unpatented product coming from another Member State does not necessarily constitute an abuse;

and declares:

It is for the Gerechtshof, The Hague, to make an order as to the costs of the present proceedings.

Lecourt Donner Strauß

Trabucchi Monaco

Delivered in open court in Luxembourg on 29 February 1968.

A. Van Houtte R. Lecourt

Registrar President

OPINION OF MR ADVOCATE-GENERAL ROEMER DELIVERED ON 7 FEBRUARY 1968[1]

Mr President,
Members of the Court,

In a reference made by the Gerechtshof, The Hague, you are once again called upon to consider the competition law of the EEC Treaty. We must start with the facts, which have attracted wide attention because of the nature of the questions asked on this occasion.

The American company Parke, Davis & Co., whose registered office is in Detroit, is the holder of two Netherlands patents for the biological and chemical manufacture of the antibiotic 'chloramphenicol'. It has granted licences to a Netherlands undertaking established in Delft and it is a term of the license agreement that the licensor must enforce the patent rights in the Netherlands on behalf of the licensee.

I would point out in this connexion that although, under Netherlands law, medicinal preparations are not themselves patentable the holder of a patent for a manufacturing process nevertheless has the exclusive right to market a product manufactured by the patented process. Furthermore, in an action for infringement of patent, when the products in question are 'new' under the Law of 7 November 1910, those marketed without the permission of the holder of the patent are presumed to have been manufactured by the protected process, unless the person presumed to be infringing the patent rebuts this presumption.

It seems that patent rights of Parke, Davis & Co. have been infringed by the marketing by a Belgian company (Probel of Brussels) and two Netherlands companies (Reese en Beintema-Interpharm, a limited company, and Centrafarm, a partnership, both of Rotterdam) in the Netherlands of chloramphenicol from various countries of Europe, without the permission of the company holding the patent or of the undertaking holding the licence. This led to the bringing of proceedings in 1958 in Rotterdam during which Parke, Davis & Co. claimed damages for infringement of its patent rights from the three companies in question and an injunction, under threat of periodical penalty payments, against any

1 — Translated from the French version.

future infringement. During the various stages of these proceedings which have reached the Hoge Raad, a whole series of points of fact and of Netherlands patent law has been examined. Most of these points have been decided by the judgment of the Gerechtshof, The Hague, of 30 June 1967, it having been impossible to prove that the chloramphenicol in question had been manufactured by means of another process, a fact to be particularly noted. This judgment accepted the proposition that Parke, Davis & Co.'s patent rights had been infringed and ordered Centrafarm to pay damages (the analagous claims as regards the other defendants having been withdrawn). It also ordered all the defendants, under threat of periodical penalty payments, to refrain from any future infringement. However, the judgment left one question open, that of the sale of chloramphenicol from Italy, the only Member State of the EEC in which Parke, Davis & Co. does not possess any patent for the manufacture of that antibiotic, since under Italian law neither medicaments nor their manufacturing processes are patentable (see on this the detailed explanation by Centrafarm in its statement of case). The defendant company Centrafarm, in particular, had given it to be understood that 'recently' the only chloramphenicol which it had placed on the market in the Netherlands had been manufactured in Italy, and could be freely sold in that country by reason of the characteristics inherent in Italian patent law. It submitted that under the competition law of the EEC Treaty (Articles 85(1) and 86) Parke, Davis & Co. should not be granted an injunction against imports based on patent law, for the sole reason that otherwise consumers in the Netherlands would not be able to benefit from the considerably lower Italian prices. The Gerechtshof, The Hague, took the view that a decision on this point was necessary to enable it to give judgment. This is why, following the conclusions of Centrafarm, it decided in its aforementioned judgment of 30 June 1967 to bring the matter before the Court under Article 177, and to refer the following two questions to it:

'(1) Do the prohibitions contained in Articles 85(1) and 86 of the Treaty establishing the European Economic Community, possibly considered in conjunction with the provisions of Article 36 and 222 of that Treaty, concern or not concern the holder of a patent issued by the authorities of a Member State when, in reliance on that patent, he claims that the courts should prevent in the territory of that State any circulation, sale, hire, delivery, storage or use of some product originating in another Member State, if the latter State does not grant an exclusive right to manufacture and sell that product?

