Edited by
JAN ROSÉN

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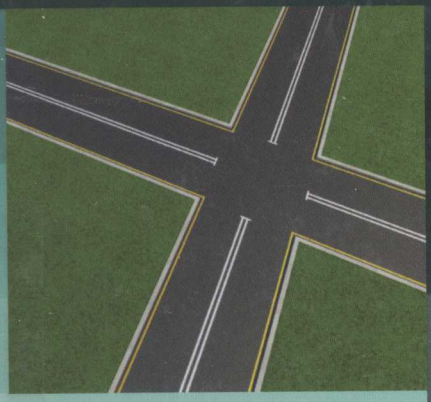
Intellectual Property at the Crossroads of Trade



ATRIP Intellectual Property

Intellectual Property at the Crossroads of Trade

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Jan Rosén

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ATRIP INTELLECTUAL PROPERTY

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Foreword

This book is the fruit of the ATRIP congress held in Singapore in 2011 under the common theme of 'IP Law at the Crossroads of Trade'. The 2011 Congress was organized by ATRIP in cooperation with the IP Academy of Singapore and the Faculty of Law at Singapore University, and with the support of the World Intellectual Property Organization (WIPO) and the International Federation of Patent Agents (FICPI). Organizational support to ATRIP is continuously offered by the Max Planck Institute for Intellectual Property and Competition Law.

The International Association for the Advancement of Teaching and Research in Intellectual Property (ATRIP)(www.atrip.org) is a unique community of IP scholars from all parts of the World, who congregate annually to exchange ideas, receive inspiration and gather information in a truly advanced academic atmosphere and environment. The editor was involved in the organization of the congress as President of ATRIP and host of the meeting. It is my wish to express my sincere gratitude to all those persons and institutions without whose support the successful arrangement of the meeting would not have been possible.

The Singapore programme, working under the chapeau of 'IP Law at the Crossroads of Trade', allowed the congress to embrace many fundamental and intrinsic elements of contemporary IP law, with also a certain reference to the region in which the congress was held. Emphasis was placed on goods in transit, exhaustion of rights, bilateral and international agreements, cross-border licensing and trade in goods of cultural heritage. Nevertheless, this book is not merely a compilation of the *per se* very interesting presentations made at the congress, but a selection of essays written specifically for this publication, which naturally connect with the contributors' oral presentations at the Singapore congress.

Accordingly, these contributions are intended to add to a full and rich picture of selected topics. This is why the book has been given a concise structure and theme – or, rather two themes, as the content is divided into two sections. Part I is entitled 'IP Licensing, Exhaustion and Competition Law', in which such distinguished writers as Josef Drexl, Paul Torremans, Guido Westkamp, Irene Calboli, Jacques de Werra, Dana Beldiman and Giuseppe Mazziotti present intrinsic and quite diverse, yet connected, topics. In Part II,

'Aspects of the Anti-Counterfeiting Trade Agreement', excellent scholars such as Christophe Geiger, Charles R. McManis, John S. Pelletier, Irini Stamatoudi, Maciej Barczewski and Sebastian Sykuna cover the very latest developments in the area of that intensely observed anti-counterfeit trade agreement.

It is my belief that this book will find its place on the market to attract a broader array of readers who are interested in topical issues relating to contemporary IP law.

Jan Rosén
ATRIP President

Contents

PART I

IP Licensing, Exhaustion and Competition Law

1. EU competition law and parallel trade in pharmaceuticals: lessons to be learned for WTO/TRIPS?

Josef Drexl

1. INTRODUCTION

The principle of European exhaustion is among the most fundamental principles of European intellectual property (IP) law. Its development goes back to the period prior to the adoption of the Single European Act of 1986, when the European Court of Justice (ECJ) promoted market integration by limiting the application of national laws, including IP laws, which created barriers to trade between the Member States. In doing so, the Court relied upon the principle of free movement of goods and former Article 36 EEC Treaty (now Article 36 TFEU) to prevent Member States from applying a principle of national exhaustion.[1]

However, it is to be recalled that even before recognition of the principle of European exhaustion, the ECJ, in its ground-breaking *Consten and Grundig* judgment, had held that parties to a trade mark licensing agreement violate the prohibition on restrictive agreements that is part of European competition law if the licensee is prevented from exporting branded goods to other Member States.[2] Hence, historically, the European competition law prohibition of private restraints on parallel trade preceded, and paved the ground for, the principle of European exhaustion, which, in turn, protects parallel trade against the application of national exhaustion under domestic IP laws.[3]

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[1] The first case related to copyright: see Case 78/70 *Deutsche Grammophon* [1971] ECR 487. In later cases the principle was extended to other IP rights: See Case 15/74 *Centrafarm v Sterling Drug* [1974] ECR 1147 (on patents); Case 119/75 *Terrapin v Terranova* [1976] ECR 1039 (on trade marks).

