers' rather recent strive to appropriate a significant part of the spare parts market are multiple. It has been submitted above that whereas the motor vehicle sector has suffered from a substantial brake on the continued growth and is increasingly put under strain in a changing international competitive environment,⁶⁴ the parts and accessories sector has steadily emerged as an important market in its own right.⁶⁵ In other words, whereas the car market has been subject to a decrease in profit margins, the spare parts market has increasingly gained in economic importance and has become highly lucrative. The car manufacturers -as the various independents manufacturers for that matter- thus obviously have a commercial interest to try to increase their share of that market. As seen before, whereas the OEM are increasingly outsourced, the car manufacturers' distribution networks control about 30% of the replacement parts whilst they only account for about 10% of the industrial origin of those parts.⁶⁶

The car manufacturers can no longer try to increase their market share in spare parts, and especially fast-moving parts, through inserting exclusive purchasing clauses concerning spare parts in the selective distribution agreements with their dealers, because, as seen above, these are to a large extent prohibited by Regulation N° 123/85.⁶⁷ One solution has been to increase the duration of guarantee work solely in relation to genuine parts and on the condition that genuine parts should be used. However, motor vehicle manufacturers have also sought to circumvent the ban on exclusivity clauses concerning spare parts in their dealer contracts through the

⁶⁴ See supra, at pt. II.2.

⁶⁵ See supra, at pt. II.1.

⁶⁶ See supra, at pt. II.1.

⁶⁷ See supra, at pt. II.3.3.1.

enforcement of intellectual property rights, and more particularly design rights, on certain spare parts. Especially body panels are envisaged, which, as seen from Table 1 above, constitute an important item of production by the independent manufacturers.⁶⁸

As mentioned before, intellectual property rights are one of the factors that can turn a spare part into a captive part.⁶⁹ The objective of enforcing design rights on spare parts, whereas previously inter-brand competition in relation to those parts was tolerated if not encouraged, thus obviously is to eliminate competing spurious parts from the market through obtaining a supply monopoly. This supply monopoly can then be fully enforced, since Regulation N° 123/85 does allow for exclusivity in relation to captive parts.⁷⁰

II.4.2. INTRODUCTION TO THE SPARE PARTS CASES

The enforcement of intellectual property rights on spare parts of cars may have the same practical result as writing an exclusivity clause into a selective distribution agreement. Its effect may even go beyond, in that all inter-brand competition may be eliminated. This would seriously affect the market structure in spare parts and significantly reduce the consumer's choice as to where and on which conditions he has his car repaired. Still, the use of intellectual property rights to obtain this result, which goes manifestly contrary to the objectives set forth by the Commission in Regulation N° 123/85, is not as such prohibited by Regulation N° 123/85.⁷¹

⁶⁸ For Table 1, see supra, at pt. II.1.

⁶⁹ See supra, at pt. II.3.3.2.

⁷⁰ See supra, at pt. II.3.3.2.

⁷¹ On the objectives of Regulation N° 123/85, see also infra, Chapter X.

Through the use of the system of intellectual property rights, the focus is shifted from fulfilling the objectives of the automobile policy to fulfilling the objectives of intellectual property legislation. The key-question no longer is whether or not exclusivity-clauses can contractually be imposed on dealers, but rather whether or not it is lawful to unilaterally enforce intellectual property rights on replacement parts for motor vehicles. Although in both cases the consumer's basic right to have his car repaired wherever prices and quality are most advantages to him is at stake, the main difference is that under the former approach this basic right is taken as the premise whereas under the latter approach the consumer's right is in principle ancillary to the achievement of the objectives of intellectual property legislation, or in other words to the legitimate right of the intellectual property holder. It is commonly accepted that intellectual property rights have an important role to fulfil as a driving force behind economical and technical progress, so that certain restrictions on competition should be allowed to obtain this objective.⁷² Starting from this premise, the main question arising is where and how to draw the boundary between what constitutes a lawful use of the system of intellectual property rights and what constitutes an (ab)use of those exclusive rights for protectionist goals.

The Court of Justice has on two occasions been confronted with this essential question with regard to the car manufacturers' practice of enforcing design rights on bodywork components of cars. In the CICRA and Maxicar v. Renault case,⁷³ the Court was

⁷² See especially infra, Chapter III.

⁷³ Case 53/87, Consorzio italiano della componentistica di ricambio per autoveicoli and Maxicar v. Régie nationale des usines Renault, Judgment of 5 October 1988, E.C.R. (1988) 6039.

asked to give a preliminary ruling on the compatibility of this practice with Articles 36 and 86 EC. The national court more particularly wondered whether the use of design rights to eliminate all competition in the market for spare parts was in conformity with Community law. The Volvo v. Veng case,⁷⁴ which was ruled on the same day, was complementary to the Maxicar case. Rather than questioning the well-foundedness of the exclusive right under Community law, the issue was raised whether the car manufacturer could lawfully maintain his supply monopoly through refusing to grant licences on reasonable terms to independent manufacturers without infringing Article 86 EC. It should be mentioned that the spare parts' picture under Community law could have been completed, had the French courts been willing to pose a preliminary ruling in the Renault v. Maxicar case.⁷⁵ This third -and missing- panel of the spare parts triptych consisted in a preliminary question as to whether the simultaneous action for seizure of spurious spare parts by car manufacturers, all holders of design rights, could constitute a concerted practice in the sense of Article 85 EC.

At first sight, the spare parts cases do not seem to be any different from the previous cases concerning intellectual property rights dealt with by the Court. However, it was pointed out by the national court in the Maxicar case that body panels are peculiar in that they are components of a complex product, i.e. the car, which is put on the market separately and which equally benefit from design protection. The national court furthermore raised the fundamental issue whether the exercise of intellectual property rights which appear to be contrary to the inherent function of that right can be upheld under Community law.

⁷⁴ Case 238/87, AB Volvo v. Erik Veng (UK) Ltd, Judgment of 5 October 1988, E.C.R. (1988) 6211.

⁷⁵ On this case, see infra, Chapter IV, at pt. IV.3.2.2.B.

II.5. PRELIMINARY CONCLUSION

It cannot be denied that the automobile manufacturers currently encounter difficulties that will not be easy to overcome. To assist the European car manufacturers in their adaptation-process, the Commission has developed a specific automobile policy and has undertaken action under the commercial policy heading in relation to Japan. However, it is important to keep in mind that the existence of an industrial policy specifically for the automobile sector is not meant to constitute a sectoral policy in the sense that the commonly applicable Community rules could be deviated from.

The related market in spare parts has steadily but surely emerged as a highly lucrative market in its own right. In order to reap some of the benefits of this market, car manufacturers are currently enforcing design rights on body panels of cars. So-doing, they circumvent the prohibition on exclusive spare parts purchasing clauses as laid down in Regulation N° 123/85 and might tie-in the after-sales market to the consumers' detriment.

The spare parts cases brought before the Court of Justice do not raise the issue of how the car manufacturers' practice to enforce intellectual property rights on spare parts of cars ties in with Regulation N° 123/85. To the contrary, they are to a large extent presented as isolated cases of mere intellectual property enforcement. It is obvious that the answer to the question whether or not the intellectual property rights concerned can be relied upon cannot be linked to the objectives set forth in Regulation N° 123/85, but should be examined on their own merit. It is therefore submitted that a critical reflection in terms of the objectives and the inherent function of the different types of intellectual property rights is highly pertinent. This is all

the more so, considering that the change in policy towards the enforcement of design rights by the car manufacturers, whereas before competition in the spare parts market was tolerated if not encouraged, is of a rather recent date.

CHAPTER III. INTRODUCTION TO INTELLECTUAL PROPERTY PROTECTION**III.1. INTRODUCTION**

The enforcement of intellectual property rights on spare parts of cars, and design rights in particular, poses a specific problem in Community context. This is first of all due to the principles of territoriality and exclusivity which are inherent to all intellectual property rights. Intellectual property rights are still granted nationally on the basis of criteria which are not necessarily equal or even similar in the different Member States, so that different competitive conditions prevail in different Member States.

Although the necessity of a coherent system providing in the protection of intangible property can no longer be seriously disputed,¹ the question remains how intellectual property rights should interact with the rules on competition. This has already been the topic of many studies in the past. It might therefore suffice to briefly recall in this chapter what the function is that those rights are meant to fulfil, or in other words, why it is necessary to uphold intellectual property rights. In second order, it has to be illustrated in general how the different systems of intellectual property rights can be reconciled with the principle of free, or rather workable competition.² In the next chapter, attention will be paid to

¹ For an overview of the most important 'attacks' on the patent system in the past, see BEIER, F.-K., "The significance of the patent system for technical, economic and social progress", I.I.C. (1980) 563-584, at pp. 564-569.

² On this concept, see CLARK, J., "Towards a concept of workable competition", The American Economic Review (1940) 241-256. At p. 241, he points out that " 'perfect competition' does not and cannot exist and has presumably never existed..". At p. 246, he forwards the view that "it seems probable that one of the criteria of workable competition is that there shall not be too gross discrepancies between the action of short-run pressures and long-run tendencies", whereas at p.

the specific issue of how design protection on spare parts of cars has been dealt with in the national legal systems.

III.2. CHARACTERISTICS OF INTELLECTUAL PROPERTY RIGHTS

III.2.1. TERRITORIALITY

III.2.1.1. Principle

Intellectual property rights are essentially temporary exclusive rights which are granted by law to natural persons or undertakings.³ Although international conventions concerning intellectual property rights exist, up till now it is still mainly the national law that remains the principle source of rights and obligations of the holder of such a right. This entails that the scope of the right is geographically limited to the territory of the Member State granting the protection, as well as that the conditions and scope of protection vary from one Member State to another.

The principle of territoriality inherent to intellectual property rights means that the protection both ends and begins at the national border. This implies that one cannot invoke the protection granted in Member State A to prohibit the unauthorized use by third parties in Member State B, whereas in principle one can prohibit the importation of infringing goods, including one's own goods, into Member State A on the basis of the exclusive right, although the latter might be subject to the application of the exhaustion -or a similar-

249 he states that precisely "the most serious problems of imperfect competition seem (..) to center in the fact that the immediate short-run pressures are out of harmony with the conditions of long-run equilibrium".

³ Exception made for trademarks which are not limited in time.

principle.

III.2.1.2. Impact on free movement of goods

The reason why the holder of a right might want to prohibit the importation of goods which he himself put on the market in another Member State lies in the specificity of the national markets as concerns for instance the supply/demand ratio, the need to invest in publicity, the existence of intellectual property protection, etc..⁴ In the hypothesis that a given product can be sold at 10 Ecu in Member State A and only at 5 Ecu in Member State B, it is obvious that the importation of the product from B to A would entail a decrease in price and profit margin for the holder in Member State A. He therefore may have an interest in invoking intellectual property protection to prevent intra-brand competition.

On the basis of his intellectual property right in Member State A, he can furthermore prohibit the importation of goods that have been legitimately marketed in another Member State, for instance because no intellectual property protection could be obtained, or had not been applied for, or had since expired. In other words, also inter-brand competition can be prevented.

It is obvious that the principle of territoriality is difficult to reconcile with the Community principle of free movement of goods, and is diametrically opposed to the Community objective to create a single market. It has been said -figuratively- that intellectual property protection

⁴ On the various reasons why one might want to prevent intra-brand competition, see also BADEN FULLER, C., "Economic issues relating to property rights in trademarks: export bans, differential pricing, restrictions on resale and repackaging", E.L.R. (1981) 162-179, at pp. 170-173.

allows for the creation of 'islands' within the Community.⁵ ✓

III.2.2. EXCLUSIVITY

III.2.2.1. Principle

The principle of exclusivity inherent to all intellectual property rights implies that the holder of the right has the possibility to prohibit certain actions by third parties, for instance manufacturing and distribution, which would otherwise be legitimate. Although in most cases the exclusive right entails a kind of monopoly right, it in no way guarantees that the holder will also be able to exploit his competitive advantage on the market. This is mainly due to the fact that exclusive intellectual property rights are essentially prohibitive rights. They do not automatically confer positive rights upon the holder, such as the right to market the protected product. Whether or not this exclusivity does extend to the marketing of the protected product will depend on whether or not another property right would be infringed in so-doing.

III.2.2.2. Impact on competition ✓

The extent to which the holder of an intellectual property right can effectively prevent competition is largely dependent on the type of intellectual property right concerned, and especially on whether there can be substitutable products on the market which do not infringe the right. Still, it is obvious that the exclusivity inherent to intellectual property rights will necessarily affect the competitive structure in a given market, because third parties are precluded from a part of the market to which they would otherwise have free access.

⁵ See VAN EMPEL, G., Bescherming van de intellectuele eigendom, Kluwer, 1987, at p. 16.

The differences in conditions and scope of protection offered in the various Member States, which also determine the competitive conditions for each 'island', create further distortions to competition in the Common market. Moreover, as seen before, intellectual property protection can be used to curtail both inter-brand and intra-brand competition from goods that have been legitimately marketed in another Member State.

III.3. FUNCTION OF INTELLECTUAL PROPERTY RIGHTS

III.3.1. INTRODUCTION

Despite those at first sight detrimental consequences, it should be stressed that intellectual property rights do have an essential role to fulfil in the market and should not easily be discarded. Generally speaking, their main function is to stimulate innovation and development, be it in the technical, aesthetical or cultural field, through providing an incentive to invest time and money which consists in the temporary grant of exclusivity on the market and thus in the possibility to obtain a reward.⁶ These exclusive rights are generally held to be pro-competitive, if not always in the short, then at least in the long run.⁷

As such, it is submitted that the underlying premise to intellectual property rights should be threefold.⁸ First of

⁶ Exception made for trademarks which have a different function, see infra, pt. III.3.4.

⁷ See for instance LEHMANN, M., "Property and intellectual property - property rights as restrictions on competition in furtherance of competition", I.I.C. (1989) 1-15.

⁸ Compare to STEDMAN, J., "Patents and antitrust - the impact of varying legal doctrines", Utah Law Review (1973) 588-617, at pp. 594-595.

all, it is generally accepted that the stimulation of research and development through the grant of monopoly rights to individuals is ultimately in the public interest. Secondly, it is also generally acknowledged to be in the consumers' interest to safeguard a competitive market structure. When the first two premises cannot be reconciled in practice, then it seems that criteria have to be sought to minimize the injury to the public interest.⁹ Whilst recognizing that temporary restraints on competition may be necessary to further overall competition in the long run, it is submitted that this is not tantamount to accepting that all intellectual property rights should in all circumstances prevail over competition policy objectives.

It is especially in relation to patents, which are particularly apt to confer market power on the patent holder, that the so-called patent-antitrust debate has developed. Both economists and lawyers have endeavoured to find an equitable balance between maintaining the essential functions of patent protection and safeguarding the essential objectives of competition policy. But it should be pointed out that not all intellectual property rights affect competition in the same way, because each type of exclusive right responds to a different objective.¹⁰ It is therefore submitted that it is

⁹ Stedman holds that in that case, one has to seek rules "that will minimize the injury to each, and where such injury is unavoidable, rules should provide for a considered decision as to which goal should prevail", proposing seven possible but not equally desirable approaches. See STEDMAN, J., O.C., at p. 595. However it is submitted that it is difficult to justify either one of the approaches proposed if one does not set forth a fixed objective, such as reducing the injury to the public interest and ultimately the consumers.

¹⁰ See also CORNISH, W., Intellectual property: patents, copyright, trade marks and allied rights, 2nd ed., 1989, London, Sweet & Maxwell, at pt. 1-1016, where he points out that "patents, copyright and trade marks each have a different economic impact".

necessary to determine which function each type of intellectual property right is meant to fulfil in order to establish which restrictions on competition should be permitted.

Still, the need to fulfil the legitimate function of intellectual property rights has in the past been refuted by some lawyers as constituting a possible demarcation criterion in the patent-antitrust debate in the European Community.¹¹ They point out that different national legislations may emphasize different objectives of the protection offered, so that an approach based on the function of the right concerned would entail a divergent application of the Community rules on competition from one Member States to another. However, it is submitted that, although the national conditions and scope of protection granted might indeed vary, it is possible to determine those functions which are generally invoked as a justification for the existence of the different systems of intellectual property rights. These functions that underlie the various national legal systems, though it is granted that the importance of one or the other feature might be stressed, are not mutually exclusive but rather complementary, so that it should be possible to supersede national interpretations through a commonly accepted approach.¹²

¹¹ See for instance JOHANNES, H., "La propriété industrielle et le droit d'auteur dans le droit des communautés européennes", R.T.D.E. (1973) 369-411 & 557-582, at pp. 379-382; GOTZEN, F., "La libre circulation des produits couverts par un droit de propriété intellectuelle dans la jurisprudence de la Cour de Justice", R.T.D.E. (1985) 467-481, at pp. 472-473.

¹² By way of example, Gotzen points out that the reward function of patents is for instance not known in the UK, because there they exclusively rely on the stimulation of progress function. See GOTZEN, F., O.C., at pp. 472-473. However, it is submitted below that it is exactly the possibility to obtain a reward through the grant of exclusivity that is the incentive to invest in R & D.

III.3.2. PATENTS

Patent protection essentially confers a temporary exclusive right on a new product or process that fulfils the stringent conditions for protectability. This means that once the patent is granted, the patent holder has the right to exclude the use of the protected product or process by third parties so that in principle market power is conferred. Because the patent merely confers a monopoly over the protected product, competition from substitute products is not necessarily, but might in exceptional cases be, excluded. Whether or not the patent also confers a legal monopoly with the possibility to charge monopoly prices thus depends on various factors, such as the availability of non-infringing substitutable goods on the market and the importance of the invention as viewed by the consumers.¹³

The main justifications invoked for the existence of the patent system are based on the reward, incentive and

¹³ See also STEDMAN, J., o.c., at p. 588 and pp. 593-594, where he enumerates the following influencing factors: the nature of the invention, the environment in which the patent operates, the structure of the industry concerned, the identity of the patent holder, the use to which the patent is put. Kitch to the contrary maintains that a patent cannot be said to confer a monopoly right, because of identifiable competitive market pressures, such as for instance the expected entry of competing firms near the end of the patent life, see KITCH, E., "Patents: monopolies or property rights", in Palmer, J., (ed.), The economics of patents and copyright, London, 1986, pp. 31-49.

disclosure theories.¹⁴ In this respect, Beier and Straus came to the following conclusion, which illustrates the universal acceptance of those functions as the objectives which are underlying the patent system in general:

"to our surprise we discovered that these basic objectives of patent protection (namely the reward-by-monopoly, monopoly-profit-incentive and exchange-for-secrets functions) are largely independent of the actual economic and social order and the development status of the respective countries, and that they, so to speak, belong to the basic structure of a legal and economic policy consensus with regard to the need for patent protection in East and West, North and South".¹⁵

Although the patent bears on an industrial product or a process, the main difference with real property lies in the fact that the protection conferred essentially relates to the intangible property incorporated in the product, namely the invention. To illustrate the specific features of this property, Arrow has equated the process of invention and research with the production of information.¹⁶ On this premise, he has convincingly illustrated that if information is regarded as a commodity, than the owner of the information naturally has a monopoly on the market. However, as soon as he discloses his information, it can be reproduced by third

¹⁴ See for instance GREIF, S., "Patents and economic growth", I.I.C. (1987) 191-213; MARKHAM, J., "Inventive activity: government controls and the legal environment", in National Bureau of Economic Research, The rate and direction of inventive activity: economic and social factors, New York, 1975, at pp. 587-608, at p. 597; GOLDSTEIN, E., Cases and materials on patents, trademarks and copyright law, The Foundation Press, Brooklyn, 1959, at p. 2.

¹⁵ BEIER, F.-K., STRAUS, J., "The patent system and its informational function - yesterday and today", I.I.C. (1977) 387 ff., at p. 392, brackets added.

¹⁶ See ARROW, K., "Economic Welfare and the allocation of resources for invention", in National Bureau of Economic Research, The rate and direction of inventive activity, New York, 1975, pp. 609-626.

parties at little or no cost without producing a benefit to the owner, so that it does not provide an incentive for research. In the words of Subramanian, "if free appropriability is allowed ex post, there is little incentive ex ante to undertake knowledge-creating activities".¹⁷ Arrow therefore concludes that it is necessary to introduce suitable legal measures which render information an appropriable commodity, in order to protect the owner against free-riders and to enable him to exert his monopoly, although this will inevitably constitute a non-optimal allocation of resources.¹⁸

It is obvious from Arrow's reasoning -Arrow of course gives a much more detailed and profound analysis than what is restated above-, that in the absence of legal protection, the only way for the owner of valuable information to exploit it is to keep his invention as secret as possible. But it is generally accepted that secrecy as concerns industrial inventions goes against the public interest, because it delays economic, technical and scientific progress.¹⁹ The conferment of an exclusive right to the contrary allows for the technical knowledge to become a trade asset which is publicly known. The patent holder can share his assets with third parties, for instance through licensing contracts or assignments, so that

¹⁷ SUBRAMANIAN, A., "The international economics of intellectual property right protection: a welfare-theoretic trade policy analysis", World Development (1991) 945-956, at p. 946.

¹⁸ ARROW, K., o.c., at pp. 616-617, where he states that from a welfare point of view, information should be available free of charge, so that whatever the price, the demand for information will be less than optimal. For a critique of Arrow's theory, see for instance CHEUNG, S., "Property rights and innovation", in Palmer, J., (ed.), o.c., pp. 5-18, at pp. 10-12.

¹⁹ See for instance GOLDSTEIN, E., o.c., at p. 2.

✓ technology can be transferred.²⁰ Third parties can also freely use the disclosed information, not to produce infringing goods, but as a basis for further innovation and progress.²¹ As such, it is generally acknowledged that the patent system has an important information and disclosure function to fulfil which justifies temporary restraints on competition in order to further competition and innovation in the long run.²²

✓ Patent protection in the form of exclusive rights is also widely acknowledged to have a reward and an incentive or stimulus function. But it is submitted that the reward and incentive functions are stringently linked.²³ The underlying idea, as illustrated by Machlup, is that it is the grant of the temporary monopoly that fulfils both the reward and the incentive function, although the emphasis is slightly different according to which function is stressed.²⁴ The

²⁰ See for instance also BEIER, F.-K., o.c., at p. 582; VINCENT, D., "The role of patents in the transfer of technology", in Bradbury, F., (ed.), Technology transfer practise of international firms, Alpen Aan de Rijn, 1978, pp. 40-43, at p. 43; BROWN, A., "Impact of patents and licences on the transfer of technology", in Sherman Gee, (ed.), Technology transfer in industrialized countries, Sythoff & Noordhoff, 1979, pp. 311-324, at p. 313.

²¹ See also GREIF, S., o.c., at pp. 195-197.

²² See especially the study made by BEIER, F.-K., and STRAUS, J., o.c..

²³ See for instance also SEYMOUR, R., "Patents and the transfer of technology", in Bradbury, F. (ed.), Technology transfer practise of international firms, Alpen aan de Rijn, 1978, pp. 35-39, at p. 37 where he writes that the incentive function of patents is "to permit the inventor a reasonable period of time in which he may control the use of his invention in order to obtain his reward".

²⁴ See MACHLUP, F., An economic review of the patent system, Study of the Committee on Patents, Trademarks, and Copyright Committee on the Judiciary, US Senate, 85th Congress, Study n°15, Washington, 1958, at pp. 20-24, as extensively cited by JOLIET, R., "Patented articles and the free movement of goods within the EEC", Current Legal Problems

reward-by-monopoly thesis assumes that through granting a temporary monopoly, inventors will be rewarded in proportion to their usefulness to society. The monopoly-profit-incentive thesis on the other hand emphasizes the need to offer not just a reward, but also a bait for innovation.²⁵ The common denominator to both approaches is that it is held that the simplest, cheapest and most effective way to fulfil the envisaged function is through granting a temporary legal monopoly in the form of an exclusive patent right, even if this might in certain circumstances lead to a monopoly position for the patent holder.

Monopolies are traditionally viewed as being anti-competitive and hence to be avoided. However, in Schumpeterian terms of dynamic competition, the possibility to obtain a patent monopoly with corresponding market power is a necessary prerequisite for economic progress and innovation, which in turn is the fundamental impulse of the capitalist system based on the 'creative destruction process'.²⁶ It stimulates firms to

(1975) 15-37.

²⁵ See for instance SEYMOUR, R., o.c., at p. 38, where he points out that: "...the existence of an adequate patent system will encourage investment, but will not of itself cause the investment to take place. However, the absence of an adequate patent system will have a definite negative impact and may of itself cause the investment and subsequent technology not to take place".

²⁶ See for instance SCHUMPETER, J., "Capitalism, socialism et démocratie", Payot, Paris, 1984, at pp. 116-117, where he defines the 'processus de destruction créatrice', which he sees as the fundamental factor of capitalism, in the following terms: "...processus de mutation industrielle - (...) - qui révolutionne incessamment de l'intérieur la structure économique, en détruisant continuellement ses éléments vieilles et en créant continuellement des éléments neufs". In other words, innovation lies at the basis of capitalism. For an analysis of Schumpeter's theory in relation to patents, see EISENBERG, R., "Patents and the progress of science: exclusive rights and experimental use", The University of Chicago Law Review (1989) 1017-1086, at pp. 1038-1040. At p. 1038, she writes: "while Schumpeter does not focus exclusively on either

innovate, whereas the threat to subsequently lose the acquired market power stimulates further innovation,²⁷ so that patent protection should be seen as an essential element of a dynamic competition policy.²⁸ Although Scherer defines himself as a disciple of Schumpeter, he does not totally share the conviction that big monopolistic corporations are that efficient an engine of technological change.²⁹ He points out that substantial imitation lags, major competitive differentiation advantages from being the first in the market, and oligopolistic market structures with non-patent barriers to entry, may induce firms to invest in innovation without patent protection.³⁰ Still, on the basis of the results of the

technological innovation or the patent system, his analysis suggests how patent monopolies might promote technological innovation".

²⁷ SCHUMPETER, J., o.c., at p. 133, where he writes that firms in a dominant position "peuvent lutter contre le progrès lui-même et il s'y résolvait effectivement". See also at p. 119.

²⁸ SCHUMPETER, J., o.c., at p. 147, where he argues that: "On ne saurait donc se borner à soutenir que, la concurrence parfaite étant irréalisable dans les conditions industrielles modernes, (..), on doit accepter l'entreprise opérant sur une grande échelle ou l'unité de contrôle comme un mal nécessaire, inséparable du progrès économiques (que les forces inhérentes à leur appareil de production les empêchent d'ailleurs de saboter). Il faut aller plus loin. Nous sommes obligés de reconnaître que l'entreprise géante est finalement devenue le moteur le plus puissant de ce progrès et, en particulier, de l'expansion à long terme de la production totale".

²⁹ See SCHERER, F., Innovation and growth - Schumpeterian perspectives, Cambridge, 1984, at p. 198.

³⁰ See SCHERER, F., Industrial market structure and economic performance, 2nd Ed., Chicago, 1980, at pp. 444-447. Similarly, see CORNISH, W., o.c., at pt. 3-030, where he points out that these factors will be particularly relevant for major inventions, so that "it might well be that the incentive effect of patents is of more significance when it comes to marginal ideas - concepts that do not hold hope of more than minor improvements in the existing art".

well-known study made by Taylor and Silberstone which confirmed the advantages of patent protection,³¹ he comes to the conclusion that patent protection is especially useful to smaller firms and independent inventors who lack the distribution channels and the market acceptance of their larger rivals.³²

If the matter of whether or not a temporary monopoly should be given to an inventor is generally answered in the positive,³³ the difficult question remains to what extent this monopoly position could or should be curtailed under the competition rules. This question is especially pertinent in view of the fact that patent exclusivity may amount to a legal monopoly which could be abused, for instance through the failure to use the invention whilst stifling competition, defensive patenting or the use of patents to unduly restrict competition.³⁴

³¹ See TAYLOR, C., and SILBERSTONE, Z., The economic impact of the patent system, Cambridge, 1973. Their study, based on a questionnaire to undertakings, showed that the patent system is especially valuable in the pharmaceutical and chemicals sectors.

³² SCHERER, F., o.c., (1980), at pp. 448-449. It should be noted that he distinguishes between competition and rivalry (see p. 10). He speaks of competition when no individual firm is able to appreciably alter a given commodity's price by varying the quantity of output it sells. Rivalry is used to denominate the situation whereby firms strive for a potentially incompatible position. He gives the following example of rivalry: if A sells 100 units of output to X, than B cannot satisfy that part of X's demand.

³³ However, in this respect it is interesting to take note of the remark made by PRIEST, G., "What economists can tell lawyers about intellectual property rights", in Palmer, J., (ed.), o.c., pp. 19-24, at p. 22, where he points out that economists can tell lawyers whether patents will lead to more or less inventive activity, but not whether social welfare will thereby be enhanced.

³⁴ See also HAGAN, T., HENRY, S., "Is a compulsory licensing statute necessary? A study of the US and foreign experience", Patent Law Review (1976) 285-313, at pp. 285 and 288.

As Joliet points out, excessive pricing by a patent monopolist is considered to be abusive in most of the legal systems.³⁵ However, the possibility to charge higher prices for the protected product is precisely the corollary of both the reward and incentive functions of patent protection. In the words of Machlup:

"Since it is the very essence of patents to restrict competition and permit output to be kept below, and price above, competitive levels, it is difficult to conceive economic criteria by which one could judge whether output is less than reasonably 'practicable' and price is 'unreasonably high'".³⁶

For this reason, economists generally favour the reduction of the duration of patent protection for inventions which have a minor public interest over anti-trust interferences in the pricing policies of dominant firms, although they recognize that the determination of the optimal patent life for each given invention is not workable in practice.³⁷

³⁵ JOLIET, R., o.c., at p. 32.

³⁶ MACHLUP, F., o.c., at p. 12. Similarly, see MERKIN, R., "The interface between anti-trust and intellectual property", E.C.L.R. (1985) 377-391, at p. 388, where he writes that whereas the use of patents not to exploit those rights but to stifle competition is inconsistent with the presumed intention of the statutory grant, "the same consideration cannot, however, apply to pricing policies, for it is difficult to see how a monopolist can extend or abuse his monopoly simply by exploiting it to the full".

³⁷ For an extensive analysis of this issue and an attempt to find a method to calculate the 'just' reward, see for instance KAPLOW, L., "The patent-antitrust intersection: a reappraisal", Harvard Law Review (1983-84) 1813-1892. At p. 1825, he determines the optimal patent life as "that length of time at which the marginal social cost of lengthening or shortening the patent life equals the marginal social benefit". See also SCHERER, F., o.c., (1980), at p. 454, where he writes: "an ideal patent system would hand-tailor the life of each patent to the peculiar circumstances of the invention it covers, but this is administratively unfeasible". On the optimal patent life, see also Scherer's discussion of

It is, however, generally acknowledged by both economists and lawyers that the patent monopoly may not be used to cartelize markets through inserting certain clauses in licensing agreements which exceed the scope of the patent, or -with the exception for the Chicago school-³⁸ to tie-in related markets in unprotected products.³⁹

It is also commonly accepted that compulsory licences or licences of right have a role to fulfil in order to limit the market power of the patent owner in the public interest.⁴⁰ At present, the most common grounds for imposing obligatory

Nordhaus' theory, SCHERER, F., O.C., (1984), at pp. 130-139; DeBROCK, L., "Market structure, innovation, and optimal patent life", The Journal of Law and Economics (1985) 223-244. See also MARKHAM, J., O.C., especially at p. 602 where he pleads for a dual patent system, namely a long-term protection for major technological breakthroughs as opposed to a short-term protection for others.

³⁸ See for instance MERKIN, R., O.C., at pp. 389-390. On the Chicago school approach to tie-ins in general, see POSNER, R., "The Chicago School of antitrust analysis", Univ. of Pennsylvania Law Review (1979) 925-952, at pp. 934-936.

³⁹ See for instance EWING Ky P. Jr., "Antitrust enforcement and the patent system: similarities in the European and American Approach", I.I.C. (1980) 279-294. On the application of the patent misuse defense in the USA to counter tie-ins of unprotected products, see also WALLACE, J., "Proper use of the patent misuse doctrine - an antitrust defense to patent infringement actions in need of rational reform", Patent Law Review (1976) 357-365.

⁴⁰ For instance, the conclusion of the study made by the OECD as concerns industrial property law, is that "the statutory grant of compulsory licences should be made sufficiently broad to enable the competent authorities to deal effectively with the whole range of detrimental economic effects of market power obtained through patents, see OECD, Market power and the law, Paris, 1970, at p. 176. See also KAUFMAN, P., Passing off and misappropriation, IIC Studies, Vol. 9, VCH, 1986, at p. 78; SCHERER, F., O.C., (1980), at p. 456; SCOTT, M., "Compulsory licensing of intellectual property in international transactions", E.I.P.R. (1988) 319-325.

licences are insufficient exploitation and abuse of monopoly power, whereas the various other grounds invoked are their need for development of dependent inventions, public interest/health, economic development, international trade, national defense, etc.. .⁴¹

As such, it can but be concluded that the patent-antitrust debate is not as conflictual as might initially be thought. Temporary restraints on competition in the form of monopoly rights -which are only granted if the stringent conditions for protectability are fulfilled-, are considered to be necessary to stimulate innovation and competition in the long run. The counterpart is that possible abuses of the market power conferred, or in other words uses which cannot be justified in terms of public interest or dynamic competition, are struck down under the rules on competition.

III.3.3. COPYRIGHT

Copyright essentially confers a temporary exclusive right on the original form in which ideas are expressed. This means that original ideas as such are not protectable and can be freely appropriated by others. The idea-expression dichotomy inherent in copyright law is based on the principle that ideas, information and facts should be freely available, whereas only the original manner in which the author expresses these ideas or information are protected against unauthorized reproduction.⁴² A coherent application of this principle thus

⁴¹ On the various justifications for obligatory licences in the various legal systems, see SALAMOLARD, J.-M., La licence obligatoire en matière de brevets d'invention, Genève, 1978. For a synthesis, see especially at pp. 40-46. For an analysis of the pro's and con's of compulsory licences, see HAGAN, T., HENRY, S., o.c., at pp. 290-300.

⁴² See also DWORKIN, G., TAYLOR, R., Blackstone's guide to the Copyright, Designs & Patents Act 1988, 1989, London, at p. 4. For an economic analysis of the need to maintain the idea-

entails that where expression and ideas merge because the expression is merely incidental to the idea or facts expressed, copyright protection cannot be enforced to prevent unauthorized copying.⁴³ Contrary to patents, copyright is not dependent on registration whereas it only offers protection against unauthorized copying. If a third person comes to the same form of expression independently from the protected work, then no copyright infringement will be established.⁴⁴

Although the term 'monopoly' is also often used in relation to copyright, this obviously has a different meaning as compared to patents. Whereas a third party may not use the protected invention to produce and market competing products under patent law, he may use the -unprotected- ideas to produce and market competing products under copyright law as long as he does not copy the way in which the ideas are expressed. For example, in the hypothesis that car engine X is patented, one may not rely on the invention to create a similar engine with for instance a different shape, because the patent holder has a monopoly on the exploitation of the invention. However, if an author writes a book about the functioning of car engine X, he does not have a monopoly on books about car engine X, but any other person can write a similar book which will compete

expression dichotomy, see LANDERS, W., POSNER, R., "An economic analysis of copyright law", Journal of Legal Studies (1989) 325-363, at pp. 347-353. At p. 348, they point out that: "The traditional explanation for protecting only expression emphasizes the welfare losses from monopoly of an idea. We emphasize the increase in cost of creating works and the reduction in the number of works rather than the higher price (per copy) that is normally associated with monopoly".

⁴³ See also LANDEN, W., POSNER, R., o.c., at pp. 350-353, where they give economic reasons for this solution, which has been adopted in the USA since the Baker v. Selden case (101 US 99 (1879)) concerning unauthorized copies made of a book with blank bookkeeping forms.

⁴⁴ See also HEARN, P., The business of industrial licensing, Gower, Westmead, England, 1981, at pp. 224-225.

V | on the market, provided that the original form of expression is not copied.⁴⁵ In this sense, copyright is not apt to confer a monopoly on a product in the same way as patents do.

In principle, copyright does not lead to the exclusion of - potential- substitutable products on the market so that an author will not usually behave as a monopolist. Still, in some rare cases where there are no perfectly substitutable products on the market -for instance if the copyrighted work is perceived by the consumers as being unique because it is dictated by fashion, due to advertising and promotion, considering the author's reputation, etc.-, the copyright holder may take monopolistic advantages of his exclusive position on the market.⁴⁶ However, the level of reward the copyright holder can reap is essentially determined by what the consumers are willing to pay for the ideas expressed in one form rather than in another.

Different economic justifications are invoked for the existence of the copyright system.⁴⁷ As for patents, it is generally recognized that copyright has both a reward and an incentive function, which are stringently linked. It is traditionally held that the exclusive right encourages

⁴⁵ See also the example of the difference between tangible property and copyright given by STEWART, S., International copyright and neighbouring rights, London, Butterworths, 1983, at pt. 1.08.

⁴⁶ See CORNISH, W., o.c., at pt. 9-023 and 9-024. He gives the following examples of monopolistic behaviour under copyright: "the practice of publishing hard-back editions before paperbacks, (..), or that of showing films at expensive inner-city cinemas before allowing urban release and then television showing". Similarly, see LANDEN, W., POSNER, R., o.c., at p. 328.

⁴⁷ There are also non-economical justification, such as the principle of natural justice, the cultural argument and the social argument, see especially STEWART, S., o.c., at pts. 1.02, 1.04 and 1.05.

creativity by ensuring the possibility for the author to gain a livelihood from his work.⁴⁸ Nowadays, it is also commonly accepted that through giving the possibility to recoup the investment and make profits, the exclusivity provides the necessary incentive to invest time and money in the creation and exploitation of increasingly costly works -which due to new technologies are also increasingly easier to copy⁴⁹-, such as for instance works of architecture and films.⁵⁰ As such, it is generally acknowledged by both lawyers and economists that a temporary restraint on public access to the work is necessary to stimulate innovation in the creative or cultural field.⁵¹

The main difference between the two prevailing law systems consists in whether the emphasis is put on the need to grant protection to the author of the creative work, as in author's right systems of continental Europe, or to those who take the risk to exploit the creative work, as in the Anglo-Saxon

⁴⁸ See for instance GOLDSTEIN, E., o.c., at p. 10.

⁴⁹ On the relationship between copyright and technological evolution, see ADELSTEIN, R., PERETZ, S., "The competition of technologies in markets for ideas: copyright and fair use in evolutionary perspective", International Review of Law and Economics (1985) 209-238.

⁵⁰ See STEWART, S., o.c., at pt. 1.03, where he writes that "these investments will not be made unless there is a reasonable expectation of recouping them and making a reasonable profit". See also DWORKIN, G. & TAYLOR, D., o.c., at p. 3.

⁵¹ See for instance GROVES, P., Copyright and designs law: a question of balance, Graham & Trotman, London, 1991, at p. 1, where he writes: "The law of copyright is one big balancing trick. It exists to deal with an economic problem, to trade off the costs of limiting access to the works it protects against the benefits of providing incentives to create the work in the first place". For an economic viewpoint, see for instance LANDES, W., POSNER, R., o.c., at p. 326, where they write: "Striking the correct balance between access and incentives is the central problem in copyright law".

copyright systems.⁵² However, the current tendency is towards a merger of those two philosophies underlying the copyright system. This is illustrated by the growing awareness about the importance of neighbouring rights in the continental European countries and about the author's moral rights in the Anglo-Saxon countries.⁵³

III.3.4. TRADEMARKS

Trademarks are different still, in that they merely confer exclusivity on a brand name. This essentially means that the proprietor of a trademark has the exclusive use of the distinctive mark and can prevent the unauthorized application of the same or confusingly similar trademarks to similar products. Similar products may, however, be marketed under different brand names.

Because the trademark does not relate to a product but merely to distinctive signs attached to a product in order to distinguish it from similar products made by another,⁵⁴ they do not as such confer a monopoly position.⁵⁵ But this finding does

⁵² See for instance COHEN JEHOAM, H., "Critical reflections on the Economic importance of copyright", I.I.C. (1989) 485-497, at pp. 496-497. For a more detailed account of the different philosophies, see STEWART, S., o.c., at pts. 1.13 - 1.16.

⁵³ See especially STEWART, S., o.c., at pt. 1.16., and COHEN JEHOAM, H., o.c., at pp. 496-497.

⁵⁴ See for instance GOLDSTEIN, E., o.c., at p. 8.

⁵⁵ Similarly, see BADEN FULLER, C., "Economic issues relating to property rights in trademarks: export bans, differential pricing, restrictions on resale and repackaging", E.L.R. (1981) 162-179, at pp. 164-167, where he convincingly argues that neither the ownership of a brand name nor its marketing activities are likely to give rise to a dominant position for the proprietor of the trademark.

not alter the fact that well-known brands do confer a certain degree of market power,⁵⁶ or that brand names can be exploited by a firm who occupies a dominant position in the market, for instance through enforcing differential pricing.⁵⁷

The traditional and commonly accepted justification for trademarks is that they provide an incentive for firms to produce quality products of a constant level.⁵⁸ The brand name is essentially an indication of the commercial origin of products.⁵⁹ The exclusivity inherent in trademarks allows the consumers to associate a given brand name with the quality of a certain product, so that consumer expectation and goodwill

⁵⁶ For an analysis of market power as conferred by strongly established brands, see for instance PARR, N., HUGHES, M. "The relevance of consumer brands and advertising in competition enquiries", E.C.L.R. (1993) 157-163.

⁵⁷ See BADEN FULLER, C., o.c., at pp. 167-169.

⁵⁸ See for instance HIGGINS, R., RUBIN, P., "Counterfeit goods", Journal of Law & Economics (1986) 211-230, at p. 213. However, at p. 211, they point out that rather recently, trademarks have -in the eyes of certain consumers- also taken on the additional function to demonstrate that they are consumers of a certain good. On p. 212, they illustrate that "in markets in which the purpose of the trademark is to impress observers rather than to guarantee quality to consumers, there is less effort at detection and avoidance of counterfeit goods and therefore a relatively greater return from counterfeiting".

⁵⁹ See also CORNISH, W., o.c., at pt. 15-017.

can be created.⁶⁰ This is important in as much as the consumer is usually only in the possibility to evaluate a product after it has been purchased. The trademark in no way safeguards that the products will be of a constant quality, but at least it prevents a third party to undermine the goodwill created by a certain manufacturer. Because of the exclusivity, the trademark proprietor will be sole responsible for the potential loss of goodwill due to a decrease in the quality of his products.

III.3.5. INDUSTRIAL DESIGN RIGHTS

Although design legislation is far from being homogeneous, design rights in all legal systems essentially confer a temporary exclusive right on the new and/or original manner in which a technical or functional product is shaped. Wallace has pointed out that there is no agreement internationally as to whether what he has called the 'patents approach' or the 'copyright approach' to design rights, or a mixture of both, should be applied.⁶¹ With the concept 'patents approach', he refers to those systems of design protection which require

⁶⁰ Franzosi defines 'goodwill' in the following way: "Goodwill is the disposition of consumers to purchase goods or services from a constant source. It is the favourable opinion of customers that induces them to buy goods, either because they have experience with the source or because, even if this is not so, it has their favourable consideration". See FRANZOSI, M., "Grey market -parallel importation as a trademark violation or an act of unfair competition", I.I.C. (1990) 194-208, at p. 197. Similarly, see LOWE, J., CRAWFORD, N., Innovation and technology transfer for the growing firm, Oxford, 1984, at p. 11; CORNISH, W., o.c., at pt. 15-013 and pt. 15-014.

⁶¹ The concepts 'patents approach' and 'copyright approach' to design rights was first introduced by William Wallace and is now commonly used. See WALLACE, W., "Protection for designs in the United Kingdom", I.I.C. (1974) 421-427, at p. 421.

novelty and grant full exclusive rights,⁶² whereas with the concept 'copyright approach', he refers to those systems of design protection which require originality and only grant protection against copying.⁶³

Still, although the criteria and scope of protection are modelled on either patent or copyright law or both, it is illustrated by the mere existence of a separate system for design protection in most legal systems that design rights respond to a well-defined objective which is different from both patents or copyrights. The specificity of design rights has led to the development of a specific "design approach" by the Munich Max Planck Institute and the European Commission.⁶⁴

⁶² WALLACE, W., O.C., at p. 421: "By a 'patents approach' I mean a system like the patents system wherein the criterion for protection is that the design must be new: if it closely resembles a design which has already been made public, it is not protected; but if it is protected, the proprietor can stop anyone else marketing articles bearing that design, without having to prove that they were copied from him".

⁶³ WALLACE, W., O.C., at p. 421: "..under a 'copyright approach' the criterion for protection is that the design must be original - the designer's own work and not something he has copied; even if virtually identical with someone else's design, he can claim protection if he can satisfy the Court that he did not copy, directly or indirectly, from that earlier design; but, as a corollary, his protection is only against copying, directly or indirectly, from him. In other words, he will not succeed against a defendant who satisfies the Court that the alleged infringing design was original and not copied".

⁶⁴ See the criteria and scope of design protection proposed in the Max Planck Draft for a European Design Law. For the full text, see GOTZEN, F., (ed.), The Green paper on the legal protection of industrial design, Story Scientia, Brussels, 1992, at pp. 87-106. On the influence of the Max Planck proposal on the Commission's Green Paper on industrial designs, see also infra, Chapter V. For a defense of a specific 'design approach', see KUR, A., "The Green Paper's 'design approach' - what's wrong with it?", E.I.P.R. (1993) 374-378. At p. 376, she rejects Cohen Jehoram's view that designs are a subject of copyright protection in the following terms: "This statement reflects the unfortunate but common view that designs must belong either to the patent or the

As patents and copyright, also design rights have a reward and incentive function, but the objective is different. The objective of granting an exclusive right on an industrial design or model can be defined as to provide the possibility to obtain a return for investment made and progress achieved in the field of aesthetics, in order to stimulate overall research and development of aesthetic features of technical or functional products.

The main difference with patents is that the objective of design rights is not to create incentives to stimulate innovation or technical progress, but rather to provide incentives to stimulate the development of different aesthetic features of products or in other words "the enrichment of the wealth of forms".⁶⁵ Whereas patents are concerned with the new functional device of an industrial product or process rather than with its external features, design rights are concerned with the external and visible features of products rather than with the way in which they function, although a particular design may enhance the proper functioning of a product. In other words, contrary to patent law, design protection relates to the form or appearance and rather than the technical effects of a product.⁶⁶

copyright side, tertium non datur. It is this view which has plagued designs ever since they entered the sphere of law, to the effect that they always have been denied a proper place of their own within the legal system". In defense of the 'copyright approach', see COHEN JEHOAM, H., "The EC Green Paper on the legal protection of industrial design. Halfway down the right track - a view from the Benelux", E.I.P.R. (1992) 75-78.

⁶⁵ See the most interesting article by KUR, A., "The Max Planck Draft for a European Design Law", in Gotzen, F., (ed.), The Green Paper on industrial design, Story Scientia, 1992, 13-26, at p. 17.

⁶⁶ See KUR, A., o.c., at p. 18.

The exclusivity inherent in design protection is generally acknowledged to be pro-competitive, because it encourages innovation in the aesthetic field and leads to an increase in consumer choice through the stimulation of inter-brand competition.⁶⁷ The reward and incentive for the creative effort is thus obviously dependent on the willingness of the consumers to buy and perhaps pay more for the product incorporating the protected design as compared to another product, or in other words on the willingness of the consumers to pay for the surplus value the design confers on an industrial or technical product. It is obvious in this respect, that the fulfilment of the objective of design law is subject to what Annette Kur has called "the fundamental rule", namely that:

".. via design protection it should not be possible to obtain a monopoly for a technical effect. Only in those cases, where the outer appearance of a product is exclusively dictated by the function it performs -that is, if in order to make another product perform the same function, the manufacturer has no choice but to give it the same appearance as the first one-eligibility for design protection must be denied".⁶⁸

The underlying reason for the enforcement of this fundamental rule in most legal systems⁶⁹ is that design rights should not be allowed to confer a monopoly on a product as patents do, because they cannot be said to constitute a necessary restraint on competition in the short run in order to

⁶⁷ See for instance CONFEDERATION OF BRITISH INDUSTRY, Design right: designed wrong, London, February 1988, at pt. 1, where it is held that "design protection is itself a vital driver of enterprise and competition, encouraging innovation and thereby stimulating enterprising companies and increasing consumer choice".

⁶⁸ KUR, A., o.c., at p. 18.

⁶⁹ On the national approaches to design rights, more specifically as concerns spare parts of cars, see infra, Chapter IV.

stimulate technical progress and competition in the long run. Contrary to patents, the design system is precisely based on the premise that the diversification of the appearance of a given product can exist and should be enhanced in order to stimulate overall competition and ultimately increase consumers choice.

The difference between design rights and copyright is less clear-cut, because they both aim at enhancing innovation in the aesthetic or creative field. The differentiating factor lies in the fact that the purpose of design rights is essentially to enhance competition and to increase consumers' choice in relation to a functional or technical product, and not just to stimulate innovation in the aesthetic field -for instance for cultural reasons- as copyright essentially does. This basically means that under design rights the creative effort serves to compete better on the market and to sell a product, whereas under copyright the creative effort stands on its own. This 'marketing function' of design rights is best illustrated by the following example given by Annette Kur:

"It may sound exaggerated, but I believe there is a lot of truth in the statement that the design of a coffee machine serves to sell the coffee machine, while a painting certainly is not meant to serve the purpose of selling canvas".⁷⁰

From this example, it is once again clear that design rights have an important role to fulfil as a factor of non-price competition. In the extreme hypothesis that consumers consider a coffee machine to be an indispensable instrument to make coffee, that no competition prevails and that entry barriers are high, there will be little or no incentive to invest time and money in developing an attractive design for the coffee machine. The obvious reason for this is that the conferment of a surplus value to the product will influence neither the

⁷⁰ See KUR, A., O.C., at p. 23.

amount nor the price at which the monopolist can sell his coffee machines. The issue of the fulfilment of the objectives of design protection is thus only posed once competitors enter or can enter the market of coffee machines, or in other words in a situation of rivalry.

Finally, it is obvious that design rights also have a different objective from trademarks. Trademarks are concerned with the indication of commercial origin and the incentive to produce quality products, whereas design rights essentially relate to the appearance of the product and not to its quality or commercial origin. Still, in as much as design rights are also an instrument of marketing, well-known designs may, additionally to the above-mentioned functions, also fulfil the same function as trademarks. This will be the case when consumers associate a particular design with the expected quality of the good incorporating the design. In this sense, design exclusivity might also prevent the consumers from being deceived about the qualities of the product they purchase.

III.4. PRELIMINARY CONCLUSION

All the systems of intellectual property rights are based on the premise that a restraint on competition is necessary to ultimately increase competition in the public interest. In this sense, there is no real conflict between the rules on competition and intellectual property laws. However, although the different systems of intellectual property rights have a lot in common in that they all relate to intangible property, are based on the principle of territoriality and confer exclusive rights, they each have a well-defined objective to fulfil.

It has been illustrated above that patents, copyrights, trademarks and design rights each have a different impact on

the competitive market structure, to the extent that this is dictated by the various economic functions the intangible property right concerned are meant to fulfil. On the basis of this finding, it is difficult to conceive an approach to intellectual property rights in general which could sufficiently take those divergences into account. It is therefore submitted that it should be considered in each particular case whether or not the function of the intellectual property right invoked has been respected, in order to establish whether or not an encroachment on the rules on competition can be justified in terms of the need to safeguard the protection of intellectual property rights. The answer could then only be positive if through the grant of a specific type of exclusivity, overall competition is enhanced and the public interest is served.

It thus seems to be important to determine in the next part precisely which intellectual property rights are invoked by the car manufacturers in relation to spare parts of their cars, and how the national legal systems and the Commission approach this issue,⁷¹ before looking at the status of intellectual property rights in Community law in general,⁷² and of spare parts of cars in particular.⁷³

⁷¹ See infra, Part 2.

⁷² See infra, Part 3.

⁷³ See infra, Part 4.

PART TWO

DIFFERENT APPROACHES TO

TO DESIGN PROTECTION ON SPARE PARTS OF CARS

CHAPTER IV. NATIONAL APPROACHES TO DESIGN RIGHTS FOR SPARE PARTS OF CARS

IV.1. INTRODUCTION

Different spare parts of cars can be legally protected through different -and sometimes cumulative- kinds of intellectual property rights. Patent and trademark protection poses no real problem considering the rather similar approach thereto in the legislation of the Member States and the clear definition of their function. They are applicable to spare parts of cars as to all other products, so that they will not be dealt with here in detail. The matter is different as concerns industrial designs and design/copyright protection. In this case there is no common approach to be found in the national legislations, whilst it is precisely this type of protection that is most recently invoked with regard to spare parts of cars. Therefore, this type of protection will be looked at more closely in the present study.

For a limited number of functional spare parts, patent protection can be obtained. This is so if they constitute an invention and live up to the requirements which are more or less common to all of the Member States. It is obvious from the requirements that only functional spare parts can qualify for patent protection whereas aesthetic spare parts, such as body panels, cannot. The very function of a patent is to grant the patent holder temporarily the exclusive right to use his invention,¹ so that it cannot be disputed that he has the right to prohibit the unauthorized exploitation of his invention by an independent.

¹ On the functions of patent protection, see supra, Chapter III, at III.3.2.

Spare parts can also be protected by trademarks. This is important in order to prohibit an independent to sell his spare parts under the trademark or a confusingly similar trademark of the car manufacturer in order to benefit from the goodwill created by the latter.² It does not, however, prevent an independent to market his products -even though similar to the products of the car manufacturer- under his own trademark.

Most spare parts will not qualify for patent protection whereas trademarks, which in principle can apply to all spare parts, do not give exclusive rights on the product. Facing an increase in competitive pressure in the car market,³ car manufacturers have rather recently sought to obtain exclusive rights on spare parts through invoking industrial design and design/copyright protection in order to sustain their competitive position.

However, this approach poses questions in terms of compatibility with the EC Treaty. National design protection offered on spare parts of cars is -as for all intellectual property rights- subject to the principle of territoriality. This is a first factor which causes an obstacle to the principle of free movement of goods within the Community and gives rise to distortions of competition.⁴ As concerns the protection of industrial designs and design/copyright protection, an additional factor aggravating this situation lies in the fact that there is no common approach to be found in the national legislations of the different Member States, so that different rights ensue according to the Member State

² On the function of trademarks, see supra, Chapter III, at pt. III.3.4.

³ See supra, Chapter II.

⁴ See supra, Chapter III, at pt. III.2.1.

in which protection is sought. This is especially so for spare parts of cars, which -since they are components of complex products- pose specific problems which have been dealt with differently from one Member State to another.

All Member States, except for Greece, have a specific design legislation.⁵ However, the scope and impact of these laws are very different. For instance, in the United Kingdom design protection on spare parts of cars is virtually excluded whereas in France they will generally qualify for protection. In Italy, the cumulation of both design and copyright protection is currently prohibited whereas in most other Member States it is allowed, although subject to different conditions.

The aim of this chapter is not to give a detailed comparative analysis of the legal protection in force in the different Member States. Other studies have already looked into the different systems of design protection in force in the European Community from a comparative point of view, so that it might suffice here to refer to those works for further details.⁶ Rather, the objective of this chapter is to illustrate why design protection, and especially design protection on spare parts of cars, poses a specific problem in Community context. Special attention will hereby be given to

⁵ See MINOUDIS, M., "Protection of industrial designs in Greece", I.I.C. 22 (1991) 497-513, at p. 498. The 1978 Bill on a special design protection has not yet been formally adopted. He points out that currently designs are protected by "the law relating to unfair competition or by the provisions relating to the protection of intellectual property".

⁶ See for instance the slightly outdated but still authoritative study by PEROT-MOREL, M.-A., Les principes de protection des dessins et modèles dans les pays du Marché Commun, 1968, Editions Mouton, Paris. For a more recent study, see GREFFE, P., GREFFE, F., Traité des dessins et modèles, 4th ed., 1988, LITEC, Paris.

provisions in the national legislation of the United Kingdom, France, the Benelux, Germany and Italy concerning the substantive requirements for obtaining design or design/copyright protection, and in particular the question whether originality, novelty or distinctiveness is the prevailing criterion in each of those countries. Since it concerns an illustration of the problem posed by national design legislation rather than a comparative study, it is submitted for practical reasons that it suffices to point out the scope of the problem through referring only to the legislation of the six original Member States. The United Kingdom has been singled out from the remaining Member States and will be dealt with first, because it is the only Member State that -rather recently- has introduced provisions specifically related to spare parts of cars.

First of all, the relevant provisions in important international agreements concluded by all or most of the Member States will be briefly highlighted. These conventions foresee in a general framework for, and in minimum norms of, protection and to a great extent form the only basis of harmonization at present.⁷ Then attention will be given to the legislation in force in the United Kingdom, France, the Benelux, Germany and Italy, as well as to the interpretation given thereto by the national courts concerning spare parts of cars. Finally, a categorisation is made according to whether or not cumulation of copyright with design protection is possible.

⁷ On the extent to which harmonization has been achieved in EC context, see *infra*, Chapter VI, at VI.3.2.

IV.2. INTERNATIONAL CONTEXT

Most of the international efforts made to harmonize intellectual property protection world-wide have taken place within the framework of the World Intellectual Property Organization (WIPO). This organization was created in Stockholm on 14 July 1967 and covers both the Paris and the Berne Union, bringing under its competence the most important already existing intellectual property conventions.⁸ The aim of WIPO is to set minimum norms of intellectual property protection which are acceptable to all contracting parties. The industrialized countries do not find this rather low level of harmonization sufficient, considering the increasing importance of intellectual property protection in the regulation of world-trade, so that they have endeavoured to bring this matter within the competences of the GATT. The present section looks at the impact of the most important agreements on the harmonization of industrial design protection.

IV.2.1. PARIS CONVENTION

The Paris Convention for the protection of industrial property, originally signed in 1883 and lastly revised in Stockholm in 1967 (Stockholm Act), created the so-called Paris Union.⁹ All the EC Member States are member of the Paris Union and all have acceded to the Stockholm Act. Therefore, the provisions mentioned hereunder refer to the current state of

⁸ On the role and structure of WIPO, see EKEDI-SAMNIK, J., L'Organisation Mondiale de la Propriété Intellectuelle (OMPI), 1975, Bruxelles, Bruylant.

⁹ This is within the framework of the World Intellectual Property Organization (WIPO), which covers both the Paris Union and the Berne Union, see also infra, at pt. IV.2.2.

the Paris Convention without going into the changes which preceded the 1967 Stockholm Act.¹⁰

Article 1, 2° defines the scope of the notion 'industrial property' as incorporating patents, industrial designs and models, trademarks and -names, indications of origin, as well as the rules on unfair competition. Article 5 Quinquies provides that industrial designs and models will be protected in all countries of the Union, without, however, specifying how this should be done or what the criteria and the conditions to qualify for protection should be. As such, industrial designs could just as well be protected through a specific design law or through copyright or rules on unfair competition." This implies that the Greek legislation is in conformity with the Paris Convention. The only other provision specifically relating to industrial designs is Article 5.B., which states that industrial designs protection cannot be subject to forfeiture due to non-use or importation of similar products.

Industrial designs are subject to the general principle of national treatment which is laid down in Article 2. This implies that citizens of another Union-country will enjoy the same advantages as the national legislation concerned grants to its own citizens, without being subject to the condition of

¹⁰ On the evolution in the perception of industrial designs under the Paris Convention, see LADAS, S., Patents, Trademarks and Related Rights: national and international protection, Volume II, Part IV, 1975, Harvard University Press, Cambridge, Massachusetts, at § 482.

¹¹ See FRANCON, A., "Le droit internationale de la propriété intellectuelle", in La protection de la propriété intellectuelle: aspects juridiques européens et internationaux, Institut Universitaire Internationale Luxembourg, 1989, pp. 11-78, at p. 46.

having an establishment in that country.¹² As such, no reciprocity requirement can be imposed in order to benefit from design protection. This stands in contrast to what is stipulated in the Berne Convention concerning copyright protection for industrial designs.¹³

However, as stated above, it remains up to the countries of the Union to define the conditions, the requirements and the procedures to obtain design protection, so that the current situation whereby industrial design legislation is very different from one Member State to another is not incompatible with this convention.

IV.2.2. BERNE CONVENTION

A second important agreement concluded within the framework of WIPO is the Berne Convention for the protection of literary and artistic works, creating the Berne Union. All Member States are parties to the 1971 Paris Act of this convention - which originally dates from 1886- except for Ireland and Belgium which are currently bound by the 1948 Brussels Act.

The Commission has launched the initiative to make all Member

¹² Article 2, 1° reads: "Les ressortissant de chacun des pays de l'Union jouiront dans tous les autres pays de l'Union, en ce qui concerne la protection de propriété industrielle, des avantages que les lois respectives accordent actuellement ou accorderont par la suite aux nationaux, le tout sans préjudice des droits spécialement prévus par la présente Convention. En conséquence, ils auront la même protection de ceux-ci et le même recours légal contre toute atteinte portée à leurs droits, sous réserve de l'accomplissement des conditions et formalités imposées aux nationaux." (Only the French version is authentic, cf. Article 29). Article 2, 2° provides that no establishment requirement can be imposed whereas Article 2, 3° explicitly provides that it is up to the countries of the Union to determine the procedural aspects.

¹³ See infra, at pt. IV.2.2.

States adhere to the 1971 Paris Act on the basis of a Council decision, which -because of irreconcilable views as concerns the delimitation of powers between the Member States and the Community in the field of intellectual property rights- has merely resulted in a declaration of intend by the Member States concerned.¹⁴ In view of their pending adherence, attention will only be given here to the Berne Convention as revised by the 1971 Paris Act.

Article 2(7) specifies that it is up to the countries of the Union whether or not to include industrial designs and models in the scope of copyright protection as well as to determine the conditions under which the protection will be granted. It also contains an exception to the general rule of national treatment which is laid down in Article 5, through stating that:

"Works protected in the country of origin solely as designs and models shall be entitled in another country of the Union only to such special protection as is granted in that country to designs and models; however, if no such special protection is granted in that country, such works shall be protected as artistic works."¹⁵

This implies that as far as copyright protection on industrial designs is concerned a reciprocity requirement can be imposed, in the sense that if in the country of origin the cumulation of protection is excluded, then the host country can also limit the protection to the application of its specific

¹⁴ See infra, Chapter VI, at pt. VI.3.2.5.

¹⁵ On the history of this Article, see LADAS, S., Patents, Trademarks and Related Rights: national and international protection, Volume II, Part IV, 1975, Harvard University Press, Cambridge, Massachusetts, at § 485.

industrial design legislation.¹⁶ Even though this is an important exception to the principle of national treatment as laid down in the Berne Convention, it seems to be in conformity with the national treatment principle as laid down in the Paris Convention, because the latter only covers industrial property protection and not the possible cumulation with other forms of protection.¹⁷

Furthermore, where no specific design law exists in the host country, then it is provided that copyright legislation will apply regardless of the fact that in the home country copyright protection on industrial designs might be prohibited by virtue of the principle of non-cumulation. Otherwise, a legal vacuum would be created whereby the design holder would be sanctioned by non-protection in the host country merely because of the legal system in force in his home country.

It is obvious that this system causes problems in EC context, since not all Member States have adopted the system of double protection and since the criteria to obtain copyright protection on industrial designs are far from being equivalent. A rigorous application of Article 2(7) of the

¹⁶ See also the analysis of the implications of the Berne Convention made by PEROT-MOREL, M.-A., *o.c.*, 1968, at pp. 161-162 where it is stated: "Le régime international des dessins et modèles obéit donc désormais à un double principe: D'une part, la liberté des états en ce qui concerne le mode de protection adoptée est respectée (...). Ils peuvent indifféremment ranger les dessins et modèles dans le droit de la propriété littéraire et artistique ou dans celui de la propriété industrielle ou encore admettre les deux régimes cumulativement. La grande variété de législations subsiste donc intégralement. (...). Mais d'autre part, en contrepartie de cette liberté maintenue, une restriction importante limite en même temps le jeu habituel du principe de l'assimilation et réintroduit dans une certaine mesure le système de la réciprocité législative."

¹⁷ See *supra*, at pt. IV.2.1.

Berne Convention would in the current Community context lead to a differentiated treatment, in the sense that in a given Member State different designers would have different rights depending on the legislation in force in the Member State of origin. It is not surprising, therefore, that the Commission is of the opinion that the application of this provision between the Member States is contrary to the principle of non-discrimination in Community law.¹⁸ In this respect, it is interesting to note that in the recent Phil Collins case, the Court has set a precedent by acknowledging that national copyright which discriminates against nationals of other Member States concerning the means of enforcing copyright is contrary to Article 7 EC.¹⁹

IV.2.3. OTHER AGREEMENTS

Although the two conventions mentioned above are the most important ones since they cover substantive matters of design legislation, reference should also be made to the following two agreements which are also administered by WIPO. They bear upon the procedural aspects of design protection and although not all Member States have acceded, it can be expected that they will do so in the future.²⁰

Firstly, there is the 1925 The Hague Agreement on the international deposit of industrial designs and models, which, as the name suggests, deals with common procedures for the registration of designs. Secondly, there is the 1968 Locarno

¹⁸ See infra, Chapter V, at V.3.4.2.2.

¹⁹ Joined Cases C-92/92 and C-326/92, Phil Collins, Judgment of 20 October 1993, not yet reported.

²⁰ For the state of accession to the different Conventions and Agreements administered by WIPO, see the January issue of La Propriété Industrielle.

Agreement on the international classification of industrial designs and models. Both have been taken into account by the Commission when elaborating its proposal on a Community Design.²¹

IV.2.4. THE GATT TRIPS NEGOTIATIONS

Industrial designs have also been dealt with in the GATT Uruguay Round negotiations on trade related aspects of intellectual property (TRIPS). The linking of the issue of intellectual property protection with international trade is a rather recent phenomenon, inspired by the growing awareness about the economic impact of intellectual property rights and their value as trade assets. It might suffice here to point out what the main objective of the TRIPS agreement is and what the most important the compromises concerning industrial designs have been.²²

The aim of the TRIPS agreement is to set minimum norms -yet more elaborate and at a higher level than WIPO- of intellectual property protection for its contracting parties, and thus to provoke changes in the substantive law governing inter alia industrial designs, in order to promote the

²¹ See infra, Chapter V.

²² The following will be based on document MTN/FA II-A1C which is the text of the TRIPS agreement as approved at the Geneva-Conference of 15 December 1993. From now on, this text will be referred to as 'TRIPS'. For articles on the TRIPS negotiations, see for instance UCHTENHAGEN, U., "The GATT negotiations concerning copyright and intellectual property protection", IIC 21 (1990) 765-782; DHANJEE, R., BOISSON DE CHAZOURNES, L., "Trade related aspects of intellectual property rights (TRIPS): objectives, approaches and basic principles of the GATT and of intellectual property conventions", J.W.T. 24 (1990) 5-15; BIFANI, P., "Intellectual property rights and international trade", in Uruguay Round: papers on selected issues, United Nations, New York, 1989, 129-183.

technological innovation and the transfer and dissemination of technology.²³ In this respect, it is rather surprising that the TRIPS agreement does not aim at liberalizing trade in protected products through inserting a general principle of exhaustion of rights, but even explicitly excludes this principle from the agreement.²⁴ However, it is provided that appropriate measures may need to be taken to prevent the abuse of intellectual property rights which unduly restrict trade or adversely affect the international transfer of technology.²⁵

The basic principles of GATT, namely national treatment - meaning that the nationals from another contracting party may not be treated less favourable than the own nationals- and the most-favoured nation clause -which implies that advantages given to a third country have to be granted also to all GATT members-, have been extended to the area of intellectual property protection.²⁶ Still, it is provided that exceptions to those basic GATT principles that ensue from inter alia the Berne Convention and the Paris Convention as well as other multilateral WIPO conventions will remain in force.

Specifically as industrial designs are concerned, it is held that protection shall be provided for independently created industrial designs that are new or original, but it is further stipulated that parties may consider these requirements not to be fulfilled if "they do not significantly differ from known

²³ See TRIPS, Article 7. On the question whether this is compatible with the system elaborated in the framework of WIPO, see BEIER, F-K., and SCHRICKER, G., (eds.), "GATT or WIPO? New ways in the international protection of intellectual property", 1989, IIC Studies, Vol. 11., VCH Verlagsgesellschaft.

²⁴ TRIPS, Article 6.

²⁵ TRIPS, Article 8,2.

²⁶ TRIPS, Article 3 & 4.

designs or combination of known design features".²⁷ However, the concepts of novelty and originality are not closer defined, so that discrepancies will most certainly remain due to the wide range of possible different interpretations to be given to those concepts. Furthermore, it is specifically stipulated that it may be provided that design protection will not extend to design dictated essentially by technical or functional considerations.²⁸ The minimum duration of protection has been fixed at ten years,²⁹ and the protection should confer the right to prohibit the unauthorized copying of the design.³⁰ This implies that the contracting parties are not obliged to provide for a patent-type of exclusive design right protection. Allowing the co-existence or even the protection of independently created similar designs would thus not be contrary to GATT.

The elaboration and conclusion of the TRIPS agreement only has a minimal bearing on the national industrial design legislation provided for currently in the Member States. It is clear that it are minimum norms that are set so that the higher norms of protection which most Member States already maintain will remain possible. In this sense it can be expected that it will not lead to a complete harmonization of national legislation in the absence of complementary Community

²⁷ TRIPS, Article 25, 1.

²⁸ Cottier already advanced the view that "a possible compromise may include both the requirements of new and original". He furthermore stated that "designs essentially required by technical features may be excluded". See COTTIER, T., "The prospects for intellectual property in GATT", C.M.L.Rev. (1991) 383-414, at 405.

²⁹ TRIPS, Article 26, 3.

³⁰ TRIPS, Article 26, 1.

legislation to achieve that end.³¹

IV.3. NATIONAL APPROACHES

Before looking into the systems of protection provided for in the six original Member States, it is important to examine the reasons that have led the United Kingdom to introduce specific provisions relating to design protection for spare parts of cars in the 1988 Copyright, Designs and Patents Act. Other Member States have also recently introduced changes to their system of design protection, for instance Germany in 1986 and France in 1990,³² however without taking the specificity of the spare parts sector into account.

IV.3.1. THE UNITED KINGDOM

In the United Kingdom, contrary to the other Member States, the matter of granting design protection on spare parts of cars has been widely debated during the preparatory works of the 1988 Copyright, Designs and Patents Act. The direct cause of this legislative concern for the problems encountered in the spare parts market was the UK Mergers and Monopolies Commission's report on Ford replacement body panels which

³¹ See GOVAERE, I., "Intellectual property protection and commercial policy", in The European Community's commercial policy after 1992: the legal dimension, Maresceau, M. (ed.), Martinus Nyhoff Publishers, 1993, pp. 197-222, where I forward the view that such harmonization measures should be taken on the basis of Article 113 juncto Article 100a of the Treaty.

³² In 1992 a new law was enacted in France, but this is essentially a codification of the already existing intellectual property legislation. Although in 1992 industrial designs and models were also the object of an 'application decree' (décret d'application) this mainly concerned modalities of deposit and registration. As such, the latest substantive modification of the French design law dates from 1990. Cf. *infra* pt. IV.3.2.1.

denounced the detrimental effects on competition,³³ and especially the mile-stone decision by the House of Lords in the British Leyland case,³⁴ in which for the first time a so-called "spare parts exception" was introduced to the enforceability of design copyright on replacement parts.³⁵

Bearing in mind the major importance of judicial decisions in the system of common law where the principle of stare decisis -i.e. abiding by precedent³⁶- applies, and having regard to the chronology of the development of the current design law, the spare parts cases will be dealt with first. The current legal system as influenced by those cases will be set out later on. This is contrary to the method used below for the six original Member States, where the legislation is dealt with first.

³³ On this report, see infra Chapter X, at pt. X.4.2.1.

³⁴ See infra, at pt. IV.3.1.1.C.

³⁵ According to Cornish, "... the House of Lords cleared a path through an oppressive jungle of legislation and interpretation, which indicated the extent to which proper legislative pruning should be carried. Without the decision to fortify the government, who can tell what rights design owners might have managed to retain when the long-delayed reform of industrial design law came in the recent act?", CORNISH, W., Intellectual property: Patents, Copyright, Trade marks and Allied rights, 2nd ed., Sweet & Maxwell, London, 1989, at p. 370.

³⁶ See HARDY IVAMY, E., "Mozley & Whiteley's law dictionary", 10th ed., Butterworths, London, 1988, where the following definition is given of the concept 'precedent' in English law: "A decision in a court of justice cited in support of any proposition for which it is desired to contend. A prior decision of the House of Lords is binding on all inferior courts, though no longer necessarily upon the House of Lords itself, and nothing except an Act of Parliament can alter it".

IV.3.1.1. Spare parts cases**A. INTRODUCTION**

The spare parts cases invoked hereunder are all based on facts of before, and have all been decided prior to, the coming into force of the 1988 Copyright, Designs and Patents Act. Hence, the intellectual property rights invoked have to be considered in the light of the stage of legislative development at that time. It is not necessary to give a detailed overview of the laws in force then for the sake of understanding the issues at stake in the spare parts cases. It suffices to point out on what basis intellectual property protection could be obtained for utilitarian designs.

B. DESIGN PROTECTION PRIOR TO THE 1988 ACT

A design could qualify for specific design protection of a patent-type for up to 15 years under the 1949 Registered Designs Act if it concerned features of shape, configuration, pattern or ornament that 'appeal to and are judged solely by the eye' (Section 1 (3)). The criterion 'to be judged solely by the eye' prevented the granting of design protection to mere utilitarian designs, so that most spare parts did not qualify for registered design protection.

But this did not mean that functional designs, including most spare parts, were devoid of all intellectual property protection. A two-step reasoning, constructed on a rather liberal interpretation of the copyright law, was applied to give functional designs protection against reproduction under the copyright law. The first step in the reasoning concerned the interpretation of the concept 'artistic works'. Section 3 (1) of the 1956 Copyright Act as amended by the Designs Copyright Act of 1968 included inter alia 'drawings' in the definition of artistic works, and specified that the criterion of 'artistic quality' was irrelevant for establishing what constitutes an artistic work. As such, any original drawing

could qualify for copyright protection, regardless of its artistic merit. This led to the conclusion that mechanical drawings of purely utilitarian designs could also enjoy copyright protection. The second step in the reasoning concerned the scope of protection conferred by copyright. Copyright gives the right to prohibit the reproduction of the artistic work. Reproduction is defined as "converting the work into a three-dimensional form, or, if it is in three dimensions, by converting it into a two-dimensional form" (Section 48). It was generally held that indirect copying, namely making a copy of the three-dimensional form, also constituted a copyright infringement. The solution to the problem of the exclusion of mere utilitarian designs, including most spare parts, from registered design protection was thus found in making a drawing of the design and claiming copyright protection on the drawing. This entailed that not only could the drawing not be reproduced, but also the making of the article in a three-dimensional form was held to infringe the copyright.

The (amended) 1956 Act provided in copyright protection to artistic works for up to 50 years after the death of the author. However, section 10 as amended in 1968 cut back the enforceability of copyright protection to 15 years for those artistic works that embodied a registrable -thus necessarily an aesthetic- design. However, functional designs were by definition not registrable under the 1949 Registered Designs Act. This led the courts, notably in the Dorling v. Honner Marine case,³⁷ to accept that section 10 of the Copyright Act did not apply to functional designs so that they could benefit from the full duration of copyright protection.³⁸ The duration

³⁷ R.P.C. (1964) 160.

³⁸ See for instance MORRIS, A. and QUEST, B., Design: the modern law and practice, London, Butterworths, 1987, at p. 6. They point out that the importance of this judgment was accentuated by the Amp Inc. v. Utilux Pty Ltd. decision

of protectability of industrial designs after the 1968 Copyright Act and before the 1988 Act can be synthesized in the following schedule, which is based on the summary of the situation given by Sterling and Carpenter:³⁹

<u>INDUSTRIAL DESIGN</u>	NOT COMMERCIALIZED	COMMERCIALIZED
1. NOT REGISTERED		
- a. REGISTRABLE	Copyr.: 50 y pma	Copyr.: 15 y

- b. NOT REGISTRABLE	Copyr.: 50 y pma	Copyr.: 50 y pma
2. REGISTERED		
	Copyr.: 50 y pma	Copyr.: 15 y
	Reg.des.: 3 X 5 y	Reg.des.: 3 X 5 y

The acceptance of this interpretation of the copyright provisions by the courts led to the anomaly by which purely functional designs that were in principle excluded from all intellectual property protection, because they did not live up to the rather stringent requirements of patent or registered design protection and could not as such qualify for copyright protection because they are not artistic works in their own right, could now indirectly enjoy full copyright protection - for up to 50 years post mortem auctores (pma) without registration formalities- through the back-door of claiming copyright on the industrial drawings. Such was also the case

(R.P.C. (1972) 103) in which a registered design was invalidated on functionality grounds, "thereby suggesting that many articles which were previously thought to be registrable were in fact non-registrable and, therefore, entitled to 'full copyright' ".

³⁹ STERLING, J., and CARPENTER, M., Copyright in the United Kingdom and the rights of performers, authors and composers in Europe, London, Legal Books Pty Ltd., 1986, at p. 439, § 921.

for most spare parts of cars.

It is interesting to illustrate the absurdity of this situation, whereby intellectual property protection is diverted from its original purpose and manipulated so as to obtain market dominance, by the Interlego case.⁴⁰ Lego had in a first stage registered its brick designs, this is before it had discovered the inconsistency caused by the granting of copyright protection to functional designs. But when it became apparent that full copyright protection could be obtained on functional designs, Lego in a court case advanced the argument that its own (by then expired) design registration was void because the design was entirely functional and not novel at the time of registration. Instead, it claimed copyright on the basis of the originality of the revised drawings of the bricks.⁴¹ It is not surprising that the registered design was upheld and the copyright claim dismissed in this case.⁴² However, the car manufacturers did succeed to claim copyright protection on functional drawings and their three-dimensional copies, such as exhaust pipes, at least until the judgment of the House of Lords in the British Leyland case.

⁴⁰ Privy Council, Interlego AG v. Tyco Industries, R.P.C. (1988) 343.

⁴¹ For an analysis of this case, see LANE, S., "Design copyright - fresh, fetching and functional?", E.I.P.R. (1988) 370-376. At p. 374, she writes: "If, (..), Interlego could successfully maintain that each time it revised a drawing, however minimally, it amounted to an original artistic work, it could prolong its copyright almost indefinitely. (..). This prospect horrified their Lordships".

⁴² Id., at p. 370 she writes: "Their Lordships have set their faces against attempts to 'expand the boundaries of intellectual property rights beyond the purposes for which they were created in order to obtain an unintended and undeserving monopoly' ".