(2) Is the answer to Question 1 different if the price at which the patent-holder offers the product on the market in the territory of the first Member State is higher than the price asked of the consumer in that same territory for the same product when it originates in the second Member State?'

Having regard to the fact that these questions have raised clearly fundamental questions concerning the relations between national patent law and Community competition law, the number of parties involved in this reference has been particularly high. Thus, pursuant to Article 20 of the EEC Statute of the Court of Justice, the parties to the main action (except Interpharm), the Governments of the Kingdom of the Netherlands, the Federal Republic and the French Republic and the Commission of the European Communities have all submitted observations, both in writing and (except the Netherlands Government) orally.
I shall now consider the reply to be given to the questions asked. However my task is not made any easier by the number of parties to the proceedings and the divergencies in their arguments.

Legal Discussion

Preliminary remark

However, before being able to direct my energies to the task of interpretation proper, I feel I ought to make a number of brief preliminary remarks on the scope of the questions raised. These preliminary re-

marks seem indispensable, because during the written and oral procedures certain parties (the Commission, the Netherlands Government and the defendant company Centrafarm) have gone into problems which have only a tenuous link with the facts submitted to the national court, and with which the questions asked are not in fact concerned. I have in mind the problem of so-called 'parallel patents' or, in other words, the case where an undertaking has patent rights in a product in one Member State and wishes to prevent imports of that product from other Member States in which the undertaking also possesses patent rights, but which are nevertheless regarded as exhausted because the product has been placed on the market by the holder of the patent or with his consent and he has thus already received the benefits resulting from the exploitation of his rights. The Commission in particular is of the opinion that it is possible to include this case in the field to be considered, in view of the fact that the exposition of the facts in the decision to make a reference to Court (in the French translation) speaks only of products 'coming from Italy' and not products 'originating in Italy'. It considers it possible to imagine that while the products in question have been imported from Italy, they might nevertheless have been admitted into Italy from another Member State in which they had been manufactured by virtue of another patent and placed on the market by the holder of the Netherlands patent (or with his consent). One could also imagine that the product in question, although indeed manufactured in Italy (which means without any patent rights), might then have been placed on the market by the holder of the Netherlands patent or with his permission in another Member State where he also holds patent rights.

I shall not follow up these apparently artificial and unlikely hypotheses of the Commission (and of the other parties concerned) or the theories based on them, for we cannot reply *ultra petita*. It is clear that they do not arise out of the national proceedings by which we are bound. What is more, the grounds of the decision referring the matter, in particular the fact that it is made because of the arguments of Centrafarm (and Centrafarm only speaks of products manufactured in Italy and directly exported to the Netherlands) and the fact that imports from other Member States have already been prohibited, clearly indicate the only case now envisaged by the Netherlands court. Thus the only important question is whether the holder of a Netherlands patent may, by virtue of Netherlands law, obtain protection by way of a claim for damages and an injunction from the court prohibiting imports, made without his consent, of products protected by patents coming from a country where they are not patentable and where it has been possible to manufacture them and place them on the market without the permission of the holder of the patent, or whether the competition law of the EEC Treaty does not permit these national patent rights to be invoked.

It is this question alone which we must consider from now on. The wider question formulated by the Commission will have to wait for some future case in which it is actually raised.

1. *The first question*

In order to reply to the first question, and I do not think my reading it out again would serve any useful purpose, it will, I think, be convenient to treat it by means of a separate consideration of the two articles which are mentioned therein. So I shall start by considering Article 85, and I shall then go on to examine the importance of Article 86 for the purposes of the present case.

(a) Article 85

As regards Article 85 of the EEC Treaty, my remarks can be very brief. We all know that this article prohibits certain agreements between several undertakings, decisions of associations of undertakings and concerted practices, that is to say, it only applies to cases where the voluntary concerted action of several undertakings restricts competition and has an adverse affect on trade.

This is obviously not the case in the present instance. The question referred concerns a unilateral action on the part of the holder of patent rights, which means that the said

holder is asserting his national rights peculiar to himself (and not based on an agreement). Even though the patent-holder must exercise his rights on behalf of the Netherlands licensee, nevertheless it is not this agreement which can bring about a restriction on competition, but only the (subjective) national patent rights. In these circumstances, as the Federal Government and the French Government have rightly pointed out, it must be concluded that the mechanics of Article 85 do not permit it to apply to a case such as the present one.

