

European Intellectual Property Law

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With a chapter on Intellectual Property Licensing Agreements within the
provisions of the Treaty of Rome by:

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Preface

There can be no extensive area of law which has been more affected by the impact of Europe than that of intellectual property. The impact can be said to have been comprehensive even extending to trade secrets with the particular provisions affecting the licensing of know-how detailed and discussed in Chapter 3 of this book. The need for contributions from scholars to describe, discuss and evaluate the impact of all this activity is greatly needed. The book is an attempt to make a contribution to this process whilst at the same time giving an accessible and useful text to experienced students, practitioner and academic colleagues.

Whilst the need for scholarly discussion from both academics and practitioners is prompted by the explosion of Community activity following the single market initiative, the speed of change makes the production of a book like this almost impossible, and certainly exhausting. A writer in this field attempting an overview like this can only hope that, by the time his book appears, it has not been totally overtaken by events. To take a cricketing analogy the wicket is difficult, lively and unpredictable, the difficulty increases the need for a decent innings but producing one is made particularly hazardous. I know that, despite inevitable shortcomings, the book makes some useful contribution to the expansion of knowledge and discussion in its area.

It certainly would have been poorer if I had not been able to persuade David Booton to lend his very considerable abilities to the effort by contributing a chapter on the licensing of intellectual property within the Community which attains a standard which I could not have equalled whilst in coping with the rest of the text. With the benefit of hindsight (with the help of which we can all appear super-human clairvoyants), the book would probably have benefited from my sharing more of the writing, if indeed I could have found a colleague to share it with. However, as with most of us, my foresight is considerably less extensive than my hindsight, and I made no such arrangement. I am deeply grateful to David for his contribution. He in turn wishes to express his gratitude to former colleagues at Liverpool University, Imelda Maher and Fiona Beveridge, for their help in reading and commenting on previous drafts of his chapter. David's input to the book was not limited to his chapter but he too read and commented on the draft of my own chapters for which I am further indebted to him. Responsibilities for any shortcomings remain, however, as always, my own.

We have attempted to state the law as it is known to us at 31 July 1998, although at proof stage some limited alterations were made to update it.

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1 Introduction

The experience of the Western world of the impact of its intellectual property laws since the end of the second world war has been an interesting one. The last half century has been an era in which trade in the world has been made progressively freer. The inevitable result has been that it has become increasingly international. This process has been largely deliberate since there has been a firm belief that increasing internationalisation of trade produces international interdependence which makes the consequences of large scale conflict so economically disruptive as to be politically unacceptable. With internationalisation of trade there has been a desire both by politicians and market leaders¹ that restrictions on the movement of goods and capital should be reduced and bypassed so that profitable commercial activity should be maximised as much as possible.

At a political level these developments have shown themselves at two international levels. On the one hand there has been a general international movement to the reduction of barriers on a world scale through the structure put in place by the General Agreement on Tariffs and Trade. On the other at a transnational level less than totally international there has been a move to regional free trade areas with or without the additional ideal of increased political integration. Of this latter system the structure of the European Community has been the prime example. In both cases an interesting phenomenon has been discovered. As traditional political barriers to freedom of trade represented by tariffs and restrictions on the flow of capital have been reduced it has thrown into sharp relief the way in which intellectual property rights, being essential national in character, can be the instrument by which intellectual property right owners can control markets to increase their profits and restrict competition and the full free flow of goods. This has confronted mankind with an undoubted problem. On the one hand there has been the need to protect intellectual property rights since these have been an essential ingredient adding to the increase of goods and services to be traded. On the other hand there is the need to prevent these rights being used in anti-competitive ways since these created barriers to the increase in trade which is sought.

¹ Market leaders have certainly played an important role. Thus the international bond market under which capital freely moves internationally was created by the vision of bankers and the ingenuity of their legal advisers. For an account of the subject see T. Prime 'International Bonds and Certificates of Deposit' (Butterworths, London 1990).

On the international scale this has, indeed, evidenced itself quite clearly with the insistence by the United States that those aspects of intellectual property rights that are trade related be included in the Uruguay round of negotiations of the General Agreement on Tariffs and Trade leading to the TRIPS agreement.² Central to that agreement is not merely a simple insistence that all countries properly protect intellectual property rights but also clear provisions to allow national governments to take steps to prevent intellectual property right owners from so using their rights as to be guilty of unfair competition and restrictive practices.³ The conclusion that uncontrolled intellectual property rights exploited by right-holders without hindrance represents an unacceptable restriction on freedom of trade and a proper competitive environment is thus the basis of the whole TRIPS agreement.

