measures which would adversely affect the principle of free movement of goods within the common market as provided for in and regulated by the Treaty.

2. Notwithstanding the fact that, as Community law regarding patents stands, it is for the national legislature to determine the conditions and rules regarding the protection conferred by patents and it may therefore penalize lack or insufficiency of exploitation of the patent by granting a compulsory licence, a Member State is failing to fulfil its obligations under Article 30 of the Treaty if it envisages the possibility of granting compulsory licences where a patent for industrial invention or for the production of new plant varieties is not exploited by way of production in the national territory but by imports from other Member States. To avoid any risk of loss of his exclusive right, which could not, in his view, be duly compensated by the payment of the remuneration laid down for a compulsory licence, the patentee is thus encouraged to manufacture on the territory of the State where the patent has been granted, rather than to import the patented product from the territory of other Member States. Such discrimination, which is designed to encourage domestic production, is justified neither by Article 36 of the Treaty nor by Article 5 of the Paris Convention for the Protection of Industrial Property.

REPORT FOR THE HEARING
in Case C-235/89 *

I — Legal background, pre-litigation procedure and procedure before the Court

A — *Legal background*

1. *The provisions of the Treaty*

The case falls within the provisions of Articles 30, 36 and 222 of the EEC Treaty.

2. *Paris Convention for the protection of industrial property of 20 March 1883, as revised at Brussels on 14 December 1900, at Washington on 2 June 1911, at The Hague on 6 November 1925, at London on 2 June 1934, at Lisbon on 31 October 1958 and at Stockholm on 14 July 1967 (United Nations Treaty Series, Volume 828, No 11851, p. 306)*

Article 5(A) of the Paris Convention provides:

* Language of the case: Italian.

'1. Importation by the patentee into the country where the patent has been granted of articles manufactured in any of the countries of the Union shall not entail forfeiture of the patent.

2. Each country of the Union shall have the right to take legislative measures providing for the grant of compulsory licences to prevent the abuses which might result from the exercise of the exclusive rights conferred by the patent, for example, failure to work.

3. Forfeiture of the patent shall not be provided for except in cases where the grant of compulsory licences would not have been sufficient to prevent the said abuses. No proceedings for the forfeiture or revocation of a patent may be instituted before the expiration of two years from the grant of the first compulsory licence.

4. A compulsory licence may not be applied for on the ground of failure to work or insufficient working before the expiration of a period of four years from the date of filing of the patent application or three years from the date of the grant of the patent, whichever period expires last; it shall be refused if the patentee justifies his inaction by legitimate reasons. Such a compulsory licence shall be non-exclusive and shall not be transferable, even in the form of the grant of a sub-licence, except with that part of the enterprise or goodwill which exploits such licence.'

3. *Conventions on the Community patent*

(a) A convention for the European patent for the common market (Community Patent Convention — CPC) was signed at Luxembourg on 15 December 1975 (Official Journal 1976 L 17, p. 1).

The Community Patent Convention constitutes a 'special agreement' within the meaning of Article 142(1) of the Convention on the Grant of European Patents (European Patent Convention) signed at Munich on 5 October 1973.

The Community Patent Convention in its original form (hereinafter referred to as the 'First CPC') did not enter into force for want of ratification by all the Member States.

(b) An agreement relating to Community patents was signed at Luxembourg on 15 December 1989 (Official Journal 1989 L 401, p. 1).

Article 1(4) of that agreement provides:

'On entry into force of this Agreement, it shall replace the Community Patent Convention in the form signed at Luxembourg on 15 December 1975.'

Annexed to the agreement is the amended Convention for the European Patent (hereinafter referred to as the 'Second CPC').

That agreement is in the process of ratification.

(c) In relation to the Community patent, Article 46(1) of the First CPC and Article 45(1) of the Second CPC provide as follows:

'Any provision in the law of a Contracting State for the grant of compulsory licences in respect of national patents shall be applicable to Community patents. The extent and effect of compulsory licences granted in respect of Community patents shall be restricted to the territory of the State concerned . . . .'

Article 47 of the First CPC and Article 46 of the Second CPC provide as follows:

'A compulsory licence may not be granted in respect of a Community patent on the ground of lack or insufficiency of exploitation if the product covered by the patent, which is manufactured in a Contracting State, is put on the market in the territory of any other Contracting State, for which such a licence has been requested, in sufficient quantity to satisfy needs in the territory of that other Contracting State. This provision shall not apply to compulsory licences granted in the public interest.'

(d) These conventions also contain provisions on national patents.

Article 82 of the First CPC and Article 77 of the Second CPC respectively provide that Article 47 of the First CPC and Article 46 of the Second CPC shall apply *mutatis mutandis* 'to the grant of compulsory licences for lack or insufficiency of exploitation of a national patent'.