C. BRITISH LEYLAND V. ARMSTRONG

The facts in the British Leyland v. Armstrong case are quite straightforward and, at first sight, have nothing special to them.⁴³ British Leyland (BL), a car manufacturer, sought to enforce its copyright in the design of exhaust systems of cars. It did this through offering to give licences against royalties to third parties for its design in the exhaust. Armstrong, a manufacturer of car components, copied the exhaust system from BL by way of reverse engineering and refused to take a licence, upon which BL sued for infringement of its copyright.

The peculiarity of the British spare parts cases lies in the overall-approach taken by the courts to these at first sight simple facts. The main feature of this approach consists in that the right to exercise the copyright is put in the balance against the right of the car owner to repair his car in the most economical way.⁴⁴ This is very different from the approach to design rights on spare parts taken in the other Member States. The illustration of the spare parts cases in the six original EC member States given below will show that the main concern there is merely to enforce the design and/or copyright. No regard is thereby given either to the situation and needs of the car owner or to the specificity of the repair sector.

This British approach did not prevent both lower courts to uphold BL's claim. Although they recognized the car owners'

⁴³ House of Lords, British Leyland Motor Corporation a.o. v. Armstrong Patents Company Limited a.o., Fleet Street Reports (1986) 221-270. From now on, reference will be made to the 'BL-case'.

⁴⁴ For the application of the principle of the right to repair prior to the BL-case and concerning complex products other than cars, see MORRIS, A., and QUEST, B., o.c., at pp. 75-76.

fundamental right to repair their cars on the basis of the doctrine of 'implied licence', they ruled that this right could not be extended to third parties who manufacture and sell replacement parts.⁴⁵ The doctrine of implied licence finds its origin in patent-cases. The courts have had recourse to this doctrine to prevent a literal application of the patent holder's exclusive right to make, use, exercise and vend the patented invention, in the sense that its use by a person who lawfully acquired patented goods would be held to infringe the patent right.⁴⁶ In a way, one can see this doctrine of implied powers as the British counterpart to the German -and now also EC- concept of exhaustion of rights upon first marketing.⁴⁷

⁴⁵ BL-case, o.c., pp. 222-223. The opinion expressed by judge Foster J in the BL-case seems difficult to reconcile with his opinion in the Gardner & Sons Ltd. v. Paul Sykes Organization Ltd. case. In this case, which concerned copyright in drawings for pistons of a diesel engine, he held that the right to repair means "to restore to good condition by renewal or replacement of decayed or damaged parts", and went on to state: "It would be extraordinary if my car breaks down and required, for instance, a new radiator, I had to seek it only from the manufacturer of the car. In my judgment in the absence of any express conditions, the defendant company is entitled to use in effecting the reconditioning of the diesel engines, new pistons not made by the plaintiff company"; see Fleet Street Reports (1981) 281-285, at p. 284. Perhaps the differentiating factor is that in this case the defendant had to comply with export orders, whereas in the BL-case the defendant anticipated the need for repair.

⁴⁶ See the explanation given by Lord Bridge of Harwich in the BL-case, o.c., at p. 237.

⁴⁷ Gladwell maintains that it is only the UK spare parts-exception that comes close to the doctrine of exhaustion, see GLADWELL, D., "The exhaustion of intellectual property rights", E.I.P.R. (1986) 366-370, at p. 376. Referring to the speech of Lord Bridge of Harwich in the BL-case whereby it is stressed that the primary benefit of copyright has already been obtained through the selling of the car, he writes at p. 366: "The enjoyment of the 'primary benefit' of an intellectual property right, beyond which that right might not be exercised, approaches very closely to a common law doctrine of exhaustion". However, this is different from the Community concept of exhaustion, whereby it is the first marketing of the protected product that counts, regardless of obtaining the

The House of Lords did not share the view of the lower courts. It rejected the application of the doctrine of implied powers in the given case and interpreted the right to repair in the light of the broader principle that a grantor cannot derogate from his grant.⁴⁸

The main argument advanced by Armstrong was that he had not infringed BL's copyright since indirect copying by way of reverse engineering -namely a three-dimensional copy, not from the two-dimensional drawing, but from the three-dimensional form- was not contrary to copyright. In second order, Armstrong maintained that the doctrine of implied licence extends to the making of spare parts by third parties. Additionally, he argued that exercising copyright so as to prevent the purchaser from effectively exercising his right to repair amounts to derogating from the manufacturer's grant upon sale of the car.

British Leyland, on the other hand, argued that the conflict between the right to repair and copyright should be resolved through the application of the legislation on anti-competitive practices. According to BL, there is in casu no need to subordinate the right of the copyright owner to that of the car owner because there is an adequate supply of spare parts at reasonable price as well as the willingness to offer licences on reasonable terms. BL also pointed out that there is no monopoly on spare parts because third parties could design a new exhaust pipe. And finally, BL spells out the dangers of a judgment favourable to Armstrong's arguments for future registered designs and patents cases.

primary benefit of the IPR, see infra, Chapter VI, at pt. VI.4.3.1.

⁴⁸ In other words, one cannot take away with one hand what one has given with the other.

The House of Lords was unanimous in upholding Armstrong's claim and thus also in refuting BL's arguments. However, this does not mean that all Lordships were of the same opinion as far as the arguments go.

All Lords but Lord Griffiths seemed to be of the opinion that in principle, reverse engineering of the exhaust system constituted an infringement of BL's copyright. Although they generally expressed their disapproval of the previous judicial indulgence as concerns the copyrightability of utilitarian designs, they were not willing to overturn the established case-law.⁴⁹

In his dissenting opinion, Lord Griffiths agreed with Armstrong's main argument, namely that indirect copying of a protected drawing by way of reverse engineering does not constitute a copyright infringement in this specific case. In his interpretation, extending the word 'reproduction' to include indirect copying can only then be justified:

"if it is necessary to achieve the purpose of the (Copyright)

⁴⁹ Lord Scarman speaks of the "anomaly" that has arisen through the extension of copyright protection to industrial drawings of purely functional objects by judicial decision (BL-case, o.c., at p. 227). This anomaly is illustrated in a rather ironical way by Lord Templeman: "BL's object in these proceedings is not to prevent reproduction of the drawing which is protected by copyright but to prevent the reproduction of the exhaust pipe which is not entitled to any protection whatsoever. An article embodying an invention which is not patented does not enjoy the 20 years restriction on use of the invention afforded by patent law. An article embodying a design which is not registrable does not attract the 15 years restriction on reproduction afforded by design copyright. An article which is not an artistic work does not attract the life plus 50 years restriction on reproduction afforded by copyright law to artistic works. But if BL are right, an article which is not patented, not registered and is not an artistic work acquires the life plus 50 years restriction on reproduction afforded by copyright to an artistic work" (BL-case, o.c., at p. 245).

Act but is not justifiable to do so to achieve a result which is manifestly not the purpose of the Act".⁵⁰

He goes on to state that the purpose of the Copyright Act is to protect the commercial value of the artists work, which lies in its aesthetic appeal, and not to grant a monopoly to a manufacturer. He thus makes the distinction between, on the one hand, drawings with an aesthetic appeal which are infringed both by direct or indirect copying, and, on the other hand, mechanical drawings of a purely functional object which are only infringed by direct copying.⁵¹

However, the fact that the other Lords in the prevailing opinion considered -as a general rule- that the indirect copying of the exhaust pipes infringed BL's copyright, does not imply that BL could in casu also invoke his copyright to stop the infringement. The right of the copyright owner was put into balance against the right to repair of the car owner, to see -as Armstrong had argued in second order- whether an exception to the enforceability of copyright was justified in the given case.

To limit the right to repair, as the lower courts had done, merely to the right to repair the car oneself or to order replacement parts from a third party on a case-to-case basis, would have invalidated Armstrong's arguments. But their Lordships took a broader, not to say a more realistic, point of view and stated that the right to repair would be emptied of its meaning if this did not include the possibility to acquire previously manufactured exhaust systems.⁵² As a logical consequence, suppliers of spare parts such as Armstrong are

⁵⁰ BL-case, o.c., Lord Griffiths, at p. 262.

⁵¹ BL-case, o.c., Lord Griffiths. See his analysis of where the established case-law went wrong, at pp. 264-268.

⁵² BL-case, o.c., Lord Bridge of Harwich, at p. 239.

entitled to anticipate the need for repair.⁵³

Lord Bridge of Harwich categorically rejected the solution adopted by the lower courts which consisted in applying the doctrine of implied licence -as developed in patent-cases- to resolve this problem. In his opinion, the right to effect repairs in the most economical way possible is an inherent right in the ownership of a car and -unless it concerns a conflict with patent law which confers an express monopoly- should be taken as the premise of all further reflection. This implies that one has to look at the rights of the car owner and see to what extent other legal claims can curtail those rights. The implied licence doctrine does exactly the opposite. It takes the patent right as a given and sees to what extent other legal claims can impinge upon them.⁵⁴

In BL's view, this conflict of legal interests should be solved through looking at the extent to which the exercise of the copyright restrains competition. As such, there would be no need to subordinate the copyright to the interests of the car owner in the case that adequate supplies of spare parts are maintained at a reasonable price. BL furthermore maintains that one cannot speak of a monopoly in the given case, because third parties can make new designs and because licences are granted to third parties on reasonable terms.

Lord Templeman pointed out that the possibility of making new designs was merely theoretical because it was established that in practice the copyright would always be infringed.⁵⁵ He observed that granting the injunction to BL would leave the

⁵³ BL-case, O.C., Lord Templeman, at p. 257.

⁵⁴ BL-case, O.C., Lord Bridge of Harwich, at pp. 237-239.

⁵⁵ BL-case, O.C., Lord Templeman, at p. 245, where he observes: "In practical terms, Armstrong must either copy or go out of business".

car owner only with the choice between obtaining spare parts either directly from BL or indirectly from a third party with the charge of paying royalties. He denounced this tie-in of the car owner in the following pejorative terms: "The purchaser of a BL car sells his soul to the company store".⁵⁶ As far as the 'reasonable licences'-argument is concerned, he pointed out the following:

"a monopoly remains a monopoly even if it be benevolently administered and an established monopoly will not necessarily be administered with benevolence".⁵⁷

Proof of the latter was given by way of reference to the UK Monopolies and Mergers Commission's finding of an anti-competitive practice through enforcing intellectual property rights in the sector of replacement body parts by Ford.⁵⁸

In other words, the tie-in of car owners through obtaining a monopoly in the spare parts market finds no grace in the eyes of Lord Templeman and cannot be justified by arguments which tend to demonstrate the benevolence of the monopolist. This opinion is totally shared by Lord Bridge of Harwich, who denounces the "half-way-house" solution proposed by BL. In his opinion, following BL's argument would pose the problem of finding adequate legal criteria along which to discriminate between acceptable and unacceptable claims to enforce copyright on replacement parts.⁵⁹ The real issue is rather to unconditionally trench the question whether the car owners have a right to a free market in spare parts or whether, to

⁵⁶ BL-case, o.c., Lord Templeman, at p. 243.

⁵⁷ BL-case, o.c., Lord Templeman, at p. 246.

⁵⁸ BL-case, o.c., Lord Templeman, at p. 255. For an account of the UK Monopolies and Mergers Commission's report on Ford replacement body panels, see infra Chapter X, at pt. X.4.2.1.

⁵⁹ BL-case, o.c., Lord Bridge of Harwich, at p. 240.

the contrary, the enforcement of copyright should prevail. In Lord Bridge of Harwich's view, the right of the car owner to repair his car in the most economical way should unconditionally prevail. He points out that this solution does not leave the copyright holder empty-handed as he already obtained his reward when selling the car:

"By selling cars fitted with exhausts based on their copyright drawings BL have already enjoyed the primary benefit which their copyright protects".⁶⁰

Their Lordships, in the prevailing opinion, came to the conclusion that the principle that a grantor cannot derogate from his grant, or in other words "a grantor having given a thing with one hand is not to take away the means to enjoy it with the other"⁶¹, applies to the given facts. Lord Templeman explained the application of this principle to the enforcement of copyright on spare parts of cars in the following way:

"BL own the car and the copyright in a drawing of an exhaust pipe fitted to the car. BL sell the car and retain the copyright. The exercise by BL of their copyright in the drawing will render the car unfit for the purpose for which the car is held. BL cannot exercise their copyright so as to prevent the car being repaired by replacement of the exhaust pipe".⁶²

By way of conclusion, he writes:

"The exploitation of copyright law for purposes which were not intended has gone far enough. I see no reason to confer on a manufacturer the right in effect to dictate the terms on which

⁶⁰ BL-case, O.C., Lord Bridge of Harwich, at p. 241.

⁶¹ BL-case, O.C., at p. 255, as quoted from per Bowen L.J. in Birmingham, Dudley and District Banking CO v. Ross (1888) 38 Ch.D. 295 at 313.

⁶² BL-case, O.C., Lord Templeman, at p. 256. See also Lord Bridge of Harwich, at p. 241, where he writes: "There is an inconsistency between marketing cars and thereby creating whatever rights attach to their ownership on the one hand and acting to restrain the free exercise of those rights on the other".

an article sold by him is to be kept in repair and working order".⁶³

Their Lordships' decision in the British Leyland case, whereby the right to repair unconditionally prevails over the right of the copyright holder, has for the first time defined what has become known as "the spare parts-exception".⁶⁴

It should be pointed out that curtailing the exercise of intellectual property rights on the basis of the principle that a grantor cannot derogate from his grant can obviously only apply to a well-specified kind of situation, namely the sector of replacement parts. It is considered to be inherent in the right to repair to prevent the tie-in of the purchaser of an industrial product by way of enforcing intellectual property, and hence the creation of monopoly rights, on spare parts of cars. It goes without saying that a similar approach could not be defended as far as accessories or the complex product itself is concerned.

D. EURODEFENCES

The British courts have also allowed the so-called "eurodefences" concerning intellectual property protection on spare parts of cars. This means that the defendants have been able to invoke arguments of Community law, and especially the rules on free movement of goods and competition, to support their claim of non-enforceability of design rights and design copyright on spare parts of cars.

The first two cases mentioned below concern copyright in drawings of spare parts of cars and were dealt with prior to the British Leyland v. Armstrong decision, thus before the

⁶³ BL-case, o.c., Lord Templeman, at p. 258.

⁶⁴ This expression was used by Lord Edmund-Davies, BL-case, o.c., at p. 228.

'spare parts exception' was introduced by the House of Lords. This implies that, at that time, enforcing copyright on spare parts was still held to be in conformity with the rights conferred by English law, so that the eurodefences were of a major importance.⁶⁵ Although the introduction of the spare parts exception later on made the eurodefences in similar cases redundant,⁶⁶ it is interesting to illustrate briefly how the English courts in the past reacted to those eurodefences.

In the British Leyland versus Silencers case, the Court of Appeal made clear that the argument that EC law is not applicable where the case concerns a copyright infringement in England, brought before an English court, based on copyright granted by English law and concerning two British companies, is totally misconceived.⁶⁷

British Leyland (BL) sought an injunction against Silencers on the grounds that the latter infringed its copyright in the drawings of spare parts of cars. Silencers made the contested spare parts to export to other Member States. BL was willing to grant licences to independent manufacturers on the following terms: either pay a low royalty on all the independent manufacturers' products, or pay a higher royalty only on the products on which BL claims copyright.

⁶⁵ On the English law aspects of those cases, and notably the application of the doctrine of implied powers, see STERLING AND CARPENTER, o.c., at p. 193, § 432.

⁶⁶ It is logical that if under English law, copyright cannot be enforced on spare parts through the application of the spare parts exception, the defendant no longer needs to invoke Community law to seek to prevent the granting of an injunction.

⁶⁷ English Court of Appeal, British Leyland Motor Corporation Ltd. v. Silencers Ltd., 24 November 1980, C.M.L.R. (1981) 75-90. See at pt. 7, where L.J. Templeman writes: "I am unable to accept such a simple, attractive but insular approach to the present problem".

According to the Court of Appeal, the injunction under English law should not be granted if the terms on which the licence was given constituted -or helped to create- a breach of Community law.⁶⁸ In particular, the court held that the defence based on the Community principles of free movement of goods and free competition should not be struck out. It was thought that Article 34 EC -though subject to Article 36 EC- might apply in the given case because the demanded royalties lead to a situation whereby exporters from the UK and importers in other Member states are put "in a financially disadvantageous position as compared with exporters and importers elsewhere".⁶⁹ It was also held that the competition rules might be infringed through BL's practice of granting licences whereby royalties are obtained on non-copyrightable spare parts.⁷⁰

The Court of Appeal also upheld the invokeability of the eurodefence in the Lansing Bagnall versus Buccaneer case.⁷¹ The plaintiff was a leading UK manufacturer of fork lift trucks who claimed copyright on 85 spare parts. The defendant dealt in spare parts, but had difficulties in obtaining the parts considering that the plaintiff restricted the sale to a number of selected agents. Contrary to the Court of First Instance, the Court of Appeal held that the eurodefence, based on infringement of Article 86 EC, should be allowed in the given case. The arguments invoked by the defendant led to the prima facie conclusion that Community law might apply to the given facts. The plaintiffs had argued that although they might be

⁶⁸ Id., at pt. 8.

⁶⁹ Id., at pt. 20.

⁷⁰ Id., at pts. 36 and 37.

⁷¹ English Court of Appeal, Lansing Bagnall Ltd. a.o. v. Buccaneer Lift Parts Ltd., 27 July 1982, C.M.L.R. (1984) 224-229.

in a dominant position, the requirement of abusing this dominant position was not fulfilled because they merely protected their copyright as Article 36 EC allows for.⁷² The defendant to the contrary maintained that the dominant position was abused -and Article 86 EC infringed- through restricting the sale of spare parts to a limited number of agents, charging excessive prices, and selling at full retail prices to traders in the same line of business.⁷³

Although, in principle, eurodefences could thus formally be invoked before English Courts, the outcome of the analysis made by the English courts as to the substance of the claim was very uncertain.⁷⁴ In this respect, it should be mentioned that a eurodefence was also raised in the British Leyland v. Armstrong case. However, it was refuted in substance by the Court of Appeal whereas the House of Lords did not at all consider this matter. The Court of Appeal -in a controversial decision- held:

"(1) That copyright under English law is industrial and commercial property within the meaning of art. 36 of the Treaty of Rome; (2) The rights constituting an industrial property right can only be ascertained by looking at the national law under which the right exists; (3) As the specific object of copyright is the preservation of the copyright owner's right to restrict copying without consent, the proviso to art. 36 is applied; (4) There was no connection between the licence agreement alleged to infringe art. 85 and any act committed by Armstrong. Thus a breach of art. 85 could not improve Armstrong's position under British copyright; (5) BL did not enjoy a dominant position within the meaning of art. 86, which is entirely an economic concept and as there was no question of interpretation of Community law arising out of the proceedings, questions of fact were to be determined by the national law and, therefore, there was no need for any

⁷² Id., L.J. Lawton, at pt. 6.

⁷³ Id., L.J. Lawton, at pt. 7.

⁷⁴ See MORRIS, A., and QUEST, B., o.c., at pp. 207-215. At p. 212, they mention the reasons for which the eurodefence was refuted in substance in the BL v. Silencers case.

reference to the European Court."⁷⁵

As seen above, the House of Lords did not engage in this debate but merely considered the matter from the angle of English law.

It is highly significant that Judge Templeman pointed out in the Lansing Ball-case that for the specific issue of whether or not enforcing copyright on spare parts of machines is in substance compatible with Community law, no guidance can be found in the previous case-law of the European Court of Justice. He stated:

"The difficulties of the courts in this country in relation to the so-called Euro defence in the present case are multiplied by the fact that the European Court has not given guidance on the application of the relevant provisions of the Treaty of Rome to the esoteric but profitable trade relating to spare parts of machines manufactured by large holders of copyright. Until that guidance is received, it will be necessary for Euro-defences to be allowed, provided that they are properly pleaded and properly particularised".⁷⁶

The preliminary question posed by the High Court of Justice of England and Wales in the Volvo versus Veng case has offered the opportunity to the European Court of Justice to give some guidance on this matter.⁷⁷ This case is different from the

⁷⁵ See MORRIS A., and QUEST, B., o.c., at pp. 212-213. At p. 213 they write: "It is suggested that the approach by all judges in the BL v. Armstrong to the European aspects are inconsistent with the Treaty and the concept of its incorporation into national law. There plainly can be cases when the exercise of intellectual property rights is inconsistent with the membership of the Community and Britain's obligations under the Treaty."

⁷⁶ Lansing Ball-case, o.c., L.J. Templeman, at pt. 15.

⁷⁷ For an introduction to this case, see supra Chapter II, at pt. II.4; for an analysis of this case from the point of view of Community law, see infra Chapter IX. See also the complementary preliminary question posed by the Italian court in the Maxicar v. Renault case, infra, at pt. IV.3.5.2.

other two in at least two respects. Firstly, it concerned registered designs on spare parts of cars instead of copyright on the drawings. Until the new 1988 Bill, it was not clear whether the spare parts exception only applied to copyright or whether it could be transposed to the field of registered designs.⁷⁸ As such, the eurodefences continued to play an important role with regard to registered designs on spare parts of cars even after the BL v. Armstrong case. And secondly, in this case a preliminary question was posed to the European Court of Justice concerning the sustainability of the eurodefences.

Apparently, the High Court of Justice considered that under English law, the exclusive right of the holder of a registered design on the front wing of car should prevail over the car owner's right to repair. This implies that the doctrine that a grantor cannot derogate from his grant was not withheld here possibly because -contrary to the copyright in the BL-case- it concerned a monopoly right of the patent-type.⁷⁹ However, the Court allowed the eurodefence on the basis of a possible abuse of a dominant position under Article 86 EC, as advanced by Veng. It posed the preliminary question to the European Court of Justice whether the refusal to grant a licence on reasonable terms to a third party, by the holder of an exclusive right on body panels which are not replaceable by body panels of any other design, could constitute such an

⁷⁸ According to some authors, there is no doubt that the spare parts exception does not limit the full application of statutory patent and registered design monopolies. See for instance MORRIS, A., and QUEST, B., o.c., at p. 79. However, others do not discard the possibility that the principle that a grantor should not derogate from his grant could equally be applied to curtail the enforcement of registered design rights on spare parts, see CORNISH, W., o.c., at p. 373.

⁷⁹ The order for reference in the Volvo v. Veng case was received at the European Court Registry on 3 August 1987, this is after the decision by the House of Lords in the BL v. Armstrong case.

abuse. Contrary to the English courts, the European Court of Justice did not take the specificity of the repair market into account, but merely stated that the refusal to give a licence "cannot in itself be regarded as an abuse of a dominant position within the meaning of Article 86".⁸⁰

IV.3.1.2. Legislation

A. INTRODUCTION

Since the 1988 Copyright, Designs and Patents Act, car owners and independent manufacturers of spare parts in principle no longer need to rely on the spare parts exception as developed by case-law or on the eurodefences to safeguard the right to repair. In the new design law, a 'must-fit' and 'must-match' exception has been inserted which excludes the possibility to obtain a monopoly position through the enforcement of design rights in the spare parts market. Although these exceptions apply to all spare parts of machinery, it is clear that the main concern of the legislator was to remedy the problems posed in the past with regard to spare parts of cars. This is illustrated by the following statement made by Lord Morton of Shuna during the debates on the proposed Act in the House of Lords:

".. the Government seems to be interested only in solving the problems of motor manufacturers and manufacturers of spare parts for the motor trade".⁸¹

In general, the UK legislator has been concerned with the increasing use of intellectual property rights for purposes

⁸⁰ Case 238/87, *Volvo v. Veng*, Judgment of 5 October 1988, E.C.R. (1988) 6211. For a detailed analysis of this case, see infra, Chapter IX.

⁸¹ HL Deb. Vol. 491 col. 187, as quoted by GROVES, P., Copyright and Designs law: A question of balance, Graham & Trotman, 1991, at p. 229.

for which they are not intended. To counter the use of copyright to protect essentially unprotectable designs -such as utilitarian designs⁸²-, the enforceability of copyright law has been severely curtailed, a system of unregistered designs with a short duration has been introduced, and the 1949 Registered Designs Act has been modified. This means that currently in the United Kingdom, there are three overlapping systems applying to industrial designs. In principle there is no restriction on cumulation of protection, although in practice only one right may be enforceable. This three-tier system has led to the following observation made by Armitage:

"Industrial design may be the Cinderella of industrial property rights but the provisions relating to designs are probably the most mind-stretching and conceptually difficult area of the Copyright, Patent and Designs Bill".⁸³

B. HISTORY OF THE 1988 ACT

The making of the 1988 Copyright, Designs and Patents Act has been preceded by different reports and discussion papers. Although the general tenor was that the law as concerns industrial designs had to be fundamentally revised, the solutions proposed were very -if not radically- different. The two key-issues that needed to be resolved were, firstly, to remedy the anomaly that functional designs excluded from registered design protection could benefit from the full copyright protection,⁸⁴ and secondly, to find an adequate solution to the spare-parts issue.

The Whitford-report of 1977 briefly recalled the origin of the

⁸² See supra, at pt. IV.3.1.1.B.

⁸³ ARMITAGE, A., "The Copyright, Patent and Designs Bill", E.I.P.R. (1988) 91-94, at p. 91.

⁸⁴ See supra, at pt. IV.3.1.1.B.

spare parts problem.⁸⁵ For over 60 years, independents had manufactured spare parts in the United Kingdom, a fact which was initially welcomed by the car manufacturers. However, rather recently the car industry became interested in the profitable spare parts sector and undertook court actions invoking intellectual property protection against the independent manufacturers.⁸⁶ The report considered the result of the development in the case-law concerning design copyright for functional designs in general to be 'bizarre'. It remarked:

"The designs affected .. include the mere functional designs which, it is thought by many people, should enjoy less, not more, protection".⁸⁷

To remedy this situation, the report proposed to abolish the existing system of registered design protection and to divide industrial designs into two categories which would all enjoy automatic copyright protection.⁸⁸ Category A would embody those designs whose appearance influences the purchaser. For these designs, which before fell under the 1949 Registered Designs Act, there would be an automatic copyright protection for appearance. Category B would include all other designs, thus also functional designs such as most designs for spare parts. Although the latter would equally enjoy automatic copyright protection, it was held that some protection should be given against abuses, especially as concerns replacement parts.⁸⁹

⁸⁵ "Copyright and Designs Law: Report of the Committee to consider the law on Copyright and Designs" (Chairman: Mr. Whitford), March 1977, Cmnd. 6732, at p. 48.

⁸⁶ See *supra*, Chapter II, where an explanation is given for this phenomenon which has taken place all over the EEC.

⁸⁷ 1977 Whitford report, at p. 29.

⁸⁸ *Id.*, at p. 44 ff.

⁸⁹ *Id.*, at p. 183 it is maintained that "there is a fear that copyright may be used to stultify the restraint on prices which arises in a competitive market or may frustrate the

The prevailing opinion was that the potential abuse should be countered by the grant of compulsory licences. However, two members of the committee disagreed with this approach. They considered that those articles for which the functional efficiency is the main concern and the external shape incidental,⁹⁰ or where the article necessarily has to fit, should be excluded from all design protection.⁹¹ Rather than curtailing the abuse of the monopoly, they were of the opinion that the legislator had to avoid the creation of a monopoly in the first place.

In the 1981 Green Paper on the reform of the law relating to Copyright, Designs and Performer's Protection, the Government agreed with the minority view expressed in the Whitford report.⁹² It was held that purely functional designs should not be protected against copying. Only patent protection should be available if the functional design lives up to the requirements of the patent law.

The reason given for this approach was twofold. Firstly, it was pointed out that purely functional designs are excluded

supply of much needed spare parts. Thus, a copyright law which gives, in effect, protection for functional replacements parts may effectively create a monopoly in a tied market, since owners of the original apparatus will demand identically shaped spares." It goes on to state that, although no evidence of the former has been given in similar known circumstances, the danger that such a result could be obtained should not be discounted.

⁹⁰ Id., at p. 49 the example is given of a toothbrush. If design copyright protection was given on the first toothbrush ever made, the designer would have a monopoly because others could not copy the idea without also copying the toothbrush.

⁹¹ Remark that in fact they already formulated what has become known as the 'must-fit' and 'must-match' exceptions.

⁹² Consultative Document, July 1981, Cmnd. 8302, at p. 5.

from protection in most other countries. Therefore, protecting those designs in Britain would put the British spare parts manufacturers in a disadvantaged competitive position as compared to foreign competitors. Secondly, the Government expressed its viewpoint that:

"if an industrial society is to be active and competitive, there must be a substantial common pool of experience from which all can freely take".⁹³

It was held that otherwise there would be a risk of stagnation of the industrial development.

The first argument, which proved to be an essential issue in the debate, is questioned by Groves on its well-foundedness.⁹⁴ He points out that in other Member States, spare parts of cars could also enjoy design or design copyright protection. However, in order to enjoy protection in the other Member States, the spare parts have to live up to certain conditions with a higher threshold level -although the current tendency is towards more flexibility-⁹⁵ than was the case in the UK prior to the 1988 Act. For instance, designs which are dictated by their function are generally excluded from all protection, whereas in the UK they could still benefit from copyright protection on the drawing.

The Government proposed to give copyright protection to the general appearance of a product, unless it is dictated by the function of the article. The term of protection would be reduced to 25 years from first marketing in case the product

⁹³ 1981 Green Paper, at p. 6.

⁹⁴ GROVES, P., "Don't be vague: Towards an international system for design registration", European Business Law Review (1992) 230-233, at p. 233.

⁹⁵ See the overview of the situation in the six original Member States given below.

is industrially applied. However, the back-door solution of claiming copyright on the drawing would be excluded. Either the article would be copyrightable in its own right or it would not enjoy copyright protection.⁹⁶ On the other question raised by the Whitford report, namely the repeal of the registered design system, it was held that further reflection on this matter was needed.⁹⁷

The 1983 Green Paper on intellectual property rights and innovation was especially concerned with removing the double privilege granted to articles protected by design copyright, such as car exhausts.⁹⁸ It was pointed out that on the basis of automatic copyright protection, severe damages could be claimed "even when the products are purely functional and stem from ideas which are obvious".⁹⁹

Contrary to the conclusions of the Whitford report, the solution proposed consisted in replacing design copyright with registered designs protection and restricting copyright protection to "what it was originally intended for", namely literary and artistic works. The registered designs system would thus be extended to include designs with a functional novelty. As such, the double privilege would be removed through granting the same protection to all designs, whether aesthetically appealing or functional. No specific provision was made for spare parts, unless the proposal to facilitate the registration of spare parts through mere reference to the part number of the manufacturer's catalogue.¹⁰⁰

⁹⁶ 1981 Green Paper, at pp. 6-7.

⁹⁷ 1981 Green Paper, at pp. 7-8.

⁹⁸ December 1983, Cmnd. 9117, at p. 22.

⁹⁹ 1983 Green Paper, at pp. 22-23.

¹⁰⁰ 1983 Green Paper, at p. 23.

The 1986 White Paper on intellectual property rights and innovation was delayed in order to take the decision by the House of Lords in the British Leyland v. Armstrong case into account.¹⁰¹ In this paper, the premise was that all original designs deserve a period of protection. A new form of protection against copying of original designs was proposed which would apply to both functional and aesthetic designs. Protection would be granted for 10 years following the first marketing of the article without registration requirement, but subject to licences of right in the last 5 years. The Government held that this protection should in principle extend to spare parts. It rejected the spare parts exception as elaborated by the House of Lords in the BL-case, but stated that there should be "a more limited exception to enable the owner of equipment to repair it or contract for someone else to repair it".¹⁰² It was held that alongside this new form of protection the system of registered designs should be maintained, although restricted to genuinely aesthetic designs, and with an extended duration for up to 25 years.¹⁰³

This White Paper proposal lies at the basis of the 1988 Copyright, Designs and Patents Act. Rather than to follow the proposal of the Whitford report which would have meant to abolish the system of registered designs altogether, or the 1983 Green Paper proposal which would have implied only to maintain a registered designs system, the 1988 Act has opted to create a new system of unregistered design protection alongside the already existing, though modified, copyright and

¹⁰¹ April 1986, Cmnd. 9712. See GROVES, P., Q.C., (1991), at p. 230 where he writes that although the White paper waited on the BL-decision, the MMC-report on Ford replacement body panels was more decisive.

¹⁰² 1986 White Paper, at p. 20.

¹⁰³ 1986 White Paper, at p. 21.

registered designs protection.

As concerns the spare parts issue, the spare parts exception has indeed -as the 1986 White Paper suggested- not been taken over in the 1988 Act as a genuine principle excluding all spare parts from design protection. Rather, it has been limited to exclude from design protection only those spare parts conferring a monopoly, through the insertion of what has become known as the 'must-fit' and 'must-match' exceptions to design protection.¹⁰⁴

C. 1988 ACT : REGISTERED DESIGNS PROTECTION

As already mentioned, the 1988 Copyright, Designs and Patents Act has brought some modifications to the 1949 Registered Designs Act.¹⁰⁵ The principle that the protection will only be granted for aesthetic designs, thus excluding functional ones, is confirmed. The protection granted remains a patent-type of monopoly,¹⁰⁶ whereas the maximum duration is extended from 15 to 25 years (5 periods of 5 years).¹⁰⁷

The new Section 1 (1) defines 'designs' as meaning:

"features of shape, configuration, pattern or ornament applied to an article by any industrial process, being features which in the finished article appeal to and are judged by the eye".

¹⁰⁴ Groves speaks of the 'balancing trick' of the Government: "The balancing trick is performed by means of exceptions to design right. Spare parts are not totally excluded from protection. The exceptions only operate on designs where there is no possible alternative", o.c., (1991), at p. 236.

¹⁰⁵ For the full text of the Registered Designs Act 1949 as amended, see Schedule 4 to the 1988 Copyright, Designs and Patents Act. For the sake of clarity, the references used refer to this schedule, thus not to the text of the 1988 Act itself.

¹⁰⁶ Section 7 (1).

¹⁰⁷ Section 8.

The word 'solely' has been deleted from the earlier formulation "...and are judged solely by the eye".¹⁰⁸ Instead of the previous visual distinctiveness test, the new Section 1 (3) specifies that the test to be applied is whether or not the appearance of the article -in respect of which a design is registered- is taken into account to a material extent by the purchasers.¹⁰⁹ In other words, the underlying idea is that the purchasers or users in general have to be influenced by the design features of the kind of article concerned when making their choice. As Groves writes:

"the fact that someone somewhere thinks that a particular exhaust pipe is attractive will not suffice to get its design registered".¹¹⁰

Design registration is now exclusively subject to the novelty requirement, whereas before the design had to be new or original.¹¹¹ Reading Section 1 (4), it is clear that it concerns the same relative type of novelty as was applied before. It stipulates that:

"a design shall not be regarded as new (..) if it is the same as a design registered in respect of the same or any other article in pursuance of a prior application, or published in the United Kingdom in respect of the same or any other article before the date of application, or if it differs from such a design only in immaterial details or in features which are

¹⁰⁸ Emphasis added. The definition of design was previously in Section 1 (3).

¹⁰⁹ For a critique of this shift from the visual distinctiveness-test to the aesthetic-test, see BAILLIE, I., "A frustration of good design", E.I.P.R. (1991) 315-318, at p. 317.

¹¹⁰ See GROVES, P., o.c., (1991), at pp. 239-240. At p. 239 he also gives the following examples: the outward appearance of telephones and farm tractors will be registrable, whereas internal structural girders, nails and screws will not.

¹¹¹ See previous Section 1 (2).

variants commonly used in the trade".

Wallace uses the most appropriate terminology 'local novelty' -instead of relative novelty- as opposed to absolute novelty, because "only prior publication in the United Kingdom is a bar to registration".¹¹² However, the application of Section 1 (4) is subject to agreements or arrangements concluded by the UK with third states.¹¹³

The two previously existing exceptions to registered designs protection have been maintained. These are, firstly, a method or a principle of construction (Section 1 (1)(a)), and, secondly;

"features of shape or configuration of an article which are dictated solely by the function which the article has to perform" (Section 1 (1)(b)(i)).

The exclusion of features of designs which are dictated solely by their function is now generally referred to as the 'must-fit' exception as concerns registered designs. The House of Lords has clarified in the Amp v. Utilux decision that the test to be applied is not whether there is only one possible way of designing the features concerned, as was thought prior to this decision,¹¹⁴ but rather whether those features are

¹¹² WALLACE, W., "Protection for designs in the United Kingdom", I.I.C. 5 (1974) 421-427, at p. 422.

¹¹³ See Section 16.

¹¹⁴ See for instance the Straftford Auto Components v. Britax case of 1964 as reported by RUSSELL-CLARKE, A., Copyright in industrial designs, Sweet & Maxwell Ltd., London, 1968, at p. 23. In this decision it was held that a wind-screen for a motor-cycle could not enjoy registered designs protection, because the function of the article to which the design was applied left "no option but to adopt a feature or features appearing in the representations of the registered design".

largely dictated by the article's function.¹¹⁵

Some authors consider the introduction by the 1988 Act of a third -and new- exception to registered design protection, namely the so-called 'must-match' exception, to be the most substantial alteration made.¹¹⁶ Section 1 (1)(b)(ii) excludes from protection:

"(those) features of shape or configuration of an article which are dependent upon the appearance of another article of which the article is intended by the author of the design to form an integral part".

This exception has been inserted specifically to prevent a functional monopoly arising in the tied market of spare parts of cars.¹¹⁷ This concerns especially car body panels since, obviously, of all spare parts they are the best qualified to be held to have some aesthetic appeal. However, the must-match exception applies to all parts of a complex product -not only to spare parts of cars-, if the features of shape or configuration are dependent upon the appearance of the complex product.

Although the application of this exception to parts of a

¹¹⁵ R.P.C. (1972) 103, as reported by GROVES, P., O.C., (1991), at p. 231. He draws the following conclusion: "It is not a matter of whether there is an alternative configuration or not; it is a question of the designer's motive".

¹¹⁶ See STONE, P., Copyright law in the United Kingdom and the European Community, The Athlone Press Ltd., London, 1990, at p. 147.

¹¹⁷ See for instance, STONE, P., O.C., at p. 148. Lord Young made the following statement at the reading of the 1988 Bill: "The Registered Designs Act will be amended to avoid its being used as a backdoor method of protecting spare parts and so that protection will only be available for truly aesthetic stand alone designs where competitors do not need to be able to copy such designs in order to compete effectively for end products", Hansard, House of Lords, 12 nov. 1987, Col. 1479, as quoted by BAILLIE, I., O.C., at p. 316.

complex product seems to be clear, the question has arisen whether it only applies to parts of complex products or whether it also covers a single design applying to a series of different but related articles, such as cutlery or a matching dinner service.¹¹⁸ The cause of this uncertainty is to be found in the formulation of Section 1 (1)(b)(ii), where it is stipulated that one has to take the intention of the designer into account. Christie is of the opinion that the must-match exception extends beyond the scope of application of the spare parts exception as elaborated by the House of Lords, and includes for instance pieces of furniture that must match according to the designer.¹¹⁹ This is diametrically opposed to the interpretation given by Groves, who maintains that the exception only applies to articles which are part of a single object. He writes:

"the exception was formulated with car body panels very much in mind, and it is intended to cover the situation where a part is needed to restore the aesthetic appearance of an article".¹²⁰

In view of the intention of the legislator, namely avoiding the creation of monopolies in the tied market of replacement parts without going so far as the spare parts exception through excluding all spare parts, it seems that the point of view of Groves should be retained. This restrictive interpretation seems to have been confirmed by the first court case concerning the must-match exception.¹²¹ Ford and Fiat

¹¹⁸ See for instance DWORKIN & TAYLOR, Blackstone's guide to the Copyright, Designs and Patents Act 1988, Blackstone Press Ltd., London, 1989, at p. 149.

¹¹⁹ CHRISTIE, A., "The UK Design Copyright Exemption", E.I.P.R. (1989) 253-257, at p. 257. In his view, a piece of furniture which must match could only rely on copyright protection, provided it is an artistic work in its own right.

¹²⁰ GROVES, P., o.c., 1991, at p. 242.

¹²¹ Appeal of Ford Motor CO. Ltd. and Iveco Fiat Spa from the decision of the Superintending Examiner Acting for the Comptroller General of the Designs Registry, High Court (Mr.

appealed against the decision of the Superintending Examiner of the Design Registry, who had held that certain spare parts of cars were not registrable. The deputy judge distinguished between on the one hand those parts which form part of the overall shape and appearance of the vehicle, such as panels, doors and bootlid, and on the other hand those parts which only in a subsidiary way contribute to the essential shape and design of the car, such as wing mirrors, wheels, seats and steering wheel. It was held that the first category of parts come under the must-match exception to registrability, because they were designed to match another article of which they form an integral part and because there is no real market, other than for replacement purposes, separate from the market of the car. The second category of parts were held to be registrable in principle, because they are not dependent on the design of the car and are made and sold separately.

The fact that spare parts that must fit or match the complex product cannot be protected through registered design protection does not imply that third parties can circumvent the design right on the complex product through marketing a 'complete or substantially complete set of components intended to be assembled into an article'. The latter is the definition of a 'kit' given in Section 7 (4) of the modified Registered Designs Act. This section provides that the exclusive rights on the assembled product will also be held to be infringed in case the infringing acts concern a kit. This means that, for the purpose of enforcing design rights, a kit will automatically be assimilated with the assembled product, without the need to look at whether each individual component enjoys design protection. In other words, the must-fit and must-match exceptions will only apply in case the parts made

J. Jeffs Q.C.), not yet published, as reported by JACOBS, L., in the news section of E.I.P.R. (1993) D-140/141. The date of the ruling is not specified.

by third parties are used for repair purposes -i.e. in the after-sales market-, but will not be invocable if the purpose is to compete on the market of the complex product.

D. 1988 ACT : UNREGISTERED DESIGN PROTECTION

Part III of the 1988 Act has called a new form of specific design protection into being, which co-exists with the system of registered designs protection.¹²² This is the counterpart to the restrictions posed by the 1988 Act to the copyrightability of functional designs.¹²³ The main principle is that all original designs should enjoy automatic protection against reproduction, thus a copyright-type of protection, for a limited period of time. To calculate the duration, one has to apply a double test: 10 years in case the design has been commercialized or 15 years from the first recording in a design document or the making of the first article. Whichever expires first is applicable.¹²⁴ However, the protection is subject to licences of right during the last 5 years, so that the holder of the right can only effectively prohibit reproduction during at the most 5 years from first commercialization.¹²⁵ According to Stone, the underlying objective of the new unregistered design protection is essentially to give the designer a market lead over the copyist.¹²⁶

¹²² Since this is a new form of protection, the references made refer to the text of the 1988 Designs, Copyright and Patents Act.

¹²³ See *infra*, at pt. E. In order to enjoy copyright protection, the article made to the design will have to be an artistic work in its own right.

¹²⁴ See Section 216.

¹²⁵ See Section 237.

¹²⁶ STONE, P., *o.c.*, at p. 161.

The word 'design' has a different meaning here than under the Registered Designs Act. Section 213 (2) provides that:

"..'design' means the design of any aspect of the shape or configuration (whether internal or external) of the whole or part of an article".

This very broad definition embraces both functional and aesthetic designs. Even internal shapes which are not visible and hence cannot appeal to the eye can qualify for protection.¹²⁷

To qualify for protection, the design has to be original.¹²⁸ Section 213 (4) specifies that this will not be the case if the design is "commonplace in the design field in question at the time of its creation". It has been pointed out that this implies a higher threshold than for copyright protection, but a lower threshold than the inventive step required by patent law.¹²⁹

The new design protection is granted without registration formality against copying. The protection against unauthorized reproduction extends to both direct or indirect copying,¹³⁰ so that it is only the independent creation of a similar design that will not be prohibited. However, if besides unregistered design protection the design also qualifies for copyright protection -this is if it is also considered to be an artistic work under the amended copyright law- then Section 236 applies which provides that only the copyright law will be

¹²⁷ See also DWORKIN & TAYLOR, o.c., at p. 147.

¹²⁸ See Section 213 (1) which stipulates: "Design right is a property right which subsists in accordance with this Part in an original design" (emphasis added).

¹²⁹ See DWORKIN & TAYLOR, o.c., at p. 148.

¹³⁰ See Section 226.

enforceable.¹³¹

The exceptions to unregistered design protection are largely the same as those applying to registered designs protection.¹³² This means that a method or principle of construction will not be protected and that the must-fit and must-match exceptions have also here been inserted. But additionally, surface decoration, thus ornamentation, is also excluded from unregistered design protection.¹³³

The must-match exception is formulated in similar terms as in the modified Registered Designs Act.¹³⁴ This means that the same interpretation has been given, namely that parts of complex products that necessarily must match are excluded from unregistered design protection. The same interpretation problem has arisen with regard to the reference to the intention of the designer as concerns the applicability of the exception to different single articles made to a matching design, such as a dinner set. But since the objective of the legislator was the same here as for registered designs protection, namely preventing the creation of monopolies in the tied market of replacement parts, it seems that the interpretation given by Groves should -logically speaking- also prevail in this case.¹³⁵

The must-fit exception has been formulated more precisely for unregistered designs as compared to registered designs. This

¹³¹ See for instance STONE, P., o.c., at p. 163; GROVES, P., o.c. (1991), at p. 252; CHRISTIE, A., o.c., at p. 256.

¹³² See Section 213 (3).

¹³³ See BLANCO WHITE, T., "Intellectual property: A future for British concepts?", E.I.P.R. (1988) 229-233, at p. 232.

¹³⁴ See supra, at pt. C.

¹³⁵ On this controversy, see supra, at pt. C.

is to be explained by the fact that functional designs are in principle protectable by unregistered design rights whereas they are totally excluded from registered design protection. Section 213 (3)(b)(ii) stipulates that:

"(the unregistered) design right does not subsist in features of shape or configuration of an article which enable the article to be connected to, or placed in, around or against another article so that either article may perform its function".

As such, it is only the features of the design which necessarily have to be reproduced in order for the part to fit the complex product that are excluded from design protection, and not necessarily the totality of the spare part itself.¹³⁶

However, it should be noted that the must-fit and must-match exceptions apply concurrently, so that a spare part may be unprotectable through the simultaneous application of both exceptions. For instance, if one takes the example of a car door, the hinges will be excluded from protection on the basis of the must-fit exception, whereas the design of the door will most likely be excluded on the basis of the must-match exception.

The legislator has also here inserted the safeguard clause whereby actions in relation to kits are assimilated to actions in relation to the assembled product, so that the must-fit and must-match exceptions will not be invocable to compete on the market of the complex product, i.e. the car.¹³⁷ Also here, it is obvious that the legislator was mainly concerned with preventing the creation of monopolies and the tie-in of consumers in the repair market, without affecting the legitimate rights of the car manufacturers as concerns

¹³⁶ See GROVES, P., O.C., (1991), at pp. 241-242; STONE, P., O.C., at p. 161; DWORKIN & TAYLOR, O.C., at p. 149.

¹³⁷ See Section 260.

enforcing their design rights on the car itself.

E. 1988 ACT : COPYRIGHT PROTECTION

Spare parts of cars can in theory still enjoy copyright protection, although in practice it will be more difficult to live up to the requirements of the new copyright law. The 1988 Act has modified the copyright law so as to remove the anomalous situation whereby purely functional designs could enjoy the life plus 50 years protection through claiming copyright on the mechanical drawings.¹³⁸

Section 51 (1) of the 1988 Act lays down the so-called 'design copyright exemption'.¹³⁹ It stipulates that:

"it is not an infringement of any copyright in a design document or model recording or embodying a design for anything other than an artistic work or a typeface to make an article to the design or to copy an article made to the design".

In other words, one has to look at whether or not the article made to the design is an original artistic work in its own right.¹⁴⁰ It is only if this requirement is met that the functional design will enjoy the 50 years post mortem auctores copyright protection against direct and indirect copying.¹⁴¹ However, this period will be reduced to 25 years from the end of the calendar year of first marketing if the artistic work

¹³⁸ See supra, at pt. IV.3.1.1.B.

¹³⁹ The references given concerning the copyright law refer to the text of the 1988 Copyright, Designs and Patents Act.

¹⁴⁰ See for instance STONE, P., o.c., at pp. 159-160; CHRISTIE, A., o.c., at pp. 253-255. Christie maintains that Dworkin & Taylor (o.c., at p. 146) wrongfully interpreted this Section in the sense that according to them, it is the infringing article that has to be an artistic work in its own right in order to attract copyright protection.

¹⁴¹ See Sections 12, 16 and 17.

has been industrially exploited and marketed anywhere in the world with the copyright holder's consent.¹⁴²

Section 4 limitatively lists what will be regarded as an artistic work for the purpose of the Copyright Act. Two categories can almost immediately be excluded as regards articles made to industrial designs, and especially spare parts of cars. These are, firstly, (two-dimensional) graphic works, sculptures or collages -irrespective of artistic quality- and, secondly, works of architecture. The only remaining category is works of artistic craftsmanship. However, it seems that to qualify as a work of artistic craftsmanship, the work will not merely have to be original and aesthetically pleasing, but it will also be evaluated upon its artistic merit.¹⁴³ As such, although industrial designs are not formally excluded, in practice only few will qualify for copyright protection because in general they will come under the design copyright exemption.

Contrary to the modified Registered Designs Act and the new unregistered design law, the new copyright law does not contain provisions similar to the must-fit and must-match exceptions. This would imply that all original artistic works enjoy copyright protection, regardless of whether or not it concerns spare parts. However, the legislator has not formally repealed the decision of the House of Lords in the British Leyland v. Armstrong case. As mentioned before, the House of Lords introduced the so-called 'spare parts exception' to the

¹⁴² Section 52.

¹⁴³ See also CHRISTIE, A., O.C., at p. 254, where he writes: "Although it is difficult to obtain from the judgments in that case a simple test of what is a work of artistic craftsmanship, it seems clear that this category of artistic work is limited to articles of substantial artistic merit or quality. A simple element of attractiveness (or 'eye-appeal') is not sufficient".

enforceability of copyright on industrial designs on the basis of the principle that a grantor should not derogate from his grant.¹⁴⁴ This meant in practical terms that the right to repair should unconditionally prevail over the right of the copyright holder. The silence of the legislator on this particular point in the 1988 Act leads to the conclusion that the spare parts exception as elaborated by the House of Lords apparently still applies to those few industrial designs that survive the design copyright exemption of Section 51.¹⁴⁵

It should be recalled that the scope of the spare parts exception is wider than the must-fit and must-match exceptions, since it applies to all spare parts and not merely to those features of the design of a spare part that must fit or must match the complex product.¹⁴⁶ As mentioned before, Section 236 stipulates that in case copyright and unregistered designs protection apply cumulatively, only copyright protection will be enforceable. In general this is an advantage for the designer because copyright offers a longer term of protection. However, for the designer of spare parts, this would be detrimental because, since the BL-case, copyright protection can no longer be enforced on spare parts whereas unregistered design protection can be enforced as long as it does not concern must-fit or must-match features of the design. This would logically imply that the designer of a spare part no longer has an incentive to claim copyright on his design.

¹⁴⁴ See supra, at pt. IV.3.1.1.C.

¹⁴⁵ See also CHRISTIE, A., o.c., at p. 257.

¹⁴⁶ As mentioned earlier, Christie maintains to the contrary that the must-fit and must-match exceptions are wider than the concept 'spare parts', because according to him the first also exclude the different related article made to a matching design, such as furniture, whereas the spare parts exception only applies to the components of a complex product, see CHRISTIE, A., o.c., at p. 257.

This leads to the conclusion that under the 1988 Act, although in theory the three systems of protection could apply cumulatively, spare parts of cars will in practice only enjoy unregistered design protection and/or registered design protection -if they live up to the requirements- for those features of the design that must not fit and must not match the car.

IV.3.2. FRANCE

IV.3.2.1. Legislation

A. INTRODUCTION

The different French laws on intellectual property legislation have to a great extent been replaced by Law N° 92-596 of 1 July 1992 (IPR-code).¹⁴⁷ The aim of this IPR-code was not to modify the legal protection already in force but rather to codify the different laws governing intellectual property protection in order to render them more transparent and accessible to the public. This implies that as far as the substance is concerned, the earlier laws to a great extent remain in force although formally some are totally or partly replaced by the IPR-code.¹⁴⁸

¹⁴⁷ Journal Officiel de la République Française du 3 Juillet 1992, pp. 8801-8843. For the dispositions of that law and the reference tables which are annexed thereto (but not for the full text of the new code on IPR), see Rec. Dalloz (1992) 343-352. From now on the term 'IPR-code' will be used when referring to this law.

¹⁴⁸ See Article 5 IPR-code which lists the provisions of previous laws that are abrogated by the coming into force of the IPR-code. However, the abrogated provisions relevant to the legal protection of industrial designs have been incorporated in the IPR-code itself. Compare Article 5 with the 'Table de Concordance' that is annexed to the IPR-code.

Traditionally, the laws most relevant to the protection of industrial designs were the law of 14 July 1909 on designs and models (1909 law) and the law of 11 March 1957 on literary and artistic property (1957 law).¹⁴⁹ Both have been fully incorporated and thus replaced by the IPR-code.¹⁵⁰ The 1909 law has almost unalteredly been incorporated into the IPR-code in Book V of the second part (Deuxième partie: Livre V), whereas the provisions of the 1957 law have to some extent been rearranged and incorporated under different headings. For the sake of clarity, the 1909 and 1957 laws will still be referred to whereas in brackets the reference to the new IPR-code will be mentioned where relevant.

B. DESIGN PROTECTION

The law of 14 July 1909 instituted a specific regime of protection of industrial designs in France, on the basis of a registration (deposit) requirement. The scope of protection is rather large and can last for up to 50 years.¹⁵¹

¹⁴⁹ Respectively 'Loi du 14 Juillet 1909 sur les dessins et modèles' and 'Loi N° 57-298 du 11 Mars 1957 sur la propriété littéraire et artistique'.

¹⁵⁰ It is logical that Article 14, 1909 law and Article 79, 1957 law concerning the transit period of those laws and Article 16, 1909 law and Article 80, 1957 law concerning the applicability to Algeria and the colonies have not been incorporated in the IPR-code. The same goes for Article 17, 1909 law and Article 78, 1957 law that stipulated that the coming into force of those law implied the abrogation or modification of contradictory provisions in other laws.

¹⁵¹ The 'Loi N° 90-1052 du 26 Novembre 1990 relative aux dessins et modèles' modifying the law of 14 July 1909 confirmed the duration of design protection to be 50 years from registration but changed the previous three-step protection (5+10+25 years) into a two-stage protection of twice 25 years (Art. L. 513-1 IPR-code). On law N° 90-1052, see AZEMA, J., "Propriété industrielle", *R.T.D.C.* (1991) 34-43, at p. 43 and GILBEY, R., DE HAAS, C., "Conséquences en matière de licences et litiges des nouvelles lois régissant la

Article 2 (Art. L. 511-3 IPR-code) is as it were the core of the law since it determines its scope of application. In paragraph 1 it is provided that the law is applicable to all new designs, all new plastic forms or all industrial objects that are differentiated from similar ones through either a distinct and recognisable configuration that gives the object a novel character or through one or more external effects that gives the object "une physionomie propre et nouvelles".

There are different conditions embodied in this single phrase. Firstly, the terminology 'recognisable configuration' and 'external effects' points to the condition that the new design or model for which protection is sought has to be visible with the eye. Secondly, there is the requirement of novelty which imperatively has to be fulfilled in order to benefit from design protection. The novelty requirement is of a dualist nature. It is 'relative' for it implies the appreciation as to whether the total design or model is distinct from previous ones, without it being necessary that each constitutive element is new. Even the new combination of already known elements can qualify for protection. The novelty requirement is also 'absolute' for the search for antecedents is unlimited territorially or in time,¹⁵² although -contrary to patents- the fact that the design or model has been publicized before the deposit does not take away the benefit of the protection (Art. L. 511-6 IPR-code).

propriété industrielle en France", Inq.-Conseil (1992) 134-147.

¹⁵² See CHAVANNE, A., BURST, J.-J., Droit de la propriété industrielle, 2° ed., 1980, Dalloz, Paris, p. 297, where it is submitted: "La nouveauté exigée est absolue dans le temps et dans l'espace. (...) La nouveauté exigée est aussi relative en ce sens que la création peut ne pas être entièrement nouvelle. (...). Un modèle composée d'éléments est protégeable s'il est nouveau et original".

It would thus seem -and is often interpreted by the courts in the sense- that 'distinctiveness' is the criteria to be withheld, so that it suffices to prove that the design or model did not already exist or is different from previous models in order to benefit from design protection. However, P. Greffe and F. Greffe reject this interpretation on the basis that it goes against the spirit of design protection and entails that the scope of protection is extended almost without limits.¹⁵³ They argue that the recurrent use of the words 'creator' and 'creation' throughout the 1909 law points to the fact that distinctiveness through mere lack of anteriorities is not constitutive of novelty, considering that the creative aspect has to be evaluated as well.¹⁵⁴ This would imply that besides or instead of using the objective criterion

¹⁵³ GREFFE, P., GREFFE, F., Traité des Dessins et des Modèles, 4° ed., 1988, LITEC, Paris, at pp. 213-214. Under the heading "L'appréciation (de nouveauté) en fonction uniquement de l'Article 2 de la loi du 14 Juillet 1909", they maintain: "C'est en quelque sorte une preuve à caractère négatif. Et la protection de s'étendre, en conséquence, presque sans limites. (...). Dans les nombreux exemples de jurisprudence que nous avons recueillis, on pourra rencontrer bon nombre de décisions admettant la nouveauté, et basées uniquement sur cette forme de raisonnement que nous rejetons, pour notre part, parce qu'elle nous semble incompatibles avec l'esprit de la protection telle qu'elle doit être sagement comprise".

¹⁵⁴ GREFFE, P., GREFFE, F., o.c., at pp. 182-183: "Il ne faut pas oublier que cet Article 2, para 1 n'est pas toute la loi de 1909, sur le point qui nous préoccupe. Cette loi, quoique conçue à son origine pour la protection d'ouvrages en majorité utilitaires, (...), n'en renferme pas moins la condition formelle de création. L'article premier (Art. L. 511-1 IPR-code) prévoit effectivement la protection au bénéfice 'de tout créateur d'un dessin ou d'un modèle', et l'article 3 (Art. L. 511-2 IPR-code) porte que 'la propriété d'un dessin ou d'un modèle appartient à celui qui l'a créée', tandis que l'article 13 (Art. L. 511-4 IPR-code) fait mention des 'dessin et modèles dont les auteurs sont français. (...). Ainsi une interprétation exacte du texte de la loi de 1909, nous conduit à une première conclusion, suivant laquelle le manque d'antériorité ne peut équivaloir, et dans tous les cas, à la preuve de la nouveauté, car il faut bien qu'il y ait un auteur" (references to IPR-code added).

of novelty -in the sense of being distinct from anteriorities-, the subjective criterion of originality -in the sense that there has to be a personal input of the creator- would have to be fulfilled. Also Perot-Morel deplors that the legal definition of designs and models does not include a reference to 'ornamental or aesthetic character'. She maintains that the laconism of the text permits the inclusion of mere functional designs in the scope of design law, whereas this was not the intention of the legislator.¹⁵⁵

Article 2, para 2 (Art. L. 511-3 IPR-code) excludes from the scope of protection all designs or models which -as far as the novel aspects are concerned- can qualify for patent protection. However, this does not prevent both patent and design/copyright law to apply cumulatively in case the functional aspects can be distinguished from the aesthetic ones. Exclusively the law on patents will be applicable when the design or model is solely dictated by its function, in the meaning that the form cannot be separated from the function of the object. The French 'Cour de Cassation' (Supreme Court) has extended this principle to industrial designs protected by copyright law.¹⁵⁶ It thus held that the drawings of a newly designed Citroën motor could be lawfully copied since the drawings concerned exclusively had a technical function falling within the subject-matter of patent protection. Since the drawing had not been patented, the copy did not constitute an infringement. It is obvious that this interpretation is diametrically opposed to the evolution that took place in the United Kingdom prior to the 1988 Act.¹⁵⁷

¹⁵⁵ PEROT-MOREL, M.-A., "Le système français de la double protection des dessins et modèles industriels", Rivista di Diritto Industriale (1988-I) 250-261, at p. 252.

¹⁵⁶ Cour de Cassation, Judgment of 19 November 1964, Annales (1965) 51.

¹⁵⁷ See supra, at pt. IV.3.1.1.B.

Article 1 (Art. L. 511-1 IPR-code) determines the rights that ensue from the application of the 1909 law. The creator of the design has the exclusive right to exploit, to sell or to have his design sold, without prejudice to the rights ensuing from other laws and especially the law on literary and artistic property.¹⁵⁸ Double design/copyright protection is thus explicitly allowed by the 1909 law on designs.

C. COPYRIGHT PROTECTION

Also the 1957 law on copyright contains a broad definition of its scope of application, leaving no doubt as to its applicability to designs and models. Article 2 (Art. L. 112-1 IPR-code) states that the law on copyright applies to:

"toutes les oeuvres de l'esprit, quels qu'en soient le genre, la forme d'expression, le mérite ou la destination".

It should be emphasized that this definition does not contain the criterion of artistic merit. The 1957 law has at the same time confirmed the principle of the theory of the "l'unité de l'art" and gone beyond it. Previous to the 1957 law, it was held that copyright protection could apply to both works of 'pure' art and of applied art, on the condition that the latter had some kind of artistic value.¹⁵⁹ This restriction to the applicability of double protection has been abandoned through the introduction of Article 2 of the 1957 law. From then on it is generally accepted that in order to benefit from

¹⁵⁸ Art. 1, 1909 law referred to the law of 1793 as modified by the law of 11 March 1902. From a purely theoretical point of view this created a legal vacuum with the coming into force of the 1957 law on literary and artistic property. This problem has been solved with the IPR-code since the latter introduces a cross-reference to the books I and III that have incorporated the provisions on copyright.

¹⁵⁹ See POUILLET, Traité théorique et pratique des dessins et modèles, 1911

copyright protection a work should merely be original, regardless of its artistic merit.¹⁶⁰ However, the practice has become that a design that qualifies for design protection -on the basis of the criterion of novelty- automatically also qualifies for copyright protection which is usually granted on the criterion of originality. The fact that those two laws are applied cumulatively and that apparently the criteria 'novelty' and 'originality' are interchangeable in practice, supports the above-mentioned thesis, defended by Greffe and Greffe, that in order to obtain specific design protection mere novelty should not suffice in the absence of creativity. Otherwise copyright protection is also automatically granted to designs without creative merit.

The cumulation of design and copyright protection has thus become the rule, regardless of the artistic merit of the design. But if the conditions are not fulfilled to benefit from the 1909 law, the 1957 law can still apply.¹⁶¹ This is much to the advantage of designers, since copyright is granted for up to fifty years after the author's death, no deposit or registration is required, the procedure for seizing counterfeit goods is easier and the sanctions upon infringement are more important. This system also offers the advantage of being simple and transparent, since a preliminary search as to the applicability of either one or the other law

¹⁶⁰ On the discussion in the literature concerning the evolution in the concept of the "theorie de l'unité de l'art" and the omission of the criterion 'artistic merit', see PEROT-MOREL, M.-A., Les principes de protection des dessin et modèles dans les pays du Marché Commun, 1968, Ed. Moutons, Paris, pp. 43-45.

¹⁶¹ GREFFE, P., GREFFE, F., O.C., p. 35: "La règle à retenir c'est donc qu'une même oeuvre qui aura satisfait aux conditions de la loi de 1909 sur le dépôt sera en même temps protégée par la loi de 1957, étant bien compris que le caractère artistique ou non de l'oeuvre n'a pas à être pris en considération. D'autre part, si l'objet n'a pas été déposé, la loi de 1957 seule pourra toujours s'appliquer".

has become redundant. However, the great disadvantage is that in practice copyright law is applied to designs that often lack artistic or even aesthetic merit.¹⁶²

IV.3.2.2. Spare parts cases

A. INTRODUCTION

Several cases concerning legal protection of spare parts in the automobile sector have been brought before the French courts. In most of those cases, the courts have ruled that spare parts of cars, even in the absence of an aesthetic or artistic merit, benefited from the theory of the "l'unité de l'art" and as such were protected through both the industrial design law -if the design had been deposited- and the copyright law.¹⁶³ The double protection of spare parts of cars seems to be the rule whereas the reason for the rare exceptions needs to be found in either the lack of novelty (existence of anteriorities) or -if the form cannot be distinguished from the function of the design- the exclusive

¹⁶² See PEROT-MOREL, "Les projets communautaires en matière de dessins et modèles industriels", Rivista di Diritto Industriale (1981) 378-393. At p. 382 she writes: "Un tel système (fondé sur le principe de l'unité de l'art) présente évidemment l'avantage de la simplicité en supprimant tout problème de frontière entre les deux régimes; il élimine par suite toute risque de l'arbitraire. Mais il présente en retour l'inconvénient de protéger sur le terrain du droit d'auteur des créations de forme souvent dépourvues de tout caractère artistique, voire même de toute recherche d'ordre esthétique".

¹⁶³ See PEROT-MOREL, o.c. (1981), p. 383 where she writes: "A titre indicatif, ont-été, par exemple, protégés sur le terrain d'un droit d'auteur, (...), ou même dans une espèce encore plus symptomatique des têtes de graisseurs pour automobiles!" (nt. 10: Cass. Civ. 27 Fev. 1957). Other examples are given by GREFFE, P., and GREFFE, F., o.c., such as: "un tableau de profils d'objets en caoutchouc pour le carrosserie" (p. 31), "le dessin d'un 3 CV Citroën" (p. 34), "modèle de porte-bagage pour scooter" (p. 49), "le modèle de parechoc Renault" (p. 226).

applicability of patent law.¹⁶⁴

Although this rule seems to be clear-cut, some -rather recent- cases need to be mentioned more extensively in order to illustrate the problems that are posed in intra-Community context. The first set of cases mentioned concerns the importation and/or sale of unauthorized copies of spare parts whereas the other cases concern the transit of such spare parts in France.

B. IMPORTATION AND SALE OF UNAUTHORIZED COPIES OF SPARE PARTS

There is one judgment in this first set of four cases that needs to be singled out, because it is the only one in which the two important issues were raised of, firstly, design/copyright protection on elements of complex products and, secondly, the compatibility with the Treaty rules on free movement of goods and competition. It concerns the Renault v. Maxicar case,¹⁶⁵ which -as was mentioned previously- would have been the last element of the triptych of spare parts cases had a preliminary question been posed to the Court of Justice.¹⁶⁶ In this case, Renault sought to obtain a legal injunction against Cass Center and its director Thevenoux for infringement of its design/copyright protection on R 4, R 5, R 12 and R 18 wings and bonnets in France, as well as against the Italian

¹⁶⁴ See GREFFE, P., GREFFE, F., o.c., at pp. 45 and 232 where they cite the example of a car ventilator (déflecteur pour auto) that was refused design protection because it lacked novelty and its form could not be separated from its function (Paris, 18 Mai 1957). See also *supra*, the example of the drawings of a Citroën motor that was refused copyright protection.

¹⁶⁵ Cour d'Appel de Dijon, Régie nationale des usines Renault v. R. Thevenoux, Société Cass Center, O. Formento and Société Maxicar, Judgment of 12 January 1990, R.I.P.I.A. (1990) 31-36.

¹⁶⁶ See *supra*, Chapter II, at pt. II.4.2.

manufacturer of the infringing spare parts Maxicar and its director Formento. The case was referred back from the 'Cour de Cassation' to the Court of Appeal of Dijon.

Formento invoked the argument that Renault's design rights covered only the whole of the car models as well as the shields -since that is what is mentioned in the design registration- to the exclusion of the individual elements of the complex product, such as the bonnet and the wing. He furthermore argued that the bonnet and the wing have a technical function and hence do not fulfil the originality requirement in order to qualify for copyright protection. The acceptance of this reasoning would have implied that through the lack of design registration on the spare parts concerned, Renault has no intellectual property rights (neither design rights nor copyright), so that third parties are free to copy those parts.

The Court refuted this reasoning on the basis that the protection granted to the complex product, namely the car model, equally applies to each of the constitutive elements, thus including the body panels. The underlying reasoning is that each element of the bodywork is a part of the expression of the creator of the car model so that it can be protected through copyright, regardless of its technical function.¹⁶⁷ It is striking that the Court does not add that in order to benefit from protection each spare part has to live up to the conditions of copyright protection -and notably has to be original itself- and that all analysis of the impact of this approach on the competitive market structure is missing. On the contrary, the Court seems to assume that it suffices to

¹⁶⁷ The Court said: "Attendu en effet que chaque élément de la carrosserie exprime une part de la pensée du créateur de l'ensemble et que la protection légale qui s'applique au tout, s'attache également à chacun de ses éléments constitutifs sans quoi cette protection serait illusoire", o.c., p. 34.

prove the originality of the car model, which of course makes it easier to enforce exclusive rights on body panels which are not necessarily original themselves.¹⁶⁸ This means that the French Court not only fails to reflect upon the tied market of replacement parts this creates -as the British House of Lords had done in the British Leyland v. Armstrong case¹⁶⁹, but it furthermore seems to open the door to the possibility to create monopolies in the after-sales market through enforcement of copyright on non-original body panels.

From the initiation of the case before the Tribunal de Roanne onwards, the defendants also invoked arguments of Community law to contest the exercise by Renault of its intellectual property rights on the spare parts concerned, namely incompatibility with Articles 36, 85 and 86 of the EC Treaty.¹⁷⁰ In appeal they claimed the nullity of the -them unfavourable- judgment on the basis that no preliminary question had been posed to the Court of Justice. The Court of Appeal of Dijon simply discarded this argument and -more importantly- although being a court of last resort failed to refer the matter to the Court of Justice itself.¹⁷¹ Although the national courts are not

¹⁶⁸ In the words of the Court: "Qu'il est inopérant d'assimiler un élément de carrosserie à une pièce détachée ayant seulement une fonction technique, car si une aile ou un capot répondent à un besoin technique, ils participent aussi de l'esthétique générale du modèle puisque pour une fonction déterminée, il existe autant de formes que l'imagination des créateurs est susceptible d'en concevoir; que c'est cette production de l'esprit qui est protégée quel qu'en soit 'le genre, la forme d'expression, le mérite ou la destination', selon les termes de l'article 2 de loi du 11 mars 1957", O.C., p. 34.

¹⁶⁹ See supra, at pt. IV.3.1.1.C.

¹⁷⁰ Trib. gr. inst. Roanne, 29 avril 1986, Régie Nationale des Usines Renault c. Thévenoux et autres, La Semaine Juridique (1987) II-20787, with note by G. BONNET.

¹⁷¹ The Court ruled: "Attendu toutefois que ce recours en interprétation prévu par l'article 177 du traité de Rome n'est pas une question préjudicielle au sens de l'article 386 du

obliged to refer a question to the Court of Justice if the interpretation to be given to Community law is clear or has already been clarified,¹⁷² in this particular case a rather new problem was posed.

The Court of Justice has on several occasions ruled on the interpretation of Articles 36 and 86 EC in relation to intellectual property rights. The Court of Appeal of Dijon invokes this case-law to motivate its refutation of the arguments based on those provisions. But never before has the preliminary question been posed whether the simultaneous action for seizure of counterfeit goods by different car manufacturers, all holders of design rights, can be constitutive of a concerted practice in the sense of Article 85 EC, to the extent that their aim is to eliminate competition from and to obtain a dominant position on the market.¹⁷³ The French Court avoids posing a preliminary question through interpreting this argument in the light of Article 86 instead of Article 85 EC. Referring to the Maxicar v. Renault judgment of the Court of Justice, the argument is rejected on the basis that none of the practices enumerated there as being constitutive of an abuse of a dominant position, namely the arbitrary refusal to supply spare parts to independent repairers, the fixing of prices for spare parts at an unfair

code de procédure pénale; que s'agissant d'un moyen de défense, le Tribunal avait seulement l'obligation d'y répondre, ce qu'il a fait en indiquant que la procédure engagée par la REGIE RENAULT ne lui semblait pas contraire au traité de Rome", O.C., p. 32.

¹⁷² On the obligation for national courts to pose a preliminary question to the European Court of Justice, see especially Case 283/81, Cilfit v. Ministerie van Volksgezondheid, Judgment of 6 October 1982, E.C.R. (1982) 3415.

¹⁷³ Three French car manufacturers, namely Renault, Peugeot and Citroën, had undertaken the same procedure for seizure of counterfeit goods at the Roanne customs office.

level or a decision no longer to produce spare parts for a particular model even though many cars of that model are still in circulation, have been fulfilled.¹⁷⁴ The failure to address the question in the light of a concerted practice in the sense of Article 85 EC also lead to the plain rejection of the argument based on block exemption n° 123/85,¹⁷⁵ namely that car dealers have to be able to take in spare parts from other sources than the car manufacturer. The French Court simply points out that this Regulation entered into force after the contested facts, and that anyhow it does not affect the exercise of design rights on spare parts.

In his analysis of the French judgment, Bonnet rightly states that the block exemption only applies to the practices enumerated in Article 85 (1) EC. However, he maintains that the concerted practice between the car manufacturers concerned could only be prohibited by Article 85 (1) EC if the importation of the spare parts concerned was legitimate according to French law, in other words in the absence of national intellectual property protection.¹⁷⁶ This reasoning is

¹⁷⁴ On the Maxicar v. Renault judgment, see infra, Chapters VIII and IX. For the analysis of the non-exhaustive enumeration -and not, as the French Court suggest, a clear definition- of practices constituting an abuse of dominant position, see infra, Chapter IX, at pt. IX.4.3.

¹⁷⁵ For an analysis of the problem in the light of the block exemption, see infra Chapter X.

¹⁷⁶ See BONNET, G., "Les créations d'esthétique industrielle au regard des règles de libre circulation et de libre concurrence dans le Marché Commun", in La protection des créations d'esthétique industrielle dans le cadre de la C.E.E.: objective 1992, C.U.E.R.P.I., 1988, pp. 45-64. At p. 60 he writes: "Une telle concertation avait seulement pour but de faire constater une situation que les constructeurs intéressés entendaient soumettre au juge français pour la faire déclarer contraire à leurs droits. Elle ne constituait pas une entente destinée à entraver les importations de façon illégitime et ne pourrait être déclarée illicite que si les importations étaient jugées licites."

difficult to reconcile with the Parke Davis judgment of the Court of Justice, in which it was implicitly stated that the exercise of intellectual property rights may be prohibited by Article 85 (1) in case of concerted practices.¹⁷⁷ As such it does not suffice to state that seen from the angle of intellectual property protection the concerted practice can be explained. It is submitted that attention also needs to be given to the way in which the concerted exercise of those rights bears upon competition in the common market. Up till now, the Court of Justice has not had the opportunity to confirm this general rule explicitly, let alone to give some clear indications on the criteria to be taken into account. A preliminary question by the French Court on the interpretation of the concept 'concerted practices' in Article 85 (1) EC applied to the joint or simultaneous exercise of intellectual property rights by different right holders would probably have been a first step towards the elucidation of this legal problem.

This case already indicates that the issue of intellectual property protection on spare parts of cars is looked at purely from the angle of enforcing the design holders national and exclusive rights, without putting the facts into their broader economic context or their competitive background, be it from a national or from a Community point of view. Three more judgments by French courts will be mentioned briefly, followed by a general comment, in order to illustrate this overall approach to design/copyright protection on spare parts of cars.

¹⁷⁷ Case 24/67, Parke, Davis & Co v. Probel, Reese, a.o., Judgment of 29 February 1968, ECR (1968) 55. The Court ruled: "The exercise of such rights cannot of itself fall (..) under Article 85 (1), in the absence of any agreement, decision or concerted practice prohibited by this provision .. ." (emphasis added).

A first case concerns the court action for counterfeiting undertaken by Renault against the French firm Paban, specialized in the sale of automobile spare parts.¹⁷⁸ Paban offered copies of the Renault 5 bumpers for sale that it bought from the French firm Labet or imported from the Italian firm Unicar. Paban contested Renault's claim that the putting up for sale of copies of the Renault 5 bumper was constitutive of counterfeiting through invoking the fact that already his predecessors sold copies of the said bumper and through maintaining that the Renault 5 bumper model -although deposited according to the norms of the 1909 law- was itself a copy of the DAF 051 bumper model so that it lacked novelty and originality. The Court of Appeal refuted both arguments. It stressed the fact that the Renault 5 'bumper' is called a 'shield' (bouclier), meaning that it goes beyond the function of the classical bumper in the sense that it is integrated into the form of the bodywork of the car and contains additional elements.¹⁷⁹ It furthermore held that the reliance on the practice of its predecessors did not prove that Paban acted in good faith, all the more so since Paban is a professional firm specialized in the sale of spare parts of cars so that it could not have ignored the resemblance with the Renault 5 model.

¹⁷⁸ Cour d'Appel d'Aix-en-Provence, Société Unicar - Société Labet - S.A.R.L. Paban v. Régie nationale des usines Renault, Judgment of 9 May 1980, Gaz. Pal., 21-22 January 1983, pp. 43-44.

¹⁷⁹ "... ce dernier (DAF bumper) est en effet un pare-chocs classique composé uniquement d'une lame horizontale, servant de butoir, dépassant la carrosserie et extérieure à celle-ci à l'avant, ou à l'arrière, d'une hauteur de quelques centimètres, et servant uniquement à protéger la carrosserie; au contraire l'objet litigieux, appelé d'ailleurs bouclier et non pare-chocs s'intègre à la ligne de la carrosserie, qu'il prolonge vers le bas, est d'une hauteur beaucoup plus important et comporte des éléments de service, plaque d'immatriculation, feux, lumières, mettant ainsi au second plan le caractère pare-chocs pour servir cumulativement de pièce décorative, de support de services, et de pare-chocs."

In this case, the Court also found Paban -besides counterfeiting- guilty of unfair competition. Verifications made by Renault had shown that the counterfeit shields delivered by Unicar were less resistant to shocks than the original parts. This factor, combined with the finding that the bumpers -destined exclusively for the Renault 5 model- were offered for sale by Paban at a significantly lower price than the original ones, lead the Court to uphold the claim of unfair competition on the ground that confusion had been created in the mind of the consumers. Although this does not alter the finding of lower quality, one may of course wonder whether the consumer is not precisely adverted by the lower price and would -to the contrary- be all the more confused had the price between Paban's and the original parts been exactly or nearly the same.

A second case concerns the action undertaken by Renault against Labet, on the ground that through the importation (from Italy) and putting up for sale of R 5 and R 14 shields (boucliers) and radiator grills (calandres) of the R 4, R 5 and R 6, Labet had infringed Renault's design and copyright.¹⁸⁰ As in the first case, Labet was found to have infringed both the 1909 and the 1957 law. A peculiarity of this case, however, is that Labet was relaxed from the claim of trademark counterfeiting, since the Court of Appeal ruled that Labet had used the trademark with Renault's consent. In 1977, Renault's stock of R 4 radiator grills was exhausted. To live up to the demand, Renault bought a number of radiator's grills -that had been delivered by Labet- from S.A.I.F.. The latter asked Labet also to deliver the Renault logo (losanges), upon which Renault attached the logo to the radiator grills in order to

¹⁸⁰ Cour d'Appel de Besançon, Procureur-Général - Régie nationale des usines Renault v. Labet Pierre-Paul, Judgment of 12 January 1982, Gaz. Pal., 21-22 January 1983, pp. 41-43.

sell them as genuine spare parts.