This conflict between essential principles of modern commercial life has also had to be met by the European Community. Confronted with national rights which clearly restricted the creation of the competitive free trade area on which the economic and political union on which the new Europe was to be based, European institutions were obliged to meet the challenge head on. At a political level this book is an account of the way in which both the European Court and the European Commission have met the challenge. It is, however, fundamentally a law book. It cannot be otherwise since the combined effect of the efforts of the two principal instruments creating the new Europe has been to completely rewrite national intellectual property laws in a process which still continues. No area of law has been so fundamentally recreated by the instruments of the new Europe as its intellectual property laws.

The story begins with the European Court and its need to develop doctrine to make sense and balance of the various provisions of the Treaty of Rome itself, and it is here that the story begins.

² For accounts of the TRIPS agreement and the negotiation which led to it see *inter alia.*, 'The GATT Uruguay Round: A Negotiating History (1986–1992)' Terence P. Stewart (ed.), vols I–III (Kluwer, Dordrecht, Boston, 1993); Michael Blakeney, 'Trade Related Aspects of Intellectual Property Rights: A Concise Guide to the TRIPS Agreement' (Sweet & Maxwell, London, 1996); and Daniel Gervais, 'The Trips Agreement – Drafting History and Analysis' (Sweet & Maxwell, London, 1998).

³ Section 8 of the Agreement (Art. 40).

2 Intellectual Property and the EC Treaty – the Jurisprudence of the European Court

1. INTRODUCTION

Intellectual property is a comprehensive term used to cover a network of legal rights protecting intangible assets which are often of great economic significance. The rights created are property rights in the sense that they are effective against any third party which acts contrary to them, even if he acts in ignorance of their existence. The range of assets covered by these rights are diverse and extensive. They are well summarised in the opening words of the foremost legal text book on the subject;

'Patents give temporary protection to technological inventions and design rights to the appearance of mass produced goods, copyright give longer lasting rights in, for instance, literary, artistic and musical creations; trade marks are protected against imitation so long at least as they continue to be employed in trade.'¹

From this it will be seen that one form of intellectual property (trade marks) can continue indefinitely, whereas the others exist for only a limited duration of varying periods, eg 15 years in the case of unregistered design right and the life of the creator plus seventy years in the case of copyright. Some forms of protection arise automatically (copyright, unregistered design right), whereas others require registration if protection is to be achieved (trade marks, patents, registered design right). In the case of rights obtained by registration the protection given is in principle that of an exclusive right to use the material registered; in the case of rights not requiring registration to secure protection the right achieved is that of not having the work copied or adapted without consent.

It is therefore apparent that there can be little doubting the importance of intellectual property in the modern world. A successful patented invention can make a fortune for the inventor, or a business empire for the commercial

¹ W.R. Cornish 'Intellectual Property' 3rd ed. (Sweet & Maxwell, 1996) p. 3.

operation created to exploit it. The vast western entertainment industry is dependent for its importance on the protection given to books, performances, records and films by the law of copyright, right in performance, and recording right. Western industry is increasingly aware of the significance to its success of its trade secrets, industrial designs, and confidential internal information. Finally, and by no means of least importance, in an image-conscious and advertising-led consumer society the importance of trade marks as the primary means by which brands names and image may be protected gallops on apace, a development emphasised by the now general practice of putting a value on the brand names of a business and including the values in the business balance sheet.² Indeed often the value of the brands constitute the major assets of the business. Thus, the value of the large US brands *Marlboro* and *Coca-Cola* have been estimated at nearly 40 billion and 34 billion US dollars respectively, and the largest British brand *Guinness* at nearly 2.75 billion US dollars.

A. What is Europe?

Before exploring the impact of Europe on intellectual property it is desirable to specify what it is that we mean by Europe in this context. There are in fact two European trading areas which need to be differentiated, but which interconnect because they have established trading relations between themselves and whose complex relationships have impacted on intellectual property law. The first is the European Community (EC) created under the umbrella of the Treaty of Rome aimed at ever closer political and economic union and dedicated to the principles of both free movement of goods and firm controls over anti-competitive practices within its borders. The UK is, of course, a member as are Greece, Sweden, Denmark, Austria, Finland, Republic of Ireland, Spain, Portugal, France, Germany, Italy and the Benelux Countries. The second is the European Economic Area (EEA) constituted in 1994 to establish free trade obligations between the EC and the rump of the former European Free Trade Area members of Iceland, Liechtenstein and Norway. The Europe with which this book is concerned is the European Community except for the specific discussion of the problem of parallel imports.³ This is because it has uniformly been the initiatives of the

² There is, of course, an issue as to whether such intangible assets should be shown separately in the balance sheet or subsumed within a general heading of goodwill – see A. Simmonds, 'Goodwill and Intangible Assets: New Proposals for Accounting Reform' (1995) 17EIPR 34.

