

# Landmark Decision by EC Court

*CENTRAFARM B.V. (ROTTERDAM), ADRIAAN DE PEIJPER, NIEUWERKERK AAN DE IJSSEL v. STERLING DRUG INC., NEW YORK, CASE 15/74, and CENTRAFARM B.V. (ROTTERDAM), ADRIAAN DE PEIJPER NIEUWERKERK AAN DE IJSSEL v. WINTHROP B.V., HAARLEM, CASE 16/74*

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## Introduction

On September 18, 1974, Advocate-General Alberto Trabucchi presented his conclusions to the Court of Justice of the European Communities in these landmark cases.

Both involve what has become known as the parallel patents and trademark question. In such a case, one company having granted licenses to several licensees in different member countries of the European Communities (ECs) under a same patent, one licensee seeks to enjoin the importation into its country of goods legitimately bought in another member country from the manufacturer, the other licensee.

(As LES Nouvelles goes to press, the writer has been informed that on October 30, 1974 the Court of Justice handed down its decision. In case 15/74, the patent case, the court *upheld* Centrafarm's position, ruling that the injunction should be *denied* and the importer be free to import and sell the product NEGRAM in Holland.)

These two joined cases were referred from the Supreme Court of Netherlands to the European Court of Justice under article 177(2) and (3) of the Treaty of Rome for a preliminary ruling.

This article submits a summary of the facts, of the

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regard to the latter, the commission would prohibit acquisition of more than 49 percent of all voting securities by a person which is not a citizen of the United States or by a corporation which is not owned or controlled by citizens of the United States.

There are other bills pending in Congress of a nature similar to that introduced by Mr. Roe. I do not anticipate that these bills will be enacted into law in the near future. I think it far more likely that the two-year study contained in S.2840 will be conducted and recommendations sent to the Congress concerning the need or lack

proceedings in the lower courts and of the Advocate-General's Conclusions to the Court, with a brief explanation of his function in the court.

The cases have important implications to United States companies which virtually all have parallel patents in the ECs. Subsequent issues of LES Nouvelles will carry further comments on the case.

## Proceedings in Lower Courts

Facts of Case 15/74 — On June 16, 1971, Sterling Drug Inc., New York, sought an injunction against Centrafarm, a Dutch company, and its director, A. De Peijper, before the District Court of Rotterdam. Plaintiff alleged that Centrafarm had infringed its Dutch patent rights by marketing in Holland a pharmaceutical product protected by its Dutch Patent No. 125, 254 imported from the Federal Republic of Germany and from England, where they had been lawfully marketed under the trademark NEGRAM by a company associated with Sterling Drug. The crux of Centrafarm's position is that it had acquired the products from the patentee himself in a lawful manner. Sterling Drug maintained that its Dutch patent had been infringed by Centrfarm, since the territorial effects of the Dutch Patent Act does *not* exhaust its Dutch patent rights when it has marketed the patented products on the market abroad. Sterling Drug contends that Section 30 (2) of the Dutch Patent Act should be interpreted so that the words "lawfully putting on the market" means lawfully putting on the market in *Holland*.

## Denies Injunction

The District Court denied Sterling Drug's injunction on May 9, 1972 on the grounds that the construction of Section 30 (2) of the Dutch Patent Act sought by Sterling Drug was not justified by the literal interpretation of the text. Nor was it in conformance with the trend of developments and competition law to the effect that the holder of a Dutch patent, who had put the patented product on the market outside of Holland, had indeed exhausted his rights under the Dutch patent.

On appeal to the Appeal Court of the Hague, the District Court's decision was reversed. The Court accepted

of need for controls on foreign investment.

In my opinion the climate for foreign investment in the United States is excellent at this time. In all probability it will not change drastically in the future; however, there is the possibility that some controls might be implemented. If you have a corporation that is contemplating investment in the United States you may find it advantageous to move expeditiously to establish a multinational operation before passage into law of any control mechanisms on such investment.

Sterling Drug's interpretation of the Dutch Patent Act that the words "lawfully putting on the market" means lawfully putting on the market in Holland and that this interpretation should not be changed because of the formation of the EEC since 1958, including the Netherlands and the Federal Republic of Germany, and as of January 1, 1973 to include the United Kingdom of Great Britain and Northern Ireland.

