The enforcement by the proprietor or by persons entitled under him of copyrights protected by the law of a Member State against the importation and marketing of gramophone records lawfully manufactured and placed on the market in the Portuguese Republic by licensees of the proprietor is justified on the ground of the protection of industrial and commercial property within the meaning of Article 23 of the Agreement between the European Economic Community and the Portuguese Republic of 22 July 1972 (Official Journal, English Special Edition 1972 (31 December) (L 301), p. 167) and therefore does not constitute a restriction on trade such as is prohibited by Article 14 (2) of that Agreement. Such enforcement does not constitute a means of arbitrary discrimination or a disguised restriction on trade between the Community and Portugal within the meaning of the said Article 23.

	Mertens de Wilmars	Bosco	Touffait
Due	Pescatore	Mackenzie Stuart	O'Keeffe
Koopmans	Everling	Chloros	Grévisse

Delivered in open court in Luxembourg on 9 February 1982.

A. Van Houtte
Registrar

J. Mertens de Wilmars
President

OPINION OF MRS ADVOCATE GENERAL ROZÈS DELIVERED ON 1 DECEMBER 1981 [1]

Mr President,
Members of the Court,

The Court of Justice has been requested by the Court of Appeal of England and Wales to give a preliminary ruling on certain questions concerning the conditions for the exercise of artistic property rights under Community law and the provisions of the Agreement between the EEC and Portugal of 22 July 1972.

1 — Translated from the French.

The facts are as follows:

The trio known as "The Bee Gees" transferred its rights in the songs collectively entitled "Spirits Having Flown" to RSO Records Inc. [hereinafter referred to as "RSO"]. That company in turn granted a licence in respect of those rights for the United Kingdom, a Member State of the Community, to Polydor Limited [hereinafter referred to as "Polydor"], which manufactures and distributes recordings of that work in that State.

Recordings of the same work are also manufactured and sold in Portugal, a non-member country, by Phonogram and Polygram Discos, companies incorporated under Portuguese law, which are licensees in that country of RSO's rights in the songs. Those companies belong to the same group of companies as Polydor.

Gramophone records from Portugal containing the sound recording in question were imported into the United Kingdom by Simons Records Limited [hereinafter referred to as "Simons"] and were marketed by Harlequin Record Shops Limited [hereinafter referred to as "Harlequin"] without the consent either of Polydor or of RSO.

Polydor and RSO therefore brought an action against Harlequin in the Chancery Division of the High Court of Justice for infringement of their United Kingdom copyrights under Section 16 (2) of the Copyright Act 1956. In defence Harlequin and Simons, which intervened in support of Harlequin, contended that such action constituted a measure having an effect equivalent to quantitative restrictions on imports within the meaning of Article 14 (2) of the Agreement concluded by Regulation (EEC) No 2844/72 of the Council of 19 December 1972 between the European Economic Community and the Portuguese Republic.

The Chancery Division of the High Court granted an injunction restraining Simons and Harlequin from distributing the sound recording in question in the United Kingdom. The matter was brought by those companies before the Court of Appeal, which referred to the Court of Justice four questions seeking to determine whether the case-law concerning the free movement of gramophone records and copyright which the Court has developed in the context of the Treaty of Rome may be applied to the relations between the EEC and Portugal.

As a result of the possible implications for a whole series of agreements concluded with non-member countries, the importance of the problem has not escaped the five Member States which submitted observations. The expression "quantitative restrictions on imports" indeed appears in Article XI of the General Agreement on Tariffs and Trade and in Article 10 of the Convention establishing the European Free Trade Association and in six other agreements concluded between the European Economic Community and States still belonging to that Association.

I — In order that Simons and Harlequin may succeed in their defence, *each* of the following three conditions must be fulfilled:

1. The combined provisions of Articles 14 (2) and 23 of the Agreement between the EEC and Portugal and of Regulation No 2844/72 must confer on persons subject to Community law rights which the national courts are bound to protect, within the meaning given to that expression in the decisions of the Court (judgment of 12 December 1972 in Joined Cases 21 to 24/72 *International Fruit* [1972] ECR 1219; judgment of 24 October 1973 in Case 9/73 *Schlüter* [1973] ECR 1135; judgment of 5 February 1976 in Case 87/75 *Bresciani* [1976] ECR 129).
2. The legal proceedings brought by Polydor and RSO must constitute a measure having an effect equivalent to

quantitative restrictions on imports within the meaning of Article 14 of the Agreement, which is not justified on the ground of the protection of industrial and commercial property within the meaning of Article 23 of the Agreement.