³ See post p. 10. This does not mean, of course, that the other legislative interventions discussed in this book may not also impact on participants of the EEA.

European Community which have changed the shape of the intellectual property law of its member states, and promoted the transnational arrangements which are transforming the picture of intellectual property protection yet further.

B. The EC and Intellectual Property Rights

Given the importance of the intellectual property rights framework to the national economies of the Member States of the European Community created by the Treaty of Rome in 1957, the common market has shown itself to be but poorly designed to handle the consequences of such rights within the community-wide commercial arrangements which it sought to establish. In particular, it has found that the existence of such rights as essentially national rights created by national legislation has an entirely natural tendency to fragment and divide markets on a purely national basis, to the detriment of the principles which caused the creation of the Community in the first place, and which are intended to inform and direct its everyday operation. National rights are an inherent obstacle to the creation of a true common market with free movement of goods and services.

It is perhaps understandable that in the 1950s the drafters of the Treaty should have failed to appreciate the full extent of the problems which intellectual property potentially posed to the ideals to which they were endeavouring to bring practical expression. The ever onward march of the commercial significance of intellectual property rights both nationally and internationally was still at a much earlier stage. By a process of change which has proceeded at an ever increasing rate of velocity, the commercial world of the 1990s is barely recognisable if placed in direct comparison with the 1950s. It is small wonder that the fathers of European commercial integration should fail to foresee changes which, even with the advantages of retrospect, are incompletely known and understood.

The failure to appreciate the future is demonstrated by the unsolved conflicts expressed within the Treaty itself. While essaying to create a market within which goods and services might move freely and anti-competitive practices be controlled, the drafters of the Treaty were concerned to protect property rights which would necessarily depend for their existence on the rules of national legal systems. Thus, while Arts 30 to 37 provided for the elimination of quantitative restrictions on trade between Member States to accomplish the free movement of goods, Art. 36 provided explicitly and clearly that this did not preclude protection of industrial and commercial property provided only that such limitations did not constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States. At its most obvious level this raises issues as to what constitutes

industrial and commercial property which might be protected despite the general policy, thrust and expressions of the free movement provisions. While such expressions clearly cover such main areas as patent and trade mark protection, it is by no means clear from the expressions themselves that they embrace copyright, despite its commercial significance both within the entertainment and media industries and more widely.⁴ Further and more generally the commercial terms of the Treaty are the subject of the provision of Art. 222 that their provisions in no way prejudice the rules in Member States governing the system of property ownership.⁵ Since intellectual property rights were protected under the Treaty despite their national basis and frequently national exploitation, problems were bound to arise as national rights intruded on community wide trade, particularly in the field of parallel imports, where goods released in one part of the Community might be prevented from importation into another Member State on the grounds that importation would conflict with an intellectual property right existing in that state.

2. THE JURISPRUDENCE OF THE COURTS

If the drafters of the Treaty failed to appreciate that there was a large problem to which no coherent and consistent reply could be deduced from the Treaty itself, the Commission established under the Treaty terms showed itself much more alert to the unresolved tensions arising from the Treaty provisions, and before the expiration of that founding decade was urging the original six Member States to consider the implications of the national systems for trade marks, designs and patents for the evolution of a true common market. However, such deliberations are inevitably lengthy, and the process of implementation of any recommendations arising from the

⁴ In fact the European Court of Justice (hereafter ECJ) has resolved this particular issue by deciding that copyright is included. Cases 55 and 57/80 *Membran v GEMA* 2, [1980] ECR 147.