A third case concerns the action undertaken by Renault against the Dutch firm Auto-France.¹⁸¹ Auto-France had exposed the wing of the R 4 and R 5, a shield of the R 5 and the radiator grill of the R 4 and R 5 -all of which are models deposited by Renault according to the 1909 law- at the 4th automobile fair in Paris. Auto-France maintained that it concerned original parts bought from a Renault dealer, but refused to communicate the dealer's name and address. The Court of Appeal ruled that Auto-France had counterfeited Renault's models.

All of these cases of course seem to be totally in conformity with the rules on intellectual property protection. Renault has a model that is deposited and thus -prima facie- protected, so that all unauthorized copies are constitutive of counterfeiting. Renault invokes his exclusive rights and the French Courts -interpreting the condition of novelty in a very broad sense¹⁸²- apply the law and enforce these rights. However, through focusing on the enforcement of intellectual property protection, the Courts fail to place the facts in their proper context and to examine -regardless of the outcome in each particular case- whether the function of intellectual property rights other interests need to be taken into account.

For instance, if one looks into the first judgment mentioned,

¹⁸¹ Cour d'Appel de Paris, Société Auto-France v. Régie nationale des usines Renault, Judgment of 29 April 1982, Gaz. Pal., 21-22 January 1983, pp. 40-41.

¹⁸² This is confirmed as concerns spare parts of cars by PLAISANT, R., note under Cour d'Appel de Paris, 29 Avril 1982; Cour d'Appel de Besançon, 12 Janvier 1982; Cour d'Appel d'Aix-en-Provence, 9 Mai 1980, Gaz. Pal., 21-22 January 1983, pp. 44-45. At p. 45 he writes: "La contrefaçon ne suscite pas de difficulté. Le juge admet, avec un grand libéralisme la nouveauté, qui est la condition de la protection." (emphasis added).

it is striking that -contrary to the discussions that took place in the courts in Great-Britain previous to the 1988 Act¹⁸³- neither Paban nor the Court reflected upon the consequences of granting design protection to body panels (since the shield, as the Court suggests, is integrated into the bodywork of the car) as regards consumers or competition, but the mere finding of novelty vis-à-vis previous bumpers was sufficient to enforce the design -and hence also copyright-protection. The same reasoning underlies the simple rejection of Paban's other argument. Although it is a common principle in French design law that the mere tolerance of counterfeiting by the holder of a design right does not imply his consent so that he retains the right to enforce his design right ultimately, the judgment submittedly falls short in that it does not look at the reasons for the belated court action. Plaisant rightly points out that the enforcement of design rights on spare parts of cars from the eighties onwards is stringently linked with the activity of the EC Commission in the field of competition law and especially the prohibition, embodied in the -at the time of this judgment proposed- block exemption on car distribution, to include the obligation to obtain spare parts exclusively from the car manufacturer in dealer contracts.¹⁸⁴ It would have been interesting -to say the least- to see an analysis by the Court from the angle of the need to maintain a proper balance between intellectual property protection and competition law.

The same criticism applies to the second and third judgment

¹⁸³ See supra, at pt. IV.3.1.1.

¹⁸⁴ PLAISANT, R., o.c., pp. 44-45. At p. 45 he writes: "Le seul moyen pour le constructeur de protéger son marché est, à défaut de clause de fourniture exclusive, le dépôt comme dessin ou modèle". For the general background to this phenomenon which has taken place all over the EEC, see supra, Chapter II. For an analysis more specifically of the interaction between design protection and the block exemption, see infra Chapter X.

mentioned. Moreover, in the second case it seems inconsistent to relax Labet from trademark infringement and not from the design/copyright infringement for the R 4 radiator grills, since Renault not only consented to, but even requested, the sale of the radiator grills concerned. Here again, it is obvious that the Court merely looked at the case from the angle of safeguarding the exclusive right that is inherent to intellectual property protection, without putting it into the broader context of its consequences upon competition, market structure or consumer interests. Especially in this case it is clear that consumer interests are totally disregarded. Renault aims at obtaining a legal monopoly for its spare parts through the exclusion of competitors on the market, which implies that consumers will have to rely on Renault as sole furnisher of those spare parts, with all the consequences this entails. However, Renault in this particular case apparently did not maintain the necessary stock to satisfy the demand and ultimately deceived the consumers through selling spurious parts as being genuine ones.

C. TRANSIT OF UNAUTHORIZED SPARE PARTS

Not only the importation and offering for sale of unauthorized copies of spare parts, but also the transit of such parts poses problems in France. The Courts, again on instigation by Renault, have ruled in favour of the compatibility of enforcing industrial design and copyrights on goods in transit with the principle of free movement of goods in the Community, without referring the matter to the Court of Justice by way of a preliminary procedure.

As such, the criminal chamber of the French 'Cour de Cassation' ruled on 16 April 1990 that the Community rules on free movement of goods did not prevent the application of

French copyright to goods in transit.¹⁸⁵ The facts were the following. Crespo manufactured spare parts for Renault cars in Spain -which at the time of the facts was not yet a Member State of the EC- and exported the goods to Germany. Neither in Spain nor in Germany could a design right be obtained for a utilitarian design, so that in those countries the spare parts concerned were not protected by intellectual property rights and thus could be freely copied. The goods passed through France in transit, where Renault had the goods seized on the basis of its French copyright in the models. Crespo argued that this was incompatible with Community law since the goods were brought in transit under the external Community transit procedure of Regulation 222/77. According to Crespo this implied that the owner of an intellectual property right could not prevent the importation into a Member State in which he had no exclusive rights (Germany) of goods coming from another (non-member) State in which he equally had no exclusive rights (Spain). The Cour de Cassation dismissed this argument on the basis that, firstly, the mere movement of infringing goods on French territory is sufficient to apply the Criminal Code and, secondly, that the Community rules on the free movement of goods do not preclude the application of intellectual property rights to goods in transit.¹⁸⁶

Article 36 EC, which of course could only apply in the context of the movement of the spare parts between Member States, namely France and Germany in this particular case, indeed explicitly mentions goods in transit. Yet, although Article 10 of Regulation 222/77 contains a proviso for the compatibility

¹⁸⁵ Cour de Cassation (chambre criminelle), Ricardo Asin CRESPO and others, Judgment of 16 April 1990, C.M.L.R. (1992) 1029-1032.

¹⁸⁶ The 'Cour de Cassation' did not motivate further why the Community rules on the free movement of goods do not preclude the application of national design and/or copyright to goods in transit.

with the three Treaties establishing the Communities so that also Article 36 remains in vigour, it would have been preferable to have a judgment of the European Court of Justice interpreting Community law as concerns this particular problem.

Rather recently, the Court of Justice ruled in the Aimé Richardt case that the transit regime did not prejudice the application of the public security exception of Article 36 EC.¹⁸⁷ This case is at it were the mirror-image of the French case since the Luxembourg authorities wanted to prohibit the exportation of a dual use good from a Member State (France) to a non-member State (the former Soviet Union) that passed through Luxembourg under the external Community transit regime. However, although this judgment of the Court of Justice at first sight seems to confirm the ruling by the French Court, in substance it raises more questions than it gives answers so that it is doubtful that the Court's reasoning can simply be transposed to another context.¹⁸⁸ For instance, the Court reiterates the general principle -which applies to all goods in free movement regardless of whether they are in transit or not- that in order to rely on Article 36 EC, the measure has to be justified and proportional. It proceeds its analysis in Aimé Richardt without looking at whether these criteria are also fulfilled. This gives the impression that as far as dual use goods -or perhaps more generally, derogations on the basis of public security exception- are concerned, the Court admits a kind of 'per se'-exception. But would this also be true as far as the enforcement of intellectual property rights to goods in

¹⁸⁷ Case C-367/89, Aimé Richardt, Judgment of 4 October 1991, not yet reported.

¹⁸⁸ For a critical analysis of this judgment, see GOVAERE, I., EECKHOUT, P., "On dual use goods and dualist case law: the Aimé Richardt judgment on export controls", C.M.L.Rev. (1992) 941-965.

transit is concerned?

The protection of intellectual property rights, which is territorially limited and serving individual rights, is very different in nature from the public security exception, which is in the general interest and can be endangered by acts taking place outside the national territory. Up till now, the Court of Justice has had to interpret the rules on the free movement of goods only where intellectual property rights applied to goods that were imported in a given Member State. In this circumstance, the Court has hardly ever found the recourse to intellectual property protection to be unjustified.¹⁸⁹ This can find its explanation in the fact that, otherwise, the exclusive right in the Member State of importation would be deprived of all substance. The same argument does not hold where the goods merely pass in transit without being offered for sale on the market concerned, since this does not deprive the design or copyright holder of the subject-matter of his exclusive right, which -as the Court has repeatedly held- consists in giving the holder the right to the first marketing of his good. As such, it can be maintained that it does not suffice to rely on the Aimé Richardt judgment in order to prove the correctness of the French Court's interpretation of the Community rules invoked.

A similar judgment by the French Cour de Cassation of 7 October 1985 -which also concerned the transit of Renault spare parts in France coming from Spain and destined for Germany-, is equally contested by Greffe and Greffe on the basis that the Court failed to differentiate between what they call a temporary transit ('transit temporaire') -whereby the product is exposed to the public and offered for sale- and a definitive transit ('transit définitif') -whereby the goods merely pass the French territory without being exposed to the

¹⁸⁹ See infra, Chapter VII.

public-.¹⁹⁰ However, uncertainty remains as to how the Court of Justice would have interpreted the Community rules at stake, so that it is to be hoped that eventually a national court will pose a preliminary question on this matter.

¹⁹⁰ GREFFE, P., GREFFE, F., o.c., pp. 539-540.

IV.3.3. BENELUXIV.3.3.1. Legislation**A. INTRODUCTION**

The protection of industrial designs in Belgium, Luxembourg and the Netherlands was rendered more or less uniform through the coming into force on 1 January 1975 of the Uniform Benelux Law on Designs and Models (U.B.L.D.M).¹⁸¹ Some discrepancies in the legal protection granted do, however, remain in force in the three countries concerned due to the partial cumulation with national copyright law which has not been rendered uniform.¹⁸² Under Belgian copyright law, all designs and models can be protected through copyright, even in the absence of artistic merit,¹⁸³ whereas in the Netherlands and in Luxembourg only works of applied art qualify for such protection.

B. DESIGN PROTECTION

Before 1975, no specific design law existed in the Netherlands and in Luxembourg, whereas Belgium had the most liberal form of dual design/copyright protection.¹⁸⁴ The U.B.L.D.M. has

¹⁸¹ See Article 13 of the Benelux Treaty on designs and models of 25 October 1966 which stipulates that the Uniform Benelux law on Designs and Models which is annexed thereto enters into force on 1 January 1975.

¹⁸² See also BOUKEMA, H., "Pays-Bas", in Traité des dessins et des modèles, Greffe & Greffe, 4° ed., Titre IV, Chapitre VII, Paris, 1988, pp. 801-818, at p. 801 where he states that the objective of obtaining one uniform Benelux design law has not been reached due to the problems that are still posed concerning the cumulation of the Uniform Benelux Design Law with the national rules on copyright and unfair competition.

¹⁸³ See also below where it is stated that this does not imply that originality is not required in Belgium.

¹⁸⁴ See BRAUN, A., "Belgique", in Traité des dessins et des modèles, Greffe & Greffe, 4° ed., Titre IV, Chapitre II, Paris, 1988, pp. 717-738, at pp. 718-719; COHEN JEHORAM, H.,

replaced these different legal approaches through installing a uniform system of specific design protection in all of the Benelux-countries. It foresees in a registration system with the Benelux office for designs and models (Benelux-deposit) and preliminary questions concerning the interpretation of the U.B.L.D.M. can be posed to the Benelux Court of Justice.

Article 1 U.B.L.D.M. defines the scope of protection, namely it provides that the new features of a product having an utilitarian function can be protected as a design or model.¹⁸⁵ As such, the three main requirements are novel features, product and utilitarian function. The latter criterion implies that new designs concerning mere ornamental or decorative products will not benefit from design protection. As soon as a utilitarian use of the product can be conceived -however basic it may be- this requirement will be considered to be fulfilled. The second condition is that the design is applied to a product. This means that it is not the new design as such that is protected but only the product that has acquired a new appearance because of the design. The foremost important criterion that needs to be fulfilled is novelty. This consists in the absence of prior divulgation of the same or a substantially similar product during fifty years preceding the date of deposit, or the prior successful deposit of a substantially similar design or model.¹⁸⁶

The novelty requirement is of a relative nature because,

"Cumulative design protection, a system for the EC?", E.I.P.R. (1989) 83-87, at p. 84.

¹⁸⁵ Art. 1: "Als tekening of model kan worden beschermd het nieuwe uiterlijk van een voortbrengsel dat een gebruiksfunctie heeft"; "Peut être protégé comme dessin ou modèle, l'aspect nouveau d'un produit ayant une fonction utilitaire".

¹⁸⁶ On the novelty requirement, see BRAUN, A., EVRARD, J.-J., Droit des dessins et modèles aux Benelux, 1975, Larcier, Bruxelles, pp. 65-85.

firstly, the search for novelty is limited in time (50 years), and, secondly, it is also restricted in the sense that only the notoriety of the product in interested commercial and industrial circles within the Benelux is taken into account in order to determine whether the product is novel.¹⁹⁷ It is significant that the U.B.L.D.M. does not mention the criteria of creativity or originality. As such, it is the objective ascertainment of novelty that is decisive for granting the protection, rather than the subjective evaluation of the personal impact of the designer. This implies that the novelty requirement has an objective, as well as a relative character. Considering the limited framework of reference as concerns time and territory for establishing novelty, it is obvious that it will be relatively easy to qualify for design protection.

A peculiarity of the Benelux law is that the granting of design rights is subject to the principle of 'first-to-file'. This means that the exclusive rights in the design are attributed to the first person to deposit the design. In case it is another person than the original designer depositing the design, only the latter can contest the deposit if it was done without his consent.¹⁹⁸ This implies that a third party cannot successfully invoke the argument that because the design holder is not the original designer, he has no lawful claim on the design so that he should not be able to exercise the exclusive rights to prohibit the marketing of copies of the product. The fact that the third party can prove the origin of

¹⁹⁷ See Article 4, 1° where it is determined when the design or model will not be considered to be new. On the basis of an a-contrario reasoning, this implies that all other designs and models fulfil the novelty requirement. See also DRUCKER, W., BODENHAUSEN'S, G., Kort begrip van het recht betreffende de industriële en intellectuele eigendom, 1976, Tjeenk Willink, Zwolle, pp. 75-76.

¹⁹⁸ Article 5 B.L.D.M.

the design or even point out the original designer and prove that the Benelux design holder does not have the original designer's consent to deposit the design or to commercialize the product does not alter this situation.

A preliminary question was posed to the European Court of Justice concerning the compatibility of this provision with Community law -and more specifically the rules on the free movement of goods- in the Nancy Kean Gifts case.¹⁹⁹ Without going into the details of this case here,²⁰⁰ it is obvious that such a provision enhances the possibility of resurrecting barriers to trade in the Community. One can take the example of an Italian and a Belgian, both going on a trip to Thailand and seeing a new model of, for instance, a handbag which is lawfully deposited there but which they would both like to commercialize on the Community market.²⁰¹ For the sake of simplicity, the presumption is made that they both return to their country of origin and act according to the legislation in force there.²⁰² The Italian person will not be able to obtain design rights on that handbag in Italy because the (absolute)

¹⁹⁹ Case 144/81, Keurkoop BV v. Nancy Kean Gifts BV, Judgment of 14 September 1982, E.C.R. (1982) 2853.

²⁰⁰ For an analysis of the Nancy Kean Gifts case, see infra, Chapter VI, at pt. VI.4.3.2. and Chapter VII, at pt. VII.3.2.

²⁰¹ These are not the exact facts of the Nancy Kean Gifts case, although it also concerned the design of a handbag which had been lawfully deposited in the USA. In the example given, one could just as well replace the USA by a Member State of the EC, such as Portugal. However, the chance would be higher that the interested Benelux circles would know about the design so that the Benelux novelty requirement would not be fulfilled.

²⁰² It is of course theoretically possible for the Italian to file the design in the Benelux before the Belgian does, so that he obtains the exclusive rights. This hypothesis will not be taken into account in the example.

novelty requirement is not fulfilled.²⁰³ Still, he decides to either produce the handbag himself or to import it from a third country in the objective to commercialize it throughout the Community. The Belgian person copies the design of the handbag and deposits it at the Benelux-office before the design is known to the interested Benelux circles. He then invokes his exclusive right to prohibit the importation and marketing of the Italian's handbags in the Benelux, without it being possible for the Italian to invoke the argument that in fact the Belgian has no more merit for the design than he has, or that the design of this specific handbag was already known and commercialized in Italy before the date of the Benelux-deposit. Through the mere fulfilment of a procedural requirement -that is the filing of the design- the Belgian person can close down the Benelux market to other Community products, even in the absence of a personal input in the design. It is obvious that if all Member States inserted the principle of first-to-file on the basis of objective and relative novelty in their industrial design legislation, the principle of free movement of goods in the Community would be seriously jeopardized.

The European Court of Justice, however, did not invoke the fundamental question of whether or not the Benelux rule of "first-to-file" is justified in terms of the first sentence of Article 36 EEC in the Nancy Kean Gifts case, but rather ruled that, in the absence of Community harmonization, it is up to the national legislator to determine the conditions and procedures for obtaining design protection.²⁰⁴ Only the exercise

²⁰³ See infra, at pt. IV.5.1., for the absolute novelty requirement under Italian design law.

²⁰⁴ Case 144/81, o.c., pts. 13-20 of the Nancy Kean Gifts judgment. See especially pt. 18. The Court finally ruled: "National legislation having the characteristics of the Uniform Benelux Law on Designs falls within the scope of the provisions of Article 36 of the Treaty on the protection of industrial and commercial property. In the present state of

by the design holder of his exclusive rights was held to be subject to scrutiny under the Community rules.²⁰⁵

There are, of course, also exceptions to the general rule of industrial design protection in the Benelux. Excluded from protection are designs and models that are contrary to the public policy or public morality of one of the Benelux countries, or those of which the proper characteristics are not sufficiently apparent in the deposit.²⁰⁶ Also excluded from protection are the industrial designs that are indispensable to obtain a technical effect.²⁰⁷ The test most likely to be applied is whether or not the same technical effect can also be obtained through a product with different features. Considering that this excludes from protection certain industrial objects that cannot be protected through patent law either -for instance because the absolute novelty requirement to obtain patent protection is not fulfilled-, a proposal has been tabled in the Netherlands -not in Belgium and Luxembourg- to provide in the protection for utility models for up to six years.²⁰⁸ The coming into force of a law on utility models which applies exclusively to the Dutch territory would, of course, seriously undermine the objective of the Benelux law on designs which -as mentioned above- is to install a uniform

its development Community law does not prevent the adoption of national provisions of the kind contained in the Uniform Benelux Law, as described by the national court".

²⁰⁵ Case 144/81, O.C., answer by the Court to the second question, pts. 21-29 and point 2 of the final ruling.

²⁰⁶ Article 4, 2° and 3° U.B.L.D.M.

²⁰⁷ Article 2, 1° U.B.L.D.M.. In Article 2, 2° U.B.L.D.M. it is furthermore provided that an application decree can exclude from protection certain categories of products that would otherwise create appreciable difficulties.

²⁰⁸ See BOUKEMA, O.C., p. 805. For an analysis of the need for utility models in the Netherlands, see MULDER, H., "Gebruiksmodel in Nederland?", B.I.E. (1987) 59-62.

system of design protection in the countries concerned.

C. COPYRIGHT PROTECTION

Besides specific design protection, Article 21, 1° U.B.L.D.M. explicitly provides in the cumulation with copyright protection for designs which have a markedly artistic character.²⁰⁸ However, the principle of cumulation is not as absolute in the Benelux as it is in France. Article 21, 2° U.B.L.D.M. specifies that designs lacking a 'markedly artistic character' will not be protected through copyright, although it is understood that they can still benefit from the specific design protection if they fulfil the -relative- novelty condition. This form of dual protection is generally denominated as 'system of partial cumulation'.

Design and copyright protection are closely linked to one another as concerns designs with a markedly artistic character. Article 21, 3° U.B.L.D.M. stipulates that the nullity or expiry of the design right automatically entails the expiry of the copyright on the design, unless a special declaration is made according to Article 24 aimed at preserving copyright protection. This means that the normal duration of copyright -50 years post mortem- can be reduced to the -at the most- 15 year period of design protection.²¹⁰ Article 22 U.B.L.D.M. is complementary to Article 5 because it establishes the legal presumption that the depositor of the design is also the holder of the copyright. Only the real author of the design, in so far as he has not consented to the

²⁰⁸ Article 21 U.B.L.D.M., the Dutch and French version respectively is: 'tekeningen of modellen met een duidelijk kunstzinnig karakter' and 'des dessins ou modèles ayant un caractère artistique marqué'.

²¹⁰ Article 12 U.B.L.D.M. foresees in initial period of design protection of five years which can be extended twice for five years.

deposit, can contest the right. In order to avoid splitting up the exclusive rights on one and the same design between several persons, the general rule is that transfer of design rights implies transfer of copyright and vice-versa.²¹¹

Although this rule on partial cumulation seems rather clear, the biggest problem lays in answering the question of how to determine which design has a 'markedly' artistic character and which has not. In particular, many discussions have taken place on whether or not this implies that a different criterion has to be maintained for applying copyright to applied art -namely artistic value- as opposed to 'pure' art to which the criterion of originality applies.²¹² An affirmative answer supports the theoretical construction of partial cumulation whereas a negative answer tends to favour a real cumulation of design and copyright protection as it is known in France.²¹³ However interesting those discussions and debates were, they will not be reproduced here because the Benelux Court of Justice has finally had the opportunity to give its -decisive- interpretation of Article 21 U.B.L.D.M. in the Screenoprints case concerning spare parts of cars.

²¹¹ See Article 22, 3° U.B.L.D.M.

²¹² See for instance COHEN JEHORAM, o.c., (1989), pp. 84-85 where he recalls the debate on this issue between two draftsmen of the U.B.L.D.M., namely Phaff who argued in favour of a fully cumulative system and Haardt who argued in favour of an interpretation in the sense of partial cumulation. See also BRAUN, o.c., (1988) at pp. 720-721 where the author reproduces the essence of the discussions that took place between Limperg and Haardt on this particular point.

²¹³ The terminology 'partial' and 'real' or 'total' cumulation is preferred to 'limited' or 'broad' cumulative protection as used by Glas. See GLAS, P., "The cumulative protection of Benelux designs by copyright and design law: Screenoprints Ltd. v. Citroën Nederland BV.", E.I.P.R. (1989) 257-259.

IV.3.3.2. Spare parts cases

Because of the application of the principles of relative and objective novelty, most parts of cars are protectable under the specific Benelux design law provided that they are duly registered and provided that the design is not indispensable to obtain a technical effect. However, up till recently uncertainty remained about the question which conditions had to be fulfilled in order to benefit from the cumulation with copyright protection, as well as about whether copyright protection alone could be invoked for parts of cars in the absence of a design deposit. The Benelux Court of Justice for the first time gave an answer to these questions in the Screenoprints case of 1987.²¹⁴

Screenoprints sought to obtain a legal injunction to stop Citroën from copying the sunvisors which it had conceived for the Citroën CX, GSA and Visa and brought on the Dutch market, on the basis of infringement of its Dutch copyright in the design. The defendant Citroën contested that Screenoprints had copyright on the sunvisors. Citroën argued that the deposit by Screenoprints of a non-specified sunvisor had been nullified previously because of lack of novelty and thus that the design was not at all protectable under the U.B.L.D.M.. The Hoge Raad der Nederlanden referred, by way of a preliminary question, the matter of interpretation of the expression 'markedly artistic character' to the Benelux Court of Justice, to see whether copyright could be obtained in the design independently of a registered design.

²¹⁴ Benelux Court of Justice, Screenoprints Ltd. v. Citroën Nederland BV., Judgment of 22 May 1987. For the full text in Dutch, see Intellectuele Eigendom & Reclamerecht (1987) 70-72 and B.I.E. (1987) 196-201. The latter also contains the conclusion of Advocate-General Berger. For the full text in French, see Revue Critique de Jurisprudence Belge (1988) 579-579.

The Benelux Court recalled that the aim of Article 21 U.B.L.D.M. is to smoothen out the differences in design protection that would otherwise continue to persist through the existence of national copyright alongside the uniform Benelux design. More particularly, it was pointed out that its objective is to prevent the application of copyright in Belgium to all designs and models -even those that lack artistic character- whereas in Luxembourg and the Netherlands only works of applied art that are original qualify for this protection.²¹⁵ According to the Court, the terminology 'artistic character' thus refers to the standard of protection that was already in force in the Netherlands and Luxembourg, so that Article 21, 2° is only meant to limit the scope of application of the Belgian copyright law as concerns designs.

In his note to the Screenoprints case, Van Bunnan vigorously contests this argument as far as Belgium is concerned. He points out that it is a misconception of many -particularly Dutch- authors to assume that originality is not required under Belgian copyright law.²¹⁶ Although Article 1 of the 1935 Belgian Copyright law mentions that all designs or models having a novel aspect or an original form come under its scope

²¹⁵ On the originality requirement in the Netherlands, see COHEN JEHORAM, H., "La protection des dessins et modèles industriels entre la législation sur le droit d'auteur et celle sur les dessins et modèles: étude comparative", Le Droit d'Auteur (1983) 313-321, at pp. 318-319.

²¹⁶ VAN BUNNEN, Revue Critique de Jurisprudence Belge (1988) 579-602, at pp. 584-585. At p. 585 he states: "... l'opinion erronée ayant cours dans la doctrine des Pays-Bas qui donne de la législation de 1935 l'image d'un système 'sous-développé', en désaccord avec les principes généraux du droit d'auteur. Dans notre pays, il a toujours été exigé tout autant d'originalité pour les modèles dits 'industriels' que pour les modèles dits 'artistiques' et il est absolument faux de dire qu'en droit belge, avant la loi Benelux, un modèle ou un dessin aurait pu trouver protection, même s'il était dépourvu de toute empreinte personnelle."

of protection, it is generally understood in Belgium that both conditions have to be fulfilled cumulatively.²¹⁷ It rather seems that Article 21, 2° U.B.L.D.M. was inserted to prevent the practice to become as it was in Belgium before the 1935 Law was enacted.²¹⁸ Before 1935, 'artistic value' was formally required to obtain copyright protection on a design, but this condition was interpreted so flexibly that almost any design - with however little creative effort or artistic merit- could qualify for copyright protection.

According to the Benelux Court, the addition of the adjective 'markedly' to the condition of artistic character does not entail that the requirement of artistic merit is added on top of the requirement of originality, which would cause the appreciation of originality to be different according to whether it concerns either a design or 'pure' art. Rather than laying down a double criterion, it aims at giving guidance to the courts, in the sense that in case of doubt about the fulfilment of the originality condition by a specific design, copyright protection should be refused. It is clear that through this interpretation, the Court seeks to prevent the automatic acceptance of originality as soon as the objective novelty requirement has been fulfilled.²¹⁹ This would seem to

²¹⁷ for an analysis of the originality requirement in Belgian copyright law, see for instance STROWEL, A., "L'originalité en droit d'auteur: un critère à géométrie variable", J.T. (1991) 513-518.

²¹⁸ In a similar sense, see BRAUN, A., EVRARD, J.-J., O.C., at n° 308. At p. 233 they write: "Sans exiger un caractère artistique exceptionnel, elle (U.B.L.D.M.) a voulu éviter que la jurisprudence belge -et, qui sait, suivie peut-être par celle de ses voisins du Benelux?- ne retombe dans la voie de l'interprétation laxiste admettant au statut d'oeuvre d'art le modèle ne présentant qu'un caractère 'chétif', ce qui équivaut pratiquement à l'absence d'aspect artistique." Van Bunnan agrees with this explanation, O.C., p. 587.

²¹⁹ See also the note by Ste under this case, B.I.E. (1987) 201-202, at p. 201 where he writes: "De rechter mag dus geen auteursrechtelijke bescherming toekennen als hij vindt dat er

confirm the viewpoint that Article 21 U.B.L.D.M. was inserted in order to avoid coming to a similar situation as in Belgium prior to the 1935 law. However, Van Bunnan rightly points out that through equating markedly artistic character with originality, in practice most designs and models will be accorded dual protection so that it is to be foreseen that the jurisprudence after the Screenoprints case will in fact lead to a similar situation as in Belgium before 1935 or as in France at present.²²⁰

The Court finally held that for a design to enjoy copyright protection under Article 21 U.B.L.D.M., it is both necessary and sufficient that it is a work of applied art -in the sense that it is a work with an original character that bears the personal impact of its creator-, regardless of whether or not the design has also been deposited.²²¹ Only designs that are necessary to obtain a technical effect are per se excluded from copyright protection.

This judgment by the Benelux Court of Justice means a shift from what was held to be a system of partial cumulation towards a system of complete cumulation as it is known in France. Also here, the Court adopts a kind of "theory of the unity of art", which implies that the criterion withheld to

slechts sprake is van een nieuw uiterlijk van een voortbrengsel met een gebruiksfunctie zonder een eigen oorspronkelijk karakter, zonder het persoonlijk stempel van de maker."

²²⁰ Van Bunnan, o.c., pp. 591-592.

²²¹ In the words of the Benelux Court of Justice: "Voor de in artikel 21 BTMW bedoelde bescherming uit hoofde van de auteurswet is vereist dat de tekening of het model kan worden aangemerkt als een werk -dat wil zeggen als een voortbrengsel met een eigen, oorspronkelijk karakter, dat het persoonlijk stempel van de maker draagt- op het gebied van de (toegepaste) kunst. (..). Het bepaalde in artikel 21 BTMW geldt ook voor niet-gedeponeerde tekeningen of modellen."

apply copyright to works of applied art is the same as the one applied to 'pure' art.²²² This criterion is not the artistic merit of the design but rather its originality or the creative input of the designer.

It thus seems that, to a large extent, the conclusions to be drawn from the French case law concerning design and copyright protection on spare parts of cars will probably also apply to the Benelux context, especially after the Benelux Court of Justice's clarifications in the Screenoprints case.

IV.3.4. GERMANY

IV.3.4.1. Legislation

A. INTRODUCTION

The German legislation concerning the protection of industrial designs (Geschmacksmustergesetz) dates from as long ago as 1876.²²³ The 1876-law was eventually modified in 1986, but the essence of the 1876-law, namely its substantive law aspects, was left intact. The changes merely concerned the adaptation of the formalities and procedural aspects to modern times. This was done through, for instance, the creation of a centralised system of registration and a system of multiple deposit (for up to 50 designs at once), as well as the extension of the period of protection from 15 to maximum 20

²²² Van Bunnem rather ironically states: "Par cette formule, l'arrêt de la Cour Benelux est indéniablement revenu à la théorie de l'unité de l'art ou, pour mieux dire, de l'art sans frontières.", o.c., p. 592.

²²³ Law of 11 January 1876, Act concerning Copyright in Design ("Gesetz betreffend das Urheberrecht an Mustern und Modellen" or "Geschmacksmusterrecht" in short).

years (4 periods of 5 years).²²⁴

Many proposals for a thorough reform of the 1876 Design Act had been tabled. But amendments to the substantive design law, although needed because of the alteration in both the purpose and the object of design protection since 1876, proved so far impossible due to the ongoing debate whether a copyright approach or a patent approach should be at the basis of the future German design law.²²⁵

B. DESIGN PROTECTION

The 1876 Design Act (Geschmacksmustergesetz) does not clearly define the concept "industrial design". Paragraph 1 merely mentions that "only new and original products shall be considered to be designs" (§ 1, (2)), whereas paragraph 7 mentions two- or three-dimensional arrangements of a product.²²⁶

²²⁴ On the amendments of the 1986 Act concerning Copyright in Design, see eg. KELBEL, G., "Die Novelle zum Geschmacksmustergesetz", G.R.U.R. (1987) 141-148; VON FALCKENSTEIN, R., "Das neue Geschmacksmusterrecht von dem Start*", G.R.U.R. (1988) 577-583; RICHTER, B., "Das neue Geschmacksmusterrecht von dem Start*", G.R.U.R. (1988) 583-588; EICHMANN, H., "Materiellrechtliche Zweifelsfragen des neuen Geschmacksmusterrechts", G.R.U.R. (1989) 17-22; KRETSCHMER, F., "Statutory changes in German industrial property and copyright law - an overview", I.I.C. 18 (1987) 767-774; LOSCHELDER, M., "The new German Model and Design Act", I.I.C. 19 (1988) 622-638.

²²⁵ For an analysis of the difficulties underlying the reform proposals, see especially ENGLERT, B., "The law of industrial design in Germany - Actual state and reform proposals", I.I.C. (1981) 773-785. Surveys have shown that in general, German industry would be in favour of a patent-approach to design law. See FRYER III, W., "Design users suggest national law changes, EC approach and harmonisation strategy: Federal Republic of Germany surveys on design protection", E.I.P.R. (1990) 360-367, at p. 361.

²²⁶ For the English translation of the German Act concerning Copyright in Designs, see BEIER, F.-K., SCHRICKER, G., and FIKENTSCHER, W., (eds.), German industrial property, copyright and antitrust laws, 2nd ed., IIC-Studies, Vol. 6,

Besides the two explicitly enumerated conditions of novelty and originality, it is generally held in German jurisprudence and case-law that the shape, in order to qualify for design protection, also has to have an aesthetic effect in the sense that it has to affect the form and/or colour sense of the viewer and that it has to be industrially applicable.²²⁷ A shape which is solely dictated by its function will not benefit from design protection but may fulfil the requirements of utility model or patent protection and be protected as such.²²⁸ On the other hand, purely decorative items will -contrary to the law in force in the Benelux- benefit from design protection if they are apt to be used commercially.²²⁹ Yet an overriding and hence indispensable requirement to benefit from design protection is due registration with the competent authorities along the new procedures foreseen in the 1986-law.

The novelty condition has been interpreted by the Bundesgerichtshof as meaning that the design is not known and could not have been known to domestic trade circles at the time of filing the application.²³⁰ Regard is hereby equally given to developments which took place abroad -especially in the Western cultural sphere- and which should have been known to

VCH, 1989, pp. 82-90.

²²⁷ See for instance BEIER, F.-K., "Introduction to industrial property", in Beier, Schriker and Fikentscher (eds.), O.C., pp. 3-18, at pp. 10-11.

²²⁸ However, see ROHNKE, C., "Protection of external product features in West Germany", E.I.P.R. (1990) 41-45, at p. 42 where he maintains that the Federal Supreme Court has "granted protection to many designs by severely limiting the forms it considers 'technical'". On the new Utility Model Act (Gebrauchsmustergesetz) and Patent law, see ULLMAN, E., "Die Verletzung von Patent und Gebrauchsmuster nach neuem Recht", G.R.U.R. (1988) 333-339.

²²⁹ KATZENBERGER, P., "Protection of industrial designs in Germany", I.I.C. (1975) 304-319, at p. 305.

²³⁰ BGH, 8 May 1968, Rüschenhaube, G.R.U.R. (1969) 90.

the domestic trade circles. This requirement of objective novelty which, however, in terms of reference is limited to what the domestic trade circles ought to have known -and therefore can not qualify as being of an absolute nature-, is generally referred to as the condition of "relative objective novelty".²³¹

Contrary to the novelty condition, which is more or less clearly defined, the originality requirement seems more difficult to come to terms with, because it is interpreted differently in the context of design law as compared to copyright law. This condition will generally be held to be fulfilled for the purpose of design protection if "the aesthetic features of the design appear to be the result of individual creative activity", but additionally, this "creative activity must exceed the average skill of a designer in the field in question".²³² Still, the threshold-level of creativity required for design protection is lower than for copyright protection, as will be illustrated below.²³³

Katzenberger maintains that it is often more difficult to

²³¹ See for instance BEIER, F.-K., o.c., at p. 11 where he speaks of the objective-relative novelty concept.

²³² KATZENBERGER, P., o.c., at p. 308.

²³³ See for instance the definition used by the Bundesgerichtshof in the Schlafzimmermodell-judgment (BGH, G.R.U.R. (1958) 510) as reported by SEELIG, G., "Allemagne", in Traité des dessins et des modèles, Greffe & Greffe, 4^o ed., Titre IV, Chapitre I, Paris, 1988, pp. 675-716, at p. 678: "Les objets protégés par la loi en matière de modèles artistiques sont des réalisations de formes et de couleurs, destinées et appropriées à solliciter le sens artistique de l'observateur, et plus particulièrement son sens des formes; ces objets sont accessibles à la protection par la loi en matière de modèles artistiques lorsqu'ils incorporent une prestation intellectuelle individuelle, qui dépasse l'usuel, le quotidien et les facultés moyennes d'un réalisateur de modèles, sans nécessairement atteindre le niveau de l'oeuvre d'art" (emphasis added).

comply with the condition of originality than with the relative objective novelty-test, because under this denominator, the courts not only evaluate the creativeness of the design, but also take into account the need for competitors to use those shapes and to adapt their products to new trends of fashion and taste.²³⁴ Although this may be so for designs in general, the account given of the spare parts cases below will illustrate that this is not necessarily true as far as components or half-finished products are concerned.

The scope of protection conferred by design law is determined by § 1, (1) of the 1876-law, which provides that "the right to imitate wholly or in part an industrial design belongs exclusively to its author". This definition implies that the protection is not a patent-type of absolute exclusive right. Rather, it is modelled on copyright law in the sense that only an unauthorized reproduction of the design is prohibited and not the independently created similar design.²³⁵ Paragraph 5 of the design law specifies what is considered to be an 'prohibited imitation', held to infringe design rights. This includes inter alia the indirect reproduction of the design, namely the imitation of an imitation of the protected design rather than the imitation of the original design (§ 5, (3)). Thus the general rule is that similar or identical designs which are independently created by a third party -meaning that they are neither a direct or indirect reproduction of the original design- do not infringe the design holders rights. However, Englert points out that in practice, through the reversal of

²³⁴ KATZENBERGER, P., o.c., at p. 308.

²³⁵ See LANGE, P., "The law and protection of designs with particular reference to the textile and fashion sector", E.I.P.R. 15 (1993) 16-23. He maintains that, because both the copyright law and the specific design law only offer protection against unauthorized reproduction, a designer should first consider whether his design can enjoy copyright protection and only in second order seek to protect his design through registration.

the burden of proof introduced by the case-law, protection against reproduction can become protection provided by a monopoly right.²³⁶ This evolution towards granting de facto exclusive rights of the patent-type to designs on the one hand seems to be somewhat incompatible with the official title of the law -namely 'copyright in design law'-, although on the other hand it can also be seen as the logical counterpart to the registration requirement.

C. COPYRIGHT PROTECTION

Since the reform of the copyright law in 1907 (Urhebergesetz), works of applied art are no longer excluded from copyright protection, so that cumulation of design and copyright protection has become possible on the condition that the aesthetic configuration fulfils the requirements of both laws.²³⁷ It should immediately be emphasized that the cumulation is not absolute. Design protection does not automatically entail copyright protection as is the case, for instance, in France. This results from the fact that although the subject matter of protection -i.e. aesthetic shapes- is the same, the requirements for protection are not identical.

To come under copyright protection, the aesthetic shape or configuration has to distinguish itself from ordinary works by its individuality and it needs to attain a certain level of

²³⁶ ENGLERT, B., o.c., at p. 779.

²³⁷ The current law on copyright is the "Act dealing with copyright and related rights" of 9 september 1965 as last amended on 18 december 1986. For the English translation, see Beier, Schricker and Fikentscher, o.c., pp. 148-180. Paragraph 2 ("Protected products"), explicitly mentions works of applied art.

creativity.²³⁸ As mentioned above, the threshold-level of creativeness or aesthetic achievement under copyright law is higher than under design law. However, it is difficult to draw a clear-cut rule because there is only a gradual difference in the level of creativity required. Whereas an 'artistic merit' or an 'aesthetic quality' suffices to live up to the originality condition of design law, to come under the scope of copyright law the work has to be generally accepted by the public as a 'work of art'.²³⁹ The problem is that there is not one generally accepted definition of the concept 'work of art', so that the case-law refers to rather vague notions, such as 'ideas that are generally accepted' or 'persons that are sensitive to the arts and somewhat familiarised with artistic concepts'.²⁴⁰ This leads to decision-making on a case-to-case basis with little legal certainty as a consequence. For instance, according to the Bundesgerichtshof in the steel pipe chair-case, the fact that the aesthetic appeal is not the primary function of a configuration is not relevant for the granting of copyright protection, for it suffices that "there was some aesthetic effect desired and achieved besides the purely technical function".²⁴¹ In this case it is difficult to

²³⁸ See SCHRICKER, G., "Introduction to copyright law", in Beier, Schricker and Fikentscher, (eds.), o.c., pp. 139-147, at p. 142.

²³⁹ The formula used in practice is: "copyright only applies when the aesthetic content reaches such a level that it can be considered art in the current sense of that term", see SCHRICKER, G., o.c., at p. 142. He adds: "Nevertheless, copyright protection has, for instance, been granted to steel pipe chairs, coat designs, and lamps".

²⁴⁰ See SEELIG, G., o.c., p. 683, where he mentions the criteria "idées généralement répandues dans la vie" and "personnes sensibles à l'art et en quelque sorte familiarisées avec les conceptions artistiques".

²⁴¹ BGH, 27 February 1961, G.R.U.R.(1961) 635, Stahlrohrstuhl. On this and other judgments of the BGH concerning the application of copyright to works of applied art, see ROHNKE, C., o.c., at p. 42.

see the difference, however gradual, with the originality requirement in design law. The only certainty is that copyright will be excluded -as is the case for design protection- if the design is the only possible solution to a technical problem.

Katzenberger points out that with the current trends of modern art, this concept 'work of art' has become eroded, leading to the situation whereby copyright protection is granted:

"to almost everything if it is both statistically unique (or objectively new) and is presented by the artist as a work of art".²⁴²

As such, it is the intended purpose of the artist that becomes the predominant criterion to establish the copyrightability of a configuration. He criticizes this approach on the ground that if the purpose of the given configuration changes over time, namely originally presented as a work of art but industrially reproduced and commercialized later on, the copyright protection -which lasts for 70 years after the death of the author- might unduly restrict competition. Since, on the other hand, strong protection of pure art does not hamper the activity of other artists, he maintains that different standards of protection are justified according to whether it concerns pure art or commercial configurations.²⁴³ His ideal solution would be to weaken copyright protection to design protection, or have copyright protection automatically expiring, upon commercialization of the given configuration. It should be recalled that the first solution, namely reducing the term of copyright protection in case of commercialization, has been retained as a viable solution by the UK legislator in

²⁴² KATZENBERGER, P., o.c., at p. 313.

²⁴³ KATZENBERGER, P., o.c., at p. 314.

the 1988 Copyright, Designs and Patents Act.²⁴⁴ As a practical solution, he proposes to grant copyright from the start only to graphic and pictorial representations and to merely ornamental objects. This approach would in fact lead to the abolishment of the principle of partial cumulation, since commercialized or commercializable shapes would lose the benefit of copyright protection all together.

Hubmann also criticizes the criterion of the level of aesthetic achievement as used by the courts, along similar arguments as Katzenberger. He argues that the long duration of copyright protection is not fit for configurations that are merely the expression of trends of fashion and that the courts are not apt to judge the artistic value of objects. Therefore, he proposes the criterion of 'level of intrinsic individual value' (Grad des individuellen Gehalts) in order to distinguish between works of art and the mass of ordinary products, in the meaning that the work has to bear the individual stamp of its creator rather than being a response to the demands of public taste.²⁴⁵

Ulmer, on the other hand, remains closer to the viewpoint of

²⁴⁴ See supra, at pt. IV.3.1.2.

²⁴⁵ HUBMANN, H., Urheber- und Verlagsrecht, 6° Auflage, Verlag C.H. Beck, München, 1987, at p. 68. He writes: "Das entscheidende Kriterium ist vielmehr im Grad des individuellen Gehalts zu erblicken. Ein Kunstwerk liegt nur vor, wenn es den individuellen Geist des Schöpfers, d.h. seine eigene Anschauungs- und Gestaltungsweise ausdrückt. Wo dagegen die individuelle Ansungs-, Anschauungs- und Gestaltungsweise dem Erzeugnis nicht das Gepräge gibt, sondern eine individuelle Leistung nur im Hintergrund erkennbar bleibt, ist lediglich ein Geschmacksmusterschutz angebracht. Das ist insbes. dann der Fall, wenn der Entwerfer sich dem Geschmack des Masse unterordnet und ihn ausdrückt oder wenn er nur einer Moderichtung, einer Geschmacksrichtung, einem modernen Stilgefühl folgt." This view is shared by NORDEMANN, W., VINCK, K., HERTIN, P., Urheberrecht: Kommentar zum Urheberrechtsgesetz und zum Urheberrechtswarnehmungsgesetz, Verlag W. Kohlhammer GmbH, Stuttgart, 1986, at pp. 69-70.

the courts, in the sense that he does not totally reject the cumulation of design with copyright protection. But he also criticizes the criterion of level of aesthetic achievement and proposes to use the criterion of 'level of artistic composition' (künstlerischen Gestaltungshöhe) instead.²⁴⁶

In general, it seems that the principle of partial cumulation, with a tendency towards more flexibility in the interpretation of the level of aesthetic achievement by the courts, does not find much support in German legal writings.²⁴⁷ However, Reimer points out that no one has so far been able to come up with a better criterion that is "both equitable and practicable".²⁴⁸ His concluding remarks reflect the actual state of German jurisprudence, namely:

"everyday utilitarian objects can enjoy the protection granted by copyright to works of applied art, when they differ distinctly from the aggregate of already-known forms and when comparison with the latter reveals a high degree of originality".²⁴⁹

²⁴⁶ ULMER, E., Urheber- und Verlagsrecht, Springer Verlag, Berlin, 1980, at p. 50 he writes: "Wir sprechen besser von der künstlerischen Gestaltungshöhe: Der Musterschutz setzt eine eigentümliche Gestaltung voraus, sie auf den Formen- oder den Fabersinn (oder auf beide) wirkt. Erreicht die Gestaltung künstlerische Höhe, so ist auch der weiterreichende Urheberrechtsschutz zu gewähren".

²⁴⁷ For an overview of the most significant viewpoints on this matter, see KUHMAN, C., Der Schutz der angewandten Kunst im deutschen und amerikanischen Urheberrecht, Verlag v. Florentz GmbH, München, 1991, pp. 34-44.

²⁴⁸ REIMER, D., "Les rapports entre la protection du droit d'auteur et la protection des dessins et modèles en droit allemand", R.I.D.A. (okt. 1978) 37-49, at p. 42.

²⁴⁹ REIMER, D., o.c., at p. 48.

IV.3.4.2. Spare parts cases

The Kotflügel-case is a very interesting case concerning spare parts of cars in Germany, not in the least because the Bundesgerichtshof overruled the interpretation given to design law by the lower courts concerning components and half-finished products in general, and of cars in particular.²⁵⁰

A dealer in spare parts of cars contested the design registration by Ford Co. of the wing (Kotflügel) of a Ford Escort model, on the ground that the wing as such could not be protected by design rights. The main argument was -similar to the argument advanced by Armstrong before the House of Lords in the British Leyland v. Armstrong case-²⁵¹ that if spare parts would be allowed design protection, a monopoly would be created as concerns the repair of automobiles. In other words, the applicant sought to obtain a court injunction on the basis of the detrimental effects of design protection on competition in the after-sales market. But although the main argument was similar, the outcome of this case was very different from its British counterpart.

Design protection on components of complex products or half-finished products is not as such provided for in the 1876 Design Act. The only explicit reference to parts of products is to be found in paragraph 7 which deals with the application for a design, where it is stated that:

"If the protection under this Act is only claimed for the arrangement of the surface of a product, the design may be represented by a two-dimensional design of the product or a part thereof instead of a photographic or other graphic representation of the design" (§7, (4); emphasis added).

²⁵⁰ BGH, 16 october 1986, G.R.U.R. (1987) 518-520, with note by Gerstenberg.

²⁵¹ See supra, at pt. IV.3.1.1.C.

The case-law previous to the Kotflügel-case already clarified that -seen from a mere intellectual property angle- components of a design or half-finished products can be protected if they are apt to be protected on their own. This implies that they should constitute a self-contained part which, independently of the complex product, fulfils the requirements of originality and novelty.²⁵² The question posed in the Kotflügel-case adds a new element to the existing case-law, in that it aims at obtaining a balance between the application of intellectual property rules and the need for maintaining competition in the after-sales market.

The Appeal Court (OLG Köln) came to the same conclusion as the Court of first Instance (LG Köln) -but for different reasons-, and ruled that the wing in question could not be protected through design rights.²⁵³ However, it did not come to this conclusion through taking into account the arguments based on the need for competition in the after-sales market. Rather, the Appeal Court -quite interestingly- constructed its reasoning on a strict interpretation of the requirements as contained in design law and further developed by the case-law.²⁵⁴

In first instance, the court (LG Köln) underlined that the previous case-law concerning the protectability of parts

²⁵² For examples of case-law, see KRÜGER, C., "Designs between copyright and industrial design protection", I.I.C. (1984) 168-186, at p. 174 and SEELIG, G., o.c., at pp. 691-692.

²⁵³ OLG Köln, 23 november 1984, G.R.U.R. (1985) 438-440.

²⁵⁴ In his note to this case, Floridaia rightly criticizes this judgment for its lack of consideration of the competition aspects, see FLORIDIA, G., "Ancora sui pezzi di ricambio per macchine", Rivista di Diritto Industriale (1985-II) 497-512.

essentially dealt with already finished products, in the sense that they already had a determinant character, and whose aesthetic effects were obvious in the final product. Furthermore, it concerned merely accessories to, and not components of, the final product. The court differentiates between those products and the wing of a car, on the basis that the latter is a necessary component of a car which was never designed separately, but only as an element of the new car model. Additionally, the component can only be commercialized independently after the car was conceived and brought on the market. This led to the conclusion that the requirement of being autonomously commercializable can only be fulfilled when another essential requirement, namely novelty, is already lacking through the bringing on the market of the complex product, namely the car.²⁵⁵

The Appeal Court (OLG Köln) came to a similar conclusion without examining whether the novelty condition was fulfilled. Firstly, it stressed the peculiarity of the case concerned, namely the fact that it concerned components of an industrial product, i.e. spare parts of cars. Secondly, it recalled that the previous case-law granting design rights to parts already made clear that the part has to fulfil -independently of the final product- the conditions of novelty and originality, as well as having to affect the form and/or colour sense of the viewer. This latter condition was held not to be fulfilled in casu, because the wing does not autonomously appeal to the form and/or colour sense of the viewer, but only adds to the aesthetic appeal of the complex product once incorporated. This finding was backed up by a factual description of the wing concerned both on its own and attached to the car. The conclusion confirmed that one cannot discern an autonomous form or shape that has an aesthetic appeal independently of

²⁵⁵ LG Köln, 4 october 1983, Rivista di Diritto Industriale (1985-II) 498-501; (Italian translation).

the car model. Therefore, according to the Appeal Court, the wing of a car cannot independently fulfil the essential conditions as required by design legislation and as such cannot enjoy design protection. Hence, there was no need to examine further whether the wing concerned lives up to the conditions of novelty and originality.²⁵⁶

This interpretation was refuted by the Bundesgerichtshof on the basis that the Appeal Court had interpreted too narrowly the design law and hence limited its normal scope of application. The court clarified that it is not necessary for the part as such to have an aesthetic effect, if the complete product has an aesthetic effect partly because of that part.²⁵⁷ Only, the part independently has to fulfil the conditions of novelty and originality,²⁵⁸ a question which was not dealt with in substance by the Bundesgerichtshof.

²⁵⁶ In the words of the OLG Köln: "Insbesondere diese in die Gesamtlinienführung des Fahrzeugs eingebundenen Merkmale der hinterlegten Kotflügelmodelle zeigen, daß von einer Eigenständigkeit der Form, die eine von der Gesamtkarosserie unabhängige Wirkung ermöglicht, nicht die Rede sein kann.".. "Vielmehr treten die vorderen Kotflügel des Ford-Escort wegen der beschriebenen Gemeinsamkeiten in ihrer eigenen ästhetischen Wirkung gegenüber der ästhetischen Wirkung der Gesamtkarosserie gänzlich zurück, so daß bereits aus diesem Grund eine Schutzfähigkeit der Kotflügel ausscheidet und es einer Prüfung der weiteren Voraussetzungen des Musterschutzes, insbesondere der Neuheit und Eigentümlichkeit der Modelle, nicht bedarf.", o.c., at p. 440.

²⁵⁷ In the words of the BGH: "Für diese Frage der Modellfähigkeit der äußeren Form kommt es daher auch nicht darauf an, ob -wie das BerG gemeint hat- der fragliche Gegenstand dazu bestimmt ist, für sich allein auf den Geschmackssinn zu wirken, oder ob er -was ausreichend ist- im Rahmen eines Gesamtprodukts seine ihm eigene ästhetische Wirkung entfalten soll und kann", o.c., at p. 519.

²⁵⁸ Remark the difference with the French decision in the Renault v. Maxicar case where it was implied that the body panels of cars are automatically protected if the car model lives up to the design law requirements. See supra, at pt. IV.3.2.2.

In the line of the judgments of the lower courts, the Bundesgerichtshof focused its attention on the interpretation of design law without taking into account its effects upon competition in the after-sales market. But the main difference in approach consists in the fact that the Bundesgerichtshof did not consider components of an industrial product to be any different from accessories or half-finished products as the two lower courts had done.

IV.3.5. ITALY

IV.3.4.1. Legislation

A. INTRODUCTION

Although Italy is world-famous for its designs, protection of industrial designs is more problematic there than in the other countries mentioned. Though one could of course argue that precisely because design protection is more difficult to obtain in Italy, the quality of Italian design is high, since they have to live up to higher standards in order to benefit from legal protection. The general rule is that the external form of an industrial object cannot be protected, unless there is a registration as an ornamental design or in case the requirements are fulfilled to benefit from copyright protection.²⁵⁹ The main principle applying to those two exceptions to the rule of non-protectability is that cumulation of intellectual property protection is prohibited. This implies that for each design the specific protection that applies thereto has to be clearly established.

²⁵⁹ See also PELLEGRINO, G., "Italy", in Traité des dessins et des modèles, Greffe & Greffe, 4° ed., Titre IV, Chapitre V, Paris, 1988, pp. 787-795, at p. 787.

B. DESIGN PROTECTION

Industrial designs can in the first place be protected on the basis of the law of 1940, which foresees in the protection of utility models ('modelli di utilità') and ornamental designs and models ('modelli o disegni ornamentali').²⁶⁰ This law is to a great extent modelled on the patent law, to which it also refers.²⁶¹

Both utility models and ornamental designs have to be registered, are subject to the criteria of novelty and originality, and confer exclusive rights of the patent-type. The difference between those two forms of protection is that the utility model is granted for up to ten years for a model that has a utilitarian function,²⁶² whereas the ornamental model or design is granted for up to fifteen years for a model or design that has an aesthetic value.²⁶³

²⁶⁰ R.D. 25 Agosto 1940, n. 1411, t.u. delle disposizioni legislative in materia di brevetti per marchi d'impresa. See also the application decree R.D. 31 Ottobre 1941, n. 1354, disposizioni regolamentari in materia di brevetti per modelli industriali.

²⁶¹ R.D. 29 Gunio 1939, n. 1127 (patent law), as last modified by L. 21 Febraio 1989, n. 70 and L. 19 Ottobre 1991, n. 349. See FLORIDIA, G., "Invenzione e modelli: evoluzione della legislazione nazionale", Rivista di Diritti Industriale (1985-I) 72-105.

²⁶² See SENA, G., "Modelli industriali", in Enciclopedia del diritto, XXXVI, 1976, Giuffrè editore, pp. 674-686. At p. 677 he points out that the in Article 2595 cc. a utility model is defined as an 'invention' whilst both this article and law n. 1411 of 1940 refer to "un trovato 'atto a conferire particolare efficacia o comodità di applicazione o di impiego' a macchine ed in genere a prodotti industriali."

²⁶³ Article 5 R.D. n. 1411 of 1940 reads: "possono costituire oggetto di brevetti per modelli e disegni ornamentali i nuovi modelli e disegni ati a dare, a determinati prodotti industriali uno speciale ornamento, sia per la forma, sia per una particolare combinazione di linee, di colori o di altri elementi." The duration of protection was

In Italian jurisprudence, there is no consensus as to which invention constitutes a utility model and which should come under patent law, but it seems that the "qualitative theory" (teoria qualitativa), as advocated by Sena, is the most widely accepted theory.²⁶⁴ Rejecting the "quantitative theory" (teoria quantitativa), according to which utility models are in fact petty inventions, Sena maintains that a utility model is the new functional form -and never a new process- obtained through the combination of known elements, and should as such be distinguished from patentable inventions.²⁶⁵ The counter-argument that this interpretation entails that the definition of utility models approaches the one of ornamental designs is discarded on the basis that -by way of exception to the general rule of non-cumulation- utility and ornamental model protection can be obtained simultaneously on the same model. This implies that a designer of a new form which has both a functional and an aesthetic merit does not have to determine which aspect is the most important one, but can apply for the protection of both.²⁶⁶

As stated above, in order to be protected on the basis of law

increased from 4 to 15 years by 'Legge N. 265/77 del 23 maggio 1977'.

²⁶⁴ See FRANZOSI, M., (et.al.), "Sulla nozione di modello di utilità", Rivista di Diritto Industriale (1991-V) 144-153. In this article, the four main theories are analysed, namely: teoria della scelta dell'inventore; teoria quantitativa; teoria qualitativa; teoria dell'effetto tecnico tipico.

²⁶⁵ Sena, o.c., p.678.

²⁶⁶ Raffaelli points out that in practice, the 1940 law puts a heavy burden on industry, because in case the design has both an aesthetic and a functional character, both an ornamental design and an utility model will have to be applied for cumulatively in order to be fully protected. See RAFFAELLI, E., "La tutela des design nell'ordinamento giuridico italiana", Rivista di Diritto Industriale (1991-I) 190-206, at pp. 197-199.

n. 1411 of 1940, industrial designs have to fulfil the conditions of both novelty and originality.²⁶⁷ The novelty requirement is absolute, in the sense that the form has to be unknown before the date of deposit. Prior divulgation anywhere in the world and even if done by the designer himself takes away the benefit of the protection. The criterion of originality as applied in Italian design law does not refer to artistic merit but to a new aesthetical form of expression.²⁶⁸ It avoids the granting of design protection to a form that is a simple modification of already existing ones. This implies that besides proving the novelty -in the sense of absence of anteriorities- of the form, it will also have to be shown that the model or design has a creative merit.²⁶⁹

C. COPYRIGHT PROTECTION

Besides this specific law on industrial designs, also the law on copyright provides in the protection of works of applied art.²⁷⁰ The difference between the two is that industrial design protection applies to what in essence is an industrial product that has been rendered more valuable through its particular form, whereas copyright protection is granted for an industrial object in which an artistic work is embodied.

An essential requirement to come under copyright protection is

²⁶⁷ Art. 5, law n. 1411 of 1940

²⁶⁸ See PELLEGRINO, o.c., p. 788; Raffaelli, o.c., p. 196.

²⁶⁹ Sena writes: "Il giudizio di novità, (..), dovrà quindi fondarsi sull'apporto creativo insito in ciascun modello e non fermarsi alla mera forma nella quale l'idea si realizza, anche se, nel caso dei modelli industriali, il collegamento idea-forma è, per definizione, assai più stretto di quanto non sia normalmente nel caso delle invenzioni industriali", o.c., p. 683.

²⁷⁰ L. 22 Aprile 1941, n. 633, protezione del diritto d'autore e di altri diritti connessi al suo esercizio.

that the artistic merit can be separated from the industrial character of the object to which it is applied.²⁷¹ This is generally referred to as the criterion of 'scindibilità' or 'dissociabilità'. 'Scindibilità' does not mean that the artistic work has to be materially separable from the industrial object. Rather, it is subject to a conceptual interpretation in the sense that it should be possible to conceive the artistic value distinct from the industrial function of the object.²⁷² In other words, the criterion of artistic merit is still in force in Italian copyright law.

The general rule is that cumulation of both the specific design law and the copyright law is excluded. The requirement of 'scindibilità' in the copyright law excludes from its scope of protection mere ornamental models, whereas Article 5, 2 R.D. n. 1411 of 1940 expressly provides that copyright protection does not apply to the ornamental designs and

²⁷¹ Art. 2 Legge n. 633 of 1941 defines the scope of the protection as follows: "le opere della scultura, delle pitture, dell'arte del disegno, della incisione e delle arti figurative similari, compresa la scenografia, anche se applicate all'industria, sempreché il loro valore artistico sia scindibile dal carattere industriale del prodotto al quale sono associate". For an analysis of the different interpretations that have been given to the criterion of 'scindibilità', see MAGELLI, D., "La tutela del design nell'interpretazione della dottrina giuridica e della giurisprudenza", Rivista di Diritto Industriale (1989-I) 205-216.

²⁷² See also PELLEGRINO, o.c., pp. 794-795. At p. 795 he refers to a judgment by the Italian Supreme Court (Sent. 22 Oct. 1956, n.3806) and quotes -in French translation- the following very clear statement by that Court: "L'oeuvre d'art appliquée à l'industrie s'oppose aux modèles et dessins ornementaux parce qu'elle conserve son individualité artistique, tandis que les modèles et les dessins tendent seulement à rendre plus esthétique et plus agréable le produit, n'ont pas une valeur intrinsèquement autonome de représentation et ne peuvent donc se concevoir comme oeuvres en soi, disjointes du produit même".

models.²⁷³ Either one or the other law applies, according to the creative or artistic merit of the design.²⁷⁴

As concerns cars models, and hence also spare parts of cars, only the specific design law n. 1411 of 1940 will apply if the conditions of novelty and originality are fulfilled and if the design is duly registered.²⁷⁵ This is very different from the situation in France -and especially since the screenprints case also in the Benelux- where both the specific design law and the copyright law apply cumulatively and where furthermore the novelty-test to obtain design protection and the originality-test to come under copyright protection is far less stringent.²⁷⁶ On the other hand, it seems to be common practice in Italy, whenever possible, to register spare parts of cars as an ornamental design and/or an utility model in order to prohibit the production of non-original spare parts.²⁷⁷

D. PROPOSALS FOR A NEW DESIGN LAW

Currently, proposals are tabled to bring Italian design law

²⁷³ Cf. for instance FABIANI, M., "Lettre d'Italie", Le Droit d'Auteur (1983) 226-235, at p. 233.

²⁷⁴ See also DE SANCTIS, V., "Diritti di autore", in Enciclopedia del diritto, IV, 1959, Giuffrè editore, pp. 378-430, at p. 405.

²⁷⁵ See DE SANCTIS, V., o.c., p. 405 where he writes: "Restano quindi esclusi dalla protezione del diritto di autore una serie di produzioni industriali di uso commune allorquando non abbiano autonomia di creazione artistica, quali (..) i modelli (..) di carrozzerie di automobile e di altri veicoli"; see also COHEN JEHOAM, H., "La protection des dessins et modèles industriels entre la législation sur le droit d'auteur et celle sur les dessins et modèles: étude comparative", Droit d'Auteur (1983) 313-321, at p. 317.

²⁷⁶ See supra, respectively at points IV.3.2.1. and IV.3.3.1.

²⁷⁷ See RAFFAELLI, E., o.c., p. 203.

into line with the Commission's proposals on the legal protection of industrial designs.²⁷⁸ The essence of the Italian proposals consists in rendering cumulation of design and copyright protection possible.²⁷⁹ The principle of 'scindibilità' would thus be formally abolished, whereas it would be expressly stated that 'works of creative character' in the industrial field may benefit from copyright protection. Nevertheless, the explanations given by the proponents of this proposal in Italian Parliament on the relationship between design right and copyright have cast doubts as to the practical impact of these formal changes. Apparently, the idea they forwarded was that the application of one or the other law would still be dependent on the level of creativity of the work, in the sense that copyright would apply to highly creative works whereas design right would apply to less creative works that are new and original.²⁸⁰ It remains to be seen how the courts will interpret this new design law if and when in force.

IV.3.4.2. Spare parts cases

In Italy, as in Germany and in the United Kingdom,²⁸¹ the cases before the courts have mainly concerned the question whether spare parts of cars as such could benefit from design protection, or whether design protection should only be granted for the complex product, i.e. the car, to the exclusion of the spare parts.

²⁷⁸ On the Commission's proposals, see infra, Chapter V.

²⁷⁹ See CIMOLI, M., "Towards a new Italian design law", E.I.P.R. (1993) 425-427.

²⁸⁰ See the critique by CIMOLI, o.c., at p. 427.

²⁸¹ See supra, respectively at points IV.3.4.2. and IV.3.1.1.

The case-law has left no doubt that according to Italian design law, individual components of complex products can be protected on the condition that they independently fulfil the requirements of novelty, originality and creative character. But the Italian courts, as the British courts, have the merit of having posed a preliminary question to the European Court of Justice -in the Maxicar v. Renault case- on the compatibility of this system with Community law, especially as concerns the principle of free movement of goods and the rules on competition.²⁸² This shows that -at least in some cases- intellectual property rights are situated and analysed in the more global context of its impact on competition and the possible resurrection of barriers to intra-Community trade.

The Court of first instance of Milan (Tribunale di Milano) ruled in the Maxicar versus Renault case that in principle, according to Article 5 R.D. n. 1411 of 1940, there is no limitation to the protectability of industrial products other than having to fulfil the requirements prescribed by design law. It thereby refuted the argument based on an a contrario reasoning compared to utility models, namely that the absence of an explicit mention of protectability of parts in the design law entails that these are excluded from the scope of protection, because the protection of parts is explicitly provided for as concerns utility models. The Court to the contrary held that the argument would only be valid were an express exemption to design protection for parts to be included in the design law.²⁸³

²⁸² For an introduction to this case, see supra Chapter II, at pt. II.4.; for an analysis of this case from the point of view of Community law, see infra, Chapter VIII and IX.

²⁸³ FRANCESCHELLI, R., "Modelli ornamentali di parti di carrozzeria di automobile ed abuso di posizione dominante", Rivista di Diritto Industriale (1988-II) 176-187, at p. 177.

The Court also refuted the argument -which was upheld in Germany by the LG Köln in the Kotflügel case but discarded by the higher courts²⁸⁴- that a distinction should be made between accessories and components of a complex product on the ground that the first are autonomously commercializable products whereas the second are not. According to the Court, this distinction would call for a functional appraisal of the economic destination of a product, whereas design law implies an evaluation of the aesthetic effect of a product.²⁸⁵

Although the Court thus considered the design protection of spare parts of cars to be totally in line with Italian design legislation, it expressed its doubts as to whether the ensuing elimination of competition in the market for bodywork components of cars was also in conformity with the function of design protection. This led the Court to question the compatibility of the exercise of these design rights with Community law and -as mentioned above- induced the Court to refer the matter for interpretation to the European Court of Justice. The latter upheld the full effect of Italian design law in the case concerned through ruling that the rules on free movement of goods do not preclude the application of Italian design law to spare parts of cars and that the mere exercise of design rights on spare parts of cars does not in itself constitute an abuse of a dominant position.²⁸⁶

²⁸⁴ See supra, at pt. IV.3.4.2.

²⁸⁵ FRANCESCHELLI, R., o.c., at p. 178.

²⁸⁶ Case 53/87, Maxicar v. Renault, Judgment of 5 October 1988, E.C.R. (1988) 6039. On the analysis of the Court, see infra, Chapters VIII and IX.

IV.4. CATEGORIZATION OF NATIONAL APPROACHES

It is obvious from the foregoing illustration that the legal systems in force in the different Member States vary greatly from one another. Other than the fact that all seven Member States mentioned above have a specific design legislation,²⁸⁷ and that designs dictated by their function are generally excluded from design protection,²⁸⁸ there is no common principle to be discerned that applies unequivocally in all of these countries.²⁸⁹

IV.4.1. SPECIFIC DESIGN LEGISLATION

Looking only at design legislation, without taking the subtleties developed by case-law into account, trying to summarize the main features of the different laws already gives a picture that looks rather like a puzzle.

All seven Member States have a system of registered designs. But in the United Kingdom, there also exists the possibility of unregistered design protection, which renders this formal aspect disparate. The duration of registered design protection varies from maximum 15 years (Benelux; Italy) to maximum 50 years (France) from deposit. All Member States require novelty, some of which absolute novelty (France; Italy),

²⁸⁷ But one should not forget that even this does not hold true when extending the terms of reference to all Member States, since Greece does not yet have a specific design legislation.

²⁸⁸ Although different tests apply to establish when design is considered to be dictated by its function.

²⁸⁹ See for instance the tables of design protection by country, covering the Benelux, Germany, Italy, Spain and the UK, given by FIRTH, A., "Aspects of design protection in Europe", E.I.P.R. (1993) 42-47, at pp. 45-47.

others relative novelty (Benelux, both limited in time and space; United Kingdom and Germany, both limited in space but along different criteria). But besides novelty, originality in the sense of distinctiveness (France) or creative merit (Germany; Italy) may also be a prerequisite to obtain design protection. And to give a last example, design protection usually confers an exclusive right of the patent-type, except for Germany where the design holder is only protected against imitation of his work.

These disparities in national design legislation make it impossible to try and categorize the national approaches as far as the specific design legislation alone is concerned. Taking one criterion as terms of reference would automatically lead to a series of exceptions and subdivisions as far as the other important features of design protection are concerned.

IV.4.2. COMPONENTS OF COMPLEX PRODUCTS

Looking at the case-law, it is apparent that in the six original Member States, obtaining design protection for components of complex products, and specifically spare parts of cars, is not excluded. The general condition to enjoy protection seems to be that those parts should fulfil the basic requirements provided for in the national design legislation. But because these basic requirements are very different, the design protection given on one particular spare part may vary greatly from one Member State to another. Generally speaking, it seems that components are treated no differently than accessories or the complex product of which they are a part.

This general picture has to be somewhat modified as concerns body panels of cars. Body panels seem to enjoy a special status in France, since it was held in the Renault v. Maxicar case that the design protection granted to the car

automatically extends to its constitutive body panels.²⁸⁰ This is diametrically opposed to the situation in Italy, where each body panel has to fulfil the requirements of design law independently from the complex product, i.e. the car.²⁹¹ Germany seems to hold an in-between position. There the Bundesgerichtshof has held that body panels have to live up to the novelty and originality requirements independently from the car, but as the aesthetic appeal condition is concerned it suffices that this is fulfilled when the part is incorporated into the car.²⁹²

The analyses made by the national courts in the six original Member States are mainly -if not exclusively- concerned with the application of intellectual property provisions, with little or no concern for the global -competitive- context against which the facts are to be projected. It is not surprising, therefore, that the special problems posed through the peculiarity of the structure of the after-sales market - which is the only market on which the components are autonomously commercialized- are not taken into account.

The situation is totally different in the United Kingdom where the case-law has endeavoured to acknowledge the different objectives at stake and to strike a balance between the need for adequate intellectual property protection, competition policy and protection of consumer interests. In the United Kingdom, the right to repair is considered to be a fundamental right which has to be weighed against the fundamental right of the holder of a design. This has found its expression in the new design legislation which in principle provides in design protection for parts in general -but for spare parts of cars

²⁸⁰ See supra, at pt. IV.3.2.2.

²⁹¹ See supra, at pt. IV.3.5.2., Maxicar v. Renault case.

²⁹² See supra, at pt. IV.3.4.2., Kotflügel case.

in particular-, whereas it excludes those parts that 'must match' and 'must fit' the complex product.

IV.4.3. CUMULATION WITH COPYRIGHT PROTECTION

Other than the differences in intellectual property protection for spare parts of cars which are due to the divergent national specific design legislations and the different approaches and interpretations given thereto by the courts, the reply to the question whether or not cumulation with copyright protection is possible gives rise to further discordance. Traditionally, three approaches are distinguished, namely double protection or total cumulation, partial cumulation, or no cumulation at all.²⁹³ Although in practice this distinction is far less clear-cut than the terminology might suggest, the classical three-tier categorization is still useful for theoretical purposes.

IV.4.3.1. System of double protection

The schoolbook-example of a system of double protection or total cumulation is the French system based on the theory of the unity of art.²⁹⁴ Design protection automatically entails

²⁹³ See for instance LIMPBERG, T., "Het regime van de bescherming van tekeningen en modellen van nijverheid", B.I.E. (1987) 4-8, at p. 4 where he makes the distinction between the three systems in the EEC: "stelsel van dubbele bescherming", "stelsel van een specifieke wettelijke bescherming", "beperkt cumulatief stelsel". See also PEROT-MOREL, M.-A., "Les projets communautaires en matière de dessins et modèles industriels", Rivista di Diritto Industriale (1981-I) 378-393, at p. 381, where she distinguishes between the three great tendencies in the Common Market and goes on to state: "Ces oppositions sont donc fondamentales et semblent constituer un obstacle insurmontable à l'établissement d'un système de protection unitaire dans le cadre de la CEE."

²⁹⁴ See supra, pt. IV.3.2.1.

copyright protection, whereas copyright protection can be granted independently if, for instance, the registration requirement under design law has not been fulfilled. The total cumulation has obvious advantages, such as the choice of infringement proceedings and the different penalties this entails. Furthermore, total cumulation implies that a valid design will still enjoy protection against imitation until 50 years after the death of the author, once the exclusive design rights of a patent-type have expired. Only the independently created similar designs will then no longer be prohibited.

IV.4.3.2. System of partial cumulation

Both Germany and the Benelux have a system of partial cumulation. This means that design protection does not automatically entail copyright protection as in France, but that a design can be protected by both laws if it fulfils the conditions of both laws. It is obvious that the more the conditions under both laws are similar or interpreted along similar criteria, the greater the cumulation will be in practice.

In the Benelux, the interpretation given by the Benelux-court in the Screenprints-case of the design copyright condition of 'markedly artistic character', in the sense that it does not imply an artistic merit but rather a kind of originality, has -contrary to the until then prevailing opinion- approached the subject-matter of copyright protection to that of design protection and opened the door to a system of almost complete cumulation.²⁹⁵

In Germany, the condition for cumulation is that the design is also qualified as 'a work of art', but the tendency in the case-law equally goes in the direction of a flexible

²⁹⁵ See supra, pt. IV.3.3.1.

interpretation of this concept.²⁹⁶ As such, it seems that the cumulation criteria also here become less stringent over time.

The United Kingdom can also be included under the heading 'systems with partial cumulation', although the situation is different here than in the Benelux or Germany. The 1988 Copyright, Designs and Patent Act also foresees in the cumulation of the three systems of design protection -namely registered and unregistered design protection and copyright- on the condition that the criteria embodied in each law are fulfilled. It is generally thought that a design that qualifies for registered designs protection will also automatically qualify for unregistered design protection, but not necessarily vice-versa. Cumulation between copyright and unregistered design protection is theoretically also possible, although in practice most designs will be caught by the design copyright exemption. Furthermore, when this situation does occur, then only the copyright law will be enforceable.²⁹⁷

IV.4.3.3. System of single protection

Only Italy currently formally excludes the cumulation of design with copyright protection, on the basis of the criterion of 'scindibilità'. Copyright protection is only granted to a work of applied art that has an artistic value which can be distinguished from the industrial function of the object. In that case design protection is excluded.²⁹⁸ However, except for certain rare cases, the general rule is that industrially applicable designs will only enjoy specific design protection. It remains to be seen whether the coming

²⁹⁶ See supra, pt. IV.3.4.

²⁹⁷ See supra, pt. IV.3.1.2.

²⁹⁸ See supra, pt. IV.3.5.2.

into force of the proposals for a new design law, which formally abolish the principle of non-cumulation, will in practice bring about a significant change.

IV.5. CONCLUSION

The conclusion to this overview of the law and practice concerning design protection in seven Member States can be no other than that harmonization or approximation of national legislation is urgently needed if the EC is to be regarded as a single market. The current situation is detrimental to all industries -be it car manufacturers or independent spare part manufacturers- that want to do business in the whole of the Community, since the rules applicable in the different Member States are very divergent and far from being transparent.

But even more important than the question of harmonization is the observation that -in most Member States- the granting of design rights is only considered -both by the legislators and by the Courts- purely from the perspective of safeguarding intellectual property rights. It thereby seems to be disregarded that the enforcement of design rights has immediate consequences on competition, both on the home market and in EC-context, which might not be justified in terms of the objective of design protection.

The effect on competition is particularly noticeable as concerns replacement parts of complex products. For certain spare parts of cars, the granting of design rights automatically creates a monopoly position in the tied market of replacement parts. This is different from the situation for the car itself, because the enforcement of design rights on the car do not prevent competition taking place between car manufacturers. And yet, in both cases the design holder only enforces his legally granted exclusive right.

This implies that it is up to the national legislators in the first place, and to the courts in second order, to take a coordinated and overall approach to this specific problem. This could possibly be done through determining what the function of design protection should be and which limits should be posed thereto in view of other interests, such as consumer interests or free competition.

Up till now, an overall approach has only been adopted in the United Kingdom, whereas in the other Member States the 'intellectual property enforcement approach' prevails. As such, it is submitted that the disparities currently existing within the EC are even more fundamental and deeper-rooted than one would assume by merely comparing the different and divergent national design legislations. It therefore seems all the more urgent that an acceptable and uniform solution should be elaborated at Community level, although it goes without saying that this will not be evident considering the national interests at stake. The next chapter looks at how the Commission proposes to remedy this situation, whereas the following two parts will analyze the approach taken by the European Court of Justice.

CHAPTER V. THE COMMISSION'S PROPOSALS ON THE LEGAL PROTECTION OF INDUSTRIAL DESIGNS

V.1. INTRODUCTION

It goes without saying that the differences in the national approaches towards design rights -and, as seen in the previous chapter, especially as concerns the design protection on spare parts of cars- jeopardizes the achievement of the objective to create one internal market for the whole Community.¹ Divergences in the approach taken to industrial designs, in the type of protection offered, and in the requirements to and duration of the national intellectual property rights applicable to designs, gives rise to a situation whereby national barriers are to a great extent kept in force in spite of the principle of free movement of goods and whereby the competitive structure of the market concerned varies from one Member State to another in spite of the application of the rules on competition.²

To remedy this situation, the Commission is currently trying to elaborate a system of Community Designs modelled on the approach adopted concerning the Community Trademark,³ namely introducing both a directive to approximate national design laws and a regulation introducing the Community Design based on a Community-wide territoriality principle. The Green Paper of June 1991 was a first initiative in this sense and at the Hearing of the Commission on the Green Paper in Brussels, 25

¹ See supra Chapter IV.

