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74/209/EEC: Commission Opinion of 4 April 1974 concerning the draft Convention for the European Patent for the Common Market and the Protocol annexed thereto relating to the deferred application of the provisions on the exhaustion of rights attached to Community Patents and National Patents

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Commission Opinion

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(74/209/EEC)

The future European Patent will be governed by two Conventions. The first Convention [1] shall regulate the procedure for the grant of patents. This Convention was signed in Munich on 5 October 1973, by the Plenipotentiaries of the nine Member States of the European Communities and several other European States. The effects of a patent thus granted will be defined in a second Convention which will be applicable only in the Common Market as a whole. The draft of this second Convention [2] will be submitted to an Inter-Governmental Conference which will be held in Luxembourg from 6 to 28 May 1974. It will be initialed during this Conference and the draft will then be signed during the course of a conference of government representatives of the Member States meeting in the Council. The text of the draft has been submitted to the Member States and to the Commission so that they may give their opinions on it.

I

1. The European Patent may be granted in respect of States which are parties to the first Convention, and not in respect of others, according to the wish of the applicant, and this Patent will have similar effects in each State to those of a national patent. An important exception has been provided in regard to this principle, concerning the Member States of the European Communities: the Patent can only be granted in respect of all the States together and not for some of them only. The Community Patent will have the same effect in the territories of all the Member States as it will be governed by a unified and independent law, which is the object of the draft convention to be submitted to the Inter-Governmental Conference in Luxembourg. National patents will continue to be granted in the Member States of the Community. Community legislation will co-exist with national legislation on the subject.

2. The Preamble to the draft draws attention to the Member States' wish to establish a patent regime which shall contribute to a realization of the objectives of the Treaty setting up the European Economic Community. The aim of the draft, in fact, is to bring about free movement of patented goods in the Common Market and also to bring about equalization of competitive conditions in that sector. These twin purposes shall be achieved by eliminating the restrictions resulting from territoriality of national rights of protection.

3. In this connection Article 32 of the draft forbids division of the Common Market into nine national markets by means of the rights attached to the Community Patent. Protected products must be able to move freely after the owner of the patent has put them on the market in any part of the Community. This rule applies also to products marketed by the holder of a contractual licence or a licence of right.

4. Furthermore, in order to ensure free movement of patented goods, Article 78 applies the same principle in cases where the right to protection does not arise from a Community Patent but from one or several national patents belonging to one owner or persons who are tied to him economically. Under this Article, marketing a patented product in one of the Member States has the consequence of exhausting the rights attached to national patents granted in other Member States. The owner of two national patents protecting one invention in Germany and in France, for example, may not prevent importation of protected products which have been marketed in France, by himself or by a third party with his consent, in order to protect his German patent. The

content of this Article in any case only restates the present legal situation as set out under III below.

5. Thus, the European law as set out in the Convention will establish in the Common Market conditions similar to those which exist in a national market in regard to the acquisition and exploitation of patents. Industry will be able to adopt a production and sales policy for the Community as a whole. Intra-Community commerce will be facilitated and expanded due to the free movement of patented products or processes and equal conditions of competition.

II

6. This favourable situation would be put at risk by adoption of the draft "Protocol on the deferred application of the provisions on the exhaustion of rights attached to Community Patents and National Patents". This Protocol, which is annexed to the Convention and which is to be an integral part thereof, provides that Articles 32 and 78 forbidding division of markets shall not be applicable during a transitional period of five to 10 years maximum.

7. Adoption of this Protocol will allow the holder of the European Patent during a transitional period to forbid importation of products put on the market in another Member State by himself or his licensee. In this way, he would be able to control the marketing of his products inside the Common Market, and by bringing an action for breach of patent rights, separate national markets one from the other and maintain different prices in each Member State.

8. Taking into account the fact that the Convention for the European Community Patent will not come into force until 1976 at the earliest — given the time needed for Parliamentary ratification — the Protocol could delay until 1981, or even 1986, application of the provisions forbidding division of the Common Market.

III

9. Such a limitation of the principle of free movement of goods applied to patented products is contrary to the provisions of the Treaty of Rome. It is clear from Articles 2, 3, 30 to 37, 85 and 86, that one of the essential aims of the Community consists of creating a Common Market in which products move freely and competition is not distorted. Free movement of goods is such a fundamental part of the realization of the Common Market that it can be modified only in the exceptional circumstances defined very strictly by the Treaty. The Protocol, however, introduces such an exception for a period of time which may come to an end approximately 30 years after the EEC Treaty has come into force and some 15 years after the expiration of the transitional period laid down by the Treaty for the creation of the Customs Union.