(b) Article 86

It does not seem so easy to answer the question whether Article 86, which prohibits any abuse of a dominant position in the market, can be brought into action against the exercise of patent rights. Most of the parties have given fairly detailed explanations on this subject. I shall follow them in this field.

We are told that under Netherlands law (Article 30 of the Law of 7 November 1910) the holder of a patent is given an exclusive, though limited, right to profit from his invention (manufacture of the patented product and placing it on the market in the territory of the Netherlands). This right is only exhausted when the patented product is placed on the market by the holder of the patent or with his consent and, according to prevailing case-law, placed on the market in the Netherlands. Therefore (as in other Member States) the territorial principle applies here.

Neither the existence nor the substance of this national patent right—the parties seem by and large to be in agreement on this point—should be affected by the EEC Treaty.[1] There are in fact unequivocal pointers in favour of this view in the Treaty itself in Articles 36 and 222. As the commission rightly points out, Article 36 recognizes, although with reservations, the necessity of accepting restrictions on trade (or, in other words, the partitioning off of markets) contrary to the provisions of Articles 30 to 34, in so far as they are due to the existence of national industrial property. Article 222 of the Treaty expressly states that the rules in Member States governing the system of property ownership remain unchanged.

Looking at this article objectively (and not following certain allusions of the Commission which, in mistaken reliance on Article 83 of the ECSC Treaty, only speaks of the freedom to choose, as regards 'the system of ownership of the undertakings' between a system of public property'), we must interpret it as meaning that all the basic elements of the national system of property ownership must remain unchanged. This equally means that the existence of rights appertaining to inventions analogous to property rights must remain unchanged. As some of the parties have pointed out, certain passages of the *Grundig* judgment, particularly those which do not *a priori* reject recourse to Article 222 as regards industrial and commercial property, point in the same direction. It is only an interpretation such as this which gives a reasonable meaning to the efforts which have been carried on since 1959 with a view to setting up a European convention in order to adjust national patent law to the requirements of the Common Market.

Yet the substance and essence of national patent laws would obviously be affected if, in a case like this, one abandoned, on grounds of the requirements of the Common Market, the principle of the independence of national patent law and the generally accepted principle of territoriality, in other words if one accepted that rights under a patent are exhausted or, putting it another way, that it is impossible to resort to the defensive measures which such rights imply, when the product protected by a patent has been put into circulation without the consent of the holder of the patent in countries where the product in question is

1 — See also the observations of the International Chamber of Commerce on the effects of the rules on competition contained in the EEC Treaty on industrial property rights, GRUR ausländischer und internationaler Teil, 1959, p. 392; Plaisant, Le Traité de CEE, l'article 85 et les droits de propriété industrielle en: Propriété industrielle et Marché Commun, p. 145; Wagret, La propriété industrielle et le droit européen des ententes, Revue du Marché Commun 1962, p. 431; Jansse and others, Der Einfluß der Wettbewerbsregeln des EWG-Vertrages auf die gewerblichen Schutzrechte, GRUR, ausländischer und internationaler Teil, 1961, p. 276.

not patentable. Indeed, little would remain of the legal monopoly to exploit an invention, which is intended to guarantee the chance of a reasonable return for the inventor. This is because persons other than the patent-holder could easily supply the whole of the Common Market from a country where patents do not exist, and could do so on terms more advantageous than those offered by the inventor himself (in view of the fact that they would not have to face the same development costs as the holder of the patent or a licensee). The consequences which would follow from this for the economy and for legal practice concerning patents would be considerable. A patent law emptied of its substance and devalued to this point could hold up technical progress, since in many cases undertakings would no longer want to bear the increasing costs of research and development, for they would not have any chance of obtaining a reasonable return with the help of an effective legal monopoly for exploiting inventions, granted temporarily. The most one could expect is that inventions would be kept secret (in the hope of thus having a monopoly to exploit them), which would deprive other undertakings not only of the possibility of continuing research on the basis of discoveries already made, but also of the legal possibility of taking part in the exploitation of inventions by means of licences.