² See infra Chapter VI, at pt. VI.4., where an overview is given of the case-law of the Court of Justice concerning the relationship between intellectual property rights on the one hand and free movement of goods and competition on the other hand.

³ See infra Chapter VI, at pt. VI.3.2.3.

and 26 February 1992, some amendments to the text were proposed.⁴ This resulted in the recently tabled proposals on a Regulation on the Community Design and a Directive on the legal protection of designs.⁵

The proposals as laid down in the Green Paper were to a large extent influenced by the 'Draft European Design Law' elaborated by the Max Planck Institute.⁶ It would, however, lead us to far away from the topic under discussion to compare the two proposals, so that it might suffice here to point out that the Max Planck draft only dealt with Community design protection and not with harmonizing national legislation.⁷

At the moment it is difficult to tell when the Community Design Directive and Regulation will finally be adopted, but considering the fact that already in 1959 a Working Party on industrial designs was established to elaborate such a system⁸

⁴ Green Paper on the Legal Protection of Industrial Design, III/F/5131/91, June 1991. Reference will be made to the Hearing where appropriate.

⁵ Respectively COM (93) 342 final and COM (93) 344 final, both of 3 December 1993.

⁶ For the full text, see GOTZEN, F., (ed.), The Green paper on the Legal Protection of Industrial Design, Story Scientia, Brussels, 1992, pp. 87-106. See also the explanation given by one of the drafters of the Munich Max Planck Institute for Foreign and International Patent, Copyright, and Competition Law, Dr. A. KUR, "The Max Planck Draft for a European Design Law", in Gotzen, F., (ed.), o.c., at pp. 15-26.

⁷ On the Max Planck Proposal, see also the opinion by CORNISH, W.R., "Designs again", E.I.P.R. (1991) 3-4. For a comparison between the Max Planck Proposal, the Green Paper and the UK Copyright Designs and Patents Act 1988, see HORTON, A., "Industrial Design Law: the future for Europe", E.I.P.R. (1991) 442-448.

⁸ See Green Paper, Explanatory Memorandum, pt. 1.1. and 1.2. where it is stated that the conclusion of the 1962 report by the Working Party chaired by Sig. Roscioni was that "..the

and that the Community Trademark Regulation still has not been adopted even though it was officially tabled as early as 1980, it might still take a while before a solution acceptable to all Member States will be found.

Although the Commission's proposals are likely to be somewhat modified in the final version which will eventually be adopted by the European Parliament and the Council, it is indispensable for the topic under discussion to take the scope and the impact of this Community initiative into consideration and to highlight some of the issues which will have a direct bearing on the legal protection of spare parts of cars.

V.2. THE PROPOSALS IN GENERAL

In its introduction to the Green Paper, the Commission pointed out that the issue of legal protection of industrial designs has become increasingly important over recent years due to the place design products now occupy in the economy. Design rights, just as the other intellectual property rights, are more and more regarded as trade assets and as a means to influence the competitive position on the market. The Commission implicitly recognises this through stating that "(s)uperior design is an important instrument for European industries in their competition with industries from third countries with lower production costs".⁹

Because the divergences in national design legislation are

differences existing in the national legislations were so extensive that it would be almost hopeless to undertake harmonization.." and that it was suggested "..that there might be room for the creation of an autonomous Community legislation on Industrial Designs, which could co-exist with the national legislations".

⁹ Green Paper, Explanatory Memorandum, General Introduction, p. 2. See also COM (93) 342 final, at pt. 3.3.

detrimental to the achievement of the internal market, the Commission has taken the initiative to elaborate a Community Design system from the perspective of the economic value which the appearance of products has.¹⁰ The following five aspects are retained as being important considerations in the existing national design legislations:

- "a) the wish to promote investment in design development as an element of industrial policy,
- b) the need to protect creativity in respect of industrial design seen as an expression of the designer's creativity,
- c) the need to avoid confusion of consumers as to the origin of products having an identical or similar appearance,
- d) design as a meaningful contribution to technical innovation,
- e) the respect of the principle of fairness in trade."¹¹

The Commission also specifically endeavours to smoothen out the differences which currently exist in the Member States concerning design protection on spare parts of cars, whilst giving due regard to the other Community policies. The drafter of the Green Paper, B. Posner, wrote:

"One of the hot issues of design protection in the last years has been the protection of components of spare parts. I take it that I do not need to recall the history and the battles which have been fought in the UK on the protection of exhaust pipes and the like. The Commission has been following this discussion since the mid eighties and it was quite clear to me from the outset that we would have to find a compromise solution which was coherent with Commission policies in other areas".¹²

This compromise solution proposed by the Commission in the

¹⁰ Green Paper, Explanatory Memorandum, pt. 2.1.2.

¹¹ *id.*, pt. 2.2.1.

¹² POSNER, B., "The Community Design: purpose and scope of the Green Paper on the legal protection of industrial design", in Gotzen, F., (ed.), O.C., pp. 1-11, at p. 10. On the evolution in the UK spare parts debate, see supra, Chapter IV, at pt. IV.3.1.

Green Paper was merely to exclude 'interconnections' from Community design protection.¹³ However, the spare parts debate proved to be the most controversial issue during the Hearing,¹⁴ and finally led the Commission to insert a repair clause in its current proposals.¹⁵

As already mentioned above, the aim of the Commission's proposals is to introduce a Directive in order to approximate national design laws as well as a Regulation providing in a system of Community wide design protection. This implies that in principle national design legislation, although in an approximated form as concerns substantive features of the protection, will co-exist alongside the Community Design.¹⁶

The objective of the approximation of national design laws is to introduce common rules covering some, but not all the designs currently in force in the Member States.¹⁷ For instance, the Community design will not affect the UK system

¹³ See infra, at pt. V.3.3.

¹⁴ See COM (93) 342 final, at pt. 7.3.

¹⁵ Id., at pts. 9.3.- 9.5. On the repair clause, see infra, at pt. V.3.3.3.

¹⁶ See also infra, at pt. V.3.4.2.1.

¹⁷ See GROVES, P., "Don't be vague: towards an international system for design registration", European Business Law Review (1992) 230-233, at p. 231, where he maintains that this implies that "those left over may be protected, or not, as the Member State wishes".

of unregistered design protection.¹⁶ Approximation also implies that the national territoriality principle is left intact. Therefore, approximation of national design laws will not totally remedy the obstacles posed to the free circulation of goods.¹⁹ Similarly, the introduction of a Community Design based on a 'Community territoriality principle' will not in itself solve the problems posed concerning the relationship between competition rules and intellectual property rights. Regard must therefore be had to the type of protection which is envisaged in the proposals in order to assess the changes that it will bring about.

As far as the Community Design is concerned, two different forms of legal protection would be available, namely an Unregistered Community Design and a Registered Community Design, but the conditions for obtaining one or the other would be the same.²⁰ The major difference between the two types of protection lies in the nature of the rights they confer.

The Unregistered Community Design is, as the name suggests, a design right which requires no formalities. It is granted for a limited period of time -the Commission tentatively proposes

¹⁶ See POSNER, B., O.C., at p. 5. The reason given for this is that in the UK, copyright will hardly ever be applicable to industrial designs so that the unregistered design system can be assimilated to the copyright protection offered in the other Member States. To remove the UK system of unregistered design protection as it currently exists would have as a consequence that only registered designs could be protected.

¹⁹ See infra, Chapter VI, at pt. VI.3.3.

²⁰ See infra, pt. V.3., for the most important features of the protection offered. Currently, only the UK has a system of unregistered design protection, but both the conditions to obtain protection and the scope of protection offered are very different from the system of registered designs protection, see supra, Chapter IV, at pt. IV.3.1.2.

three years- and offers protection against unauthorized reproduction. The term of protection starts with the first disclosure of the design to the public.²¹ The protection against unauthorized reproduction embodies protection against slavish reproduction and against imitation. The Commission pointed out in the Green paper that in both cases "a subjective element of fraud or at least of negligence in the person infringing the design owner's rights" is presupposed.²² At the Hearing, the Commission modified its view in order to take into account the criticism that this implies that no protection is given against acts of a third person who is not involved in the copying itself but who trades in the copied products. To remedy this situation, the Commission currently proposes the following formulation:

"An Unregistered Community Design shall confer on its holder the right to prevent any third party not having his consent from copying the design or from using a design included within the scope of protection of the Unregistered Community Design and resulting from such copying. The aforementioned use shall, in particular, cover the making, offering, putting on the market or using a product in which such a design is incorporated or to which it is applied, and the importing, exporting or stocking of such a product for those purposes."²³

The Registered Community Design, on the other hand, is, as the name suggests, subject to registration and is valid for up to 25 years on the basis of a 5 years renewal term. The protection granted here is much wider in scope since it confers exclusive rights to the design holder. It is a patent-

²¹ Green Paper, Explanatory Memorandum, pt. 6.2.1., COM (93) 342 final, Articles 7a and 12.

²² *id.*, pt. 6.4.2. Article 17 Draft Regulation states "An Unregistered Community Design shall confer on its proprietor the exclusive right to prevent any third party not having his consent from copying the design for commercial purposes". See Green Paper, Annex I.

²³ Article 20 Draft Regulation, COM (93) 342 final.

type of monopoly whereby no fault or negligence on behalf of the infringer has to be established. This would mean a major change to the German design law, which currently only offers protection against imitation.²⁴ Article 21 of the proposed Regulation reads:

"A Registered Community Design shall confer on its holder the exclusive right to prevent any third party not having his consent from using a design included within the scope of protection of the Registered Community Design. The aforementioned use shall, in particular, cover the making, offering, putting on the market or using of a product in which such a design is incorporated or to which it is applied, and the importing, exporting or stocking of such a product for those purposes."

The proposed Regulation furthermore provides in a grace period of one year, the applicability of the Community exhaustion principle, as well as provisions on entitlement to, application and registration of Community designs, etc.. . It is not the purpose of this study to give a complete analysis of the proposals. In the next section, only the issues most relevant to the topic under discussion, namely design protection on spare parts of cars, will be highlighted.

V.3. DESIGN PROTECTION ON SPARE PARTS: SOME RELEVANT ISSUES

Several provisions which the Commission proposes have a direct or indirect bearing on the competitive position of the spare parts vis-à-vis the automobile industry. Obviously, the way in which a design is defined is of primordial importance to determine whether and on which spare parts design protection can be invoked. The central question hereby is what exactly will be protected, namely aesthetical and/or functional designs. A second important factor is the requirements needed

²⁴ See supra, Chapter IV, at pt. IV.3.4.1.

to obtain this protection. The Commission initially proposed the concept of 'distinctive character', which is now broken down into two distinct criteria, namely novelty and individual character. The answer to the question what is understood by these notions and whether they are two distinct criteria or one single requirement will again influence the degree to which design protection can be sought on spare parts. Another crucial issue, which is especially important as concerns spare parts for cars, concerns the proposed solution to the problem of interconnections. To use terminology introduced by the UK legislator,²⁵ a 'must-fit' exception was already provided for in the Green paper, whereas the problem of 'must-match' has only partially been dealt with in the final proposals. This raises questions as to the underlying perception of the function of design protection. Furthermore, provisions concerning the registration procedure and co-existence with national protection systems also have an impact on design protection on spare parts.

V.3.1. THE DEFINITION OF DESIGN

The debate concerning the definition of design in essence turns around the fundamental question whether and to what extent functional designs should be included in the scope of protection offered. Where for aesthetical designs there is little room for discussion, for functional designs on the contrary the outcome is largely influenced by policy objectives and hence can be subject to criticism.

The original definition of design, proposed by the Commission in the Green paper reads as follows:

²⁵ See supra, Chapter IV, at pt. IV.3.1.2. for the definition of the 'must-fit' and 'must-match'-exceptions.

"'Design' shall mean the two-dimensional or three-dimensional features of the appearance of a product, which are capable of being perceived by the human senses as regards form and/or colour and which are not dictated solely by the technical function of the product."²⁶

V.3.1.1. Part one: the rule

As concerns the first part of the definition, namely the perception by the human senses, the Commission stated clearly in the explanatory memorandum that its aim is to offer as broad a protection as possible, whereby only those features of a product are excluded which are totally irrelevant for its appearance.²⁷ But the fact that the appearance of a product is not material to the purchaser is not relevant in the Commission's view.²⁸ As such, both functional and aesthetic designs would be able to enjoy design protection.²⁹ This implies that the UK Registered Designs Act would have to be

²⁶ Article 3 Draft Regulation and Article 1 Draft Regulation, Green paper, respectively Annex I and Annex II.

²⁷ Green Paper, Explanatory Memorandum, pt. 5.4.7. In point 5.4.7.3. it is submitted that "the protection under a Community Design should only exclude those features of a product which cannot be perceived by the human senses as regards form and colour when contemplating or handling the product".

²⁸ *id.*, pt. 5.4.8.

²⁹ See POSNER, B., *o.c.*, at p. 7, where he writes: "The draftsmen felt that the distinction between aesthetic and functional designs is by and large artificial. It was felt that every design irrespective of its purpose or artistic character should be protected unless the designers had no choice as regards the form, if a specific technical function had to be respected. Therefore we excluded only designs dictated exclusively by a technical function provided of course the design can be perceived by the human senses".

thoroughly amended.³⁰

Applying this rule to complex products, this is products which are composed of different components, it is submitted that "each of the components, insofar as it belongs to the visible part of the complex product, may be protected as a Community Design".³¹ In principle this would mean that spare parts which are not visible to the purchaser of a car, for instance because they are hidden under body panels, cannot be protected. Even though at first sight this seems to be a clear-cut rule, it is not totally clear when internal parts would be classified as being visible. The Commission gave the example of internal parts being visible through transparent packages. These were considered to be protectable. But what about parts which lay under the bonnet of a car? How visible should they be in order to benefit from design protection, for instance does it suffice that the bonnet can be opened at the time of purchase at the request of the purchaser?³² On the other hand, spare parts which are visible to the purchaser and live up to the requirements for protection would be protectable, even though their individual design might not influence the choice of the purchaser.

The Commission added, however, that a further requirement is that the component is considered as a product "having its own

³⁰ See supra, Chapter IV, at pt. IV.3.1.2.

³¹ id., pt. 5.4.9.

³² In the United States, one of the conditions to obtain a design patent is that the features of the design for which protection is sought are 'visible during use'. There is case-law excluding replacement, sale and display from this notion. But a contrary view has been expressed by a Federal Circuit Court in the In re Webb decision, namely that what matters is that the article is visible at least at some stage during its lifetime. See BERMAN, C., and LAMBRECHT, N., "Designs in the United States and Japan", E.I.P.R. (1992) 37-48, at pp. 40-41.

market, even if it be for a limited circle of specialists who deal with the assembling or repair of the complex product."³³ The Commission did not define what it understood by an own market so that it could be assumed that what is meant is that a particular spare part should be considered to constitute a 'relevant product market' under the rules of competition in order to benefit from design protection.³⁴ Considering the fact that granting intellectual property rights alters the competitive structure in the market, it would be inconsistent to use a different test to determine 'own relevant market' according to whether design or competition rules are applied. Using a less stringent test for granting design protection on components of complex products would amount to giving a legal monopoly on spare parts without retaining the possibility of curtailing an abuse of this right through the application of Article 86 EEC.³⁵ However, this might give rise to practical difficulties because the authorities that grant design protection are different from the ones that apply the competition rules.

In practical terms, it would thus seem, according to the explanation given by the Commission in the Green paper, that design protection on a spare part is subject to the following three cumulative criteria: it should be visible in the complex product, i.e. a car, fulfil in itself the requirements of

³³ *id.*, pt. 5.4.9.. The Commission emphasises that "the product cannot derive its protection from the complex product of which it forms part".

³⁴ For an analysis of the concept 'relevant product market' relating to spare parts of cars, see *infra* Chapter IX, at pt. IX.3.2.

³⁵ This would be so because under Article 86 EEC the relevant product market is one of the main criteria to establish whether there is a dominant position. On the specificity of the spare parts after-market in relation to Article 86 EEC, cf. *infra* Chapter IX.

design protection and constitute a relevant product market under the competition rules. The Commission does not, however, intend it this way. In its Working Paper N° 6, the Commission took cars and spare parts as the example of a complex product, on the basis of which it developed the following, rather dubious, reasoning.³⁶ The registration of the design of a new car model does not imply that the individual components are protected, therefore registration is needed for each relevant component. As concerns the interior parts, such as the engine, it is not protected by the registration of the car. However, it can be commercialised as a product and as such design protection can be applied for. "It is therefore not the foreseen use of a product, which is decisive for whether it is protectable, but the way in which it is commercialised".³⁷

The reasoning developed here by the Commission seems to contain at least two fallacies. The first fallacy lies in the fact, as the Commission first points out, that no individual component is protected through the registration of the car, so that interior parts are no exception to this rule as the above reasoning seems to imply. Secondly, in its example the Commission negates the importance of the factor 'visible in the complex product' - whereas this constitutes one of the essential criteria in the Green Paper - and replaces it by the criterion of 'possible ways of commercialisation'.³⁸ Since another condition for design protection already is that the component should have its own product market, the additional

³⁶ The legal protection of industrial design: Hearing on the Green Paper (III/F/5131-91) of June 1991, Brussels 25 and 26 February 1992, Working Paper N° 6, Definition of Design, pts. 4.1. - 4.3.

³⁷ *id.*, pt. 4.3.

³⁸ The expression 'possible ways of commercialisation' is used here, because the engine will be commercialised both as a part of the car and as a spare part.

criterion of possible ways of commercialisation of the component becomes obsolete because it will always be fulfilled where it is established that there is a relevant product market.

In essence, the analysis of the example given by the Commission in Working Paper N° 6 led to the conclusion that both the car and the individual components, regardless of whether they are interior or visible, are thus in principle subject to design right protection in the same way. This is confirmed by the final proposals. The new definition of industrial design specifically mentions parts, but merely reads:

"(a) 'design' means the appearance of the whole or part of a product resulting from the specific features of lines, contours, colours, shape and/or materials of the product itself and/or its ornamentation".³⁸

In the explained that for a part of a complex product to benefit from design protection, it should be possible to market the part separately and the design should comply with the requirement for protection.⁴⁰ The new Article 4 (2) makes clear that it is the design of the part of a complex product that has to fulfil the requirements of novelty and individual character for the part to benefit from design protection, and not the design of the complex product.

V.3.1.2. Part two: the exception

The second part of the original definition constituted the so-called 'negative approach', excluding shapes which are solely dictated by the technical function of a product. The

³⁸ Article 3 (a), COM (93) 342 final.

⁴⁰ COM (93) 342 final, at p. 11.

Commission explained that the underlying idea is to draw the separation line between design and patent protection through a concept present in copyright law in the idea/expression dichotomy.⁴¹ As such, excluded from protection is the shape which is solely dictated by the function of the product, in the sense that only one shape is possible to achieve the envisaged objective.⁴² As soon as one alternative design is feasible, design protection is no longer excluded.

It seems that the Commission wants to introduce the concept of originality, without explicitly mentioning it in the definition. Novelty will not be sufficient in the absence of originality.⁴³ In the words of the Commission, "the protection of 'design' should be achieved not by instruments which protect a 'concept' or 'idea', but by instruments which protect features of appearance".⁴⁴ However, it should be reminded that this 'implied originality requirement' can apply to both the functional or aesthetical aspects of a product, since purely functional designs are not as such excluded from design protection. The fact that the definition implies that both registered and unregistered design protection can be obtained on products the aesthetical importance of which is negligible, or on highly functional products is, according to

⁴¹ Green Paper, Explanatory Memorandum, pt. 5.4.6. At pt. 5.4.6.2. it is stated that "(w)hat is meant is in reality that if there is no choice when designing a product with a given effect, there is no personal creativity displayed and consequently nothing to protect - at least under copyright or design law".

⁴² Compare to the test applied in the Benelux, see supra, Chapter IV, at pt. IV.3.3.1.

⁴³ See infra, at pt. V.3.2., for the concept of novelty.

⁴⁴ Green Paper, Explanatory Memorandum, pt. 5.4.3.4. Also in copyright law, it is not the original idea, but only the original way in which an idea is expressed which is protected.

the Commission, "not only correct but also intended".⁴⁵ As concerns registered designs, this is radically opposed to the view of the UK legislator who maintains that registered design protection should only be given for 'genuinely aesthetic designs'.⁴⁶

In this sense, the definition proposed by the Commission is as broad as it possibly can be as concerns the scope of design protection. Spare parts of cars which merely have a technical function - and this is so for most of them - will not lose the benefit of design protection because they do not have an aesthetical value, unless there is a total absence of originality but rather a functional need which made the shape of the spare part imperative. This is confirmed by Article 9 (1) of the final proposals, which reads:

"A Community Design right shall not subsist in a design to the extent that the realization of a technical function leaves no freedom as regards arbitrary features of appearance".⁴⁷

By way of a tentative preliminary conclusion, it can thus be held that the definition of design will apply to spare parts if the spare part concerned individually fulfils the requirements posed to design protection and if it can be individually marketed. Definitely excluded from design protection are only those spare parts which imperatively had to be designed in one specific way in order to fulfil a technical function.

V.3.2. REQUIREMENTS FOR PROTECTION

Article 4 of the Draft Regulation stipulates which conditions

⁴⁵ Working Paper N° 6, pt. 3.1.

⁴⁶ See supra, Chapter IV, at pt. IV.3.1.2.

⁴⁷ COM (93) 342 final.

a design, as defined in Article 3, has to fulfil in order to qualify for protection. The essential element in the Green Paper was that the design should have a 'distinctive character'.⁴⁸ This concept was explained as follows:

"a design shall have a distinctive character if, at the relevant date,
- it is not known to the circles specialised in the sector concerned operating within the Community and,
- through the overall impression it displays in the eyes of the relevant public, it distinguishes itself from any other design known to such circles".⁴⁹

As such, 'distinctive character' constituted a single unitary requirement, which was in fact a two-stage test concerning novelty and distinctiveness.

It goes without saying that the formulation of the requirements -and the interpretation given to them- has a direct impact on design protection on spare parts of cars. The more severe the requirements will be, the fewer spare parts will qualify for protection and vice versa. However, it should emphasised in this respect that there will be no examination prior to registration. These criteria would not be applied at the moment of granting a registered design right but would merely need to be taken into consideration by the judge in case the design is contested in court.⁵⁰ Given the cost of court proceedings, this will inevitably lead to the

⁴⁸ Article 4 (1) Draft Regulation and Article 3 (2) Draft Directive as annexed to the Green Paper. On the criterion of distinctiveness in French design law, see supra, Chapter IV, at pt. IV.3.2.1.

⁴⁹ *id.*, Article 4 (2) Draft Regulation and Article 3 (3) Draft Directive. The latter also defines 'relevant date'. Article 4 (3) Draft Regulation defines what shall be considered as the relevant date for the Community Design.

⁵⁰ Green Paper, Explanatory Memorandum, pt. 5.5.7., COM (93) 342 final, at pt. 8.7.

maintenance of a number of invalid designs, i.e. which are granted design protection without fulfilling these requirements, for the full duration of the protection. This will further be enhanced through the proposal to allow for multiple deposits.⁵¹

V.3.2.1. The notion 'distinctive character'

The use of the concept 'distinctive character' as the common denominator for the two underlying criteria seemed to imply that the Commission took a trademark approach towards designs. In its justification for choosing this terminology, the Commission argued that the difference with the trademark terminology lays in the fact that in the latter "'distinctiveness' is measured in relation to the origin of the products, by permitting the identification of the different undertakings which have manufactured, or traded in, the products in question" whereas for designs "'distinctiveness' is measured in the relation of a design to a similar one".⁵²

This differentiation seemed to be rather artificial. The function of a trademark is indeed to guarantee the origin of the marked product to the consumer, through allowing him without any possibility of confusion to distinguish between those products and products with a different origin.⁵³ The function of a trademark thus is primarily to allow consumers to distinguish between goods with a different commercial origin. But this is only possible if the trademark itself is

⁵¹ See *infra*, at pt. V.3.4.1.

⁵² *id.*, pt. 5.5.9.2.

⁵³ See *supra*, Chapter III, at pt. III.3.4.

distinct enough from all other trademarks. As such, distinctiveness will firstly be measured in the relation of a trademark to a similar one in order to establish whether the consumer can be deceived through the co-existence of both trademarks on one market. It should also not be neglected that well known designs in many cases fulfil the same function as a trademark, and that the Commission in the Green paper explicitly referred to this marketing function of the design in its justification for the introduction of the 'relevant public'-test in Article 4, second sentence of the Draft Regulation.⁵⁴

The Commission's real concern was, however, that the use of the notion 'distinctive character' in design law entails that the function of designs is interpreted exclusively in the same way as the function of trademarks, whereas in fact design protection in its view "is dictated by considerations similar to those which command the protection of technological invention or literary and artistic works".⁵⁵ To avoid confusion, the Commission therefore renounced to the idea of having one single 'distinctive character' requirement and instead proposes the splitting up in two different requirements. This leads to the introduction of a new Article 4 (a) in the Draft Regulation, which states that:

"A design shall be protected as a Community Design to the extent that it is new and has its own individual character".⁵⁶

⁵⁴ See *infra*, at pt. V.3.2.3. See also the relevant aspects of national legislation retained by the Commission, *supra*, at pt. V.2.

⁵⁵ The legal protection of industrial design, Hearing on the Green paper (III/F/5131-91) of June 1991, Brussels 25 and 26 February 1992, Working Paper N° 2, Requirements for protection, pt. 8.

⁵⁶ COM (93) 342 final. See also pts. 7 and 10 of Working paper N° 2.

This double requirement of novelty and individual character replaces the distinctiveness-test through introducing two distinct tests which each have to be fulfilled.

V.3.2.2. The novelty requirement

Even though it was argued in the Green paper that the 'novelty' condition should not be explicitly mentioned so as to avoid confusion with patent law, it is now explicitly dealt with in the newly proposed Article 5 Draft Regulation. Already at the time of the Hearing, substantial changes in comparison to the Green paper proposal were made. It mainly concerned the replacement of the criterion 'specialised circles' by 'person skilled in the art' and the insertion of a clause permitting a limited number of disclosures which took place outside the Community to be taken into account.⁵⁷

These were definitely improvements compared to the wording used in the Green Paper, but the essence of the novelty requirement, namely that the design should be unknown to persons specialised in the sector concerned and operating

⁵⁷ Working Paper N° 2, Annex 1: "Article 4a - Novelty.

(1) A design shall not be considered to be new if an identical or substantially similar design disclosed to the public before the relevant date is known to a person skilled in the art operating within the Community in the sector concerned.

(2) An identical or substantially similar design disclosed to the public before the relevant date outside the Community shall not be taken into consideration for the purpose of paragraph (1), unless the circumstances under which the disclosure has taken place are such that a person skilled in the art operating within the Community in the sector concerned could not have ignored such design." The old Article 4 (3) concerning the relevant date has now become Article 4a (3). Compare with the German novelty-requirement which also refers to what the domestic trade circles know or ought to have known, see supra, Chapter IV, at pt. IV.3.4.1.

within the Community, largely remained the same. This meant that the novelty requirement was and remained of a relative nature, namely restricted both in time and to the knowledge of the specialists active within the Community. It was thus not to be confused with the condition of absolute novelty present in patent law.

Although relative novelty was probably preferred to absolute novelty for practical reasons, namely simplification of the registration procedure, it seemed to be inconsistent with the type of protection that is offered. In the Green Paper, the Commission explained that it had reflected on the choice in terminology between originality and novelty. As is stated above, novelty was not thought to be adequate since it reflected a patent law notion. Originality was not withheld as a criterion either, since it was feared that this would imply in practice that the Registered Community Design would only give protection against unauthorised copying, whereas the aim is to give the design holder a monopoly right.⁵⁸ It was, however, submitted that exactly because a strong protection is envisaged - whereby an exclusive right is given on the design and not merely a protection against copying for a duration of 25 years-, the notion of absolute novelty should have been retained.⁵⁹ Since a patent-type of monopoly is envisaged for

⁵⁸ Green Paper, Explanatory Memorandum, pt. 4.3.12 and pt. 5.5.3.2. where it is submitted that "stronger exclusive rights seem to be required to make the Registered Community Design attractive and to avoid litigation". See also supra, at pt. V.2.

⁵⁹ This should definitely be so in view of the actions undertaken by the Community in the framework of the common commercial policy to make third countries enact intellectual property legislation which protects Community industries' rights abroad. Relative novelty to a great extent disregards the design rights of persons outside the Community, and would thus be an inexpedient precedent in world context. See GOVAERE, I., "Intellectual property protection and commercial policy", in Maresceau, M. (Ed.), The European Community's Commercial

the Community Registered Design, it would seem consistent also to apply a patent-type of approach as regards novelty. But because the conditions to obtain Community design protection are the same for registered and unregistered designs, this would then also apply to unregistered designs although in this case protection is only granted against unauthorized reproduction.

It is to be welcomed that in the final proposals the Commission has radically opted for the principle of absolute novelty in the sense that whether or not a design is new has to be assessed at world-level.⁶⁰ The new Article 5 reads:

"A design shall be considered to be new if no identical design has been made available to the public before the date of reference. Designs shall be deemed to be identical if their specific features differ only in immaterial details".

V.3.2.3. The requirement of 'own individual character'

The idea expressed in the Green Paper was to raise the threshold level for protection through the introduction of a test which implied that the ordinary purchaser of the product concerned, i.e. the relevant public, had to be able to differentiate between designs.⁶¹ This, of course, has much in common with the distinctiveness test in trademark law as mentioned above.⁶² Such a 'relevant public'-test is more severe than the previously stated novelty test which refers to specialists in the sector concerned, because the ordinary

Policy after 1992: the Legal Dimension, Martinus Nyhoff Publishers, 1993, pp. 197-222.

⁶⁰ COM (93) 342 final, p. 15.

⁶¹ Green Paper, Explanatory Memorandum, pt. 5.5.6.

⁶² See supra, at pt. V.3.2.1.

purchaser might not see minor differences which would be taken into account by experts. The Commission justified this proposal through stating that the granting of important exclusive rights under the Community Design is only acceptable if not only the experts, but also those at the market level perceive the protected design as being different.⁶³

In Working Paper N° 2, the Commission reiterated the view that such a test is necessary because of "the overwhelming importance of the marketing function of design in comparison with its other functions".⁶⁴ However, there was a shift in the willingness to carry this test effectively through, through proposing that the opinion of the judge should substitute the perception by the relevant public. The anomaly in presenting this as a consumers test lies in the fact that it was submitted that the judge should first be informed by design experts before expressing his impression as an ordinary purchaser.⁶⁵ This 'enlightened judge'-test⁶⁶ was clearly an erosion of the initial proposal and would allow for more designs to be protected. This would inevitably have a repercussion on the number of spare parts, especially those of a technical nature, which would qualify for design protection.

In the final proposals, yet another criterion, namely the 'informed users' is used. Given the example of internal parts of machines, the Commission clarifies that it is the overall impression of dissimilarity compared to previously existing designs as conveyed on the person that replaces the parts

⁶³ Green Paper, Explanatory Memorandum, pt. 5.5.6.3.

⁶⁴ Working paper N° 2, pt. 22

⁶⁵ id., pt. 23

⁶⁶ This most appropriate terminology was forwarded by the B.E.U.C. representative at the Hearing in Brussels on 25 and 26 February 1992.

which should be determinant.⁶⁷ In other words, this may be the end consumer but in most cases it will be the professional repairer. It is against this background that the new Article 6 Draft Regulation has to be read. Under the heading 'own individual character', it is provided that

"(1) A design shall be considered to have an individual character if the overall impression it produces on the informed user differs significantly from the overall impression produces on such a user by any design referred to in paragraph (2).

(2) To be considered for the purpose of application of paragraph (1), a design must be:

(a) commercialized in the market place at the date of reference whether in the Community or elsewhere; or

(b) published following registration as a Registered Community Design or as a design right of a Member State, provided that the protection has not expired at the date of reference.

(3) In order to assess the individual character, common features shall as a matter of principle be given more weight than differences and the degree of freedom of the designer in developing design shall be taken into consideration."⁶⁸

Even though at first sight this formulation seems to be more complete than the original proposal, the underlying motivation in practical terms seems to imply a lowering of the threshold for design protection.

V.3.3. DESIGN PROTECTION AND SPARE PARTS OF CARS

Article 9 (2) Draft Regulation provides in a general exception to design protection where the product concerned is an interconnecting part of another product. It goes without saying that this is a very important exception as far as spare

⁶⁷ COM (93) 342 final, p. 12.

⁶⁸ COM (93) 342 final.

parts of cars are concerned,⁶⁹ and it is not surprising that it was drafted with the UK debates on spare parts very much in mind.⁷⁰ However, the way in which the provision is drafted is very restrictive in its definition of 'interconnections'. As such it is submitted that:

"A Community Design shall not subsist in a design to the extent that it must necessarily be reproduced in their exact form and dimensions in order to permit the product to which the design is applied to be mechanically assembled or connected with another product".⁷¹

It is clear that the Commission envisages a kind of stringent 'must-fit' exception. Initially, a 'must-match' exception was not at all taken into consideration.⁷² This was to the detriment of the spare part producers, especially in the United Kingdom, who would no longer be allowed to produce body panels, although these parts need to match with the model of the car. Needless to say that this, again, would have implies a major change to the new UK system of designs protection.⁷³

⁶⁹ This issue was not dealt with in the Max Planck draft, much to the regret of Prof. Cornish who wrote: "The only major issue that goes unresolved in the plan, but which cannot sensibly be avoided, is the spare parts question: when the form of a replacement part is dictated by 'must-fit' or 'must-match' considerations, should the right to exclude copying really be available?", CORNISH, W.R., "Designs Again", E.I.P.R. (1991) 3-4, at p. 3.

⁷⁰ See supra, at pt. V.2., where the statement made on this issue by Mr. Posner is quoted.

⁷¹ Article 9 (2) Draft Regulation, COM (93) 342 final.

⁷² See also POSNER, B., o.c., at p. 10. At p. 11 he adds that "it is clear (...) that the provision will be severely criticized", because for some it already goes too far whereas for others -notably independent manufacturers of spare parts- it does not go far enough.

⁷³ See supra, Chapter IV, at pt. IV.3.1.2.

V.3.3.1. 'Must-fit' exception

The Commission explained in the Green Paper that the exception for interconnections was included in order to safeguard the following three objectives: to ensure interoperability in the spare parts after-market, to protect competition in the spare parts after-market and to prevent the creation of monopolies in a generic product through design protection.⁷⁴ These objectives were not, however, reflected in the way in which the Green Paper proposals were drafted.

The Commission stated that design protection should be achieved by instruments which protect features of appearance, and not by those protecting an idea or a concept.⁷⁵ This implies that a design gives an exclusive right on a form, and not on a product for which competition should be maintained. The advantages given by design protection in the form of exclusive rights for up to 25 years should thus be counterbalanced through safeguarding competition both as concerns the creativeness in design and at the product level.

A difficulty arises where, as is proposed in the Green Paper, complex products can benefit twice from design protection, once on the whole product and once on the components.⁷⁶ In principle this implies that a reward can be obtained twice on one and the same design effort. This can only be justified and should only be possible where the implications of granting design protection are in accordance with the objectives and

⁷⁴ Green Paper, Explanatory Memorandum, pt. 5.4.10.1.

⁷⁵ See supra, at pt. V.3.1.2.

⁷⁶ See supra, at pt. V.3.1.1.

the function of the protection granted.⁷⁷ Especially in cases where there is an important after-sales market, as for cars and spare parts, with a peculiar market structure, design law should be modelled in such a way so as not to exceed its purpose in the sense that it would lead to a deflection of competition.

Since the market for the complex product, i.e. the car, is very different in structure from the after-sales market for the components, design law should take this duly into account. It is submitted that adopting the view that only 'must-fit' interconnections should be excluded from design protection and including must-match designs does not sufficiently take the basic function of a design into account and exceeds the subject matter of design protection in impact. For example, design protection on a car does not prohibit competition between different car manufacturers. However, extending design protection to including car body panels -and must-match designs in general- comes down to creating a monopoly for products since all competition from other body panels is excluded. This of course has direct implications as concerns the reward obtained for the design effort. In the first case, the level of reward that can be obtained is linked to the appreciation the consumers have for the aesthetic value or creativeness of the design and is offset by competition from other car models. In the latter case, however, there obviously is no link whatsoever between creativeness, consumer appreciation and the level of reward since there are no competing spare parts on the market. In other words, the Community design legislation as was initially proposed would have as a consequence that, through the tie-in of consumers, a monopoly is given on certain spare parts and hence that

⁷⁷ On the function of design protection, see supra, Chapter III, at pt. III.5.

monopoly prices can be charged. These are clearly consequences which are not intended by design law.

It could be argued that such a situation should be remedied by competition law and not through the insertion of exceptions to the application of design law. However, the exclusive nature of intellectual property rights is taken for granted under competition law and thus is not challenged. The Community rules on competition mainly deal with 'abuses' of intellectual property and are not aimed at curtailing the normal use of an intellectual property right which is 'abusively' -in the sense of not conform with its function- granted.⁷⁶

It thus seems that the only real concern expressed by the Commission in its original proposals was to safeguard interoperability in the spare parts after-market and not so much to protect competition or to prevent the creation of monopolies in generic products. The 'must-fit' exception is only meant to exclude those features from protection which have to be reproduced in order to ensure interoperability of different parts, and not necessarily the totality of the component that incorporates the feature which has to be reproduced in order to fit. This concept seems to a large extent to be influenced by the must-fit exception as concerns unregistered design rights in the United Kingdom.⁷⁹

The Commission explained what it understands by this at the

⁷⁶ For an analysis of the case-law of the European Court of Justice on competition and intellectual property, see *infra*, Chapter VI, at pt. VI.4.4., specifically as concerns the spare parts issue, see *infra*, Chapter IX.

⁷⁹ See *supra*, Chapter IV, at pt. IV.3.1.2.

Hearing through giving the example of a car door.⁸⁰ The 'must-fit' exception only applies to the hinges, both as concerns their size and the distance between the hinges which need to be reproduced in order to attach a new door to the car, but not to the car door itself. Even though the example is rather badly chosen since the design of a car door raises the additional question of 'must-match' with the model of the car, so that the must-fit exception alone will not safeguard competition in this particular case, the underlying intension of the Commission is made sufficiently clear.⁸¹

V.3.3.2. No 'must match' exception

In its Working Paper N° 3, the Commission argued that a 'must match' exception was not envisaged because otherwise "the door to the import of 'counterfeit goods' from third countries would be kicked wide open".⁸² This justification is obviously inherently inconsistent. It should not be neglected that a precondition for establishing a design infringement is that there is a legally valid design right in the first place. In other words, one cannot speak of counterfeit goods in the absence of legally granted protective rights. If there were to be a 'must-match' exception provided for in the design legislation, a Community Design would not be granted for designs which must necessarily match, and thus competing

⁸⁰ Explanation given by Mr. Posner at the Hearing on the Green Paper (III/F/5131-91) of June 1991, Brussels 25 and 26 February 1992.

⁸¹ In this sense, the concern expressed by Horton that the 'must-fit' exception exceeds the interoperability requirement is unfounded. See HORTON, A., "Industrial Design Law: The future for Europe", E.I.P.R. (1991) 442-448, at 447.

⁸² The Legal Protection of Industrial Design: Hearing on the Green Paper (III/F/5131-91) of June 1991, Brussels 25 and 26 February 1992, Working Paper N° 3, Interconnections.

products would not constitute 'counterfeit or pirated goods'.⁸³

It seems that the Commission was of the contrary opinion that even in the absence of design protection, competing goods - which are thus licit under design law- should be labelled as 'counterfeiting'. Rather than expressing a legal justification for granting design protection on 'must-match' designs, the Commission gave prove of wanting to use design law to prevent competition from third countries at the cost of restricting competition within the Community. Here again, this is not the function nor the purpose of design law. As stated above, a coherent application of design theory to the after-sales market would rather be to include the 'must-match' exception in order to prevent the creation of monopolies on generic products.⁸⁴

V.3.3.3. Repair clause

Considering the wide-spread criticism of especially consumers organisations and independent manufacturers of spare parts of cars, the Commission did, however, insert what has been called a repair clause in its final proposals. The objective is to allow for the use of spurious spare parts the shape of which

⁸³ Article 1, 2 (b) of the proposal for a Council Regulation laying down measures to prohibit the release for free circulation, export or transit of counterfeit and pirated goods, gives the following definition: "'pirated goods' mean goods made without the consent of (...) the holder of a design, whether or not registered under national law, or a person duly authorized by him in the country of production and which are made directly or indirectly from an article, where the making of those goods would have constituted an infringement of the right in question under Community law or the law of the Member States, where the application for action by customs authorities is made", COM (93) 329 final of 13 July 1993, emphasis added.

⁸⁴ See supra, at pt. V.3.3.1.

is imperative to restore the car in its original appearance exclusively for repair purposes and after three years of the first marketing of the spare part by the car manufacturers. The new Article 23 of the Draft Regulation reads as follows:

"The rights conferred by a Registered Community Design shall not be exercised against third parties who, after three years from the first putting on the market of a product incorporating the design or to which the design is applied, use the design under Article 21, provided that:

- (a) the product incorporating the design or to which the design is applied is a part of a complex product upon whose appearance the protected design is dependent;
- (b) the purpose of such a use is to permit the repair of the complex product so as to restore its original appearance; and
- (c) the public is not misled as to the origin of the product used for repair".⁸⁵

The Commission explains that the purpose is "to avoid the creation of captive markets in certain spare parts".⁸⁶ Or in other words to prevent the long-term tie-in of consumers through the elimination of all competition, especially in the market for bodywork components of cars, which would provide a monopoly position for the car manufacturers even after the expiry of the design protection. The Commission points out that it would for practical reasons most likely not be worthwhile for independent manufacturers of those spare parts to enter the market after the expiry of the full term of design protection.

Although the repair clause thus resembles a must-match exception, it is submitted that the underlying rationale is diametrically opposed. The must-match exception can be

⁸⁵ Article 23 of the Draft Regulation, COM (93) 342 final; Article 14 of the Draft Directive, COM (93) 344 final.

⁸⁶ COM (93) 342 final, p. 20.

explained in terms of the function of design protection.⁸⁷ Designs are not meant to create a monopoly on generic products but are essentially a factor of non-price competition. If a part has to have a certain shape to restore the car in its original appearance, then the design obviously does not confer a surplus value to the spare part, so that it should not benefit from exclusive protection. The premise to the repair clause is to the contrary that the design holder's right is impinged upon so that the exception should be restrictively interpreted.⁸⁸ The Commission merely presents the issue as a compromise between respecting the legitimate claims of a design holder and the need to safeguard competition in the market for replacement parts. The compromise resides in that the design holder may exercise his exclusive right for three years, after which competition will be free. Yet it is obvious that the Commission is not really concerned with imperatives of design legislation. The real issue seems to be to draw a balance between the claims of consumers organisations and independent manufacturers of spare parts on the one hand and the claims for more protection by the motor vehicle industry on the other hand. It is therefore not surprising that the repair clause is highly controversial, since it seems to be based on arbitrary criteria inspired merely by competition policy concerns and does not live up to the expectations of either party. It is significant in this respect that Commissioner Bangemann has already stated that the three years term of protection for the car manufacturers as currently proposed is not sufficient, not because of the need to safeguard the function of design protection, but because industrial designs are "nos meilleurs armes pour défendre nos

⁸⁷ On the functions inherent to design protection, see infra, Chapter III, at pt. III.3.5.

⁸⁸ See the explanation given by the Commission, COM (93) 342 final, at p. 20.

parts de marché".⁸⁸

V.3.4. OTHER ISSUES WHICH HAVE AN IMPACT ON DESIGN PROTECTION ON SPARE PARTS OF CARS

Although the proposals provides in a complete system of Community Design law, so that it is necessary to read the whole in order to get a general picture of the implications it will have, two more issues should be briefly highlighted in order to understand better the implications this proposal might have on design protection on spare parts of cars.

V.3.4.1. Registration by way of multiple deposit

Article 40 Draft Regulation provides in a system whereby several designs may be combined in one multiple application for Registered Community Designs. No ceiling is set, contrary to the Green Paper proposals which stipulated that up to one hundred designs belonging to the same class could be registered in one multiple application.⁸⁹ The Commission explained in the Green Paper that such a provision is needed for industries which develop a large number of designs concerning short-lived articles, such as textile and fashion.⁹¹

⁸⁸ Speech of Commissioner Bangemann at a Conference in Turin on 9 November 1993 on "Turin meets the future of the European car", as reported in Agence Europe, N° 6106, 13 November 1993, p. 9.

⁹⁰ It should be recalled that the 1986 German law on design protection foresees in a system of multiple deposit for up to 50 designs at once, see supra, Chapter IV, at pt. IV.3.4.1.

⁹¹ Green Paper, Explanatory Memorandum, pt. 8.7.1.

The risk accompanying the introduction of such a system for obtaining multiple Registered Community Designs obviously lays in that non-protectable designs might be included in the multiple deposit. The fact that there is no prior examination to registration as the requirements for obtaining design protection is concerned of course enhances the possibility to abuse this system of multiple application.⁸²

As such, it would be relatively easy for a car manufacturer to register at the same time both for the model of the car and for all or most of the components, regardless of whether or not the parts individually live up to the requirements for design protection as long as they belong to the same sub-class or the same set of items. In this hypothesis, it would be up to the potential competitors to bring a court case and to challenge the validity of the design. Needless to say that this would be to the competitive disadvantage of the spare parts industry because of the legal uncertainty this entails and the high cost and long duration of court proceedings.⁸³

The Commission has recognised this problem in its Working Paper N° 6.⁸⁴ However, the solution it tentatively proposes, namely to invalidate the effect of all designs comprised in a

⁸² See supra, at pt. V.3.2.

⁸³ Posner merely regards the matter of whether or not an examination should be held prior to registration from the point of the view of the applicant, see POSNER, B., O.C., at pp. 9-10, where he writes: "The application for registration is at the peril and risk of the applicant. He must know whether he will be able to enforce his alleged rights and, in case of infringement, whether he wishes to do so. If he himself is infringing earlier rights he risks that the validity of the registration is challenged by third parties before office". He goes on to conclude that at a later stage it might be foreseen that prior examinations "as a service" can be carried upon the applicant's request.

⁸⁴ Working Paper N° 6, pt. 4.4.

multiple application in case one of them is successfully challenged, was not be withheld.⁹⁵ Another solution could have been to reverse the burden of proof in case one court case for invalidation of one of the designs was successful, but this would not have eliminated the competitive disadvantage for the challengers and might have proved to be not strong enough a deterrent to avoid abuses of the system altogether.

Besides the problem of abuse of the system of multiple deposit in the sense as described here, it should also be pointed out that it is not unthinkable that one application claim will embrace all possible alternative designs, and thus lead to 'bundling' in the hands of one and the same design right holder. This is especially important as concerns functional designs. A similar situation would then be created as where the design is solely dictated by the technical function of a product, in the sense that all competition from third parties would be eliminated. Only, the former is excluded from design protection⁹⁶, whereas the latter is not.

V.3.4.2. Co-existence with national protection systems

It is of course not sufficient to look at the implications the Community Design system will have on its own. Consideration should equally be given to the extent to which parallel national protection will remain possible. The following questions are of a crucial importance: will national design

⁹⁵ *id.*, it is submitted that "(s)uch a solution would lead to a discriminate use of the access to multiple applications without -it appears- unduly restricting the field of application. It needs also to be considered, however, whether the consequence suggested from the design right holder's point of view is unduly harsh."

⁹⁶ See *supra*, at pt. V.3.1.2.

law co-exist and will double protection, especially the combination of copyright and design law, be possible?

V.3.4.2.1. Co-existence of national design protection

The Commission has no clear vision as yet on whether or not national design protection should continue to co-exist with the Community Design in the long run. Therefore, a pragmatic approach is advocated until enough experience is acquired with the new system.⁹⁷ This approach consists in maintaining parallel national design protection, on the condition that a sufficient level of harmonization takes place so as not to jeopardize the system of Community Design. It is to achieve this end that the Commission has tabled a proposal for a directive on the approximation of national design law alongside the proposal on a Community Design Regulation.⁹⁸

There is a double reasoning underlying the harmonization Directive. The first and most obvious one is to render national design laws more uniform so that the competitive position of potential design right holders will not be different from one Member State to another.⁹⁹ The second reason is directly linked to the introduction of the Community Design. Namely, the national design laws not only need to be harmonized among themselves, but they also have to be rendered compatible with the Community Design system as far as their

⁹⁷ Green Paper, Explanatory Memorandum, Chapter 10; COM (93) 344 final, at pt. 1.3.

⁹⁸ See also supra, at pt. V.2.

⁹⁹ Green Paper, Explanatory Memorandum, pt. 10.3.2. To use the words of the Commission "harmonization is required to avoid distortion of competition within the internal market".

substantive features are concerned.¹⁰⁰ If this were not so, preference would be given to more favourable national protection to the detriment of the Community design instrument.

A different question, however, is the one of cumulation with national design protection. Does a designer have to choose between national or Community design protection or can he obtain both? In the Green Paper proposals, the Commission excluded the cumulation of both kinds of registered design protection, on the basis that their legal effect is the same.¹⁰¹ As such, it was initially specified that a registered Community design would render previously existing national registered designs ineffective. This has, however, been abandoned in the final proposals, which allow for cumulation of both national and Community registered designs.¹⁰² All other forms of cumulation, as shown in the following table, will also remain possible.

TABLE: CUMULATION OF DESIGN PROTECTION

	Com. Reg. Des.	Com. Unreg. Des.
Nat. Reg. Des.	Yes	Yes
Nat. Unreg. Des.	Yes	Yes

¹⁰⁰ *id.*, pt. 10.3.1. In COM (93) 344 final at pt. 1.4., it is held that "this proposals for a Directive on the legal protection of designs is an essential accompaniment to the Regulation on the Community Design".

¹⁰¹ *id.*, pt. 10.4.1.

¹⁰² See the new Article 99 of the Draft Regulation and the explanation given on p. 42 of COM (93) 342 final.

V.3.4.2.2. The issue of double protection

Besides the co-existences of national design protection, another important factor is whether or not other forms of national intellectual property protection can be cumulated with the Community Design. As far as patents, utility models and trademarks are concerned, double protection will be possible as long as the design concerned lives up to the requirements posed by the different systems.¹⁰³

More important, however, is the question whether Community design protection can be cumulated with national copyright protection. As seen before, the approach taken to this problem varies considerably from one Member State to another.¹⁰⁴ The Commission has opted for making the possibility of double protection a matter of principle, whilst leaving it up to the Member States to determine the extent and the conditions - including the definition of the concept 'originality'- for obtaining copyright protection.¹⁰⁵ However, certain conditions which are currently in force in certain Member States are explicitly mentioned as conditions which could no longer be imposed once the Community system enters into force. For instance, copyright protection should be granted regardless of whether "the design can be dissociated from the products to

¹⁰³ Article 100 Draft Regulation and Article 18 Draft Directive. Civil liability and unfair competition rules are also mentioned.

¹⁰⁴ See supra, Chapter IV, at pt. IV.4.3.

¹⁰⁵ See POSNER, B., o.c., at p. 4, where he explains that "the Commission fears that an attempt to harmonize this issue -which by many Member States is felt being a delicate and difficult one touching upon fundamental copyright policies- could delay or even jeopardize the whole design project. For this reason alone a postponement is suggested".

which it is applied or intended to be applied".¹⁰⁶ However, it should be mentioned that the Commission does not exclude the possibility to harmonize the copyright notion of 'originality' relating to industrial designs in the future, in a similar way as has been done for computer programs.¹⁰⁷

Making the granting of copyright on designs compulsory would logically speaking -in the light of the objective expressed in the Green paper to render the legal protection on industrial designs more uniform throughout the Community- imply that copyright legislation itself is at least to some extent harmonized so as not to create distortions of competition within the internal market and not to jeopardize the principle of free movement of goods or the objectives posed in the Green Paper. However, it is clear that the mere insertion of Article 100 Draft Regulation and Article 18 Draft Directive in the design legislation will not suffice to achieve this end. Up till now, the Commission has not taken a coherent approach towards harmonization of national copyright laws but rather deals with the matter on a sectoral basis.¹⁰⁸ The most important proposal -seen from the perspective of double design/copyright protection- tabled by the Commission and recently accepted by the Council, concerns a Council Directive to harmonize the

¹⁰⁶ Article 100 (2) Draft Regulation and Article 18 (1) Draft Directive, respectively COM (93) 342 final and COM (93) 344 final. This clearly aims at removing the Italian requirement of 'scindabilità', see supra, Chapter IV, at pt. IV.3.5.1. See also POSNER, B., o.c., at p. 4, where he confirms that it is the Italian system of single protection and some peculiarities of the UK and Irish systems that are envisaged.

¹⁰⁷ Green Paper, Explanatory Memorandum, pt. 11.3.6. On the legal protection of computer programs, see infra, Chapter VI, at pt. VI.3.2.6.

¹⁰⁸ see infra, Chapter VI, at pt. VI.3.2.6.

term of protection of copyright and certain related rights.¹⁰⁹ The standard duration of protection for literary or artistic works, within the meaning of Article 2 of the Berne Convention, is thereby determined to be seventy years after the death of the author or seventy years after the work is made lawfully public in case of collective works or works created by a legal person. According to Article 2 (7) Berne Convention (Paris Act), it is up to the legislature of the countries of the Union to include industrial designs and models in the scope of protection.¹¹⁰ However, as seen above, copyright protection will probably have to be granted to industrial designs by virtue of the Commission's proposals. As such, it seems that through the combination of both the proposals on copyright duration and industrial design rights, Member States will not only be invited to offer copyright protection on industrial designs, but they will furthermore have to extend the duration of protection beyond what is currently provided for in most Member States.¹¹¹

Besides the introduction of the principle of cumulation of design and copyright protection, the proposal furthermore alters the existing conditions on which such a double protection was granted to designs having another country of origin. As seen above, Article 2 (7) of the Berne Convention explicitly mentions that in such a case of double copyright/design protection, a reciprocity requirement may be

¹⁰⁹ On this directive, see *infra*, Chapter VI, at pt. VI.3.2.5.

¹¹⁰ See *supra*, Chapter IV, at pt. IV.2.

¹¹¹ Currently, only Germany offers copyright protection for 70 years *post mortem auctores* (pma). The other Member States have adopted the minimum term of protection provided for in the Berne Convention, namely 50 years pma, with the exception of Spain who has a standard term of protection of 60 years pma. For a comparative list, see COM (92) 33 final of 23 March 1992, p. 45.

imposed.¹¹² The Commission, however, argues that this is contrary to the principle of non-discrimination in Community law and substitutes this with the requirement of national treatment.¹¹³ As such, Article 100 (3) Draft Regulation introduces the following obligation:

"Each Member State shall admit to the protection under its law of copyright a design protected by a Community Design which fulfils the conditions required by such a law, even if in another Member State which is the country of origin of the design, the latter does not fulfil the conditions for protection under the law of copyright of that state".¹¹⁴

On the whole, it seems that the Commission endeavours to safeguard the most complete freedom in choice of protection for a design holder. Cumulation of protection is not only allowed, but becomes the basic principle. The Commission maintains that as long as the design protection is in force, it can be doubted whether much recourse will be had to copyright.¹¹⁵ However, it should not be forgotten that the duration of copyright protection considerably exceeds the duration of design protection. Furthermore, copyright is subject to the national territoriality principle whereas a Community Design is granted on the basis of a Community-wide principle of territoriality. This implies that where the free movement of goods is safeguarded through the latter, it is

¹¹² See supra, Chapter IV, at pt. IV.2.

¹¹³ Green Paper, Explanatory Memorandum, pt. 11.3.3. See also FIRTH, A., "Aspects of design protection in Europe", E.I.P.R. (1993) 42-46, at p. 43, where she writes that Article 2 (7) Berne Convention "...enables those countries which do use copyright protection for protecting industrial designs to discriminate between foreign designs according to the kind of protection available in the country of origin".

¹¹⁴ COM (93) 342 final. Similarly, see Article 18 (2) Draft Directive, COM (93) 344 final.

¹¹⁵ Green Paper, Explanatory Memorandum, pt. 11.3.6.9.

simultaneously jeopardized by the former due to the lack of harmonization or approximation as concerns copyright legislation.

V.4. CONCLUSION

The protection to be granted to spare parts of cars is the most controversial issue the Commission has to deal with in its proposals. It is also this issue which is particularly apt to jeopardize the acceptance of the proposals as they stand now by the European Parliament and the Council. The Commission's approach to the spare parts controversy is not to elaborate a coherent and defensible set of rules in terms of the need to safeguard the function of design rights, but is to the contrary clearly inspired by competition policy objectives. The Commission has especially endeavoured to find a compromise solution between the claims of the car manufacturers on the one hand and consumers organisations and independent manufacturers of spare parts on the other hand.

The basic principle is that components of complex products, such as spare parts of cars, can fully benefit from protection if they can be marketed individually and if they individually fulfil the novelty and individual character requirements. Still, this basic principle is subject to certain exceptions which are particularly relevant to the spare parts controversy. Whereas a 'must-fit' exception in the form of the exclusion of interconnection was accepted from the start, it has never been the intention to insert a 'must-match exception' as is currently in force in the UK. To the contrary, a repair clause has been introduced in the final proposals which is elaborated specifically for, but which will most likely not be limited to, the motor vehicle and related industries. This clause, which limits the exercise of design

rights on spare parts the shape of which is imperative to restore the car in its original appearance to three years, is highly controversial, all the more so since the three years term of protection seems to be based on arbitrary criteria rather than by imperatives of design protection.

This implies that when and if the Community Design system enters into force as it is conceived now by the Commission, design protection on spare parts of cars will have to be made possible in all Member States, on the condition that the individual spare part concerned can be individually marketed, lives up to the requirements for design protection, and provided the 'must-fit' exception does not apply to it. Furthermore, the cumulation of copyright and design protection will become the general principle. This means a radical change as concerns the legal systems currently in force in the different Member States, so that it can be doubted whether the approximation directive will easily be adopted. Just to give some examples, this would imply that the UK would have to reconsider the rather recently introduced and much debated 'must-match' exception,¹¹⁶ France as well as the other Member States would have to introduce the 'must-fit' exception, and Italy would have to radically revise its system of single protection.¹¹⁷ Considering the close link between the Community

¹¹⁶ Comparing the current system of design protection in the United Kingdom to the Green Paper proposal, Armitage writes: "There are some important differences which are not obviously for the better". The three differences he focuses upon are: 1/ extending registered designs protection to functional designs; 2/ a novelty-test referring to knowledge of Community circles rather than to publication in the UK; 3/ offering unregistered designs protection for a period of three years, see ARMITAGE, E., "Community Designs", E.I.P.R. (1992) 3.

¹¹⁷ On the current proposals for a new Italian Design Law in order to bring it into line with the Commission's proposals, see supra, Chapter IV, at pt. IV.3.5.1.D.

Design Regulation and the Directive with regard to the substantive features of the protection proposed, it can be expected that the Regulation will not be adopted before the approximation Directive so as not to jeopardize the envisaged objectives.

But even when the Commission's proposals -as they stand now or in an amended version- come into force, the design rights derived from the Community Design system will still need to be applied with due regard to the principle of free movement of goods, because of the co-existence of national design legislation and the cumulation with copyright protection. Due regard will also need to be given to the rules on competition, especially since the Community design in certain cases confers a legal monopoly. As is the case for all intellectual property rights -but perhaps more so for patents which also confer a legal monopoly-, competition rules will necessarily continue to apply to trench between what constitutes a legitimate exercise and an abuse of those exclusive rights. This relationship between intellectual property rights on the one hand and the fundamental objectives underlying the achievement of the internal market on the other hand will be dealt with in the next chapter.

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PART THREE

STRIKING THE BALANCE

BETWEEN NATIONAL IPR AND COMMUNITY RULES



CHAPTER VI. THE PLACE OF INTELLECTUAL PROPERTY RIGHTS IN EEC LAW

VI.1. INTRODUCTION

It is obvious from the foregoing chapters that the approach adopted in most Member States to the spare parts issue is one of merely enforcing the national design rights and/or design copyrights on spare parts of cars. This poses a double problem in Community context.

Firstly, the objectives expressed in the national legislation are not weighed against the main objective of the European Community, which is defined in Article 2 EC as modified by the Maastricht Treaty as:

".. by establishing a common market and an economic and monetary Union and by implementing the common policies or activities referred to in Articles 3 and 3a, to promote throughout the Community a harmonious and balanced development of economic activities, sustainable and non-inflationary growth respecting the environment, a high degree of convergence of economic performance, a high level of employment and of social protection, the raising of the standard of living and quality of life, and economic and social cohesion and solidarity among Member States".

The Community objective of creating one single market stands in contrast to the view that design rights, as all other intellectual property rights, should remain within the national competences in order to stimulate the national technical progress and economic growth. The consequence of this national approach obviously is that intellectual property legislation is in the first place drafted so as to protect national, or to attract foreign, industries.¹ This might find

¹ See for instance the debate which was held in the United Kingdom on the spare parts issue prior to the 1988 Copyright, Designs and Patents Act. One of the Government's main concerns was not to place the UK spare parts manufacturers in a disadvantaged position as compared to similar manufacturers in

its expression in a protectionist system which could be to the detriment of the economic growth of other Member States.² This seems to be incompatible with Article 2 EC which -as mentioned above- provides in the harmonious and balanced development of economic activities throughout the Community.

Secondly, in most Member States a mere 'intellectual property' approach is taken, whereby its impact on the free movement of goods and on the competitive structure -both in the national market and in the EC- is often neglected. Although this again applies to all intellectual property rights, the latter is especially noticeable as concerns spare parts of cars, because the enforcement of national design rights often leads to a monopoly position in the tied market of replacement parts, whereas the enforcement of those exclusive rights on complex products or accessories does not eliminate competition from comparable products. This approach, again, is difficult to reconcile with the objectives of the EC Treaty. Article 3 EC lists, among the essential activities of the Community to obtain the objectives mentioned in Article 2 EC, "the elimination, as between Member States, of customs duties and of quantitative restrictions on the import and export of goods, and of all other measures having equivalent effect" (Article 3 (a) EC), and the institution of "a system ensuring that competition in the internal market is not distorted" (Article 3 (g) EC).

This double problem posed by the national-oriented approach is not specifically related to the spare parts issue, but applies

other Member States. See supra, Chapter IV, at pt. IV.3.1.2.B.

² It is significant that most national legislations have a system of compulsory licences that applies in case the exclusive right is not worked on the national territory, see infra, Chapter VII, at pt. VII.3.1.

to all national intellectual property rights.³ The purpose of this chapter is to situate these national approaches to intellectual property protection in general in a Community context and especially to recall the principles developed in Community law to curtail the detrimental effect of those exclusive rights for the achievement of the internal market. In the following chapter, a new evolution in the Community approach will be discerned. However, it will be seen in Part Four below that the Community solutions that have been elaborated so far, fall short when applied to the -complex- issue of national design protection on spare parts of cars.

VI.2. THE RELEVANT PROVISIONS IN THE EC TREATY

VI.2.1. INTRODUCTION

Although it is thus obvious that national intellectual property rights impinge upon the objectives of the Community, at an early stage already the question had arisen whether and to what extent the Community is competent to remedy this situation. The main reason for this initial debate -which is still going on today about the extent to which the Community is competent- is to be found in the wording of the EC Treaty.

Industrial and commercial property rights have a major impact on the economic market. As seen before, the holder of such a right has the right to exclude certain competing products as well as to impose certain obligations on contracting parties, such as the payment of royalties. The enforcement of

³ With the exception of denominations of origin, which will be only referred to where relevant. Although denominations of origin apparently also come under the notion 'industrial and commercial property' of Article 36 EC, they do not confer exclusive rights to individuals on the basis of the principle of territoriality and hence do not pose the same problems of interpretation.

intellectual property rights has an effect both on competition and on the free movement of goods.⁴ Thus by their very nature and economic purpose, these rights fall within the ambit of the Treaty of Rome.

However, due to the importance of granting this type of exclusive protection for the stimulation of technical progress and economic growth, the individual Member States have been reluctant to subject their national laws concerned to Community principles. These national reservations have found their expression in the fact that intellectual property rights are only mentioned in Article 36 of the Rome Treaty which provides in exceptions to the free movement of goods. It is significant to point out in this respect that this has been modified neither by the Single European Act nor by the Maastricht Treaty on a European Union. The wording of the Treaty has initially led to the uncertainty about whether or not this implied that intellectual property rights are exempt from the application of the Treaty rules and thus whether or not they remain within the exclusive competences of the Member States.⁵

VI.2.2. ARTICLE 36 AND THE PRINCIPLE OF FREE MOVEMENT OF GOODS

A textual reading of Article 36 EC can lead to two very different interpretations.⁶ It provides that:

"The provisions of Articles 30 to 34 shall not preclude prohibitions or restrictions on imports, exports or goods in

⁴ See *supra*, Chapter III, at pt. III.2.

⁵ Although intellectual property rights also play a role as concerns the articles 59 ff. EC, these provisions will not be dealt with because they are not directly relevant to the spare parts issue.

⁶ On the initial debate regarding the scope of Article 36 EEC, see SCHRANS, G., Octrooien en octrooiligenties in het Europees mededingingsrecht, 1966, Story-Scientia, at p. 162.

transit justified on grounds of (...) the protection of industrial and commercial property. Such prohibitions and restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States."

At first sight, the wording of Article 36 EC seems to suggest that industrial property rights do not operate as quantitative restrictions or measures having an equivalent effect, because they are exempted from the application of the rules concerning the free movement of goods. This argument was initially invoked to support the view that intellectual property rights remained within the Member States exclusive competences.⁷ But it is exactly this express exemption from the application of the principle of free movement of goods as well as the limitation to this exemption, contained in the second sentence of Article 36 EC, that has been invoked to prove the contrary and to maintain that intellectual property rights are in principle subject to Community law. The argument goes that if industrial property rights were not considered by the draftsmen of the Treaty, at least potentially, as being measures having an effect equivalent to quantitative restrictions, than neither the reference to them in Article 36 EC nor the proviso contained in the second sentence would make any sense.⁸

Although the Court of Justice had already implicitly confirmed this second interpretation of Article 36 EC as concerns

⁷ See especially GOTZEN, M., "La propriété industrielle et les Articles 36 et 90 du Traité instituant la CEE", R.T.D.C. (1958) 261-303, at pp. 262-279.

⁸ See for instance KORAH, V., "The limitations of copyright and patents by the rules for the free movement of goods in the European common market", Case Western Reserve Journal of International Law (1982) 7-45, at pp. 9-10; GORMLEY, L., Prohibiting restrictions on trade within the EEC: the theory and application of Articles 30-36 of the EEC Treaty, North-Holland, Amsterdam, 1985, at p. 123.

intellectual property rights,⁹ in the Simmenthal case the Court explicitly clarified that:

"Article 36 is not designed to reserve certain matters to the exclusive jurisdiction of Member States but permits national laws to derogate from the principle of free movement of goods to the extent to which such a derogation is and continues to be justified for the attainment of the objectives referred to in the article".¹⁰

This single phrase contains two important elements. The first one is the explicit confirmation that Article 36 EC in general does not reserve an exclusive competence for the Member States, so that, in principle, Community law applies to the exceptions enumerated therein.¹¹ The rules on the free movement of goods are in the first place directed towards the Member States. Their primary aim is to remedy the deflection of, or restrictions posed to, intra-Community trade which are caused by diverging national legislation. The Court clarified that Article 36 EC is only meant to allow certain national laws in certain circumstances to derogate from the principle of free movement of goods.¹² Secondly, the Court poses a new limitation

⁹ See infra, at pt. VI.4.2.

¹⁰ Case 35/76, Simmenthal SpA v. Italian Minister for Finance, Judgment of 15 December 1976, E.C.R. (1976) 1871, at para 14.

¹¹ As such, it is submitted that Bieber was wrong in exemplifying the contention that the Treaty expressly refers to exclusive powers of the Member States through referring to Article 36 EC. See BIEBER, R., "On the mutual completion of overlapping legal systems: the case of the European Communities and the national legal orders", E.L.R. (1988) 147-158, at p. 151.

¹² See also MERTENS DE WILMAR, J., "The case-law of the Court of Justice in relation to the review of the legality of economic policy in mixed-economy systems", L.I.E.I. (1982) 1-16, at p. 4, where he points out that no discretionary power is conferred on the Member States, whereas the concepts laid down in Article 36 "are susceptible of differing interpretations and, moreover, may vary in time and space".

-i.e. other than the proviso contained in the second sentence- to the invokeability of Article 36 through stating that national laws that derogate from the principle of free movement of goods have to be justified for the attainment of one of the objectives enumerated in that article. In the De Peijper case, the Court had already made clear that the national measures concerned should also be proportional.¹³

The general rule thus obviously is that in order to come under Article 36 EC, the national legislation concerned has to be proportional and justifiable under the first sentence,¹⁴ and not run counter to the prohibition laid down in the second sentence of Article 36 EC.¹⁵ However, the application of this rule to intellectual property rights is less obvious. Judging by the case-law of the Court of Justice, it is not so much the content of the national law on intellectual property rights,

¹³ Case 104/75, De Peijper, Judgment of 20.5.1976, E.C.R. (1976) 613. See para 17, where the Court held that "national rules or practices do not fall within the exception specified in Article 36 if the health and life of humans can as effectively be protected by measures which do not restrict intra-Community trade so much".

¹⁴ See also MATTERA, A., "La libre circulation des oeuvres d'art à l'intérieur de la Communauté et la protection des trésors nationaux ayant une valeur artistique, historique ou archéologique", Revue du Marché Unique Européen (1993) 9-31. At pp. 16-17, he writes: "Si l'on considère en effet qu'une restriction n'est 'justifiée' au titre de l'article 36 CEE que si elle est nécessaire, à savoir appropriée et non excessive par rapport à l'objectif à atteindre (la jurisprudence de la Cour est explicite à cet égard), l'on doit reconnaître que c'est de la première phrase de l'article 36 et non de la deuxième que découle le principe de proportionnalité".

¹⁵ See also GORMLEY, L., "Prohibiting restrictions on trade within the EEC", T.M.C. Asser Instituut, North-Holland, 1985, at pp. 123-124, where he spells out the following three-step analysis that has to be fulfilled in the proper order: "(a) Does the contested measure in fact fall within the set of measures basically prohibited? If so, then: (b) does it qualify for the exemption under the first sentence of Article 36? If so, then: (c) does it nevertheless fail because of the second sentence of Article 36?"

but especially the way in which the holder of the exclusive right uses this right, that will determine whether Article 36 applies or whether the principle of free movement of goods should prevail.¹⁶ Specifically with regard to intellectual property rights, the Court has consistently held that Article 36 EC only admits for derogations from the principle of free movement of goods to the extent to which such derogations are justified for the purpose of safeguarding rights which constitute the specific subject-matter of that property.¹⁷

VI.2.3. THE INCIDENCE OF ARTICLE 36 AND ARTICLES 85-86

Besides the question of the applicability of the Community principle of free movement of goods to national intellectual property rights, it is obvious that also the matter of the applicability of the Community rules on competition to those exclusive rights is of a fundamental importance.

It was held in the previous section that the insertion of intellectual property rights in Article 36 EC points to the fact that they in principle come within the scope of the Treaty, but that under certain conditions the Member States can derogate from Community principles. Article 36 EC only expressly refers to the principle of free movement of goods, whereas in the rules on competition no similar exception is to be found. This leads to the prima facie conclusion that the rules on competition, and especially Articles 85 and 86 EC,

¹⁶ See infra, pt. VI. 4. For the rare exceptions to this approach, see Chapter VII.

¹⁷ See infra, at pts. VI.4.2. and VI.4.3.

fully apply to intellectual property rights.¹⁸

The rules on competition are very different from the rules concerning the free movement of goods, because the first are aimed at curtailing anti-competitive behaviour of economic actors which may affect intra-Community trade whereas the latter are mainly aimed at removing obstacles posed by national legislation to intra-Community trade.¹⁹ This implies that the rules on free movement of goods should in theory apply where it is the intellectual property law that creates distortions to intra-Community trade, whereas the competition rules should apply if it is the holder of an intellectual property right who uses his exclusive right to distort competition within the Community.²⁰

¹⁸ See also VERLOREN VAN THEMAAT, P., "Précisions sur la portée de l'Article 36 par rapport à l'Article 85 du Traité de la CEE concernant des contrats de licence de brevets", S.E.W. (1964) 83-85.

¹⁹ See for instance Joined Cases 177 and 178/82, Criminal proceedings against Jan van de Haar and Kaveka de Meern BV, Judgment of 5 April 1984, E.C.R. (1984) 1797, where the Court ruled: "Article 30 of the EEC Treaty, which seeks to eliminate national measures capable of hindering trade between Member States, pursues an aim different from that of Article 85, which seeks to maintain effective competition between undertakings. A court called upon to consider whether national legislation is compatible with Article 30 of the Treaty must decide whether the measure in question is capable of hindering, directly or indirectly, actually or potentially, intra-Community trade." The Court has reiterated this distinction in several other cases. See for instance, Case 311/85, V.V.R., Judgment of 1 October 1987, E.C.R. (1987) 3801; Case 65/86, Bayer, Judgment of 27 September 1988, E.C.R. (1988) 5249.

²⁰ See for instance DAUSES, M., "Mesures d'effet équivalent à des restrictions quantitatives à la lumière de la jurisprudence de la Cour de justice des Communautés européennes", R.T.D.E. (1992) 607-629, at p. 611 where he writes: "En revanche, une restriction commerciale résultant du comportement des particuliers ne relèverait pas des articles 30 et suivants du Traité CEE; elle pourrait, le cas échéant, être jugée en fonction des règles de concurrence".

However, this distinction is not enforced in the case-law concerning intellectual property rights.²¹ National intellectual property legislation is hardly ever struck down under the rules on the free movement of goods, whereas both sets of rules are currently applied to curtail the anti-competitive behaviour of economic actors who are holders of intellectual property rights.²² This is largely due to the fact that intellectual property legislation is still considered to belong to the sphere of the national sovereignty, albeit it is submitted that they no longer belong to the Member States exclusive competences.

The question is whether the application of the competition rules is the adequate method to counter the effect of -possibly- excessive exclusive rights granted by the national intellectual property legislation. It may be possible -though not ideal- to use the rules on the free movement of goods to curtail the way in which a right holder restricts intra-Community trade,²³ but it seems to be less obvious to use competition rules to strike down national legislation that creates distortions to intra-Community trade. The best

²¹ See also WHITE, E., "In search of the limits to Article 30 of the EEC Treaty", C.M.L.Rev. (1989) 235-280, at p. 265.

²² See infra, at pt. VI.3. and pt. VI.4. According to Koch, the Court's approach to intellectual property rights does not represent a change of interpretation of Article 30. He argues -rather unconvincingly- that because the exercise of IPR by the holder can resurrect obstacles to imports, "these obstacles are to be considered as state measures". See KOCH, N., "Article 30 and the exercise of industrial property rights to block imports", Fordham Corp. L. Inst. (1986) 605-632, at pp. 609-610.

²³ See QUINN, M., and MACGOWAN, N., "Could Article 30 impose obligations on individuals?", E.L.R. (1987) 163-178. At pp. 168-169 they argue that if Article 30 were applied to individuals, then Articles 85-86 would to a large extent become superfluous.

solution to eliminate distortions posed to intra-Community trade by intellectual property rights would be to harmonize, or rather to render intellectual property legislation uniform. The next section will analyze whether this solution is feasible in the current Community context.

VI.3. DELIMITATION OF COMPETENCES IN THE LIGHT OF THE INTERNAL MARKET

VI.3.1. THE SINGLE EUROPEAN ACT

The achievement of the internal market logically implies that the principle of free movement of goods should be applied even more stringently than before. Although Article 36 EC was not in itself altered by the Single European Act, a broad or a flexible interpretation of its content would manifestly be contrary to the general aim and purpose of the internal market, which is defined in Article 8a (new Article 7a) as "an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured". This is all the more so since the coming into force of the Maastricht Treaty which establishes a European Union.

To remove the barriers posed to intra-Community trade by the application of Article 36 EC, harmonization measures can be taken at Community level. This is possible because -as seen above- Article 36 EC does not confer an exclusive competence to the Member States, so that the Community has concurrent competences in the fields covered by that provision. Prior to the coming into force of the Single European Act, such harmonization measures were taken on the basis of Article 100 EC by way of unanimous decision in the Council. The Court of Justice held in the Denkavit case that the exception of Article 36 EC could no longer be invoked so as to rely on dissenting national legislation, once a Council Directive on

the basis of Article 100 EC was issued.²⁴ In other words, Article 100 EC could empty Article 36 EC of its substance and render it inapplicable for the areas covered by the harmonization directive. As such, Article 100 EC formed an important potential legal basis to harmonize or to approximate the laws of the Member States concerning industrial and commercial property. But in practice, this procedure proved to be unworkable because the Member States were not willing to give away their competence to legislate on matters of intellectual property to the Community.²⁵

The Single European Act introduced a new procedure to issue harmonization measures. The new Article 100a provides in qualified-majority voting in the Council for matters which are listed in Article 8a (now 7a), thus including free movement of goods. Undoubtedly, the rationale behind this change was to pass harmonization measures that could otherwise be blocked through the negative vote of one Member State, and as such to accelerate the European integration process. However, the loss of the right to a veto of the individual Member States within the Council has been compensated for by Article 100a (4) EC, which provides that:

"if, after the adoption of a harmonization measure by the Council acting by a qualified majority, a Member State deems it necessary to apply national provisions on grounds of major needs referred to in Article 36, .., it shall notify the

²⁴ Case 251/78, *Firma Denkavit Futtermittel GmbH v. Minister für Ernährung, Landwirtschaft und Forsten des Landes Nordrhein-Westfalen*, Judgment of 8 November 1979, E.C.R. (1979) 3369. At para 14, it is held that "...when, in application of Article 100 of the Treaty, Community directives provide for the harmonization of the measures necessary to guarantee the protection of animal and human health and when they establish procedures to check that they are observed, recourse to Article 36 is no longer justified and the appropriate checks must be carried out and the protective measures adopted within the framework outlined by the harmonization directive".

²⁵ See infra, pt. VI.3.2.

Commission of these provisions. The Commission shall confirm the provisions involved after having verified that they are not a means of arbitrary discrimination or a disguised restriction on trade between Member States".²⁶

Article 100a (4) foresees in a simplified procedure to challenge an 'improper use' of the above-mentioned powers before the Court of Justice. Any other Member State or the Commission can bring the matter directly before the Court without resorting to the procedures of Articles 169 or 170 EC.