Centrafarm and De Peijper appealed to the Supreme Court of the Netherlands, principally on three grounds, namely:

a. Lawfully putting on the market within the meaning of Section 30 (2) of the Dutch Patent Act means not only marketing in Holland but also when the products have been put on the market by the Dutch patentee, or with its consent, in any other country where the patentee is entitled to patent protection for these products.

b. The grant of an injunction sought by Sterling Drug is incompatible with the provision of EEC law concerning free movement of goods between the member states.

c. The exclusive rights in the various countries including Holland, Germany, and the United Kingdom, from patents granted to Sterling Drug in these countries have been used by Sterling Drug to maintain a division of the national markets for the pharmaceutical product covered by the patents and on the basis of parallel licensing agreement with its licensee, which has as its object, to regulate market conditions differently from country to country in the Common Market. Appellants argue that these practices violate Article 85 of the Treaty and the Articles relative to the free movement of goods within the EEC and result in the prevention, restriction or distortion of competition within the EEC.

#### Upholds Interpretation

The Supreme Court upheld the Appeal Court's interpretation of the Dutch Patent Act, thus, interpreting the Act to mean that "putting on the market" means in Holland. The Court reached its conclusion on the basis of the territorial effect of a patent and from the legislative history of the Dutch patent bill. Since a decision of the Appeal Court is part depends on Community law, it was necessary for the Court, under article 177 of the Treaty to refer the case to the Court of Justice of the EC's.

Case 16/74 also was referred under article 177 (2) and (3) from the Supreme Court of the Netherlands to the European Court of Justice for a preliminary ruling. On June 16, 1971, Winthrop B. V., a Dutch company, sought an injunction before the District Court of Rotterdam against the same Centrafarm B. V., on the ground that defendants and its director had infringed its trademark rights by marketing NEGRAM in Holland, which product was not sold by Winthrop B. V. itself.

Centrafarm had imported NEGRAM from the parent company of Winthrop B. V. in England, a company belonging to the Sterling-Winthrop group. The product was acquired by Centrafarm through the United Kingdom contact, C. H. B. Aerosols, Ltd., which in turn had obtained it from the Sterling-Winthrop Group, Ltd., a 100 percent parent company of Winthrop B. V.

On May 9, 1972, the District Court granted Winthrop B. V.'s injunction. The Court held that even

though NEGRAM was originally sold by the English company which was linked to Winthrop B. V., the sale of this product by Centrafarm in Holland is an unlawful act as against the exclusive owner of the trademark in Holland, Winthrop B. V.

Defendants appealed to the Appeal Court of the Hague, which upheld the District Court's injunction against Centrafarm, principally, on the ground that Centrafarm had infringed Winthrop B. V.'s exclusive right to the trademark by selling similar products bearing this trademark which products did not originate from Winthrop B. V. The economic relationship between that company and its parent in England did not change that situation because the parent company is not the owner of the Dutch trademark. Neither, held the Appeal Court, does the accession of the United Kingdom to the EEC as of January 1, 1973 change that position, since Winthrop B. V.'s absolute right to the NEGRAM mark is not lost by virtue of EEC law. Moreover, the Appeal Court refused, at the request of appellants, to refer the case to the European Court of Justice.

#### Important Point

Centrafarm and De Peijper appealed to the Supreme Court of the Netherlands to overrule the Appeal Court's Decision. An important ground submitted for appeal is that Winthrop B. V. should be identified with its 100 percent parent company with respect to the origin of the products which are in circulation under the trademark NEGRAM. There is no legal difference between the NEGRAM products lawfully put on the market by Winthrop B. V. in Holland and those put on the market by its parent company in England. The differential in prices aggravates this situation, appellants argue. Moreover, the use of trademark rights for this purpose is unlawful, especially when it impairs the free movement of goods between the member states (including the United Kingdom as of January 1, 1973) and causes prevention, restriction or distortion of competition within the EEC. Moreover, the holding of the Court of Appeal that the trademark right is not lost by the creation of the EEC community is in error in that the issue is not the existence but the exercise of the trademark, and as such is incompatible with article 85 or the other rules of competition of the Treaty.

Moreover, appellants challenge the practices of Winthrop B. V. as being part of concerted practices, which are improper under EEC law.

The Supreme Court, under article 177 of the treaty, then referred the issues concerning Community law, including the effect to be given to the Benolux Trademark Act to the Court of Justice of the European communities.

Because of the importance of the questions raised and of the expected decision, the principal conclusions made by the Advocate-General are reviewed here.

The Advocate-General is a position created with the Court of Justice of the European Communities by the EEC Treaty, article 166 para. 1, by the European Coal and Steel Community Treaty as amended, article 32 (a), para. 1 and also the Euratom Treaty, article 138, para. 1. The work of the Advocate-General is to assist the Court; its function is somewhat similar to that of the French Commissaire du Gouvernement at the Conseil

d'Etat. The Advocate-General is neither a judge nor a public prosecutor; he does not participate in the deliberation of the Court nor vote with the Court. Its sole, but vital, function is to prepare and present publicly reasons and conclusions for the advice of the Court on cases. Though technically not part of the judgment itself, and therefore not legally binding, the conclusions of the Advocate-General may strongly influence the development of Community law as a rule, the Court only takes a formal recognition of the conclusions of the Advocate-General, never taking a stand, particularly, when the Court differs with the Advocate-General on certain points. But once a particular basic problem is settled and law has been established, the Advocate-General himself may see no reason for giving an elaborate conclusion. This is what may have taken place in the present case regarding the trademark question.