10. The Commission's Opinion is supported by the decisions of the Court of Justice of the European Communities, in particular by the decision of 8 July 1971, in the case of Deutsche Grammophon v. Metro (Case 78/70)

[3]

. In this decision the Court in particular states:

"Article 36 mentions among the prohibitions or restrictions on the free movement of goods permitted by it those that are justified for the protection of industrial and commercial property. If it be assumed that a right analogous to copyright can be covered by these provisions it follows, however, from this Article that although the Treaty does not affect the existence of the industrial property rights conferred by the national legislation of a Member State, the exercise of these rights may come within the prohibitions of the Treaty. Although Article 36 permits prohibitions or restrictions on the free movement of goods that are justified for the protection of industrial and commercial property, it only allows such restrictions on the freedom of trade to the extent that they are justified for the protection of the rights that form the specific object of this property.

If a protection right analogous to copyright is used in order to prohibit in one Member State the marketing of goods that have been brought into the market by the holder of the right or with his consent in the territory of another Member State solely because this marketing has not occurred in the domestic market, such a prohibition maintaining the isolation of the national markets conflicts with the essential aim of the Treaty, the integration of the national markets into one uniform market. This aim could not be achieved if by virtue of the various legal systems of the Member States private persons were able to divide the market and cause arbitrary discriminations or disguised restrictions in trade between the Member States.

Accordingly, it would conflict with the provisions regarding the free movement of goods in the Common Market if a manufacturer of recordings exercised the exclusive right granted to him by the legislation of a Member State to market the protected articles in order to prohibit the marketing in that Member State of products that had been sold by him himself or with his consent in another Member State solely because this marketing had not occurred in the territory of the first Member State".

11. The decision in question is concerned with, (this is not in doubt) over and above the exclusive right of a producer of recordings which was the basis of the litigation, all exclusive rights attached to protection of industrial and commercial property.

The decision appears to argue that such a right (the right accruing to a producer of recordings), analogous to author's copyright, could not come within the exception in Article 36 unless it could be considered to be a right of industrial or commercial property (which it wasn't). The Court pointed out, however, that this right could not, in any case, be exercised in such a way as to divide up the Common Market without being in breach of the rules on free movement of goods.

It clearly follows, that the Court, in the case submitted to it, wished to enlarge the scope of the litigation and interpret Art. 36 in a way that was valid not only for rights analogous to author's copyright but also for all rights of industrial and commercial property.

The Commission concludes that the interpretation given by the Court definitely applies to patent rights, without having to ask itself if a patentee's rights are of the same nature or not as those belonging to a producer of recordings.

On this interpretation of the decision in the Deutsche Grammophon case, Community law forbids a patentee to exercise his exclusive right to oppose importation of a protected product into a Member State when that product has already been sold, by him or with his consent, in another Member State.

12. Having regard to that, signature of the Protocol on exhaustion of rights, a Protocol which attempts to legitimate, if only temporarily, exercise of the rights of industrial property in a manner contrary to Community law, as authoritatively interpreted by the Court of Justice, would obviously not be compatible with the fundamental obligation of Member States contained in Article 5 of the Treaty, to abstain from "any measure which could jeopardize the attainment of the objectives of this Treaty", and would, consequently, be a breach of this provision.

13. A Protocol of this sort would therefore set out to amend the Treaty, an amendment however, whose effect would be to restrict freedom of movement of goods as laid down at present by Community law, could not be carried out by a Convention between Member States outside the procedures expressly laid down by the Treaty (Article 236). The legal validity of the Protocol itself would, for the same reason, be in serious doubt, and the Commission believes that the transitional arrangement it contains cannot prevail over Community law in case of conflict.

IV

14. Finally, the Commission, in accordance with the views set out above and relying on Article 155 of the EEC Treaty, is on the one hand in favour of signature of the Convention for the European Patent for the Common Market by the Member States and on the other hand is against adoption of the Protocol, annexed to the said Convention, concerning the deferred application of the provisions on the exhaustion of rights attached to Community Patents and National Patents.

15. This Opinion is addressed to all Member States.

Done at Brussels, 4 April 1974.

For the Commission

The President

François-Xavier Ortoli

[1] Convention on the grant of European patents and annexed documents published by the Government of the Federal Republic of Germany, München, Wila Verlag, 1973, 343 p.

[2] Draft convention for the European Patent for the Common Market published by the Council of the European Communities, Luxembourg, Official Publications Office of the European Communities, 1973, 303 p.

[3] Reports of the European Court of Justice, volume XVII, p. 487 et sequitur.This text is an unofficial translation into English of the Report of the Court of Justice.