⁵ Somewhat ironically it was the Commission's view that this more general provision embraces trade marks and patents but not copyright (Commissions Green Paper on copyright law (Com (88) 172 final)). In fact it may well be that the legislative purpose of this provision is different to that it has been understood to have. It is in fact derived from the ECSC Treaty, Art. 83, and was included in the earlier treaty to ensure that Member States should have freedom to decide whether enterprises within the ECSC structure are publicly or privately owned. See S. Neri and S. Sperl, *Traité Instaurant la Communauté Economique Européenne – Travaux Préparatoires Déclarations: Interprétatives des six gouvernements*, (Document parlementaires, Cour de Justice des Communautes Européennes, 1960).

discussions even longer. Consequently, in the absence of a properly developed legislative system it fell to the ECJ to evolve the jurisprudence under which, however inadequately, the conflicting thrust of the Treaty provisions might be reconciled. The inevitable result of this has been uncertainty, and a compromise which has drawn criticism and expressions of disappointment. However, while the evolved jurisprudence is no doubt imperfect, it has until recently proved to be durable and flexible, and has enabled many of the practical issues to be sensibly and realistically addressed.

The first necessity was to recognise that a real issue exists. This the Court of Justice did quite openly and frankly,⁶ stating;

'The national rules relating to the protection of industrial property have not yet been unified within the Community. In the absence of such unification, the national character of the protection of industrial property and the variations between the different legislative systems on this subject are capable of creating obstacles both to the free movement of goods and to competition within the Common Market.'

A. The Right and its Manner of Exercise

It will be seen from this that the Court considered that the obstacles, to which the national basis of intellectual property rights gave rise, related to both the free movement of goods provisions of Arts 30–37 and the competition provisions of Arts 85 and 86. In relation to the former both Art. 36 and Art. 222 in its view required recognition and protection of the underlying property rights; in relation to the latter the requirements arose from Art. 222 alone. The problem for the ECJ was to protect the rights and at the same time give effect to these central and vital provisions. To achieve this it had to devise a way of circumventing the provisions, and this it created by developing a distinction between, on the one hand, the very existence of the intellectual property right itself, the protection of which it was committed to undertake, and, on the other, the particular manner in which the right was exercised in particular circumstances. The crucial decision in this respect is of *Deutsche Grammophon Gesellschaft GmbH v Metro SB Grossmarkt GmbH and Co KG*⁷ which represented the watershed for the full acceptance of the distinction into Community Law. The plaintiff was the large German record company. It

⁶ *Parke, Davis v Centrafarm*, Case 24/67 [1968] ECR 55. See also *Sirena SRL v Eda GmbH* (1971) ECR 69. *Keurhoop v Nancy Kean*, Case 144/81 [1982] ECR 2853; *Thetford v Fiamma*, Case 35/87 [1988] 3 CMLR 549.

⁷ Case 78/70 [1971] ECR 487.

manufactured records in Germany some of which were sold to its French subsidiary. It also supplied records to German retailers. At the time of the proceedings German law permitted retail price maintenance and the plaintiff operated a system to take advantage of this possibility by requiring retailers to sign an appropriate undertaking not to sell below the set price. The undertaking extended to all records manufactured by the plaintiff, whether obtained from it direct or from third parties, and further provided that records could only be imported from abroad with the plaintiff's authorisation. In practice authorisation was only given if the retailer agreed to observe the restrictions affecting price on sale to customers.

The defendant had purchased records from the plaintiff direct for a short period, but direct trading relations between plaintiff and defendant had terminated when the defendant had failed to observe the terms of price control. It looked for alternative sources of supply and found one through a distribution chain, which went back to the French subsidiary. The plaintiff sought an injunction to restrain this activity, basing its case on its intellectual property rights in the records, which, under German law, were rights closely analogous to copyright. The court assumed that a right closely analogous to copyright would fall within the terminology 'industrial and commercial' property as used in Art. 36 of the Treaty, and was therefore entitled to protection as a property. This protection, however, in the view of the Court did not mean that the plaintiff was free to exercise his rights in any way he chose without restriction. While Art. 36 permits restriction on the free movement of goods for the protection of industrial and commercial property this meant the bundle of rights which formed the 'specific object' of the property, but not necessarily particular manifestations of those rights in the manner in which they might be employed in particular circumstances. Relating this distinction to the particular circumstances, it concluded that 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 onto 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 this isolation of national markets conflicts with the essential aim of the Treaty, the integration of the several 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 on the trade between the Member States.

(i) *The Concept of Exhaustion of Rights*

It follows from this that once goods have been placed on the market anywhere within the Community by the person who owns the intellectual property rights represented by the goods, or with his consent, his specific intellectual property rights have been 'exhausted' because he has been paid, or had the opportunity of being paid, for those rights embodied in the goods.⁸ It follows further that any entitlement that he may have by virtue of the intellectual property rights in the goods to prevent them circulating freely within the Community are not part of the specific object of the intellectual property right, and are, therefore, not entitled to protection thereafter.