In other words, Article 100a (4) seems to eliminate the possibility of rendering Article 36 EC inapplicable through the mere issuing of Community harmonization measures. Although the access to the Court of Justice has been simplified, the potential impact of its judgments has been severely limited. The Court no longer has the power to put Article 36 EC aside in the light of the harmonization measure as it had done in the Denkavit case, but has to rule merely on the compliance of national provisions with the scope of the exception. The general way in which the article is formulated also raises uncertainty about its actual scope. Can Member States which voted in favour of the harmonization measures, invoke Article 100a (4) later on so as to be exempted from their application?²⁷ Can national laws or regulations be changed

²⁶ See VERLOREN VAN THEMAAT, P., "The contribution to the establishment of the internal market by the case-law of the Court of Justice of the European Communities", in Bieber, et. al., (eds.), 1992: one European market? A critical analysis of the Commission's internal market strategy, Nomos Verlagsgesellschaft, Baden-Baden, 1988, pp. 109-126. At p. 117 he writes: "Although the new powers of supervision granted to the Commission in § 4 may be satisfactory from a procedural point of view, they are not satisfactory in substance, because they only refer to the criteria of the second sentence of Article 36, and not to the requirement of justification under its first sentence".

²⁷ See VERLOREN VAN THEMAAT, P., "De Europese Akte", S.E.W. (1986) 478, at pp. 478-479; MERTENS DE WILMAR, J., "Het Hof van Justitie van de Europese Gemeenschappen na de Europese Akte", S.E.W. (1986) 615. This author is of the opinion that

after a measure has been issued on the basis of Article 100a, when justified on the basis of 'major needs referred to in Article 36', if before they complied with those measures? Could Article 5 EC be invoked to limit the scope of Article 100a (4)?²⁸

Certain is that the Single European Act has -at least potentially- reinforced the exceptions to the principle of free movement of goods. Future developments will show whether or not it was worthwhile to do away with the only potential basis for harmonization of the national laws for the areas mentioned in Article 36 EC, in order to accelerate the overall harmonization through a qualified majority decision procedure.²⁹ Looking only at intellectual property right protection, it seems that the Single European Act means a step back from European integration to the era of supremacy of national protection. The European Court and Commission will, more than before, face the delicate task of striking the balance between national and Community objectives through the interpretation and application of the rules on free movement of goods and competition, now that the focus has potentially

only those Member States that voted against the harmonization measure should be allowed to invoke Article 100a (4). The view has also been expressed that Member States that "wish to apply divergent legislation should report this at the time of majority decision-making", see VAN VOORST TOT VOORST, B., VAN DAM, J., "Europe 1992: free movement of goods in the wider context of a changing Europe", C.M.L.Rev. (1988) 693-709, at p. 703.

²⁸ See GLAESNER, H.-J., "L'article 100A: un nouvel instrument pour la réalisation du Marché Commun", Cah.Dr.Eur. (1989) 615-626. At pp. 621-622 he maintains that Article 100a (4) has to be read and applied in conformity with Article 5 EEC.

²⁹ Vignes asks whether it is not preferable to have a decision observed by 11 Member States rather than having no decision at all. See VIGNES, D., "The harmonization of national legislation and the EEC", E.L.R. (1990) 358-374, at p. 367.

shifted from the decision making level to the enforcement level in so far as the exceptions embodied in Article 36 EC are concerned.³⁰

VI.3.2. HARMONIZATION OF INTELLECTUAL PROPERTY LEGISLATION

VI.3.2.1. Introduction

The negative impact of Article 100a (4) EC -as described above- has to be put into perspective as far as intellectual property rights are concerned. Article 100a (4) EC can obviously only apply where the Member States were in the first place willing to harmonize their legislation on the basis of Article 100a EC. Similarly, Article 100a EC introduces an easier procedure to pass harmonization measures than the previously applicable Article 100 EC, but it still implies that a majority of the Ministers in the Council have to agree upon the need and the conditions of harmonization. The major problem with regard to intellectual property protection seems to be exactly the lack of political willingness to put the Community interests above the national interests.³¹

Any attempt to harmonize already existing national

³⁰ See also BEIER, F.-K., "Industrial property and the free movement of goods in the internal European market", I.I.C. (1990) 131-160. Concerning the fact that the Single European Act has not altered Article 36 EEC, he writes, at p. 142: "The Court cannot create a uniform territory without internal frontiers for intellectual property rights if the EEC Treaty continues to recognize them, and the legislative powers of the Member States in this field leaves them in principle untouched".

³¹ See for instance "Harmonization of industrial property and copyright law in the European Community", Report of a symposium held by the Max Planck Institute, I.I.C. (1987) 303-336. At p. 306 it is reported that Schwartz held that "the substantive criticism of some plans for legal harmonization is in many cases based on desires for national protectionism..".

intellectual property legislation meets with resistance from the Member States who do not want to give up their sovereignty on the matter in favour of the Community. It is significant in this respect that Community harmonization has up till now virtually only been achieved for those new matters for which a solution had not yet been fully elaborated in the national legislations.³² This tendency is difficult to reconcile with Article 3 (h) EC, which stipulates that the approximation of the laws of the Member States is one of the means to achieve the objectives of the Treaty. The reluctance to harmonize also seems to be incompatible with Article 5 EC which provides that the Member States "shall facilitate the achievement of the Community's tasks". Already in 1959, three working groups were established to study the feasibility of harmonizing national patent, trade mark and industrial design legislation. However, more than thirty years later, these matters are still not harmonized. This sustained effort to keep intellectual property rights within the national competences is also noticeable with regard to traditional aspects of copyright protection.

VI.3.2.2. Patents

The working group on patents, presided by Mr. K. Haertel,³³ can be called the most successful, although it is submitted that it is only a relative success when considered from the point of view of the Community. Its proposals lay at the basis of

³² See infra, at pt. VI.3.2.6.

³³ On the role of Kurt Haertel who is considered to be "the founding father of European patent law", see BEIER, F.-K., "The future of intellectual property in Europe: thoughts on the development of Patent, Utility Model and Industrial Design law", I.I.C. 22 (1991) 157-177.

1973 Munich Convention on the European Patent³⁴ and the 1975 Community Patent Convention.³⁵ The latter, which is the more important one because besides introducing a common application procedure it also harmonizes more substantive matters and applies specifically to the EC Member States, still has not entered into force.³⁶

The Community Patent is a European patent -in the sense of the Munich Convention- which is granted for all the EC Member States and which has an effect throughout and may only be granted, transferred, revoked or allowed to lapse in respect of the whole EC territory. However, national rules on compulsory licences may still be applied, and it is provided that national patents continue to co-exist with Community patents. This means that barriers to intra-Community trade are not totally eliminated.³⁷

³⁴ On the 1973 Munich Convention on the grant of the European Patent, see eg. GORI, P., "The European patent grant system and how it ties in with revocation procedures", I.I.C. (1990) 452-467; STAEHELIN, J., "The European Patent Organization", Yearbook of European Law I (1981) 333-346.

³⁵ Convention for the European Patent for the common market, O.J. L 017/1 of 26 January 1976. This convention has been last amended in 1989. For the Luxembourg Agreement relating to Community patents of 15 December 1989 and the amended Community Patent Convention, see O.J. L 401/1, of 30 December 1989. On the 1975 Convention, see SAVIGNON, F., "Luxembourg Conference on the Community Patent - A general report", I.I.C. (1976) 91-101.

³⁶ The Convention has finally been signed by all twelve Member States and is currently submitted to the national parliaments for ratification.

³⁷ On the Community patent, see for instance NEUKOM, J., "What price the Community Patent?", E.I.P.R. 15 (1992) 111-112; SCORDAMAGLIA, V., "The Common Appeal Court and the future of the Community Patent following the Luxembourg conference", I.I.C. (1991) 334-348 & 458-474; SCHÄFERS, A., "The Luxembourg Patent Convention, the best option for the internal market", Journal of Common Market Studies 23 (1987) 193-207; SCWHAB, B., "L'unification et l'harmonization du droit des brevets", in La protection de la propriété intellectuelle, Institut

It is, however, more significant that the harmonization of the patent legislation has been negotiated as a convention between the twelve Member States, rather than applying the harmonization provisions of the EC Treaty.³⁸ This means that the competence to legislate on this matter has not been transferred to the Community, but remains with the Member States who each have to ratify the convention.³⁹ This is probably the best example of the reluctance of the Member States to limit their sovereignty on the matter in favour of the Community.

VI.3.2.3. Trade marks

Contrary to patents, the harmonization of trade mark legislation is being dealt with in Community context, but the outcome of the efforts to this effect have for long been uncertain. The proposals presented by the working group on trade marks, presided by Mr. De Haan, lay at the basis of the Commission's current proposal for a Council Regulation on the Community trade mark.⁴⁰ The objective is to render trade mark protection uniform through the introduction of a Community

Universitaire International Luxembourg, Session Juillet 1989, pp. 169-185.

³⁸ Albrechtskirchinger emphasises the fact that it is an agreement under international public law, expressly leaving the question whether it should instead have been based on the EEC Treaty aside. See ALBRECHTSKIRCHINGER, G., "The impact of the Luxembourg patent on the law of license agreements", I.I.C. (1976) 447-469, at pp. 449-450.

³⁹ See also IDOT, L., "Le rapprochement des législations en matière de propriété intellectuelle. Bilan provisoire des travaux", D.P.C.I. (1989) 272-290, at pp. 276-278.

⁴⁰ Amended proposal for a Council Regulation on the Community Trade Mark, O.J. C 230/1 of 31 August 1984. See also the latest amendment proposed, COM (92) 443 final, of 4 November 1992.

trade mark and specialised Community institutions, such as the Community Trade Mark Office.⁴¹

The Commission justifies this far-reaching proposal inter alia through pointing to the need to eliminate obstacles to intra-Community trade which are posed by the principle of territoriality that is inherent to national intellectual property rights. The problem is that the EC Treaty does not confer the competences that are needed to create Community intellectual property rights and, thus, does not provide in a specific legal basis for this initiative. Article 100a EC merely foresees in harmonization measures, and not in the creation of new Community procedures or institutions. The Commission has therefore based its proposals on Article 235 EC, which implies that unanimity is required in the Council. It is only by the end of 1993 that this proposal -which dates from 1980- seems to have carried away the approval in principle of the Council.⁴² This is not surprising, considering that the Member States are reluctant to even harmonize their intellectual property legislation, let alone to create supra-national intellectual property rights in Community context.

The realization of the objective to create one uniform system of trade mark protection is, however, weakened through the continuing concurrent existence of national trade marks. To remedy the effect of the disparities in the national trade

⁴¹ See for instance, BRUN, A., "L'unification et l'harmonization du droit des marques", in La protection de la propriété intellectuelle, Institut Universitaire Internationale Luxembourg, Session de Juillet 1989, pp. 187-216.

⁴² An agreement on the location of the Trade Mark Office (Spain) was reached at the special Council meeting of 29 October 1993, whereas a compromise on the linguistic regime was said to have been reached on 7 December 1993 and to have led to a global political agreement on the Community trade mark, see Agence Europe, N° 6123, 8 December 1993, at p. 10.

mark legislations, a first Council Directive has been issued on the basis of Article 100a EC to approximate the laws of the Member States relating to trade marks.⁴³ But as the terminology suggests, it merely concerns the approximation of a limited number of national provisions and not a real harmonization of national trade mark legislation, so that the Member States remain competent to legislate freely on most of the issues involved.

VI.3.2.4. Industrial designs

The working group on industrial designs, presided by Mr. Roscioni, was by far the least successful.⁴⁴ Already in a report presented in 1962, it was submitted that the differences in the national design legislations of the six original Member States were so important that the possibility to harmonize those laws seemed to be excluded.⁴⁵ It was suggested that a solution could be to create an independent Community system for the protection of industrial designs, which would co-exist with the national systems.⁴⁶

It is only recently that the Commission has followed up this

⁴³ First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks, O.J. L 40/1 of 11 February 1989. See also Council Decision 92/10/EEC of 19 December 1991 postponing the date on which the national provisions applying Directive 89/104/EEC to approximate the laws of the Member States relating to trade marks are to be put into effect, O.J. L 6/35 of 11 January 1992.

⁴⁴ For the history and the results of this working group, see the Commission's Green Paper on the legal protection of Industrial Design, III/F/5131/91, June 1991, at pp. 8-10.

⁴⁵ See also *infra*, Chapter IV, where the disparities in the current design legislations in force in the six original Member States and the United Kingdom are illustrated.

⁴⁶ See "Harmonization of industrial property and copyright law in the European Community", *o.c.*, at p. 331.

suggestion.⁴⁷ In 1991 the Commission issued the Green Paper on the legal protection of industrial designs, in which both a Council Regulation on the creation of a Community Design and a Council Directive on the approximation of national design legislation is proposed.⁴⁸ Similarly as for trade marks, the objective is not so much to harmonize the existing legislations. The aim is rather to introduce a uniform Community system of industrial design protection on the basis of Article 100a EEC, alongside the national systems of design protection which remain in vigour, but of which the provisions that are most important for the functioning of the internal market are to be approximated. It remains to be seen how the Council will react to these proposals, but it is doubtful whether the reaction will be more positive and more rapid than as concerns trade marks, all the more so since the spare parts controversy proves to be a highly political issue.

VI.3.2.5. Copyright

Initially, it was thought that copyright protection did not directly interfere with the proper functioning of the internal market. This explains why Article 36 EC only mentions industrial and commercial property and that no working group was established in 1959 to study the feasibility of

⁴⁷ The Commission explains this delay through pointing out that its attention initially focused on the problems posed by patents and trade mark law, whereas it is only recently that industrial designs have gained in importance as an essential element in the commercialization of consumer goods, see the Commission's Green Paper on the legal protection of Industrial Design, III/F/5131/91, June 1991, at pp. 8-9.

⁴⁸ For an analysis of the current proposals, see *infra*, Chapter V.

harmonizing copyright legislation.⁴⁹ However, it soon became apparent that the exercise of the economic rights -as opposed to the moral rights- conferred by copyright had the same effect upon the common market as patents or trade marks.

Already at an early stage, the European Court of Justice clarified that copyright and akin rights come under the scope of the EC Treaty in so far as the economic rights are concerned.⁵⁰ But it lasted until 1988 for the Commission to issue its Green Paper on copyright and the challenge of technology, in which it was analysed which aspects of copyright legislation needed most urgently to be harmonized at Community level.⁵¹ This was thought to be the case especially as concerned the legal protection of relatively new technologies such as semi-conductors and computer programmes, and for specific rights such as distribution and rental rights.⁵² For the more classical subject matters of copyright

⁴⁹ On the early discussions in the legal doctrine concerning the applicability of the Rome Treaty to copyright, see UBERTAZZI, L., "Copyright and the free movement of goods", I.I.C. (1985) 46-75, at pp. 47-52.

⁵⁰ This was implicitly held in the *Deutsche Grammophon Case* (Case 78/70, Judgment of 8 June 1971, E.C.R. (1971) 487) and explicitly clarified in the *Musik-Vertrieb Memban v. GEMA* case (Joint Cases 55 and 57/80, Judgment of 20 January 1981, E.C.R. (1981) 147).

⁵¹ Commission Green Paper on copyright and the challenge of technology: Copyright issues requiring immediate action, COM (88) 172 final, of 7 June 1988. See also STRIVENS, R., "The EC Commission Green Paper on copyright", E.I.P.R. (1988) 275-278.

⁵² See FRANZONE, D., "Droit d'auteur et droits voisins: bilan et perspectives de l'action communautaires", Revue du Marché Unique Européen (1993) 143-170. At p. 149, he writes: "Cet objectif découle, d'une part, de la nécessité d'adapter ces droits aux profondes mutations que la technologie a provoquées dans leur utilisation et, d'autre part, de la nécessité de protéger adéquatement un secteur économiquement et culturellement porteur face à la piraterie qui sévit dans la Communauté et les Etats membres". See also infra, at pt. VI.3.2.6.

protection, it was maintained that a sufficient level of harmonization could be achieved within the framework of the international conventions negotiated by the Member States, and especially the Berne Convention for the Protection of Literary and Artistic Works,⁵³ so that direct Community action in this field was not necessary.⁵⁴

The problem with this approach was that this left copyright legislation to a large extent outside the Community competences, whereas it confirmed the competences of the Member States to individually negotiate on copyright legislation within the framework of WIPO. This disregarded the situation whereby all Member States except two, namely Belgium and Ireland, had adhered to the 1971 Paris Act of the Berne Convention. To counter this lack of basic harmonization and to remedy the discrepancies that arose between the actions undertaken under the Community's exclusive competences in the field of commercial policy and the internal division of competences,⁵⁵ the Commission in 1991 proposed to issue a Council Decision concerning the accession of the Member States

⁵³ See supra, Chapter IV, at pt. IV.2.2.

⁵⁴ See Commission Green Paper on copyright and the challenge of technology: Copyright issues requiring immediate action, COM (88) 172 final, of 7 June 1988, at pp. 7-8. Dietz to the contrary convincingly demonstrates the need for harmonization of copyright laws, see DIETZ, A., "The harmonization of copyright in the European Community", I.I.C. (1985) 379-410.

⁵⁵ On the relationship between intellectual property rights and commercial policy, see GOVAERE, I., "Intellectual property protection and commercial policy", in Maresceau, M., (ed.), The European Community's commercial policy after 1992: the legal dimension, Kluwer Academic Publishers, 1993, pp. 197-222, especially at pp. 119-221.

to inter alia the Paris Act of the Berne Convention.⁵⁶ Although the Member States in general agreed with the need to harmonize their copyright legislation through the adherence to the said convention, they disagreed with the Commission on the point that this should be rendered obligatory through the use of a legally binding Community instrument, and thus through the conferment of competences to the Community.⁵⁷ Instead of the proposed Council Decision, a Council Resolution has been issued, in which the Council 'notes' that the Member States undertake to become parties to the Paris Act of the Berne Convention by 1 January 1995.⁵⁸

However, rather recently the Commission has become aware of the fact that the basic harmonization provided for under the Berne Convention still gives rise to important discrepancies which affect the functioning of the internal market. The Berne Convention sets minimum norms of protection, but leaves it up to each member country to enforce higher norms of protection. To remedy the distortions to intra-Community trade created by the different duration of copyright protection -the Berne Convention provides only in a minimum term of 50 years post mortem auctores-, the Commission has proposed to issue a Council Directive to harmonize the term of protection according to the highest term of protection given in a Member

⁵⁶ Proposal for a Council Decision concerning the accession of the Member States to the Berne Convention for the Protection of Literary and Artistic Works, as revised by the Paris Act of 24 July 1971, and the International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organisations (Rome Convention) of 26 October 1961, COM (90) final of 11 January 1991.

⁵⁷ See also FRANZONE, D., *o.c.*, at pp. 156-157. At p. 157, he writes: "Ce transfert de compétences à la Communauté et des pouvoirs d'application et d'interprétation qui en découlent a semblé inopportun à de nombreux Etats membres".

⁵⁸ Council Resolution 92/C 138/01 of 14 May 1992 on increased protection for copyright and neighbouring rights.

State.⁵⁹ This directive to extend the duration of copyright protection to 70 years post mortem auctores was adopted by the Council on 29 October 1993 and should be implemented by 1 July 1995 at the latest.⁶⁰

VI.3.2.6. Relatively new areas of IPR protection

So far, the internal market objective has virtually only led to Community harmonization with regard to relatively new areas of protection for which specific national laws had not yet been fully elaborated. It concerns new technologies, such as topographies of semi-conductors and computer programs,⁶¹ or rights which have recently gained in economic importance, such as lending and renting rights which are akin to copyright.⁶²

⁵⁹ Amended proposal for a Council Directive harmonizing the term of protection of copyright and certain related rights, 93/C 27/09, O.J. C 27/7 of 30 January 1993.

⁶⁰ Council Directive 93/98/EEC of 29 October 1993 harmonizing the term of protection of copyright and certain related rights, O.J. L 290/9 of 24 November 1993. For a critical view, see DWORKIN, G., "Authorship of films and the European Commission proposals for harmonizing the term of copyright", E.I.P.R. (1993) 151-155.

⁶¹ Council Directive 87/54/EEC of 16 December 1986 on the legal protection of topographies of semi-conductor products, O.J. L 24/36 of 27 January 1987 (see also the subsequent Council Decisions extending the protection to persons from certain countries and territories). Council Directive 91/250/EEC of 14 May 1991 on the legal protection of computer programs, O.J. L 122/42 of 17 May 1991. See also the amended proposal for a Council Directive on the legal protection of biotechnological inventions, COM (92) 589 final of 16 December 1992 and the proposal for a Council Directive on the legal protection of databases, COM (92) 24 final, of 13 May 1992.

⁶² See Council Directive 92/100/EEC of 19 November 1992 on rental right and lending right and on certain rights related to copyright in the field of intellectual property, O.J. L 346/61, of 27 November 1992. This was largely inspired by the judgment of the Court in the Warner Brothers case, see infra, Chapter VII, at pt. VII.3.3.

The rapid development of new technologies over the past decade has posed the problem of their legal protection all over the world. The investments that are made in research and development are considerable, whereas it was obvious that the absence of legal protection would lead to piracy on a large scale and thus reduce the possibility to get a reasonable return and reward for the investments made. The main problem was that it proved to be difficult to protect those new technologies efficaciously on the basis of existing intellectual property legislation. For instance, computer programs were generally thought not to fulfil the requirements of patent protection, whereas merely interpreting the copyright definition of 'artistic and literary works' so largely as to include computer programs would have entailed granting the (minimum) life plus 50 years protection against unauthorized reproduction. This was generally thought to be unreasonably long and to be inherently anti-competitive. This meant that the existing legislation had to be adapted to modern needs or that new forms of intellectual property protection had to be elaborated to deal specifically with these new types of intellectual creations.⁶³

It is especially against this background of the urgent need for fundamental legislative change or innovation that the Community has been able to take initiatives instead of the individual Member States and issue harmonization directives on the basis of Article 100a EC.⁶⁴ A factor which is thereby taken into account is the need to create a favourable environment for the European technology industry in order to stimulate the

⁶³ See also IDOT, L., o.c., at p. 283.

⁶⁴ See for instance Council Directive 91/250/EEC on the legal protection of computer programs, o.c., where it is held in the preamble that "computer programmes are presently not clearly protected in all Member States by existing legislation..".

Community's industrial development.⁶⁵ Linked to this is the concern to uphold or reinforce the Community's competitive position vis-à-vis its trading partners, especially the United States and Japan.⁶⁶

However, Community harmonization seems to be feasible only because it concerns the legal protection of specific and new issues, rather than intellectual property legislation in general. It has to be emphasized that besides these well-specified issues concerning mainly new technologies, the 1992 objective has not had a significant impact upon the division of competences between the Member States.

⁶⁵ Id., where it is held "whereas computer programs are playing an increasingly important role in a broad range of industries and computer program technology can accordingly be considered as being of fundamental importance for the Community's industrial development". See also the proposal on the legal protection of databases, O.C., where it is explained in the Explanatory Memorandum that "this new and growing sector is of considerable importance to the economic development of the Community, both as a sector in its own right and also as a service which underpins commercial, industrial and other activities of all kinds".

⁶⁶ See for instance the databases-proposal, O.C., Explanatory Memorandum, where it is held that "unless a stable and uniform legal environment is created within Europe, investment in the creation of databases within the Community will not keep pace with the demand from on-line information services. That demand will easily be met by foreign database operators transmitting their services from outside the Community, to the potential detriment of the database sector in Europe..". See also the first proposal on the legal protection of biotechnological inventions, COM (88) 496 final of 17 October 1988, Explanatory Memorandum, at p. 6, where it is held that "establishing a harmonised system of patent law in this area will facilitate the development of Community industry in biotechnology, trade in biotechnological products and the establishment of a common market in this field. Moreover, it will enable Community industry to keep pace with leading nations in biotechnology and to close or narrow existing gaps".

VI.3.3. ARTICLE 36 AND HARMONIZATION OF IPR LEGISLATION

Although it is clear from the foregoing that the Member States are not very eager to harmonize their intellectual property legislation through Community harmonization measures, it is important to analyze what an incidence harmonization has on the application and invokeability of Article 36 EC.

The difference between, on the one hand, harmonization and approximation on the basis of Article 100a EC, and, on the other hand, unification on the basis of Article 235 EC, is very important as far as intellectual property rights are concerned.⁶⁷ The Court of Justice has consistently held that in the absence of harmonization or approximation, it is up to the Member States to determine the conditions and procedures for obtaining intellectual property protection.⁶⁸ However, the Court has also remarked that in the absence of unification, the national character of intellectual property protection is capable of jeopardizing the objectives of the Treaty.⁶⁹

Mere harmonization or approximation of intellectual property legislation, as is the Community approach to the new technologies and partly also to trade marks and industrial design rights, certainly creates a more uniform and transparent system as concerns the conditions and procedures for obtaining protection. But because it keeps the national

⁶⁷ Vigner points out that except for Article 113 EEC, no other Treaty provision expressly uses "words derived from the idea of unity, such as 'unification' or 'making uniform'". See VIGNES, D., "The harmonization of national legislation and the EEC", E.L.R. (1990) 358-374, at p. 361.

⁶⁸ See for instance Case 314/87, *EMI Electrola v. Patricia Im- und Export*, Judgment of 24 January 1989, E.C.R. (1989) 79, at para 11.

⁶⁹ See for instance Case 24/67, *Parke Davis v. Centrafarm*, Judgment of 29 February 1968, E.C.R. (1968) 55, at para 71.

territoriality principle intact, it does not prevent the holder of an intellectual property right to invoke his exclusive right in a given Member States in order to prohibit the importation of infringing goods, which have been lawfully marketed in the Member State of exportation.⁷⁰ Following the Denkavit approach,⁷¹ harmonization or approximation would entail that Article 36 EC can no longer be invoked to rely on different conditions and procedures for obtaining intellectual property protection.⁷² However, Article 36 EC could still be invoked to enforce the exclusive nature of the right, based on the territoriality principle. As such, harmonization of intellectual property legislation does not automatically safeguard the free movement of goods. This is a major difference with the other objectives mentioned in Article 36 EC, for which harmonization renders the application of Article 36 EC void.

Article 36 EC could only cease to apply to intellectual property rights if national intellectual property legislations were rendered uniform in the sense that they are replaced by Community intellectual property rights. The obvious reason for this is that only unification of intellectual property rights would extend the principle of territoriality to the whole of the Community.⁷³

⁷⁰ This will be important in case no parallel protection exists or has been applied for in the Member State of exportation or has since expired. The exhaustion principle will only apply if the goods were marketed with the right holder's consent, see infra, at pt. VI.4.

⁷¹ See supra, at pt. VI.3.1.

⁷² Abstraction made of a possible application of Article 100a (4).

⁷³ For a more detailed analysis, see GOVAERE, I., "Intellectual property protection and commercial policy", in Maresceau, M., (ed.), o.c., especially at pp. 215-220.

As seen above, the Commission currently proposes to create the Community trade mark and the Community Design.⁷⁴ However, the objective of the Commission's proposals is not to totally replace the existing national legislations, but rather to create a concurrent legal system. This means that even if the Council were to follow up these proposals, the application of Article 36 EC to trade marks and industrial designs still would not be totally eliminated because of the co-existence of national, be it approximated, legislation.

VI.3.4. PRELIMINARY CONCLUSION

It thus does not seem likely that the problems posed by intellectual property rights to the functioning of the internal market will be solved by adequate legislative action in the near future. The Community legislative process is in the first place hampered by the reluctance of the Member States to limit their sovereignty on the matter. And secondly, the specific nature of intellectual property rights weakens the effect of those harmonization measures that have been or will be agreed upon. The only solution to circumvent the application of Article 36 EC, and thus to abolish restrictions to intra-Community trade, requires a complete transfer of competences to the Community and the abolishment of national intellectual property protection altogether. It is clear that this will not readily be accepted by the Member States. The result is that the case-law of the Court of Justice on the application of Article 36 EC to intellectual property rights will remain of a major importance, even where harmonization has been achieved.

On the other hand, it goes without saying that the case-law on

⁷⁴ See supra, at pts. VI.3.2.3. and VI.3.2.4. respectively.

the application of the Articles 85-86 EC to intellectual property rights will always remain important, even in the hypothetical case that complete unification would be achieved. It has been maintained above that the inclusion of intellectual property rights in the Article 36 EC-exception to the free movement of goods has no direct bearing on the application of the EC competition rules to those exclusive rights.⁷⁵ This will a fortiori be so in the case the exception no longer applies.

VI.4. NATIONAL IPR AND EEC PRINCIPLES

VI.4.1. RULE-MAKING BY THE COURT OF JUSTICE

In the absence of adequate harmonization of intellectual property legislation, the relationship between national intellectual property rights and Community principles has almost exclusively been determined by the case-law of the European Court of Justice. The Court has always rejected the viewpoint that the matters mentioned in Article 36 EC belong to the exclusive competences of the Member States and therefore are not subject to scrutiny under the Treaty provisions.⁷⁶ Consequently, the Court has in its case-law gradually elaborated general principles which give guidance on to what extent Community rules -especially the rules on the free movement of goods and on competition- impinge upon national intellectual property rights in order to safeguard the objectives of the Treaty.⁷⁷ Intellectual property rights

⁷⁵ See supra, pt. VI.2.3.

⁷⁶ See supra, at pt. VI.2.2.

⁷⁷ The case-law on the relationship between intellectual property rights and the rules on services falls outside the scope of the topic of the thesis, so that it will not be dealt with.

are by their very nature exclusive rights granted for the territory of a Member States.⁷⁸ This means that on the basis of such a right, in principle both intra-brand and inter-brand competition can be restricted or even prohibited.⁷⁹

It is submitted that the case-law of the Court concerning the applicability of the principle of free movement of goods to intellectual property rights is of a primordial importance, because it determines the framework for competition or possible distortions of competition within the internal market. The rules on the free movement of goods in principle apply to the circulation of all goods, whether protected by intellectual property rights or not. The free movement of goods protected by intellectual property rights is a precondition to safeguard intra-brand competition in the internal market, whereas the free movement of unprotected goods might be necessary to safeguard inter-brand competition. As such, it seems to be important that national law invoked to derogate from this principle should be justified and proportional under the first sentence of Article 36 and not be contrary to the second sentence of Article 36 EC.⁸⁰ In other words, it is the scrutiny of intellectual property legislation under Article 36 EC that should determine the legal framework against which the rules on competition have to be applied.

The application of the rules on competition in principle cannot as such create a competitive market structure through,

⁷⁸ With the exception of denominations of origin.

⁷⁹ The degree to which inter-brand competition can be restricted will depend on the type of intellectual property right concerned as well as on the factual situation in the market, see supra, Chapter III.

⁸⁰ See supra, at pt. VI.2.2.

for instance, rendering inter-brand competition obligatory,⁶¹ but they can limit the way in which a holder of an intellectual property right can make use of his exclusive right in a given market. As such, it is submitted that the case-law of the Court concerning the application of the rules on competition to intellectual property rights certainly forms a complementary part to its case-law on free movement of goods, but can by no means replace it. It is therefore surprising that the basis for the Court's case-law on both Articles 30-36 and Articles 85-86 was laid down in early competition law cases. Here, the incidence of Article 36 EC on the rules on competition was explained in terms of the well-known existence/exercise dichotomy. The peculiarity lies in the fact that this distinction was later on merely transposed to the case-law on the free movement of goods, apparently without taking the specificity of those rules or of intellectual property rights into account. In order to understand on what grounds the Court delineates between what constitutes a normal use as opposed to the abuse of the system of intellectual property protection, it is therefore necessary to retrace the early case-law.

VI.4.2. THE DISTINCTION BETWEEN EXISTENCE AND EXERCISE OF IPR RIGHTS

VI.4.2.1. The origin

The Court of Justice first clarified the incidence of Article 36 on the competition rules in the Consten Grundig v.

⁶¹ But see infra, at pt. VI.4.4.4.E., concerning the 'affirmative action' in the Magill cases.

Commission case of 1966.⁸² In this case, the question arose whether the application of the competition rules could be circumvented through the reliance on national intellectual property rights.

The Commission maintained that a clause in a distribution contract whereby one party (Consten) is given the right to register the trade mark 'GINT' in a given Member State, whereas that trade mark is internationally registered in name of the other party (Grundig), amounts to creating an absolute territorial protection which is prohibited by Article 85 EC. It therefore inserted the injunction in its contested decision to refrain from using the trade mark to block parallel imports. Consten and Grundig to the contrary argued that the Commission had infringed Articles 36 and 222 EC by holding that the trade mark could not be used to prohibit parallel imports, because the absolute territorial protection was the effect of the exclusive right granted by national intellectual property legislation and not of restrictive clauses to that effect in their agreement.

The Court trenched this issue by ruling that although the exclusive right in the trade mark was conferred by national law, it was the agreement that enabled Consten to register the trade mark in the first place. The agreement could therefore be held to infringe Article 85 (1) EC. More delicate was the question whether the Commission could also impose the obligation upon the parties to refrain from using their trade mark -which was conferred by national law- to block parallel imports. In this respect, the Court pointed out that the prohibition under Article 85 EC would be meaningless if Consten could still use his exclusive right under national

⁸² Joined Cases 56 and 58/64, *Etablissements Consten SARL and Grundig-Verkaufs-GmbH v. Commission*, Judgment of 13 July 1966, E.C.R. (1966) 299.

trade mark law to obtain absolute territorial protection.

The Court for the first time explicitly clarified the relationship between the industrial and commercial property exception of Article 36 EC and Article 85 EC. It held that the Articles 36 and 222 EC "do not exclude any influence whatever of Community law on the exercise of national industrial property rights" and that "Article 36 EEC (..) cannot limit the field of application of Article 85".⁸³ However, this did not imply that the very existence of national intellectual property rights could be disregarded under the competition rules. The Court further specified that:

"the injunction (..) to refrain from using the rights under national trade mark law in order to set an obstacle in the way of parallel imports does not affect the grant of those rights but only limits their exercise to the extent necessary to give effect to the prohibition under Article 85 (1)".⁸⁴

As such, it was only the 'improper use' of trade mark law in the objective to 'frustrate' the rules on competition that is struck down under Community law.⁸⁵

The Court reiterated this distinction between the 'existence' of intellectual property rights, which is subject to national legislation, and the 'exercise' of those rights, which can be

⁸³ Concerning the applicability of Article 222 EEC, Advocate-General Roemer held that "its object is solely to guarantee in a general manner the freedom of the Member States to organize their own systems of property but not to provide a guarantee that the Community institutions may not in any way intervene in subjective rights of property. The concept of property being extremely wide in the national legal systems, any other argument would result finally in the paralysis of the powers of the Community", Opinion of 27 April 1966, E.C.R. (1966) 352, at p. 366.

⁸⁴ Joined Cases 56 and 58/64, o.c., at p. 345, emphasis added.

⁸⁵ Id., o.c., at p. 346.

limited in virtue of the Community rules on competition, in the Parke Davis case of 1968.⁸⁶ The Court was asked in a preliminary ruling whether the patent holder's reliance on his national patent right to claim that the courts should prevent any circulation, sale, hire, delivery, storage or use of the same product imported from another Member State where no exclusive right is granted to manufacture and sell that product, was compatible with the Articles 85 (1), 86, 36 and 222 EC. In second order, the question was posed whether the price difference between the products concerned would lead to a different answer. The Commission synthesized the subject matter of the questions referred as the extent to which Articles 85 and 86 EC limit the rights of the holder of a patent obtained by virtue of the legislation of one of the Member States.⁸⁷

After having remarked that in the absence of unification of patent law, the variations between the different legislative systems concerning patents may potentially create obstacles to the free movement of the patented products and to competition within the common market, the Court merely proceeded with the interpretation of the competition rules in the light of the distinction made in the Consten Grundig case. The possible application of the rules on the free movement of goods was thereby totally disregarded.

The Court emphasized that a patent, taken by itself, is merely the expression of a legal status granted by a state to products meeting certain criteria, and as such does not infringe the Treaty provisions. Looking at the wording of Article 85 (1), it is clear that an unilateral action by a

⁸⁶ Case 24/67, Parke, Davis & Co v. Probel, Reese, Beintema-Interpharm and Centrafarm, Judgment of 29 February 1968, E.C.R. (1968) 55.

⁸⁷ Case 24/67, o.c., at p. 62.

patentee cannot fall under the prohibitions thereof. However, could the reliance on this exclusive right in court constitute an abuse of a dominant position in the meaning of Article 86 EC?

Advocate-General Roemer, in his opinion on the case, expressed the view that the possibility of resorting to defensive measures to reinforce the legal patent right, when a patented product has been put into circulation without the consent of the patent holder in countries where the product is not patentable, is part of the essence of the right and has to remain unchanged.⁸⁸ He stated:

"a patent law emptied of its substance and devaluated to this point could hold up technical progress".

It was held that if the patent protection is not sufficient, the likely alternative for the inventor would be to resort to secrecy and to diminish the amount of licences granted. Whether or not the use of a patent infringes Article 86 EC depends merely on commercial realities, such as the possibility to fix prices and terms, the existence of several licences maintaining competition, the commercial value of a patent, the presence of substitutable products on the market, etc.. . In the view of the Advocate-General, there has to be an 'abuse' in the exercise of patent rights, as opposed to their proper use in accordance with their nature which can never be prohibited under Article 86 EC.⁸⁹

According to the Advocate-General, the difference in price has to be evaluated along the same commercial criteria. An excessively high price structure might be a factual indication that a dominant position on the market is being abused, yet

⁸⁸ Case 24/67, Opinion by Advocate-General Roemer, delivered on 7 February 1968, E.C.R. (1968) 74, at p. 77.

⁸⁹ *Id.*, at pp. 78-79.

offers no prove in itself.⁹⁰ An analysis of the different costs involved would therefore be indispensable.

The European Court of Justice basically followed up the opinion of Advocate-General Roemer, without, however, pursuing the analysis of the objectives of patent protection. The Court ruled as follows:

"1. The existence of the rights granted by a Member State to the holder of a patent is not affected by the prohibitions contained in Articles 85 (1) and 86 of the Treaty;"

"2. The exercise of such rights cannot of itself fall either under Article 85 (1), in the absence of any agreement, decision or concerted practice prohibited by this provision, or under Article 86, in the absence of any abuse of a dominant position;"

"3. A higher sale price for the patented product as compared with that of the unpatented product coming from another Member State does not necessarily constitute an abuse."⁹¹

As such, the Court introduced a triple distinction as the guiding principle to strike the balance between national intellectual property rights and the Community rules on competition. Firstly, the 'existence' of intellectual property rights is not affected by the rules on competition. Secondly, the 'normal exercise' of those rights is not affected by the rules on competition either. And thirdly, the 'abusive exercise' of those rights is prohibited by the rules on competition. The problem is of course to determine what the difference is between those three terms.

⁹⁰ Id., at pp. 79-80.

⁹¹ Case 24/67, o.c., at pp. 73-74. Emphasis added.

VI.4.2.2. The concept

Both in the Consten Grundig as in the Parke Davis case, the Court implicitly assumed that the intellectual property right concerned was granted and used in conformity with the first sentence of Article 36 EC, so that its existence should be taken for granted and not be affected by Community law. This is different from the approach taken by Advocate-General Roemer in both cases, although his conclusion was basically the same. The Advocate-General reflected upon whether or not the way in which the given right was used lived up to the function of intellectual property rights under national law, in order to conclude whether the right is abused and can be limited under Community law.

Although the rules on the free movement of goods were not invoked in the Consten Grundig case, Advocate-General Roemer looked at whether the Commission's injunction under Article 85 (1) EC interfered with rights which need protection, in other words with rights that can be justified under Article 36 EC and hence should be left untouched. He came to the conclusion that the GINT trade mark did not fulfil the function of a trade mark, which is to guarantee the origin of the product to the consumer.⁹² Under the given circumstances, the GINT trade mark was not used as an indication of origin relating to either the manufacturer or the dealer, and neither as an indication of sales circuits. His conclusion was that:

"if it thus appears that in effect the sole aim of the GINT trade mark consists in circumventing legal provisions on cartels (..), the Commission may certainly take this situation into account without being guilty of unwarranted interference in trade mark law".⁹³

⁹² On the function of trade marks, see supra, Chapter III, at pt. III.3.4.

⁹³ Joined Cases 56 and 58/64, o.c., at p. 366.

Also in the Parke Davis case, Advocate-General Roemer reflected upon the specific function of the intellectual property right invoked. He held that the essence of patent law is to grant:

"(a) legal monopoly to exploit an invention, which is intended to guarantee the chance of a reasonable return for the inventor".⁹⁴

As seen above, he maintained that to prohibit the patent holder from merely using his exclusive right to block the importation of goods put on the market of another Member State without his consent would empty the patent of its substance. In other words, the patent would no longer be able to fulfil its main function for which it was granted.

If one disregarded the preliminary analysis made in the light of the function of the right invoked, it would seem that Advocate-General Roemer -and also the Court in its judgments- came to two contradictory conclusions. In the Consten Grundig case he allowed the national trade mark to be emptied of its substance in the sense that it could no longer be used to prohibit importations, whereas in the Parke Davis case he explicitly stated that the patent should not be emptied of its substance through prohibiting the use of the exclusive right to block importations. And yet in both cases it was held by both the Court and the Advocate-General that the existence of the exclusive right was left untouched and that it was only the abusive exercise of the right that was limited by Community law. In the Consten Grundig case, it is clear that the national trade mark only continued to exist in theory, because in practice it was stripped of all legal effect.

This illustrates that the distinction between the existence

⁹⁴ Case 24/67, o.c., at p. 78. Compare to the function of patents as described supra, Chapter III, at pt. III.3.2.

and the exercise of intellectual property rights, without taking into account additional criteria such as the function of the right to see to what extent the Community rules on competition may or should limit the exclusive right, is a purely theoretical one. It creates uncertainty as to where the Court draws the line between the 'existence' and the 'exercise' of an industrial property right, because the existence of a right is in essence the various ways in which it can be exercised.⁹⁵ And it definitely creates uncertainty as to when the exercise of such an exclusive right will be considered as a 'normal use' and when it will amount to an 'abuse'.

Still, the formal distinction between on the one hand the existence and on the other hand the exercise of intellectual property rights can easily be explained in so far as the application of the rules of competition are concerned. As mentioned above, the objective of the competition rules is to curtail the anti-competitive behaviour of economic actors and not to bring national legislation into conformity with the Treaty objectives. As such, they are specifically concerned with the exercise of rights or the use of market power, and are not meant to affect the legal status conferred by national law. This basic principle was most recently confirmed by the Court in the Ohra case.⁹⁶ However, the distinction between the 'existence' of intellectual property rights which is

⁹⁵ See KORAH, V., "Dividing the common market through national industrial property rights", Mod. L. Rev. 35 (1972) 634, at p. 636; BLOK, P., "Articles 30-36 of the EEC Treaty and intellectual property rights: a Danish view", I.I.C. (1982) 729-746, at p. 731; JOLIET, R., "Patented articles and the free movement of goods within the EEC", Current Legal Problems (1975) 15-37, at p. 23, although the latter maintains that the distinction makes sense under Articles 85-86 but not under Articles 30-36.

⁹⁶ Case C-245/91, Ohra, Judgment of 17 November 1993, not yet published.

determined by national law and the 'exercise' which is subject to scrutiny under Community law has also been used in the context of the Articles 30-36 EC.⁹⁷ The application of this distinction is less obvious under the rules on the free movement of goods. The Court has consistently held that Article 36 EC in the first place applies to national measures, so that it is submitted that it is the existence and the enforcement of provisions of national legislation which are not justified and not proportional that should not be upheld, rather than the exercise made of the exclusive right by the holder of the right.⁹⁸

VI.4.2.3. A functionality-test?

Through referring merely to the distinction between 'existence', 'normal exercise' and 'abusive exercise' of intellectual property rights as the guiding principle in the early intellectual property cases, it is not only the relationship between Community law and national law that has been determined in a rather vague way. It also implies that the boundaries posed to intellectual property rights by the Community rules on competition are based on precarious grounds. It seems to leave it up to the Court to determine whether and when national intellectual property rights should be put aside for the purpose of accelerating the integration

⁹⁷ See infra, at pt. VI.4.3.

⁹⁸ See also WHITE, E., "In search of the limits to Article 30 of the EEC Treaty", C.M.L.Rev. (1989) 235-280, at p. 266 where he writes: "This approach is in conflict with the principle that Article 30 applies to state measures"; MARENCO, G., and BANKS, K., "Intellectual property and the Community rules on free movement of goods: discrimination unearthed", E.L.R. (1990) 224-256, at p. 226.

of the internal market.⁹⁹ It is submitted that this uncertainty could be remedied through accepting the criterion of 'the use of the exclusive right in conformity to the function for which it was granted' as the delineating factor between the normal exercise of an intellectual property right, which should be left untouched, and the abusive exercise of that exclusive right, which could be curtailed under the Community rules on competition. But to avoid situations arising as in the Consten Grundig case, whereby the existence of the trade mark was formally upheld but practically emptied of its substance, it would seem to be more coherent to scrutinize the existence of the right as granted by national legislation on its conformity with Community law, rather than to obtain the same result through the back-door of striking down its exercise under the competition rules. The proper way of challenging the very existence of an intellectual property right would logically be to apply Article 36 EC effectively to intellectual property measures.

The rules on free movement of goods are directed to the Member States, so that the notion of measures having equivalent effect to quantitative restrictions applies to all measures emanating from the State or a public authority.¹⁰⁰ As such, both the provisions of national intellectual property legislation and the individual decisions whereby intellectual property rights are granted, for instance by a national patent office,

⁹⁹ See also FRIDEN, G., "Recent developments in EEC intellectual property law: the distinction between existence and exercise revisited", C.M.L.Rev. (1989) 193-217. At p. 193, he writes: "This potential lack of clarity which gives the possibility to the court to use the distinction as an instrument of judicial policy should not conceal the fact that the distinction can be given an exploitable theoretical construction" (emphasis added).

¹⁰⁰ See DAUSES, A., "Mesures d'effet équivalent à des restrictions quantitatives à la lumière de la jurisprudence de la Cour de Justice des Communautés européennes", R.T.D.E. (1992) 607-629, at p. 611.

could in principle be subject to scrutiny under the Articles 30-36 EC.¹⁰¹ As stated before, Article 36 EC does not reserve an exclusive competence to the Member States, but merely allows for certain measures under certain conditions to derogate from the principle of free movement of goods.¹⁰² This would imply that the justification-test and proportionality-test inherent to the first sentence, as well as the exception embodied in the second sentence of Article 36 EC, would have to be effectively applied to such legislation or decision.¹⁰³ It would seem to be logical that in order to be upheld, the exclusive right would have to be granted in conformity with the function of the legislation concerned, and the legislation should be drafted in such a way as to not exceed the function of the intellectual property rights concerned.

In the Delhaize case, the Court has adopted this approach as

¹⁰¹ Joliet argues that it is the national legislation which is the measure having an equivalent effect rather than judicial decisions enforcing those rights, however he does not reflect on the decisions whereby public authorities grant the right, see JOLIET, R., "Patented articles and the free movement of goods within the EEC", Current Legal Problems (1975) 15-37, at pp. 25-27. Barents to the contrary maintains that the Court's Bouchereau judgment (Case 30/77, E.C.R. (1977) 1999) entails that also court decisions can constitute a measure having an equivalent effect. See BARENTS, R., "New developments in measures having equivalent effect", C.M.L.Rev. (1981) 271-305, at p. 275. This latter view has been confirmed by the Court in Case 58/80, Dansk Supermarket, E.C.R. (1981) 194.

¹⁰² See supra, at pt. VI.2.2.

¹⁰³ Marenco and Banks rightly point out that "what one can say in the context of the rules on the free movement is that they do not prejudice an intellectual property right in its general conception, but can only affect a particular feature of the law - which is not the same distinction as between existence and exercise", see MARENCO, G., and BANKS, K., "Intellectual property and the Community rules on free movement: discrimination unearthed", E.L.R. (1990) 224-256, at pp. 226-227.

concerns denominations of origin.¹⁰⁴ The Court held that:

"To the extent that the conditions constitute measures envisaged by Article 34 EEC, they are justified for reasons of industrial and commercial property in the sense of Article 36 EEC, only if they are necessary to safeguard that the denomination of origin fulfils its specific function.

In this respect, it has to be noted that the denomination of origin has as its specific function to safeguard that the product concerned comes from a well-defined geographical area and presents certain specific features".¹⁰⁵

The main difference between denominations of origin and other intellectual property rights lies in the fact that the first do not confer exclusive rights based on the principle of territoriality to individuals as the latter do. Still, although the Court apparently seems to attach a great importance to this distinction, it is submitted that there is no obvious reason why a similar approach to Article 36 EC could not be applied to the other intellectual property rights.

Introducing what could be called 'a functionality-test' as a basis to the traditional distinction between the existence and the exercise -whether normal or abusive- of intellectual property rights, would have the merit of rendering the impact of Community law on intellectual property rights more transparent and coherent. The existence of intellectual property rights would not be affected by Community law if the exclusive right is granted in conformity with the function of the intellectual property right concerned and its exercise would not be struck down under the competition rules if the exclusive right is subsequently used in conformity to the

¹⁰⁴ Case C-47/90, *Etablissement Delhaize Frères et Compagnie Le Lion SA v. Promalvin SA et AGE Bodegas Unidas SA*, Judgment of 9 June 1992, not yet published.

¹⁰⁵ Case C-47/90, at para 16-17, own translation from French, emphasis added.

function for which it was granted. On the other hand, abusively granted and abusively used intellectual property rights could be struck down under respectively either the rules on the free movement of goods or the rules on competition. It is obvious that in order to safeguard the uniform interpretation of Community law, the concept 'essential function' of a particular intellectual property right should not be established in each case with reference to the national legislation invoked, but rather should be given a Community definition.¹⁰⁸

However, there seems to be no such underlying criterion to the distinction between the existence and the exercise of intellectual property rights as currently used by the Court of Justice. The Court has merely transposed this distinction, which, as seen above, can only be explained with reference to the specific nature of the competition rules, to its case-law concerning the free movement of goods. Although the Court has in an important number of judgments gradually elaborated upon this concept, it still is not always clear where the existence of the right -and thus the undisturbed national right- ends and where its exercise -and thus the possible to impose limitations under Community law- begins. It is even less obvious when the exercise of the right will be held to be abusive or not, as can be inferred from the analyses of the case-law of the Court given below.

¹⁰⁸ Mertens de Wilmar points out that the establishment of Community definitions of a particular concept is the first rule to be observed by the Court when interpreting Community law, see MERTENS DE WILMAR, J., "Réflexions sur les méthodes d'interprétation de la Cour de Justice des Communautés Européennes", C.D.E. (1986) 5-20, at p. 12. Specifically in relation to Article 36 EEC, see MERTENS DE WILMAR, J., "De Communautaire rechtspraak over het vrij verkeer van goederen", R.W. (1984) 1-16, at p. 13.

VI.4.3. PREDOMINANCE OF FREE MOVEMENT OF GOODS OVER IPRVI.4.3.1. The Community exhaustion principle**A. THE ORIGIN**

One of the most significant cases, dealt with by the Court of Justice in the field of intellectual property rights, was the Deutsche Grammophon case of 1971.¹⁰⁷ The Hanseatisches Oberlandesgericht Hamburg made a reference for a preliminary ruling concerning the application of the Community rules on competition to rights akin to copyright, whereas the European Court of Justice in its answer interpreted the rules on the free movement of goods.

The Deutsche Grammophon Gesellschaft company (DGG) distributed gramophone records directly or through subsidiaries in several EC Member States. In Germany, the records were sold directly through retailers and wholesale booksellers. The controlled retail selling price was 19 DM. In other countries, the records were distributed on ground of exclusive licensing agreements with subsidiaries, such as Polydor of Paris. Metro SB of Hamburg refused to sign a written agreement to observe the retail selling price. Instead, it purchased Polydor records through a third undertaking, Rosner & Co of Hamburg, and sold them on the German market at a lower price than the one set by DGG. This lead DGG to bring an action before the national courts, claiming that Metro had infringed its right of exclusive distribution in the Federal Republic.

The Oberlandesgericht Hamburg asked the European Court of Justice in the first question to rule whether the exclusive

¹⁰⁷ Case 78/70, Deutsche Grammophon Gesellschaft mbH v. Metro-SB-Großmärkte GmbH, Judgment of 8 June 1971, E.C.R. (1971) 487.

right to distribute protected articles, conferred by national law, may be invoked to prevent the marketing on national territory of products which were distributed by such manufacturer or with his consent on the territory of another Member State, without infringing Community provisions, in particular Articles 5, 2° and 85 (1) EC. In other words, the question was whether the use of intellectual property rights so as to prevent intra-brand competition in the given case, constituted a 'normal' use compatible with the rules on competition, or an 'abusive' use of the exclusive right which should be struck down. The subject-matter of the second question was whether the exclusive distribution rights infringed Article 86 EC if the controlled retail price was higher than the price of the original product reimported from another Member State, and if the principal performers were bound by exclusive contracts to the manufacturer of the sound recordings.¹⁰⁸

Contrary to the approach taken in the Sirena case,¹⁰⁹ the first question was dealt with by the European Court mainly in the light of Articles 30 to 36 EC. The Court made the assumption that Article 36 EC, although only explicitly referring to industrial and commercial property, also applies to a right related to copyright. However, instead of analyzing under Article 36 EC whether or not the national legislation conferring the exclusive right was justified and proportional -as a precondition to its possible invocation and predominance

¹⁰⁸ On this question, see infra, at pt. VI.4.4.2.C.

¹⁰⁹ Case 40/70, Sirena v. Eda, Judgment of 18 february 1971, E.C.R. (1971) 69. The relevant preliminary question in this case was the following: "Must the said Articles 85 and 86 be interpreted as preventing the proprietor of a trade mark lawfully registered in one Member State from exercising the absolute right derived from the trade mark to prohibit third parties from importing from other Countries of the Community products bearing the same trade mark, lawfully attached to them in their place of origin?".

over the free movement of goods-, the Court transposed the distinction made in the context of the application of the rules on competition in the Parke Davis case.¹¹⁰ It was held that in case the 'exercise' of the exclusive right was not contrary to Articles 85 and 86 EC, one still had to look at whether this exercise was not contrary to other provisions of the Treaty.¹¹¹ This means that the Court implicitly considered the 'existence' of the right to be unaffected by all Community rules -and not only by the rules on competition- and merely looked at the impact of the 'exercise' of the exclusive right by the holder on the free movement of goods.

Advocate-General Roemer had taken a similar approach, referring to the previous case-law concerning the application of the rules on competition to conclude that the existence of intellectual property rights should be left intact.¹¹² He thus looked at whether there was an illegitimate exercise of the right that should be prohibited by Community law in the given case. He pointed out that the problem arose because the goods had been marketed with the right holder's consent in another Member State, so that on the basis of the principle of territoriality the exclusive right could possibly be invoked to prohibit the importation of those goods. This was different from the situation arising with regard to marketing with consent within German territory, because in the latter hypothesis the principle of exhaustion of rights as laid down in German law applied.¹¹³ He reflected on the question whether

¹¹⁰ See supra, at pt. VI.4.2.1.

¹¹¹ Case 78/70, O.C., at para. 7.

¹¹² Case 78/70, opinion of Advocate-General Roemer delivered on 28 April 1971, E.C.R. (1971) 503.

¹¹³ According to Marenco, the Community principle of exhaustion exactly aims at eliminating the discrimination inherent in the national exhaustion principle. See MARENCO, G., "Pour une interprétation traditionnelle de la notion de mesure d'effet équivalent à une restriction quantitative",

the principle of territoriality, which is inherent to intellectual property legislation, forms part of the existence of intellectual property rights so that it should be unconditionally upheld, or whether to the contrary it is part of the exercise of the exclusive right, so that it could be curtailed by Community law. The Advocate-General tended in favour of the second view,¹¹⁴ and held that anyhow the decisive factor was that the objective of the intellectual property right was attained through the first marketing of the goods, because this offered the possibility to obtain a monopolistic reward. He held that "it would undoubtedly go beyond the objective of that right if the holder was permitted to control further marketing..".¹¹⁵

The Court of Justice introduced the principle of Community exhaustion of rights upon first marketing with consent to curtail the effect of the principle of territoriality.¹¹⁶ It

C.D.E. (1984) 291-363, at p. 344. However, if the aim of the Court were only to eliminate discrimination, then the application of the principle of Community exhaustion would be dependent on whether or not the national legislation invoked contains the principle of national exhaustion, and hence would apply differently according to the country of importation and the IPR invoked. Even Marenco has to admit that discrimination is not the decisive element in the analysis of the Court concerning measures having equivalent effect (see p. 346). See also infra, Chapter VIII, at pt. VIII.3.4.

¹¹⁴ *Id.*, at p. 508 where he writes: "... there is in fact much to be said for the view that the principle of territoriality, which is so uncertain in outline, does not form part of the existence of the right".

¹¹⁵ *Id.*, at p. 508.

¹¹⁶ This is different from the Sirena case, where the Court came to a similar conclusion through the application of the rules on competition. See Case 40/70, o.c., at para 11, where the Court held: "Article 85, ..., is applicable to the extent to which trade mark rights are invoked so as to prevent imports of products which originate in different Member States, which bear the same trade mark by virtue of the fact that the proprietors have acquired it, or the right to use it, whether by agreements between themselves or by agreements with

explained that allowing citizens of Member States to partition the common market through invoking national provisions, would be contrary to the essential purpose of the Treaty which is precisely to unite the national markets into one single market.¹¹⁷ The Court gave a restrictive interpretation of the relevance of Article 36 EC in this context, through stating that:

".. Article 36 only admits derogations from (the free movement of goods) to the extent to which they are justified for the purpose of safeguarding rights which constitute the specific subject-matter of such property".¹¹⁸

However, contrary to Advocate-General Roemer, the Court did not explain what constitutes the specific subject-matter or the objective of intellectual property in its view. This notion, which thus distinguishes between what constitutes a normal use as opposed to a misuse of intellectual property protection under the rules on the free movement of goods, was

third parties".

¹¹⁷ Case 78/70, o.c., at para 12. The Court has clarified in the Polydor v. Harlequin case that the application of the principle of exhaustion to curtail IPR is stringently linked to the Treaty objective of creating one internal market. It was held that this principle could not be transposed to an international context merely on the basis of provisions similar to Articles 30 and 36 EEC in an agreement with a third country. See Case 270/80, Polydor v. Harlequin, Judgment of 9 February 1982, E.C.R. (1982) 329. The exhaustion principle will probably apply in the context of the European Economic Area, since the objective is exactly to extent the internal market to the EFTA-countries concerned, see BROWN, J., and ROBERT, G., "The European Economic Area: how important is it?", E.I.P.R. 14 (1992) 379-382. However, it is not clear whether or not it will only apply to goods originating in the EEA, compare ABBEY, M., "Exhaustion of IP rights under the EEA agreement does not apply to third country goods", E.C.L.R. 13 (1992) 231-233; PRÄNDL, F., "Exhaustion of IP rights in the EEA applies to third-country goods placed on the EEA market", E.C.L.R. (1993) 43-45.

¹¹⁸ Id., at para 11, emphasis added.

only gradually elaborated upon in subsequent case-law.¹¹⁹

B. THE CONCEPT

According to Gormley, the introduction of the concept 'specific subject-matter' to delineate the scope of application of Article 36 EC as far as intellectual property rights are concerned is the 'prime example' of the concrete application of the proportionality principle.¹²⁰ This would probably have been true were the proportionality-test to have been applied to determine whether or not the national measure conferring the exclusive right fell within the scope of the first sentence of Article 36 EC, rather than merely to curtail the use made of that right by the holder. Transposing the distinction between the 'existence' of the right which is left untouched as opposed to the 'exercise' which is curtailed by Community law to the context of free movement of goods, implies that the Court assumed that intellectual property legislation per se comes within the ambit of the first sentence of Article 36 EC. But at the same time it is obvious, to say it in Gormley's words, that:

"it is the national right (to, for example, oppose the importation of products on the ground of infringement of a patent) which is the measure having equivalent effect to a quantitative restriction, even though it is the private

¹¹⁹ On the subsequent case-law elaborating upon the notion 'specific subject-matter', see infra, at pt. VI.4.3.3.

¹²⁰ GORMLEY, L., Prohibiting restrictions on trade within the EEC, T.M.C.Asser Instituut, North-Holland, 1985, at p. 126. He writes: "The proportionality principle has been developed most significantly in relation to industrial and commercial property, in which context the Court has chosen to express the concepts of necessity and action least onerous to intra-Community trade by limiting the permissible derogations under this heading to those necessary to give effect to the 'specific object' of the right relied upon". See also at pp. 184-186.

parties who seek to invoke that right".¹²¹

As such, it is submitted that in the absence of harmonization the correct approach should have been to review the intellectual property legislation upon its compatibility with Article 36 EC.¹²²

Although under an Article 177-procedure, the Court of Justice gives an interpretation on matters of Community law, whilst it is up to the national court referring the question to interpret and to apply the national law concerned to the given facts,¹²³ the Court has not refrained to analyze whether national law invoked to derogate from the principle of free movement of goods under Article 36 EC was prima facie justified and proportional in so far as denominations of origin or the other objectives mentioned in Article 36 EC were concerned.¹²⁴

¹²¹ GORMLEY, L., O.C., at p. 262. After convincingly having argued that Articles 30-36 EEC apply to state measures and not to the behaviour of private parties (see esp. pp.260-261), he then proceeds to try and fit in the case-law of the Court on intellectual property through stating that "the view that Articles 30-36 do not bind private parties as such does not mean that they have no effect on private parties".

¹²² Similarly, see WHITE, E., "In search of the limits to Article 30 of the EEC Treaty", C.M.L.Rev. (1989) 235-280, at p. 269. He writes: "national provisions which grant rights (to take action against third parties) must be subject to Article 30 in the same way as other national measures". See also QUINN, M., and MACGOWAN, N., "Could Article 30 impose obligations on individuals?", E.L.R. (1987) 163-178, at p. 173. They write: "..it is suggested that the fundamental problem is the rights conferred on private parties by the national law concerned, without which he would be powerless to prevent imports".

¹²³ See Case 244/80, Foglia v. Novello, Judgment of 16 December 1981, E.C.R. (1981) 3045.

¹²⁴ On the Delhaize case, see supra, at pt. VI.4.2.3. Besides intellectual property protection, the only other 'per se-exception' under Article 36 EC seems to be the public security objective as applied to dual use goods. See Case C-

For instance, in the Campus Oil case, the Court explicitly held that:

"to come within the ambit of Article 36, the rules in question must be justified by objective circumstances corresponding to the needs of public security".¹²⁵

After weighing the arguments advanced in favour of the contested measures, the Court held that the application to petroleum products of measures having equivalent effect to quantitative restrictions was justified because of these products' exceptional function as an energy source and their fundamental importance for the very existence of a state. Similarly, in the De Peijper case, the Court maintained that:

"it emerges from Article 36 that national rules or practices which do restrict imports of pharmaceutical products or are capable of doing so are only compatible with the Treaty to the extent to which they are necessary for the effective protection of health and life of humans".¹²⁶

As such, in each particular case, the specific national measure invoked has to be checked on its justification in the light of the relevant objective mentioned in Article 36 EC.

Similarly, the Court under Article 177-procedures also proceeds with the application of the proportionality-test to the national measures invoked. This essentially means that although the measures might at first sight be justifiable

367/89, Minister of Finance of the Grand-Duchy of Luxembourg v. Aimé Richardt, Judgment of 4 October 1991, not yet reported. See GOVAERE, I., EECKHOUT, P., "On dual use goods and dualist case law: the Aimé Richardt judgment on export controls", C.M.L.Rev. (1992) 941-965, at pp. 949-952.

¹²⁵ Case 72/83, Campus Oil Ltd v. Minister for Industry and Energy, Judgment of 10 July 1984, E.C.R. (1984) 2727, at para 36.

¹²⁶ Case 104/75, De Peijper, Judgment of 20 May 1976, E.C.R. (1976) 613, at para 16.

under Article 36 EC, they will not come under the scope of that article if other measures could be enforced which are less restrictive to intra-Community trade. For instance in the De Peijper case, the Court held that:

"Article 36 cannot be relied on to justify rules or practices which, even though they are beneficial, contain restrictions which are explained primarily by a concern to lighten the administration's burden or to reduce public expenditure, unless, in the absence of the said rules or practices, this burden or expenditure would exceed the limits of what can reasonably be required".¹²⁷

Also in the Campus Oil case, the Court proceeded to look at whether the specific measure adopted was proportional and gave indications to the national court to apply the proportionality-test to the given facts.¹²⁸

The reason why the Court has refrained to look at whether the existence of the intellectual property right was in conformity with Article 36 EC so that it could be upheld under Community law in the Deutsche Grammophon case can thus not be explained by the division of competences under Article 36 EC, because the Court does not use a similar 'existence - exercise' distinction for the other objectives mentioned in Article 36 EC. The reluctance of the Court to look into the national legislation concerned cannot be explained either through the division of competences between the national and the Community Court under the preliminary procedure of Article 177 EC, again because the Court has under this procedure looked at whether national measures based on other objectives mentioned in

¹²⁷ Id., at para 18. In para 17, the Court in general held that "national rules or practices do not fall within the exception specified in Article 36 if the health and life of humans can as effectively be protected by measures which do not restrict intra-Community trade so much".

¹²⁸ Case 72/83, o.c., at para 44 ff.

Article 36 EEC were prima facie justified and proportional.¹²⁹

It is submitted that the Court could have come to the same conclusion, namely exhaustion of rights, through applying the justification- and proportionality-test under the first sentence of Article 36 EC to the 'existence' of intellectual property rights. Only, this would have implied that the Court looked at whether or not the rule concerned was justified by objective circumstances corresponding to the need of the intellectual property right concerned.¹³⁰ This means that the Court would have had to take the function of the intellectual property right concerned into account and determine whether or not the particular right, namely the right to oppose the importation of protected goods marketed with the right holder's consent, was granted in accordance to that function. In second order, the Court would have had to see whether granting that right was necessary to safeguard the achievement of the function of that right, or whether to the contrary the particular right granted under national law was disproportionate in relation to its objective.¹³¹ The conclusion would most likely have been the same, namely that the national right could not be invoked to prevent the importation of goods which had been put on the Community market with the consent of

¹²⁹ There are numerous cases and articles confirming this. It might suffice to recall the general statement by Verloren Van Themaat: "La jurisprudence après l'arrêt Cassis De Dijon confirme (..) que le fait qu'une réglementation nationale soit basée sur des considérations comme énumérées dans l'Article 36 ne suffit nullement pour exclure les restrictions d'importations qui en découlent de la règle de base de l'arrêt Dassonville", see VERLOREN VAN THEMAAT, P., "La libre circulation des marchandises après l'arrêt 'Cassis De Dijon'", C.D.E. (1982) 123-135, at p. 128.

¹³⁰ On the feasibility of the functionality-test, see supra, at pt. VI.4.2.3.

¹³¹ See infra, at pt. VI.4.3.2., where it is illustrated that in the Sterling Drug case, the Court initially took this approach to the exhaustion principle.

the holder. But the fundamental difference would have been that it would have been clarified from the start that national intellectual property rules and practices are not per se exempt from the application of Community law and can be subject to scrutiny upon their content. It would also have been more transparent than the creation of an additional distinction as to the use of intellectual property rights, namely the superposition of normal and illegitimate exercise under the rules on the free movement of goods to the normal and abusive exercise under the competition rules. As it is now, it seems that the exercise of intellectual property rights which is considered 'normal' under the rules on free movement of goods can still be considered 'illegitimate' under the competition rules, although it is in fact the national right itself which is the measure having an equivalent effect to a quantitative restriction and the cause of the deflection of trade.

Although this judgment did not clarify as much as it could have done, its importance cannot be denied. For the first time, the Court based its judgment almost entirely on the free movement of goods, where this could have been circumvented through applying the rules on competition as had been done in the Sirena case. The doctrine of Community exhaustion of rights puts an important limitation to the exercise of intellectual property rights, in order to safeguard the principle of free movement of goods and intra-brand competition of protected goods. However, it falls short in at least two respects. The first shortcoming is that it creates the assumption that intellectual property legislation is not subject to scrutiny under the Community rules. In Chapter VII below it will be seen that this is not necessarily true. The second shortcoming is that it is based on the rather vague notion 'specific subject-matter' of the intellectual property right concerned, which constitutes the delineating factor between 'normal' and 'illegitimate' exercise of intellectual

property rights under the rules on the free movement of goods. In the next section, attention will be given to how the Court has filled in this crucial notion with regard to the different intellectual property rights concerned in its subsequent case-law.

VI.4.3.2. The notion 'specific subject-matter'

A. PATENTS

The Court for the first time gave an indication of the concept 'specific subject-matter' of a patent right in the Centrafarm v. Sterling Drug case.¹³² Similarly as in the Deutsche Grammophon case, the preliminary question was posed whether the holder of parallel intellectual property rights could invoke his exclusive right under national law to prohibit the parallel importation of protected goods, namely medicinal preparations sold under the trade mark 'Negram', without infringing the Treaty. But the additional problem in this case laid in the fact that the price was artificially held low in the Member State of exportation, the United Kingdom, due to certain government measures.

The doctrine of exhaustion of rights to prevent the prohibition of parallel imports under national law, means in practical terms that the right holder can no longer benefit from the particular characteristics of a national market. Setting the prices according to the demand-supply ratio of the diverse territorial markets would lead to the unlimited importation of goods distributed on the market with the lowest price, to the markets where originally higher prices were fixed. Therefore, the holder of an intellectual property right

¹³² Case 15/74, Centrafarm BV and Adriaan De Peijper v. Sterling Drug Inc., Judgment of 31 October 1974, E.C.R. (1974) 1147.

is likely to assure the revenue of his work through setting higher prices on the first sale and/or charge higher licence-royalties to make up for the potential losses due to parallel importations,¹³³ or to prevent parallel importation from being beneficial. However, this possibility was severely limited in the Sterling Drug case because of government interference with the prices in the UK market.

The European Court of Justice basically confirmed its ruling in the Deutsche Grammophon case, namely that Article 36 EC only admits derogations from Articles 30-34 EC to safeguard the rights which constitute the specific subject-matter of intellectual property. But the Court went further and specified that:

"In relation to patents, the specific subject-matter of the industrial property is the guarantee that the patentee, to reward the creative effort of the inventor, has the exclusive right to use an invention with a view to manufacturing industrial products and putting them into circulation for the first time, either directly or by the grant of licences to third parties, as well as the right to oppose infringements."¹³⁴

In the view of the court, once the product has been put on the market by the patentee himself, or with his consent, in the Member State of exportation, the industrial property right has been exhausted and can no longer be invoked to prevent parallel importation.

It was generally thought that the reference to the 'reward for the creative effort' was the decisive factor in the definition of the subject-matter of patents. This led to the introduction of the 'reward-theory', namely the idea that if the inventor

¹³³ KORAH, V., "The limitations of copyright and patent by the rules for the free movement of goods in the European Common market", Case Western Reserve Journal of International Law (1984) 7-45, at p. 18.

¹³⁴ *Id.*, at para 9, emphasis added.

had been able to obtain a reward, the specific subject-matter of his patent was fulfilled and he could no longer invoke his exclusive right to oppose parallel importations.¹³⁵ But surely other reasons could have been listed to justify the existence of patents, had an analysis of the justification of national rules and practices taken place under the first sentence of Article 36 EC. The other main justifications are, as seen before, the stimulus to technological development and economic progress,¹³⁶ and the promoting of publication of inventions.¹³⁷ Despite the lack of a thorough analysis of the complex background that characterizes patents, and the justification for issuing patent legislation, the Court held that the subject-matter of national patents is to confer a positive right upon the patentee, namely the right to market his products. However, the holder of, for instance, an improvement patent may be in the impossibility to exploit his patent in order not to infringe the original patentee's rights. National intellectual property rights are in the first place negative or prohibitive rights. This means that they do not as such confer a positive right, but essentially confer the right to exclude other products from the market. It would therefore have been more correct for the Court to state that an industrial property right is basically the right to prevent others from manufacturing and selling the protected product, and to have elaborated upon the reasons for this exclusive

¹³⁵ See for instance SCHAPER, T., "Het 'specifiek voorwerp' van de industriële en commerciële eigendom in de EEG-rechtspraak", R.M.T. (1977) 556-571, at p. 561 ff.

¹³⁶ Although Article 36 EC is not concerned with measures with an economic nature, the Court has held in the Campus Oil case that the fact that the measure concerned also achieves an economic objective, besides being objectively justified for other reasons under the first sentence of Article 36 EC, does not preclude the application of Article 36 EC, o.c., at para 36.

¹³⁷ On the function of patents, see supra, Chapter III, at pt. III.3.2.

right.¹³⁸

Instead, the Court plainly rejected the patentee's justification based on the argument that governmental measures in the Member State of exportation caused the important price differences which deflected the normal intra-brand competition when the products were eventually imported. In the Court's reasoning, Member States cannot justify the maintenance or introduction of measures infringing the free movement of goods. Neither can these be relied upon by individuals to reduce the effect of factors in other Member States that are likely to distort competition within the common market. It is the task of the Community authorities to eliminate such obstacles through harmonization of national measures.¹³⁹ Although in theory this approach is fully in accordance with the purpose of the Treaty, it disregards the practical problems arising with the evolution from separate national markets to one common market. Actors on the economic market are forced to comply with Community rules whereas the Member States refrain to bring their laws in coherence with Community objectives or do this only gradually. As such, as long as no harmonization is achieved, the firms find themselves in between the economic reality of separate national markets and the ideal single market as outlined in the Treaty and pursued by the Court. In the Sterling Drug case, the practical impact of this approach was that Centrafarm could not freely determine his reward in the Member State of exportation, and that furthermore he could not prevent intra-brand competition in the Member State of importation, so that the effect of the UK government measures was partially extended to that market.

The burden posed upon the economic actors to consider the

¹³⁸ See also KORAH, V., o.c. (1982), at p. 19.

¹³⁹ Case 15/74, o.c., at para 22-25.

Community market as an integrated market, despite of divergent national legislation, is further illustrated by the Merck v. Stephar case.¹⁴⁰ Merck was an American firm, holding patents for a drug known as 'Moduretic' and for its manufacturing process in most of the EC Member States. At the time the product was first marketed, in 1962, Italian patent law did not include pharmaceuticals or their manufacturing process within the scope of the legal protection offered. Nevertheless, Merck also put his product for sale on the Italian market. When eventually patents became possible for drugs in Italy, Merck was refused patent protection owing to the lack of novelty of his product. Stephar imported Moduretic from Italy into the Netherlands and resold it there at a price lower than Merck. The latter brought a legal action before the national court for infringement of his patent right.

These facts led to a similar preliminary question as in the Deutsche Grammophon and Sterling Drug cases, namely the compatibility of invoking this exclusive right to prohibit parallel importations with the rules on the free movement of goods. However, the major difference was that in this case the parallel importation took place in the absence of parallel patent protection in the Member State of exportation. Applying the doctrine of exhaustion would thus imply that the patent holder would probably not be able to safeguard his return for R&D-investment through raising the price of his product upon first marketing. This is due to the fact that on the Italian market his product can be freely copied so that Merck has to sell his product there at competitive prices. Furthermore, subjecting his Dutch products to intra-brand competition from the competitively priced Italian products would obviously entail that either the Dutch product is driven out of the market or that its price necessarily has to be set

¹⁴⁰ Case 187/80, Merck & Co Inc. v. Stephar BV, Judgment of 14 July 1981, E.C.R. (1981) 2063.

competitively with the price of the imported Italian product.¹⁴¹ This is manifestly contrary to the reward and incentive functions inherent to patent law.

Nevertheless, in the line of its earlier judgments, whereby the Court merely analyzed the behaviour of the holder of the right rather than the legal context against which this took place,¹⁴² the Court held that the patentee is free to decide how to make use of his right of first marketing the product in his best interest, taking account of the various circumstances involved. According to the Court, this includes:

"the possibility of marketing in a Member State where the law does not provide patent protection for the product in question. If he decides to do so he must then accept the consequences of his choice as regards the free movement of the product within the common market".¹⁴³

On the argument that the Court had previously stated in the Sterling Drug case that the specific subject-matter of patents is to reward the patentee through the exclusive right to use the invention with a view to manufacturing industrial products and putting them into circulation for the first time, the

¹⁴¹ See WAELBROECK, M., "Competition, integration and economic efficiency in the EEC from the point of view of the private firm", in Michigan Law Review Association (ed.), The Art of Governance, Nomos, 1987, pp. 301-308. He argues that the Court's approach is to be rejected because it enforces the rules on the free movement of goods for the sake of enforcing those rules, thereby disregarding its negative impact on free competition, which is also a Community objective, and economic efficiency. However, he seems to suggest that intellectual property rights should be left untouched in so far that no harmonization has been achieved, rather than smoothing out the differences through analyzing intellectual property legislation under Article 36 EC.

¹⁴² See especially also Joined Cases 55 and 57/80, Musik-Vertrieb, Judgment of 20 January 1981, E.C.R. (1981) 147, as explained below.

¹⁴³ Case 187/80, o.c., at para 11, emphasis added.

Court followed Advocate-General Reischl's opinion that a patent provides the proprietor merely with the possibility of obtaining a recompense for his creative effort.¹⁴⁴ However, the Court failed to consider whether Merck was in fact in the possibility to obtain this reward.¹⁴⁵ The Court merely held:

"That right of first placing the product on the market enables the inventor, by allowing him a monopoly in exploiting his product, to obtain the reward for his creative effort without, however, guaranteeing that he will obtain such a reward in all circumstances".¹⁴⁶

From the wording of the judgment, it seems that the hypothetical case in which the patentee could have obtained patent protection in the Member State of exportation yet refrained from applying for it, should be regarded in the same way as when no protection was possible.

It is clear from this judgment that the essence or the function of the patent, which basically is the grant of a temporary exclusive right on a new product or process to reward the creative effort of the inventor and to stimulate further investment in research and development,¹⁴⁷ is not

¹⁴⁴ Case 187/80, Opinion of Advocate-General Reisch, delivered on 3 June 1981, E.C.R. (1981) 2084, at p. 2090, where he writes: "However, where (the reward) is one of the objectives of a patent right it is not, in my view, inherent in that right but must be seen as being separate from it, for it is open to any proprietor of a patent to put his invention on the market without seeking the recompense described above. Furthermore, it should not be forgotten that the return on research investment is merely a possibility, the realization of which depends on numerous market factors such as the presence of substitute products, commercial exploitability and similar conditions" (emphasis added).

¹⁴⁵ See infra, Chapter VII, at pt. VII.2.5.

¹⁴⁶ Case 187/80, o.c., at para 10, emphasis added.

