

European Court of Justice, 31 October 1974, Centrafarm v Sterling Drug



PATENTS

Exhaustion – free movement of goods

- **Exercising patent right to prohibit sale of a product marketed in another member state with the patentee's consent is incompatible with the free movement of goods**

The question referred should therefore be answered to the effect that the exercise, by a patentee, of the right which he enjoys under the legislation of a member state to prohibit the sale, in that state, of a product protected by the patent which has been marketed in another member state by the patentee or with his consent is incompatible with the rules of the eec treaty concerning the free movement of goods within the common market.

- **Irrelevant whether the licensee is part of the same concern**

it is of no significance to know whether the patentee and the undertakings to which the latter has granted licences do or do not belong to the same concern.

Price differences of no significance

- **It is also a matter of no significance that there exist, as between the exporting and importing member states, price differences resulting from governmental measures adopted in the exporting state with a view to controlling the price of the product.**

Protecting public against defective products no justification

- **The proprietor of a patent relating to a pharmaceutical product cannot avoid the incidence of community rules concerning the free movement of goods for the purpose of controlling the distribution of the product with a view to protecting the public against defects therein**

No cartel within a group of companies

- When undertakings form an economic unit, in which the subsidiary has no real freedom to operate independently on the market, and if an agreement or concerted practices result in an internal allocation of tasks, there is no cartel.**

Article 85, however, is not concerned with agreements or concerted practices between undertakings belonging to the same concern and having the status of parent company and subsidiary, if the undertakings form an economic unit within which the subsidiary has no real freedom to determine its course of action on the market, and if the agreements or practices are concerned

merely with the internal allocation of tasks as between the undertakings .

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European Court of Justice, 31 October 1974

(Lecourt, O Dalaigh, Mackenzie Stuart, Donner, Monaco, Mertens De Wilmars, Pescatore, Kutscher, Sorensen)

In case 15/74,

Reference to the court under article 177 of the eec treaty by the hoge raad of the netherlands, for a preliminary ruling in the action pending before that court between

Centrafarm bv, with registered office in rotterdam, with adriaan de peijper, resident at nieuwerkerk aan de ijssel,

And

Sterling drug inc ., with registered office in new york,
Subject of the case

On the interpretation of the rules of the eec treaty on the free movement of goods, in conjunction with article 42 of the act annexed to the treaty concerning the accession of the new member states to the economic community, and on the interpretation of article 85 of the eec treaty, in relation to patent rights,

Grounds

1 By interim decision of 1 march 1974, registered at the court on 4 march, the hoge raad der nederlanden (dutch supreme court) referred certain questions, by virtue of article 177 of the eec treaty, on patent rights in relation to the provisions of the treaty and of the act concerning the accession of the three new member states .

2 In the decision making the reference the hoge raad set out as follows the elements of fact and of national law in issue in relation to the questions referred :

- a patentee holds parallel patents in several of the states belonging to the eec,
- the products protected by those patents are lawfully marketed in one or more of those member states by undertakings to which the patentee has granted licences to manufacture and/or sell,
- those products are subsequently exported by third parties and are marketed and further dealt in in one of those other member states,
- the patent legislation in the lastmentioned state gives the patentee the right to take legal action to prevent products thus protected by patents from being there marketed by others, even where these products were previously lawfully marketed in another country by the patentee or by the patentee's licensee .

3 It appears from the proceedings that the main action is concerned with the rights of a proprietor of parallel patents in several member states who grants an exclusive licence to sell, but not to manufacture, the patent product in one of those states, while at the same time the patentee does not manufacture the patent product in that same member state .

As regards question i (a)

4 This question requires the court to state whether, under the conditions postulated, the rules in the eec treaty concerning the free movement of goods prevent the patentee from ensuring that the product protected by the patent is not marketed by others .

5 As a result of the provisions in the treaty relating to the free movement of goods and in particular of article 30, quantitative restrictions on imports and all measures having equivalent effect are prohibited between member states .

6 By article 36 these provisions shall nevertheless not include prohibitions or restrictions on imports justified on grounds of the protection of industrial or commercial property .

7 Nevertheless, it is clear from this same article, in particular its second sentence, as well as from the context, that whilst the treaty does not affect the existence of rights recognized by the legislation of a member state in matters of industrial and commercial property, yet the exercise of these rights may nevertheless, depending on the circumstances, be affected by the prohibitions in the treaty .