Accordingly, assuming that as regards Articles 36 and 222 of the Treaty it certainly cannot be said that patent rights cease to be protected in a country because the products protected by them have been placed on the market without the consent of the holder of the patent in a country where the product is not patentable, the only question which in fact remains is how far Article 86, which prohibits any abuse of a dominant position, might apply.

One cannot reasonably envisage excluding Article 86 *a priori* as regards patent law. This is what already appears in the *Grundig* case as regards the analogous matter of trademarks. Whilst it is true that the existence of patent rights remains unchanged, their exercise has nevertheless had to undergo certain restrictions (to the extent to which an abuse is involved with regard to the efficacy of Community law on competition) National law is also familiar with certain restrictions on patent rights, imposed by the requirements of competition law or of legislation on prices (as the French Government, among others, has pointed out).

We shall therefore see what criteria must be taken into account with reference to Article 86 and what meaning must be attributed to them from the point of view of the facts which are of interest here.

The first requisite is the existence of a dominant position within the Common Market or in a substantial part of it. As regards this, most of the parties have rightly emphasized that this is an economic concept and that consequently it was not enough to prove the existence of a legal monopoly (like that enjoyed by the holder of a patent), but that it was necessary to determine the position which the holder of the patent occupies on the market, whether the product which he manufactures is of its nature subject to competition, or at least does not meet substantial competition, and whether, therefore, the person enjoying the monopoly is in a position to fix prices and terms. One can in fact imagine the existence of patents which are not commercially exploitable (and in this case the holder of the patent has no influence at all on the market); further, it could be that sometimes several licensees maintain enough competition, sometimes other methods of making the patented product exist (as the defendants in the main action themselves say) or—as is claimed by the plaintiff in the main action as regards chloramphenicol—it may be that a number of similar products made by other undertakings ensure competition (it matters little whether this takes place at the level of the final consumer or of the doctor who writes out the prescription). Thus the existence of patent rights is not of itself enough to fulfil the first requirement laid down by Article 86. One must instead proceed in each case to an analysis of the commercial realities of the kind which I have just mentioned. However, as regards this Court, in proceedings for an interpretation it is reasonable to leave open the question how far the national court may base its decision on certain presumptions of the type such as the

plaintiff in the main action considers justified[1] for the purposes of determining the existence of competition against products protected by patents.

Secondly I must emphasize that Article 86 speaks of the abuse of a position in the market. Therefore, and the Federal Government stresses this point more than all others, not all the actions of the person who enjoys a monopoly are illegal, but only those which have been carried out with the help of the dominant position. In other words, the dominant position in the market must be used as a means for obtaining a certain objective. One may in fact ask oneself whether this may be the case when national patent rights are exercised, in view of the fact that these are only determined by an objective legal situation and not by the position which the holder of the patent occupies in the market. However, it is not necessary to take the examination of this question any further, and it may seem a trifle sophisticated. I shall rather examine the third requisite, on which, in my opinion, it is possible to state one's mind clearly.

What Article 86 requires above all is in fact an 'abuse' of the dominant position. As regards patent rights, this means an abuse in the exercise of such rights. Their proper use, which corresponds to the very nature and whole point of the rights can never be prohibited under Article 86.[2] This is the position in a case such as the present. As we know, the prohibitions enforced by means of orders from the courts are intended to prevent imports of a product protected by a patent from a territory where the product is not patentable. This means that rights arising from the nature of patent law are being exercised, and without these, as I have already made clear, this law would be almost completely stripped of its value, because a patent holder's working monopoly, which must give him a reasonable return on his outlay, would be placed in question. It should be added that as regards this point the present case cannot be compared with the *Grundig* case, in which it was said that to transfer a trademark (and of course trademarks work in a noticeably different way from patent rights) with a view to ensuring exclusive distribution contrary to the Treaty and to excluding parallel imports (which means with a view to ensuring that the market is divided up), constitutes an abuse and is covered neither by the reason for nor the functioning of the trademark.

Thus on the first question it may be said in conclusion that although it is true that Article 86 may sometimes apply to the exercise of rights under a patent, nevertheless in a case such as the present the holder of a patent can certainly not be prevented from enforcing his rights and obtaining measures to defend himself against imports originating in territories where no patent law exists for the product in question.

