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Realizing the European Community Common Market by Unifying Intellectual Property Law: Deadline 1992

*Victor Vandebek**

I. INTRODUCTION

Although the European Economic Community Treaty (EEC Treaty) does not give a clear indication of what is to be understood by the term "common market," its characteristics can be deduced from those provisions of part two of the EEC Treaty that refer to the foundations of the European Economic Community (EEC). These characteristics were articulated in 1985 by the European Commission's White Paper entitled "Completing the Internal Market,"¹ and include the free movement of goods, free movement of labor, freedom to provide services, and free movement of capital. These basic freedoms of the common market can only be realized by approximating the laws of the EEC's twelve Member States, thus installing a system through which all obstructions to competition are removed.

Competition policy is not an end in itself. Nevertheless, competition is not only the *conditio-sine-qua-non* for a steady improvement of well-being and welfare but also the instrument to achieve a single product market of 320 million consumers. Here, reference should be made to intellectual property rights with respect to the Community competition rules because intellectual property rights guarantee a perfect competitive model by creating market transparency, which protects both the consumer and the producer. It is of tremendous importance that the Community take the necessary steps to unify the national intellectual property laws of individual EEC Member States in order to bring the internal market into existence by December 31, 1992. The difficulties surrounding intellectual property rights within

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1. See generally, COMPLETING THE INTERNAL MARKET, 1985 EUR. COM. DOC. (COM No. 310) (1985) [hereinafter White Paper].

the EEC arise from the fundamental disparity between the EEC freedoms which eliminate all barriers among the Member States and the monopolies resulting from the territoriality principle of intellectual property rights.

This article discusses how far the EEC has gone in regulating intellectual property law by attempting to unify and approximate the rules governing intellectual property. The main intellectual property rights are those derived from trademark, patent and copyright law. Each of these areas of law will be examined in separate chapters.

Part II discusses EEC trademark law. Section A of Part II introduces trademark law by defining the exact relationship between national trademark laws and the Community competition rules. Articles 30-36 and 85-86 of the EEC Treaty with respect to trademark law are analyzed in order to demonstrate the premise that trademark law is not inconsistent with competition law but rather is an integral part of it.

Section B of Part II discusses a Commission proposal to create a single Community trademark designed to overcome problems resulting from the territoriality principle and which are inherent in national trademark laws. In 1984, the Commission proposed the Regulation on Community Trademark. The Regulation established a system in which a single Community trademark would be protected throughout the entire Community and would be based on a single Community legislation. This proposal is not yet in force. The reasons for this are also examined in section B.

Section C of Part II discusses the Trademark Directive of 1988. This directive was designed to approximate the laws of the Member States and strives to avoid all future differences between the Member State's trademark laws that distort internal market competition. It is important to emphasize that this directive aims only to approximate, but not unify, the issues, contrary to the proposal defined in section B.

Part III is devoted to patent law. Two conventions provide basic regulations for EEC patent law: the Community Patent Convention and the European Patent Convention. This article describes not only the fundamental differences existing between the two patent systems, but also explains the Commission's motivation to install a single patent protection system and to extend the principle of territoriality to the entire Community.

Part III also spotlights the EEC's biotechnological and

pharmaceutical industries. These industries are not the catalysts for unifying Community patent law, but they have practical economic importance. Because of their importance, these industries must avoid economic disaster and maintain their leading position in the world market.

Finally, Part III analyzes selected case law involving U.S. companies. This analysis emphasizes the relationship between patent rights and the basic principle of free movement of goods. Since the EEC Treaty is silent on the relationship between EEC law and intellectual property rights, Part III also examines the role of the judiciary in regulating patent rights.

Part IV covers copyright law. The basic aims of the 1988 Green Paper on Copyright are discussed. An example illustrates the advantages of abolishing the territoriality principle in intellectual property and its effect on the EEC market conditions.

Before concluding, the article examines a 1989 proposal for protecting computer programs. This proposal seeks to provide equal copyright protection for computer programs as well as literary and artistic works to complement the Berne Convention on Copyright.

II. TRADEMARK LAW

A. *Consistencies Between National Trademark Laws and Community Competition Rules*

Article 30 of the Treaty of Rome² prohibits quantitative import restrictions and all measures with equivalent effect. Exceptions to this prohibition are set out in the first sentence of Article 36, which expressly includes industrial and commercial property.

In the early eighties, the European Court of Justice first decided on the proper application of the restriction on slavish imitation. Both in *Dansk Supermarked v. Imerco*³ and in *I.D.G. v. Beele*,⁴ the Court of Justice held that Article 36 should be included in the law of unfair competition and based its decision on

2. Treaty Establishing the European Economic Community, March 25, 1957, 298 U.N.T.S. 3 (effective Jan. 1, 1958) [hereinafter "Treaty of Rome"]. An English translation of the Treaty is located at 1 COMM. MKT. REP. (CCH) ¶ 151 (1971).

3. 1981 E. Comm. Ct. J. Rep. 181, 32 Comm. Mkt. L.R. 590.

4. *Industrie Diensten Groep v. J.A. Beele Handelsmaatschappij*, 1982 E. Comm. Ct. J. Rep. 707, 35 Comm. Mkt. L.R. 102 [hereinafter *I.D.G.*].

the reasonable character of the national laws in question.⁵ In *I.D.G.*, the court reasoned:

[T]he rules of the EEC-Treaty on the free movement of goods do not prevent a rule of national law from allowing a trader to obtain an injunction against another trader restraining him from continuing to market in that Member State a product coming from another Member State in which it is lawfully marketed but which for no compelling reason is almost identical to the first-mentioned product and thereby needlessly causes confusion between the two products.⁶

These cases demonstrate that the court's decisions are pragmatic. The court did not resort to feeble theoretical expositions, but examined the real consequences of enforcing intellectual property rights.