[2] Cases 56 & 58/64 *Consten and Grundig* [1966] ECR 299.

[3] In *Deutsche Grammophon*, the German court referred the case to the ECJ with the question of whether application of the national exhaustion rule under German copyright law violated competition law. The ECJ rephrased the question in the sense of whether German law breached the European principle of free movement of goods: see *Deutsche Grammophon*, above note 1, paras 2–10.

The close link between the exhaustion principle and EU competition law characterized European law from the very beginning. In the EU legal order, the fundamental freedoms, including the principle of free movement of goods, and competition law are complementary legal instruments that pursue the identical goal of establishing and maintaining the internal market. The fundamental freedoms are addressed to Member States and prevent them from applying legal rules that collide with the internal market principle. Competition law, in turn, guarantees that private undertakings do not replace state-initiated barriers to trade by private restraints of competition. This is why territorial restrictions have always been a particular focus of EU competition law.

Since the 1960s and 1970s, when these principles were developed, EU law and EU intellectual property law have moved ahead. The ECJ is no longer the only or principal 'engine of market integration'. The Single European Act has facilitated internal market legislation and, thereby, has laid the foundation for harmonizing IP law in the Member States. In addition, since the 1990s, the European legislature has also created some unitary rights systems, such as the Community Trade Mark system in particular. In this shift from 'negative integration' under the free movement principles to 'positive integration' through legislation, the principle of European exhaustion has also made it to secondary IP law.[4]

European IP legislation has had its impact on how the ECJ views the role of IP in the internal market. Whilst IPRs were largely considered by the Court to be obstacles to free trade in the 1970s and 1980s, the Court now recognizes a positive role of IP with regard to market transparency (trade marks) and enhancing innovation and creativity (patents and copyright) in the internal market. Yet this development did not affect the principle of freedom of parallel trade, which apparently is deeply enshrined in the European legal order.

However, the most recent competition cases on trade in pharmaceuticals seem to be modifying the law on parallel trade within the EU. In three cases, which all involved restraints on parallel trade initiated by GlaxoSmithKline (GSK), the issue arose whether restraints on parallel trade between Member States should always, or practically always, be held to be illegal under EU competition law or whether the argument of innovation should justify a more lenient approach to restraints on parallel trade in pharmaceuticals. While, in

[4] See Art. 7 First Council Directive 89/104/EEC to approximate the laws of the Member States relating to trade marks [1989] OJ L 40/1; Art. 15 Directive 98/71/EC of the European Parliament and the Council of 13 October 1998 on the legal protection of designs [1998] OJ L 289/28; Art. 4(2) Directive 2001/29/EC of the European Parliament and the Council of 22 May 2001 on the harmonization of certain aspects of copyright and related rights in the information society [2001] OJ L 167/10.

the first case, the referral was held inadmissible,[5] and the ECJ avoided the innovation argument in the second case,[6] in the last case the ECJ accepted the innovation argument in principle and held that, under former Article 81 EC (now Article 101 TFEU), it can justify a restraint of parallel trade implemented in the framework of a restrictive agreement.[7]

In none of these cases was the ECJ requested to go into reviewing its earlier case law on the European exhaustion principle. Yet, given the complementarity of the two legal instruments, the question may well be asked whether European law on free movement of goods relating to trade marks for pharmaceuticals and pharmaceutical patents needs to be reviewed. This, however, is not the question that will be considered here. Rather, this chapter seeks to investigate whether, from this most recent European development, lessons could be learned for the discussion at the international level, which has most recently become very heated with regard to the seizure of pharmaceuticals in transit in the European Union.