Appellants in the trademark case (Case 16/74) relied on prior authorities, namely, *Deutsche Grammophon v. Metro-SB-Grossmaerkte & Co. KG* (78/70), June 8, 1971: (1971), CCH para. 8106, 17 Recueil 487, and *Sirena SRL v. Eda SRL*, February 18, 1971, 17 Recueil 69, CCH, para. 8101.

#### THE CONCLUSIONS OF THE ADVOCATE-GENERAL

##### *Case 16/74. The Trademark Case*

The trademark issue, the Advocate-General urges, should be dismissed on the basis of precedents, relying principally on *Sirena SRL v. EDA SRL* (40/70), February 18, 1971, Court of Justice, 17 Recueil 69 and *Van Zuylen Frères v. Hag. A. G.* (193/73), July 3, 1974, Court of Justice, Recueil, 1974 CCH, para. 8230. There is no doubt that it is incompatible with the principles of the EEC to prohibit to a third-party purchaser of trademarked goods the import and sale to protect a mark, when these products originate from the sole and same supplier, the owner of the mark in the country of import, who is the owner of the identical mark under which he has regularly sold the goods in trade in its own state.

This is not even the situation of *Sirena* or *Hag*. There the goods were similar and manufactured by different owners of the mark in their respective states; here the goods are the same, originating from a single manufacturer; the mark used is that used by the manufacturer in its own state who has sold them into trade; the goods have the same origin as those sold in the importation state by the local owner of the mark. There can be no misleading of the public as to origin and the nature of the product. There is no "infringement". There is no unfair competition by the parallel importer, the Advocate-General urged. Noteworthy too is that the companies owning the mark in the member states are merely creations of and owned by a same parent company.

The Advocate-General then pointed out that article 36 of the Treaty would not authorize the closing of a national market to parallel importations of an identical product legally placed into commerce in another member state by the owner of the mark. The purpose is not to prevent infringement or unfair competition, nor to dispel uncertainty as to the source and nature of the

product sold under the mark in the importation state, thus, not to assert a legal right constituting the specific object of the mark.

It is to be commented here that the Advocate has proposed a rule of law relating to the existence of the trademark right under article 36, the protection of which would seem to be justified in contrast to, as he states, the misuse of the same mark for the exclusive purpose of preventing parallel importations of the same product to maintain an unjustified privileged position.

Thus, based on past authorities, in a situation which the Advocate-General considers even clearer than these previously cited cases relied upon, he would *deny* the injunction to prevent the importation of the product into Holland.

##### *Case 15/74. The Patent Case*

The basic question propounded by the Advocate-General to the Court is whether there should be a fundamental difference in treatment between the trademark and that involving patents, under the provisions of the Treaty, relative to the free circulation of goods and competition. Should the owner of a patent be given a substantially more favorable treatment than the owner of a trademark.

The essence of the patent right granted to the owner of the patent consists, the Advocate-General added, in the exclusive manufacture of and in the first sale of the patented product. This is to recompense the inventor, to give him a remuneration for his accomplishments as well as for his economic risk. This right is recognized only temporarily, whereas, in contrast, the right of the owner of a mark is timeless or is at least readily renewable.

This is a classical and, it must be added, the first truly "parallel patent" case. The trademarks in the case at bar (Case 16/74) belong to subsidiaries: to the manufacturing company in the country of the origin of the goods and, in the state of importation, to the sale company. The owner of the patents in both countries, however, is the parent company itself. This is the typical case of parallel patents existing in different member states of the EC's.

The Advocate-General dismissed the differences between the various national legislations with respect to the national patent rights, if this were used as a justification for the practice, as long as the patents have as an object an identical product or a process of manufacture and that the patent belong to a single owner. This is determinative. The parent company, the owner of the patent in the different member states, is interested in opposing the parallel importation in a member state of a product manufactured in another member state by one of its subsidiaries. In this way, its subsidiary has the monopoly of importation of the product. This conflicts manifestly, the Advocate stated, with the fundamental principles of the EEC Treaty, particularly Article 3 (a) and (f), that is, the free circulation of goods within the Common Market and the establishment of a fair system of competition.

The Advocate-General then examined the extent Article 36 of the EEC Treaty required the preservation of an institution exclusively regulated by the national law — the

protection of the patent — and to what extent it had to give way to the Community system.