The court's decisions confirm that national intellectual property laws, which are generally used to prevent trade, do not conflict with the free movement of goods under Article 30 "provided that those rights are only used to what is strictly necessary to attain the specific objective against precise imitation which is to avoid needless confusion as to a product's origin."⁷

Articles 85 and 86 of the Treaty of Rome⁸ refer to the effects of an agreement assigning a trademark and prohibit companies from abusing a dominant position. At first sight, an intellectual property right gives the owner a degree of monopolistic power because he can prevent another producer from marketing products.⁹ At the same time, however, trademarks protect consumers against counterfeit goods and make the market more transparent. It is generally agreed that the advantages, such as consumer protection, resulting from trademarks outweigh any possible monopolistic consequence. The Court of Justice con-

5. *Dansk*, 1981 E. Comm. Ct. J. Rep. at 193, 32 Comm. Mkt. L.R. at 606; *I.D.G.*, 1982 E. Comm. Ct. J. Rep. at 717, 35 Comm. Mkt. L.R. at 132. See generally, H. JEHORAM, CENTRAL ISSUES OF INTELLECTUAL PROPERTY AND MEDIA LAW 201 (T. Willink, ed. 1984); Kaufman, *The Community Trademark; Its Role in Making the Internal Market Effective*, 25 J. COMM. MKT. STUD. 223 (1987).

6. *I.D.G.*, 1982 E. Comm. Ct. J. Rep. at 719, 35 Comm. Mkt. L.R. at 134.

7. Blok, *Articles 30-36 of the EEC Treaty and Intellectual Property Rights: A Danish View*, 13 INT'L REV. INDUS. PROP. & COPYRIGHT L. 729 (1982). See generally, H. JOHANNES, INDUSTRIAL PROPERTY AND COPYRIGHT IN EUROPEAN COMMUNITY LAW (1976).

8. Treaty of Rome, *supra* note 2, at arts. 85-86.

9. Kaufman, *Passing Off and Misappropriation*, 9 I.C.C. STUD. INDUS. & PROP. COPYRIGHT L. 225 (1986); Demaret, *Industrial Property Rights*, 18 INT'L REV. INDUS. PROP. & COPYRIGHT L. 161 (1987).

firmed this thesis for the first time in 1970 in *Sirena v. Eda*¹⁰ when it stated that

The owner of a trade mark does not enjoy a dominant position under Article 86 merely because he can prohibit third parties from marketing products bearing the same mark in the territory of a Member State. It is also necessary that he should be in a position to prevent effective competition in a considerable part of the market in question.¹¹

Therefore, intellectual property rights alone, as *a priori*, should not be considered an aggravating component of a dominant position.¹²

An examination of Community competition policy with respect to intellectual property law reveals that there are no inconsistencies between the two bodies of law and that intellectual property law must be considered an integrated part of competition law. In fact, intellectual property law contributes to greater transparency of the product market by protecting both the consumer and producer. However, it took the Commission several years (until 1984) to realize that intellectual property law can be used effectively to create and guarantee a free internal market.

B. Community Trademark

On August 31, 1984 the Commission adopted a proposal for a Council Regulation for establishing a Community trademark (CTM).¹³ The proposed regulation would establish a single trademark valid throughout the entire Community and create a Community Trademark Office. It sets out the legal rules and procedures necessary for registering and using a CTM. While some consensus has been achieved among the Member States, a few substantive decisions must still be made. For example, the location of the CTM Office headquarters and the official working language must be decided. The only remaining legal question is whether the CTM Office would be responsible for monitoring former national trademarks. A consolidated text of the proposed

10. 1971 E. Comm. Ct. J. Rep. 69.

11. *Id.* at 83.

12. H. JOHANNES, *supra* note 7, at 110; Stuart, *The Function of Trade Marks and the Free Movement of Goods in the European Economic Community*, 7 INT'L REV. INDUS. PROP. & COPYRIGHT L. 27 (1976).

13. Proposal for a Council Regulation on Community Trademark, 27 O.J. EUR. COMM. (No. C 230) 31.08 (1984).

regulation was, however, outlined by the Council in May of 1988, and the Council Regulation should be completed in 1991.

CTMs may consist of personal names, designs, letters, numerals, combinations of colors, shapes, packaging, or any other sign or symbol which is capable of distinguishing the goods or services of one enterprise from those of other enterprises. The CTM is a mark of origin and will be examined and accepted based on origin. The European Commission wrote that "[a]ny regulation of the trademark law depends totally upon the questions which functions are given to the trademark. The origin-function is pre-eminent. All other functions are derived from this basic function."¹⁴

Community trademark law does not replace the trademark laws of the Member States. National trademarks are still necessary for companies that do not require Community-wide trademark protection. The CTM will therefore be of greater use to those with real and effective industrial or commercial establishments throughout Community territory. Multinational enterprises will benefit from CTMs because CTMs are valid throughout the entire Community and CTMs are more practical and less expensive than requesting individual national trademarks.

CTM rights are obtained by registration only and will be refused if the trademark is not distinctive, lawful or available. CTM applications must be filed at the CTM Office along with the appropriate documentation. If approved, a CTM is valid for ten years from the date of filing and may be renewed. The CTM Office may withhold registration if the trademark conflicts with another CTM, the owner of prior CTM rights has opposed the registration, and all efforts to produce an amicable settlement have failed. The owner of a prior non-registered right may also oppose a CTM once the CTM Office informs him of a conflicting application. Member States can request information on new applications from the CTM Office and can conduct searches in their own national registers. The CTM Office must notify both the applicant and the owner of prior rights when a registration is accepted or rejected.