An example of these principles being generally applied can be found in the decision of the European Court of Justice in *Centrafarm B.V. v Winthrop B.V.*⁹ the first of a number of cases involving Centrafarm, a Dutch company whose business was that of importation and distribution of pharmaceutical products. Sterling Drug, an American manufacturer of pharmaceutical products, marketed its products in the UK through a subsidiary (Sterling Winthrop) and in Holland through another subsidiary (Winthrop BV). Centrafarm bought the same products in the UK, where it could be bought cheaper, and sold them in Holland; both subsidiaries brought an action against Centrafarm for infringement of trade mark, but this was rejected by the European Court of Justice. The goods had been placed on the market in the UK, and national trade mark law could not be used to prevent the free circulation of such goods throughout the Community.

Indeed, at an even earlier stage the Court of Justice demonstrated a clear determination to prevent segmentation of the market by use of national

⁸ This is so even though no intellectual property protection was available in the Member State in which the product was first marketed, *Merck and Co v Stephar BV* (Case 18/80) [1981] ECR 2063; *Merck and Co Inc v Primecrown Ltd* (Joined Cases C-267/95 and C268/95) [1997] 1 CMLR 83, since the product owner chose to market in the particular state. However, the approach can be criticised on the ground that the result might be a decision on the part of the suppliers to refuse to supply their products in Member States with no intellectual property protection, thereby partitioning the single market – see the opinion of Advocate Fenerd Fedelly in the later case discussed by Pat Treacy and Justin Watts [1996] 11 EIPR 624. See also Ian Senior, 'Patents and Parallel Trade in Prescription Medicines with the EU' (1996) 86 Patent World 23; Torremans and Stamatoudi, 'Merck is Back' [1997] 9 EIPR 545.

⁹ Case 17/74 [1974] ECR 1147, 1183 [1974] 2 CMLR 480. A lot of the litigation has involved the pharmaceutical industry which is a major international player. For a critical evaluation of the impact of this industry on the jurisprudence, and vice versa, see Guy Tritton, 'Parallel Imports in the European Community' [1991] IPQ 196; Torremans and Stamatoudi, 'Merck is Back' [1997] 9 EIPR 545.

intellectual property rights. In *Consten Grundig v EEC Commission*¹⁰ it met the problem head on. The German electrical goods manufacturer, Grundig, appointed a number of exclusive distributors in Member States of the Community under exclusive distributorship agreements, which contained prohibitions on exporting directly or indirectly to other licensee's territories. Consten was the distributor appointed for France. Consten, on the basis of this, applied for registration of the Grundig mark in France on the basis of an arrangement with Grundig, that if the distributorship were to be terminated the French mark would be assigned to Grundig. Another company began to import Grundig goods into France from other Member States, and Consten sued them *inter-alia* for infringement of the Trade Mark which they had registered. The European Commission took the view that the use of the national right in such circumstances was an anti-competitive device caught by Art. 85(1) and constituted therefore, an abusive use of their intellectual property rights. The fact that improved distribution arrangements could improve competition between Grundig and other manufacturers of similar equipment did not outweigh its anti-competitive effects.

The issue thus highlighted is that of parallel imports – the practice of importing goods from another Member Country of the Community when they are then marketed in the country of import at a higher price. The doctrine of exhaustion of rights prevents trade mark law being used to prevent the practice, provided that the goods were initially marketed with the consent of the proprietor or licensee.

Clearly such problems can become particularly acute in the case of the marketing of a product in various parts of the world by a multi-national company. The problems are well illustrated by *Revlon Inc. v Cripps and Lee Ltd*¹¹ which concerned the marketing of a medicated anti-dandruff shampoo, 'Revlon-Flex'. This had been marketed in the USA, but not in the UK. In the USA Revlon discontinued its marketing of the brand. On discontinuing its promotions Revlon found that it had considerable surplus stock on its hands, of which it disposed part to a New York charity, subject to a term that the shampoo was not resold, and the remainder to American wholesalers. The defendants imported some of the stock into the UK. It was not clear whether they had been acquired from the charity or from the American wholesalers. Revlon-Suisse, a subsidiary of the US Revlon Inc., held the right to the UK registered 'Revlon' and 'Revlon-Flex' marks. Revlon overseas manufactured the UK products, and they were distributed by Revlon International, a licensee. Relief was sought to prevent distribution in the UK, on the basis that the trade mark was being used by the importer without permission. The Court of Appeal refused to restrain the import. The court took the broad

¹⁰ Cases 56 and 8/64 [1966] ECR 299.

