Chapter 4: Rights involving Technology

Technology and Public Policy

4-1 In general terms, European Union policy is based on recognising the importance of technology for the prosperity of the Union. In its two latest Green Papers on Innovation, published in 1995 and 2000 respectively, several propositions reflect this policy. The first is that "developing and sharing an innovation culture is becoming a decisive challenge for European policies". The second is that "research, development and the use of new technologies - in other words, the technological factor - are key elements in innovation". The third is that one of the "routes of action" towards encouraging innovation generally and the technological factor in particular is to promote intellectual property.[1]

4-2 Intellectual property rights in the European Union involving the protection of new technology relate principally to the following:

- patents,
- supplementary patent protection,
- plant varieties,
- biotechnological inventions,
- designs and
- utility models,

Know-how is not normally regarded as a separate intellectual property right: it is, however, a closely related right with some importance in relation to the impact of competition rules.[2]

Patents

4-3 Bearing in mind that intellectual property rights in the European Union are subject to two bodies of law - European Union law on competition and the free movement of goods and the general law applying within the European Union to substantive intellectual property matters - it is not surprising to find different definitions of patents according to the context in which patent rights are being discussed. In the context of European Union law on competition and the free movement of goods, the elliptical definition in the case-law of the Court of Justice relates to the specific object of the right.[3]

4-4 In the context of substantive intellectual property law, the Commission of the European Communities offers a more traditional definition.

> The task of the patent system is to ensure, in exchange for the grant of a right of exclusivity for a limited period of time, that the public is informed of new technical developments with the minimum of delay. The prospect of gaining profits from this special form of monopoly serves to promote research activity and to give an incentive for new investment. Patent law protects an invention by reserving for the owner of the patent the exclusive exploitation of the invention for a specified period. The protection of the invention is guaranteed by an act of state, namely the grant of a patent. In the examining countries, after the

application has been filed with the patent office, and before the patent is granted, the invention is examined as to its patentability (novelty, level of inventiveness, commercial utility). In the registration countries, the patent application is merely checked for compliance with certain formalities; and it is only after the patent is granted that any decision is taken as to its validity, that is, when the courts give judgment in an action for infringement or in an action for revocation.[4]

4-5 However, it has to be said at the outset that there is no European Union or European Community law on patents as such. The European Patent Convention is not a European Union measure. Not all the states which have acceded to the Convention are Member States of the European Union.

4-6 Moreover, the attempt to provide for a single system of substantive patent law for the whole of the European Union has not yet succeeded. The Convention for the European Patent for the Common Market, as it was originally called, has never been ratified. It therefore has no legal status. Unless it is ratified or is adopted in the form of a regulation, the Community Patent Convention, as it is usually called now, is not part of European Union law. At the time of writing, it seems likely to be adopted as a regulation: the Commission has placed a formal proposal to the Council to that effect.

4-7 Nevertheless, a brief description of the two conventions - the existing European Patent Convention and the proposed, but unratified, Community Patent Convention - may help to explain how this field of law has developed at the European Union level.

4-8 Originally, in the early 1960s, it was possible that patents and trade marks respectively might be the subject of European Community conventions. In those days, and well into the 1980s, the possibility of a European Community regulation had not even been considered in the patent field; and, in any event, political pressures in the 1960s succeeded in aborting in the case of patents, and seriously delaying in the case of trade marks, action at European Community level. Consequently, all the work which had been done to produce a European system of patent protection was redirected to the production of a system open to all western European countries. By 1973, these efforts led to the Munich Convention on European Patents and to the opening of the European Patent Office in Munich in 1978.

