JUDGMENT OF THE COURT
9 July 1985 *

In Case 19/84

REFERENCE to the Court under Article 177 of the EEC Treaty by the Hoge Raad [Supreme Court of the Netherlands] for a preliminary ruling in the proceedings pending before that court between

Pharmon BV, whose registered office is at Rhoon, The Netherlands, represented by A. F. de Savornin Lohman, of the Rotterdam Bar and the Brussels Bar,

plaintiff in the main proceedings,

and

Hoechst AG, whose registered office is at Frankfurt am Main, Federal Republic of Germany, represented by J. A. Stoop, of the Hague Bar,

defendant in the main proceedings,

on the interpretation of the Community rules on the free movement of goods in order to determine the extent of the protection conferred by a patent where a compulsory licence has been granted in respect of a parallel patent,

THE COURT

composed of: Lord Mackenzie Stuart, President, G. Bosco and O. Due (Presidents of Chambers), T. Koopmans, U. Everling, K. Bahlmann and Y. Galmot, Judges,

Advocate General: G. F. Mancini
Registrar: D. Louterman, Administrator

after considering the observations submitted on behalf of

Pharmon BV, the plaintiff in the main proceedings, by A. F. de Savornin Lohman, of the Rotterdam Bar,

Hoechst AG, the defendant in the main proceedings, by J. A. Stoop, of the Hague Bar,

* Language of the Case: Dutch.

the Government of the Kingdom of Denmark, by L. Mikaelsen, Legal Adviser,

the Government of the Federal Republic of Germany, by M. Seidel, acting as Agent,

the Government of the French Republic, by J.-P. Costes, acting as Agent,

the Government of the Italian Republic, by O. Fiumara, acting as Agent,

the Government of the Kingdom of the Netherlands, by I. Verkade, acting as Agent,

the United Kingdom, by G. Dagtoglou, Treasury Solicitor's Department, acting as Agent,

the Commission of the European Communities, by A. McClellan, Legal Adviser, and A. Haagsma, a member of its Legal Department, acting as Agents,

after hearing the Opinion of the Advocate General delivered at the sitting on 23 April 1985,

gives the following

JUDGMENT

(The account of the facts and issues which is contained in the complete text of the judgment is not reproduced)

Decision

1 By judgment of 13 January 1984, which was received at the Court on 20 January 1984, the Hoge Raad referred to the Court for a preliminary ruling under Article 177 of the EEC Treaty three questions on the interpretation of the Community rules on the free movement of goods in order to determine the limits imposed on the application of national law on patents for inventions with regard to the importation of a product manufactured in another Member State under a compulsory licence granted in respect of a parallel patent.

2 That question was raised in proceedings between the German company Hoechst and the Netherlands company Pharmon, in which Hoechst sought to prevent Pharmon from marketing a consignment of medicines in the territory of the Netherlands.

3 At the material time, in 1976, Hoechst was the proprietor of a patent in the Federal Republic of Germany and of parallel patents in the Netherlands and in the United Kingdom in respect of the same invention, namely a process for manufacturing the medicine known as 'frusemide'.

4 In 1972 DDSA Pharmaceuticals Ltd (hereinafter referred to as DDSA), a British company, obtained a compulsory licence to exploit the invention by virtue of section 41 of the Patents Act 1949, which was then in force, in respect of the parallel patent granted to Hoechst in the United Kingdom.

5 The compulsory licence granted in this case was based on section 41 of the Patents Act 1949 which made special provision for patents in respect of foodstuffs, medicines and surgical instruments. In connection with such patents, the Comptroller General of Patents was required to grant a compulsory licence to any person interested who applied for one, unless it appeared to him that there were good reasons for refusing the application.

6 It is clear from section 41 (2) that that rule was intended to ensure that the products concerned could be obtained at the lowest possible prices consistent with the patentee deriving a reasonable advantage from his patent rights. The compulsory licence was signed neither by its holder, nor by the proprietor of the patent, but only by the official of the United Kingdom Patent Office.

7 The licence in question was a non-assignable non-exclusive compulsory licence within the United Kingdom of Great Britain and Northern Ireland and the Isle of Man and attached to it was a prohibition on exportation.

8 However, at the end of 1976, shortly before the expiry of the United Kingdom patent, DDSA disregarded that prohibition on exportation and sold to the Netherlands pharmaceutical company, Pharmon, a large consignment of 'frusemide' tablets which it had produced. Pharmon intended to market in the Netherlands the pharmaceutical products which it had obtained in that way.

9 Hoechst brought an action against Pharmon before the Arrondissementsrechtbank [District Court], Rotterdam. By a judgment of 1 February 1977, which became final, that court made a general order prohibiting Pharmon from infringing the rights arising under Hoechst's Netherlands patent.

10 Pharmon refused to accept that that general prohibition covered the 'frusemide' originating in the United Kingdom where, according to Pharmon, it had been lawfully marketed by DDSA. It therefore brought an action before the Arrondissementsrechtbank, Rotterdam, for a declaration to that effect.