For this reason, and here I follow the opinion of the governments concerned, of the plaintiff in the main action and (in so far as parallel patents are not concerned) also of the Commission, the first question should be answered in the negative.

2. *The second question*

In the second question, which is a supplementary one, the Netherlands court asks whether the answer should be different if it be found that the holder of the patent, or the licensee, is charging higher prices for the products which he has placed on the market in the Netherlands than the prices charged for the products imported from Italy.

As the plaintiff in the action before the national court has said, it would be enough to declare that the existence of a difference in price without either its amount or the reasons for it being made clear is not of itself enough to reach some definite conclusion on cartel law.

However, the reply should not be so laconic, and the following further remarks may be made.

In an excessively high price structure it is in fact possible to see an indication that a dominant position on the market exists and that it is being abused within the meaning of Article 86, which is the only provision of

1 — Cf. also Jansse, op. cit.
2 — Cf. Jansse, op. cit.

the Treaty on the subject of competition law which is relevant in this case, as I have already explained. Nevertheless it would be wrong for the national court to be satisfied with this indication alone. It should go further and make precise inquiries with a view to reaching a finding beyond reasonable doubt that a dominant position on the market exists and that it is being abused. (Of course there is no place for such inquiries in a reference under Article 177. In the opinion of the French Government the inquiries can be made, for example, by means of comparisons with analogous situations on other markets where patent rights exist.) In fact, and the present proceedings have convinced me of this, in a case such as this a certain (even appreciable) difference of price may necessarily result from the nature of things. Thus it is natural that in the price of a patented product (whether it be directly placed on the market by the holder of the patent or by his licensee, who is required to pay royalties) the very heavy costs of research in the pharmaceutical industry (and also research which produces no results) are included. Such costs must be recouped over a relatively short period of time because of the accelerated process of development. As I have already stated, if this possibility of recovering the costs thanks to a monopoly on the invention did not exist, the incentive to carry out expensive research would be considerably reduced. Similarly the costs of obtaining the patent, and of introducing the product on the market and establishing goodwill (for products carrying a trademark) are also included in the price. In a country in which a product is not patentable, the producer who can exploit an invention free of charge, on the basis of published specifications, does not have to bear all these costs. Thus there is nothing surprising in the fact that he can offer his products at considerably lower prices. To this there may possibly be added, as was suggested during the oral procedure, differences in quality which may also be reflected in the price.

But if, after having taken the abovementioned factors into account, it were to appear that as a result of a dominant position in the market a commercially unjustified and unfair price structure within the meaning of Article 86(a) undoubtedly existed, it would nevertheless be possible, on a balanced view, to avoid reaching the legal consequence of depriving the holder of the patent of his legal right to obtain protection against imports originating in a country where no patent rights exist, a legal right which is precisely what the court making the reference has called in question. As I have already explained, to do this, by which I mean to eliminate the dominant situation arising from these rights and protected by it, would be tantamount to stripping patent law itself of its substance almost completely and to devaluing it. Yet Article 86 does not in any way condemn a dominant position in itself, but only an abuse of it. Therefore, if the abuse is reflected in the price structure, it is only the latter which may be dealt with by a measure taken under cartel law (for example under Article 3 of Regulation No 17), and not the efforts made with a view to preventing imports from countries where no patent rights exist.

In these circumstances, as has been suggested by, amongst others, the Commission, the French Government and the Federal Government, the answer to the second question must in any event also be in the negative.

3. *Recapitulation*

Having said all the above, I am now in a position to suggest the following replies to the questions asked:

— Neither Article 85 nor Article 86 of the EEC Treaty prevents the holder of a patent granted in a Member State from seeking from the courts, on the grounds of his patent rights, an injunction prohibiting the importation of products of the

kind protected from another Member State in which the products and the manufacturing process are not patentable.

— This also applies when the holder of a patent or his licensee places the products in question on the market in the Member State which does grant patent rights at prices higher than those which are charged in that same Member State for products from another Member State which does not grant patent rights.

— Since this is a reference to the Court under Article 177, the Court should not make an order as to costs. Such an order is for the national court which has made the reference.