4-9 Meanwhile, the European Community authorities were discovering that national patent laws within the Community were clashing with the Community's rules on the free movement of goods and on competition. The Court of Justice hinted, and the Commission accepted, that if patent protection were to be fully reconciled with the requirements of Community law, there would have to be a system of patent protection at European Community level. Since there was no question of creating an entirely new system parallel to the European Patent system, the concept developed of creating the "European Patent for the Common Market". It would be a European Patent, in that it would be applied for and would go through all the procedures provided for under the European Patent Convention; but it would be valid in all the Member States of the European Community and would be subject to a number of rules over and above those

governing the European Patent itself. The concept was embodied in the Community Patent Convention. Since this Convention is not in force, the law applicable to patents in the European Union is largely enshrined in the case-law of the Court of Justice. In this case-law, the substantive law on patents is treated only tangentially: the main issues are the relationships between patent protection on the one hand and the objectives of the European Union in the fields of competition law and the rules governing free movement of goods on the other. The impact of the rules on competition is discussed later. Here, the impact on patents of the rules on the free movement of goods is discussed in detail.

National Patents and European Case-law

4-10 As a general principle, the application of national laws for the protection of intellectual property rights may constitute a measure equivalent to a quantitative restriction on imports and therefore be prohibited under European Union law.[5] But, in certain circumstances it may be justified.[6] This principle is illustrated by a recent patent case, in which a commercial firm applied to the public authority in the Netherlands responsible for granting permission to market pharmaceutical products; the application related to a product protected by another party's patent. The relevant parts of the judgment of the Court of Justice are as follows.

> Application of a rule of national law which gives the proprietor of a patent in respect of a manufacturing process for a medicinal product the right to oppose the submission by another person of samples of medicinal products manufactured in accordance with that process to the authority competent for issuing marketing authorizations constitutes a measure having equivalent effect to a quantitative restriction within the meaning of Article [28] of the EC Treaty. Application of a rule of national law which gives the proprietor of a patent in respect of a manufacturing process for a medicinal product the right to oppose the submission by another person of samples of medicinal products, manufactured in accordance with that process by a person other than the patentee, to the authority competent for issuing marketing authorizations, is justified under Article [30] of the EC Treaty. When a person other than the patentee has infringed the patent laws of a Member State by submitting samples of a medicinal product manufactured in accordance with a patented process to the authority competent for issuing marketing authorizations and has thus obtained the authorization sought, an order of a national court prohibiting the infringer from marketing such a product for a specified period following the expiry of the patent in order to prevent him from deriving any unfair profit from his infringement constitutes a measure having equivalent effect within the meaning of Article 30 of the EC Treaty capable of being justified under Article [30] of that Treaty.[7]

4-11 Cases of this sort, in which there is a conflict between the protection of the patent right and the maintenance of the Community law on the free movement of goods, go back to the early days of the European Economic Community. As it happened, the first case on patent rights heard by the Court of Justice was primarily concerned with the application of the rules on competition; but the Court observed that the rules on

competition were a "comparable area" in this context to the rules on the free movement of goods. According to the Court,

> the national rules relating to the protection of industrial property have not yet been rendered uniform within the framework of the Community. In the absence of such a unification, the national scope of industrial property protection and the differences between the laws in this matter are likely to create obstacles to the free movement of patented products and to competition within the common market. In the area of the provisions relating to the free movement of goods, import prohibitions and restrictions which are justified for reasons of industrial property protection are permitted by Article 36, but on the express condition that they "shall not be used as a means of arbitrary discrimination nor as a disguised restriction on trade between Member States". For similar reasons the exercise of the rights flowing from a patent granted under the laws of a Member State does not in itself violate the rules of competition set forth in the Treaty.[8]

It was in this case that the Court drew a distinction between the existence of a patent right and the exercise of that right, which later cases extended to other forms of industrial property: "since the existence of a patent right at present depends entirely on domestic legislation, only the exercise of such a right could be subject to the rules of Community law". From this it follows that the provision of the Treaty under which national rules on property ownership are not to be prejudiced remains intact[9], while the Treaty rules on competition and free movement of goods apply to the way in which that ownership may be used.