8 Inasmuch as it provides an exception to one of the fundamental principles of the common market, article 36 in fact only admits of derogations from the free movement of goods where such derogations are justified for the purpose of safeguarding rights which constitute the specific subject matter of this property .

9 In relation to patents, the specific subject matter of the industrial property is the guarantee that the patentee, to reward the creative effort of the inventor, has the exclusive right to use an invention with a view to manufacturing industrial products and putting them into circulation for the first time, either directly or by the grant of licences to third parties, as well as the right to oppose infringements .

10 An obstacle to the free movement of goods may arise out of the existence, within a national legislation concerning industrial and commercial property, of provisions laying down that a patentee's right is not exhausted when the product protected by the patent is marketed in another member state, with the result that the patentee can prevent importation of the product into his own member state when it has been marketed in another state .

11 Whereas an obstacle to the free movement of goods of this kind may be justified on the ground of protection of industrial property where such protection is invoked against a product coming from a member state where it is not patentable and has been manufactured by third parties without the consent of the patentee and in cases where there exist patents, the original proprietors of which are legally and economically independent, a derogation from the principle of the free movement of goods is not, however, justified where the product has been put onto the market in a legal manner, by the patentee himself or with his consent, in the member state from which it has been imported, in particular in the case of a proprietor of parallel patents .

12 In fact, if a patentee could prevent the import of protected products marketed by him or with his consent in

another member state, he would be able to partition off national markets and thereby restrict trade between member states, in a situation where no such restriction was necessary to guarantee the essence of the exclusive rights flowing from the parallel patents .

13 The plaintiff in the main action claims, in this connection, that by reason of divergences between national legislations and practice, truly identical or parallel patents can hardly be said to exist .

14 It should be noted here that, in spite of the divergences which remain in the absence of any unification of national rules concerning industrial property, the identity of the protected invention is clearly the essential element of the concept of parallel patents which it is for the courts to assess .

15 The question referred should therefore be answered to the effect that the exercise, by a patentee, of the right which he enjoys under the legislation of a member state to prohibit the sale, in that state, of a product protected by the patent which has been marketed in another member state by the patentee or with his consent is incompatible with the rules of the eec treaty concerning the free movement of goods within the common market.

As regards question i (b)

16 This question was referred to cover the possibility that community rules do not under all circumstances prevent the patentee from exercising the right, under his national law, to prohibit imports of the protected product .

17 It follows from the answer given to question i (a) above that question i (b) has become devoid of object.

As regards question i (c)

18 This question requires the court to state whether it makes any difference to the answer given to question i (a) that the patentee and the licencees do or do not belong to the same concern .

19 It follows from the answer given to question i (a) that the factor which above all else characterizes a restriction of trade between member states is the territorial protection granted to a patentee in one member state against importation of the product which has been marketed in another member state by the patentee himself or with his consent .

20 Therefore the result of the grant of a sales licence in a member state is that the patentee can no longer prevent the sale of the protected product throughout the common market .

21 Accordingly, it is of no significance to know whether the patentee and the licencees do or do not belong to the same concern .

As regards question i (d)

22 This question requires the court to state, in substance, whether the patentee can, notwithstanding the answer given to the first question, prevent importation of the protected product, given the existence of price differences resulting from governmental measures adopted in the exporting country with a view to controlling the price of that product .

23 It is part of the community authorities' task to eliminate factors likely to distort competition between

member states, in particular by the harmonization of national measures for the control of prices and by the prohibition of aids which are incompatible with the common market, in addition to the exercise of their powers in the field of competition .

24 The existence of factors such as these in a member state, however, cannot justify the maintenance or introduction by another member state of measures which are incompatible with the rules concerning the free movement of goods, in particular in the field of industrial and commercial property .

25 The question referred should therefore be answered in the negative .

As regards question i (e)

26 This question requires the court to state whether the patentee is authorized to exercise the rights conferred on him by the patent, notwithstanding community rules on the free movement of goods, for the purpose of controlling the distribution of a pharmaceutical product with a view to protecting the public against the risks arising from defects therein .

27 The protection of the public against risks arising from defective pharmaceutical products is a matter of legitimate concern, and article 36 of the treaty authorizes the member states to derogate from the rules concerning the free movement of goods on grounds of the protection of health and life of humans and animals .

