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75/597/EEC: Commission Opinion of 26 September 1975 on the draft Convention for the European Patent for the common market

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COMMISSION OPINION of 26 September 1975 on the draft Convention for the European Patent for the common market (75/597/EEC)

1. In its Opinion of 4 April 1974 the Commission made known its general views on the draft Convention for the European patent for the Common Market (Community patent) and stated that the "Protocol on the deferred Application of the Provisions on the Exhaustion of Rights attached to Community Patents and National Patents" was basically incompatible with Community law. The Opinion was delivered with a view to the intergovernmental Conference due to take place between 6 and 28 May 1974 and in the course of which the draft Convention was to be finally adopted. This Conference was adjourned at the request of the United Kingdom government. It will now take place in Luxembourg from 17 November to 15 December 1975.

The Commission, noting that a proposal for amendment of the rules forbidding partitioning of the Common Market by means of patents (Arts. 32 and 78) is to be submitted to the Luxembourg Conference (1), and no decision has yet been taken concerning the abovementioned Protocol, would now take this opportunity to deliver a new Opinion.

I

The Working Party on Community Patent has proposed two important amendments to the draft Convention on the European Patent.

2. In its previous version, the draft provided that designation of a Member State of the Community in an application for a European patent results automatically in the grant of a Community patent with effect throughout the Member States.

The new Article 84a of the draft provides that, during a transitional period of ten years, an applicant for a patent will have a choice between a Community patent and a European patent. The applicant may state that he wants a patent only in one or more Member States. If, for example, he makes such a statement and designates Germany and France in the application, he obtains a European patent for these two countries which has the effect of a national patent only.

The Commission regrets this amendment. It still considers it essential that the procedure for the grant of a European patent in which a Member State is designated should lead only to the grant of a Community patent whose scope extends to all the Member States and which is subject to the uniform law created by the Convention for a Community patent.

The Commission considers that there is no convincing reason for allowing the holder of a patent to have such a choice as mentioned above and that it derogates from an important principle of the Convention.

3. The second amendment also entails the abandonment of an important principle.

In the previous draft it was provided that the European Patent Office has sole jurisdiction to cancel the Community patent with effect for all the Member States. The new Article 84b of the draft provides, however, that national courts before which an infringement action has been taken may also decide on the (1) c. f. preparatory document No 17 for the Luxembourg Conference (Doc. R 416/74) p. 2. validity of a Community patent. Such a decision has effect only in the territory of the State over which the court has jurisdiction.

By virtue of this new provision national courts can decide on the validity of the patent, with the result that the Community patent may be considered valid in one Member State and void in another. The principle laid down in Article 2 of the draft, whereby the Community patent is to have the same effect in all the Member States, is thus contravened. Furthermore, abandonment of the unitary character of the Community patent creates obstacles to the free movement of patented goods and to the creation of equal conditions of competition and also is at variance with the principle of the "free movement" of judgments under the Convention on Jurisdiction and the Enforcement of Judgments in Civil and Commercial Matters.

The Commission is not unaware of the difficulties which may result from the division of jurisdiction concerning infringement and validity actions. However, in accordance with a draft resolution submitted to the Luxembourg Conference, the work necessary for the resolution of these difficulties is to be undertaken after signature of the Convention.

The Commission considers that it is in the context of that work that a solution should be found which will ensure the unitary character of the European patent.

II

4. The provisions of Articles 32 and 78 are designed to ensure that a patent product put on the market in any Member State by the holder of a Community patent or by the holder of one or more parallel national patents may move freely throughout the territory of the Community. The partitioning of the common market into nine national markets is thus forbidden.

5. Under a proposal submitted to the Luxembourg Conference, the scope of these two Articles is to be limited. This proposal provides that a patentee may prohibit the import of goods which have been put on the market by himself or with his consent in a Member State in which the Community patent has no effect (on account of the existence of a prior national patent opposed to it) or in which a parallel national patent does not exist. In order to justify this proposal it is suggested that a patentee who puts his products on the market in a country where they are not protected by a patent would have to take account of the prices charged by his competitors in that country, and would thus be deprived of the profit due to his creativity.

6. It is true that in certain cases the patentee may be forced to sell his products more cheaply in a country where he has no patent if a third party is able to market the subject of the invention in that country at a lower price.