4-12 In a subsequent case, the Court proceeded to deal in five stages with the relationship between patents and Community rules.[10] In the first stage, the Court reiterated the distinction between the existence and the exercise of the patent right. In the second stage, the Court defined the specific object of the patent. In the third stage, the Court set out the principle of exhaustion of patent rights.[11] In the fourth stage, the Court pointed out that patent protection could lead, like trade mark protection, to the partitioning of the common market into national markets.[12] In the fifth stage, the Court drew the conclusion that the protection of a patent from infringement by imported goods was incompatible with the common market where the patent right had been exhausted.

4-13 Free movement of goods prevailed decisively over the protection of industrial property in a case in which the Court of Justice held that the owner of a Dutch patent could not prevent imports into the Netherlands of pharmaceutical products manufactured by an affiliated company in Italy, where there was no system for the granting of pharmaceutical patents.[13] Moreover, in a later case brought by the same plaintiff, in circumstances which emphasised even more strongly the disadvantages to a patent owner of what was thought to be an excessively rigid application of the rules on the free movement of goods, the Court reaffirmed its position.[14] There were some complications in this case, which it is unnecessary to mention here, as the principal point of interest was the question whether parallel imports of patented goods from a member state without patent protection could be prevented. This issue had been settled in the earlier case,in which it was held that the principle of free movement of goods should prevail, given the patent holder's decision to market the product in a member state where patent protection

did not apply. However, the plaintiff, Merck, was now raising the question again, saying that circumstances had changed and that the earlier Court decision should be reconsidered. Merck's argument was that in 1981 it was the exception rather than the rule for pharmaceutical products to be patentable in Europe. Nowadays such products were patentable in all the countries of the European Economic Area, except Iceland. Similarly, the Community institutions had emphasised the importance of patents in the pharmaceutical sector, in particular by the adoption of a regulation creating a supplementary protection certificate for medicinal products. Merck pointed to the increasingly serious financial consequences of maintaining the rule in the 1981 case which, in their view, appreciably reduced the value of patents granted in the Community: a patent could be exhausted only if the product in question was marketed with patent protection. The Court accepted most of the factual points raised by Merck, but rejected the conclusions which Merck invited the Court to draw from them. The Court also rejected Merck's argument based on the consequences of price controls in the pharmaceutical sector in certain member states. Merck had said that the fixing of prices by the state or under state law removed or greatly reduced the freedom of choice of a pharmaceutical company in the manner in which it marketed its products: the rules on the exhaustion of patent rights should therefore be modified to take this factor into account. But the Court said that "although the imposition of price controls is indeed a factor which may in certain conditions distort competition between member states, that circumstance cannot justify a derogation from the principle of free movement of goods". Merck accordingly lost this argument, but did win one concession from the court: the free movement principle had to take into account whether the patent holder was under a genuine, existing legal obligation to market the product in question in the member state.

4-14 Peculiarities of national laws on patents, or affecting patents in some way, may in some cases lead the Court of Justice to take a more favourable view of the patent owner's rights. Under the patent law of the United Kingdom, there was an obligation on patent owners in the pharmaceutical and foodstuffs sectors to grant a licence to an applicant unless there were serious grounds for refusing it. A pharmaceutical company owned patents for a drug in the Netherlands and in the United Kingdom. It was obliged to grant a licence to a third party in the United Kingdom, which then sold the drug to a Dutch distributor. The patent owner sued the distributor for infringement of the patent. The Court upheld the claim.