First the Advocate-General underscored that the product was in the market legitimately. In accordance with the jurisprudence of the Court, eventual derogations which are authorized by Article 36 for the protection of industrial property rights, must be essential to safeguard the rights which constitute the specific nature of this property. The Advocate-General went on then to consider what is the specific nature of the patent. The essential element of the patent right is the exclusivity of manufacture, as well as the first sale of the products manufactured. This is a legal monopoly which has been established in favor of a particular individual and with it goes, necessarily, the right to oppose the sale of the patented product, independently, as to whether it has been manufactured by third parties or that it has been sold in commerce without the consent of the patentee. This is the reason why national legislations can permit the owner of the right to enjoin the importation of products manufactured or sold in commerce, without the owner's agreement. But, on the other hand, it is not possible to justify an import prohibition to protect the single owner of parallel patents in other member states for products that he has authorized to sell.

Such a use by the owner of a patent to control the marketing of the product within the Community cannot be considered, the Advocate-General urged, as being an integral part of the nature of the patent right. In effect, this practice guarantees the commercial monopoly to a subsidiary.

The Advocate-General then relied on *Deutsche Grammophon GmbH v. Metro-SB-Grossmaerkte GmbH & Co. KG*, *supra*, pointed out the similarities and reconciled the differences. The principle applied to the copyright author is equally applicable to that of the patent owner because, the Advocate-General pointed out, as the Commission has noted, the specific nature of both industrial property rights consists in the exclusive manufacturing right, the right to reproduce and to introduce it into trade for the first time. As in *Deutsche Grammophon*, to enjoin the importation into one of the member states would be outside of the scope of the legitimate protection afforded by the right.

The Advocate-General went on to discuss the possible application of the "doctrine of exhaustion" of the industrial, or in this case, the patent rights. He opined that this doctrine had no application to Community law. He made some very informative remarks. The exclusive right to introduce a product into commerce would not serve to protect the essential nature or content of the patent, which relates to an industrial product, and can not be separated from a production activity. In the absence of an independent production activity in the country of importation, the exclusive patent right would have as its sole function that of restraining trade between the member states. In that case, he urged a derogation of Article 36 of the Treaty is not applicable. He noted that in the present case, there was missing in the importation state, a substantial interest which would justify protection and an exception from the fundamental principle of the free circulation of the goods within the Community. He stated that the problem would present very delicate legal aspects where a patent is used to

protect a local manufacturer who is independent from a manufacturer in another member state, of goods which are covered by the patent and which are sought to be imported into the second member state, where the local producer is a stranger in all aspects to the introduction into commerce of the goods in the other state. But this, he pointed out, is not the situation here. We have here, he said, a patent that is used solely to protect a commercial monopoly of a group constituting an economic unity, which is the sole owner of the patent in the various member states. In that case, the function that is sought to be made of the patent is not substantially different from that which this Court has already considered as illegal for a trademark.

#### Arguments Dismissed

Other arguments advanced by Sterling Drug regarding differences in national legislation were dismissed by the Advocate-General. Further details in the differences and harmonization as well as the interim period before the creation and existence of a patent for the European Communities were then discussed at length, the Advocate-General concluding that the prohibition of Article 30 and the restrictive narrow nature of the derogations provided by Article 36 of the Treaty do not permit the type of practice under consideration here.

Following the treatment of the differential in prices prevailing in two member states which was considered in the prior jurisprudence of the Court, such as in the *Deutsche Grammophon* case (and in other previous cases considered by the Court), the Advocate-General noted that the negative result that would come about by the lowering of the price of the product in one of the markets which could come about would not affect the very essence of that right. He went on to note that if "Sterling Drug did not find it convenient to continue to market the patented product in the member state where the price is artificially maintained too low, nothing would preclude it from moving its activity to the other member states where it could obtain higher prices".

Finally, the Advocate-General examined the public health requirements of Holland, which Sterling had sought to rely upon as a justification for its practices. He urged that public health and patent rights were independent and that the former was not part of the nature of the exclusivity of the patent.

The Advocate-General, in the remainder of his conclusions, dealt with the argument made that under Article 42 of the Adhesion of Great Britain to the Community, the rules of competition could not be applied until January 1, 1975.

The remainder of the conclusions of the Advocate-General dealt with the delicate problem of the application of Article 85 to a parent and its subsidiaries which are part of a same group, in view of previous jurisprudence; he recognized that there would be difficulty in reconciling, on one hand, the cases in which the Court had held Article 85 not to be applicable between a parent and its subsidiary, and on the other hand cases in which Article 85 was held to be applicable where the subsidiaries were capable of independent economic action, having for effect the restraint on competition of third parties. He took the position that the Court did not intend to exclude the application of Article 85 to agree-