3. Finally, if the measure is justified on that ground, it must constitute a means of arbitrary discrimination or a disguised restriction on trade between the contracting parties within the meaning of the last-mentioned provision.

II — The preamble to Regulation No 2844/72 of the Council refers in particular to Article 113 of the EEC Treaty, which appears in the chapter on commercial policy.

Article 1 of the regulation provides:

"The Agreement between the European Economic Community and the Portuguese Republic, the Annexes and Protocols thereto, and the Declarations annexed to the Final Act are hereby concluded, adopted and confirmed on behalf of the Community."

According to Article 5 of the regulation:

"This regulation is binding in its entirety and directly applicable in all Member States."

A regulation is the instrument which is generally used to conclude with non-member countries the commercial agreements referred to in Article 113 of the Treaty and the final wording of Regulation No 2844/72 merely reproduces the terms of Article 189 of the Treaty.

Although the *regulation* is directly applicable in all Member States, it nevertheless does not necessarily follow that Articles 14 and 23 of the *Agreement* have "direct effect", that is to say that they confer on Community nationals rights which the courts of the Member States are bound to protect.

Regulation No 2844/72 merely adopts the agreement concluded by the Council, which institution alone is competent to "act" under Article 113 of the Treaty. Its effect is to transpose the provisions of the Agreement into the Community legal order, but it alters neither the terms nor the scope thereof. Its function is therefore merely instrumental. Five Member States were anxious to intervene in these proceedings. The Council itself did not submit any observations.

According to the case-law of the Court, it is therefore necessary to go beyond the letter of the provisions and to have regard to the "spirit" and the "general scheme" of the Agreement as a whole.

III — The reasoning underlying the interpretation which the Court has placed on Articles 30 and 36 of the EEC Treaty and on all the provisions which have "direct effect" is based on the premise that the Treaty has established a common or single market.

1. Harlequin and Simons argue that since the Agreement was signed on 22 July 1972, that is to say after the judgment of 8 June 1971 in Case 78/70 *Deutsche Grammophon Gesellschaft mbH* [1971] ECR 487, Article 14 of the Agreement would have been drafted in terms different to those which resemble fairly closely Article 30 of the Treaty, if the draftsmen had intended to exempt from its provisions the exercise of copyright resulting in a restriction of trade. That argument scarcely seems convincing. On the contrary, it might be argued that the negotiations in progress concerning Portugal's accession to the European Economic Community are intended in particular to extend to that country the Community arrangements concerning the free movement of goods

and that to recognize the right of Harlequin and Simons to rely upon the "direct effect" of the relevant provisions of the Agreement would be to prejudge the outcome of negotiations in progress for Portugal's accession to the EEC.

2. The third paragraph of Article 234 of the Treaty provides as follows:

"In applying the agreements [that is to say, agreements which were concluded before the entry into force of the Treaty between a Member State and one or more non-member countries and in respect of which the first paragraph provides that the rights and obligations arising therefrom are not to be affected by the provisions of the Treaty], Member States shall *take into account* the fact that the advantages accorded under this Treaty by each Member State form an integral part of the establishment of the Community and are thereby *inseparably linked* with the creation of *common institutions*, the conferring of powers upon them and the *granting of the same advantages* by all the other Member States."

That principle applies equally to agreements concluded *after* the entry into force of the Treaty with a non-member country on behalf of the European Economic Community.

However, whereas the Treaty of Rome established an economic "community", the contracting parties to the Agreement sought to "ensure ... the ... development of their commerce" and to "eliminate progressively the obstacles to *substantially all* their trade". Whilst with regard to the free movement of goods the structure of the Agreement may indeed be comparable to that of the Treaty, there are many aspects to the Treaty other than the fee movement of goods.

Apart from the Joint Committee provided for by Article 32 (1) of the Agreement, no "common institution" was established. If "difficulties arise which could bring about serious deterioration in the economic situation of a region" or "if either Contracting Party considers that the other Contracting Party has failed to fulfil an obligation under the Agreement", there is provision only for the adoption of appropriate "safeguard measures" (Articles 25 to 29), subject to the observance of a consultation procedure within the Joint Committee (Articles 30 and 32 (2)). The detailed rules for implementing the safeguard clauses and precautionary measures provided for in Articles 25 to 30 of the Agreement were laid down by Regulation (EEC) No 2845/72 of the Council of 19 December 1972.