> The substance of a patent right lies essentially in according the inventor an exclusive right of first placing the product on the market so as to allow him to obtain the reward for his creative effort. It is therefore necessary to allow the patent proprietor to prevent the importation and marketing of products manufactured under a compulsory licence in order to protect the substance of his exclusive rights under his patents.[15]

4-15 Another peculiarity of United Kingdom patent law gave rise to an action based on Community law. This was the principle of relative novelty, under which a patent might be granted where not all the elements of the product in question had been invented by the applicant himself. When the patent owner sued an Italian importer of an infringing device, the importer claimed that the peculiarity of United Kingdom law was

incompatible with the common market and constituted a barrier to trade between Member States. The Court disagreed: in the absence of Community rules, Member States could largely decide the content and characteristics of their national patent laws.[16] Nevertheless, the Court does not always support peculiarities in national patent laws if they demonstrably inhibit trade between Member States. The Commission successfully argued before the Court in 1990 that the United Kingdom law on compulsory licences for patents, inasmuch as it provided for compulsory licences where the patent was not being exploited because of imports of the patented product, was incompatible with the provisions of the Treaty on the free movement of goods.[17]

4-16 Inasmuch as European Patents, that is, patents granted by the European Patent Office, are "bundles" of national patents, it is possible for a European Patent to act as a barrier to trade between Member States of the European Union. So far, the point has not been successfully argued, the only case in which the issue was raised having been based on tenuous grounds. In that case, a provision of German law, according to which a patent granted by the European Patent Office with effect in a Member State which is drafted in a language other than the official language of that Member State is to be deemed void *ab initio* if the patent holder does not file with the patent office of the Member State in question a translation of the patent specification in the official language of that Member State within three months of the publication in the *European Patent Bulletin* of the mention of the grant of the patent, does not conflict with the principle of the free movement of goods.[18] The Court made the following observations.

> It has been held that all trading rules enacted by Member States which are capable of hindering, directly or indirectly, actually or potentially, intra-Community trade are to be considered as measures having an effect equivalent to quantitative restrictions on imports.[19] However, the restrictive effects which a piece of national legislation has on the free movement of goods may be too uncertain and too indirect for the obligation which the legislation enacts to be regarded as being capable of hindering trade between Member States ... [20] While it must be accepted that there will probably be differences in movements of goods depending on whether inventions are protected in all the Member States or only in some of them, it still does not follow that such a consequence of the division of the market must be characterised as an obstacle within the meaning of Article 30 of the Treaty. The repercussions on intra-Community trade of any competition on the non-protected markets will depend above all on the actual, unforeseeable decisions taken by each of the operators concerned in the light of the economic conditions existing on the various markets.

Supplementary Protection Certificates

4-17 Various other measures under European Union law are related to, or have a bearing on, the protection of patent rights. The first concerns supplementary protection certificates, extending the period of patent protection for pharmaceutical products, to take account of the long lead-time between the invention and the marketing of the products in question.[21] The legal basis of the regulation creating these certificates was challenged by Spain in the Court of Justice.[22] The challenge was rejected by the Court of Justice, which

said that the relevant provisions of the Treaty[23] did not reserve to the national legislature, to the exclusion of any Community action in the matter, the right to regulate substantive patent law.

> The Court has, moreover, confirmed[24] that, at the level of internal legislation, the Community is competent, in the field of intellectual property, to harmonise national laws pursuant to Articles [94] and [95] and may use Article [308] as the basis for creating new rights superimposed on national rights, as it did in the Council Regulation on the Community trade mark.[25]

Protection under a supplementary protection certificate is related to the basic patent; and, as indicated in the seventh recital in the preamble to the regulation, the patent concerned may be either national or European. As Community law now stands, the provisions concerning patents have not yet been made the subject of harmonisation at Community level. Accordingly, in the absence of Community harmonisation of patent law, the extent of patent protection can be determined only in the light of the non-Community rules which govern patents. Moreover, the protection conferred by the certificate cannot exceed the scope of the protection conferred by the basic patent.[26]

Customs Controls on Patented Goods

4-18 Another European Union law concerns the border controls on imports of goods which may be counterfeit or pirated. A regulation which has been in force since 1995 in respect of goods subject to copyright or trade mark protection, and has recently been extended to goods protected by patents and supplementary protection certificates, empowers customs authorities to suspend the release of imported goods which are suspected of infringing the intellectual property rights concerned.[27] Application of the regulation to specific cases has led to litigation. It has been held by the Court, for example, that the regulation precludes a rule of national law under which the identity of declarants or consignees of imported goods which the intellectual property owner has found to be counterfeit may not be disclosed to him.[28] It needs to be stressed that the control authorized by the regulation applies only to goods from non-member states. National laws for a similar type of control over goods from other Member States are inconsistent with European Community law. The Court has held that