CTM protection is limited to similar goods, services and signs. Contrary to the Commission's 1980 proposal, a CTM owner can prohibit the use of an identical trademark *without* proving that there is "serious likelihood of [consumer] confu-

14. New Trademark System for the Community, BULL. E.C., May, 1980.

sion" between the goods or services. Industry put a lot of pressure on members of the European Parliament to change the 1980 proposal's confusion standard. Parliament discussions also made it clear that the confusion standard would jeopardize the preeminence of the similarity standard.¹⁵

CTM infringement and validity conflicts will be governed by the national law of the Member State as applied by the court hearing the action. Decisions, however, will be binding in the entire Community to ensure CTM uniformity. Furthermore, CTM owners may challenge trademarks under both CTM law and national law. This practice is similar to an owner's ability to pursue a counterfeit goods claim under unfair competition law and criminal law.¹⁶ The owner of a national trademark or an unregistered common law right may also oppose the use of a later CTM by instituting proceedings in a national court. However, when a CTM owner also owns an identical or similar national trademark, the plaintiff must choose a single forum.

The proposed regulation avoids the plurality of national procedures,¹⁷ which even enterprises owning international registrations under the Madrid Agreement¹⁸ may encounter. Furthermore, although most national registrations are cancelled if not used in their territory for five years, a CTM remains valid once it has been used in at least one Member State. However, the Community registration procedure can fail if successfully opposed by an owner of an earlier and similar trademark in one or more of the ten territories.

Since industry opposed any kind of search at either the community or national level because it believed the system would become unworkable, a proposal which eliminated searches was worked out on January 23, 1986 for a Council Regulation implementing the CTM Council Regulation.¹⁹ The purpose of the latter proposal was to ensure the smooth operation of the main CTM procedural rules and registrations. The implement-

15. Kaufman, *supra* note 5, at 228.

16. Council Regulation Laying Down Measures to Prohibit the Release for Free Circulation of Counterfeit Goods, EUR. BUS., Dec. 1986, at 1-9.

17. In view of the uniform Benelux law, the proposed regulation avoids ten national procedures.

18. Agreement Governing the International Registration of Trademarks, July 14, 1967 [hereinafter "Madrid Agreement"]. Denmark, Greece, Ireland and the UK are still excluded from this agreement.

19. COMMUNITY TRADEMARK IMPLEMENTING REGULATION, 1986 EUR. COMM. DOC. (COM No. 85) 844 (1986).

ing rules (1) classify CTMs, (2) simplify formalities, (3) establish a fee system, (4) select the language, (5) develop opposition rules, (6) provide an appeals process, and (6) establish revocation and invalidity procedures.

A CTM is undoubtedly of interest to both producers and consumers since it creates market conditions within the EEC similar to an internal national market. Indeed, as long as national trademarks exist, their geographical application will be limited to a single EEC Member State. Consequently, many conflicts may arise between identical or similar trademarks because of differing legislation. In contrast, a CTM granted by the CTM office will be valid throughout the entire Community and will be founded on a single piece of Community legislation.

The objective of the CTM proposal is not to approximate the different national laws. The proposal's objective is merely to create a Community level system to unify national trademark law. If this results, producers will enjoy equal protection for their products on a larger geographical basis. They will be able to extend the commercial promotion of their products and enjoy all of the benefits of economies of scale, such as lower production costs. Consumers will be able to select from a wider variety of products with little risk of confusion between the products. Furthermore, the CTM will be less expensive in the long run since the cost of obtaining a trademark in each EEC country will be eliminated.

C. *Trademark Directive*

On December 21, 1988 the Council issued a Directive designed to approximate the trademark laws of the Member States.²⁰ The Directive facilitates the free movement of goods on the Community level by approximating the main provisions of national trademark laws.²¹ Member States must act on the Directive by the end of 1991.²² The Directive does not eliminate all of the differences among the ten trademark laws but attempts to eliminate those differences which impede the free movement of goods or distort competition within the internal market. There-

20. First Council Directive 89/104 to Approximate the Laws of the Member States Relating to Trademarks, 32 O.J. EUR. COMM. (No. L 40) 104 (1989).

21. Van Rij, *Towards Harmony in Intellectual Property Rights*, 1989 BULL. AMER. CHAMBER OF COMM. 446.

22. The Council may amend this deadline to no later than December 31, 1992.

fore, the Directive merely complements the CTM Regulation. Full scale approximation can only be reached through additional directives.

The 1988 Trademark Directive delineates two grounds for refusing or invalidating trademarks. The first ground concerns the trademark itself: a trademark may be invalidated or refused if it is devoid of any distinctive character, is contrary to public policy or accepted principles of morality, or deceives the public. The second ground concerns conflicts with earlier rights: a trademark may be invalidated or refused if it is identical to an earlier trademark, it covers goods or services protected by an earlier trademark, or there is a likelihood that consumers will be confused. By derogation, however, if a prior trademark owner consents, a Member State may find a subsequent, identical trademark valid. Interested parties may challenge a trademark in judicial or administrative proceedings when the trademark has not been used for five consecutive years, it has become a common name after its registration, or it is capable of misleading the public as to the quality or geographical origin of the goods or services.

The exclusive rights granted a trademark allow the owner to prevent any unauthorized use of an identical or similar mark if it leads to a "likelihood of confusion" for consumers. The distinctiveness of a mark is judged on a country by country basis and not on a Community level. Thus, the Commission makes it practically impossible for the Member States to extend the geographical protection of a national trademark.²³

D. Conclusion

Although the ten national trademark laws continue to have effect, the Commission will reach the 1992 deadline by approximating the most important rules existing at the national level through the December 21, 1988 Council Directive. Furthermore, by following the Commission's 1985 White Paper, the internal EEC market can be completed by December 31, 1992 if the Regulation on Community Trademarks is adopted soon. That sys-

23. The Commission here specifically refers to the Benelux trademark law, which provides extensive protection for the Benelux trademark owner against any kind of infringement, dilution and counterfeit goods. The Directive puts the Benelux Trademark on the same level as the trademarks of the other Member States, which are only protected against likelihood of confusion as to product origin.

tem will be an addition to Community competition law and will advance the common market or, at least, a common market governed by similar objectives.