11 The case came before the Gerechtshof [Regional Court of Appeal], The Hague, which took the view that, since Pharmon had bought the consignment of 'frusemide' in question directly from DDSA, the tablets had not been released onto the market in the United Kingdom and that, in addition, Hoechst had apparently not received royalties for that consignment. Consequently, by a judgment of 3 March 1982, it dismissed Pharmon's claims.

12 Pharmon then lodged an appeal in cassation, claiming, *inter alia*, that the Gerechtshof was mistaken in finding that the consignment of 'frusemide' in question had not been released onto the United Kingdom market, and in attaching importance to the fact that royalties had not been paid to Hoechst.

13 The Hoge Raad took the view that the case raised various questions of interpretation of Community law and, by a judgment of 13 January 1984, asked the Court to give a preliminary ruling on the following questions:

'(1) Is it incompatible with the rules of the free movement of goods within the Common Market for a proprietor of a patent to exercise his rights under the legislation of a Member State to oppose the putting into circulation in that State of a product protected by that patent, where that product is manufactured in another Member State and sold and supplied directly from there to a purchaser in the first-mentioned Member State by the holder of a compulsory licence under a parallel patent owned by the same patent proprietor in that other Member State?

(2) Does it make any difference to the answer to the first question whether a prohibition on exportation is attached to the above-mentioned compulsory licence by the authorities of the other Member State?

(3) Is it relevant to the answer to be given to the first question whether:

(a) the patent proprietor is in general entitled to royalties in respect of the products put into circulation by the licensee under his compulsory licence?

(b) the patent proprietor is entitled to royalties in respect of the specific consignment at issue in these proceedings?

(c) the patent proprietor is not only entitled to royalties but has also actually received (or wanted to receive) such royalties?'

Question 1

14 The Hoge Raad's first question asks in substance whether Articles 30 and 36 of the EEC Treaty preclude the application of legal provisions of a Member State which give a patent proprietor the right to prevent the marketing in that State of a product which has been manufactured in another Member State by the holder of a compulsory licence granted in respect of a parallel patent held by the same proprietor.

15 Pharmon, the plaintiff in the main proceedings, considers that the holder of a compulsory licence must be accorded the right to deliver directly in the territory of another Member State in which a parallel patent exists the product which is the subject of the original patent, the parallel patent and the compulsory licence.

16 Pharmon puts forward several arguments in support of its view. It claims that the nature of a compulsory licence is not appreciably different from that of a licence freely granted, in view of the procedural rules concerning the grant of compulsory licences, the legal protection provided for the patent proprietor and the fact that he receives reasonable compensation. With regard to the problem of the patent proprietor's consent, it claims that the decision of the national authorities may be deemed to replace the consent of the patent proprietor, and that, in any event, the exhaustion of patent rights is also applicable where the product has been marketed in the Member State where the compulsory licence was granted. Pharmon takes the view, in addition, that several judgments of the Court of Justice corroborate its view, in particular the judgments of 3 July 1974 (Case 192/73 *Van Zuylen Frères* v

Hag AG [1974] ECR 731), 20 January 1981 (Joined Cases 55 and 57/80 *Musik-Vertrieb Membran* v *GEMA* [1981] ECR 147) and 14 July 1981 (Case 187/80 *Merck* v *Stephar* [1981] ECR 2063). It follows from those judgments that a person who decides to avail himself of the possibility of seeking a parallel patent in the United Kingdom, by the same token accepts the whole body of the relevant British legislation with all the consequences which that implies, including the possibility that a compulsory licence may be granted in respect of that parallel patent.

17 Hoechst, the six Member States which have submitted observations, and the Commission largely concur in their view that the holder of a compulsory licence is not entitled to deliver the product directly in the territory of a Member State where a parallel patent exists. Consequently, they consider that it is not incompatible with the rules on the free movement of goods for a patent proprietor to exercise his rights under the law of a Member State to oppose the putting into circulation in the abovementioned circumstances, in that State, of a product protected by the patent of which he is the proprietor.

18 In the first place it is contended that the nature of a compulsory licence is different to that of a licence freely granted because, in particular, there are no real negotiations between the compulsory licensee and the patentee, neither the licensee nor the patentee sign the document, which remains a measure adopted by a public authority, and the relationship which in normal circumstances exists between a patentee and a contractual licensee is lacking.

19 Secondly, it is argued that the objectives of a compulsory licence and a licence freely granted are different. Whilst a licence freely granted is a means of exploitation which goes to the specific subject-matter of the patent right as defined by the Court, a compulsory licence, on the other hand, is essentially intended to meet the special needs of a Member State. Accordingly, it would be unfair, and even dangerous, to accord that Member State a further advantage by allowing a product manufactured under the compulsory licences granted by it to be delivered directly in Member States where a parallel patent exists.