¹⁴⁷ Similarly, see Advocate-General Trabucchi who explicitly held in the Sterling Drug case that the essence of trademarks, which is to guarantee the origin of the product to the consumers, is different from the essence of patents. He

tantamount to the specific subject-matter of the patent, which is reduced to the right to put the goods into circulation for the first time either by the right holder himself or with his consent.¹⁴⁸

From the formulation used in the Sterling Drug case, it could be assumed that the Court implicitly considered that there was an indispensable relationship between the function and the subject-matter of the patent. Although in the final ruling the Court held that the exercise of the right by the patent holder was incompatible with the rules on the free movement of goods in the EC, in the motivation of the judgment it held that:

"An obstacle to the free movement of goods may arise out of the existence, within a national legislation concerning industrial and commercial property, of provisions laying down that a patentee's right is not exhausted when the product protected by the patent is marketed in another Member State, with the result that the patentee can prevent importation of the product into his own Member State when it has been marketed in another Member State".¹⁴⁹

wrote: "the real essence of the protection conferred on the patent owner is the exclusive right to manufacture and market the patented product, given to compensate him as the inventor of a process and to bring him a financial reward for his efforts and for the commercial risks he runs, and it is recognized on a purely temporary basis". See Case 15/74, opinion delivered on 18 September 1974, E.C.R. (1974) 1169, at p. 1172.

¹⁴⁸ Advocate-General Reischl was of a different opinion in the Merck case. He held that the "the essence of a patent right lies primarily in the fact that the inventor is guaranteed an exclusive right to manufacture and market the product in question", whereas he held concerning the reward for the creative effort that "whilst it is one of the objectives of a patent right it is not, in my view, inherent in that right but must be seen as being separate from it". See Case 187/80, o.c., at p. 2090. Beier's main critique of the use of the criterion 'specific subject-matter' as a demarcation is precisely that it does not cover the essence of the right, see BEIER, F.-K., "Industrial property and the free movement of goods in the internal market", I.I.C. (1990) 131-160, at p. 148.

¹⁴⁹ Case 15/74, o.c., at para 10, emphasis added.

The Court furthermore held that this obstacle to the free movement of goods may be justified on the ground of industrial property protection in case it concerns parallel importation in absence of parallel protection of goods that had been marketed without the patent holder's consent.¹⁵⁰ This double use of the conditional tense thus seemed to imply that the reliance on Article 36 EC would only be upheld in case the national rule conferring the right to oppose importations did not exceed what was needed to fulfil the function or the objective of the industrial property right concerned. This is reinforced by the fact that the Court continued to state that such an obstacle to the free movement of goods cannot be justified if the goods had been marketed with the patent holders consent, in particular in the case of parallel patents, because

"if a patentee could prevent the import of protected products marketed by him or with his consent in another Member State, he would be able to partition off national markets and thereby restrict trade between Member States, in a situation where no such restriction was necessary to guarantee the essence of the exclusive rights flowing from the parallel patents."¹⁵¹

However, the court has clarified in the Merck case that the function of a patent is to be totally disregarded.¹⁵² The only criterion to be withheld to determine whether or not the

¹⁵⁰ Id., at para 11.

¹⁵¹ Id., at para 11-12, emphasis added.

¹⁵² See also BEIER, F.-K., "Industrial property and the free movement of goods in the internal European market", I.J.C. (1990) 131-160. At p. 148, he argues that the 'specific subject-matter' is not the suitable criterion for demarcation and should be replaced by the distinction between legitimate and improper use. He points out that it has become clear that the 'specific subject-matter' does not mean the 'essential function' or the 'very essence' of the right.

exercise of the exclusive right exceeds the specific subject-matter of the patent is whether or not the substance of the patent right, which "lies essentially in according the inventor an exclusive right of first placing the product on the market",¹⁵³ has been safeguarded. As such, the 'consent-theory' seemed to have definitely replaced the 'reward-theory'.

B. COPYRIGHT AND AKIN RIGHTS

The Court of Justice for the first time expressly stated that copyright protection falls within the ambit of Article 36 EEC in the Musik-Vertrieb and K-Tel cases of 1981.¹⁵⁴ The question arose whether a management company entrusted with the exploitation of copyrights could invoke provisions of the national copyright legislation to claim the payment of additional royalties upon importation of records that had been marketed in other Member States against lower royalties with the consent of the owner of the musical works concerned, without infringing the Treaty rules. The Court stated:

"It is true that copyright comprises moral rights of the kind indicated by the French Government. However, it also comprises other rights, notably the right to exploit commercially the marketing of the protected work, particularly in the form of licences granted in return for payment of royalties. It is this economic aspect of copyright which is the subject of the question submitted by the national court and, in this regard, in the application of Article 36 of the Treaty there is not reason to make a distinction between copyright and other

¹⁵³ Case 187/80, Q.C., at para 9.

¹⁵⁴ Joined cases 55 and 57/80, Musik-Vertrieb GmbH and K-Tel International v. GEMA, Judgment of 20 January 1981, E.C.R. (1981) 147. The Court had already implicitly recognized this in the Deutsche Grammophon Gesellschaft case of 1971, see supra, at pt. VI.4.3.1.

industrial and commercial rights".¹⁵⁵

This uniform approach to copyright and industrial property rights seems to be entirely justified as far as the applicability of Article 36 EC is concerned. Especially the present evolution, whereby inventions and industrial designs that do not live up to the requirements to obtain a patent-type of monopoly are increasingly protected through copyright,¹⁵⁶ shows that the commercial implications of intellectual property protection is no different than that of, for instance, patents.¹⁵⁷ The fact that copyright also embodies a moral right does not render its economic impact insignificant within the common market.

However, it seems to be less coherent to extend the uniformity in approach beyond that point.¹⁵⁸ Each industrial, commercial

¹⁵⁵ Id., at para 12. On the question whether or not the moral right of the copyright holder comes within the scope of the EC Treaty, see UBERTAZZI, L., "Copyright and the free movement of goods", I.I.C. (1985) 46-75, at pp. 72-74. He generally answers positively on that question, but excludes the application of the principle of exhaustion to moral rights.

¹⁵⁶ See supra Chapter IV.

¹⁵⁷ See also HARRIS, B., "Community law and intellectual property: recent cases in the Court of Justice", C.M.L.Rev. (1982) 61-78, at p. 63, where he writes that "had the expression 'intellectual property' been more favourable at the time the EEC Treaty was drafted, it might well have been used instead of 'industrial and commercial property' ". Furthermore, he points to the 'fine dividing-line' between copyright and other IPR, for instance concerning computer software, to conclude that "a separation between copyright and other intellectual property rights could be rather arbitrary".

¹⁵⁸ See also DIETZ, A., "The harmonization of copyright in the European Community", I.I.C. (1985) 379-410, at pt. 390, where he writes: "...copyright cannot be viewed merely as one of many intellectual property rights, paying no attention to values".

and intellectual property right has a specific function to fulfil.¹⁵⁹ The justification for maintaining such a right may thus vary from one right to another. The Court did not, however, give a definition of the specific subject-matter of copyright in this particular case. The Court, merely applying the consent-theory, went on to note that the author is free to choose the place where he puts his work into circulation, according to his best interests;

"which involve not only the level of remuneration provided in the Member State in question but other factors such as, for example, the opportunities for distributing his work and the marketing facilities which are further enhanced by virtue of the free movement of goods within the Community".¹⁶⁰

As such, differences in the rates of remuneration existing in the various Member States cannot justify the reliance on national rights to claim additional fees on the importation of the works. Similarly as in the Sterling Drug case, but contrary to the opinion of Advocate-General Warner, the Court held that the fact that the lower royalties in the Member State of exportation are due to restrictions imposed by national legislation is not relevant.¹⁶¹

The best example of the fact that the Court takes an overall uniform approach to the application of Article 36 EC to intellectual property rights is probably the Dansk Supermarket case.¹⁶² The question was posed whether national provisions concerning both copyright and trade marks could be invoked to prohibit the parallel importation of goods that had been

¹⁵⁹ See supra Chapter III.

¹⁶⁰ Id., at para 25.

¹⁶¹ See the contrary opinion of Advocate-General Warner, delivered on 11 November 1980, E.C.R. (1981) 167, at pp. 178-180.

¹⁶² Case 58/80, Dansk Supermarket v. Imerco, Judgment of 22 January 1981, E.C.R. (1981) 181.

marketed with the consent of the right holder in another Member State.

The Court reiterated its point of view that Article 36 EC only admits derogations to the Articles 30-34 EC to the extent to which the exceptions are justified for the purpose of safeguarding rights which constitute the specific subject-matter of that property. However, the Court ruled in a general way that:

"The exclusive right guaranteed by the legislation on industrial and commercial property is exhausted when a product has been lawfully distributed on the market of another Member State by the actual proprietor of the right or with his consent".¹⁶³

The Court did not distinguish between possible different justifications for enforcing the exclusive right in the copyright or in the trade mark. It also disregarded the fact that copyright gives protection against unauthorized reproductions of the protected work, whereas a trade mark gives protection against the unauthorized use of the trade mark but does not affect the possibility to market the product as such. It seems from this case that, according to the Court, the specific subject-matter of an intellectual property right is not related to the essence for which an exclusive right is granted nor to the characteristics which makes each intellectual property right specific. Rather, in the aim to safeguard the internal market objective, the concept 'specific subject-matter' is reduced to the one common denominator attributed to all intellectual property rights, namely the right to put the product on the market for the first time.

C. TRADE MARKS

As is obvious from the Dansk Supermarket case, the Court also

¹⁶³ Id., at para 11.

applies the same definition of 'specific subject-matter' in so far as trade marks are concerned, namely the right to the first marketing of the product by the trade mark holder or with his consent.¹⁶⁴ However, with respect to trade marks, the Court has had to elaborate further upon the scope of this definition.¹⁶⁵ Two specific problems lay at the basis of this further elaboration of the concept 'specific subject-matter of trade marks', namely on the one hand the issue of repackaging of marked products by third parties and on the other hand the issue of independent trade marks with a common origin.

In the Hoffman-La Roche case, the preliminary question was posed whether a trade mark holder could invoke his exclusive right to prohibit the importation of goods that had been put on the market of another Member State with his consent.¹⁶⁶ The peculiarity of the case was that the goods had been repackaged and the trade mark re-affixed to the new packet by a third party without the consent of the proprietor of the trade mark.

Merely applying the exhaustion principle on the basis of a

¹⁶⁴ Case 58/80, O.C.; see for instance also Case 16/74, Centrafarm BV and Adriaan De Peijper v. Winthrop BV, Judgment of 31 October 1974, E.C.R. (1974) 1183; Case 119/75, Terrapin v. Terranova, Judgment of 22 June 1976, E.C.R. (1976) 1039.

¹⁶⁵ Marengo points out that one of the problems with the definition of the specific subject-matter criterion is that it "has to be modified with every new case in order to fit the particular problem under consideration and to justify the solution to be given to it". See MARENCO, G., and BANKS, K., "Intellectual property and the Community rules on free movement: discrimination unearthed", E.L.R. (1990) 224-256, at p. 230.

¹⁶⁶ Case 102/77, Hoffman La Roche v. Centrafarm, Judgment of 23 May 1978, E.C.R. (1978) 1139. In an earlier case between the same parties, the same question was already posed by the national court, but the judgment of the European Court of Justice dealt mainly with the interpretation of Article 177 EEC, see Case 107/76, Hoffman La Roche v. Centrafarm, Judgment of 24 April 1977, E.C.R. (1977) 957.

straightforward application of the consent-theory -namely with as sole reference the first marketing of the goods and thereby paying no attention to the specificities of trade mark protection- would obviously have disregarded the function of the trade mark, which the Court had defined in the Terrapin v. Terranova case as being to guarantee the origin of the product to the consumers.¹⁸⁷

In his approach to the Hoffman-La Roche case, Advocate-General Capotorti took as a premise that:

"it must be established whether there is a necessary connexion between the **essential function** of the mark and the right which German law appears to attribute to the plaintiff..".¹⁸⁸

As such, he held that the national court had to look at whether the right to prohibit the repackaging of the product could be justified in this specific case by the need to avoid confusion as to the origin of the product.¹⁸⁹

The Court of Justice took a slightly different approach. The

¹⁸⁷ Case 119/75, Terrapin v. Terranova, Judgment of 22 June 1976, E.C.R. (1976) 1039, at para 6. In this case, the Court considered that a trade mark holder could invoke his exclusive right to prohibit the importation of goods that had been lawfully marketed by a third party in another Member State under a confusingly similar trade mark, without infringing the rules on the free movement of goods. On the function of trade marks, see supra, Chapter III, at pt. III.3.4.

¹⁸⁸ Case 102/77, Advocate-General Capotorti, opinion delivered on 14 March 1978, E.C.R. (1978) 1168, at p. 1173, emphasis added.

¹⁸⁹ Id., at p. 1177. The Advocate-General wrote: "I consider that it would be in breach of Article 36 of the Treaty to recognize the right of the proprietor of a mark to object in general to any alteration whatever in the packaging in order to ensure that the identity of the product is not misrepresented, without the need to establish whether in a given case there is an actual danger of this nature, having regard to the conditions under which the repackaging is carried out."

Court reformulated the definition given of the specific subject-matter of trade marks, and explicitly stated that this should be applied with regard to the specific function of trade marks. The Court clarified that:

"In relation to trade marks, the specific subject-matter is in particular to guarantee to the proprietor of the trade-mark that he has the exclusive right to use that trade-mark for the purpose of putting a product into circulation for the first time and therefore to protect him against competitors wishing to take advantage of the status and reputation of the trade-mark by selling products illegally bearing that trade-mark.

In order to answer the question whether that exclusive right involves the right to prevent the trade-mark being affixed by a third person after the product has been repackaged, regard must be had to the essential function of the trade-mark, which is to guarantee the identity of the origin of the trade-marked product to the consumer or ultimate user, by enabling him without any possibility of confusion to distinguish that product from products which have another origin.

This guarantee of origin means that the consumer or ultimate user can be certain that a trade-marked product which is sold to him has not been subject at a previous stage of marketing to interference by a third person, without authorization of the proprietor of the trade-mark, such as to affect the original condition of the product.

The right attributed to the proprietor of preventing any use of the trade-mark which is likely to impair the guarantee of origin so understood is therefore part of the specific subject-matter of the trade-marked right".¹⁷⁰

One could maintain that the Court for the first time really looked at whether a specific feature of a specific type of intellectual property legislation, and thus the 'existence' of a national provision, was justified under the first sentence of Article 36 EC, although formally the distinction between the existence and the exercise of the right was upheld.¹⁷¹ The

¹⁷⁰ Case 102/77, o.c., at para 7, emphasis added.

¹⁷¹ This seems to be confirmed by the statement of the Court, at para 8, that: "It is accordingly justified under the first sentence of Article 36 to recognize that the proprietor

Court did not merely put the fact that it concerned the prohibition of parallel importation of protected goods in the balance against the rules on the free movement of goods, but additionally looked at the justification invoked for granting the right to prohibit parallel importations. The Court also gave a general definition of the function of a trade mark, which, although commonly accepted in all Member States, seems to be a Community concept which cannot be subject to, or altered by, national law. However, the Court merely proceeded to state that the 'exercise' of the right will be prohibited under the second sentence of Article 36 EC;

"if it is established that the use of the trade-mark right by the proprietor, having regard to the marketing system he has adopted, will contribute to the artificial partitioning of the markets between Member States".¹⁷²

The Court specified that this will be the case if, additionally to the adverse effect on intra-Community trade, it is established that the repackaging cannot adversely affect the original condition of the product, the proprietor of the mark receives prior notice of the marketing of the repackaged product and it is stated on the new package by whom the product has been repackaged.¹⁷³

The Court confirmed this 'new approach' to trade marks in the

of a trade-mark is entitled to prevent an importer of a trade-marked product, following repackaging of that product, from affixing the trade-mark to the new packaging without the authorization of the proprietor".

¹⁷² Id., at para 10, emphasis added.

¹⁷³ These criteria were effectively applied in Case 1/81, Pfizer v. Eurim-Pharm GmbH, Judgment of 3 December 1981, E.C.R. (1981) 2913. Here it was held that the trade mark proprietor could not rely on Article 36 EEC to prohibit the importation of goods that had been marketed with his consent if a third person had replaced the external wrapping by a transparent wrapping so that the internal packaging -which was left intact- and the trade mark were visible.

Centrafarm v. American Home products case.¹⁷⁴ The question was raised whether a trade mark holder who put his product on the market in different Member States under different trade marks could invoke his exclusive right to prohibit the importation of products which had been marketed with his consent in another Member State but to which a third party had affixed the trade mark of the Member State of importation instead of the trade mark of the Member State of exportation.

The Court reiterated the link established between the specific subject-matter and the function of trade marks in the Hoffman-La Roche case, and specified that the guarantee of origin - which is the essential function of a trade mark - implies that "only the proprietor may confer an identity upon the product by affixing the mark".¹⁷⁵ Hence, the right to prohibit the parallel importation in the given case was held to be justified under the first sentence of Article 36 EC. However, the Court again emphasized that the exercise of this right might still be contrary to the second sentence of Article 36 EC if it is established by the national court that:

"the proprietor of different marks has followed the practice of using such marks for the purpose of artificially partitioning the markets".¹⁷⁶

The Court further specified the relationship between the function and the specific subject-matter of trade marks in the

¹⁷⁴ Case 3/78, Centrafarm BV v. American Home Products Corporation, Judgment of 10 October 1978, E.C.R. (1978) 1823.

¹⁷⁵ Case 3/78, O.C., at para 13. See also BEIER, F.-K., "The doctrine of exhaustion in EEC trademark law - scope and limits", I.I.C. (1979) 20-51, where on the basis of a comparative study of the legislation of the Member States, he comes to the conclusion that the exclusive right of affixation belongs to the indispensable substance of trademark protection.

¹⁷⁶ Case 3/78, O.C., at para 21-23 and the final ruling.

HAG II case.¹⁷⁷ As in the HAG I case,¹⁷⁸ the preliminary question was posed whether a trade mark holder could invoke his exclusive right to prohibit the importation of similar products bearing the same mark, where the trade mark had originally belonged to the same owner in the Member States concerned but had subsequently been divided due to government interference in the form of expropriation of enemy goods. However, taking into account the development of its case-law in relation to intellectual property rights subsequent to the HAG I case, the Court in its HAG II judgment explicitly reversed its ruling in the HAG I case.¹⁷⁹

Advocate-General Jacobs convincingly argued that the theory of common origin as elaborated in HAG I, meaning that the proprietor of a trade mark cannot invoke his exclusive right to prohibit the importation of a good under an identical trade mark with the same origin, rested on a misinterpretation of the function of trade marks. He pointed out that the guarantee of origin refers to the commercial rather than to the historical origin of the marked goods.¹⁸⁰ As such, the basic function of a trade mark is to give the guarantee to the consumers that the product has been produced under the responsibility of one and the same person, so that an expectation as to the quality of the goods, in other words

¹⁷⁷ Case C-10/89, SA CNL-Sucal NV v. Hag GF AG, Judgment of 17 October 1990, E.C.R. (1990) I-3752.

¹⁷⁸ Case 192/73, Van Zuylen Frères v. Hag AG, Judgment of 3 July 1974, E.C.R. (1974) 731.

¹⁷⁹ Case C-10/89, o.c., at para 10.

¹⁸⁰ Case C-10/89, o.c., Opinion of Advocate-General Jacobs delivered on 13 March 1990, E.C.R. (1990) I-3725, at pt. 24 where he writes: "The consumer is not, I think, interested in the genealogy of trade marks; he is interested in knowing who made the goods that he purchases".

goodwill, can be created."¹⁸¹ Negating the right to use the exclusive right to prohibit the importation of goods that are not produced by the trade mark holder under the same trade mark, as was the result of HAG I, obviously comes down to negating the very distinctive function of the trade mark and potentially destroys goodwill.¹⁸² In the words of the Advocate-General:

"it is difficult not to conclude that the essential function of the mark is compromised, its specific subject-matter is affected and -most seriously of all- its very existence is jeopardized. But none of those consequences ensued from the fragmentation of the HAG mark in 1944; they ensued from the Court's judgment in HAG I".¹⁸³

The Court to a large extent followed up the Advocate-General's opinion. It held that the decisive factor was the absence of consent on behalf of the trade mark holder to the putting on

¹⁸¹ On the function of trade marks, see CONSTANT, A.-M., "L'épuisement du droit à la marque: problématiques et conséquences", Inq.-Cons. (1992) 1-14, at p. 4.

¹⁸² The disregard of the function of the right was the main criticism to this, and other, cases. See for instance CONSTANT, A.-M., "L'épuisement du droit à la marque: problématique et conséquences", Inq.-Cons. (1992) 1-15, at p. 10; GOTZEN, F., "La libre circulation des produits couverts par un droit de propriété intellectuelle dans la jurisprudence de la Cour de Justice", R.T.D.C. (1985) 467-481. At p. 472, Gotzen writes: "Plus fondamentalement, on reproche à la cour d'avoir introduit la notion de l'objet spécifique sans en avoir creusé le contenu. Pour connaître la nature et la fonction des droits intellectuels, il aurait fallu procéder à une analyse plus poussée des droits nationaux, qui aurait fait apparaître bien des nuances et même des divergences. Pour ne pas l'avoir fait, la cour en serait venue à manier un critère trop peu précis pour permettre de séparer le permissible de l'illicite". However, he seems to suggest that instead of giving a real Community definition of the function of each specific intellectual property right, the court should in each case refer back to the national law. This would obviously lead to very different results in comparable cases and is therefore unacceptable.

¹⁸³ *Id.*, at pt. 24.

the market of a similar product with a similar trade mark by another independent undertaking. The Court stated that, despite of the common origin of the trade mark:

"In such circumstances, the essential function of the trade mark would be jeopardized if the proprietor of the trade mark could not exercise the right conferred on him by national legislation to oppose the importation of similar goods bearing a designation liable to be confused with his own trade mark, because, in such a situation, consumers would no longer be able to identify for certain the origin of the marked goods and the proprietor of the trade mark could be held responsible for the poor quality of goods for which he was in no way accountable".¹⁸⁴

Hence, it seems that the 'essential function' is given more weight than the specific subject-matter of trade marks.¹⁸⁵ The result is that both the independent trade mark holders in both Member States concerned can, since the HAG II judgment, prohibit the importation under the same trade mark of each others goods.

The question has arisen whether this judgment can be transposed to the context of trade marks that have been divided by voluntary assignment, or whether to the contrary it only applies in case of government intervention, as the Court seems to suggest.¹⁸⁶ It obviously would be fundamentally inconsistent to make a distinction between these two cases.¹⁸⁷ The cause of the division of the trade mark does not affect

¹⁸⁴ Case C-10/89, o.c., at para 16, emphasis added.

¹⁸⁵ Similarly, see ROTHNIE, W., "Hag II: putting the common origin doctrine to sleep", E.I.P.R. (1991) 24-31, at p. 28. He furthermore points out that "there is room for doubt about when 'consent' will be crucial and when the essential function will prevail".

¹⁸⁶ Case C-10/89, o.c., at para 19.

¹⁸⁷ See KUNZE, G., "Waiting for Sirena II - Trade mark assignment in the case law of the European Court of Justice", I.I.C. (1991) 327.

the analysis as to the essential function of the trade mark, and it is difficult to maintain that whether or not the function of the trade mark should be taken into account should again depend on the historical background of the trade mark.¹⁸⁸ However, the potential practical effect of this finding cannot be ignored. Upholding the right to exercise the exclusive rights inherent in the trade mark in case of voluntary assignment of trade marks will most probably tempt many a manufacturer to resurrect national barriers through selling their right to the trade mark in another Member State. However, it is submitted that this kind of behaviour should be struck down under the rules on competition rather than through emptying trade mark law of its meaning through ignoring its basic function under the rules on the free movement of goods.¹⁸⁹

D. INDUSTRIAL DESIGNS

As far as industrial designs are concerned, the Court of Justice has refrained to follow a similar approach as for trade marks. Similarly as for patents and copyright, the Court has not taken the specific function of the intellectual property right concerned into account, but has merely applied the principle of exhaustion on the basis of the consent-theory.

¹⁸⁸ See SHELLEY, C., "Abolition of the doctrine of common origine: some reflections on Hag II and its implications", European Business Law Review (1991) 89, at p. 90.

¹⁸⁹ See GOVAERE, I., "Hag II of de ommekeer in de rechtspraak van het Europese Hof van Justitie inzake merken met een gemeenschappelijke oorsprong", R.W. (1992) 105, at pp. 110-112, where I argue that the voluntary assignment of trade marks should be struck down under Article 85 EC. See also infra, at pt. VI.4.4.B. For a contrary view, see JOLIET, R., "Droit de marques et libre circulation des marchandises: l'abandon de l'arrêt HAG I", R.T.D.E. (1991) 169-185, at p. 184.

The Court was for the first time asked to pass a judgment concerning the protection of designs in the light of Article 36 EC in the Keurkoop v. Nancy Kean Gifts case of 1982.¹⁹⁰ The first preliminary question rose the issue whether application could be given to the Uniform Benelux Law on Designs and Models without infringing Article 36 EC. The effect of that Benelux law is to grant exclusive rights in a design to the first person to file it with the competent authorities. It provides that only the person claiming to be the author of the design, the employer or the person commissioning the design, can challenge the right of the person who filled the design and defeat an application for an injunction lodged by that person.¹⁹¹ The second question asked whether the application for an injunction in a Member State could be defeated if it concerned products that the defendant had lawfully obtained in a Member State where the applicant's design rights were not infringed through the marketing of the product.

These questions arose out of an injunction by Nancy Kean Gifts BV before the Dutch courts against Keurkoop BV for breach of its exclusive design rights on a handbag. Keurkoop imported similar products into the Netherlands. It obtained these products of Taiwanese origin through a German company who marketed the handbags freely in Germany. Keurkoop objected that Nancy Kean Gifts was not the author of the design it had filed nor had filed it with the author's consent.

In its answer to the first question, the European Court of Justice for the first time interpreted Article 36 EC in relation to designs:

¹⁹⁰ Case 144/81, Keurkoop BV v. Nancy Kean Gifts BV, Judgment of 14 September 1982, E.C.R. (1982) 2853.

¹⁹¹ See supra, Chapter IV, at pt. IV.3.3.1.

"By way of a preliminary observation it should be stated that, as the Court has already held as regards patent rights, trade marks and copyright, the protection of designs comes under the protection of industrial and commercial property within the meaning of Article 36 inasmuch as its aim is to define exclusive rights which are characteristic of that property".¹⁸²

But instead of looking at whether the exclusive right granted was in conformity with the function of industrial designs and models, the Court went on to note that, in the absence of harmonization or standardization of the laws concerned, the conditions and procedures under which protection of designs is granted is to be determined by national legislation. This constitutes legislation for the protection of industrial and commercial property that falls within the scope of Article 36 EC. In other words, the Court regards the conditions and procedures for obtaining protection, laid down in national law, as resorting under the 'existence' of industrial and commercial property which is not to be affected by Community provisions.¹⁸³

In the line of the 'existence/exercise' dichotomy, the Court in its answer to the second question held that the exercise of the exclusive right can be subject to Community principles.

¹⁸² Case 144/81, o.c., at para 14, emphasis added.

¹⁸³ Marenco points out that this is precisely where the subject-matter approach falls short, because "the risk of having to assess the wisdom of the national legislator came into the open with *Keurkoop v. Nancy Kean*, the case which constituted the moment of truth for this test and from which it has never fully recovered". See MARENCO, G., and BANKS, K., "Intellectual property and the Community rules on free movement: discrimination unearthed", E.L.R. (1990) 224-256, at p. 232. Although it is submitted that this critique correctly points out the limits of the Court's approach, it is difficult to conceive how the application of the specific subject-matter test as elaborated by the Court would have led to an assessment of the wisdom of the national legislator, unless a Community definition of a 'proprietor' or 'design' would have been formulated. However, the latter could not have been done without taking the function of the right into account.

Advocate-General Reischl, in his opinion to the case, had considered whether the notion 'specific subject-matter' of a design -which delineates between normal and illegitimate exercise of the exclusive right- should be construed with reference to a uniform model or with reference to each specific national design right invoked in individual proceedings before the court.¹⁹⁴ This question is especially pertinent concerning industrial designs and models, since the national legislations applicable to designs in the twelve Member States are very disparate from one another.¹⁹⁵ The Advocate-General proposed to take the same overall approach as concerns patents and copyright, and thus to define, although not exhaustively, the subject-matter of designs as the right for the proprietor to market the product of a given industrial design for the first time.¹⁹⁶

Though without giving an explicit definition of the specific subject-matter of a design,¹⁹⁷ the Court followed up the Advocate-General's opinion and held that the proprietor of a right to a design may prevent the importation of similar products from another Member State, provided that three conditions are cumulatively fulfilled:

"..that the products in question have not been put into circulation in the other Member State by, or with the consent of, the proprietor of a right or a person legally or economically dependent on him, that as between the natural or

¹⁹⁴ Case 144/81, Opinion of Advocate-General Reischl delivered on 8 June 1982, E.C.R. (1982) 2875, at p. 2880.

¹⁹⁵ See supra, Chapter IV.

¹⁹⁶ Case 144/81, o.c., at p. 2880.

¹⁹⁷ The Court for the first time explicitly stated that the very subject-matter of designs is "the right of the proprietor of a protected design to prevent third parties from manufacturing and selling or importing, without its consent, products incorporating the design" in Case 238/87, Volvo v. Veng, Judgment of 5 October 1988, E.C.R. (1988) 6211, at para 8. See infra, at Chapter VIII.

legal persons in question there is no kind of agreement or concerted practice in restraint of competition and finally that the respective rights of the proprietors of the right to the design in the various Member States were created independently of one another".¹⁹⁸

This last condition, which does not refer to a specific Treaty provision, was obviously inspired by Advocate-General Reischl's opinion and his reflections upon the impact of the disparities that exist in national design legislation. He pointed to the hypothetical situation in which different persons independently obtain a right in the same design in different Member States, in accordance with the national provisions. He argued that if these designs were traced back to the same creative work and considered as having an identical origin, and if the rule of common origin as the Court had elaborated in the HAG I case were to be transposed to the context of designs, then the national legislation requiring merely the filing of the design to benefit from protection would be deprived of its substance.¹⁹⁹ As such, the Advocate-General and the Court were not concerned with safeguarding the essential function of a design when rejecting the theory of common origin -as had been the case for trade marks in the HAG II case-, but merely with leaving the 'existence' of national design legislation intact. This means that it is not the reference to the essential function of a design, but mainly the additional factor of collusion between the parties with the aim or result of partitioning the market that will determine whether or not the exercise of such a right should be restricted by Community law.²⁰⁰

¹⁹⁸ Case 144/81, o.c., at para 29, emphasis added.

¹⁹⁹ Case 144/81, o.c., at p. 2883.

²⁰⁰ *Id.*, where Advocate-General Reischl writes: "In that connection, it should be noted that in so far as the proprietors of such rights in a design which are identical in origin are linked by legal or economic ties from which a single origin of the design may be inferred, they may not, on the basis on an analogous application of the case-law of the

VI.4.3.3. Preliminary conclusion

Under the rules on the free movement of goods, the Court of Justice has elaborated a set of general principles that will determine whether or not intellectual property rights are curtailed by Community law. Although these principles generally apply to all kinds of intellectual property rights without distinction,²⁰¹ trade marks can be singled out because the Court has at least in some cases recognized their specific characteristics and taken their essential function into account.

The first basic principle is the existence/exercise dichotomy which is derived from the application of the competition rules to the anti-competitive behaviour of intellectual property holders. In principle, the intellectual property legislation as such will not be subject to scrutiny under Article 36, whereas it is mainly the way in which the holder makes use of his exclusive right that will be held to be incompatible with the principle of free movement of goods.²⁰²

Secondly, to delineate between normal use and illegitimate exercise of the exclusive rights of intellectual property under the rules on the free movement of goods, the Court has

Court on trade marks which are identical in origin, exercise the powers vested in them by national law for the purpose of preventing the importation of products having that protected design; otherwise, it would be possible to partition national markets artificially by means of rights in a design which are identical in origin and exist concurrently in the individual Member States".

²⁰¹ Except for denominations of origin to which a proper functionality test is applied, see supra, at pt. VI.4.2.3.

²⁰² See also infra, Chapter VII.

advanced the concept 'specific subject-matter' of an intellectual property right. For patents, copyright and akin rights and designs, the Community definition of the specific subject-matter is held to be merely the right to put the protected goods on the market for the first time by the holder or with his consent. Whether or not the essential function of the intellectual property right is thereby fulfilled seems to be irrelevant, or at least is ignored.²⁰³ Instead of refining what was known as the reward-theory through determining what the real function of the exclusive right concerned is in a particular case, the development of the case-law of the Court has given rise to the much simpler, but also less adequate, consent-theory.²⁰⁴

This is different for trade marks, with regard to which the Court has established that the concept 'specific subject-matter' has to be understood in the light of the essential function of a trade mark. Furthermore, the Court has elaborated a Community definition of what constitutes the essential function of a trade mark, so that it is not subject to national laws or interpretation. Although the consent of the proprietor of a trade mark to putting the protected goods on the market also plays an important role in defining the specific subject-matter of trade marks, it is no longer considered to be the only viable criterion but is withheld

²⁰³ See also GOTZEN, F., "La libre circulation des produits couverts par un droit de propriété intellectuelle dans la jurisprudence de la Cour de Justice", *R.T.D.C.* (1985) 467-481, at p. 475. He writes: "Traduit dans les termes de l'article 36, cela revient à examiner les 'interdictions d'importation' non pas en premier lieu au regard des 'raisons de protection de la propriété industrielle et commerciale', prenant racine dans les système de droit national, mais bien plutôt selon qu'elles paraissent oui ou non 'justifiées' par rapport au principe communautaire de libre circulation des produits. Vu sous cet angle, la notion d'objet spécifique perd beaucoup de son importance".

²⁰⁴ On this issue, see *infra*, Chapter VII, at pt. VII.2.5.

only if the function of the trade mark is thereby safeguarded.

The third basic principle under the rules on the free movement of goods is the exhaustion of the right, meaning that the intellectual property right concerned can no longer be invoked to prohibit the importation and sale of infringing goods, once the specific subject-matter of the exclusive right as described above is held to be fulfilled. This basic principle has clearly been elaborated to safeguard the internal market objective to the fullest.

Although this three-tier approach to delineate between a normal use and an abuse of intellectual property rights under the rules on the free movement of goods is now firmly established and generally accepted, it will be shown in Chapter VII below that this approach has led to fundamental inconsistencies in the Court's case-law, especially when considered from the inherent functions of the exclusive rights. In rather recent cases this approach based on the distinction between the existence and the exercise of the right has proven to be inadequate to come to terms with several important distortions posed to intra-Community trade by certain features of intellectual property legislation, so that a new tendency can discerned in the latest case-law on the free movement of goods.²⁰⁵

²⁰⁵ See *infra*, Chapter VII.

VI.4.4. 'ABUSE' OF INTELLECTUAL PROPERTY RIGHTS UNDER THE COMPETITION RULES

VI.4.4.1. Introduction

It is apparent from the foregoing section that the Court is reluctant to tackle the existence of intellectual property rights under the rules on the free movement of goods. But, In the Consten Grundig and Parke Davis cases, the Court made it clear that, at least theoretically, the existence of intellectual property rights should also be left untouched by the rules on competition.²⁰⁶ Only the exercise of the right can be curtailed if it constitutes an 'abuse' rather than a 'normal use' of the right.

The question arises how to delineate between the normal and abusive use under the rules on competition. It is clear that the criterion of 'specific subject-matter' as is used by the Court to delineate between a normal use and a misuse of an intellectual property right under Article 36 EC cannot be unconditionally applied in the context of the competition rules. The extent to which the holder can exercise his exclusive right to put the product on the market and to prohibit anybody to make and market the protected product - this is basically what the Court has held to be the specific subject-matter of intellectual property rights- is exactly what is subject to scrutiny under the rules on competition.²⁰⁷

²⁰⁶ See supra, at pt. VI.4.2., and especially at pt. VI.4.2.2. where it is submitted that those two judgments are irreconcilable if one disregards the function of the intellectual property right, because in the Consten Grundig case the trade mark is in fact emptied of its substance.

²⁰⁷ For a contrary view, see REINDL, A., "The Magic of Magill: TV guides as a limit of copyright law?", I.I.C. (1993) 60-82. He argues that the Court has shifted from the exercise/existence test to the specific subject-matter test,

Although it has been submitted above that the application of a test based on the criterion of safeguarding the function of the right would lead to a coherent and transparent Community approach to intellectual property rights,²⁰⁸ this is not currently used by the Court.²⁰⁹

The first section will deal with the Court's clarifications about the relationship between the Community rules on competition and national intellectual property rights. The second section will analyze the Commission's approach to intellectual property licensing agreements under Article 85 EC and its appraisal by the Court. And finally, the Commission's approach to intellectual property rights under Article 86 EC, as well as the appraisal thereof by the Court of First Instance, will be examined.

VI.4.4.2. The relation IPR - rules on competition

A. INTRODUCTION

From the early cases, one learns that the general rule is that the rules on competition are fully applicable to intellectual

rather than considering them to be complementary tests, and concludes that the rights coming within the 'specific subject-matter' of IPR may not be limited by Community law in general. Still, he admits in footnote 31 that the Court in some recent Article 36 cases still referred to the existence/exercise dichotomy. Moreover, it is submitted that he misinterpreted the evolution in the case-law, essentially failing to grasp the subtle but essential difference between Article 36 and Article 86 cases.

²⁰⁸ See supra, at pt. VI.4.2.3.

²⁰⁹ But see infra, at point VI.4.4.4.E., where it is submitted that both the Commission and the Court of First Instance for the first time introduced the concept of the 'essential function' of an IPR in cases concerning IPR other than trade marks.

property rights.²¹⁰ But the exception to the rule is probably more important. Namely the 'essence' or the 'normal use' of intellectual property rights cannot be curtailed in virtue of safeguarding competition in the market.²¹¹ The problem is that the Court has not given a definition of the 'essence' of intellectual property rights, but has taken a case-to-case approach. From the Parke Davis case it is clear that an intellectual property right taken on itself will not infringe Articles 85 or 86 EC.²¹² But as soon as a licence is given or a concerted practice is established, the question arises whether and when Article 85 EC will apply. Similarly, in order for Article 86 EC to apply, an additional anti-competitive element to the 'normal' use of the right will be needed. Rather than giving clear indications as to when this requirement will be fulfilled, the case-law of the Court has only gradually elaborated upon the notion of 'abuse' of intellectual property rights in the context of the competition rules.

B. ARTICLE 85 EEC AND INTELLECTUAL PROPERTY RIGHTS

The relationship between Article 85 EC and intellectual property rights is at first sight rather simple. The Court has consistently held that Article 85 (1) EC does not apply to the mere exercise of intellectual property rights, which, being a legal right granted by national law and not an agreement or a concerted practice, do not fulfil the requirements of that

²¹⁰ See Joined Cases 56 and 58/64, Consten and Grundig v. Commission, o.c., see supra, at pt. VI.4.2.2.

²¹¹ See Case 24/67, Parke Davis v. Probel et al., o.c., see at pt. VI.4.2.2.

²¹² Case 24/67, o.c.

provision.²¹³ It is therefore submitted that the Court was wrong in deciding in the HAG I case that Article 85 (1) EC did not apply to the facts because no legal, financial, technical or economic link existed between the two independent proprietors of a trade mark with a common origin.²¹⁴ Article 85 (1) EC did not apply simply because there was no agreement or concerted practice between the two holders in the sense of Article 85 (1) EC that lay at the basis of the division of the mark.²¹⁵

The Court specified in the Centrafarm v. Sterling Drug case that Article 85 (1) EC does not apply either to agreements or concerted practices relating to intellectual property rights between undertakings that belong to a same concern, as a parent company and a subsidiary, if they form an economic unit, the subsidiary cannot determine freely its market behaviour and the agreement merely concerns the internal allocation of tasks.²¹⁶ It has been confirmed subsequently by the Court that as a general rule Article 85 (1) EC does not apply to such agreements.²¹⁷

The difficulty arises when those two hypotheses do not apply to the facts. In that case, the application of Article 85 EC

²¹³ See for instance, concerning patents: Case 24/67, Parke Davis o.c.; concerning copyrights and akin rights: Case 78/70, Deutsche Grammophon Gesellschaft, o.c., at para 5; concerning designs: Case 144/81, Keurkoop, o.c., at para 27; concerning trade marks: Case 51/75, EMI Records, o.c., at para 26.

²¹⁴ Case 192/73, HAG II, o.c., at para 4-5.

²¹⁵ See also JOHANNES, J., and WRIGHT, G., "In defense of Café Hag", E.L.R. (1975-'76) 230-236, at p. 236, where they criticise the Court's reasoning without, however, contesting the conclusion.

²¹⁶ Case 15/74, Centrafarm v. Sterling Drug, o.c., at para 41.

²¹⁷ See for instance Case 30/87, Corinne Bodson v. Pompes funèbres des régions libérées SA, Judgment of 4 May 1988, E.C.R. (1988) 2507, at para 19.

to the exercise of the right cannot be simply discarded whereas it cannot be taken for granted either. The Court has in several cases clarified that the exercise of the intellectual property right will be contrary to Article 85 (1) EC:

"..each time it manifests itself as the subject, the means or the result of an agreement (or a concerted practice) which, by preventing imports from other Member States of products lawfully distributed there, has as its effect the partitioning of the market".²¹⁸

As such, an intellectual property right may fall under the scope of Article 85 (1) EC if it is the subject, the means or the consequence of a restrictive practice, which furthermore has to have an appreciable effect on intra-Community trade. This means that one has to take both the effect of the agreement or the concerted practice and the intention of the parties into account. It also implies that not only licensing agreements,²¹⁹ but also agreements or concerted practices whereby the right itself is transferred to a third party or created in its own right, might be prohibited by Article 85 (1) EC. The Court has consistently held that the fact that the national exclusive right may originate in legal or factual circumstances other than the agreement or the concerted practice, such as for instance the registration of trade mark in conformity with national procedures, does not preclude the application of Article 85 (1) EC.²²⁰

Already in the Consten Grundig case, the Court held an agreement whereby one party was given the right to register a

²¹⁸ Case 78/70, Deutsche Grammophon Gesellschaft, o.c., at para 6.

²¹⁹ See infra, at pt. VI.4.4.3.

²²⁰ See Joined Cases 56 and 58/64, Consten Grundig v. Commission, o.c. (see also supra, at pt. VI.4.2.1.) and Case 40/70, Sirena v. Eda, o.c., at para 11.

trade mark in a particular Member State, whereas the trade mark was internationally registered in the name of the other party, to be incompatible with Article 85 (1) EC.²²¹ In subsequent cases, the Court did not offer clear criteria for the national courts to determine when an agreement transferring rights or concerted practices between independent right holders would be contrary to Article 85 (1) EC, but merely gave other examples of when this could be so.

In the Sirena case, the Court held that the combination of different assignments of national trade marks concerning the same product might be contrary to Article 85 (1) EC, if the result is that frontiers are resurrected between the Member States.²²² In EMI Records v. CBS, it was held that an agreement concerning trade marks between traders from within and without the Community, whereby the Common market as a whole would be isolated, could be contrary to Article 85 (1) EC. This was particularly held to be the case if the trader from without had subsidiaries within the Community who could have used the trade mark in the Community in the absence of the agreement.²²³ And in the Keurkoop case, the Court held that Article 85 (1) EC can apply to the situation whereby "persons simultaneously or successively file the same design in various Member State in order to divide up the markets within the Community among themselves".²²⁴

As concerns restrictive practices, such as assignments of intellectual property rights which took place before the

²²¹ See supra, at pt. VI.4.2.1.

²²² Case 40/70, Sirena v. Eda, o.c., at para 10.

²²³ Case 51/75, EMI Records v. CBS (UK) Ltd., o.c., at para 28-29.

²²⁴ Case 144/81, Keurkoop v. Nancy Kean Gifts, o.c., at para 28. See also supra, at pt. VI.4.3.3.D.

Treaty came into force, the Court has held that for Article 85 (1) EC to apply, it is "both necessary and sufficient that they continue to produce their effects after that date".²²⁵ However, the Court specified in the EMI Records v. CBS case that Article 85 will not apply if the effects of the assignment do not exceed those that constitute the normal exercise of the right.²²⁶ It is submitted that this does not mean that all assignments will be upheld as long as the rights are subsequently used in a normal manner.²²⁷ Rather, since the agreement itself was not contrary to the Treaty in the EMI case because it was concluded before the entry into force of the Treaty, Advocate-General Warner maintained that then neither could the exercise of the rights, which precisely found their origin in the agreement that was not prohibited, be prohibited.²²⁸ Agreements whereby intellectual property rights are assigned and concluded after the coming into force of the Treaty all fall potentially within the ambit of Article 85 (1) EC because they might affect intra-Community trade and

²²⁵ Case 40/70, Sirena, o.c., at para 12.

²²⁶ Case 51/75, EMI Records v. CBS, o.c., at para 32.

²²⁷ In the same sense, see JOHANNES, H., "La propriété industrielle et le droit d'auteur dans le droit des Communautés Européennes", R.T.D.E. (1973) 537-582, at p. 578 where he writes: "La théorie selon laquelle la cession d'une marque ne constituerait pas un accord au sens de l'Article 85 parce que tout élément de durée ferait défaut n'explique pas où elle trouverait l'exigence d'un tel élément: le texte de l'Article 85 ne fournit en tout cas aucune indication en ce sens; cette théorie confond la notion même de l'accord avec l'élément complémentaire qu'est le fait de provoquer une restriction de la concurrence". For a contrary view, see SLOT, P.-J., "The application of Articles 3 (F), 5 and 85 to 94 EEC", E.L.R. (1987) 179-189, at p. 188, where he exemplifies the -erroneous- statement: "the exemptions to Article 30 extend to agreements under Article 85" by a reference to the EMI-case.

²²⁸ Case 51/75, o.c., opinion delivered on 31 march 1976, E.C.R. (1976) 852.

competition.²²⁸

C. ARTICLE 86 AND INTELLECTUAL PROPERTY RIGHTS

The relationship between intellectual property rights and Article 86 EC is somewhat different. Contrary to Article 85 EEC, for Article 86 EC to apply no agreement or concerted practice is required. This implies that the action by one economic actor might suffice to render this provision applicable. The conditions, as stipulated in the Treaty, are three-fold, namely there has to be a dominant position in the Community market or a substantial part thereof, which is abused by undertakings, and whereby intra-Community trade is affected. The Court has consistently held that intellectual property rights do not come under the scope of this provision if those three elements are not present.²³⁰ But the fundamental question is to know when those conditions will be held to be fulfilled, considering the special competitive position intellectual property rights confer on the right holder.

Intellectual property rights are exclusive rights, which means that the holder can prohibit the marketing of infringing goods, regardless of whether or not they are imported from another Member State. As such, they create a privileged position on the market for the proprietor of the right, because they confer market power. The Court has clarified that the use of the exclusive right to prohibit importations of infringing goods, which is allowed by Article 36 EC, does not automatically imply that the holder has a dominant position on

²²⁸ For a more detailed analysis of the problem of voluntary assignments, See GOVAERE, I., "HAG II of de ommekeer in de rechtspraak van het Europese Hof van Justitie inzake merken met een gemeenschappelijke oorsprong", R.W. (1992) 105-112, at pp. 110-112.

²³⁰ See for instance Case 24/67, Parke Davis, o.c.; Case 78/70, Deutsche Grammophon, o.c..

the market.²³¹ Concurrently to the exclusive right, intellectual property rights also confer the right to distribute the protected product. The Court has also held that the mere exercise of this right, which is also lawful under Article 36 EC, does not constitute a dominant position.²³²

In other words, the existence and the normal exercise of intellectual property rights under Article 36 EC is not necessarily tantamount to conferring a dominant position in the sense of Article 86 EC. Rather, one has to look at whether the right holder can impede the maintenance of effective competition in a substantial part of the relevant market.²³³ This means that regard should be had to the existence of competing products marketed by other producers that can be substituted for the protected products.²³⁴

But it does not suffice to prove that the right holder occupies a dominant position on the relevant market for Article 86 EC to apply to the exercise of that right. In the Hoffman-La-Roche case, the Court held that:

".. to the extent to which the exercise of a trademark right is lawful in accordance with the provisions of Article 36 of the Treaty, such exercise is not contrary to Article 86 of the Treaty on the sole ground that it is the act of an undertaking occupying a dominant position on the market if the trade-mark right has not been used as an instrument for the abuse of such

²³¹ Concerning the right to prohibit the marketing and importation of infringing products, see for instance Case 40/70, Sirena, O.C., at para 16.

²³² Concerning the exercise of the right by way of distribution, see Case 78/70, Deutsche Grammophon, O.C., at para 16.

²³³ See for instance, Case 78/70, Deutsche Grammophon, O.C., at para 17; Case 51/75, EMI v. CBS, O.C., at para 36.

²³⁴ See for instance Case 40/70, Sirena, O.C., at para 16.

a position".²³⁵

The Court seems to imply that, if the existence of a dominant position is established, one first has to ascertain whether or not the contested exercise of the right is lawful under Article 36 EC. If it is not, then the exercise cannot become legitimate under the rules on competition. But this rule does not apply vice-versa.²³⁶ If the exercise is covered by the specific subject-matter of the right under Article 36 EC, then the conduct will not be automatically legitimate under the rules on competition, but an additional element will be needed to hold that the right has been abused under Article 86 EC. This reasoning has been reiterated in the Basset v. SACEM case, where the Court held that the mere use of the right to charge a supplementary mechanical reproduction fee -which had been upheld under Article 36 EC- "does not in itself constitute abusive conduct for the purpose of Article 86 of the Treaty".²³⁷

So the question arises what additional element is needed for the exercise to be abusive. The Court has not offered clear criteria to delineate between the normal and the abusive exercise of intellectual property rights, but has merely given examples of which practices would be contrary to Article 86 EC. The Court has consistently refuted the argument that higher prices are prove of an abuse. However, the Court has

²³⁵ Case 102/77, Hoffman-La-Roche, o.c., at para 16, emphasis added.

²³⁶ It is submitted that Reindl neglected the Hoffman-La-Roche judgment through merely applying an a contrario reasoning without paying attention to the Court's further qualification, see REINDL, A., o.c., at p. 64 ff.

²³⁷ Case 402/85, Basset v. SACEM, o.c., at para 18, emphasis added. This was also implicitly held in Case 51/75, EMI Records, o.c., at para 37, where the Court held that the exercise of the right to prohibit importation of infringing goods does not constitute an abuse of a dominant position.

also added that these prices can be indicative of an abuse if they cannot be justified along objective criteria.²³⁸ Similarly, the Court has held in Basset v. SACEM that imposing unfair conditions would be contrary to Article 86 EC.²³⁹ In BRT II, the Court had already held that the imposition by an undertaking entrusted with the exploitation of copyright of obligations, which are not indispensable for the attainment of its objective, on its members constitute unfair conditions which are contrary to Article 86 EC.²⁴⁰ The notion 'unfair conditions' was further elaborated upon in the cases Tournier and Lucazeau v. SACEM in relation to third parties, and was held to include the imposition of higher rates of royalties as compared to the other Member States without objective justification.²⁴¹

The absence of clear guidelines given by the Court means that the application of Article 86 EC to intellectual property rights necessarily has to take place on a case-to-case basis. As is the case for the application of Article 85 EC, the Commission's approach to Article 86 EC and the appraisal given thereof by the Community Courts also provides more clarity, without, however, providing more legal certainty.²⁴²

²³⁸ Case 78/70, Deutsche Grammophon, o.c., at para 19; Case 40/70, Sirena, o.c., at para 17.

²³⁹ Case 402/85, Basset v. SACEM, o.c., at para 19.

²⁴⁰ Case 127/73, BRT v. SABAM and NV Fonior, Judgment of 27 March 1974, E.C.R. (1974) 313, at para 15.

²⁴¹ See Case 395/87, Ministère Public v. Jean-Louis Tournier, Judgment of 13 July 1989, E.C.R. (1989) 2521, at para 46; Joined Cases 110, 241 and 242/88, François Lucazeau a.o. v. SACEM a.o., Judgment of 13 July 1989, E.C.R. (1989) 2811, at para 33.

²⁴² See infra, at pt. VI.4.4.3.

VI.4.4.3. Licensing Agreements restrictive of trade**A. INTRODUCTION**

It has been stated above that the 'existence' or the 'essence' of intellectual property rights is not affected by the rules on competition. This essentially means that only provisions in licensing agreements that are not thought to belong to the 'essence' of the right are caught by the prohibitions of Article 85 (1) EC. A negative clearance will be given where the 'essence' of the right is concerned whereas otherwise it will have to be established whether an exemption can be granted under Article 85 (3) EC if the agreement is notified.²⁴³

The uneasiness of Community institutions that are faced with the application of Community law to intellectual property rights is best illustrated by the 'U-turn' that the Commission made in its approach to intellectual property rights, and especially patents, under Article 85 EC.²⁴⁴ The appreciation of what constitutes the 'essence' of the right, which is unaffected by the rules on competition, has significantly varied over time. Initially, the Commission was of the opinion

²⁴³ See also JOHANNES, H., "La propriété industrielle et le droit d'auteur dans le droit des Communautés Européennes", R.T.D.E. (1973) 557-582, at p. 558.

²⁴⁴ Trademark licensing and delimitation agreements will be left aside, since the Commission and the Court regard them as being distinct from other IPR. The reason for this is that the trademark only prevents the use of an identical or similar trademark, and not the sale of similar goods by a third party. See eg. the Commission's Moosehead/Whitbread Decision, O.J. L 100/32 of 1990 and Case 35/83, BAT v. Commission, Judgment of 30.1.1985, E.C.R. (1985) 36, at para 33 (lawfulness of a delimitation agreement). For an analysis, see for instance SMULDERS, B., GLAZENER, P., "Delimiteringsovereenkomsten en de bepalingen van het EEG-verdrag inzake het vrij verkeer van goederen en de mededinging", B.I.E. (1991) 103-110.

that Article 85 (1) EC did not apply to exclusive patent licences, whereas in the end it seemed to assume that exclusive patent licences necessarily came within the scope of Article 85 (1) and always needed exemption under Article 85 (3) EC. This was again departed from in the block exemption regulation for patent licences, in which the Commission took an in-between approach. The transition in the Commission's approach to patent licences will be briefly illustrated with reference to the Court's judgments that lay at the basis of this change.

B. THE CHRISTMAS MESSAGE

On December 24, 1962, the Commission issued a Communication on the future attitude it would take towards patent licenses.²⁴⁵ This was the so-called 'Christmas Message'. Several clauses in patent licensing agreements were considered not to be contrary to Article 85 (1) EC, among which limitations as to exploitation-method, use, quantity, time, space or person. The general idea was that practices covered by the scope of the patent could not be contrary to competition rules, for

"they entail only the partial maintenance of the right of prohibition contained in the patentee's exclusive right in relation to the licensee, who in other respects is authorized to exploit the invention".²⁴⁶

In other words, the premise is that the exclusive right inherent in the patent gives the patentee the right to prohibit certain actions by third parties. Writing restrictions and prohibitions into a licensing agreement is merely the expression of the exclusive right of the patentee,

²⁴⁵ Communication on Patent Licensing Agreements, O.J. C 139/2922 of 24.12.1962.

²⁴⁶ Id., IV.

but the advantage is that the patentee allows third parties to participate in his privileged position. This means that in the Commission's view the patentee could impose all kinds of restrictions, and that for instance also undertakings on behalf of the licensor not to authorize third parties to exploit the invention and/or not to exploit it himself were in principle allowed.²⁴⁷ Although the Commission uttered its doubt as to whether such exclusive licences have the object or effect of restricting competition, it believed that they were not likely to affect trade between Member States.²⁴⁸ However, the Commission stated by way of precaution that other competent authorities, in particular the courts, might have a different interpretation.²⁴⁹ As such, the impact of the Christmas Message was in legal terms purely informative.²⁵⁰ It was also limited in scope, for it excluded agreements relating to joint ownership of patents, reciprocal licences and multiple parallel licences.²⁵¹

The reliance in this first communication on the German theory of the scope of protection of the rights, whereby the 'essence' of the right is determined with reference to the

²⁴⁷ Similarly, see the distinction made between restrictions coming 'within' the scope of patent law and those falling outside the scope, SCHRANS, G., Octrooien en octrooilicenties in het Europees mededingingsrecht, 1966, Story-Scientia, at p. 536 ff.

²⁴⁸ Id., I.E. and IV, last paragraph.

²⁴⁹ Id., III.

²⁵⁰ Although the Commission's communications do not have legal effect, they do create legitimate expectations and are often regarded as constituting 'soft-law'. See GOVAERE, I., and HELIN, F., "Implementing the Internal Market: problems and perspectives", in The 1992 Challenge at National Level, Schwarze/Govaere/Hélin/Vand de Bossche (eds.), Nomos Verlagsgesellschaft, Baden-Baden, 1990, pp. 681-703, at pp. 696-703.

²⁵¹ Id., II.

national law conferring the right, has been strongly criticised.²⁵² This theory, which finds its origin in the American 'scope of the patent' doctrine, disregards the fact that different patent laws prevail in the various Member States. If the Community approach is based on the scope of the national patent laws, than any Member State can alter Community law through extending its rules on patent protection. This is clearly contrary to the purpose and aim of the Treaty.²⁵³ In later decisions, the Commission modified its view so as to bring its approach in accordance with the interpretation given by the Court. The Christmas Message, although departed from long before, was eventually withdrawn in 1984.²⁵⁴

C. THE COMMISSION'S DECISIONS OF 1971-1972

The Commission already modified its view somewhat in its decisions of the early '70s. It is significant that the Commission no longer only looked at the relationship between the licensor and the licensee, but also took the position of third parties into account.

The Burroughs decisions of December 1971 were the first formal decisions taken by the Commission concerning patent licences

²⁵² See for instance, JOHANNES, H., Industrial property and copyright in European Community law, Leyden, 1976, at p. 96.

²⁵³ Venit points out that the Commission's approach might be explained by the fact that in 1962 the common market was still not fully established so that, for instance, not all customs barriers or quantitative restrictions between Member States had been abolished, see VENIT, J., "EEC patent licensing revisited: the Commission's Patent Licensing Regulation, Antitrust Bull. (1985) 457-526, at pp. 461-462.

²⁵⁴ see O.J. L 219/14 of 16.8.1984.

notified to it.²⁵⁵ Generally, the Commission followed up its 1962 notice on patent licences, looking upon restrictions in the agreements as being inherent to the scope of the patent. Still, it is important to note that the Commission stated that exclusive licences may be caught by the prohibition of Article 85 (1) EC, for they prevent the licensor from contracting with other applicants for a licence and as such may restrict competition.²⁵⁶ This was not held to be the case for the agreements concerned, due to the low market share of the licensees and their freedom to sell the licensed products in the whole of the common market.

The Davidson-Rubber Decision of June 1972 is even more significant, because here the Commission did consider the exclusive patent and know-how licensing agreements to be contrary to Article 85 (1) EC.²⁵⁷ Contrary to the Burroughs cases, the licensees held a considerable market share in the protected articles. Although the sale of the contract-articles could freely be made between Member States, the Commission found that the exclusivity, combined with the limited number of competing processes, had as a consequence that the position of third parties was considerably altered and therefore that competition was noticeably restricted.²⁵⁸ The Commission pursued its analysis under Article 85 (3) EC and granted an individual

²⁵⁵ The Burroughs-Delplanque Decision of 22 December of 22 December 1971, O.J. L 13/50 of 17 January 1972; The Burroughs-Geha Decision of 22 December 1971, O.J. L 13/53 of 17 January 1972.

²⁵⁶ See also CAWTHRA, B., "Exclusive, sole and non-exclusive rights in patent licensing agreements", I.I.C. (1977) 430-440, at p. 434.

²⁵⁷ The Davidson-Rubber Decision of 9 June 1972, O.J. L 143/31 of 23 June 1972.

²⁵⁸ Cawthra points out that the flaw in the Commission's decision is that it failed to state that it was the combination of exclusivity with the export prohibition that affected trade between Member States, see o.c., at p. 436.

exemption.²⁵⁹

The same day, the Commission issued a negative clearance in the Raymond-Nagoya Decision.²⁶⁰ The matter concerned a patent and utility model agreement between a French partnership and a Japanese company. The exclusive character of the agreement was considered not to be prohibited by Article 85 (1) EC, for it only eliminated potential competitors in the Far East and did not affect the competitive situation within the common market. The export prohibition, imposed on the Japanese undertaking, was also thought not to be contrary to Article 85 (1) EC owing to the improbability that the licensee would export to the Community. Once again, however, the Commission implied that such a restriction, when affecting competition within the common market, might come under Article 85 (1) EC.

These early decisions were already an important move away from the Christmas Message. It cannot go unnoticed that between the 1962 notice and these decisions, the Court had ruled in the Consten-Grundig case that Article 85 (1) EC applies to vertical as well as to horizontal agreements.²⁶¹ Concerning the applicability of Article 85 (1) to sole distributorship contract, the Court clarified that:

"Competition may be distorted within the meaning of Article 85 (1) not only by agreements which limit it as between the parties, but also by agreements which prevent or restrict the competition which might take place between one of them and third parties. For this purpose, it is irrelevant whether the parties to the agreement are or are not on a footing of equality as regards their position and function in the

²⁵⁹ For a more detailed analysis, see CAWTHRA, B., Patent licensing in Europe, London, 1986, 2^o ed., at pp. 29-30.

²⁶⁰ The Raymond-Nagoya Decision of 9 June 1972, O.J. L 143/39 of 23 June 1972.

²⁶¹ Joined Cases 56 and 58/64, Consten and Grundig v. Commission, Judgment of 13 July 1966, E.C.R. (1966) 229. See also supra, at pt. VI.4.2.1.

economy".²⁶²

In its first Report on Competition Policy of 1972, the Commission thus expressed the view that:

"..where the owner of a patent undertakes to restrict the exercise of his exclusive rights to a single enterprise in the assigned area, thus conferring upon that single enterprise the sole right to exploit the invention and to prevent other enterprises from exploiting it, he loses the freedom to enter into agreements with other applicants for licences. The exclusive character of such a licence may amount to a restriction of competition and thus fall within the category of prohibited agreements in so far as it has an appreciable effect on market conditions".²⁶³

As such, it was now firmly accepted that Article 85 EC could in principle apply to patent licences. Still, the question remained unanswered when Article 85 (1) EC would be held to apply to patent licensing agreements.

D. THE COMMISSION'S DECISIONS OF 1975-1979

The Commission expressed its uncertainty about the proper application of Article 85 EC to patent licensing agreements, and thus about what constitutes the 'essence' of a patent, in its Fourth Report on Competition Policy of 1975.²⁶⁴ It was held that:

"The assessment of patent licensing agreements under the Treaty calls upon a consideration of interests and issues which go beyond the field of competition policy.."

"On a legal plane, the Commission faces the problems of definition exposed by the Court of Justice in its distinction

²⁶² Id., at para 339, emphasis added.

²⁶³ Annex to the Fifth General Report on the Activities of the Communities, April 1972, at pt. 78.

²⁶⁴ Annex to the seventh General Report on the Activities of the Communities, April 1975.

between the existence of nationally protected industrial property rights, which is not to be affected by Community law, and the exercise of these rights, which can be subject to the Treaty rules."²⁸⁵

From the further indications given concerning several common types of patent licensing provisions, it seemed that in the future the Commission would regard all export-restrictions as needing an exemption under Article 85 (3) EC, and thus not belonging to the 'essence' of the patent. Field-of-use restrictions would only be prohibited by Article 85 (1) EC where they cause the elimination of competition between licensees or between the parties. Restrictions concerning the duration of the agreement were in principle allowed if this did not exceed the life of a single licensed patent. Non-competition clauses were thought to fall under Article 85 (1), with little possibility of exemption under Article 85 (3) EC, and also quantitative output restrictions were in the Commission's view contrary to Article 85 (1) EC.

Three months after the publication of this report, the Commission granted an exemption in the Kabelmetal-Luchaire Decision for an exclusive licence to use a patented process.²⁸⁶ In the line of its report, the Commission argued that exclusive licences are caught by Article 85 (1) EC, for the undertaking not to grant licences to other parties does not belong to the 'essence' of the patent. In order to benefit from the individual exemption under Article 85 (3) EC, a ban on export to other Member States, an obligation to transfer to Kabelmetal the ownership of jointly developed improvements, and a non-challenge clause were deleted from the original

²⁸⁵ Id., at pts. 19 and 20, emphasis added.

²⁸⁶ The Kabelmetal-Luchaire Decision of 18 July 1975, O.J. L 222/34 of 22 August 1975.

agreement at the Commission's request.²⁶⁷

In its provisional the Bronbemaling-Heidemaatschappij Decision of July 1975, the Commission refused to grant an exemption for a patent licensing agreement containing a clause making the granting of future licences dependent on the consent of the majority of the existing licensees. The Commission clearly stated that:

"..an undertaking by a patent holder to restrict his own freedom to grant licences is **not the essence of his right** as a patent holder, even where the licensees have gone through the trouble and expense of improving the invention".²⁶⁸

An exemption was also refused in the AOIP-Beyrard Decision of December 1975.²⁶⁹ Although the Commission noted that in principle, an exemption can be granted in case the patent licensing agreement contains a provision whereby the licensor gives the licensee the exclusive right to manufacture certain products within a specified part of the territory of the common market, other clauses such as a no-challenge and a non-competition clause prevented the applicability of Article 85 (3) EC in this particular case.

In its Fifth Report on Competition Policy, the Commission tried to refute the general impression created by its previous

²⁶⁷ Frank points out that the Commission did not specify what it understood by the notion 'essence' of a patent in the Kabelmetal decision so that the subsequent decisions are important in that they exemplify this notion. See FRANK, G., "Intellectual property rights in the European Economic Community and the Treaty of Rome - conflict or harmony", Journal of the Patent Office Society (1977) 274-301, at pp. 296-297.

²⁶⁸ The Bronbemaling-Heidemaatschappij Decision of 25 July 1975, O.J. L 249/27, of 25 September 1975, emphasis added.

²⁶⁹ The AOIP-Beyrard Decision of 2 December 1975, O.J. L 6/8, of 13 January 1976.

report and its subsequent decisions that it regarded some clauses in patent licensing agreements as 'per se' infringements.²⁷⁰ It confirmed that the matter of applicability of Article 85 (1) requires consideration of the economic power of the parties, the nature of the market or business in which they are engaged, their share of the market, the number of competitors and the significance of the licensed invention or Know-how.²⁷¹ Furthermore, the Commission stated that an exclusive manufacturing and sales licence of limited duration qualifies for an exemption under Article 85 (3) EC, if it provides the licensee with an incentive to penetrate either a geographic or a product market not yet worked by the licensor.²⁷²

It should be noted that since the Valley Printing Co - BBC Case of 1976, it is clear that the Commission looks upon export bans in copyright licences in the same way as it does for patent licences.²⁷³ Due to the Commission's investigation into a complaint by a third party, namely a sub-licensor of the BBC who was prevented from selling its products in the Netherlands, the BBC agreed to refrain from impeding exports of these copyright products in the future. As such, the proceedings were terminated without a formal decision. Nevertheless, this investigation into possible infringements

²⁷⁰ Annex to the Eight General Report on the Activities of the Communities, April 1976. This 'per se' approach to especially exclusivity in the early decisions had been strongly criticized. See for instance CAWTHRA, B., O.C., at p. 436; ALBRECHTSKIRCHINGER, G., "The impact of the Luxembourg Conference for the establishment of a Community patent on the law of license agreements", I.I.C. (1976) 447-469, at pp. 458-459.

²⁷¹ *Id.*, at pt. 10.

²⁷² *Id.*, at pt. 65.

²⁷³ The Valley Printing Co. - BBC Case, Bulletin of the European Communities, n° 2, 1976, at p. 26.

of the rules on competition proves that the Commission is likely to follow the same line for copyright licences as it does for patent licensing agreements.

In 1978, the Commission held in the Maize-seed Decision that Article 85 (1) EC was infringed by clauses in an exclusive licensing agreement, obliging the licensor to refrain from authorizing other undertakings to produce or use plant varieties protected through a breeder's right in the licensed territory, and to refrain from producing or using such varieties himself. Other provisions, found to infringe Article 85 (1) EC, concerned the obligation on the parties to prevent third parties from exporting the product to the contract territory. The Commission stated that such obligations restrain the breeder from exploiting his right freely and results in market sharing through the impossibility of import and export to the licensed territory by third parties. It did not grant an exemption under Article 85 (3) EC for the reason that no new market was being penetrated nor a new product launched.²⁷⁴

And finally, in the Vaessen-Moris Decision of 1979, the Commission found that a patent licensing agreement was prohibited by Article 85 (1) EC due to a non-challenge and a tie-in clause.²⁷⁵ It held that a tie-in clause constitutes an unlawful extension by contractual means of the monopoly given by the patent.²⁷⁶ No individual exemption was granted because the four conditions enumerated in Article 85 (3) EC were not considered to be fulfilled.

²⁷⁴ See also *infra*, at pt. E., for the Court's appraisal of the Commission's approach.

²⁷⁵ The Vaessen-Moris Decision of 10 January 1979, O.J. L 19/32 of 16 January 1979.

²⁷⁶ *Id.*, p. 35, at pt. 15.

E. THE COURT'S APPRAISAL OF THE COMMISSION'S APPROACH IN THE MAIZE SEED CASE

In June 1982, the Court passed a remarkable judgment in the Nungesser v. Commission case, in which it implicitly gave its appraisal of the Commission's approach in the late seventies to patent licensing agreements in general.²⁷⁷ Nungesser contested the Commission's decision of 1978, whereby exclusive licensing agreements concerning plant breeders rights were found to be contrary to Article 85 (1) EC and not suitable for exemption under Article 85 (3) EC.²⁷⁸ The Commission had in particular objected to the following clauses in the agreements:

- An obligation upon the licensor or those deriving rights from him to refrain from authorizing other undertakings to produce or use the protected varieties in Germany, and to refrain from producing or using such varieties in Germany themselves;
- An obligation upon the licensor or those deriving rights from him to refrain from authorizing other undertakings to distribute the protected varieties in Germany, and to refrain from distributing such varieties themselves;
- The obligation upon the licensor or those deriving rights from him to prevent third parties from exporting the protected varieties for sale and use in Germany;
- The use by the licensee of his own breeder's right to prevent third parties from importing those varieties into Germany or exporting them to any other Member State.

The first two clauses were thought to be prohibited by Article 85 (1) EC for they eliminate the licensor as a competitor and deprive him of the ability to issue licences to other undertakings within the contract territory. The other two provisions were objected to by the Commission on the ground

²⁷⁷ Case 258/78, Nungesser KG and Kurt Eisele v. Commission, Judgment of 8 June 1982, E.C.R. (1982) 2015.

²⁷⁸ See supra, at pt. D.

that preventing importation by third parties leads to market sharing and deprives the customers, i.e. German farmers, of negotiating possibilities because the product is supplied by only one supplier.

The applicant, Nungesser, objected to the Commission's approach that every exclusive licence is by its very nature to be regarded as an agreement prohibited by Article 85 (1) EC. In particular, he criticised the Commission's disregard of the fact that for newly developed seeds, exclusive licences constitute the sole means of promoting competition between the new product and comparable products on the market.

The Court distinguished between the arguments that had led the Commission to its conclusion of incompatibility with Article 85 (1) of the Treaty. It held:

"It should be observed that those two sets of considerations relate to two legal situations which are not necessarily identical. The first case concerns a so-called **open exclusive licence or assignment** and the exclusivity of the licence relates solely to the contractual relationship between the owner of the right and the licensee, whereby the owner merely undertakes not to grant other licences in respect of the same territory and not to compete himself with the licensee on that territory. On the other hand, the second case involves an **exclusive licence or assignment with absolute territorial protection**, under which the parties to the contract propose, as regards the products and the territory in question, to eliminate all competition from third parties, such as parallel importers or licensees for other territories".²⁷⁹

The Court took the argument into account that a total prohibition of exclusive licences would be detrimental to the dissemination of knowledge and new techniques in the Community. As such, the Court implicitly took the function of patent protection into consideration.²⁸⁰ Especially the German

²⁷⁹ Case 258/78, o.c., at para 53, emphasis added.

²⁸⁰ On the function of patents, see supra, Chapter III, at pt. III.3.2.

Government had emphasized in its intervention that the protection of breeder's rights constitutes a means of encouraging agricultural innovation. Allowing exclusive licences for a limited period of time firstly provides an additional incentive to such innovative efforts, and secondly without it, undertakings in other Member States might not take the risk of cultivating and marketing the product in competition with comparable existing products.

The specific nature of the products concerned and the function of breeders rights, lead the Court to conclude that "the grant of an open exclusive licence, (..), is not in itself incompatible with Article 85 (1) of the Treaty".²⁸¹ As such, the Court implicitly rejected the theoretical approach taken by the Commission. Instead, it seemed to recognize that economic realities should be outweighed against juridical considerations in order not to jeopardize competition and innovation in the long run. One can also deduce from the Court's reasoning that safeguarding the function of the right is an important factor in determining what constitutes the 'essence' of the right, which is to be left unaffected by Article 85 (1) EC.

However, in the line of the earlier Consten Grundig judgment, the Court held that a non-open exclusive agreement, enabling parallel imports to be controlled and artificial boundaries to be resurrected between national markets, is prohibited by Article 85 (1) EC. It contested the view taken by the Government of the United Kingdom that anyhow a contract

²⁸¹ Case 258/78, O.C., at para 58, emphasis added. The Court reiterated this approach to licensing agreements concerning plant breeders rights in Case 27/87, Louis Erauw-Jacquery SPRL v. La Hesbignonne, Judgment of 19 April 1988, E.C.R. (1988) 1935. However, in this case the Court held that the inclusion of a clause imposing minimum prices might, depending on the economic and legal context of the agreement, be contrary to Article 85 (1) EEC.

between two parties cannot have this effect, owing to the previously established case-law concerning the free movement of goods, and therefore should not come under Article 85 (1) EC. The Court emphasized that the Commission's powers to ensure the observation of the rules on competition is in no way restricted through the existence of other Treaty provisions upon which other persons can rely to escape the implications of an agreement between two parties.

On the whole, the Court held that the absolute territorial restriction was not indispensable for the improvement of production or promotion of technical progress. It supported the Commission's opinion that this was a sufficient reason not to grant an exemption under Article 85 (3) EC.

This judgment was an important step in the evolution of the Community's policy towards exclusive licensing agreements concerning intellectual property rights. Probably due to the strong criticism on the formalistic approach maintained in the past, and the interventions of various governments pointing out the need to consider the underlying justifications, the Court showed the willingness to take the characteristics of the product market and the function of the specific intellectual property right concerned into account.²⁸² However, it is to be regretted that the Court did not introduce a clear and general rule stipulating that the essence of intellectual property rights should be determined with reference to their function. The only directly relevant practical conclusion to be drawn from this case is therefore that an open exclusive licence, concerning a product that is not yet distributed in a

²⁸² It is not surprising, therefore, that this case is taken as the example to illustrate the pragmatic approach of the Court, see EVERLING, U., "The Court of Justice as a decisionmaking authority", in Michigan Law Review Association (ed.), The art of governance, 1987, Nomos Verlagsgesellschaft, 156-172, at p. 168.

Member State and which requires a technological basis for its development, is not 'per se' prohibited by Article 85 (1) EC. In these circumstances, competition in the long run, accelerated through the temporary restrictions, has to be outweighed against the short term detrimental impact on the competitive market.

F. COMMISSION REGULATION N° 2349/84 ON PATENT LICENSING AGREEMENTS

On July 23, 1984, the Commission issued Regulation N° 2349/84 on the application of Article 85 (3) of the Treaty to certain categories of patent licensing agreements.²⁸³ Since the Davidson Rubber Decision of 1972,²⁸⁴ the Commission had consistently held that exclusive patent licences infringe Article 85 (1) EC and need exemption under Article 85 (3) EC.²⁸⁵ This was also the tenor of the draft block exemption regulation, published in 1979.²⁸⁶ The final version has been somewhat modified on this point, presumably to comply with the distinction made by the Court in the Maize Seed case between open and other exclusive

²⁸³ O.J. L 219/15 of 16 August 1984. See also the Corrigendum, O.J. L 113/34 of 16 April 1985. The regulation was recently amended, see Commission Regulation N° 151/93 of 23 December 1992, O.J. L 21/8 of 29 January 1993. Its scope has been extended to include certain patent licensing agreements with Joint Ventures and certain reciprocal licences (see Article 3).

²⁸⁴ See supra, at pt. C.

²⁸⁵ See supra, especially at pt. D. See also LUDDING, R., "Groepsvrijstelling octrooilicenties", S.E.W. (1985) 332-346, at p. 335.

²⁸⁶ O.J. C 58/12 of 3 March 1979. In the draft regulation, the Commission drew the distinction between exclusivity with respect to manufacture and use, which was unconditionally exempted, and exclusivity with respect to sale which could only be exempted under certain conditions.

licences.²⁸⁷

Besides the introduction of a so-called 'opposition procedure' for individual agreements which contain clauses that are not expressly exempted or prohibited by the 1984 Regulation,²⁸⁸ three categories of provisions are to be distinguished. Firstly, Article 2 and Recital 18 concern provisions which are thought to constitute the expression of the 'essence' of the right. This means that the provisions which are listed there in principle do not come under the prohibition of Article 85 (1) EC. Secondly, Article 1 and Recitals 11 to 15 list those provisions which are thought to come under the scope of Article 85 (1) EC, but which are exempted because they generally contribute to the improvement of the production of the goods and to promote technical progress. And finally, Article 3 and Recitals 19 to 24 concern the so-called 'blacklist', namely the list of the provisions which are considered to be not exemptible under Article 85 (3) EC due to their detrimental effect on competition and market behaviour.²⁸⁹ Only the most significant changes as compared to the Commission's earlier approach or draft regulation will be highlighted here.²⁹⁰

²⁸⁷ See supra, at pt. E.

²⁸⁸ The opposition procedure means that agreements, which contain other provisions than those mentioned in Articles 1 and 2 and which do not contain blacklisted (Article 3) provisions, can be notified to the Commission and will be regarded as exempted if the Commission does not oppose to the agreement within six months. See Article 4.

²⁸⁹ Patent licensing agreements containing blacklisted clauses cannot benefit from the opposition procedure, but can still be notified in order to get an individual exemption.

²⁹⁰ For a detailed commentary, see KORAH, V., Patent licensing and EEC competition rules, Regulation 2394/84, European Competition Law Monographs, Oxford, 1985. See also VENIT, J., "EEC patent licensing revisited: The Commission's patent licence regulation", Antitrust Bull. (1985) 457-526; LUDDING, R., "Groepsvrijstelling octrooiligenties", S.E.W.