As a result, if goods put on the market by a patentee in a country where there is no protection are imported into those countries where that patentee holds parallel patents, his profit may be reduced. It is not however the purpose of the law of patents to guarantee to the patentee a higher profit than that which can be derived from the market price. A patentee is only granted, for a certain period, the exclusive right to forbid anybody to make and market the subject of his invention. This exclusive right is the counterpart of the fact that application for a patent makes the invention accessible to the public. The opportunity for the patentee to obtain an additional profit in selling his product depends in particular on his market position and on the existence of substitute products. On patent law grounds alone, the proposal concerning Article 78 should be rejected.

7. Furthermore, this poposal is incompatible with the EEC Treaty, as it envisages free movement of patented goods only where parallel national patents exist in all the Member States. In practice this would never happen or would happen only very rarely. According to forecasts of the number of applications for European patents which will be made every year a firm will apply for a European patent when it holds national patents in two or more Member States of the EEC ; thus as a general rule national patents will exist only in one or two Member States.

It is therefore clear that the proposed amendment would in the ordinary course of events lead to a partioning of the market as regards products put on the market by the patentee or by a third party with his consent in a part of the Community where those products are not protected.

Such a partitioning of the market could be of advantage to a patentee, particularly where his productive capacity is sufficient to cover the needs of the common market as a whole, and in the Member States in which he has no national patent he has no serious competition for technical or economic reasons. In such cases the amendment of Article 78 which is proposed would enable the patentee to maintain different price levels in two separate areas of the common market by putting a part of his production on the market directly in the territory in which no protection exists. The patentee could then, by means of an infringement action, prevent the importation of those products into that part of the common market in which they are patented.

The result of the abovementioned proposal is incompatible with one of the fundamental aims of the EEC Treaty, namely the creation of conditions in regard to free movement of goods within the Community which are identical to those which exist in a domestic market. It is therefore essential to maintain the present solution, which prevents a patentee from dividing common market into two separate areas through his choice of the place in which he puts his products on the market.

8. In its Opinion No 74/209/EEC (1) of 4 April 1974, paragraph 11, last subparagraph addressed to the Member States, the Commission declared that Community law forbade the holder of a patent to exercise his exclusive right to oppose importation of a protected product into a Member State when that product has already been put on the market by himself or with his consent in another Member State.

9. In its decision of 8 June 1971, in the Deutsche Grammophongesellschaft (DGG) case (Recueif) XVII, 487,

the Court of Justice of the European Communities has already stated (p. 500):

"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 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 marketings 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."

The phrase "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", shows clearly that it matters little whether, when the goods were put on the market for the first time, it was in a State in which a parallel patent existed or not. In the DGG case the manufacturer of records did not have an exclusive parallel right in the State in which the goods were first put on the market (France).

10. The decision of the Court of Justice in Centrafarm v. Sterling Drug case 15/74 of 31 October 1974, confirms the interpretation by the Commission of the DGG decision, namely that the principles enunciated in the latter case apply also to patents. In regard to the question raised here the Court of Justice declared in the Sterling Drug case (ECR 1974-6 p. 1147), p. 1163:

"In fact, 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 right flowing from the parallel patents.

The question referred should therefore be answered to the effect that the exercise, by a patentee, of the right which he enjoys under the legislation of a Member State to prohibit the sale, in that State, of a product protected by the patent which has been marketed in another Member State by the patentee or with his consent is incompatible with the rules of the EEC Treaty concerning the free movement of goods within the common market".

11. The proposal for amendment cannot be defended on the ground that the Sterling Drug case was concerned with products imported from a Member State in which a parallel patent existed. In fact the reasons given for this decision, like those in the DGG decision (a case in which a parallel exclusive right did not exist), are based solely on the took that the putting of the goods on the market took place in another Member State independently of the existence or absence of parallel protection.

The Sterling Drug decision contains furthermore a statement which dispels all doubt. In discussing the conditions in which a patentee may prohibit imports under Article 36 of the EEC Treaty, the Court of Justice takes the view that the patentee may, by means of an infringement action, oppose importation of "a product coming from a Member State where it is not patentable and has been manufactured by third parties without the consent of the patentee". It follows that the patentee cannot forbid importation of products from a Member State in which the product cannot be patented but where it has been put on the market by a third party with his consent. This is also the case if the patentee himself puts the product on the market in a Member State in which parallel protection does not exist.

12. The same considerations apply to the proposed amendment to Article 32 : free circulation of goods must also be guaranteed when the holder of a Community patent puts the patented goods on the market in a Member State in which his patent has no effect.