20 Thirdly, all the abovementioned observations emphasize in particular the lack of direct or indirect consent on the part of the patent proprietor in the case of

compulsory licences. Referring to the decisions of the Court (in particular the judgment of 31 October 1974, Case 15/74 *Centrafarm* v *Sterling Drug* [1974] ECR 1147; the judgment of 14 July 1981, Case 187/80, *Merck* v *Stephar*, cited above; and the judgment of 14 September 1982, Case 144/81 *Keurkoop* v *Nancy Kean Gifts* [1982] ECR 2853), they stress the fact that in the case of a compulsory licence none of the conditions which, according to the Court's case-law, fix the limits laid down by Community law on the exercise of an industrial and commercial property right protected at national level are satisfied. It follows that the theory of the exhaustion of patent rights which presupposes that the product in question has been marketed freely and voluntarily by the patent proprietor, or by a third party with the proprietor's consent, does not apply in the case of a compulsory licence. That view is confirmed by the provisions of the Convention for the European Patent for the Common Market (Community Patent Convention) (Official Journal 1976, L 17, p. 1), in particular Article 81 (3) thereof which, although it has not yet come into force, nevertheless expresses the position of the Member States in that respect.

21 Fourthly, Hoechst and all the Member States which have submitted observations claim that, in accordance with the principle of the territoriality of the acts of the public authorites of a Member State, a compulsory licence cannot confer on its holder rights in the territories of the other Member States. Since a compulsory licence is an exceptional measure and is often in the nature of a penalty for the patentee, it must be applied restrictively and its effects should not be extended beyond its inherent purpose, that is to say the public interest in general and, with regard to medicines in particular, the maintenance of supplies to the internal market under satisfactory conditions.

22 It must be recalled that the Court has consistently held that Articles 30 and 36 of the EEC Treaty preclude the application of national provisions which enable a patent proprietor to prevent the importation and marketing of a product which has been lawfully marketed in another Member State by the patent proprietor himself, with his consent, or by a person economically or legally dependent on him.

23 If a patent proprietor could preclude the importation of protected products marketed in another Member State by him or with his consent, he would be able

to partition the national markets and thus restrict trade between the Member States, although such a restriction is not necessary to protect the substance of his exclusive rights under the parallel patents.

24 The Hoge Raad's question is therefore essentially intended to establish whether the same rules apply where the product imported and offered for sale has been manufactured in the exporting Member State by the holder of a compulsory licence granted in respect of a parallel patent held by the proprietor of the patent in the importing Member State.

25 It is necessary to point out that where, as in this instance, the competent authorities of a Member State grant a third party a compulsory licence which allows him to carry out manufacturing and marketing operations which the patentee would normally have the right to prevent, the patentee cannot be deemed to have consented to the operation of that third party. Such a measure deprives the patent proprietor of his right to determine freely the conditions under which he markets his products.

26 As the Court held most recently in its judgment of 14 July 1981 (*Merck* v *Stephar*, cited above), 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 patent.

27 Consequently, in reply to Question 1 it must be stated that Articles 30 and 36 of the EEC Treaty do not preclude the application of legal provisions of a Member State which give a patent proprietor the right to prevent the marketing in that State of a product which has been manufactured in another Member State by the

holder of a compulsory licence granted in respect of a parallel patent held by the same proprietor.

Questions 2 and 3

Questions 2 and 3 ask essentially whether the reply to Question 1 depends, in the first place, on whether the authorities of the Member State which granted the compulsory licence have attached to it a prohibition on exportation and, secondly, on whether the compulsory licence provides for a system of royalties for the patentee and whether he has actually accepted or received such royalties.

It is sufficient to state that the limits referred to above imposed by Community law on the application of the law of the importing Member State in no way depend on the conditions attached by the competent authorities of the exporting Member State to the grant of the compulsory licence.

It follows that in reply to Questions 2 and 3 it must be stated that it makes no difference to the reply to Question 1 whether a prohibition on exportation is attached to the compulsory licence, whether that licence fixes royalties payable to the patentee or whether the patentee has accepted or refused such royalties.

Costs

The costs incurred by the Governments of the Kingdom of Denmark, the French Republic, the Federal Republic of Germany, the Italian Republic, the Kingdom of the Netherlands, by the United Kingdom and by the Commission of the European Communities, which have submitted observations to the Court, are not recoverable. Since these proceedings are, in so far as the parties to the main proceedings are concerned, in the nature of a step in the action pending before the national court, the decision as to costs is a matter for that court.

On those grounds,

THE COURT

in answer to the question referred to it by the Hoge Raad by a judgment of 13 January 1984 hereby rules:

(1) Articles 30 and 36 of the EEC Treaty do not preclude the application of legal provisions of a Member State which give a patent proprietor the right to prevent the marketing in that State of a product which has been manufactured in another Member State by the holder of a compulsory licence granted in respect of a parallel patent held by the same proprietor.

(2) In that respect, it makes no difference whether a prohibition on exportation is attached to the compulsory licence, whether that licence fixes royalties payable to the patentee or whether the patentee has accepted or refused such royalties.

Mackenzie Stuart Bosco Due

Koopmans Everling Bahlmann Galmot

Delivered in open court in Luxembourg on 9 July 1985.

P. Heim
Registrar

A. J. Mackenzie Stuart
President