3. The right asserted by Harlequin and Simons would have to be accorded to imports into Portugal of Community products protected in that country by industrial and commercial property rights equivalent to those attaching to the products in the Community.

The Court is aware that the courts of certain member countries of the European Free Trade Association (judgment of the Swiss Federal Court of 25 January 1979 in the *Sunlight* case; judgment of the Austrian Supreme Court of 10 July 1979 in the *Austro-Mechana* case, which concerned parallel imports of gramophone records) permit the owners of industrial or intellectual property rights in those countries to rely upon those rights in order to restrain imports from the Communities. Reciprocity is therefore not guaranteed.

4. The previous decisions relied upon by Harlequin and Simons do not appear to me to be conclusive.

The Yaoundé Convention of 1963, which was the subject of the *Bresciani* case, was not based on reciprocity. On the contrary, by that Convention the Community assumed a number of unilateral obligations *vis-à-vis* certain African States and Madagascar. That "imbalance" did not therefore prevent recognition that some of the provisions of the Convention had "direct effect".

Moreover, that case concerned the interpretation of the words "charges having an effect equivalent to customs duties" used in Article 2 (1) of the Convention by comparison with those of Article 13 (2) of the Treaty and not the expression "measures having an effect equivalent to quantitative restrictions". In that regard provisions of the Convention referred expressly to Article 13 of the Treaty of Rome. In other words, the Member States had intended to assume the same obligations towards the African States and Madagascar as they had assumed towards each other and it was as a result of that reference that the Court was able to hold that the provision conferred personal rights on individuals.

On the other hand, in its judgment of 12 December 1972 in the *International Fruit* case cited above, the Court held that Article XI of the General Agreement on Tariffs and Trade, a provision which also concerns the elimination of quantitative restrictions, *was not* capable of conferring on citizens of the Community rights which they could invoke before the courts.

By way of contrast to that case, the issue in this case is not whether, just as Community law prevails in principle over national law, international commitments entered into by the Community take precedence over the acts of its institutions (for example, a regulation of the Council of Ministers), but whether commitments entered into by the Community with non-member countries must be regarded by the national courts as being of the same nature and having the same scope as those entered into by the Member States *inter se,* in other words whether the classical international legal order is identical to the Community internal legal order. Everyday reality shows that that is unfortunately not so.

In the closely-related field of the protection of trade-mark rights, the judgments of the Court contain statements which are unequivocal.

In its judgment of 15 June 1976 in Case 51/75 *EMI Records Limited* [1976] ECR 811 (in particular at pp. 845 and 846, paragraphs 8 and 11) given in response to a reference from the High Court of Justice, the Court held that the rule contained in Article 30 *et seq.* of the Treaty applied within the common market but was not to be extended to relations with non-member countries. Consequently, the exercise of a trade-mark right in order to restrict the marketing of products from those countries *does not affect* the free movement of goods *between Member States* and is therefore not caught by the prohibitions contained in Article 30 *et seq.,* because the *unity of the common market* is not placed in jeopardy. It is not contrary to the Treaty for the proprietor of a trade mark to institute legal proceedings in a Member State of the Community in order to restrain the parallel importation of products bearing that mark from a non-member country.

In its judgment of 31 October 1974 in Case 15/74 *Centrafarm* [1974] ECR 1147, the Court held that "in relation to patents, the specific subject-matter of the industrial property is the guarantee that the patentee, to *reward* the creative

efforts 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" (paragraph 9 at p. 1162).

That decision was intended to prevent an obstacle to the free movement of goods arising out of the existence of national provisions to the effect that an industrial or commercial property right *"is not exhausted"* when the protected product is marketed, with the result that the owner could prevent the importation of the product when it had been marketed elsewhere.

Applied to this case, that reasoning might lead to the view that if the recordings imported into the United Kingdom were indeed lawfully manufactured and marketed in Portugal with the consent of the composers or the persons entitled through them, payment of the fee for the granting of the right to put the recordings into circulation for the first time constitutes sufficient "reward" for the creative effort of the composers and the consideration for the exclusive rights granted. Thus the legitimate exercise of the copyright would be "exhausted" once the recordings had been placed on the market in Portugal and the "essence" of the right would not be affected by the free marketing thereof in the United Kingdom.

However, such a view would completely undermine the basis of contracts granting exclusive licences of industrial or commercial property rights.