III. PATENT LAW

A. *Community Patent Convention*

Despite the Commission's 1985 White Paper, there is currently no Community patent law which ensures Community-wide patent protection.²⁴ Member States still maintain their own, non-unified patent laws. Although various attempts were made to unify the Community patent system, the attempts failed due to a lack of Community interest and to strong national sentiment among the Member States.

The Community Patent Convention of 1975 (CPC), which was supplemented by a second Convention in 1985, outlines an agreement among Member States relating to Community-level patent law. The CPC provides for a supranational patent but is not yet in effect.²⁵ The advantages of a single Community patent include uniform laws and procedures, such as a single patent renewal fee. The Community Patent (CP) also has a unitary character with equal effect throughout the entire Community.

The CP System, however, merely complements the individual national patent systems—it does not replace them. Indeed, the CPC provides that each contracting state may decide what conditions will invalidate a national patent. Therefore, simultaneous protection by a CP and a national patent will exist unless otherwise provided by the contracting State.²⁶

The CPC also sets up a European Patent Office (EP Office),

24. Pelkmans & Robson, *The Aspirations of the White Paper*, 25 J. COMM. MKT. STUD. 181 (1987).

25. The CPC will become effective once it has been ratified by the twelve Member States. At present it has only been ratified by ten out of the twelve Member States. Denmark and Ireland have constitutional problems with the CPC. For example, the Irish constitution provides that only Irish national courts may pronounce judgments effective in Ireland. For a possible solution to these constitutional problems, see *infra* text accompanying note 28. Other difficulties include the high cost of translating patents into all European languages as provided by the CPC. Krieger, *The Luxembourg Convention on the Community Patent - A Challenge and a Duty*, 19 INT'L REV. INDUS. PROP. & COPYRIGHT L. 143 (1988). For a possible solution to the translating problem, see *infra* text accompanying note 30. An intergovernmental conference was held on December 11, 1989 to resolve these remaining difficulties. Therefore, the CPC should become effective after ratification by Denmark and Ireland.

26. B. CAWTHRA, *PATENT LICENSING IN EUROPE* 70 (1978).

which is entitled to collect fees and revenues. The EP Office will supervise both the financial matters and the effects of a CP within the EEC. It will deal with examination claims, revocation or opposition proceedings, and applications for renewal, which are required every two years.

The Community Patent Agreement of December 4, 1985 embodies protocol for settlement of litigation concerning infringement and validity of Community patents and protocol for the statute of the Common Appeal Court (COPAC). Appeals are initially heard by the Revocation Divisions and the Patent Administration Division. Further appeals can be lodged with the COPAC but only for questions of validity and infringement of an essential procedural requirement or any rule of law relating to its application. Actions based on national law, like injunctions and damages, must be lodged with the national courts where the defendant or his business resides or where the patent was infringed. In both cases, the European Court of Justice retains jurisdiction to give preliminary rulings in accordance with Article 177 of the Treaty of Rome.²⁷

Infringement proceedings are currently split into two parts: (1) validity proceedings before the COPAC and (2) injunction proceedings before the national courts. Before the CPC can be ratified, the final legal restraints within the Irish and Danish constitutions²⁸ must be overcome by developing a more flexible approach to infringement proceedings. This new approach could combine the validity and injunction proceedings and grant jurisdiction to national courts.²⁹ The COPAC could then act as an international court with jurisdiction to give preliminary rulings. Under this proposal, all Irish and Danish constitutional restraints would vanish since judgments would be rendered by national courts and their decisions would have effect in the entire Community.

The burden and costs of translating patents³⁰ could easily be resolved by publishing the CP in only one of the official languages used on the application form. This would require the applicant to use the national language of the decentralized patent office where the application is filed.

27. Treaty of Rome, *supra* note 2, at 177.

28. See *supra* note 25.

29. Schafers, *The Luxembourg Patent Convention, The Best Option for the Internal Market*, 25 J. COMM. MKT. STUD. 193 (1987).

30. See *supra* note 25.

The goal for a supranational patent system, however, has not been abandoned because of these problems. The potential benefits of a community patent, as illustrated in the next section, prove that such a system would be worthwhile.

B. *European Patent Convention*

The European Patent Convention (EPC) was signed in 1973 and became effective in 1977. While the CPC applies only to EEC Member States, the EPC is open to any European country. Therefore, the EPC has been drawn up by experts from twenty-one European countries. This led to the creation of a European patent (EP), which has the effect of a national patent in any contracting State. All EEC Member States have ratified the EPC except Denmark, Ireland and Portugal.

It is important to examine the fundamental differences between the two patent systems.³¹ As discussed above, the EP's scope is broader than the CP's scope. Furthermore, EPC membership is voluntary, while the CPC is an obligatory system for all EEC Member States, and it imposes a single unitary patent in addition to national patent legislation. The EPC, on the contrary, does not impose upon national laws, but grants a bundle of national patents in a rational, centralized system without approximating different national laws.

The EP system is unique because once an EP is granted, it will be considered a national patent in all respects. In fact, it grants several national patents via one application. Therefore, it is possible to choose the number of countries in which the patent will apply. Due to the EPC's flexibility, industry and most EEC Member States prefer the EP system. In order for the CPC to be successful, the Commission must adopt more flexible procedures and limit translation costs. Unless these problems are resolved, the CPC will only be achieved at great expense to the internal market.³²

While the EPC is a success, it merely rationalizes and simplifies the miscellaneous national patent procedures. In order to create a single, uniform patent protection system between the EEC Member States, the territoriality principle of patent rights

31. B. CAWTHRA, *INDUSTRIAL PROPERTY RIGHTS IN THE EEC* 60 (2d ed. 1973); Van Rij, *supra* note 21, at 3.

32. Redies, *Liberties and Risks in the Present System of Patent Protection in the European Community*, 1989 *EUR. INTELL. PROF. R.* 193.

must be transcended. Consequently, a free internal trade of patented products will only be realized if there is a unified patent law with equal effect and meaning in all EEC Member States. The preamble of the CPC states that the "creation of such a Community patent system is therefore inseparable from the attainment of the objectives of the Treaty."³³ This objective as regards the free movement of goods protected by patents will only be achieved by the creation of the CP System.