> by implementing, pursuant to the French Intellectual Property Code, procedures for the detention by the customs authorities of goods lawfully manufactured in a Member State of the European Community which are intended, following their transit through French territory, to be placed on the market in another Member State where they may be lawfully marketed, the French Republic has failed to fulfil its obligations under Article 30 of the EC Treaty (now, after amendment, Article 28).[29]

On the other hand, goods may be detained under the regulation when, in the course of transit from one non-member state to another non-member state, they pass through a Member State.[30]

Plant Varieties

4-19 Plant varieties have been treated in the European Community case law as analogous to patents: indeed the leading case, giving rise to the Patent Licensing Regulation, concerned plant varieties rather than patents.[31] Now, there is a Community system of plant variety protection in force, under the aegis of the "Community Plant Variety Office".[32]

Biotechnological Inventions

4-20 After some setbacks in the legislative procedure[33], a Directive was finally adopted on the legal protection of biotechnological inventions. The Directive implicitly recognises that patent protection as such lies within the scope of the European Patent Convention, and not European Community law, but notes that "no prohibition or exclusion exists in national or European Patent law (Munich Convention) which precludes *a priori* the patentability of biological matter".[34]

Industrial Designs

4-21 Problems over the compatibility of laws protecting industrial designs with Community rules both on the free movement of goods and on competition had already manifested themselves in a case in which a French motor manufacturer acquired design rights in Italy for certain types of spare part. The Italian trade association of manufacturers of spare parts for motor vehicles claimed that the exercise of these rights was a "disguised restriction on trade" and an abuse of a dominant position. Both pleas failed.[35]

4-22 To meet the general problems of harmonising national laws for the protection of industrial designs, a Directive was adopted.[36] However, the basis on which the laws are harmonised is *sui generis* and is not a form of patent or copyright protection. At the same time, the protection afforded under national laws harmonised under the Directive is cumulative: it may be in addition to any protection afforded by national laws on copyright.[37] Nor does the Directive exclude the application to designs of national or Community legislation providing for protection other than that conferred by registration or publication as design, such as legislation relating to unregistered design rights, trade marks, patents and utility models, unfair competition or civil liability.[38]

4-23 Under the Directive, Member States are required to protect designs by registration and to confer exclusive rights on their holders.[39] Registration refers to design rights registered with the Member States' central industrial property offices, at the Benelux Design Office or under international arrangements which have effect in a Member State.[40] A design[41] is protected by a design right to the extent that it is new and has individual character.[42] As the Commission was hopeful that industrial interests would reach an agreement on the issues involved, the question of motor vehicle components was excluded from the scope of the Directive.[43]

4-24 As in the trade mark field, there is a dual system of protection of designs in the European Community. Over and above the national rules, harmonised under the Directive already mentioned, there is provision for registration as a "Community Design". This stems from a recently adopted Regulation, which combines many of the principles of the Directive and much of the pattern of administration to be found in the corresponding Community Trade Mark Regulation. The scope of the Community Trade Mark Office ("OHIM") is enlarged to deal with the registration of Community Designs in a broadly similar manner to the registration of Community Trade Marks.[44]

Other areas

4-25 In addition to the continuing question of the Community Patent Convention, one other matter is, at the time of writing, going through the legislative processes. This is the proposed Regulation on Utility Models.