(1) JO No L 109, 23.4.1974, p. 34. 13. Consequently a limitation of the scope of Articles 32 and 78 of the draft Convention would be contrary to the provisions of the EEC Treaty.

The Commission is also of the opinion that the scope of Article 78 should be extended. Under Article 78 (2) the free circulation of goods is also ensured where two or more persons who have economic connections with each other hold different national patents for the same invention. This rule includes those cases in which legally independent subsidiaries and their parent company are holders of different national patents for the same invention.

14. However, Article 78 does not cover the case where the holder of two or more parallel national patents assigns one of these to a third party with which he has no "economic connection". Article 78 in its present form

thus permits partitioning of the common market through the assignment of a national patent to a third party who is economically independent of the assignor. This procedure may be used to circumvent the rules which guarantee the free movement of patented goods.

So far, the Court of Justice has not had to declare itself in such a case. In the Centrafarm v. Sterling Drug case it nevertheless gave a clear indication of what the solution to this problem might be. The Court of Justice declared that Article 36 of the Treaty allows derogations to be made to the principle of free circulation of goods "in cases where there exist patents, the original proprietors of which are legally and economically independent". By original proprietors is meant persons who have made an invention independently of each other and who have obtained a patent for that invention.

In the case in question here the person to whom a patent has been assigned is not the original proprietor of a patent. He is only the holder of a derived right which he has acquired as a result of the assignment. Thus an exception to the principle of free circulation of goods cannot be justified where there is an assignment of a national patent.

There is no obvious justification for treating someone who acquired a national patent as a result of an assignment differently from the holder of an exclusive licence, which from a commercial point of view is very close to an assignment. It is to be feared that, where until now an exclusive licence was granted, assignment will be used. This could have the effect of effectively partitioning national markets.

Such a result is incompatible with the principle of free circulation of goods. For this reason the Commission takes the view, for which it finds support in the decisions of the Court of Justice, that assignment of a licence to a third party economically independent of the assignor cannot be allowed to lead to partitioning of the market. Similar provisions should apply to any case where an invention which has not yet been patented is assigned to a third party who applies under his own name for a patent in respect of that invention.

The Commission therefore proposes that Article 78 (2) be amended to read as follows:

The provisions of paragraph 1 shall apply also in respect of a product put on the market by the proprietor of a national patent, granted for the same invention in another Contracting State, to whom the right to the patent or the patent itself has been assigned by the propietor of the patent referred to in paragraph 1. (The second sentence is deleted).

III

15. The Commission reiterates the view expressed in its first Opinion, that the "Protocol on the deferred Application of the Provisions on the Exhaustion of Rights attached to Community Patents and National Patents" is contrary to Community law. This Protocol provides that the provisions of Article 32 and 78, which forbid the partitioning of markets, will not be applicable during a transitional period of five to ten years, maximum.

The adoption of this Protocol would allow a patentee to control the marketing of his products within the common market. By taking an infringement action against the importers of products which he himself or his licencee has put on the market in another Member State he can protect national markets and charge different prices in each Member State.

In accordance with the interpretation given by the Court of Justice of the European Communities in the Deutsche Grammophongesellschaft and Sterling Drug cases, Community law forbids a patent holder to exercise his exclusive right to oppose importation into a Member State of a patented product when that product was put on the market by him or with his consent in another Member State.

IV

16. The Commission, acting on the considerations hereinbefore set out and in pursuance of its powers under Article 155 of the EEC Treaty, hereby expresses itself in favour of signature by the Member States of the European Communities of the Convention for the European Patent for the common market, but at the same time declares that it is not in favour of the adoption of the Protocol, annexed to the said Convention, on the deferred Application of the Provisions on the Exhaustion of Rights attached to Community Patents and National Patents, and furthermore that it is not in favour of the proposal to limit the scope of Articles 32 and 78. On the contrary it considers that the scope of Article 78 should be extended as proposed in the foregoing paragraphs.

Should the proposals in regard to which the Commission has expressed an unfavourable view in the foregoing paragraph be adopted, the Commission reserves its right to institute proceedings under Article 169 for failure to observe the obligations of the EEC Treaty.

17. This Opinion is addressed to the Member States.

Done at Brussels, 26 September 1975.

For the Commission

F.O. GUNDELACH

Member of the Commission