¹¹ [1980] FSR 85.

view that the mark Revlon-Flex had been exploited by the Revlon Group as a world-wide exercise, and had been used to denote origin from the Group as a whole rather than from some individual part of it. The fact that the subsidiaries had considerable autonomy was irrelevant. They were in fact creatures of the parent corporation, and were to be taken to have consented to Revlon-Flex being applied to all group products, including application of the mark. In disposal of the goods by Revlon Inc., Revlon Inc., had 'exhausted' its rights, so neither it nor its subsidiaries, who had consented to sale of the products bearing the mark, could prevent their importation into the UK. Thus, it is clear that the courts will look at the reality of the distribution of power and control within a multi-national group. The same is true, when considering national groups of parents and subsidiaries.¹²

(ii) *Existence Exercise Distinction*

The distinction made by the court between the existence of the right which is legitimately protected by national intellectual property law, and the particular exercise of the right, which if abusive, will be restrained by the court, was subsequently confirmed and applied to litigation based on Arts 30-36 (free movement of goods) in the case of *Park, Davis v Centrafarm*¹³ as it had been in the *Consten and Grundig* case to litigation on the competition provisions of Arts 84 and 85.

The basic doctrine thus emerges in simple and clear form, but has to be considered in relation to each type of intellectual property separately, if its implications are to be properly perceived. In relation to each type of intellectual property right – trade marks, patents, design rights, copyright and analogous rights – it has to be asked what are the specific rights associated with this particular right? What are the consequences of the distinction for the exploitation of this particular form of intellectual property right across the Community?

B. Copyright

The applicability of the principle of exhaustion of rights to copyright and analogous rights was decided by the *Deutsche Gramophone Case* itself. However, that case had made its decision on the basis of an assumption – the assumption that copyright and associated rights were industrial and commercial rights within Art. 36. If, subsequently, the issue was actually

¹² *Radiation Trade Mark* (1930) 47 RPC 37.

¹³ Case 24/67 [1968] ECR 55.

argued before the Court, and after taking argument it concluded that its assumption had been unwarranted, it could easily follow that the distinction between the essential subject matter of the right and the circumstances of its exercise could be inapplicable to copyright.¹⁴ Subsequently that issue was argued before it in the case of *Musik-Vertrieb Membran v GEMA*¹⁵ in part on the basis that since copyright included 'moral' rights it was neither purely industrial or commercial. The Court disagreed and applied to the facts before it the doctrine of exhaustion of rights.

However, while it was thus established that the principle of exhaustion of rights applied to copyright and its neighbouring rights no attempt was made to define the specific subject matter(s) of such rights. In fact in wrestling with this problem in subsequent case law the ECJ has found that the position is complex given the very varying ways in which such rights may be exploited. In *Coditel v Cine Vog*¹⁶ the Court held that in the case of a film 'the right that of the copyright owner and his assigns to require fees for any showing of the film is part of the essential function of copyright in this type of literary and artistic work', thus enabling the copyright owner to grant effective licences for different Member States covering the showing of the film in each state.

On the other hand the specific subject matter of the copyright in a video cassette may differ from that in a film since its usual means of exploitation differs. The exploitation of a video cassette may be by sale, rental or showing. Whether the commercial rental rights are exhausted by the sale of the cassette depended on whether the law of the country in which the rental took place did, or did not, recognise a rental right separate from the sale, because in the absence of a unified European Community structure in the area national laws inevitably prevailed.¹⁷ By the same token one of the ways on which a record is frequently exploited is by playing in public. Thus, if a discotheque makes use of records in the course of its business and a supplementary fee is payable under national law for this particular mode of public playing, the additional fee is a normal incident of the exploitation of the record even though not levied elsewhere within the Community.¹⁸

Therefore Community law has been consciously developed to try to ensure that copyright owners retain the normal means of exploitation of the various forms of material in which copyright and its neighbouring rights may subsist. A necessary corollary of the policy in the application of the concept of exhaustion of rights is that the alleged exhausting act (usually the initial

¹⁴ It might be applicable if the distinction was rebased on Art. 222 and not Art. 36.

¹⁵ [1981] ECR 147.

¹⁶ [1980] ECR 881.

¹⁷ *Warner Bros v Christiansen*, Case 158/85 [1987] ECR 2605.

¹⁸ *Bassett v SACEM*, Case 402/85 [1987] ECR 2605.