This chapter will dig deeper into the economics of parallel trade (in Section 2) and sketch the recent development of the above-mentioned European case law (Section 3). This chapter will then (in Section 4) turn to reconsider the issue of exhaustion from a global perspective with a particular focus on Article 6 TRIPS and, finally, will address the scenario of pharmaceuticals in transit (Section 5).

2. THE ECONOMICS OF PARALLEL TRADE

In recent years, economic theory on parallel trade has evolved considerably. Most economists would nowadays argue in favour of a more lenient approach towards restraints on parallel trade than was the case in the past. The reasons for this are basically twofold. First, restraints on parallel trade only reduce 'intra-brand' competition between dealers, but may be capable of promoting 'inter-brand' competition between manufacturers. Second, restraints on parallel trade allow for geographical price discrimination. Modern economics

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[5] Case C-53/03 *Syfait and Others* [2005] ECR I-4609 (however, take account of the most interesting and influential opinion delivered by Advocate General Jacobs).

[6] Joined Cases C-468/06 to C-478/06 *Sot. Lélos kai Sia* [2008] ECR I-7139. See also Josef Drexl, 'Healing with Bananas – How Should Community Competition Law Deal with Restraints on Parallel Trade in Pharmaceuticals?', in Josef Drexl, Reto M. Hilty, Laurence Boy, Christine Godt and Bernard Remiche (eds), *Technology and Competition – Contributions in Honour of Hanns Ullrich* (Larcier 2009) 571.

[7] Joined Cases C-501/06, C-513/06, C-515/06 and C-519/06 P *GlaxoSmithKline v Commission* [2009] ECR I-9291.

argues that price discrimination can be efficient and, therefore, pro-competitive in many instances.

Restraints of parallel trade are restraints that relate to the distribution of goods. Modern economics advocates a lenient approach to such vertical restraints concerning the distribution of goods in general.[8] It is held that a manufacturer who faces fierce competition with other manufacturers (inter-brand competition) will not be able to harm competition by vertically restricting the freedom of dealers to compete. Quite the contrary, it is assumed that such manufacturers will structure their distribution systems in such a way that their ability to compete with other manufacturers will be enhanced. Vertical restraints are therefore held to be efficient and pro-competitive, at least if the manufacturer is not market-dominant. This is why some authors even recommend giving up the ban on vertical market partitioning along the borders of the EU Member States.[9]

The second evolution relates to the evaluation of the link between parallel trade and the manufacturer's ability to price discriminate geographically. Parallel trade makes it harder for manufacturers to charge different prices to consumers in different countries. Therefore, parallel trade serves the interests of consumers in the importing countries, where the ability to pay is higher, by bringing down prices.[10] At the same time, parallel trade puts pressure on manufacturers to raise prices in countries where the buying power is considerably lower in order to reduce the potential of parallel trade. In the EU, parallel trade therefore has a tendency to harmonize the level of consumer prices. It may drive prices down in richer countries and put economic pressure on poorer countries to adjust to higher prices.[11]

Whether parallel trade has overall positive welfare effects is less clear. What is obvious in the first place is that consumers in the exporting countries

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[8] A recent and most prominent manifestation of this is the judgment in *Leegin Creative Leather Products, Inc. v PSKS, Inc. et al.*, 551 U.S. 877 (2007), in which the US Supreme Court switched from *per se* illegality to a rule-of-reason approach on resale price maintenance. For a critical view on this case, see, for instance, Marina Lao, 'Resale Price Maintenance: A Reassessment of its Competitive Harms and Benefits', in Josef Drexl, Warren S. Grimes, Rudolph J.R. Peritz and Edward Swaine (eds), *More Common Ground for International Competition Law?* (Edward Elgar Publishing 2011) 59.

[9] See, for instance, Denis Waelbroeck, 'Vertical Agreements: Four Years of Liberalisation by Regulation No. 2790/90 after 40 years of Legal (Block) Exemption', in Hanns Ullrich (ed.), *The Evolution of European Competition Law* (Edward Elgar Publishing 2006) 85, at 99–105.

[10] According to Patricia M. Dazon, 'The Economics of Parallel Trade' (1998) 13 *Pharmacoeconomics* 293, 294, parallel trade is exporting low prices.

[11] On the pricing of pharmaceuticals in the EU market see, in particular, Dazon, above note 10.