In the absence of a supranational patent law, patent rights will remain confined to the territory where a patent was granted. A supranational patent right, however, would be enforced throughout the entire Community regardless of the different national laws and would avoid the unjustified differences among the states and the uncertainty that this causes patentees.

In addition to the general legal and economic policy of the Commission mentioned above, there are practical benefits to the creation of the CP System.³⁴ The CPC will considerably limit the costs of obtaining a patent. The applicant will only have to pay one fee instead of a separate fee for each country designated in the EP application form. The renewal fee will also be lower than the sum of the renewal fees for each country.³⁵

The CPC will also simplify legal proceedings since all competitors and patentees will have the right to institute revocation and infringement proceedings. Most important, however, the patentee will receive Community-wide patent protection via one application and one fee. Furthermore, patent protection will be equally enforced in all twelve Member States contrary to the EPC where the enforcement continues to depend on the national laws, which leads to unjustified differences and uncertainty for the patentees.

The criticism that the CPC is too complex cannot be denied. Nevertheless, the advantages of a Community-wide patent clearly outweigh this disadvantage. Thus, the patent will be accepted in due time despite new rules and a corresponding adjustment period.

33. Convention on the European Patent for the Common Market, 19 O.J. EUR. COMM. (No. L 17) 1 (1976).

34. Schafers, *supra* note 29, at 204-05.

35. O'Brien, *Patents: An Economist's View*, in PATENTS IN PERSPECTIVE 32 (J. Phillips ed. 1985); Fuscone, *The Exploitation of Individual Invention*, in PATENTS IN PERSPECTIVE 81 (J. Phillips ed. 1985).

C. Biotechnological Inventions

Since the CPC is not yet in force and encompasses a general approach to the issue, on January 13, 1989 the Commission drew up a proposal for a Council Directive specifically dealing with the legal protection of biotechnological inventions.³⁶ The Commission considered this matter of fundamental importance to the Community's industrial development since biotechnology and genetic engineering are playing increasingly important roles in the economy. The Directive will adapt the CPC to specific industries and newly developed technologies. The Directive is an answer to the pressures of the biotechnology industry, which felt the need for a harmonized patent protection system.

Because some EEC Member States do not provide legal protection for biotechnological inventions and national governments will soon provide for their protection, the Commission was forced to submit this Proposal in order to obtain consistent treatment among the EEC Member States. The Directive must not be perceived as harmonizing all Community patent law. Rather it should be seen as a specific response to industry's specific, practical need to protect their biotechnological inventions at the Community level, especially against the U.S. and Japan. The Directive also ensures that enterprises will be offered effective, Community-wide legal protection, and it safeguards the results of their research activities in the entire Community.

The proposal covers micro-organisms and microbiological processes or products other than plants or animals. The protection of plants and animals will not be discussed because they are regulated by very technical provisions, which are beyond the scope of this article. However, protection is provided for biotechnological products which are novel, inventive, and have industrial application. It is not necessary that the entire process be considered biotechnological. Rather, if one step is micro-biotechnological, the whole process may be patented. In addition, patents obtained for experimental inventions will be extended to new or improved products to the extent they are used for private or experimental purposes. Finally, biotechnological techniques of animal production that are industrial or commercial in nature and are not therapeutic will also be patentable.

If adopted, the Member States will enact those laws neces-

36. *Proposal for a Council Directive on the Legal Protection of Biotechnological Inventions*, 32 O.J. EUR. COMM. (No. C 10/3) 3 (1989).

sary to comply with this Directive by December 31, 1990. However, the whole matter is still controversial and is pending in the European Parliament. Industry fears that legal protection for plants and plant varieties in the EEC will continue to lag behind the level of protection provided by the U.S. and Japan.³⁷

Another controversial problem in the European Parliament is the moral implication of the Directive. Some members of the European Parliament with strong religious backgrounds still oppose the Directive because of the potential consequences of genetic experiments involving human life.³⁸

D. *The Pharmaceutical Industry*

The sector of the pharmaceutical industry that involves patent law represents almost one percent of the European Gross Domestic Product. It has been subjected to numerous regulations and measures with respect to market authorization, premarket testing, pharmaceutical pricing, and health insurance arrangements. Since the European pharmaceutical industry is investing heavily in research and development, it desires to protect its new products with an efficient patent system. However, despite an abundance of legislation, the Commission has not yet provided this system.

Presently, only the EPC provides protection by granting a twenty-year patent from the date of application. Twenty years is insufficient, however, because it includes a three- to five-year delay for product authorization. A fifteen year extension is necessary to create an exclusive patent right.³⁹

The Commission must take measures to preserve the position of the European pharmaceutical industry in the world market. Competition with the U.S. and Japan will increase because pricing is unregulated in their markets. The Commission's incentive is economic: European pharmaceutical undertakings need to attain and maintain leading positions in the world market. The Commission's objective is not to catalyze harmonization of all Community patent law, but to respond to an economic need. A draft Regulation for a new pharmaceutical protection system is currently being prepared.