28 However, the measures necessary to achieve this must be such as may properly be adopted in the field of health control, and must not constitute a misuse of the rules concerning industrial and commercial property .

29 Moreover, the specific considerations underlying the protection of industrial and commercial property are distinct from the considerations underlying the protection of the public and any responsibilities which that may imply .

30 The question referred should therefore be answered in the negative .

As regards question i (f)

31 This question requires the court to state whether article 42 of the act concerning the conditions of accession of the three new member states implies that the rules of the treaty concerning the free movement of goods cannot be invoked in the netherlands until 1 january 1975, insofar as the goods in question originate in the united kingdom .

32 Paragraph 1 of article 42 of the act of accession provides that quantitative restrictions on imports and exports shall, from the date of accession, be abolished between the community as originally constituted and the new member states .

33 Under paragraph 2 of the same article, which is more directly relevant to the question, 'measures having equivalent effect to such restrictions shall be abolished by 1 january 1975 at the latest '.

34 In the context, this provision can refer only to those measures having an effect equivalent to quantitative restrictions which, as between the original member states, had to be abolished at the end of the transitional period, pursuant to articles 30 and 32 to 35 of the eec treaty .

35 It therefore appears that article 42 of the act of accession has no effect upon prohibitions on importation arising from national legislation concerning industrial and commercial property .

36 The case under consideration is therefore subject to the principle enshrined in the treaty and in the act of accession, according to which the provisions of the treaties establishing the european communities concerning the free movement of goods and, in particular, article 30, are applicable, from the date of accession, to the new member states, save where contrary is expressly stated .

37 It follows that article 42 of the act of accession cannot be invoked to prevent importation into the netherlands, even before 1 january 1975, of goods put onto the market in the united kingdom under the conditions set out above by the patentee or with his consent .

As regards questions ii (a) and (b)

38 These questions require the court to state whether article 85 of the treaty is applicable to agreements and concerted practices between the proprietor of parallel patents in various member states and his licencees, if the objective of those agreements and concerted practices is to regulate differently for the different countries the conditions on the market in respect of the goods protected by the patents .

39 Although the existence of rights recognized under the industrial property legislation of a member state is not affected by article 85 of the treaty, the conditions under which those rights may be exercised may nevertheless fall within the prohibitions contained in that article .

40 This may be the case whenever the exercise of such a right appears to be the object, the means or the consequence of an agreement .

41 Article 85, however, is not concerned with agreements or concerted practices between undertakings belonging to the same concern and having the status of parent company and subsidiary, if the undertakings form an economic unit within which the subsidiary has no real freedom to determine its course of action on the market, and if the agreements or practices are concerned merely with the internal allocation of tasks as between the undertakings .

Decision on costs

42 The costs incurred by the government of the kingdom of denmark and the commission of the european communities, which have submitted observations to the court, are not recoverable .

43 As these proceedings are, insofar as the parties to the main action are concerned, a step in the action pending before the hoge raad der nederlanden, costs are a matter for that court .

Operative part

On those grounds,

The court,

In answer to the questions referred to it by the hoge raad der nederlanden, by interim decision of 1 march 1974, hereby rules :

1 . The exercise, by the patentee, of the right which he enjoys under the legislation of a member state to pro-

hibit the sale, in that state, of a product protected by the patent which has been marketed in another member state by the patentee or with his consent is incompatible with the rules of the eec treaty concerning the free movement of goods within the common market .

2 . In this connection, it is of no significance to know whether the patentee and the undertakings to which the latter has granted licences do or do not belong to the same concern .

3 . It is also a matter of no significance that there exist, as between the exporting and importing member states, price differences resulting from governmental measures adopted in the exporting state with a view to controlling the price of the product .

4 . The proprietor of a patent relating to a pharmaceutical product cannot avoid the incidence of community rules concerning the free movement of goods for the purpose of controlling the distribution of the product with a view to protecting the public against defects therein .

5 . Article 42 of the act concerning the conditions of accession and the adjustments to the treaties cannot be invoked to prevent importation into the netherlands, even before 1 january 1975, of goods put onto the market in the united kingdom by the patentee or with his consent .

6 . Article 85 is not concerned with agreements or concerted practices between undertakings belonging to the same concern and having the status of parent company and subsidiary, if the undertakings form an economic unit within which the subsidiary has no real freedom to determine its course of action on the market, and if the agreements or practices are concerned merely with the internal allocation of tasks as between the undertakings.