As mentioned above, the white list of Article 2 contains a non-exhaustive list of clauses which are considered not to come within the ambit of Article 85 (1) EC. This means that in case of notification, the Commission would normally grant a negative clearance in the absence of other provisions that are detrimental to competition. In the second paragraph, it is stated that in the event these obligations would infringe Article 85 (1) EC due to particular circumstances, an exemption shall be granted. The list of examples of obligations in the first paragraph for which a negative clearance is given, generally contains provisions that are thought to be essential to safeguard the existence and purpose of patent protection. Since the patent itself is not considered to be contrary to the rules on competition, stripping it of its essence through prohibiting essential rights, such as the right to be rewarded through the payment of royalties,²⁹¹ would seem to be inconsistent. As such are allowed: obligations on the licensee to restrict his exploitation of the licensed invention to one or more technical fields of application covered by the licensed patent; not to exploit the patent after termination of the agreement if the patent is still in force; to observe minimum quality standards; not to divulge Know-How communicated by the licensor; etc.. . The first white-listed provision is the following:

"An obligation on the licensee to procure goods or services from the licensor, in so far as such products or services are necessary for a technically satisfactory exploitation of the licensed invention".

In the draft regulation, this provision was listed under the

(1985) 332-346.

²⁹¹ On the payment of royalties, see Reg. N° 2349/84, o.c., Article 2.1 (2).

exemption Article 1. Its shift to Article 2 in the final Regulation illustrates the change in approach taken by the Commission in accordance with the Court's reasoning and conclusion in the Maize Seed case. The influence of the Maize Seed case is even more obvious in Recital 11, which says:

"Exclusive licensing agreements, i.e. agreements in which the licensor undertakes not to exploit the 'licensed invention', (...), in the licensed territory himself and not to grant further licences there, are not in themselves incompatible with Article 85 (1) where they are concerned with the introduction and protection of a new technology in the licensed territory, by reason of scale of the research which has been undertaken and the risk that is involved in manufacturing and marketing a product which is unfamiliar to users in the licensed territory at the time the agreement is made. This may also be the case where the agreements are concerned with the introduction and protection of a new process for manufacturing a product which is already known..".²⁹²

Such provisions could thus in principle have been included in the white-list of Article 2. The recital goes on to state that those provisions are nevertheless included in Article 1, because there are also cases in which they do come within the ambit of Article 85 (1) and thus need exemption.²⁹³ As such, the regulation takes a lenient approach to open exclusive licences in general.

However, territorial restrictions imposed on the licensee will only be exempted if they refer to territories in which the licensee operates or which are licensed to other licensees, in so far and as long as the licensed product is protected in those territories by parallel patents.²⁹⁴ Also, the second paragraph of article 1 confirms Recital 7 which states that

²⁹² Emphasis added. This clearly only concerns the so-called 'open exclusive licences'.

²⁹³ See the first four clauses mentioned in Article 1.

²⁹⁴ See Article 1.1 (3) to 1.1 (6).

this regulation does not apply to agreements concerning sales alone.²⁹⁵ This means that the exemption only applies if the licensee manufactures the licensed product himself or has it manufactured by a sub-contractor or by a connected undertaking. If in a licensing agreement between two parties, these two important limitations to the possibility of obtaining an exemption are observed, and if no blacklisted clauses have been inserted in the agreement, then the conditions of Article 85 (3) EC are likely to be fulfilled in the Commission's view. For instance, in Recital 15 the Commission expresses its belief that competition at the distribution stage is sufficiently safeguarded through the possibility of parallel imports and passive sales, even if exclusive licences are granted for a territory covering the whole of the common market.

This rather optimistic statement cannot be separated from the quite comprehensive blacklist of clauses, i.e. those which are 'in se' contrary to Article 85 (1) EC and cannot be exempted owing to their detrimental impact on competition. In a certain sense, Article 3 can be called the most important provision in the Regulation, for it considerably limits the scope and effect of the block exemption as a whole. In the line of its earlier policy, the Commission listed a no-challenge clause,²⁹⁶ a grant-back clause,²⁹⁷ a tie-in clause²⁹⁸ and claiming royalties

²⁹⁵ Agreements concerning sales alone are governed by Commission Regulation N° 1983/83 of 22 June 1983 concerning the application of Article 85 (3) of the Treaty to categories of exclusive distribution agreements, O.J. L 173/1 of 30 June 1983. See also the Corrigendum, O.J. L 281/24 of 13 October 1983.

²⁹⁶ Article 3 (1); Cf. supra, the AIOP-Beyrard and the Vaessen-Morris decisions.

²⁹⁷ Article 3 (8); Cf. supra, the Davidson-Rubber and the Kabelmetal decisions.

²⁹⁸ Article 3 (9); Cf. supra, the Vaessen-Morris decision.

for unprotected products²⁹⁹ as being 'per se' prohibited. Furthermore, Article 3 (2) prohibits the extension of the licensing agreement beyond the expiry of the patent. Maximum quantitative restrictions, price fixing, sharing of customers, sales restrictions and prevention of parallel imports are also blacklisted.³⁰⁰

However, the prohibition most likely to curtail the impact of the block-exemption, is the non-competition clause as listed under Article 3 (3). It reads as follows:

"Articles 1 and 2 (2) shall not apply where:
One party is restricted from competing with the other party, with undertakings connected with the other party or with undertakings within the common market in respect of research and development, manufacture, use or sales, save as provided in Article 1 and without prejudice to an obligation on the licensee to use his best endeavours to exploit the licensed invention".

From the wording, it is not clear when Article 1 can nullify the effect of this provision. Bearing in mind Article 9 (2) where the Commission emphasizes the possibility of withdrawing the benefit of the block exemption where an agreement is later on found to prohibit effective competition in the licensed territory, it can be expected that an agreement containing a non-competition clause will not easily come within the ambit of Article 1. Recital 21 does not offer more insight in the practical implications of Article 3. It reads:

"They also include restrictions on the freedom of one party to compete with the other and in particular to involve himself in techniques other than those licensed, since such restrictions impede technical and economic progress. The prohibition of

²⁹⁹ Article 3 (4); Cf. *infra*, the Windsurfing decision.

³⁰⁰ See respectively Article 3 (2), (5), (6), (7), (10), (11). It should be mentioned that passive sales in the contract territory of another licensee can be prohibited, but only for the maximum duration of 5 years and on the condition that there is parallel patent protection, see Articles 1 (6) and 5 (10).

such restrictions should however be reconciled with the legitimate interest of the licensor in having his patented invention exploited to the full and to this end to require the licensee to use his best endeavours to manufacture and market the licensed product".³⁰¹

The supremacy of Article 3 (3) or Article 1 will mainly depend on how the Commission interprets 'the legitimate interest of the licensor' and the 'best endeavours of the licensee'. If it does this in a strict sense, the regulation is to become useless for most of the patent licensing agreements. Also, doubts arise about the exemption to be granted under Article 2 (2). Article 3 (3) does not explicitly refer to that provision, so that it is not clear how those clauses will interrelate in practice.

On the whole, the regulation gives some insight in the Commission's new approach towards patent licensing agreements, whereby the changed attitude towards territorial restrictions and export prohibitions cannot go unnoticed. More than before, the Commission seems to be concerned with underlying justifications, such as technical progress, for the protection of the parties concerned. This growing concern with the purpose of the patent and its role on the economic market means a welcome departure from the formalistic approach taken before.

However, a coherent realistic approach also means that the Commission will need to develop a distinct view on copyright and other intellectual property rights in accordance with their specific function. Up till now, the Commission has not made any attempt to formulate a clear policy with respect to these intellectual property rights. Besides the block

³⁰¹ Emphasis added.

exemption concerning franchising agreements,³⁰² it has only issued one other block exemption with regard to a specific type of intellectual property rights, namely Know-How licensing agreements, which is to a large extent modelled on Regulation N° 2349/84.³⁰³ Still, the characteristics of Know-How, and especially the fact that it concerns secret knowledge which is not protected nationally in the form of exclusive rights -as opposed to patents which concern publicized knowledge which is protected by exclusive rights- are duly taken into account, especially as concerns the white-list of provisions which are the 'essence' of Know-How and hence do not fall under the scope of Article 85 (1).³⁰⁴

In practical terms, this regulation leaves many questions

³⁰² Regulation N° 4087/88 concerning the application of Article 85 (3) of the Treaty to certain categories of franchising-agreements of 30 November 1988, O.J. L 359/46 of 28 December 1988. On this regulation, see for instance KORAH, V., Franchising and the EEC competition rules: Regulation 4087/88, European Competition Law Monographies, Oxford, 1990; VAN AELEN, L., "De EEG-groepsvrijstelling voor franchise-overeenkomsten", S.E.W. (1990) 3-16.

³⁰³ Regulation N° 556/89 of 30 November 1988 on the application of Article 85 (3) of the Treaty to certain categories of Know-how licensing agreements, O.J. L 61/1 of 4 March 1989, as modified by Regulation N° 151/93 of 23 December 1992, O.J. L 21/8 of 29 January 1993.

³⁰⁴ Because Know-how licensing agreements are essentially based on mutual trust and secrecy, the following clauses are, for instance, white-listed (Article 2): prohibition to grant sub-licences; prohibition to reveal the Know-how even after the termination of the agreement; payment of royalties until the end of the agreement, even if the know-how ceased to be secret,.. . For an analysis of this regulation, see for instance KORAH, V., Know-how licensing agreements and the EEC competition rules: Regulation 556/89, European Competition Law Monographies, Oxford, 1989; HOYING, W., and BIESHEUVEL, M., "The Know-how group exemption", C.M.L.Rev. (1989) 219-234; DRIJBER, B., "Groepsvrijstelling Know-how licenties: rechtszekerheid of onduidelijkheid?", S.E.W. (1989) 200-216; ODLE, A., ZEYEN, C., "The EC blockexemption Regulation 556/89 on Know-How: practical difficulties and legal uncertainties", E.C.L.R. (1991) 231-236.

unanswered concerning its actual implications. The Court has already weakened the impact of some of the provisions it contains.³⁰⁵ Nevertheless, it provides some guidelines and criteria on which the Commission will base its decisions. This is best illustrated by the first decision concerning a patent licensing agreements after the coming into force of the block exemption, namely the Velcro-Aplix Decision of July 1985.³⁰⁶ Here the Commission held that certain clauses in the agreement were contrary to Article 85 (1) EEC since the expiry of the basic patents covered by the licence, although certain patents were still in force. The agreement was to last until the expiry of all the patents covered by the licence. The automatic expansion of the licence in the absence of a specific agreement was considered to be a serious restriction on competition. In particular, the Commission objected to the exclusive right to exploit the patents and use the trade marks granted to the licensee. The prohibition on export, the obligation to obtain equipment from a specified manufacturer and not to use them outside the licensed territory, a non-competition clause and a grant-back clause were also thought to infringe Article 85 (1) EC. No exemption was granted under Article 85 (3) EC and no fines were imposed. The Commission made no findings as to the validity of the agreements prior to the expiry of the basic patents. Nevertheless, the infringements listed are mainly blacklisted provisions that have always been regarded as contrary to the rules on competition. Presumably the early notification of the agreement -namely already on January 30, 1963- led the Commission to disregard the early infringements to which it had not immediately reacted.

This long period between the notification and the decision,

³⁰⁵ See infra, pt. G.

³⁰⁶ The Velcro-Aplix Decision of 12 July 1985, O.J. L 233/22 of 1985.

namely 22 years, sufficiently proves the Commission's uneasiness in dealing with licensing agreements relating to industrial property rights. On the other hand, the relatively short period between this decision and the issuing of the block exemption might be a sign that the Commission has finally developed a workable policy on the concurrence of competition rules and patent protection.

G. THE COURT'S APPRAISAL OF THE BLOCK EXEMPTION

On February 25, 1986, the Court passed a very important judgment in the Windsurfing case.³⁰⁷ Windsurfing International Inc. (WSI) had challenged the Commission's decision of 1983, whereby its non-exclusive patent licensing agreements were found to infringe the rules on competition and whereby a fine of 50.000 ECU had been imposed.³⁰⁸ Since the Commission had established its decision along the criteria laid down in the block exemption for patent licensing agreements, this judgment indirectly gave an appraisal of Regulation N° 2349/89.

The Commission had basically objected to clauses extending the licensor's control beyond the scope of the patent, which led to the impossibility for third parties to enter the market, and to obligations imposed on the licensees which prevented them from acting independently as well as from competing with the licensor.

The preliminary issue was whether and to what extent the Commission is competent to rule on the material scope of a

³⁰⁷ Case 193/83, Windsurfing International Inc. v. Commission, Judgment of 25 February 1986, E.C.R. (1986) 611.

³⁰⁸ The Windsurfing Decision of 11 July 1983, O.J. L 229/1 of 20 August 1983.

patent granted in a Member State. Legal proceedings to determine the precise scope of the German patent granted - namely did the patent only cover the rig or also the board of a sailboard- were still pending before the national courts at the time of the Commission's decision. The Court held that although the Commission is not competent to determine the material scope of a patent, it must be able to exercise its powers in accordance with Regulation N° 17 to determine whether or not the competition rules have been infringed. Where the scope of the patent is relevant to do so, it should not refrain from acting only because the scope of patent protection is the subject of national legal proceedings. As such, the matter at stake is whether or not the Commission has made a reasonable assessment of the scope of the patent. The Court found that in this particular case, the Commission was justified in assuming that the German patent only covered the rig and not the board of the sailboard, owing to the wording of the patent and the outcome of previous test-cases.

The Court generally reinforced the Commission's decision, except for the provision on the calculation of the royalties on the net selling price of a complete sailboard. Contrary to the Commission's view, the Court held that this basis of calculation for the royalties of the rigs was not aimed at restricting competition in the sale of separate rigs. The Court pointed to the fact that the licensees acknowledged that it would have been equitable to accept a higher rate of royalty if the licensor's remuneration were calculated on the price of the rig alone. As such, the Court seemingly undermined the absolute character of Article 3 (4) of Regulation N° 2349/89.³⁰⁰ Nevertheless, it did not totally empty this provision of its substance, for it went on to note that

³⁰⁰ Article 3 (4) of Regulation N° 2349/89 blacklists: "The licensee is charged royalties on products which are not entirely or partially patented or manufactured by means of a patented process".

royalties on the net selling price of a complete sailboard may restrict competition with regard to the sale of boards alone, since they are not covered by the patent.³¹⁰

The Court implicitly agreed with Article 2 (9) of the Regulation,³¹¹ through sustaining the Commission's objection to the obligation to submit new board types, on which the protected rigs were to be used, to the licensor's prior approval. The Court reiterated the Commission's justification in terms of the specific subject-matter of the right, and held that:

"It is necessary to determine whether quality controls on the sailboards are covered by the specific subject-matter of the patent. As the Commission rightly points out, such controls do not come within the specific subject-matter of the patent unless they relate to a product covered by the patent since their sole justification is that they ensure "that the technical instructions as described in the patent and used by the licensee may be carried into effect". In this case, however, it has been established that it may reasonably be considered that the German patent does not cover the board".³¹²

The Court goes on to note that even if the board was covered by the patent, quality and safety criteria would need to be agreed upon in advance on the basis of objectively verifiable criteria, which was not the case.

The use of the notion 'specific subject-matter' in this context is, to say the least, confusing. It might be that what is meant is simply the scope of the patent. But the Court has

³¹⁰ Case 193/83, o.c., at para 65-67.

³¹¹ According to Article 2.1 (9) of Regulation N° 2349/89, is not incompatible with Article 85 (1): "An obligation on the licensee to observe specifications concerning the minimum quality of the licensed product, provided that such specifications are necessary for a technically satisfactory exploitation of the licensed invention, and to allow the licensor to carry out related checks", emphasis added.

³¹² Case 193/83, o.c., at para 45, emphasis added.

consistently held in the context of the application of the rules on the free movement of goods that the specific subject-matter of patents is the right to first place the product on the market, either by the patent holder himself or with his consent, and to oppose infringements.³¹³ One could of course argue that the right to first place the goods on the market embraces the right to refrain from giving the consent to the licensee to put goods on the market which do not live up to the quality requirements. But it is doubtful that the Court would accept, under the rules on the free movement of goods, that a patentee prohibits parallel imports of goods that have been sold by his licensee on the basis that they do not live up to the agreed quality requirements, and hence that the patentee cannot be held to have consented to their putting on the market. However, the question of quality controls arose in the context of the application of the competition rules and not the rules on the free movement of goods. In this particular case, the real issue was in the first place whether or not the board was covered by the patent. If the answer was negative -as it was-, the quality controls could of course not be necessary to safeguard the patent's specific subject-matter. But it is submitted that even if the answer were positive, then still the answer to the question whether or not quality controls were necessary to safeguard the 'specific subject-matter' of the patent could not be the decisive factor for the application of Article 85 (1) EC. Rather, in second order, the question needed to be posed whether the particular quality checks were necessary to safeguard the 'essence' of the right. The Court implicitly answered that question by stating that even if the board were patented, not all kinds of quality controls would escape the application of Article 85 (1) EC. As such, the 'specific subject-matter' can hardly be

³¹³ On the Court's interpretation of the specific subject-matter of patents in the context of the rules on the free movement of goods, see supra, at pt. VI.4.3.3.A.

said to be the delineating factor between 'abuse' and 'normal use' under the rules on competition. It rather confirms the view expressed earlier,³¹⁴ that the competition rules precisely subject the way in which the holder of intellectual property rights exercises his rights -and which are upheld under the rules on the free movement of goods- to scrutiny. Any other solution would equate the rules on competition with the rules on the free movement of goods, so that the application of one or the other would be interchangeable in practice.

The Court did not uphold the argument based on the protection against slavish imitation, because it substitutes WSI's discretion for the decision of the national courts which have the sole competence on such matter. For the same reasons, the Court rejected WSI's justification for the need to maintain territorial restrictions to the manufacturing place of the licensed product, combined with the right to terminate the agreement immediately in case of infringement, which was said to be needed to carry out quality controls.³¹⁵

The tie-in clause, whereby rigs could only be sold in conjunction with boards approved of by the licensor, was also confirmed to be contrary to Article 85 (1) EC.³¹⁶ The Court reminded that only the rig is patented, not the board. It refused to accept that this tie-in clause was indispensable to the exploitation of the patent. However, this could imply that if the tie-in were indispensable to the satisfactory exploitation of the patent, Article 85 (1) EC might not have been held to be infringed. In general, this confirms Articles 2.1 (1) and 3 (9) of Regulation N° 2349/89. It cannot go unnoticed, however, that both the Commission and the Court

³¹⁴ See supra, pt. A.

³¹⁵ Case 193/83, o.c., at para 82-88.

³¹⁶ Case 193/83, o.c., at para 54-59.

implicitly applied the content of these provisions to an obligation on the licensee to sell unprotected products together with a patented product, whereas the block exemption merely deals with the purchasing of goods from the licensor.³¹⁷

Both the obligations on the licensees to affix to the boards notices stating that the product was licensed by WSI and the no-challenge clause with respect to WSI's trade marks were confirmed to be incompatible with the rules on competition. The Court agreed with the Commission that these conditions restricted the licensees' competitiveness vis-à-vis the licensor and implicitly confirmed the inclusion of non-competition clauses in the blacklist of the Regulation. The Court clarified in the Ottung v. Klee case that clauses whereby the licensee is prohibited to manufacture and market the goods after the expiry of the agreement -as well as the patent-, is contrary to Article 85 (1) EC on the condition that intra-Community trade is affected.³¹⁸ The Windsurfing judgment shows that even indirect non-competition clauses are

³¹⁷ Article 2.1.(1) of Regulation N° 2349/89 reads: "an obligation on the licensee to procure goods or services from the licensor, (..), in so far as such products or services are necessary for a technically satisfactory exploitation of the licensed invention", emphasis added. Article 3 (9) reads: "the licensee is induced at the time the agreement is entered into to accept further licences which he does not want or to agree to use patents, products or services which he does not want, unless such patents, products or services are necessary for a technically satisfactory exploitation of the licensed invention".

³¹⁸ Case 320/87, Kai Ottung v. Klee & Weilbach A/S and Thomas Schmidt A/S, Judgment of 12 May 1989, E.C.R. (1989) 1177. The Court furthermore held that the contractual obligation to pay a royalty for an indeterminate period, thus also after the expiry of the patent, is not contrary to Article 85 (1) EEC, unless the licensee is not given the possibility to terminate the agreement with reasonable notice or if his freedom of action after termination is restricted, see at para 13.

likely to be caught by the rules on competition.³¹⁹

Finally, the Court regarded the no-challenge clause with regard to the patent as incompatible with Article 85 EC. This complies with Article 3 (1) of the block exemption. The Court in this case remarked that:

"it is in the public interest to eliminate any obstacle to economic activity which may arise where a patent was granted in error".³²⁰

However, the Court apparently changed its view on the matter, thereby disregarding the public interest element, since it clarified in the subsequent Bayer v. Süllhöfer case that a no-challenge clause will not always come under the prohibition of Article 85 (1) EC.³²¹ Here the Court held that:

"A no-challenge clause in a patent licensing agreement may, depending on the legal and economic context, restrict competition within the meaning of Article 85 (1) of the EEC Treaty. Such a clause does not, however, restrict competition when the agreement in which it is contained granted a free licence and the licensee does not, therefore, suffer the competitive disadvantage involved in the payment of royalties or when the licence was granted subject to payment of royalties but relates to a technically outdated process which the undertaking accepting the no-challenge clause did not use."³²²

It was rightly pointed out by Friden that the Court in the Bayer case disregarded the effect of an erroneously granted

³¹⁹ Case 193/83, o.c., at para 68-81. See supra, at pt. F. for a commentary on the non-competition clause as prohibited by Article 3 (3) of Regulation N° 2349/89.

³²⁰ Case 193/83, o.c., at para 92.

³²¹ Case 65/86, Bayer AG and Maschinenfabrik Hennecke GmbH v. Heinz Süllhöfer, Judgment of 27 September 1988, E.C.R. (1988) 5249. See also SINGLETON, S., "Intellectual property disputes: settlement agreements and ancillary licences under EC and UK competition law", E.I.P.R. (1993) 48-53, at p. 49.

³²² Case 65/86, o.c., at para 21, emphasis added.

patent on the competitive situation of third parties, who can be denied access to the technology.³²³ It is obviously not the function of patent protection to create entry barriers for products that do not live up to the requirements for patent protection, so that it is submitted that a patent should always be free to be challenged upon its validity. Furthermore, the contradictory result of this judgment is that an agreement in which a no-challenge clause is inserted will not benefit from either the block exemption or the opposition procedure, since it is a blacklisted clause, but might be held to be not incompatible with Article 85 (1) EC when it is notified in order to obtain an individual exemption.³²⁴

The Windsurfing judgment has been criticized for upholding a formalistic approach to Article 85 (1) EEC, in contrast to Advocate-General Lenz's analysis which was more aimed at examining the actual anti-competitive effects of the agreements concerned.³²⁵ It has been argued that the 'per se' approach under Article 85 (1) EC, as adopted by the Commission and the Court, reflects a prejudice against patent monopolies whereby certain types of conduct are condemned without a realistic assessment of their actual anti-competitive impact.³²⁶

³²³ See FRIDEN, G., "Recent developments in EEC intellectual property law: the distinction between existence and exercise revisited", C.M.L.Rev. (1989) 193-217, at p. 213. He furthermore points out that in a royalty-free licence, other restrictions might be imposed on the licensee "which are likely to be significant to compensate the licensor for the absence of royalties".

³²⁴ This will of course depend on the other clauses inserted in the agreement, as well as on the 'legal and economic context' which, according to the Court, has to be taken into account to determine whether or not the no-challenge clause is contrary to Article 85 (1) EC.

³²⁵ Case 193/83, Opinion of Advocate-General Lenz delivered on 4 June 1985, E.C.R. (1986) 612.

³²⁶ See especially VENIT, J., "In the wake of Windsurfing: Patent licensing in the common market", I.I.C. (1987) 1-40.

However, it cannot be contested that most of the provisions at issue in the Windsurfing case are at least potentially detrimental to competition in the long run. They basically allow the patentee to extend his exclusive market position beyond the exclusive position already acquired through the patent protection.³²⁷ It is submitted that the major criticism is therefore not so much that the Court does restrict anti-competitive behaviour that can hardly be justified through invoking intellectual property rights, but rather that the Court has failed to work out coherent criteria to do so or at least has failed to explain what those criteria are or should be. Whereas the need to safeguard the function of patent protection seems to be taken into account in certain cases, in other cases the Court seems to base its approach on other, apparently undefined, criteria. This obviously creates a situation of legal uncertainty in so far as the application of Article 85 EC to intellectual property agreements is concerned.

VI.4.4.4. Abusive practices under Article 86 EEC

A. INTRODUCTION

In the last decade, the Commission has also issued some contested decisions concerning the applicability of Article 86 EC to intellectual property rights. Legal actions have been undertaken before the Court of First Instance against the Hilti Decision and what has become known as the Magill

³²⁷ In American law, similar provisions would be prohibited on the basis of the 'patent misuse doctrine' which found its origin in the Morton Salt Co v. GS Suppiger CO case concerning restraints of competition in the market of unpatented products on the basis of a patent licence, see 314 USA (1942) 488. See WALLACE, J., "Proper use of the patent misuse doctrine - an antitrust defense to patent infringement actions in need of rational reform", Patent Law Review (1976) 357-365.

Decision, the outcome of which are both currently challenged in appeal before the Court of Justice.³²⁸ Regardless of the final outcome of the appeals, these decisions will at least have the merit of having contributed to the clarification of the difficult relationship between Article 86 EC and intellectual property rights.

The Hilti case essentially raises the issue to what extent the holder of a patent can eliminate competition on the related market of unprotected accessories, whereas the Magill cases are concerned with the question to what extent a copyright holder can invoke his exclusive right to prevent the creation of a derivative market in a new product. The Volvo and Renault cases, which were preliminary procedures and which will be dealt with extensively in the next part, posed a complementary question, namely to what extent the holder of an industrial design can invoke his exclusive right to eliminate competition in the after-sales market of replacement parts.³²⁹

B. THE COMMISSION'S APPROACH TO TIE-INS OF UNPROTECTED PRODUCTS

The Hilti Decision concerned the alleged abuse of a dominant position by Hilti, a proprietor of patents on nail guns and compatible cartridge strips, on the related market of nails to be used in those nail guns and cartridge strips.³³⁰ Two independent companies specialised in the manufacture and marketing of nails, namely Eurofix and Bauco, had lodged a complaint with the Commission against the commercial practice of Hilti which mainly consisted in tying the sale of nails to

³²⁸ See infra at pts C and E.

³²⁹ See infra, Chapters VIII and IX, and especially Chapter IX for the analysis under the rules on competition.

³³⁰ The Eurofix-Bauco v. Hilti Decision of 22 December 1987, O.J. L 65/19 of 11.3.1988.

the sale of cartridge strips in order to exclude them from the market for nails compatible with Hilti products.

Hilti maintained that its practice was not contrary to Article 86 EC because it did not occupy a dominant position in the relevant product market, which it held to be the market for nail guns, cartridge strips and nails as forming one integral system, and for fastening systems for the construction industry in general. However, the Commission qualified the relevant product markets as the separate markets for Hilti nail guns, Hilti-compatible cartridge strips and Hilti-compatible nails, on the basis that, although those products are inter-related, they have different sets of supply and demand conditions.³³¹ The Commission pointed out that Hilti could prevent competition on the market of cartridge strips on the basis of its patent, whereas no such 'institutional barrier' to competition existed for the market in Hilti-compatible nails. The relevant geographical market was considered to be the whole EC.

Considering that the relevant product markets were held to be the markets in Hilti-compatible products and that Hilti had a patent on the cartridges on the basis of which it could legitimately exclude competition, the Commission had no difficulty in concluding that Hilti held a dominant position in the market for Hilti-compatible cartridge strips. From its important market share in nail guns and the patent protection on the cartridges, it was derived that Hilti had a strong economic position which enabled it to prevent effective competition being maintained in the market for Hilti-

³³¹ The Commission held: "they are separate markets, because from the supply side nails and cartridge strips are produced with totally different technologies and often by different firms. On the demand side it is true that a user needs an equal complement of nails and cartridges, but they are not necessarily purchased together in identical quantities..", see at pt. 55.

compatible nails. The Commission proved this through referring to Hilti's ability to act independently of either competitors or consumers.

According to the Commission, Hilti abused its dominant position on both the markets for Hilti compatible cartridge strips and nails through preventing or limiting the entry of independent producers on those markets. Although the cartridges were patented, in the United Kingdom they were subject to licences of right, which means that anyone applying for a licence can obtain one.³³² However, Hilti demanded unreasonably high royalties, which in practice amounted to a refusal, and stated that the licence of right did not affect its copyright in the cartridge strips. The Commission held that this constituted an abuse, because Hilti was deliberately frustrating the objective of legitimately available licences of right in the sole aim to prevent competition on the market of cartridge strips in which it held a dominant position.

In general, the practices withheld by the Commission as constituting an abuse of a dominant position by Hilti can be summarized as follows:

- Tying sales of nails to the sale of cartridges and discriminating against cartridge-only orders, for instance through reducing discounts,³³³

³³² See also *infra*, Chapter VII, at pt. VII.3.1.3., on the compatibility of licences of right with the principle of free movement of goods.

³³³ For an economic analysis of tie-ins and the Commission's Hilti decision in general, see PRICE, D., "Abuse of a dominant position - the tale of nails, milk cartons, and TV guides", *E.C.L.R.* (1990) 80-90. At p. 87 she points out that although economists from the Chicago school would reject the Commission's conclusion that the tying policy creates barriers to entry in the market for Hilti-compatible nails because a second monopoly profit cannot be derived from the market for the tied product, Article 86 EC is not limited to the pursuit of purely economic goals but is also applied to protect competitors *in se*.

- Inducing independent distributors not to fulfil certain export orders in the aim to prevent independent nail makers from obtaining supplies of cartridge strips;
- Refusal to fulfil the complete orders for cartridges by long-standing customers who might resell them;
- Refusal to honour guarantees if non-Hilti nails were used, which was not objectively justified on reasons of quality of the nails used;
- Offering special discriminatory prices to its competitors' customers whilst maintaining higher prices for its own customers;
- Operating unilaterally and secretly a policy of differential discounts for supported and unsupported plant-hire companies and dealers in the United Kingdom.

It is obvious that the attempts to block exports has a potential effect on intra-Community trade. The Commission furthermore held that the attempts to exclude independent nail makers was bound to affect the competitive market structure, and pointed out that the trade flow would potentially develop along different lines in the absence of Hilti's abusive behaviour.

Hilti objected that its behaviour was justified in view of its concern about the reliability and safety of its products. This was rejected on the basis that Hilti's commercial behaviour was not the least restrictive action possible in view of attaining this objective. The Commission held that a company may not resort to abusive behaviour which is contrary to Article 86 EC, there being other legitimate and more efficient ways of safeguarding safety.

C. THE COURT OF FIRST INSTANCE'S APPRAISAL OF TIE-INS

Hilti appealed to the Court of First Instance (CFI) against the Commission's Decision of 1987 establishing an infringement

of Article 86 EC.³³⁴ Hilti especially called into question the finding of a dominant position, although it recognized that if it had been in a dominant position some aspects of its contested behaviour could have been qualified as abusive. Hilti furthermore argued that its commercial behaviour was not capable of affecting intra-Community trade.³³⁵

The main argument advanced by Hilti to contest the finding of a dominant position was that the Commission had not correctly defined the relevant product market. It reiterated the point of view that nail guns, cartridges and nails are not three distinct markets, but rather constitute one indivisible whole that belongs to the market for all fastening systems which are substitutable in any PAF (powder-actuated fastening) application. The CFI rejected that argument and upheld the Commission's view that there are three distinct markets in nail guns, Hilti-compatible cartridges and nails. The Court held that the Commission's findings of the absence of a cross-price-elasticity and the limited interchangeability of the products were sufficiently convincing and had not been invalidated by the plaintiff's arguments.

Moreover, the CFI pointed out that the existence of independent producers making only Hilti-compatible nails is evidence of the fact that there is a specific market for those nails. It should, however, be pointed out that the independent manufacturers could not also manufacture the Hilti-compatible cartridges without infringing the patent, whereas otherwise they might have done so. The Court proceeded to state that

³³⁴ Case T-30/89, Hilti AG v. Commission, Judgment of 12 December 1991, not yet reported. For the decision of the Commission, see *supra*, at pt. B.

³³⁵ Hilti also raised some procedural issues which will not be dealt with here. On this point, see FARR, S., "Abuse of a dominant position - the Hilti case", *E.C.L.R.* (1992) 174-177, at pp. 175 and 177.

accepting Hilti's point of view would entail that in practice the use of competing nails in Hilti nail guns would be excluded. The Court held:

"... in the absence of general and binding standards or rules, any independent producer is quite free, as far as Community competition law is concerned, to manufacture consumables intended for use in equipment manufactured by others, unless in doing so it infringes a patent or some other industrial or intellectual property right".³³⁶

In this specific case, the important factor thus is that Hilti did not have a patent on the nails, but only on the cartridges, so that it could not legitimately exclude others from the market for Hilti-compatible nails.³³⁷ Through refusing to accept that the relevant market is constituted by both patented and unprotected products, the CFI implicitly reiterated the view that a tie-in is prohibited under Community competition law, so that the exclusive effect of a patent which might be compatible with Article 86 EC cannot be extended beyond the material scope of the patent.³³⁸

³³⁶ Case T-30/89, o.c., at para 68, emphasis added.

³³⁷ Compare to the case-law of the Court concerning exclusive rights granted by the state to private undertakings in the public interest (Art. 90), and especially the Telemarketing case in which it was held that "an abuse within the meaning of Article 86 is committed where, without any objective necessity, an undertaking holding a dominant position on a particular market reserves to itself or to an undertaking belonging to the same group an ancillary activity which might be carried out by another undertaking as part of its activities on a neighbouring but separate market, with the possibility of eliminating all competition from such undertaking", Case 311/84, CBEM v. CLT and IPB, Judgment of 3.10.1985, E.C.R. (1985) 3261, at para 27. On the application of the competition rules to exclusive rights granted in the public interest, see EHLERMANN, C., "Managing monopolies: the role of the state in controlling market dominance in the European Community", E.C.L.R. (1993) 61-69.

³³⁸ Tie-in clauses are for the same reason also blacklisted in the block exemption for patent licences, see supra, at pt. VI.4.4.3. F and G. The reasoning of the CFI also seems to confirm the point of view set out above that the appraisal of

Having confirmed the Commission's definition of the relevant market,³³⁸ the CFI proceeded to confirm the finding that Hilti had a dominant position on the market for Hilti-compatible nails. The Court pointed out that Hilti had a market share of between 70% and 80% in the market, which is indicative of the existence of a dominant position. It also agreed with the Commission's contention that the existence of a patent on cartridge strips and the invocation of copyright protection in the UK strengthened Hilti's position in the market for Hilti-compatible consumables in general.³⁴⁰

Hilti had admitted that some of its behaviour constituted an abuse if it were in a dominant position. However, it objected to the Commission's conclusion that it had sought to frustrate the legitimately available licences of rights as well as to the alleged discriminatory policy against the business of competitors and their customers. The CFI pointed out that under the system of licences of right, Hilti had demanded royalties about six times higher than the level that the competent authority finally set. This behaviour, which needlessly delayed the proceedings, was held to 'undeniably' constitute an abuse.³⁴¹ The CFI was as brief about the discriminatory policy pursued by Hilti, stating that the Commission has sufficiently proven the existence of this behaviour and concluding that this is "not a legitimate mode

the relevant product market should be the same for the application of both intellectual property law and competition law, see Chapter V, at pt. V.3.1.1. concerning the Commission Green Paper on industrial designs.

³³⁸ The CFI equally upheld the Commission's qualification of the relevant geographical market as constituting the whole of the EEC.

³⁴⁰ Case T-30/89, O.C., at para 93.

³⁴¹ Case T-30/89, O.C., at para 99.

of competition on the part of an undertaking in a dominant position".³⁴²

The CFI also refuted the alleged objective justification for Hilti's behaviour in terms of the need to safeguard the safety of its products. The Court pointed out that:

"..it is clearly not the task of an undertaking in a dominant position to take steps on its own initiative to eliminate products which, **rightly or wrongly**, it regards as dangerous or at least as inferior in quality to its own products. It must further be held in this connection that the effectiveness of the Community rules on competition would be jeopardized if the interpretation by an undertaking of the laws of the various Member States regarding product liability were to take precedence over those rules".³⁴³

As such, there was no need to examine whether the competing goods were in fact of lesser quality or reliability, because this could in any event not justify the abusive behaviour.

The CFI equally held the abusive behaviour to have an effect on intra-Community trade. The Court stated that the commercial interests of the independent manufacturers were not only harmed in the UK, but that simultaneously their possibility to export to other Member States was prejudiced through the abusive behaviour of Hilti, which was aimed at limiting their entry into the market. The export possibilities were held to be real and potentially lucrative, considering the differences in price in the different Member States.

The CFI thus fully agreed with the Commission's decision that Hilti had abused its dominant position on the market of Hilti-compatible nails. A 'de facto' extension of patent protection to unprotected by-products was held to be incompatible with Article 86 EC. This conclusion could only be reached through

³⁴² Case T-30/89, o.c., at para 100.

³⁴³ Case T-30/89, o.c., at para 118-119, emphasis added.

defining the relevant product market as the market in the Hilti-compatible by-product concerned. However, it should be emphasized that the Court of First Instance's judgment is not the final decision in this case, because Hilti has currently appealed to the Court of Justice. It is submitted that the Court of Justice will most likely uphold this judgment, unless it overrules the definition of the relevant product market.

D. THE COMMISSION'S APPROACH TO THE EXTENSION OF IPR-EXCLUSIVITY TO A DERIVATIVE MARKET

The Commission's Magill Decision of 1988 is far more controversial than the Hilti decision, because it touched on the central nerve of the delicate question where to draw the boundaries to the exclusive rights of intellectual property holders in view of safeguarding competition in the common market. The key issue was whether and to what extent a holder of copyright on advance listings of forthcoming television and radio programmes can rely on his exclusive right to exclude potential competitors in the derivative market of weekly TV guides without infringing Article 86 EC.

Magill TV Guide Ltd, the publisher of a weekly TV guide, had lodged a complaint with the Commission against the Independent Television Publications Ltd (ITP), the British Broadcasting Corporation (BBC) and Radio Telefis Eireann Authority (RTE), all three providers of public broadcasting services. Magill wanted to bring a comprehensive weekly TV guide on the market in Ireland and Northern-Ireland, comprising the programmes offered by ITP, BBC and RTE. ITP, BBC and RTE each marketed a weekly TV guide, but only comprising their own programmes, so that the consumer who wanted to have complete advance information had to buy several TV guides. ITP, BBC and RTE, who held copyright over their respective advance listings of forthcoming programmes, gave licences free of charge to newspapers on the express terms that they may only reproduce

daily listings. Upon the marketing of a comprehensive weekly TV guide by Magill, ITP, BBC and RTE obtained a Court injunction to stop the infringement of their copyright. According to Magill, their behaviour which led to his exclusion from the market in weekly TV guides was incompatible with the Community rules on competition. The Commission agreed with Magill and held that the practices and policies of the three television broadcasters constituted abuse of a dominant position in the sense of Article 86 EC.

The relevant product market was held to be the market in advance weekly listings of each of the said broadcasters. The Commission pointed out that their listings are complementary rather than interchangeable, since they cover different programmes and are each constitutive elements of a comprehensive guide. Weekly listings are also only to a limited extent interchangeable for daily listings, because the latter do not allow the television viewer to plan ahead. And finally, the different TV guide markets were considered to be separate from the markets for broadcasting services, although they are derived from and ancillary to the latter. The relevant geographical market was held to be Ireland and Northern-Ireland. Comprehensive weekly TV guides would be marketed in both those areas, so that cross-border trading would occur if they were allowed to be marketed.

The Commission pointed out that the broadcasters had both a factual and a legal monopoly over the production and the first publication of their weekly listings. The factual monopoly is due to the fact that the weekly listings are a by-product of the broadcasting schedule. These listings obviously cannot be produced by third parties themselves but have to be obtained from the broadcasting organization, so that third parties as Magill are in a position of economic dependence vis-à-vis broadcasters such as ITP, BBC and RTE. The legal monopoly results from the claims to copyright protection on the

listings in order to exclude competition by third parties.³⁴⁴ On this basis, the Commission maintains that ITP, BBC and RTE each hold a dominant position in the market for their respective weekly listings.

The most delicate problem was the appraisal of whether or not there had been an abuse of this dominant position, because this implied the appraisal of whether or not the BBC, ITP and RTE had made a normal use of their copyright under the Community rules on competition. The Commission heavily relied on the example given in point (b) of Article 86 EC of an abusive practice by an undertaking in a dominant position, namely limiting the production or marketing to the prejudice of consumers. It was held that ITP, BBC and RTE prevented the substantial potential consumer demand for a comprehensive weekly TV guide to be met, in order to protect their individual TV guides against competition. In particular, the Commission held the licensing terms which prevented the publication of the listings other than on a daily, sometimes two-daily basis, to be unduly restrictive of competition to the prejudice of the consumers. The justification of the broadcasters' policies in terms of the need to ensure a comprehensive high-quality coverage of all their programmes was rejected as being disproportionate and inconsistent, because no obligations to this end were imposed by virtue of the licences given so far. BBC, ITP and RTE were therefore held to have abused their dominant position within the meaning of Article 86 EC. The Commission plainly rejected the argument based on the copyright protection on the advance listings in the following terms:

³⁴⁴ See PRICE, D., O.C., at p. 85, where she points out that "intellectual property rights are classic examples of barriers to entry and are recognised as such both by the Commission and the Chicago school of economists". "In Magill, copyright in the advance weekly listings constituted an important barrier to entry".

"The argument put forward by the parties in relation to copyright do not affect this conclusion. On the contrary the Commission considers that the practices and policies of ITP, BBC and RTE in the present case in fact use copyright as an instrument of abuse in a manner which falls outside the specific subject-matter of that intellectual property right."³⁴⁵

The Commission added that a further element of abuse lay in the fact that ITP, BBC and RTE, who held a dominant position in the market for their own listings, prevented competition from third parties in the derivative market for comprehensive weekly TV guides.

In the Decca decision of the same day, the Commission had equally rejected a justification given for the abuse of a dominant position based on alleged copyright, thereby pointing out that there was no need to ascertain whether those copyrights really existed because the objective was to allocate markets and:

"the Community system of competition does not allow an improper use of rights under national copyright laws which frustrates Community competition rules".³⁴⁶

As such, the Commission created the impression that once it had established that a dominant position had been abused, the protection of copyright could not be relied on to justify the behaviour of the dominant undertaking which was held to be incompatible with Article 86 EC. In the Magill decision, the Commission apparently went a step further and stated that the only possible remedy was the supply of the advance listings to each other and to third parties on request and on a non-discriminatory basis as well as to permit the reproduction of those listings. The Commission pointed out that this could be

³⁴⁵ At point 23, p. 50, emphasis added.

³⁴⁶ The Decca Navigator System Decision of 21 December 1988, O.J. L 43/27 of 15.2.1989, at point 104. In this particular case, the claim for copyright protection had been rejected by most national courts.

done by means of licences, on the condition that the royalties are reasonable. As such, the Commission not only held that a copyright holder could not invoke his copyright to stop an infringement of his right, but furthermore put the obligation on the copyright holder to let third parties use his protected work upon their request.³⁴⁷ It is obvious that this approach is difficult to reconcile with the traditional approach held by the Court and that it apparently calls the whole existence/exercise dichotomy into question.³⁴⁸

The Commission's approach has been criticised on the basis that it gives the Commission an unlimited discretion to uphold or refute the national intellectual property right when applying the competition rules.³⁴⁹ This calls for two comments. First of all, it is obvious that the Commission cannot challenge the validity of intellectual property rights as such. Its primary task is to safeguard the freedom of competition in the Community. The Commission will only be concerned with intellectual property rights when there is an apparent conflict between those rights and competition rules, and furthermore only if the potential effect on competition within the common market is significant.³⁵⁰ Secondly, it has to be pointed out that recourse against the decisions of the Commission can be had to the Community Courts, who ultimately decide on the well-foundedness of the Commission's evaluation, so that it cannot reasonably be held that the Commission is

³⁴⁷ This is what Subiotto has called the affirmative action obligation, see SUBIOTTO, R., "The right to deal with whom one pleases under EEC competition law: a small contribution to a necessary debate", E.C.L.R. (1992) 234-244, at p. 236.

³⁴⁸ See also VINJE, T., "Magill: its impact on the information technology industry", E.I.P.R. (1992) 397-402, at p. 398.

³⁴⁹ See for instance SUBIOTTO, R., o.c., at p. 240.

³⁵⁰ It should be recalled that the 'de minimis' rule applies under the rules on competition.

sole judge on this matter. The real content of the criticism therefore seems to be, firstly, that the Community institutions -and not merely the Commission- are not competent to scrutinize national intellectual property rights on their compatibility with Community competition law, and secondly, that there are no clear and objective criteria on which this could be done. Both objections have been implicitly refuted by the CFI in its ruling on the Magill cases.³⁵¹

E. THE COURT OF FIRST INSTANCE'S APPRAISAL OF IPR-EXCLUSIVITY ON A DERIVATIVE MARKET

The judgments rendered by the Court of First Instance in the Magill cases are as controversial as the Commission's Magill decision, since they basically confirm the latter.³⁵² The three undertakings concerned by the Commission's decision, namely BBC, ITP and RTE, each appealed to the CFI in order to have the decision declared void. The CFI dealt with the cases separately, although the contents of the rulings are largely similar and the judgments were passed on the same day.³⁵³

In essence, the applicants contested the finding that they occupied a dominant position on the market, since they disagreed with the definition of the relevant product market as being the market in the advance weekly listings of their own programmes. Rather, ITP maintained that the relevant

³⁵¹ See infra, at pt. E.

³⁵² On the decision by the Commission, see supra, at pt. D.

³⁵³ The following are generally referred to as the Magill cases: Case T-69/89, Radio Telefis Eireann v. Commission; Case T-70/89, The British Broadcasting Corporation and BBC Enterprises Limited v. Commission; T-76/89, Independent Television Publications Limited v. Commission, all judgments of 10 July 1991, not yet reported.

market was the market for TV guides in general,³⁵⁴ BBC that it was the market for broadcasting services or in the alternative the market for television programme information generally,³⁵⁵ and RTE thought the appropriate market to comprise all advance programme information supplied on a weekly or daily basis.³⁵⁶ In second order, they invoked the established case-law concerning the 'existence/exercise' dichotomy to support the argument that their behaviour could anyhow not be considered as abusive because it merely constituted the legitimate exercise of their copyright. They pointed out that the Court of Justice has consistently held that for Article 86 EC to apply, an additional factor is needed besides the legitimate exercise of intellectual property rights.

The CFI rejected the alternative methods of defining the relevant product market as forwarded by the plaintiffs. BBC's first proposal was not withheld on the basis that publishing is a totally different economic activity from broadcasting. All the other proposed definitions were equally put aside because, as the Commission had established and as was confirmed by the success of the weekly guides during the brief time-span they were available on the market, there is a specific, constant and regular potential demand for advance weekly listings. The CFI agreed with the Commission that daily listings are only to a limited extent a substitute, because only comprehensive weekly listings allow the television viewer to programme his leisure activities ahead.

The relevant product market was thus confirmed to be the market in the advance weekly listings of each of the

³⁵⁴ Case T- 76/89, O.C., at para 15.

³⁵⁵ Case T-70/89, O.C., at para 16-17.

³⁵⁶ Case T-69/89, O.C., at para 30. RTE also preliminary invoked infringement of essential procedural requirements, but this was not withheld by the CFI.

plaintiffs. The CFI proceeded to state that as a consequence of their copyright on their listings, the BBC, ITP and RTE each held a dominant position on the relevant market. BBC and ITP had objected to this finding through pointing out that the Court of Justice has consistently held that the mere exercise of an intellectual property right does not suffice to establish that the owner has a dominant position on the market. Although this statement is correct, it should however be added that the Court has never stated that intellectual property protection is an obstacle to establishing a dominant position. Rather, the Court has clarified that one needs to look at whether the right holder can impede the maintenance of effective competition in a substantial part of the relevant market, so that intellectual property protection is neither an indication of nor an obstacle to the finding of a dominant position.³⁵⁷ The CFI confirmed the validity of the test applied by the Commission, namely the reference to the economic dependence of third parties such as Magill and the possibility to prevent the emergence of effective competition on the market, a test which had already been upheld by the Court of Justice in the Michelin case.³⁵⁸ As such, it should be underlined that the Commission and the CFI did not state that the plaintiffs were in a dominant position because of their copyright, but rather as a consequence of their copyright.³⁵⁹

RTE's argument seems therefore more appropriate, albeit exaggerated. RTE had argued that accepting the Commission's

³⁵⁷ On this issue, see supra, at pt. VI.4.4.2.C.

³⁵⁸ Case 322/81, Michelin v. Commission, Judgment of 9 November 1983, E.C.R. (1983) 3461, at para 30.

³⁵⁹ See also VINJE, T., "Magill: its impact on the information technology industry", E.I.P.R. (1992) 397-402, at p. 400 where he observes that the Commission and the Court apply traditional economic criteria in testing for dominance and concludes: "it would be far-fetched to assert that Magill equates dominance with simple ownership of copyright".

criterion to establish the relevant product market would entail that:

"every undertaking -with the exception of 'producers of undifferentiated goods'- would hold a dominant position, within the meaning of Article 86, on the market for its own products".³⁶⁰

This is of course only true to the extent that no interchangeable products are present on the market, and is not necessarily linked to the existence of intellectual property protection. It is for instance unlikely that the Commission would consider one particular reading book to be the relevant product, because third parties can freely draw inspiration from the ideas expressed therein -which are not protected by copyright-, on the condition that they do not infringe the copyright of the author which covers the form of expression. Third parties could thus bring a competing and interchangeable product on the market. This is a very different situation compared to the one at issue, namely listings of television programmes, for which the relevant data is inseparable from its form, so that there can be no interchangeable product on the market if effective competition is excluded as a consequence of the exercise of copyright. But even if RTE's argument had been accepted and if it had been retained that the relevant market did not merely constitute the market in their own programmes but rather in all advance weekly listings, then one could still argue that BBC, RTE and ITP abused a position of collective dominance. Smith points out that there was in casu perhaps no tacit agreement between the Broadcasters in the sense of Article 85 EC, but that for Article 86 EC to apply it suffices that there is "a parallel behaviour between parties whose aggregate market position is such that it would, if held by one undertaking, amount to dominance", with as result that the competitive conditions

³⁶⁰ Case 7-69/89, O.C., at para 32.

differ from the normal ones.³⁶¹ He maintains that in this particular case, parallel behaviour was unlikely to occur normally, because alternatives to the applications for court injunctions by the Broadcasters individually against Magill existed. He therefore concludes that there is a "prima facie case for considering the parallel behaviour to be the result of abusive conduct."³⁶² However, the CFI did not reflect on this possibility since, as stated above, it withheld the Commission's definition of the relevant product market and consequently upheld the finding that the broadcasters occupied a dominant position on that market. As such, the most difficult issue the CFI had to address was whether or not this dominant position had also been abused.

The applicants raised the argument that they had merely sought to protect the specific subject-matter of their copyright, a behaviour which the Court of Justice has consistently held not to constitute an abuse under Article 86 EC in the absence of additional elements. In particular, they maintain that the prohibition for Magill or other third parties to publish the weekly listings is:

"the direct result of the exclusive right to use the protected creation with a view to the manufacture and first sale of commercial products, which constitutes the substance of the right".³⁶³

The Commission and the CFI each took a different approach to counter this argument, although the practical result was the

³⁶¹ SMITH, J., "Television guides: the European Court doesn't know 'there's so much in it' ", E.C.L.R. (1992) 135-138, at p. 137.

³⁶² SMITH, J., o.c., at p. 138. In his view, there is no doubt that the case concerned abusive behaviour of an oligopoly. He therefore regrets that the CFI ignored this.

³⁶³ See for instance Case T-69/89, o.c., at para 38.

function of copyright -i.e. for requirements of secrecy, research and development or other objectively verifiable considerations- and hence constitutes an abuse.³⁶⁷ According to the Commission, the discriminatory licensing policy is to the contrary clearly aimed at preventing the emergence of competing products on the derivative market for comprehensive weekly guides.

The CFI did not follow the Commission in its analysis of the well-foundedness of national copyright protection for programme listings under Community law. Rather, it sought to reconcile the conclusion drawn by the Commission with the principles so far established by the Court of Justice. Contrary to the Commission, it took the existence/exercise dichotomy as a given, recalling that in the absence of harmonization, the procedures and conditions for granting copyright protection are a matter for national law to determine. The CFI also reiterated the established case-law that the exclusive right to reproduce a protected work is covered by the specific subject-matter of copyright and does not in itself infringe Article 86 EC. But here it added an important qualification:

"However, while it is plain that the exercise of the exclusive right to reproduce a protected work is not in itself an abuse, that does not apply when, in the light of the details of each individual case, it is apparent that right is exercised in such ways and circumstances as in fact to pursue an aim manifestly contrary to the objectives of Article 86. In that event, copyright is no longer exercised in a manner which corresponds to its essential function, within the meaning of Article 36 of the Treaty, which is to protect the moral rights in the work and to ensure a reward for the creative effort, while respecting the aims of, in particular, Article 86. (..) In that case, the primacy of Community law, particularly as

³⁶⁷ This analysis has been strongly criticized on the basis that it bears on the existence of the right, whereas the Commission should have taken the existence/exercise dichotomy as a premise. See for instance GLAZENER, P., "Verplichte licenties in het Gemeenschapsrecht", I.E.R. (1992) 10-15, at p. 14.

regards the principles as fundamental as those of the free movement of goods and freedom of competition, prevails over any use of a rule of national intellectual property law in a manner contrary to those principles".³⁶⁸

The CFI rather unconvincingly stated that this analysis is 'borne out' by the Court of Justice's decisions in the Volvo and Renault cases, and more particularly by the Court's submission that the arbitrary refusal by the holder of industrial designs to supply spare parts to third parties might constitute an abuse under Article 86 EC.³⁶⁹ The CFI equated this with the refusal to authorize third parties to publish the weekly programme listings. However, it has been pointed out by Subiotto that the Court of Justice's reflection in the spare parts cases merely referred to the supply of the protected products and did not impose the obligation to share intellectual property rights.³⁷⁰ Whereas the Court of Justice failed to look at the anti-competitive effect of the court injunctions upholding the exclusive rights and preventing third parties from using the intellectual property rights in

³⁶⁸ Case T-69/89, o.c., at para 71, emphasis added.

³⁶⁹ For an analysis of these cases and the difference in approach as compared to the Magill cases, see infra, Chapter IX, at pt. IX.4.3.

³⁷⁰ SUBIOTTO, R., "The right to deal with whom one pleases under EEC competition law: a small contribution to a necessary debate", E.C.L.R. (1992) 234-244, at p. 241. He writes: ".. it seems that one must distinguish between the licensing of intellectual property rights, over which the Court in Volvo and Renault recognises that the owner has absolute discretion, on the one hand, and the obligations which may be imposed on the owner with respect to the physical products resulting from its use of the protected rights, on the other hand. It is clear that what someone does with a product has nothing to do with the exercise of intellectual property rights, including where the manufacture of the product has necessitated the use of intellectual property rights". Also Flynn remarks that the CFI's analogy would amount to interpreting the Volvo-Judgment as requiring third parties to manufacture the panels, see FLYNN, J., "Intellectual property and anti-trust: EC attitudes", E.I.P.R. (1992) 49-54, at p. 53.

the spare parts cases, this was precisely what the CFI was concerned with in the Magill cases. The CFI held:

"Conduct of that type -characterized by preventing the production and marketing of a new product, for which there is potential consumer demand, on the ancillary market of television magazines and thereby excluding all competition from that market solely in order to secure the applicant's monopoly - clearly goes beyond what is necessary to fulfil the essential function of the copyright as permitted in Community law".³⁷¹

As such, it has been submitted that rather than confirming existing case-law, the ruling of the CFI in the Magill cases is revolutionary because it is the first time that a refusal to licence is held to be incompatible with the rules on competition by a Community Court.³⁷² But this is only the consequence of applying a test which aims at restraining the use of intellectual property rights beyond what is needed to safeguard the essential function of the right. It is therefore submitted that it is particularly the introduction of this test that is revolutionary and to be welcomed.³⁷³ Although it should be recalled that the functionality-test in itself is not novel because -apart from fully applying to denominations of origin³⁷⁴- it has already partly been applied with regard to trade marks, this was previously done mainly in the aim to specify the specific subject-matter of the trade marks rather

³⁷¹ Case T-69/89, O.C., at para 73, emphasis added.

³⁷² See FORRESTER, I., "Software licensing in the light of current EC competition law considerations", E.C.L.R. (1992) 5-20, at p. 16. According to this author, the Magill decisions are complementary to, rather than conflicting with, the spare parts cases.

³⁷³ This is in line with the proposed functionality-test, see supra, at pt. VI.4.2.3.

³⁷⁴ See the Delhaize case (Case C-47/90), supra, at pt. VI.4.2.3.

than to limit its scope.³⁷⁵

The main problem is that it is difficult to reconcile the practical result of the CFI's final ruling with its premise, namely the formal existence/exercise dichotomy, because through curtailing the exercise of the copyright the CFI comes close to negating the very existence of the right. As Reindl points out, the CFI might have been restrained by a problem of jurisdiction. The fact that the CFI can only adjudicate on the compatibility of private parties conduct with the Community rules on competition might have been the reason why it did not pursue the Commission's thoughts on the validity, and thus the 'existence', of the national copyright.³⁷⁶ It would indeed have been more logical and would have provided more legal certainty had the CFI said that the broadcasters' exercise of their right was not justified on grounds of copyright protection because the copyright itself was not granted in accordance to its essential function and hence did not benefit from a special status under Community law. It is to be expected that with the current evolution in the case-law concerning the free movement of goods, whereby the existence/exercise dichotomy is more and more challenged and sometimes even put aside in favour of what could be called a "justification-test", a similar reasoning might in the future well be adopted in competition law cases.³⁷⁷ But it is submitted that this would call for a coherent approach with clear indications of when the Community rules will prevail. Legal certainty would most likely be obtained if the functionality-test as initialled by the CFI were to be further elaborated upon.

The CFI already gave the beginning of a Community definition

³⁷⁵ See supra, at pt. VI.4.3.2.C.

³⁷⁶ See REINDL, A., O.C., at footnote 32.

³⁷⁷ See infra, Chapter VII.

of the concept 'essential function of a copyright', namely it referred to the protection of the moral rights in the work and the need to ensure a reward for the creative effort, while respecting the aims of, in particular, Article 86 EC. The Commission gave a different, though complementary, appraisal of the essential function of copyright, referring to the nature of the property protected from the technological, cultural or innovative point of view.³⁷⁸ Both definitions imply a case-to-case analysis of whether or not the function is fulfilled in the given circumstances, but they are -at least formally- situated at a different level. The Commission's definition is clearly directed at challenging the validity of the copyright in question, and thus at the national measure granting the copyright, whereas the CFI's definition is prima facie directed at the behaviour of private parties.

It is submitted that it might have sufficed to simply point out that copyright is not intended to reserve a monopoly over ideas, but only grants the right to prohibit the unauthorized reproduction of the form in which these ideas are expressed.³⁷⁹ It could thus be said that copyright exceeds its essential function and cannot be upheld as a justification for anti-competitive behaviour under the competition rules if, having regard to the specific circumstances of the case and especially considering the fact that no alternative ways of expression are possible without infringing the copyright, it

³⁷⁸ It is likely that the Commission used this broad definition which embodies concepts of industrial property law, such as the protection of innovation, in order to include functional or utilitarian copyrights which are not always necessarily original or creative in the artistic sense of the word. On the different national concepts of originality and creativity, see supra, Chapter IV.

³⁷⁹ See supra, Chapter III, at pt. III.3.3.

confers a monopoly over a product.³⁸⁰ This would avoid the rather delicate appraisal of the 'creative effort' or 'originality' of a work in competition cases, as well as the need to refer to the derivative market. There is furthermore good reason to believe that works involving creativity or originality -in the sense that they are not dictated solely by the function of the work- would not confer a monopoly on a product but would allow for alternative ways of expressing the same idea. The anti-competitive behaviour which triggers Article 86 EC then obviously consists in invoking the copyright over the form to enforce a monopoly over a product and thus preventing competition from occurring, whereas this would not be so in case the copyright holder gives third parties non-discriminatory access to the ideas, either against payment of a reasonable royalty or free of charge.

It is of course true that the functionality-test, whether applied as set out above or as defined by the Commission and the CFI, will in the first place affect functional and utilitarian products whilst leaving literary and artistic works to a large extent untouched. Subiotto objects to this through pointing out that it is precisely that kind of copyright that stimulates research and development, and hence should be left untouched.³⁸¹ However, it is undeniable that research and development in general would be hampered if one undertaking could foreclose the use of information which is

³⁸⁰ It was maintained above that it is for the same reason, namely the monopoly position as a consequence of the copyright, that the relevant product market is determined as being the market in the own protected products. It has been pointed out that although the CFI referred to the essential function of copyright, it failed to subsequently indicate why Article 86 had been breached, see FEENSTRA, J. and KRAWCZYK, S., "De Magill-arresten: de uitoefening van het auteursrecht en misbruik van machtspositie", Informatierecht (1992) 43-47, at p. 45.

³⁸¹ SUBIOTTO, R., o.c., at p. 240.

indispensable for further innovation by others.³⁸² It is not surprising, therefore, that the Magill judgments are of a major importance to the information technology industry, for whom safeguarding interoperability through curtailing abuses of intellectual property rights is essential to the continuing development and innovation of the market.³⁸³

Applying the functionality-test merely avoids the abuse of the system of intellectual property rights, and is not tantamount to rendering the concept of functional or utilitarian copyright as such meaningless. Although it seems to be a fair balance of different interests and a workable approach, it remains to be seen whether the Court of Justice will uphold this test in appeal. But whatever the outcome, it is to be hoped that the Court unambiguously states the reasons why it has upheld or rejected the appeal.

VI.4.4.5. The incidence of Articles 85 and 86 EEC

A. INTRODUCTION

From the above analysis it is apparent that the approach taken is different according to whether Article 85 or Article 86 EC is concerned. Under Article 85 EC the intellectual property

³⁸² It is probably in this sense that the controversial statement to the press by Sir Leon Brittan, namely that "Magill shows that enterprises cannot unreasonably sit on their intellectual property rights in order to stifle enterprise and prevent the emergence of new forms of competition", should be understood.

³⁸³ See especially VINJE, T., "Magill: its impact on the information technology industry", E.I.P.R. (1992) 397-402. For the appendices, see E.I.P.R. (1993) 71-73. He sets out why the Magill decisions are so important to the information technology industry and why the European Committee for Interoperable Systems sought leave to intervene in the appeal against those decisions before the Court of Justice. See also FORRESTER, I., "Software licensing in the light of current EC competition law considerations", E.C.L.R. (1992) 5-20.

right concerned is not as such curtailed by virtue of the use of the market power it confers, whereas this is exactly what is at stake when applying Article 86 EC. It is not surprising, therefore, that the question as to the incidence of Articles 85 and 86 EC has for the first time arisen with regard to intellectual property rights, namely patent rights.

B. BACKGROUND OF THE TETRA PAK JUDGMENT

In the Tetra Pak case, the Court of First Instance confirmed the Commission's view that the granting of an exemption under Article 85 (3) EC does not preclude the application of Article 86 EC.³⁶⁴ Tetra Pak objected to the Commission's finding that it had infringed Article 86 EC through taking over a company which held a patent licence -concerning competing technology- which was exempted under Regulation N° 2349/84.³⁶⁵

In the Tetra Pak I Decision, the Commission held that Tetra Pak was in a dominant, almost monopolistic (91%), position in the markets for supply of machines for sterilizing and filling cartons in aseptic conditions and the cartons to be used with those machines.³⁶⁶ On the basis of its acquisition of Liquipak, Tetra Pak took over Liquipak's exclusive patent licensing agreement with BTG. This agreement did not contain provisions contrary to Regulation N° 2349/84 and hence was thought to benefit from the block exemption for as long as the Commission

³⁶⁴ Case T-51/89, Tetra Pak Rausing SA v. Commission, Judgment of 10 July 1990, E.C.R. (1990) II-309.

³⁶⁵ On Regulation N° 2349/84, see supra, at pt. VI.4.4.3.F.

³⁶⁶ Commission Decision of 26 July 1988, Tetra Pak I (BTG-licence), O.J. L 272/27 of 4.10.1988. Case T-51/89 is an appeal against this decision. The Commission has issued its Tetra Pak II Decision on 24 July 1992, O.J. L 72 of 18.3.1992, in which a global appreciation of the infringement of Article 86 EC by Tetra Pak was given and a fine imposed of 75 million ECU.

had not expressly withdrawn the exemption.

The Commission objected to the exclusive nature of the licensing agreement because of Tetra Pak's already dominant position on the market, maintaining that in the given circumstance exclusivity could not be justified under Article 85 (3) EC by the need to protect research and development or the improvement of production and distribution. Still, the benefit of the block exemption was not withdrawn because the agreement was altered taking into account the Commission's objections and became non-exclusive in nature.

The Commission nevertheless held that Tetra Pak had abused a dominant position in the sense of Article 86 EEC by obtaining the exclusive patent licence from BTG through acquiring Liquipak, for as long as the exclusivity lasted. According to the Commission, this not only had the effect of strengthening the dominant position which Tetra Pak already occupied in the market, but furthermore frustrated the attempts of potential competitors to enter the market.³⁸⁷

C. LEGAL APPRAISAL

Tetra Pak initiated legal proceedings to have the Commission's decision declared void, exclusively basing its claim on legal issues. Tetra Pak's main argument was that Article 86 EC cannot be applied if an exemption has been granted under Article 85 EC, because both articles pursue the same objective. It maintained that any other interpretation would seriously jeopardize legal certainty as well as the uniform application of Community law.

According to Tetra Pak, the mere fact that an undertaking

³⁸⁷ However, no fine was imposed considering the relative novelty of the infringement.

which holds a dominant position on the market becomes party to an agreement exempted under Article 85 (3) EC does not constitute an abuse in the absence of other elements extrinsic to the agreement and attributable to that undertaking. If the abuse relates to the agreement, then Article 86 EC could only be applied once the exemption had been withdrawn. The Commission pointed out that this would imply that an exemption is equally granted under Article 86 EC, because the withdrawal of an exemption does not have retroactive effect.

The CFI recalled that although Articles 85 and 86 are complementary provisions pursuing the same objective, they nevertheless are two distinct legal instruments that address different situations. The CFI partly agreed with Tetra Pak, stating that:

".. the mere fact that an undertaking in a dominant position acquires an exclusive licence does not *per se* constitute abuse within the meaning of Article 86 EEC."³⁸⁸

However, the CFI rejected the argument that an element external to the agreement was needed to constitute an abuse. It proceeded to state, in the line of the Commission's approach, that the additional element for the finding of the abuse could be constituted by the factual background against which the acquisition of the exclusive licence took place:

"For the purpose of applying Article 86, the circumstances surrounding the acquisition, and in particular its effects on the structure of competition in the relevant market, must be taken into account."³⁸⁹

It was held that in this specific case, the decisive factor for establishing the abuse was Tetra Pak's position in the market and particularly the fact that only the right to use

³⁸⁸ Case T-51/89, o.c., at para 23, emphasis added.

³⁸⁹ Case T-51/89, o.c., at para 23.

BTG's patented process was capable of providing a third undertaking with the means to compete effectively with Tetra Pak. The acquisition of Liquipak and the exclusive licence with BTG thus had the effect of preventing competition from occurring.

The CFI furthermore pointed out that linking the application of Article 86 EC to the non-retroactive withdrawal of the exemption granted under Article 85 (3) EC would be tantamount to granting an exemption under Article 86 EC. But the Treaty does not foresee in possible exemptions to Article 86 EC and secondary legislation cannot derogate from Treaty provisions.³⁰⁰ Thus Article 86 EC remains fully applicable regardless of what the outcome of the analysis under Article 85 EC is.

Having convincingly explained the legal relationship between Articles 85 and 86 EC, the CFI then proceeded to draw an artificial -and it is submitted unnecessary- distinction between individual and group exemptions.³⁰¹ The premise is that individual exemptions are granted on a case-to-case basis, whereby the factual circumstances including the possibility to restrict competition in the market should be duly taken into account, whereas the block exemption only refers to the provisions embodied in the agreement. When applying Article 86 EC to an agreement that has been individually exempted, the Commission must rely on the same findings, unless the legal or factual context has changed. This is different when applying Article 86 EC to an agreement that fulfils the criteria of a group exemption, because here no positive assessment had been made under Article 85 (3) EC. The CFI thus seems to imply that an individual exemption will offer greater protection and legal security as far as the application of Article 86 EC is

³⁰⁰ Case T-51/89, o.c., at para 25.

³⁰¹ Case T-51/89, o.c., at para 28-29.

concerned than the invocation of a block exemption. This has given rise to contrary critiques. According to James, the fact that the CFI held that earlier relevant analysis has to be taken into account by the Commission "satisfies legitimate concerns as to legal certainty",³⁶² whereas Daltrop and Ferry to the contrary point out that this implies that undertakings will now "face the dilemma of deciding whether to provide such greater immunity through notification but having to submit to Commission scrutiny".³⁶³ It is also obvious that this factual distinction is difficult to reconcile with the previous legal analysis about the difference in purpose and structure of Articles 85 and 86 EC. It furthermore raises the question in which of the two categories the implicit exemption on the basis of the opposition procedure foreseen in most block exemption regulations has to be classified.

The CFI plainly rejected the argument based on the legal certainty which was supposedly conferred by the exemption under Article 85 (3) EC, through stating that:

"..an undertaking cannot rely on the alleged unpredictability of the application of Article 86 EEC in order to escape the prohibition there laid down".³⁶⁴

The argument purporting that the uniform interpretation of Community law is at stake was equally refuted on the basis that the national courts are acting as Community courts when applying Article 86 EC, a system which is safeguarded by the possibility to have recourse to the preliminary questions procedure.

³⁶² JAMES, H., "Tetra Pak: Exemption and abuse of dominant position", E.C.L.R. (1990) 267-270, at p. 269.

³⁶³ DALTROP, J., FERRY, J., "The relationship between Articles 85 and 86: Tetra Pak (T-51/89)", E.I.P.R. (1991) 31-33, at p. 33.

³⁶⁴ Case T-51/89, o.c., at para 37.

The main importance of this judgment therefore is that it was for the first time clearly stated that Article 86 EC is an instrument to safeguard competition in its own right, without being subject to the outcome of scrutiny under Article 85 EC. A dominant undertaking acquiring exclusive intellectual property licences will therefore have to examine carefully whether or not in so doing it infringes not only Article 85 EC, but also Article 86 EC.

VI.4.5. PRELIMINARY CONCLUSION

The first obvious conclusion to be drawn from the case-law is that the existence/exercise dichotomy is merely a formal distinction which raises more questions than it gives answers. Upholding the formal immunity of national intellectual property rights prejudices the legal certainty for the economic actors concerned as concerns the application of both the rules on the free movement of goods and the rules on competition, because it is them that have to account for the incompatibilities between national intellectual property rights and Treaty rules.

The distinction between 'normal' and 'illegitimate' exercise of intellectual property rights under the rules on the free movement of goods is drawn with reference to the specific subject-matter of the rights concerned. But except for trade marks, this notion has not been defined so as to take the specificities and the essential function of the right into account. In view of safeguarding the internal market objective, regard is merely had to whether or not the proprietor of the right consented to the first marketing of the protected product, upon which the principle of exhaustion is applied. The legal or factual context against which the rights are exercised or the need to safeguard the inherent

functions of the exclusive right is thereby totally neglected.

The distinction between 'normal' and 'abusive' exercise of intellectual property rights under the competition rules is even more problematic. The application of Article 85 EC to agreements relating to intellectual property rights has been subject to major shifts in policy due to the changing perception of what constitutes the 'essence' or the 'existence' of the right concerned, which in turn affects the definition of the 'normal' exercise which is not contrary to Article 85 (1) EC. The analysis under Article 85 (3) EC gives rise to further legal uncertainty, in that it is not always clear when the enhancement of research and development and technological innovation will prevail over the temporary restraint of competition on the market, or in other words on what basis and to what extent the function of the right is taken into account.

Still, Article 85 EC in principle does not affect the principle of exclusivity inherent in the intellectual property right concerned, but merely curtails the effect of agreements or concerted practices with a third undertaking. The clarification that an analysis under Article 85 EC does not prejudice the application of Article 86 EC is therefore of a major importance, because Article 86 EC is exactly concerned with the abusive exercise of the exclusivity -and thus market power- conferred by intellectual property rights to an undertaking holding a dominant position on the market. However, pursuing this analysis in fact almost always comes down to affecting the very 'existence' or the 'essence' of the right.

In the next chapter, it will be illustrated that the existence/exercise dichotomy can lead but a formal existence, because a closer analysis reveals the fundamental incompatibilities inherent in that principle. The Court of

Justice seems to have accepted the shortcomings of this distinction, and has in some recent cases opened the door to a new approach towards intellectual property rights in general.

CHAPTER VII. DISPARITIES IN NATIONAL INTELLECTUAL PROPERTY
LEGISLATION AND FREE MOVEMENT OF GOODS

VII.1. INTRODUCTION

From the foregoing chapter, it is apparent that the approach so far adopted by the Court of Justice is inadequate to deal with the various problems arising in Community context through the enforcement of national intellectual property rights. Merely curtailing the exercise of those rights on the basis of either the rules on the free movement of goods or the rules on competition often leads to a situation of legal uncertainty for the holders of those rights. Although the approach adopted under the rules on the free movement of goods seems to be more or less established, it still seems to be uncertain when an exercise of the right will be held to be an 'abusive' use under the rules on competition, and especially under Article 86 EC.

The main cause for this uncertainty is the reluctance of the Court to strike down intellectual property rights that are abusively granted by national legislation and a fortiori to give guidance concerning the criteria to be applied to establish which features of intellectual property legislation might be held to be incompatible with Community law. As such, the holder of the right can legitimately expect that he will also be able to exercise this nationally granted exclusive right without infringing community law. But in several cases, the Community Courts virtually empty the exclusive right of its substance through curtailing the exercise of the exclusive right under the competition rules to such an extent that in fact it comes down to challenging the very existence of the

right.¹ It is therefore submitted that it would be more coherent and more transparent to scrutinize the very existence of the right on its compatibility with Article 36 EC, before looking at whether the holder has abusively used his right.²

The Court has in several rather recent cases opened the door to challenging the very existence of the intellectual property right concerned under Article 36 EC. But before looking into those cases, a categorisation will be made of the majority of the cases, namely those that have so far been solved through the application of the consent-theory. For all the cases to which the consent-theory has been applied, it can be submitted that the Court considered the major problem to be the principle of territoriality inherent to intellectual property rights.³ All other aspects of intellectual property rights which are potentially detrimental to the functioning of the common market were thereby neglected.

VII.2. CASES SOLVED THROUGH THE APPLICATION OF THE CONSENT THEORY

VII.2.1. PARALLEL IPR PROTECTION

The early cases brought before the Court all concerned problems of parallel importation against the background of

¹ It might suffice to recall the Consten-Grundig and Magill cases, see supra, Chapter VI, at pts VI.4.2.2. and VI.4.4.4.E.

² Similarly, see WHITE, E., "In search of the limits to Article 30 of the EEC Treaty", C.M.L.Rev. (1989) 235-280, at pp. 167-270. See also supra, Chapter VI, at pt. VI.4.2.3., where it is submitted that this should be done through the application of the functionality-test, similarly as is done with regard to denominations of origin.

³ See supra, Chapter VI, at pt. VI.4.3.1.

comparable parallel intellectual property rights.⁴ The terminology 'comparable parallel protection' points to the conditions for obtaining the intellectual property protection and not to distortions subsequently created by other government measures, such as the price fixing for medicinal preparations or the limits posed to the author's remuneration, which the Court has held not to be relevant for the outcome of the case.⁵

With the exception for trade marked goods that have been repackaged or to which the trade mark has been re-affixed,⁶ the Court has since the Deutsche Grammophon case consistently held that the fact that the goods have been put on the market in the Member State of exportation with the right holder's consent implies that the principle of exhaustion should apply.⁷ This means that in those circumstances the principle of free movement of goods prevails over the intellectual property right concerned.

⁴ See for instance Case 78/70, Deutsche Grammophon Gesellschaft v. Metro, Judgment of 8 June 1971, E.C.R. (1971) 487; Case 15/74, Centrafarm v. Sterling Drug, Judgment of 31 October 1974, E.C.R. (1974) 1147; Case 16/74, Centrafarm v. Winthrop, Judgment of 31 October 1974, E.C.R. (1974) 1183; Case 58/80, Dansk Supermarket v. Imerco, Judgment of 22 January 1981, E.C.R. (1981) 181. For more details on those cases, see supra, Chapter VI.

⁵ Concerning distortions created due to price-fixing by the government, see for instance Case 15/74, Centrafarm v. Sterling Drug, Judgment of 31 October 1974, E.C.R. (1974) 1147; concerning distortions due to government interference with the level of royalties for copyright, see Joined Cases 55 and 57/80, Musik-Vertrieb and K-Tel International v. GEMA, Judgment of 20 January 1981, E.C.R. (1981) 147. For an analysis of the impact of the Court's decisions, see supra, Chapter VI, respectively at pt. VI.4.3.2.A. and at pt. VI.4.3.2.B.

⁶ See supra, Chapter VI, at pt. VI.4.3.2.C.

⁷ On the exhaustion principle and on Case 78/70, Deutsche Grammophon, o.c.; See supra, Chapter VI, at pt. VI.4.3.1.

Although the application of the principle of exhaustion based on the consent-theory is the general rule in case of parallel protection, the Court has in subsequent cases been confronted with the question whether this also applies in case there is parallel protection in the Member States concerned, but where the conditions under which the protection is granted are substantially different from one Member State to another. It will be seen below that the principle of exhaustion will not necessarily apply to those cases.⁸

VII.2.2. ABSENCE OF PARALLEL IPR PROTECTION

The Court has clarified in the Merck v. Stephar case that the application of the exhaustion principle is not linked to the existence of parallel protection, but rather to the consent of the right holder to market the protected goods for the first time.⁹ This case concerned the situation whereby protection was not provided for in the Member State of exportation. The Court held that the holder of the right can choose whether or not to bring his product on that market, but where he decides to do so he must then accept the consequences of his choice. The free movement of goods thus also here prevails over the national intellectual property right.

It has been maintained above that the application of the exhaustion principle in the absence of parallel protection implies that the exclusive right in the Member State of

⁸ See infra, Case 156/86, Warner Brothers v. Christiansen, at pt. VII.3.3.

⁹ Case 187/80, Merck v. Stephar, Judgment of 14 July 1981, E.C.R. (1981) 2063. See supra Chapter VI, at pt. VI.4.3.2.A.

importation is potentially emptied of its substance.¹⁰ Although the effect of the ruling apparently only is the creation of intra-brand competition, one can submit that indirect inter-brand competition is also introduced as a consequence of the Court's judgment. As such, the impact of this judgment extends far beyond the elimination of the prejudicial effect of the principle of territoriality inherent to intellectual property rights. Although this ruling is to be severely criticized from the point of view of the function of intellectual property, in the light of the Court's clarifications it seems to be logical that the same solution will be withheld in case the possibility to obtain parallel protection existed, but where the right holder refrained to apply for protection in the Member State of exportation."