37. Report no. JD09 on Patent Protection in Biotechnology, EUR. STUD. CONF. (1987).

38. Van Rij, *supra* note 21, at 5.

39. Kendall, *Pharmaceuticals*, 1989 E.I.U. EUR. TRENDS 42.

E. Case Law

In order to understand the relationship between patent law and principles of competition, it is helpful to examine relevant case law involving American companies. These cases illustrate that the European Court of Justice (ECJ) bases its decisions on general EEC provisions governing the free movement of goods rather than on intellectual property laws. This not only leads to incomprehensible decisions which violate national laws, but also leads to common market protectionism. This result discourages third parties from importing goods into the EEC. This, in turn, may result in retaliatory protectionist measures from other international entities.

*1. Sterling Drug*⁴⁰

Sterling Drug, a New York corporation, held several national patents on a process for preparing acidum nalidixicum, which is used for treating urinary tract infections.⁴¹ Sterling Winthrop Group Ltd., a British Company, and Winthrop B.V., a Dutch company, obtained the trademark "Negram" for the drug.⁴² Centrafarm B.V., another Dutch company, imported medicinal products prepared with Sterling Drug's patented process without permission.⁴³ The products were first imported to the Netherlands from West Germany, where they had been marketed by subsidiaries of Sterling Drug. Later they were imported from Great Britain in order to take advantage of the considerably lower prices in that country. The products sold in Great Britain were half the price of the products sold in the Netherlands.⁴⁴ Sterling Drug asked the courts to stop Centrafarm from marketing the products. Their request was initially rejected by the District Court of Rotterdam but later granted by the Court of Appeals. Centrafarm B.V. then appealed to the Supreme Court, which applied the preliminary ruling procedure of Article 177 of the EEC Treaty in order to entreat the ECJ on this matter.

The issue presented to the ECJ concerned the consistency

40. *Centrafarm v. Sterling Drug*, 1974 E. Comm. Ct. J. Rep. 1147, 14 Comm. Mkt. L.R. 480.

41. *Id.* at 1149, 14 Comm. Mkt. L.R. at 484.

42. *Id.*

43. *Id.*

44. *Id.*

between the exercise of patent rights and Articles 30-36 of the EEC Treaty. Article 30 prohibits all quantitative restrictions on imports between Member States and all measures having equivalent effect. Article 36 allows an exception for industrial and commercial property. Although the EEC Treaty does not affect rights recognized by the individual laws of EEC Member States, the exercise of those rights may be affected by the prohibition contained in Article 30. The ECJ stated:

Inasmuch as it provides an exception to one of the fundamental principles of the Common Market, Article 36 in fact only admits derogations from the free movement of goods where such derogations are justified for the purpose of safeguarding rights which constitute the specific subject matter of this property. 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 licenses to third parties, as well as the right to oppose infringements.⁴⁵

In *Sterling Drug* the ECJ reaffirmed the proposition that a distinction must be made between the right itself and the exercise of that right. The patentee's right to oppose importation of patented products is incompatible with the free movement of goods because it gives the patentee the ability to partition national markets and restrict trade between Member States. It is of no significance whether price differences exist.⁴⁶

2. Windsurfing International⁴⁷

Windsurfing International, a U.S. company, entered into licensing agreements with some EEC Companies. The agreements provided that Windsurfing International could terminate the licensing agreements if the licensed products were produced in EEC countries where patent protection did not exist. In fact, the U.S. company had obtained patent protection in only a few EEC Member States. The agreement aimed to prevent production by

45. *Id.* at 1148, 14 Comm. Mkt. L.R. at 503 (emphasis added).

46. W. CORNISH, *INTELLECTUAL PROPERTY: PATENTS, COPYRIGHTS, TRADE MARKS AND ALLIED RIGHTS* (2d ed. 1989); H. JOHANNES, *supra* note 7, at 209.

47. *Windsurfing Int'l v. E.C. Commission*, 1986 E. Comm. Ct. J. Rep. 611, 47 Comm. Mkt. L.R. 489.

licensees in EEC countries without patent protection and licensing fees.

The licensees petitioned the EEC Commission to examine the validity of the agreement under EEC law. The Commission found the agreement invalid and fined the American licensor. Windsurfing International appealed to the ECJ, which confirmed the Commission's decision. The ECJ stated:

Windsurfing International can not rely on the subject matter of the patent in order to gain the protection offered by the patent in a country where there is no patent protection. Insofar as the American licensor prohibited its licensees from also manufacturing the product in a country where it had no patent protection and so marketing that product without paying a royalty, it limited the freedom of competition by means of a clause which had nothing to do with patent protection.⁴⁸

Licensing agreements are incompatible with EEC competition law when provisions of the agreements prohibit transferring production of a licensed product to another EEC Member State where no license was granted nor patent protection existed. If the products are produced in a country where no patent protection exists, the producer pays no royalties. Therefore, the price of these goods will be cheaper than those marketed under license. Such agreements are considered invalid on two grounds: (1) it is a disguised limitation of trade between EEC Member States, and (2) it unlawfully extends the patent protection from one EEC country to another.⁴⁹

3. E.M.I. Records⁵⁰

In 1894, the American Graphophone Company purchased Columbia Phonograph Company General. Columbia had trademarks consisting of the word "COLOMBIA" in the U.S., U.K. and several EEC countries. In 1917, a subsidiary of the American Graphophone Company was established in the U.K. under the name of Columbia Graphophone Company Limited, which received the trademark rights in the U.K. and Europe. After several mergers, acquisitions and takeovers, E.M.I. Limited acquired the shares of Columbia Graphophone Company Limited,

48. *Id.* at 662, 47 Comm. Mkt. L.R. at 539.

49. B. CAWTHRA, *supra* note 26, at 112; Redies, *supra* note 32, at 14.

50. E.M.I. Records Limited v. C.B.S. United Kingdom Limited, 1976 E. Comm. Ct. J. Rep. 811, 18 Comm. Mkt. L.R. 235.

including the Columbia trademarks. In the meantime, ownership of the Columbia trademark in the U.S. was transferred to C.B.S. Inc., which in turn created subsidiaries in the U.K., Denmark and Germany. These three subsidiaries imported and sold records with the Columbia trademark. E.M.I. Limited considered this an infringement of its trademark rights and filed suit with the appropriate courts of the three Member States.