The fee paid to RSO by Phonogram and Polygram Discos was for the exploitation of the rights of reproduction on the Portuguese market. If RSO, in possession of all the facts, had known that the recordings marketed with its consent in Portugal could be freely imported into the United Kingdom and into the other Member States, it would certainly have required much greater consideration. Similarly, if the United Kingdom licensee, Polydor, had been able to foresee that the exclusive right commercially to exploit the muscial work in the United Kingdom would be "exhausted" by its being placed on the Portuguese market, the company would never have agreed to pay a further fee for the right to manufacture and sell the recording in the United Kingdom.

Consequently, the value placed on an industrial or commercial property right and the size of the "reward" for the efforts of the "inventor" and of the person who first puts into circulation the product manufactured from the invention (a reward and value which are part of the "specific subject-matter" or "essence" of the right) depend on the size and nature of the market on which the product may be distributed.

The doctrine of "exhaustion" has been developed solely in the context of relations between Member States in order to achieve complete freedom of movement. It presupposes *inter alia* that freedom to provide services (judgment of 20 January 1981 in Joined Cases 55 and 57/80 *Musik-Vertrieb membran* v *GEMA* [1981] ECR 147, paragraph 25 at p. 165) and, I would add, freedom of establishment are achieved at the same time. It scarcely needs to be stated that the freedom of trade provided for by the Agreement between the EEC and Portugal is not accompanied by the

achievement of those other freedoms, which are essential for the establishment of a common market.

Even if the marketing or manufacture of the recordings in question arose, both in the common market and in the non-member country, from the activities of undertakings which were all subsidiaries of a single undertaking, even one established in a Member State, that common origin would be significant only if the copyrights in question coexisted *on the territory of the common market*, because in such a case the exercise of those rights would be capable of partitioning the market. Whilst the principle of the territoriality of copyright no longer exists within each of the Member States, it continues to exist in the Community's relations with non-member countries.

In the closely-related field of patents, the exhaustion of rights conferred by a Community patent extends only to acts concerning a product covered by that patent which are done within the territories of the contracting States after that product has been put on the market in *one of those States* by the proprietor of the patent or with his express consent (Article 32 of the Community Patent Convention). Similarly, the rights conferred by a national patent in a Member State are "exhausted" only where the product has been put on the market in *any contracting State* by the proprietor of the patent or with his express consent (Article 81 (1) of the Convention). There is therefore no "exhaustion" of the rights where the product has been put on the market of a non-member country which forms a free-trade area with the European Economic Community. That may occur only where that country participates in the Convention (Article 96 of the Convention).

5. Polydor also rightly points out that the last recital in the preamble to the Agreement between the EEC and Portugal states that "no provision of this Agreement may be interpreted as exempting the Contracting Parties from the obligations which are incumbent upon them under *other* international agreements". The international agreements on industrial and commercial property (for example, the Convention for the Protection of Industrial Property, signed in Paris in 1883 and last revised in Stockholm in 1967; the Berne Convention of 1886 for the Protection of Literary and Artistic Works) do not entail the "exhaustion of rights". The *international* Agreement between the EEC and Portugal may not therefore be interpreted in a different manner from the international conventions for the protection of industrial and commercial property.

For all those reasons, the "unionist" doctrine of the exhaustion of industrial and commercial property rights within the Community, as developed in particular in the Court's judgment of 8 June 1971 in Case 78/70 *Deutsche Grammophon Gesellschaft mbH* concerning "sound recordings", cannot be transposed to acts concerning a work covered by copyright which are done within the territory of a non-member country, even if the work has been put on the market there either by the proprietor of the right or with his express consent.

IV — Consequently, it appears to me to be unnecessary to consider whether the wording of Article 14 of the Agreement

("any measures having an effect equivalent to quantitative restrictions on imports *shall be abolished* ...") may be distinguished from that of Article 30 of the Treaty ("Quantitative restrictions on imports and all measures having equivalent effect shall ... be prohibited ...") or whether an injunction prohibiting the importation and sale of the records in question in the United Kingdom constitutes "a means of arbitrary discrimination or a disguised restriction on trade" within the meaning of Article 23 of the Agreement.

I propose that in reply to the questions asked the Court should rule that a company importing into a Member State sound recordings lawfully put into circulation in Portugal cannot rely upon the provisions of Regulation No 2844/72 of the Council of 19 December 1972 before a court of that Member State in order to prevent the exercise of exclusive marketing rights in that Member State by the exclusive licensee of the copyrights in those recordings.