This finding leads to a first simplified model of the application of the consent-theory as shown below. The model, which reflects the Court's approach, is based on the assumption that the balance between national intellectual property legislation and the free movement of goods can be found by merely looking at the behaviour of the right holder without taking interferences due to special provisions in national law into account. A second basic assumption is that

¹⁰ See supra, Chapter VI, at pt. VI.4.3.2.A., where it is maintained that this implies that the effect of the potential inter-brand competition in the Member State of exportation is transposed to the Member State of importation.

¹¹ It is clear from the Merck case that the Court does not make the distinction between when the patentee voluntarily places himself in a position of not having parallel protection (through not applying for it) and when this occurs involuntarily (because no parallel protection is available). Frank had advanced the view that exhaustion should only occur in this first hypothesis because the cause in the second hypothesis was the disparities among the national patent systems. See FRANK, G., "Intellectual property rights in the European Economic Community and the Treaty of Rome - conflict or harmony", Journal of the Patent Office Society (1977) 274-301, at p. 292.

the goods will only be imported from Member State B into Member State A if the product's selling price is lower there, although in all cases export from A to B is theoretically feasible.

SCHEME 1: CONSENT THEORY

	A = MS of importation	B = MS of exportation
1.	IPR reward = X	IPR, thus consent reward - or = X
2.	IPR reward = X	no IPR, yet consent reward - X (*)
3.	IPR reward = X	no IPR, no consent reward 0

(*) The reward is considered to be less than the monopoly-reward X in this case, because inter-brand competition cannot be prohibited due to the lack of IPR-protection. However, whether or not inter-brand competition will effectively occur depends on the type of the product and on the situation in the market.

VII.2.3. DIFFERENT DURATION OF IPR PROTECTION

The Court clarified in the EMI v. Patricia Im- und Export case,¹² that in case parallel protection ceased to exist due to the expiry of the duration of protection offered in the Member State of exportation, the right holder in the Member State of importation can still invoke his exclusive right to prevent the importation of goods that have been legitimately marketed

¹² Case 341/87, EMI Electrola v. Patricia Im- und Export and others, Judgment of 24 January 1989, E.C.R. (1989) 79.

without his consent. Applying an a contrario reasoning, this implies that if the goods had been marketed with his consent, even after the expiry of the protection in the Member State of exportation, he would not be able to prevent the importation because his right would be thought to be exhausted.

Referring to Scheme 1 above, this means a shift from the application of hypothesis 1 to hypotheses 2 and 3 if the goods are marketed respectively with or without the right holders consent. This implies that whether or not parallel protection existed previous to the facts concerned, is not taken into account to apply the principle of exhaustion of rights.

Advocate-General Darmon pointed out that any other interpretation would lead to the harmonization of the duration of intellectual property rights on the basis of the shortest period of protection offered in a Member State of the Community.¹³ He furthermore argued that "there is no reason to distinguish between the situation in which the product cannot be protected and the situation in which it can no longer be protected", because this would entail the paradoxical consequence that the expiry of the protection is more severe upon the holder than the total absence of protection.¹⁴ This interpretation will most probably apply not only to the circumstances in which the maximum duration of national protection came to an end, but also to the situation whereby the protection expired due to the choice or the negligence of a proprietor who refrains to extend the period of protection where possible.

¹³ Case 341/87, Opinion of Advocate-General Darmon delivered on 29 November 1988, E.C.R. (1989) 86, at p. 91.

¹⁴ *Id.*, at p. 90.

VII.2.4. COMPULSORY LICENCES

Compulsory and akin licences are probably the clearest example of the fact that industrial property rights are as much in the interest of the states providing such protective laws as in the interest of the holder of that right. Obligatory licences are licences granted by a national authority to a third person, usually without the consent of the holder of the industrial property right, for reasons of public interest and mostly because of the failure to exploit that right sufficiently by the holder himself.¹⁵

The Pharmon v. Hoechst case concerned the importation of a patented good into a Member State where the patent holder worked his patent, from another Member State where his parallel patent was worked by a third person on the basis of a compulsory licence.¹⁶ At issue was whether the patent holder could prevent the importation on the basis of his exclusive right in the Member State of importation, or whether this right was exhausted due to the fact that the patent was worked under a compulsory licence in the Member State of exportation. In second order, the preliminary question was posed whether the fact that the patent holder received a reward under the compulsory licence influenced the outcome of the case.

In the line of the Merck judgment, one could argue that this right is indeed exhausted, because the patent holder knew the risk of not working his patent, and as such has to accept the consequences of his choice as regards the free movement of the product within the common market.¹⁷ However, the Court did not

¹⁵ See also infra, at pt. VII.3.1.

¹⁶ Case 19/84, Pharmon v. Hoechst, Judgment of 9 July 1985, E.C.R. (1985) 2281.

¹⁷ This view was advanced by Pharmon.

pursue this thought but held to the contrary that the principle of exhaustion cannot be applied to parallel patents if the goods have been manufactured by the holder of a compulsory licence. The reason for this is that the patent holder can not be said to have consented to putting those goods on the market.¹⁸ This is different from the solution proposed by Advocate-General Mancini, who suggested that it should be left to the national court to determine whether or not the patentee had expressly or implicitly manifested his consent.¹⁹ The Court took a categoric view and stated:

"It is necessary to point out that where, as in this instance, the competent authorities of a Member State grant a third party a compulsory licence which the patentee would normally have the right to prevent, the patentee cannot be deemed to have consented to the operation of that third party. Such a measure deprives the patent proprietor of his right to determine freely the conditions under which he markets his products."

".. the substance of a patent lies essentially in according the inventor an exclusive right of first placing the product on the market so as to allow him to obtain a reward for his creative effort. It is therefore necessary to allow the patent proprietor to prevent the importation and marketing of products manufactured under a compulsory licence in order to protect the substance of his exclusive rights under his patent."^{20 21}

¹⁸ According to Guy, the Court has clarified that voluntary and compulsory licences have 'nothing in common', see GUY, D., "Pharmon v. Hoechst: compulsory licences clarified", E.I.P.R. (1986) 252-253, at p. 252.

¹⁹ Case 19/84, Opinion of Advocate-General Mancini delivered on 23 April 1985, E.C.R. (1985) 2282, at pp. 2289-2290. He gives examples of when under compulsory licences the interests of the state and the patent holder may coincide, and concludes that one cannot categorically state that the proprietor never consents to having his right exploited by a third party under a compulsory licence.

²⁰ Case 19/84, o.c., respectively at para 25 and 26, emphasis added.

²¹ White correctly points out that it is significant that the Court omitted to specify -as it had done in previous cases- that the subject or specific subject-matter of patents

The effect of this judgment concerning parallel patents is that the patent holder might benefit from having his product exploited under compulsory licences in the Member State of exportation in order to protect a more profitable market in the Member State of importation, rather than marketing the products himself in both markets or giving voluntary licences.²² This is especially so since the Court ruled that it was irrelevant to know whether or not the patent holder was given a fair return under the system of compulsory licences.²³

Scheme 2 below shows that under the normal system of parallel patents (1), the patent proprietor does get a reward on both markets, possibly even the same reward as under compulsory licences (2), yet his overall reward will be less than under

is the putting the goods in circulation for the first time, either directly or by the grant of licences to third parties. He writes: "...one notices that the omission of any reference to exploitation through the granting of licences (...) allows the conclusion the Court wishes to arrive at to follow more easily", see WHITE, E., "Case 19/84, Pharmon BV v. Hoechst AG", C.M.L.Rev. (1986) 719-726, at p. 722.

²² This consequence is clearly demonstrated and severely criticized by DEMARET, P., "Industrial property rights, compulsory licences and the free movement of goods under Community law", I.I.C. (1987) 161-191. See also the criticism by WHITE, E., "Case 19/84, Pharmon v. Hoechst AG", C.M.L.Rev. (1986) 719-726.

²³ Gormley points out that the Court was more concerned with the protectionist effect than with the actual reward. He writes: "It might be thought that the argument that, if royalties are paid the patentee has been assured of his reward, would have carried some weight with the Court. However, it seems that the Court has accepted that to give extra-territorial effect to patent licences would encourage freeloading by the industry of certain Member States on the back of the inventiveness of others", see GORMLEY, L., "Recent cases on Articles 30-36 EEC: compulsory patent licensing", E.L.R. (1985) 447-449, at p. 449.

the system of compulsory licences for he cannot prevent price competition from occurring between his own goods.

SCHEME 2 : PARALLEL PROTECTION

A = MS of importation

B = MS of exportation

1.	worked patent reward = X	(-----	worked patent reward - or = X

2.	worked patent reward = X	(-----/-----	compulsory licence reward - or = X

* The basic assumption is the same as under Scheme 1 above, namely that the goods will only be imported from Member State B into Member State A, although in all cases export from A to B is theoretically feasible.

VII.2.5. EVALUATION OF THE CONSENT THEORY

Although the consent-theory at first sight seems to be a coherent and workable model, a closer look shows that a rigid application of this theory entails paradoxical consequences, especially in terms of the function of the various intellectual property rights, which are difficult to explain. As concerns trade marks, the Court has modified its approach to take the function of the trade mark into account, so that the mere marketing of the goods with the proprietors consent does not automatically lead to the exhaustion of the right.²⁴ However, as concerns the other intellectual property rights, namely patents, copyright and akin rights and industrial designs, the Court has consistently applied the consent-test without taking the specificity of the right concerned into

²⁴ See supra, Chapter VI, at pt. VI.4.3.2.C.

account.

The paradoxical consequences this entails are most clearly illustrated by the comparison of the effects of the Merck and the Pharmon cases.²⁵ In both cases, the patent holder has a patent in the Member State of importation (A). But in the Member State of exportation (B), the situation and behaviour of the holder in the two cases is totally the opposite. In the Merck ruling, the patent holder markets his product even though he could not benefit from patent protection, whereas the Pharmon ruling applies to a situation whereby the patent holder obtained a parallel patent but refrained from marketing his product.²⁶ This means that in the Merck case the inter-brand competition is enhanced in the market B, whereas the Pharmon ruling applies to the situation whereby the exclusive right is not only invoked to prohibit inter-brand competition but furthermore where the patented product is not at all brought on the market by the patent holder in B, so that a compulsory licence is given to a third party.

The straightforward application of the consent-theory by the Court gives the following result, as set out in Scheme 3 below:

²⁵ Compulsory licences can be granted for various reasons in the public interest. In the Pharmon case, the compulsory licence was granted on the basis of section 41 (2) of the UK 1949 Patent Act which was aimed at ensuring low prices for food and medicine, etc., whilst guaranteeing a fair return for the inventor. However, since the Court did not distinguish between the different forms of compulsory licences in Pharmon, the hypothesis to this example is the extreme case whereby the patent holder obtains a patent but refrains from exploiting his patent at all.

²⁶ On fulfilling the needs of the market through importation of goods from other Member States and the case-law of the Court on compulsory licences, see infra, pt. VII.3.1. In this hypothesis, the patent holder does not at all live up to the demands in the Member State concerned.

SCHEME 3: MERCK AND PHARMON

A = MS of importation

B = MS of exportation

1.	worked patent reward = X	(-----	no IPR, consent reward - X (*)

2.	worked patent reward = X	(----/-----	IPR, no consent reward - or = X

(*) For the basic assumptions, see supra Scheme 1

In the Merck case (1), the patent holder is penalized for his competitive effort in B because his right is thought to be exhausted in A, so that his products on market A are, through the intra-brand competition the exhaustion of rights entails, indirectly confronted with the inter-brand competition in B. Following the Pharmon ruling (2), the patent holder is rewarded for his anti-competitive behaviour in B because he can protect his market in A from competition of goods which have been manufactured under a compulsory licence and for which he receives a reward in B.

Both the Merck and the Pharmon case prove that it is not the existence of parallel patents, but merely the marketing of the protected goods with the consent of the right holder that is the decisive factor withheld by the Court to apply the principle of exhaustion. In the first case, there was no parallel protection but the principle of exhaustion was applied, whereas in the second case, there was parallel protection but the principle of exhaustion was not applied. Both Joliet and Marengo point out that the Court has deviated from the original meaning of 'consent', which was the consent by the right holder to the exercise of his exclusive right by

a licensee.²⁷ Understood in this sense, the principle of exhaustion upon marketing with consent prevented the possibility to obtain a double benefit on a single unit of production caused by the invocation of the territorial character of intellectual property rights in the context of the internal market. The inconsistency in the case-law of the Court results from having applied the consent-theory to the mere marketing of the product instead of the use of the exclusive right.

It has been maintained above that another paradox of the Courts case-law on intellectual property rights is that the holder of a parallel patent is better off having his parallel patent worked under a compulsory licence rather than to work the patent himself in the Member State of exportation, because in the latter case the principle of exhaustion applies so that his products are subject to intra-brand competition in the Member State of importation.²⁸ Demaret points out that this paradox is further enhanced when comparing the Pharmon case to the Musik-Vertrieb case, in which the Court held that the intellectual property right is exhausted even where the parallel right was subject to government interference in so far as the possibility to obtain a reward is concerned.²⁹ He therefore pleads for the abandonment of the consent-test altogether.³⁰ Instead, he proposes a test focusing 'on the

²⁷ See JOLIET, R., "Patented articles and the free movement of goods within the EEC", Current Legal Problems (1975) 15-37, at p. 37. He argues in terms of safeguarding the function of the right. See also MARENCO, G., and BANKS, K., "Intellectual property and the Community rules on free movement: discrimination unearthed", E.L.R. (1990) 224-256, at pp. 247-248.

²⁸ See supra, pt. VII.2.4. and Scheme 2.

²⁹ See supra, Chapter VI, at pt. VI.4.3.2.B.

³⁰ He points out that the consent-test is only a valid and useful criterion as it is applied to trade marks, because it is "consistent with the protection of the basic legal function

economic substance of the exclusive rights'. This embodies the application of the principle of the free movement of goods if two cumulative conditions are fulfilled. Firstly, the same invention must be protected by a parallel exclusive right. And secondly, there should be no restrictions in the country of export which prevent the proprietor of that right to set the level of royalties he thought appropriate.³¹

Such an approach would indeed have led to more acceptable and coherent judgments concerning the exhaustion of rights. However, this approach would still imply that the Court only curtails the exercise of the right whereas the existence is in principle left intact. It also disregards the fact that the Court has consistently held that Article 36 EC cannot be invoked to justify measures that are economic in nature,³² unless the objective of an economic nature is ancillary to another objective mentioned in Article 36 EC.³³

of trade marks, that is the indication of origin", whereas the way in which it is applied to patents and copyright cases is "rather questionable", see DEMARET, P., o.c., at pp. 176-177.

³¹ See DEMARET, P., Patents, territorial restrictions and EEC law, VCH Verlagsgesellschaft, Weinheim, 1978, at pp. 59-76. Also Marengo is of the opinion that the principle of exhaustion should not apply in case the disparities in the national legislation are the cause to the divergence in commercialization, see MARENCO, G., "Pour une interpretation traditionnelle de la notion de mesure d'effet equivalent", C.D.E. (1984) 291-363, at p. 345. He finds it in particular difficult to justify the Musik-Vertrieb and Merck-judgments.

³² See for instance, Case 7/61, Commission v. Italy, Judgment of 19 December 1961, E.C.R. (1961) 633.

³³ Case 72/83, Campus Oil v. Ministry for Industry and Energy, Judgment of 10 July 1984, E.C.R. (1984) 2727, at para 36. Barents points out that what is seemingly prohibited is "the use of Article 36 as a pure instrument of economic policy", see BARENTS, R., "New developments in measures having equivalent effect", C.M.L.Rev. (1981) 271-305, at pp. 278-279. Demaret himself invokes the argument that Article 36 EEC only applies to non-economic measures to conclude that the domestic manufacturing clause under the system of compulsory licences is incompatible with Article 30 and unjustifiable under

Rather than emphasizing the importance of safeguarding the economic substance of the right, it would seem more appropriate to advance the criterion of safeguarding the essential function of the right.³⁴ It has been submitted above that this should be done through looking at whether the right was in the first place granted in accordance to its function, and subsequently used by the right holder in accordance to its function.³⁵

The function of patents can be described as to grant a temporarily exclusive right to the patentee over his protected product or process in order to provide the possibility to obtain a reward, give an incentive to stimulate research and development and to let society benefit from the invention rather than having it kept secret.³⁶ As such, the aim is in the

Article 36 EEC, cf. infra, at pt. VII.3.1.2.

³⁴ Joliet already pointed this out in 1975. He wrote that the application of the principle of exhaustion to parallel imports under parallel patents is "compatible with the policy justification behind the patent system, ie. with the patent function. True the patentee would be able to obtain certain additional income if the flexibility of demand in the two national markets for which he holds parallel patent were to differ, making a price discrimination possible and if he was in a position to keep those markets separated. But the loss of this additional income does not appear to jeopardise the fundamental function of the patent: thanks to his patent, he will have had at any rate the chance to obtain monopoly profits in the exporting country". He furthermore argued that if a functionality-test -in the sense of the monopoly-profit-incentive thesis- were applied, then restrictions on imports would be justified in case there is a price control scheme in the exporting country or a local working condition in the country of importation. See JOLIET, R., "Patented articles and the free movement of goods within the EEC", Current Legal Problems (1975) 15-37, at pp. 33-34.

³⁵ See supra, Chapter VI, at pt. VI.4.2.3.

³⁶ On the characteristics and the function of the different intellectual property rights, see supra, Chapter III. Concerning the case-law of the Court: On the function of

first place to shield the proprietor from inter-brand competition in order to give him an incentive to commercially exploit his invention and to give him the possibility to obtain a reasonable return and reward for his investment made.

The Court was right, in the Merck case,³⁷ to hold that a patent merely confers the possibility to obtain a reward without safeguarding that this will always be obtained. However, with respect, the Court was wrong in introducing the exhaustion principle with reference to goods that, although they were marketed with the holder's consent, had been exposed to inter-brand competition, because in practice this comes down to eliminating the very 'possibility' to obtain the reward.³⁸ Similarly, in the Pharmon case, the Court disregarded the fact that a patent is also granted in the public interest, namely to let the public benefit from the invention, but merely referred to the subject-matter of the right, which is to bring the product on the market for the first time and to oppose infringements. The situation in which the patent holder refrains to bring the patented product on the market can hardly be said to be in accordance with the function of the right, but rather constitutes an abuse of the exclusive right.³⁹ This logically implies that he should be less, and not

trade marks, see supra, Chapter VI, at pt. VI.4.3.2.C.; On the function of copyright, see infra, pt. VII.3.3.; on the function of industrial designs, see infra, Chapter VIII, at pt. VIII.6.

³⁷ Case 187/80, o.c., at pt. VII.2.2.

³⁸ Similarly, see KOCH, N., "Article 30 and the exercise of industrial property rights to block imports", Fordham Corp. L. Inst. (1986) 605-632, at p. 620; MARENCO, G., and BANKS, K., o.c., at p. 248.

³⁹ It is significant in this respect that the Commission did not object to the patentee's obligation, under national patent laws, to work the patent and satisfy the domestic demand for the patented product, and did not challenge the system of obligatory licences as such, in Cases C-235/89 and C-30/90, Commission v. Italy and the United Kingdom

more, protected than a patent holder who makes a normal use of his right.

It is submitted that it is the lack of analysis in the light of the function of a patent that has led to the current situation whereby a holder of parallel patents who uses his exclusive right in accordance with its function is put in a disadvantaged position compared to the holder who potentially abuses his exclusive right.⁴⁰ This situation is the consequence of a straightforward application of the consent-theory. It is submitted that a refinement of the reward-theory, as correctly initialled but wrongly applied in the Merck case, would have led to more acceptable and consistent results, because it would at least have reflected the function of intellectual property rights.

VII.3. CASES WHEREBY THE VERY EXISTENCE OF THE INTELLECTUAL PROPERTY RIGHT WAS CHALLENGED

Up till now, one can discern three sets of cases in which the Court has -sometimes radically- departed from its traditional approach based on the existence/exercise dichotomy. A first set of cases concerns new questions raised with regard to obligatory licences. Secondly, the Court has recently also taken a new approach concerning the principle of relative novelty. And thirdly, the Court has given a remarkable judgment concerning rental and lending rights inherent in national copyright legislation.

respectively, see infra, at pt. VII.3.1.

⁴⁰ See supra, Scheme 2.

VII.3.1. OBLIGATORY LICENCES

VII.3.1.1. Introduction

The Court has elaborated further on the question of the compatibility of national systems of obligatory licences with the rules on the free movement of goods in four cases subsequent to the Pharmon judgment.⁴¹ Although two of those cases were initiated by the Commission against Member States on the basis of Article 169 EC whereas the other two were preliminary rulings, they all have in common that the Court has challenged the very existence of certain provisions of national patent law rather than to hold on to the traditional existence/exercise dichotomy. The first set of cases that will be dealt with concerned provisions in national patent law which allowed the competent authority to grant compulsory licences for lack of sufficient exploitation. The second set of cases concerns the discriminatory treatment of importers under the system of licences of right.⁴²

VII.3.1.2. Local manufacturing clause

The Commission has undertaken to challenge certain provisions of Italian and British legislation concerning compulsory licences on their compatibility with Articles 30-36 EC. It has initiated proceedings before the Court of Justice on the basis of Article 169 EC in order to establish whether the national

⁴¹ The terminology 'obligatory licences' is used to denominate all licences which are imposed by the competent authorities rather than being granted voluntarily by the right holder, and thus covers both compulsory licences and licences of right.

⁴² This does not reflect the chronology in which the cases were dealt with by the Court.

provisions of the Member States concerned, whereby compulsory licences are granted for lack of sufficient exploitation of the patent on the national territory, are in conformity with the objectives of the Treaty.⁴³ Thus it is not the system of obligatory licences as such that is put into question, but only well-specified features thereof.

The Commission especially objects to the fact that, in order to establish whether or not the patent has been sufficiently worked or exploited and thus to conclude whether or not a compulsory licence should be granted, reference is only made to the manufacturing on the national territory by the patent holder himself or by his licensees. The national provisions concerned expressly provide that the importation of the goods does not constitute 'working' the patent.⁴⁴ According to the Commission, it is thereby disregarded that the patent holder might live up to the needs of the national market through the importation of the product from another Member State where he has a parallel patent. The consequence of this is that the patent holder is encouraged to locate his production in the UK and/or in Italy so that the sale of imported products will be reduced. This, the Commission held, is contrary to Article 30 EC and cannot be justified by the need to protect industrial

⁴³ Case C-235/89, *Commission v. Italy*, Judgment of 18 February 1992, not yet published; Case C-30/90, *Commission v. the United Kingdom*, Judgment of 18 February 1992, not yet published.

⁴⁴ The national provisions concerned are Section 48 (3) and Section 50 of the UK 1977 Patents Act and for Italy, Articles 52-54 of the modified R.D. N° 1127 of 29 June 1939 as well as Article 14 of the modified R.D. N° 974 of 12 August 1975. These provisions have in common that they provide in compulsory licences if after three years from the grant of the exclusive right the right holder has failed to work the patent on the national territory. It is expressly stipulated that importation of goods will not be considered as 'working' the patent.

and commercial property.⁴⁵

The governments concerned do not deny that the result of the measure is to give an incentive to the patent holder to manufacture his product on the national territory, but to the contrary claim that this is the envisaged counterpart, in the public interest, to the granting of monopoly rights to individuals. The Italian government points out that under the system of compulsory licences, although the patent holder loses his exclusive right on the market, he can still import goods from other countries which are then in competition with the goods manufactured in Italy by a third party under the compulsory licence.⁴⁶ The UK government argues that in the light of the lack of harmonization of patent legislation:

".. (the) abolition of the local working rules would mean, for example, that where a patent can be obtained for a product of a particular kind in State X but not in State Y, an undertaking manufacturing a product in State Y could obtain a monopoly for the product in State X although it is not manufactured there whereas an undertaking in State X would have no possibility of obtaining a monopoly for a product of the same kind in State Y. State Y would therefore become a patent haven, encouraging investment there by copyists to serve export opportunities".⁴⁷

After having established that the contested provisions were in fact discriminating against imported goods coming from other Member States and thus contrary to Article 30 EC, the Court briefly analysed whether they could be justified on the basis of Article 36 EC. However, with respect, the approach taken to Article 36 EC was based on a wrong premise. The Commission had advanced the view that Article 36 EC could not be invoked to justify national measures that limit instead of protect

⁴⁵ Case C-30/90 and Case C-235/89, Reports of the Hearing.

⁴⁶ Case C-235/89, Report of the Hearing.

⁴⁷ Case C-30/90, Report of the Hearing.

intellectual property rights. Advocate-General Van Gerven agreed with this and held that:

"I am unable to see how national rules which, under certain circumstances, deprive the patent proprietor of a major part of the protection afforded him by the patent, could be justified on grounds of industrial and commercial property".⁴⁸

The Court expressed the same opinion. In its analysis under Article 30 EC, the Court pointed out that since it had already ruled that a mere publicity campaign organized by the authorities of a Member State to promote domestic products constituted a measure having an equivalent effect,⁴⁹ this a fortiori also applied to the given case. It already indicated the approach it would take under Article 36 EC, through stating that:

"Those provisions cannot be justified by the derogating provisions of Article 36 of the Treaty since the object of the contested rules is not to ensure the protection of industrial and commercial property but, on the contrary, to limit the rights conferred by such property".⁵⁰

The Court reiterated the principle that derogations on the basis of Article 36 EC can only be invoked in so far as they are justified to safeguard the specific subject-matter of a patent, which is the right to the first marketing of the protected goods. The threat posed on the patent holder to have his exclusive right adversely affected in case he does not exploit the patent in the Member State concerned, induces the proprietor to manufacture his product in that Member State.

⁴⁸ Case C-235/89 and Case C-30/90, Opinion of Advocate-General Van Gerven, delivered on 13 December 1991, not yet published, at pt. 12.

⁴⁹ Case 249/81, Commission v. Ireland, Judgment of 24 November 1982, E.C.R. (1982) 4005.

⁵⁰ Case C-30/90, o.c., at para 14, Case C-235/89, o.c., at para 10.

The Court goes on to state that:

"Although the penalty for lack of insufficiency of exploitation of a patent may be regarded as the necessary counterpart to the territorial exclusivity conferred by the patent, there is no reason relating to the specific subject-matter of the patent to justify the discrimination inherent in the contested provisions between exploiting the patent in the form of production on the national territory and exploiting it by importation from the territory of other Member States".⁵¹

The governments concerned had argued that the justification for the discrimination is to be found in the national legislature's concern to encourage domestic production. They held that it was a legitimate concern under the system of intellectual property to see to it that a person that had been granted a national patent, and hence can prevent national manufacture by others, manufactures himself locally. As such, they maintain that the obligation to manufacture locally is inherent in the patent right itself. The Court maintained that this justification could not be upheld, because it means frustrating the objectives of the Community as laid down in Articles 2 and 3 EC.⁵²

It is indeed difficult to reconcile the protectionistic goal of the domestic manufacturing clause, which impinges upon the interests of other Member States, with the aim to establish one single integrated European market. But the Court's reasoning to come to this conclusion is rather blurred. The justification-test in terms of the specific subject-matter of patents is derived from the case-law which curtails the 'exercise' of the right while leaving the existence of the right untouched. But in these cases, the Court was precisely asked whether provisions of national law which regulate the

⁵¹ Case C-30/90, o.c., at para 28; Case C-235/89, o.c., at para 24, emphasis added.

⁵² Case C-30/90, o.c., at para 30; Case C-235/89, o.c., at para 26.

existence of that right, this logically implies the conditions under which the right is both granted and maintained in force, are compatible with the Treaty. The justification in terms of the specific subject-matter implies that the Court is of the opinion that national measures have to be justified in relation to the exclusive right of the patent holder, which is taken for granted, rather than having to justify the reason for the existence of this exclusive right under Article 36 EC and subsequently justify the reasons for reducing the scope of protection offered. This approach was probably largely inspired by the, with respect, erroneous view of the Commission and the Advocate-General, who stated that Article 36 EC cannot be invoked to justify measures that impinge upon the rights of the right holder.

It seems to the contrary more coherent to state that Article 36 EC can in principle be invoked to justify all national measures governing the conditions under which an intellectual property right is granted and kept in force, but that the justification has to purport that the measure concerned is needed to safeguard the essential function of that right. In this sense, Demaret pointed out that domestic manufacturing provisions:

"are motivated by considerations foreign to the essential purpose of a modern patent system, which is to stimulate invention and innovation, not to induce the uneconomic location of industrial activity".⁵³

Having regard to Articles 2 and 3 of the Treaty, one can indeed argue that although intellectual property rights are

⁵³ DEMARET, P., "Industrial property rights, compulsory licences and the free movement of goods under Community law", I.I.C. (1987) 161-191, at p. 181. He made these comments long before these cases were decided. Burst and Kovar pointed out the same with regard to the *Allen v. Hanburys* case, see BURST, J.-J., and KOVAR, R., "Les licences imposées et le droit communautaire", C.D.E. (1990) 249-271, at p. 271.

still national prerogatives granted on the basis of the principle of territoriality, their function and effect have to be considered in the context of the internal market rather than in a national context. This is reinforced by the fact that Article 36 EC can only be invoked with regard to non-economic measures, so that the justification of the domestic manufacturing provisions in the sense that the function of a patent is to stimulate innovation and invention and subsequently necessarily also the national economic development, would in itself seem to be unacceptable under Community law.⁵⁴ It is to be regretted that the Court has failed to address this issue, and simultaneously has failed to give a Community definition of the function of patent rights.

Throughout both judgments, the Court puts the emphasis on the discrimination against imports embodied in the national provisions, and finally rules that the governments concerned have "failed to fulfil (their) obligations under Article 30 of the Treaty". It is significant that the Court did not add that, and indicate why, the contested provisions could not come under the exception of Article 36 EC.⁵⁵ In this respect, it should be pointed out that it is not so much the fact that the national provisions discriminate against importations from other Member States, but rather the fact that this discrimination cannot be justified to safeguard the function of the right, that should be the decisive factor to see whether or not Article 36 can be successfully invoked. The Court has consistently held that measures that discriminate

⁵⁴ On the non-invokeability of Article 36 EC for economic reasons, see supra at pt. VII.2.5. See also DEMARET, P., O.C., at p. 181.

⁵⁵ Compare for instance to Case 104/75, De Peijper, judgment of 20 May 1976, E.C.R. (1976) 613.

against imports can be justified under Article 36 EC.⁵⁶ This is exactly the difference with mandatory requirements for which the measures concerned have to be indistinctly applicable.⁵⁷ However, this is subject to the second sentence of Article 36 EC that stipulates that those measures should not constitute an arbitrary discrimination. It seems that the differentiating factor between 'accepted' and 'arbitrary' discrimination is to be sought in whether or not this discrimination can be justified in terms of being indispensable to safeguard the objectives mentioned in the first sentence of Article 36 EC.⁵⁸ This would imply that if discriminatory measures are in principle justifiable under the first sentence of Article 36 EC, they should not be applied at random but along objectively justifiable criteria, so that they are not diverted from their real purpose.⁵⁹ It is clear that in these cases the

⁵⁶ See for instance also VERLOREN VAN THEMAAT, P., "La libre circulation des marchandises après l'arrêt 'Cassis de Dijon' ", C.D.E. (1982) 123-135, at p. 131.

⁵⁷ The Court once again clarified this in Joined Cases C-1/90 and C-176/90, *Aragonesa*, Judgment of 25 July 1991, not yet reported, where it stated at para 13: "observation faite que les dispositions de l'Article 36 sont également applicables lorsque la mesure contestée ne restreint que les importations, alors qu'il ne peut, selon la jurisprudence de la Cour, être question d'exigence impérative pour l'interprétation de l'Article 30 que si cette mesure concerne indistinctement les produits nationaux et les produits importés,..", (emphasis added).

⁵⁸ Similarly, see BARENTS, R., "New developments in measures having equivalent effect", C.M.L.Rev. (1981) 271-305, at pp. 281-282.

⁵⁹ Similarly, see GORMLEY, L., Prohibiting restrictions on trade within the EEC, North-Holland, 1985, pp. 210-218. At p. 217, he writes: "..it is submitted that the proper function of the second sentence of Article 36 is to act as an overriding requirement to ensure that apparently justified measures are not applied in such a manner as to partition the Community artificially. Indeed, it has been suggested that it acts as something as an 'emergency brake' in Community law". See also VERLOREN VAN THEMAAT, P., "The contribution to the establishment of the internal market by the case-law of the Court of Justice of the European Communities", in Bieber et

discriminatory measures could not be justified under the first sentence of Article 36 EC because they were not needed to safeguard the function of the patent, so that there was anyhow no need to invoke the second sentence of Article 36 EC.

Although the result in these specific cases is the same when applying the 'functionality-test' or the 'specific subject-matter-test', it is to be regretted that the Court has not seized this opportunity to come to terms with the inclusion of intellectual property rights in Article 36 EC. These judgments do have the merit that the Court has held certain contestable provisions of national patent legislation to be incompatible with the rules on the free movement of goods. However, it came to this conclusion, not through looking at the reasons for the existence of certain provisions in national patent law, but through assuming that the exercise of an exclusive right, once granted, should not be unduly restricted by those national provisions.

VII.3.1.3. Licences of right

The Court has so far been confronted with what could be called a triptych of patent cases concerning obligatory licences. In the Pharmon case, the Court clarified that the importation of goods that have been marketed under a compulsory licence can be prohibited on the basis of a parallel patent.⁸⁰ From the Commission v. Italy and Commission v. United Kingdom cases, it is clear that the granting of a compulsory licence is incompatible with the Treaty, if the patent holder was willing and able to satisfy the needs of the market concerned by

al. (eds.), 1992: one European market?, 1988, Nomos Verlagsgesellschaft, pp. 109-126, at p. 116.

⁸⁰ See supra, at pt. VII.2.4.

importing his product from other Member State.⁶¹ And finally, the Court has had to rule on the compatibility with Community law of national provisions determining to which third parties and on which conditions licences of right can be granted.

In the Allen and Hanburys v. Generics case, the issue was raised whether a patent holder could invoke national legislation concerning licences of right to prevent a third person from importing the protected products from another Member State, whilst he had failed to market and produce the patented product himself.⁶² In the Generics v. Kline case, the preliminary question was posed whether national provisions that require the competent national authority "to refuse a licence (of right) to import from another country when the patentee works the patent by manufacture in the United Kingdom but to grant a licence (of right) to import from a third country where the patentee works the patent by importation of products manufactured in other Member States of the EEC" are compatible with Articles 30 to 36 EC.⁶³

These cases have certain features in common. Both cases concerned licences of right, which means that any person is entitled to a licence under the patent on such terms as may be settled by agreement or, in default thereof, by the competent national authority.⁶⁴ In both cases, the patent had been endorsed 'licences of right' on the basis of the transitional provisions governing the extension of the duration of patent

⁶¹ See supra, at pt. VII.3.1.

⁶² Case 434/85, Allen and Hanburys Ltd v. Generics (UK) Ltd, Judgment of 3 March 1988, E.C.R. (1988) 1245.

⁶³ Case C-191/90, Generics (UK) Ltd and Harris Pharmaceuticals Ltd v. Smith Kline and French Laboratories Ltd, Judgment of 27 October 1992, not yet published.

⁶⁴ See Section 46 (3) (a) of the 1977 UK Patents Act.

protection from 16 to 20 years.⁶⁵ And in both cases, rather than limiting itself to analysing the behaviour of the patent holder, the Court looked into the reasons for the provisions in the national legislation discriminating against importers. But there are also significant differences between the cases, the most important one being that the dispute in the first case concerned importation into the United Kingdom of goods coming from other Member States, whereas in the second case it concerned the importation of goods coming from third countries.⁶⁶

The Allen and Hanburys v. Generics case could in theory have been decided on the basis of the consent-theory.⁶⁷ Allen and Hanburys, the patentee, argued that the Court should apply the same reasoning as it had done in the Pharmon case. They stressed the importance of the fact that Generics imported the products without their consent from a Member State, Italy, where no patent protection existed for medicinal products at that time. The argument goes that if they were to hold a parallel patent in Italy, they could have prevented Generics from copying their product and marketing it there in the first place, so that it could not have applied for a licence of

⁶⁵ See Schedule 1 of the 1977 UK Patents Act.

⁶⁶ In the latter, the question was also posed whether Portugal and Spain should be considered as third countries or as Member States, considering that at the time of the facts patents were still governed by the transitional provisions of their respective Acts of Accession. This question will not be dealt with here.

⁶⁷ See also FRIDEN, G., "Recent developments in EEC intellectual property law: the distinction between existence and exercise revisited", C.M.L.Rev. (1989) 193-217, at p. 202 where he writes: "These facts clearly seemed to require a traditional application of the Court's case-law on exhaustion and the conclusion that, as consent was absent for the manufacture or sale in Italy, the right was not exhausted and thus EEC law did not prevent the grant of an injunction."

right to import the unauthorized product in the United Kingdom.

The Court did not, however, approach the facts from the angle of curtailing or upholding the exercise of the right, but rather looked at the reasons inherent in the UK law to discriminate against imports as well as whether these measures were justified under Article 36 EC. However, this transition to a new approach whereby the existence of the right is challenged on its compatibility with Community rules was not openly stated as such.

The Court reiterated its previous case-law in which it had held that derogations under Article 36 EC are only admitted in so far as they are needed to safeguard the specific subject-matter of intellectual property, which is the right to first place the product on the market and to oppose infringements. Instead of going ahead with applying the consent-test to see whether the right should be held to be exhausted, the Court went on to state that the specific subject-matter of patents under licences of right was appreciably altered and described it as being merely constituted by the right to get a fair return. The reason for this was that the national law itself deprived the patentee the right to oppose domestic infringements.⁶⁸

The consent-test was thus held to be inapplicable and substituted by a reward-test:

"In those circumstances it must be considered that the power of national courts to prohibit the importation of the product in question may be justified under the provisions of Article 36 on the protection of industrial and commercial property only if that prohibition is necessary in order to ensure that the proprietor of such a patent has, vis-à-vis importers, the same rights as he enjoys as against producers who manufacture the product in the national territory, that is to say the

⁶⁸ Case 434/85, O.C., at para 9-13.

right to a fair return from his patent."

"That is therefore the test which must be applied in examining the merits of a number of arguments raised before the Court, both by Allen and Hanburys and by the United Kingdom, in order to justify an injunction prohibiting imports granted against an importer-infringer."⁶⁹

In other words, it has to be proven that the discrimination against importers was necessary to safeguard the reward for the patentee in order for the national provisions and practices to come under the derogation of Article 36 EC.

The Court refuted the justifications forwarded by the UK government in support of its legislation, which were based on the lack of adequate assets on the national territory belonging to the importer and on the difficulty to carry out checks as to the origin and the quantity of imported goods.⁷⁰ The Court pointed out that the same problems could arise with regard to domestic manufacturers, whereas no court injunction could be obtained in that situation. Instead, the Court came to the conclusion that the application of the national provisions amounts to an arbitrary discrimination in the sense of the second sentence of Article 36 EC, since they are not indistinctly applicable to domestic manufacture and imports and cannot be justified on the basis of the protection of industrial and commercial property.⁷¹

The Court also focused on the discriminatory factor in the Generics v. Kline case. Although it is well-established case-law that the rules on the free movement of goods only apply to

⁶⁹ Case 434/85, o.c., at para 14 and 15, emphasis added.

⁷⁰ Case 434/85, o.c., at para 16-19.

⁷¹ See also TURNER, J., "Allen & Hanbury's v. Generics, acte claire - and wrong", E.I.P.R. (1988) 186-188.

intra-Community trade,⁷² the Court clarified in the Generics v. Kline case that Member States may not apply discriminatory criteria with respect to imports from third countries that would adversely affect intra-Community trade.⁷³

In this particular case, the contested practice was held to be discriminatory because the patentee was discouraged to import his product from other Member States rather than manufacturing them domestically. The Court rather briefly stated that this differential treatment could not be justified in terms of the specific subject-matter of a patent, but to the contrary was clearly inspired by protectionist objectives which are contrary to the objectives of the Community as expressed in Articles 2 and 3 of the Treaty.⁷⁴

It is significant that the Court did not reiterate the definition of the specific subject-matter of patents under licences of right in terms of constituting merely the right to get a fair return in the Generics v. Kline case. In this case the usual definition of the specific subject-matter of patents was used, whereas the Court furthermore explained that:

"The Court, (in the Allen and Hanburys case), did no more than take note of the United Kingdom legislation and did not establish a Community definition of a 'weak patent'."⁷⁵

⁷² Concerning the non-applicability of the case-law concerning intellectual property to trade with third countries, see Case 51/75, EMI Records Ltd. v. CBC United Kingdom Ltd., Judgment of 15 June 1976, E.C.R. (1976) 811; Case 270/80, Polydor v. Harlequin, Judgment of 9 February 1982, E.C.R. (1982) 329.

⁷³ Case C-191/90, o.c., at para 17-18.

⁷⁴ Case C-191/90, o.c., at para 22-25. Compare to the Court's approach to protectionist measures in cases C-235/89 and C-30/90, see supra, at pt. VII.3.1.2.

⁷⁵ Case C-191/90, o.c., at para 37. The Court gave this explanation to counter the view of the Commission, the Spanish and United Kingdom Governments and Harris and Generics, who

Thus, in this case, the Court did not use the above-mentioned reward-test, namely whether or not the contested provisions of the UK Patents Act were necessary to safeguard the patentee a fair return under patents endorsed 'licences of right'. The Court did not give any indications either concerning its underlying reasoning to come to the conclusion that the discrimination could not be justified in terms of the specific subject-matter of patents, which was held to be the right to the first marketing of the patented product and to oppose infringements.

The reason underlying this different approach in the Generics v. Kline case is partly elucidated by Advocate-General Van Gerven in his opinion to the case.⁷⁶ He points out that in principle the patentee, under the system of licences of right, cannot oppose the grant of a licence to a third party, but only has the right to a fair return. However, the fact that his patent is endorsed 'licences of right' does not imply that he totally loses his right to oppose importations coming from third countries. He retains his right to oppose those importations from third countries on the condition that he manufactures the product domestically. In other words, he only loses his right to oppose importations from third countries if he works his patent through importation of the patented product himself.⁷⁷ It could thus be said that the specific subject-matter of the patent is therefore affected differently in case of domestic production as opposed to importation from

had argued that "patents endorsed licences of rights are 'weak' patents which are necessarily excluded from the scope of the derogating provisions of Articles 47 and 209 of the Act of Accession."

⁷⁶ Case C-191/90, Opinion of Advocate-General Van Gerven delivered on 8 July 1992, not yet published.

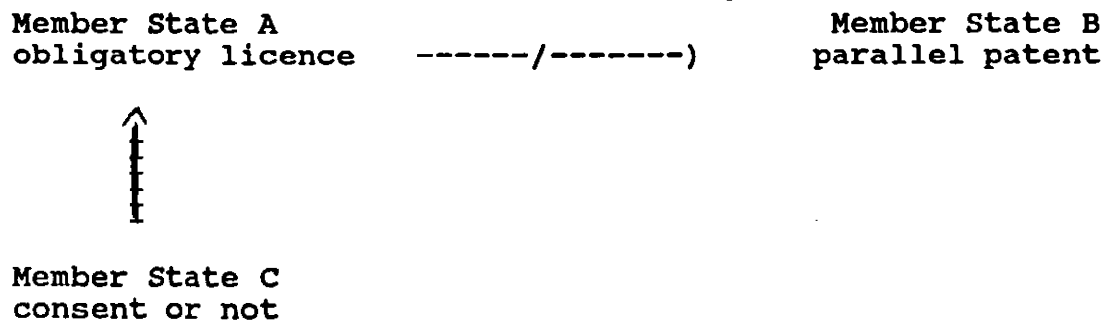
⁷⁷ Id., at pt. 9.

other Member States. As such, the argument goes that it cannot be maintained that the discriminatory measure is needed to safeguard the specific subject-matter of the patent.

From these judgments it is clear that the Court of Justice will not hesitate to rule on the compatibility of the provisions in national legislation imposing obligatory licences with the rules on the free movement of goods and will declare them inapplicable 'in se' were thought necessary. As such, it is the very existence of those rights which is put in the balance against Community principles. The guiding principle seems to be that discriminatory treatment, whether directly or indirectly, of imports from other Member States under the system of licences of right is incompatible with the Treaty. Whether or not the goods concerned were marketed with the patentee's consent is thereby of no relevance.

The combination of the effect of these cases with the ruling in the Pharmon case, is such as to minimize the impact of obligatory licences on the free movement of goods through weakening the benefits a Member State can obtain by applying this system. This might be clarified by the following scheme:

SCHEME 3 : OBLIGATORY LICENCES



The importation of products brought on the market under compulsory licences in Member State A can be prevented on the

basis of a parallel patent in Member State B, whereas products brought on the market in Member State C should have access to the market of Member State A.

VII.3.2. THE PRINCIPLE OF RELATIVE NOVELTY

The Court has also departed from the consent-theory in the second case that was posed to it concerning the compatibility of the principle of relative novelty with the rules on the free movement of goods. The principle of relative novelty essentially means that industrial property protection is given for a re-invention. In both cases brought before the Court, this implied that the product had been 'forgotten', i.e. not commercialized, during 50 years preceding the new application for protection and that during that period no other application had been filed within the national territory.

As seen above, a common function of intellectual property protection is to give the possibility to the inventor or artist to get a reward for his inventive or creative effort, as well as to give an incentive to invest time and money in research and development.⁷⁸ The principle of relative novelty essentially raises questions about the concept of 'inventive or creative effort' for which protection is granted in the form of exclusive intellectual property rights. The existence of national systems of obligatory licences already show that also states have an interest in having industrial property rights worked on their territory.⁷⁹ But contrary to introducing a system of obligatory licences which reduces the scope of protection offered in the public interest, the Member States

⁷⁸ In general, see supra, Chapter III, at pt. III.3.1.

⁷⁹ See supra pt. VII.3.1., for the case-law of the Court concerning the incompatibility of protectionist features of obligatory licences with Community law.

might also be tempted to widen the scope of protection they offer so as to attract industries, and subsequently also investment in the national economy.

Take for instance an ordinary football. If under the legislation of a Member State an industrial property right could be obtained on this common item, it would distort competition through reserving a legal monopoly for a manufacturer in a national market.⁸⁰ Could the use of that industrial property right constitute an abuse of a dominant position or does this only occur once all the competition from importers has been eliminated and for instance monopoly prices charged? Following the established case-law it would be the latter, since the normal use of industrial property rights, including the possibility of being granted an injunction against imports if those goods were marketed without the consent of the proprietor, cannot of itself be contrary to the rules on competition.⁸¹ This essentially means that the problem comes down to the very 'existence' of the industrial property right when granted in spite of novelty.

On two occasions, the Court has had to rule on the compatibility of the principle of 'relative novelty' with the concept of 'industrial and commercial property rights' as written into Article 36 EC. But although the underlying issue was largely similar, the approach adopted by the Court differed substantially in the second case.

⁸⁰ See Case 35/87, *Thetford v. Fiamma*, Opinion of Advocate-General Mischo delivered on 28 April 1988, *E.C.R.* (1988) 3594, at pt. 21, where he writes: "If a Member State were in fact to grant a patent for such (a perfectly ordinary football) in everyday use, without doubt its motive would be to reserve a monopoly for a national manufacturer..". According to him, this would constitute a disguised restriction on trade in the sense of Article 36, 2° sentence EEC.

⁸¹ See *supra*, Chapter VI, at pt. VI.4.4.

The first case, Keurkoop v. Nancy Kean Gifts, concerned design rights on a ladies handbag.⁸² The applicable Benelux law contained the principle of relative novelty combined with the principle of first-to-file, whereby only the person claiming to be the author of the design or the person employing him or commissioning the design can contest that the person filing the application is not the author. The first preliminary question raised the issue whether the application of a national law, containing a provision whereby only a limited number of persons have the right to challenge the right of the person who filed the design, is compatible with Article 36 EC. The second preliminary question asked if the application for an injunction could be defeated if the importer obtained the goods from another Member State where these rights were not infringed by the marketing of the goods.

In the line of its distinction between the 'existence' and the 'exercise' of industrial property rights, the Court applied the following reasoning in its answer to the first question:

"On that issue the Court can only state that in the present state of Community law and in the absence of Community standardization or a harmonization of laws the determination of the conditions and the procedures under which protection of designs is granted is a matter for national rules..".⁸³

In its answer to the second question, the Court reminded that in order to come under the exception of Article 36 EC, the prohibitions and restrictions on imports must be justified on grounds of the protection of industrial property and must not constitute a disguised restriction on trade. The Court

⁸² Case 144/81, Keurkoop BV v. Nancy Kean Gifts BV, Judgment of 14 September 1982, E.C.R. (1982) 2853. See also supra, Chapter VI, at pt. VI.4.3.2.D., and Chapter IV, at pt. IV.3.3.1.

⁸³ Case 144/81, o.c., at para 18, emphasis added.

clarified that such a disguised restriction on trade might come about through an 'improper use' of those rights, for instance through maintaining or creating artificial barriers to the common market through agreements or concerted practices envisaged by Article 85 EC.

So it seemed that the Court was not willing to examine the impact of the national provisions as such. The conditions and procedures constitute the existence of industrial property rights, which are nationally determined and uncurtailed by Community law. The exercise of those rights might be infringing Community law if the behaviour of the market participant leads to a disguised restriction on trade. Summarizing the Court's approach in this way brings out the similarities between this case, mainly concerning Article 36 EC, and the Court's ruling in the Parke Davis case concerning the rules on competition.⁸⁴

The second case, Thetford v. Fiamma, concerned patents on portable toilets granted under the principle of relative novelty in the United Kingdom.⁸⁵ The first question, referred for a preliminary ruling, asked whether a patent, granted under the principle of relative novelty, constitutes industrial and commercial property entitled to protection under Article 36 of the Treaty. The second question raised the matter whether in case the answer to the first question was positive, the only relief justified under Article 36 EC would be an order of payment of a reasonable reward but not an injunction.

⁸⁴ Case 24/67, Parke Davis v. Probel e.a., Judgment of 29 February 1968, E.C.R. (1968) 55. See supra, Chapter VI, at pt. VI.4.2.1.

⁸⁵ Case 35/87, Thetford Corporation a.o. v. Fiamma SpA a.o., Judgment of 30 June 1988, E.C.R. (1988) 3585.

The Court reformulated the first question in the following way:

"The (...) first question seeks to establish whether the derogation from Articles 30 to 34 of the EEC Treaty which is set out in the first sentence of Article 36 necessarily applies to any patent granted pursuant to the legislation of a Member State or whether, on the contrary, it does not apply to patents granted by virtue of the principle of relative novelty."⁸⁶

As concerned the first sentence of Article 36 EC, the Court basically restated the first part of the Keurkoop judgment through ruling that the conditions and procedures is a matter for national rules to determine, implying that any patent granted under any national legislation of a Member State necessarily comes under this provision. As such, it failed to formulate a Community concept of a patent independently from national law.⁸⁷

However, the Court proceeded to look at whether the application of the legislation concerned constituted 'in se' an arbitrary discrimination or a disguised restriction on trade. The importance of this fact lies in that the Court did not look at whether the exercise of the right in particular circumstances might be contrary to the second sentence of Article 36 EC, as it had done in the Keurkoop case, yet examined the scope of the legislation in general and thus implicitly held that the existence of the right might be curtailed by Community rules.⁸⁸

⁸⁶ Case 35/87, o.c., at para 7, emphasis added.

⁸⁷ See also ECCLES, R., "Patentee's right to prevent importation - Thetford Corporation v. Fiamma Spa", E.I.P.R. (1982) 26-27, at p. 26.

⁸⁸ See also FRIDEN, G., "Recent developments in EEC intellectual property law: the distinction between existence and exercise revisited", C.M.L.Rev. (1989) 193-217, at p. 199 where he writes: "It follows that the Court's rulings to the effect that Treaty prohibitions do not affect the existence of

This new approach to the principle of relative novelty, which goes along the same lines of the Allen & Hanburys ruling which was decided a couple of months earlier,⁸⁹ was probably inspired by the following reflection made by Advocate-General Mischo in his opinion to the case:

"In fact, it could be that an injunction prohibiting the importation of a product, issued in view of the existence of a patent, may constitute such a (arbitrary) discrimination or such a (disguised) restriction (on trade) simply because the patent was granted in circumstances indicative of a protectionist intention."⁹⁰

The Court looked at whether the provisions of the national legislation pointed to an arbitrary discrimination and, perhaps more significantly, looked at the justification of the legislation in order to establish whether its aim was to disguise restrictions on trade or not. The Court held that there was no discrimination, because the rules applied without distinction according to the place where the invention was originally filed, in the UK or in another Member State, or according to the nationality of the applicant. It also ruled that in the given circumstances there was no disguised restriction on trade, because the aim of the provision was merely to reward the rediscovery of an old and unused

intellectual property rights are no longer valid, to the extent that the Member State's freedom to create a right is now limited by the second sentence of Article 36, which previously only applied to the exercise of the right". However, it will be seen in Chapter VIII below that this judgment is not as decisive a change as it promised to be, because the Court still uses the existence/exercise dichotomy in what seems to be an arbitrary manner.

⁸⁹ See supra, at pt. VII.3.1.3.

⁹⁰ Case 35/87, o.c., at pt. 19, emphasis added.

invention.⁹¹

However, the Court only dealt with the chronological aspect of the principle of relative novelty and not with its geographical aspect. Both the Commission and the Advocate-General had pointed out that the use of an invention outside the United Kingdom in the 50 years preceding the application is not taken into account for establishing whether or not the invention has been 'forgotten', so that a patent could be granted on the basis of relative novelty in the United Kingdom for an invention that was freely used or duly published in another Member State.⁹² This, they held, constitutes an arbitrary discrimination and is incompatible with Article 36 EC.⁹³ The Court apparently followed up the Advocate-General's advise not to engage in this matter -considering that the national court had not included this aspect in its preliminary question- because this issue raises complex problems, such as the applicability of Community rules to patents granted before the accession of the UK to the Community, legal certainty,

⁹¹ Case 35/87, O.C., at para 17-18. Marengo gives the following definition of a disguised restriction on trade: "a protectionist measure in the form of a facially non discriminatory provision", MARENCO, G., and BANKS, K., "Intellectual property and the Community rules on free movement: discrimination unearthed", E.L.R. (1990) 224-256, at p. 235.

⁹² Case 35/87, O.C., for the Commission's viewpoint, see Report of the Hearing, Answers to a question put by the Court; For the Advocate-General's view, see at pt.30.

⁹³ See also FRIDEN ,G., O.C., at p. 201, where he points out that: "The obvious consequence of this logic is that an injunction could not be obtained on the basis of the Rule. The patent holder's rights would therefore diminish but it is unclear to what extent, if any, the patent would lose its validity. It would theoretically be possible to distinguish validity under UK law and effects within the Community but that would lead to a rather unpractical and uncertain situation."

legitimate expectations and vested rights.⁸⁴ The reluctance of the Court to rule on this matter might additionally find its explanation in that it concerned the 1949 UK Patents Act that has been replaced since, even though it would be found to infringe Article 36 EC if the law was still in force now.

Concerning the second question, the Court simply reiterated its established case-law concerning the specific subject-matter of the right,⁸⁵ and held that the granting of an injunction which is normally provided for in national law is justified under Article 36 EC.

Although this case is very important in that the Court puts the existence/exercise dichotomy aside as concerns the second sentence of Article 36 EC, it is submitted that it falls short in not applying the justification- and proportionality-test to the first sentence of Article 36 EC. The Court does apply a discrimination-test to see whether the existence of national rules can be upheld under the second sentence of Article 36 EC, but only looks at the exercise by the proprietor of the right under the first sentence of Article 36 EC. However, there is no coherent explanation for the difference in treatment under the first and second sentence of Article 36 EC to be found in the Treaty. Furthermore, it is submitted that the structure of Article 36 imposes an analysis as to the justification of the existence of the principle of relative novelty under its first sentence prior to the analysis of the compatibility of that principle with the proviso of the second sentence.⁸⁶

⁸⁴ Case 35/87, o.c., at pt. 30.

⁸⁵ On the specific subject-matter of patents, cf. supra, Chapter VI, at pt. VI.4.3.3.A.

⁸⁶ Also Mattera considers the second sentence of Article 36 EC to be subordinate to an analysis under the first sentence. He writes: "Nous estimons que si l'on interprète la première phrase de l'article 36 correctement et avec la

VII.3.3. RENTING AND LENDING RIGHT

The approach taken in the Thetford v. Fiamma case stands in contrast to the approach taken by the Court in the Warner Brothers v. Christiansen case, which was decided a month earlier.⁹⁷

Warner had parallel copyright protection on a video-film in both the United Kingdom and Denmark. However, the scope of protection offered differed substantially. Under the UK copyright law, anyone buying the video can freely rent it out, whereas under Danish copyright law, a specific authorization by the author is needed to subsequently hire it out. Warner brought the video on the market for sale in the UK. Christiansen bought the video marketed by Warner in the UK, and imported it into Denmark, where he hired out the video-cassette without Warner's authorization. Warner invoked Danish copyright law to prohibit the hiring-out of the video without his consent. Christiansen contented that Warner's copyright was exhausted through putting the video for sale in the UK, so that, in the line of the Musik-Vertrieb case,⁹⁸ he should now

rigueur exigée par l'interprétation restrictive d'une règle dérogatoire à un principe fondamentale du Traité, le recours à la deuxième phrase devient superfétoire. Aussi la deuxième phrase de l'article 36 peut-elle être considérée comme introduisant une précaution intellectuelle supplémentaire, une sorte de 'deuxième filet de sécurité' à toute épreuve, dans le but d'assurer une étanchéité parfaite aux limites d'application de cet article et de prévenir toute tentative d'échapper au filet de sa première phrase", see MATTERA, A., "La libre circulation des oeuvres d'art à l'intérieur de la Communauté et la protection des trésors nationaux ayant une valeur artistique, historique ou archéologique", Revue du Marché Unique Européen, (1993) 9-31, at pp. 17-18.

⁹⁷ Case 158/86, Warner Brother Inc. and Metronome Video Aps v. Erik Viuff Christiansen, Judgment of 17 May 1988, E.C.R. (1988) 2605.

⁹⁸ See supra, Chapter VI, at pt. VI.4.3.3.B.

accept the consequences of his choice as regards the free movement of goods in the Community.

The Court's approach to this problem was totally different from Advocate-General Mancini's. Advocate-General Mancini had basically pursued Christiansen's argument.⁹⁸ He merely focused on the exercise of the right, and, invoking the case-law whereby the consent-theory was applied, came to the conclusion that Warner's right was exhausted through the sale of his video-cassette in the UK. This implies that in his opinion, any other solution would exceed the specific subject-matter of the right, defined by the Court as the right to the first marketing, and thus cannot benefit from the derogation under Article 36 EC.¹⁰⁰ He referred to the Musik-Vertrieb case to conclude that the right holder may not rely on disparities in national legislation to resurrect barriers to intra-Community trade.

The Court radically departed from this opinion, and looked at the justification invoked for the existence of the right rather than at the way in which it was exercised by Warner. The Court pointed out that the difference between the Warner Brothers and the Musik-Vertrieb case is that in the latter the legislation in force in the Member State of importation allowed the copyright holder to collect an additional fee upon importation of the goods, whereas in the first case the contested right only applies once the goods have been imported.¹⁰¹ Still, this distinction seems to be rather artificial because the Court had no problems with accepting the fact that the contested rules indirectly affect intra-

⁹⁸ Case 158/86, Opinion of Advocate-General Mancini delivered on 26 January 1988, E.C.R. (1988) 2618.

¹⁰⁰ Case 158/86, o.c., see especially at pt. 8.

¹⁰¹ Case 158/86, o.c., at para 9.

Community trade and thus are measures having equivalent effect to quantitative restrictions, in the sense of the Dassonville judgment,¹⁰² which in principle come under Article 30 EC. The Court held:

"..it must be observed that the commercial distribution of video-cassettes takes the form not only of sales but also, and increasingly, that of hiring-out to individuals who possess video-tape recorders. The right to prohibit such hiring-out in a Member State is therefore liable to influence trade in video-cassettes in that State and hence, indirectly, to affect intra-Community trade in these products. Legislation of the kind which gave rise to the main proceedings must therefore, in the light of the established case-law, be regarded as a measure having an effect equivalent to a quantitative restriction on imports, which is prohibited by Article 30 of the Treaty".¹⁰³

This is in conformity with the general case-law on Article 30 EC, where the Court does not distinguish between whether the measures take effect at the border or whether they are internal measures.¹⁰⁴ It is also obvious from this judgment that the Court does not take the criterion of discrimination into account.¹⁰⁵

¹⁰² Case 8/74, Procureur du Roi v. Dassonville, Judgment of 11 July 1974, E.C.R. (1974) 837, at para 5, where the Court gave the following definition: "all trading rules enacted by the Member States which are capable of hindering, directly or indirectly, actually or potentially, intra-Community trade are to be considered as measures having an effect equivalent to quantitative restrictions".

¹⁰³ Case 158/86, o.c., at para 10, emphasis added.

¹⁰⁴ See also WHITE, E., "In search of the limits to Article 30 of the EEC Treaty", C.M.L.Rev. (1989) 235-280, at p. 241.

¹⁰⁵ This is also admitted by Marenco, who argues in favour of the discrimination-theory. See MARENCO, G., and BANKS, K., "Intellectual property and the Community rules on free movement: discrimination unearthed", E.L.R. (1990) 224-256, at p. 241. On the discrimination-theory in general, see also DEFALQUE, L., "Le concept de discrimination en matière de libre circulation des marchandises", C.D.E. (1987) 471-491; MARENCO, G., "Pour une interprétation traditionnelle de la notion de mesure d'effet équivalent à une restriction quantitative", C.D.E. (1984) 291-363. See also infra, Chapter

The Court had already made a similar distinction between charging additional royalties upon importation, as in Musik-Vertrieb, and charging a 'supplementary mechanical reproduction fee' upon each public performance of a record, which has a similar function as the right to prohibit the renting-out in Warner Brother, in its Basset v. SACEM judgment of 1987.¹⁰⁶ But in this case it is not clear whether or not the Court considered the charging of the supplementary fee to be incompatible with Article 30 EC.¹⁰⁷ The Court mainly looked at whether the rule was discriminatory, and upon the finding that it was not, held that:

"It follows that, even if the charging of the fee in question were to be capable of having a restrictive effect on imports, it does not constitute a measure having equivalent effect prohibited under Article 30 of the Treaty inasmuch as it must be regarded as a normal exploitation of copyright and does not constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States for the purpose of Article 36 of the Treaty".¹⁰⁸

The formulation used by the Court was, to say the least, confusing.¹⁰⁹ It follows from the Treaty and it is generally

VII, at pt. VIII.3.4.

¹⁰⁶ Case 402/85, Judgment of 9 April 1987, G. Basset v. SACEM, E.C.R. (1987) 1747, at para 12. On this case, see SHAW, J., "Performing rights and Community law", E.L.R. (1988) 45-47. The Court passed another judgment, which concerned the same facts, the same questions, and the same defendant, merely with reference to this case, see Case C-270/86, J. Choley and Société 'Bizon's Club' v. SACEM, Judgment of 12 December 1990, E.C.R. (1990) I-4607.

¹⁰⁷ See also MARENCO, G., and BANKS, K., o.c., at p. 228.

¹⁰⁸ Case 402/85, o.c., at para 16, emphasis added.

¹⁰⁹ The Court used a similarly confusing formulation in Case 40/82, Commission v. United Kingdom, Judgment of 15 July 1982, E.C.R. (1982) 2793, at para 31: "The national measures are therefore to be considered as measures having an effect equivalent to quantitative restrictions, prohibited by Article 30 of the Treaty unless it is established that they are

accepted that Article 36 EC is an exception to Article 30 EC. As such, it is not because Article 36 EC applies that the rule itself is no longer qualified as a measure having equivalent effect to a quantitative restriction. Article 36 EC can precisely be invoked to maintain such a measure in force. If the measure is not regarded as having an effect equivalent to quantitative restrictions, then Article 30 EC simply does not apply, so that it is obvious that no recourse should be had to Article 36 EC. In the SACEM case, the Court reversed the reasoning and first looked at the applicability of the second sentence of Article 36 EC, seemingly assuming that national copyright always comes within its first sentence, to conclude that since Article 36 EC applied, there was no need to look at whether the measure was caught by Article 30 EC. It is probably in the light of this, with respect, erroneous approach, that the Court used this confusing formulation. It is to be welcomed that the Court rectified and clarified its approach in the Warner Brothers case through stating that the measure concerned came within the ambit of Article 30 EC before analyzing whether Article 36 EC could be invoked.¹¹⁰

As in the Thetford v. Fiamma case, the Court in Warner Brothers proceeded to look at whether the contested rules constitute an arbitrary discrimination in the sense of the second sentence of Article 36 EC. But the importance of this case lies in the fact that the Court went significantly

justified under Article 36 on grounds of the protection of animal health". On this case, see GORMLEY, L., "Newcastle disease and the free movement of goods - I", New Law Journal (1983) 1037-1038.

¹¹⁰ This submission does not affect the finding that also the rules on the free provision of services could have applied, since it concerns rights of performance. See DEFALQUE, L., "Copyright - free movement of goods and territoriality: recent developments", E.I.P.R. (1989) 435-439, at p. 438.

further in its scrutiny of the existence of the right under Article 36 EC. Having established that the Danish legislation did not operate an arbitrary discrimination in intra-Community trade, the Court looked into the reasons for the existence of the right, and thus carried out a justification-test under the first sentence of Article 36 EC. Although one might contend that this is a rather peculiar approach to Article 36 EC, namely first looking at whether the exceptions to the rule apply before establishing that the rule itself is applicable, it is important to note that it is one of the rare cases in which the Court scrutinizes the existence of an intellectual property right under both sentences of Article 36 EC.¹¹¹

Contrary to the approach taken concerning licences of right,¹¹² the Court in Warner Brothers no longer looked at the justification of the contested rules under the first sentence of Article 36 EC in terms of the specific subject-matter of the right. Instead, the Court applied a three-stepped reasoning which more resembles a functionality-test.¹¹³ The Court first clarified that the exclusive rights of both performance and reproduction are essential rights of the author which are 'not called into question by the rules of the Treaty'.¹¹⁴ Then the Court reflected upon the importance of the

¹¹¹ This is totally the opposite from the approach suggested by Marenco and Banks. They suggest the following two-step approach: "first, it must be asked whether the intellectual property legislation is discriminatory. Secondly, only if the answer is in the affirmative may the legislation's goal come into play in order to justify the discrimination under Article 36", See MARENCO, G., and BANKS, K., o.c., at p. 241.

¹¹² See supra, at pt. VII.3.1.3.

¹¹³ On the concept 'functionality-test', see supra, Chapter VI, at pt. VI.4.2.3.

¹¹⁴ Case 158/86, o.c., at para 13. This is more in line with the Court's approach to trade marks. On this issue, see ROTHNIE, W., "Hag II: putting the common origin doctrine to sleep", E.I.P.R. (1991) 24-31, at p. 28. In his conclusion at

rather newly created market for the hiring-out of video-cassettes in terms of offering 'a great potential as a source of revenue for the makers of films'.¹¹⁵ And finally, the Court held that:

".. it is apparent that, by authorizing the collection of royalties only on sales to private individuals and to persons hiring out video-cassettes, it is impossible to guarantee to makers of films a remuneration which reflects the number of occasions on which the video-cassettes are actually hired out and which secures them a satisfactory share of the rental market. That explains why, (..), certain national laws have recently provided specific protection of the right to hire out video-cassettes."

"Laws of that kind are therefore clearly justified on grounds of the protection of industrial and commercial property pursuant to Article 36 of the Treaty."¹¹⁶

Having found that the existence of the right was justified under Article 36 EC, the Court refuted the argument that the exercise of that right should be curtailed through the application of the principle of exhaustion on the basis of the consent-theory.¹¹⁷ The Court held that limiting the exercise of

p. 31, he writes: "the prominence accorded to the trade mark's essential function calls into question the orthodox analysis of the cases on other intellectual property rights since definitions of these have often included an element which appears to correspond to the 'essential function'. But hitherto, this has only proved important for cases involving copyright".

¹¹⁵ Case 158/86, o.c., at para 14.

¹¹⁶ Case 158/86, o.c., at para 15 and 16, emphasis added.

¹¹⁷ It is significant that the Court also upheld the exercise of the right of performance in films under Article 59 EC. The Court explicitly held in the Coditel-I case that: "the right of a copyright owner and his assigns to require fees for any showing of a film is part of the essential function of copyright in this type of literary and artistic works". Case 62/79, Coditel v. Ciné Vog Films, Judgment of 18.3.1980, E.C.R. (1980) 881, at para 14, emphasis added. On this case, see for instance JOLIET, R., and DELSAUX, P., "Copyright in the case-law of the Court of Justice of the European

the right would come down to emptying the right of its substance and stated that:

"It cannot therefore be accepted that the marketing by a film-maker of a video-cassette containing one of his works, in a Member State which does not provide specific protection for the right to hire it out, should have repercussions on the right conferred on that same film-maker by the legislation of another Member State to restrain, in that State, the hiring-out of that video-cassette."¹¹⁸

In other words, the Court made clear that it does not suffice that there is parallel protection and that the goods have been marketed with the right holder's consent to come to the conclusion that the principle of exhaustion should be applied.¹¹⁹ One first has to look at the reasons justifying the existence of differences in the legal protection offered, and if the existence of the rules are justified under Article 36 EC, then the principle of exhaustion is not applicable.¹²⁰

It is difficult to reconcile this judgment with the Court's ruling in the Merck case. In the latter, the Court allowed the effect of the non-existence of patent protection in the Member State of importation to have severe repercussions in the Member State of importation, through applying the consent-theory in the absence of parallel protection.¹²¹ As has been maintained above, the Court so doing neglected the proper

Communities", in Cornish, W. (ed.), Copyright in free and competitive markets, 1986, ESC Publ. Ltd., pp. 21-40.

¹¹⁸ Case 158/86, o.c., at para 18.

¹¹⁹ Compare to supra, pt. VII.2.1.

¹²⁰ The Commission has taken this judgment into account when drafting its proposal 'on rental and lending right and on certain rights related to copyright in the field of intellectual property', see supra, Chapter VI, at pt. VI.3.2.6.

¹²¹ See supra, Chapter VI, at pt. VI.4.3.2.A.; and Chapter VII, at pt. VII.2.2.

function of the patent and practically eliminated the possibility to obtain a reward.¹²² However, it is submitted that it was the Merck case, and not the Warner Brothers case, that was wrongfully decided.

The new approach of the Court in the Warner Brothers case seems to be more in accordance with the traditional approach to Article 36 EC and is therefore to be warmly welcomed. It makes it definitely clear that the existence of intellectual property is no longer to be considered as being 'per se' exempted under Article 36 EC and thus is subject to EC law.¹²³ However, the question remains when the Court will resort to this approach and when the Court will invoke the existence/exercise dichotomy. The Court in Warner Brothers ruled that the existence of the right was justified under the first sentence of Article 36 EC. But the Thetford v. Fiamma judgment, which was decided after the Warner Brothers case, shows that the Court might be reluctant to apply the same justification-test where the outcome of the case could lead to the conclusion that the national rule cannot be justified under Article 36 EC. It remains to be seen how the case-law will further develop.

¹²² See supra, at pt. VII.2.5.

¹²³ See also FRIDEN, G., o.c., at p. 197, where he writes: "This indicates that the existence of such rights is no longer beyond the scope of EEC law. After all, if the Court can rule on whether EEC law allows a Member State to protect the rental of a cassette, it would seem to follow that it could also decide for instance, whether a Member State may protect spare parts, rather than just complete goods, or on the amplitude of protection which is to be granted to a relatively novel invention, as opposed to an absolute novel one".

VII.4. PRELIMINARY CONCLUSION

The recent evolution in the case-law of the Court concerning the applicability of the rules on the free movement of goods to intellectual property rights shows that the Articles 30 to 36 EC are finally applied in their own right and have been freed from the shackles of competition rules in the form of the existence/exercise dichotomy. Although this is to be warmly welcomed, it is not clear when in future cases the Court will, under Article 36 EC, apply the consent-theory to the exercise of the right and when it will apply the justification-test to the existence of the right. At present, one can only attempt to establish some guide-lines on the basis of the few indications that the Court has so far given.

First of all, it has to be repeated that the existence/exercise dichotomy no longer necessarily applies. The premise that the conditions and procedures are a matter for the national legislator to decide and are not subject to scrutiny under Article 36 EC, can no longer be unconditionally upheld.¹²⁴ It seems that in particular where the national rules are discriminating against imports from other Member States, the Court will proceed to analyze whether the existence of the rules are compatible with the second sentence of Article 36 EC. As was maintained above, this would logically imply that the Court also looks at whether the rules are justified under the first sentence of Article 36 EC.¹²⁵

It is more difficult to predict which approach the Court will take in case there is no discrimination inherent in the

¹²⁴ See supra, at pt. VII.3.

¹²⁵ See supra, at pt. VII.3.1.3., licences of right. See also at pt. VII.3.2., principle of relative novelty where it is maintained that the approach of the Court was inconsistent in that it only applied a justification-test under the second sentence of Article 36 EC.

national legislation concerning intellectual property rights. Rather than introducing positive criteria along which to distinguish the approach to be taken, it is so far only possible to eliminate certain criteria which in the past were held to be decisive. One can state for sure that the presence of parallel protection is not the determining factor to conclude that the principle of exhaustion will apply to curtail the exercise of the right. This has unquestionably been proven by both the Merck and the Pharmon cases.¹²⁶ But, whereas those cases led to believe that the consent of the right holder was the determining factor for the application of the principle of exhaustion to curtail the exercise of the right, the Warner Brothers case has made clear that, even where parallel protection exists, consent is not necessarily the decisive criterion. Although this case concerned parallel importation and all conditions were fulfilled to apply the consent-theory, the Court in this case adopted a justification test and thus focused on the reasons for the existence of the right.¹²⁷

As such, in the absence of inherently discriminating rules, the Court has established precedents either way. In some cases the consent-test will apply to curtail the exercise of the right, whereas in other cases the justification-test will apply to see whether the existence of the right is compatible with Article 36 EC. It is not clear on what basis the Court applies one or the other approach. It could be that in the future the justification-test will be applied to uphold the full effect of national legislation, whereas the consent-test

¹²⁶ See supra, at pt. VII.2.5. This can also be deducted from the EMI v. Patricia case, see supra, at pt. VII.2.3.

¹²⁷ See supra, pt. VII.3.3; rental and lending right, where the Court used the peculiar approach of first looking at whether the second sentence applied, before looking at whether the measure was justified under the first sentence of Article 36 EEC.

will be applied to curtail the effect of certain features of national legislation, such as the principle of territoriality, which are in fact considered to be incompatible with Community law.¹²⁸ However, it is submitted that such an approach would be fundamentally inconsistent and cannot be explained on the basis of Treaty provisions to that end.¹²⁹ At the moment, one can only take note of the fact that, up till now, the Court has not yet ruled that the existence of a national rule which is not discriminatory could not be justified under Article 36 EC.

As such, the Court has failed to give adequate and coherent criteria to conclude that one or the other approach will be used in a particular case. Furthermore, it is apparent that safeguarding the specific subject-matter of the right no longer forms the only justification for derogations on the basis of Article 36 EC.¹³⁰ Whereas the Court tries to hold on to this concept as the premise to the application of the justification-test concerning patents endorsed 'licences of right',¹³¹ the concept was radically departed from in the Warner

¹²⁸ In this sense, the wording used by Orf is significant: .. (the judgment) has re-emphasized the limits of the doctrine of Community-exhaustion where the essential function of copyright is affected..", see ORF, E., "Re Warner Bross Inc. and Metronome Video APS v. Erik Viuff Christiansen", E.I.P.R. (1988) 309-311, at p. 310.

¹²⁹ This would also be inconsistent with the case-law concerning denominations of origin, where the Court did apply the functionality-test to strike down distinctly applicable national measures, see supra, Chapter VI, at pt. VI.4.2.3.

¹³⁰ On the origin of the concept 'specific subject-matter', see supra, Chapter VI, at pt. VI.4.3.1.; on the further elaboration of this concept by the Court, see supra, Chapter VI, at pt. VI.4.3.2.

¹³¹ See supra, at pt. VII.3.1.3., where it is maintained that the Court had difficulties in defining and coherently applying the specific subject-matter of a patent endorsed 'licences of right', because it is a concept which takes the existence of the right for granted whereas the Court was

Brothers judgment. In this case the Court has taken the first step towards abandoning the specific subject-matter criterion in favour of a real functionality-test, but it remains to be seen how this will be elaborated upon in future case-law.

The implications of the recent evolution in the case-law of the Court are multiple. The most important one is that the Court may follow different approaches to a given case, so that legal uncertainty will exist until the Court clearly indicates that it does not apply one or the other approach arbitrarily or on grounds of judicial policy, but rather along clearly definable and transparent criteria. Judge Everling once wrote:

"The Court of Justice (..) creates its own legitimacy primarily by the internal logic and consistency of the actual results expressed in its judgments and by the significance of those results for the development of the Community legal order and the continuation of the process of integration. They acquire their own pattern only in the perspective of a whole series of judgments on given problems, in which it gradually becomes clear what the Court of Justice regards as the criteria 'justi atque injusti' in the Community".¹³²

Unfortunately, this statement does not seem to be fully applicable -as yet- to the Court's case-law concerning intellectual property rights.

Still, it is now undisputable that the Commission can challenge the compatibility of national intellectual property provisions with the rules on the free movement of goods on the basis of Article 169 EC-procedures. More importantly, it is also clear that the very existence of the national rules can be challenged under Article 36 EC in Article 177 EC-

precisely asked to give a ruling concerning the justification of the existence of that right.

¹³² EVERLING, U., "The Court of Justice as a decision-making authority", in Michigan Law Review Association (ed.), The art of governance, 1987, Nomos Verlagsgesellschaft, pp. 156-172, at p. 171.

procedures. This brings the case-law concerning intellectual property rights more in line with the case-law concerning the other objectives mentioned in Article 36 EC. It will be interesting to see whether the Court will go so far as to scrutinize national legislation under Article 36 EC in the context of a case pending before it based on Articles 85 and 86 EC combined with Article 5 EC.¹³³ The appeal against the Magill cases seems to be a first possibility for the Court to take a clear stance on this matter, so that the outcome of this appeal might well be indicative of the future approach the Court will take.¹³⁴

¹³³ See also FRIDEN, G., O.C., at p. 197, where he poses the question whether the Warner Brothers ruling could be extended to cases involving Articles 5 and 85 combined, which also imply State action.

¹³⁴ On the Magill-cases, see supra, Chapter VI, at pt. VI.4.4.4.E.