The suit involved the application of Article 10 of the EEC Treaty. Article 10 sets forth requirements for "products in free circulation."⁵¹ These requirements include completing import formalities and paying customs duties and charges. Once goods imported from third countries have satisfied these requirements, they are in free circulation within the EEC Community and therefore exempted from additional taxes or customs formalities. The ECJ concluded that the trademark owner, E.M.I. Limited, was entitled to oppose the importation of goods bearing the same or similar trademark which are sold or manufactured in a third country. Therefore, anyone wishing to import such goods into the Community must obliterate the trademark or apply another mark.⁵²

The Commission observed that *E.M.I. Records* "by no means implies that the regularity of their marketing has been verified in relation to the national provisions of the importing State regarding industrial and commercial property rights."⁵³ The opposite interpretation, argued by C.B.S. Inc., puts the domestic EEC products at a disadvantage in relation to goods imported from third countries and reduces registered trademarks to marks without protection or commercial value.

F. Conclusions

The ECJ has repeatedly emphasized that its role is not to apply the EEC Treaty but only to interpret it. Article 177 of the EEC Treaty refuses to give the ECJ more power. Indeed, there is no provision for a direct appeal to the ECJ from a decision of a national court. Therefore, the ECJ cannot rule on whether decisions by national courts conform to the EEC Treaty or ensure

51. Treaty of Rome, *supra* note 2, at art. 10.

52. H. JOHANNES, *supra* note 7, at 280.

53. *E.M.I. Records Limited v. C.B.S. United Kingdom Limited*, 1976 E. Comm. Ct. J. Rep. at 838; 18 Comm. Mkt. L.R. at 265.

the uniform application of Community law through direct proceedings.⁵⁴

Article 177 reduces the role of the ECJ and makes the patent system entirely dependent upon the cooperation of the national courts. *E.M.I. Records* makes it quiet clear that the system can be effective notwithstanding the restrained competence of the ECJ. Nevertheless, since the role of the ECJ is confined to interpreting Community law, the ECJ can merely deal with the real consequences of the solutions offered by the Commission. In contrast, the Commission will continue to be the most important institution because it provides regulations which are aimed at reaching Treaty objectives. This reiterates the differences between basic continental principles and the anglo-saxon system.

IV. COPYRIGHT LAW

A. *Green Paper on Copyright*

Following the 1985 White Paper on Completing the Internal Market, the Commission outlined the Green Paper on Copyright and the Challenge of Technology.⁵⁵ The Green Paper sets goals which must be attained by 1992 in order to ensure the proper functioning of the common market. Manufacturers and suppliers of copyrighted goods and services must be able to treat the Community as a single internal market. This requires eliminating obstacles and legal differences between national copyright laws that may disrupt the EEC market.

However, according to the Green Paper, Community legislation should be restricted to that which is necessary to carry out the tasks of the Community. Indeed, a great consensus has already been achieved since all EEC Member States are contracting parties to the Berne Convention for the Protection of Literary and Artistic Works and to the Universal Copyright Convention, to which the U.S. also adheres.

The 1986 International Convention for the Protection of Literary and Artistic Works (Berne Convention) has been an important approximating factor for copyright law among EEC Member States. It called for adhering States to "sacrifice, in some measure, their rigid national conceptions and bend their internal legislation to general rules that were internationally rec-

54. D. GUY & G. LEIGH, *THE EEC AND INTELLECTUAL PROPERTY* 33 (1981).

55. *COPYRIGHT AND THE CHALLENGE OF TECHNOLOGY*, 1988 EUR. COM. DOC. (COM No. 88) (1988) [hereinafter *Green Paper*].

ognized. Two problems demanded solution: conflicts of laws had to be adjusted and differences between national legislation bridged, if not eliminated."⁵⁶ The first problem was solved by extending national treatment to foreign works and authors. The second problem was solved by uniform standards for copyright content, scope, and duration.

These general results of the Berne Convention received wider application in the Universal Copyright Convention (UCC) of September 2, 1952, to which the U.S. and other countries of the American continent adhere. While the Berne Convention sought to protect the rights of authors, it has been supplemented by the UCC, which extended copyright protection to the sciences and arts, as well as works of the human mind. Other benefits that accrue to authors through the UCC are: (1) equal protection for foreign and national works unrestricted by reciprocity, (2) formalities simplification, and (3) author control over translation rights.

As stated earlier, an important part of approximating copyright law within the Community was realized through the two Conventions mentioned above. Nevertheless, some substantial problems remained, and the EEC Commission had to intervene. These problems were due to the fact that the original Berne Convention was amended and supplemented seven successive times in 1896, 1908, 1914, 1928, 1948, 1967 and 1971.⁵⁷ At the Community level, complications arose since not all EEC Member States accepted all the revisions. Some countries kept the level of protection provided in the Rome version of 1928, others the Brussels version of 1948, and still others one of the remaining versions. These changes can be characterized as the continuous expansion of copyright protection.

The Berne Convention came up with solutions for many, but not all, copyright law issues. It achieved a fundamental approximation of the EEC Member State laws, but other issues impacting the internal market remained unsolved. Therefore, most issues were left for regulation by national laws within the framework of the Berne Convention, while issues relating to Community matters required a Community approach.

Therefore, the scope of the Commission's Green Paper was

56. Masouye, *The Berne Convention: Its Principles, Development, and Administration*, 1968 BUREAUX INTERNATIONAUX REUNIS POUR LA PROPRIETE INTELLECTUELLE 11.