[1] The first two quotations are taken from page 9 of the 1995 text. The reference to intellectual property - unfortunately, the document refers incorrectly to "intellectual and industrial property" - is taken from page 54. The text is not quoted directly, as the introductory words in the English version are garbled. For the Action Plans designed to implement the policies in the first Green Paper, see 4-26 and the endnote.
[2] See Chapter 7.
[3] The definition is quoted in paragraph 2-11.
[4] The New European Patent Law: The main features of the two European Patent Conventions. Published by the Commission of the European Communities in September, 1973.
[5] Article 28, EC Treaty.
[6] Article 30, EC Treaty.
[7] Case C-316/95, *Generics BV v Smith, Kline and French Laboratories Ltd.*
[8] Case 24/67, *Parke, Davis & Co v Probel et al.*
[9] Article 295, EC Treaty.
[10] Case 15/74, *Centrafarm BV et al v Sterling Drug Inc.*
[11] For the three stages, see paragraphs 4-11, 2-11 and 3-10, respectively.
[12] See Case 16/74, *Centrafarm BV v Winthrop BV*. It was in the later (trade mark) case of *Terrapin v Terranova* (see chapter 5) that the dangers of "partitioning the market" were more fully discussed.
[13] Case 187/80, *Merck & Co v Stephar BV.*
[14] Case 267/95, *Merck & Co v Primecrown Ltd.*
[15] Case 19/84, *Pharmon BV v Hoechst AG.*
[16] Case 35/87, *Thetford Corporation v fiamma SpA.*
[17] Case C-30/90, *Commission v United Kingdom.*
[18] Case C-44/98, *BASF AG v President of the German Patent Office*.
[19] Case 8/74, *Dassonville, paragraph 5.*
[20] See, in particular, the judgment in Case C-266/96, *Corsica Ferries France*, paragraph 31.
[21] Council Regulation EEC/1768/92. The text of the regulation is reproduced in the Annex.
[22] Case C-350/92, *Spain v Council*.
[23] The Court referred specifically to what are now Articles 30 and 295, EC Treaty.
[24] In Opinion 1/94, paragraph 59.
[25] Case C-350/92, *Spain v Council*, paragraph 23. The Community Trade Mark is discussed in paragraphs 5-15ff.
[26] Case 392/97, *Farmitalia Carlo Erba Srl.*
[27] Council Regulation EC/3295/94, as amended. The text of the regulation is reproduced in the Annex. See also Council Regulation EC/1610/96. For a case involving both plant protection products and Supplementary protection certificate, see Case C-258/99, *BASF AG* v *Bureau voor de Industriële Eigendom.*
[28] Case C-223/98, *Adidas AG v Arlanda Customs Office*.
[29] Case 23/99, *Commission v French Republic*.
[30] Case C-383/98, *The Polo/Lauren Company v Dwidua Langgeng Pratama International Freight Forwarders*.
[31] Case 258/79, *Nungesser v Commission* (often known as "the Maize Seed Case").
[32] Council Regulation 2100/94, as amended. The rather lengthy text of this regulation is not reproduced in this book.
[33] See the fourth recital to the Directive: the European Parliament had reservations about the ethical aspects of the subject.
[34] European Parliament and Council Directive EC/44/98. The text of the Directive is reproduced in the Annex. For a challenge to the Directive, see Case C-377/98, *Netherlands v Parliament and Council*.
[35] Case 53/87, *Consorzio Italiano delle componentistica di ricambio per autoveicoli v Regie Nationale des Usines Renault*.
[36] European Parliament and Council Directive EC/71/98. The text of this directive is reproduced in the Annex.
[37] Ibid, recital 8 and Article 17.
[38] Ibid, recital 7 and Article 16.
[39] Ibid, Article 3(1).

[40] Ibid, Article 2(1).
[41] As defined in ibid, Article 1(a).
[42] Ibid, Article 3(2). Novelty is defined in Article 4 and individual character in Article 5.
[43] A statement to this effect was annexed to the Directive but has no legal force.
[44] Regulation EC/6/02, reproduced in the Annex. The Community Trade Mark Regulation is discussed in the next Chapter.