57. H. JEHORAM, *supra* note 5, at 201; E. PLOMAN & L. HAMILTON, *COPYRIGHT: INTELLECTUAL PROPERTY IN THE INFORMATION AGE* 51 (1980).

consciously limited to the following: (1) private, home copying of sound and audio-visual works, (2) distribution and rental rights for sound and video recordings, (3) legal protection of computer programs, (4) legal problems relating to the operation of data bases, and (5) external aspects of copyright protection.

The Green Paper seeks to obtain a final approximation of the EEC Member State copyright laws based on the principles of the Berne Convention and to resolve some specific matters that affect the functioning of the internal market. Thus, the Green Paper is not only a confirmation of, but also a complement to, the Berne Convention that is limited to specific Community issues.

Manufacturers and suppliers of copyrighted goods and services should be able to approach the EEC as a single internal market without the obstacles that disrupt the market or distort competition. The Commission dealt with several fundamental obstacles to inter-state trade of goods and services protected by copyrights. These obstacles were caused by differences in copyright laws which adversely affect the Common Market by distorting competitive conditions. Illegally copied works, for example, can be manufactured cheaper than originals and can undercut the latter in a free market system. A direct negative impact on Member States offering weak copyright protection is that illegally copied works capture a bigger market share than they do elsewhere.

At the same time, the need to take action against imported, illegally copied works tends to perpetuate controls within the EEC. Inevitably, these controls adversely affect the free movement of legitimate goods. Different copyright laws not only affect trade flows but also the scale and nature of the connected manufacturing activities and the investments therein. The following example emphasizes the advantage of the non-territoriality principle in competition law.⁵⁸

Copyright exhaustion occurs when the copyright holder sells a copy of his copyrighted work. The holder must authorize the sale, but once the sale has occurred, the copyright is exhausted. Once this occurs, the work can be sold again, but without copy-

58. B. CAWTHRA, *supra* note 26, at 90; Beier, *The Doctrine of Exhaustion in EEC Trademark Law: Scope and Limits*, 10 INT'L REV. INDUS. PROP. & COPYRIGHT L. 20 (1979).

right protection. This is true of patent and trademark rights as well.

When a work copyrighted in Germany and Belgium is sold in Germany, only the corresponding German copyright is exhausted. The two rights remain independent of each other in accordance with the territoriality principle. One negative impact that this has on the market is that the German proprietor of the unexhausted Belgian right may still prohibit any unauthorized importation of German products into Belgium. Thus, the German proprietor has a monopoly in Belgium, creating boundaries between the EEC Member States. This type of monopoly can be used to set up price differences. A classic example of this is the *Sterling Drug*⁵⁹ case examined earlier in the patent law section. In this case, the patent owners tried to prohibit parallel imports of their drug from Great Britain into the Netherlands, where the price set by the owners was twice as high.

The Green Paper has also generated a proposal for a Council Directive on the legal protection of computer programs. This directive will be examined in the following section.

B. *Legal Protection of Computer Programs*

On January 5, 1989 the Commission submitted a proposal to the Council on the legal protection of computer programs.⁶⁰ This proposal seeks to provide copyright protection for computer programs equal to that existing for literary and artistic works under the Berne Convention. Copyright is the best way to protect computer programs because the inventive step usually contains algorithms which, like mathematical principles and natural law, are unpatentable.⁶¹

The proposal does not, however, define "computer program." Experts warn that any definition would soon become obsolete as technology progresses. Copyrights do not protect ideas, but the expression of ideas. Therefore, by copyrighting a computer program, it will be protected as a whole rather than its underlying principles, logic, algorithms or programming. Ori-

59. *Centrafarm v. Sterling Drug*, 1974 E. Comm. Ct. J. Rep. 1147, 14 Comm. Mkt. L.R. 480. See *supra* text accompanying notes 40-46.

60. Proposal for a Council Directive on the Legal Protection of Computer Programs, 32 O.J. EUR. COMM. (No. C 91/13) (1989).

61. C. MILLARD, *LEGAL PROTECTION OF COMPUTER PROGRAMS AND DATA* (1985).

nality is the only criterion a program must meet before it can be copyrighted.

As with literary and artistic works, copyrights for computer programs are granted only to the person(s) who created the program. Computer programs are often created by freelance programmers who obtain the exclusive copyright. However, when an employee creates a program during his office hours and within the company organization, the company is entitled to the copyright.

Only the copyright holder may authorize reproduction, distribution and adaptation of the program. However, these rights can be limited by a written agreement between the holder and user. The right to control distribution is exhausted once the program has been marketed, unless otherwise agreed by the copyright holder and user. Copyrights continue for fifty years from the date of creation and do not need to be registered. Unfortunately, the Commission did not follow the Berne Convention, which grants protection for the lifetime of the author plus fifty years.

Industry unanimously supports this proposal to protect computer programs. While this protection is already available in four EEC Member States (France, Germany, Spain and the UK), protection will soon be available throughout the entire Community.

V. CONCLUSION

The abolition of trade limitations must be realized within the fixed institutional background of each national Member State. Therefore, the process of unifying National laws and increasing the EEC's supranational power will not occur without problems. One major problem is how to unify the different intellectual property laws in a professional manner. This problem must be solved, however, because trademark, patent, and copyright protection is crucial to the creation of a smooth-operating internal market. Of course, some problems still await solutions. This is especially true in those sectors of industry, like the pharmaceutical and biotechnological industries, where the welfare of the populace depends upon those problems being solved. From 1992 on, those problems will sharpen as borders vanish.

All EEC Member States agree that a common market based on free competition is an improvement over the current system. In spite of this consensus, important steps must be taken in or-

der to achieve a common policy. Therefore, the Commission anxiously seeks for the adoption of its proposals on intellectual property rights. The adoption of these proposals are imperative for industrial development and commercial extension of trade between Member States. With this in mind, the Community agreed to the strict December 31, 1992 deadline. However, as for implementing proposals on intellectual property rights, this deadline will probably not be met. The Community still has a long way to go to achieve the aims outlined in the EEC Treaty.