(e) Article 89 of the First CPC, however, authorizes Member States to make reservations subject to the following conditions:

'1. Any Contracting State may, at the time of signature or when depositing its instrument of ratification, declare that it reserves the right to provide that Articles 47 and 82 shall not apply within its territory to Community patents or to European patents granted for, or to national patents granted by, that State.

2. Any reservation made by a Contracting State under paragraph 1 shall have effect for a period of not more than 10 years from the entry into force of this Convention. However, the Council of the European Communities may, acting by a qualified majority on a proposal from a Contracting

State, extend the period in respect of a Contracting State making such a reservation by not more than five years. This majority shall be that specified in Article 86(5)(b).

3. Any reservation made under paragraph 1 shall cease to apply when common rules on the granting of compulsory licences in respect of Community patents have become operative.

. . . .'

Article 83 of the Second CPC is in substance identical since it provides:

'1. Any signatory State may, at the time of signature or when depositing its instrument of ratification, declare that it reserves the right to provide that Articles 46 and 77 shall not apply within its territory to Community patents or to European patents granted for, or to national patents granted by, that State.

2. Any reservation made by a signatory State under paragraph 1 shall have effect until the end of the 10th year at the latest after the entry into force of the Agreement relating to Community Patents. However, the Council of the European Communities may, acting by a qualified majority on a proposal from a signatory State, extend the period in respect of a signatory State making such a reservation by not more than five years. This majority shall be that specified in the second indent of the second subparagraph of Article 148(2) of the Treaty establishing the European Economic Community.

3. Any reservation made under paragraph 1 shall cease to apply when common rules on the granting of compulsory licences in respect of Community patents have become operative.

. . . .'

(f) Finally Article 93 of the First CPC and Article 2(1) of the Luxembourg Agreement of 15 December 1989 provide that no provision of the Convention or Agreement 'may be invoked against the application of the Treaty establishing the European Economic Community'.

4. *The contested national provisions*

(a) In Italy patents for industrial invention are governed by Articles 2584 to 2591 of the Civil Code which refer to special provisions.

The relevant special provisions include Royal Decree No 1127 of 29 June 1939 (*Gazzetta Ufficiale* No 189 of 14 August 1939).

Article 52 thereof provides:

'An industrial invention which is the subject of a patent must be exploited in the territory of the State in a way that is not seriously disproportionate to the country's needs.'

Article 53 states:

'The introduction or the sale in the territory of the State of articles produced abroad does not constitute exploitation of the invention.'

Article 54 of the Decree, which provided for the lapse of patents for lack of exploitation, has been amended by Decree No 849 of the President of the Republic of 26 February 1968 (*Gazzetta Ufficiale* No 193 of 31 July 1968) in order to take account, as the preamble to the amending decree mentions, of the aforementioned provisions of Article 5(A)(3) and (4) of the Paris Convention.

Articles 54, 54a and 54b of Decree No 1127 of 29 June 1939, as amended, provide:

'*54.* If after three years from the date of grant of the patent, or four years from the date of application for a grant if that is later, the patentee or his successor in title has not either directly or through one or more licensees exploited on the territory of the State the patented invention or has exploited it in a way that is seriously disproportionate to the country's needs, a compulsory licence may be granted for the non-exclusive use of the said invention to any person who applies for one.

The compulsory licence referred to in the preceding paragraph may also be granted:

(1) where the exploitation of the invention has, for more than three years, been suspended or reduced to such an extent that it is seriously disproportionate to the country's needs;

(2) ...

Any person applying for the grant of a compulsory licence under the preceding paragraphs must adduce evidence that he has previously applied to the patentee and has not been able to obtain from him a contractual licence on reasonable terms.

...

54a. A compulsory licence shall not be granted if the lack or insufficiency of exploitation is due to causes beyond the control of the patentee or his successor in title. Such causes do not include lack of financial means or, where the product itself is distributed abroad, lack of demand on the domestic market for the patented product or the product obtained from the patented procedure.

The compulsory licence may be granted only on payment by the licensee of a fair royalty to the patentee or his successors in title ....

54b. The grant of a compulsory licence does not exempt the patentee or his successor in title from the obligation to exploit the invention. The patent shall lapse if the invention has not been exploited within two

years of the grant of the first compulsory licence or has been exploited in a way that is seriously disproportionate to the country's needs.'

(b) The abovementioned provisions apply to patent rights for new plant varieties on the terms provided for by Decree No 974 of the President of the Republic of 12 August 1975 (*Gazzetta Ufficiale* No 109 of 26 April 1976), as amended by the Law of 14 October 1985.

Article 14 provides:

'The provisions of Decree No 849 of the President of the Republic of 26 February 1968, as subsequently amended, on compulsory licences shall apply to patents for the production of new plant varieties in so far as they are compatible with the provisions of the present decree. Lack, suspension or reduction of exploitation within the meaning of Article 1 of Decree No 849 is deemed to arise where the patentee or his successor in title, either directly or through the intermediary of one or more licensees, does not make available to consumers on the territory of the State the material for propagating or multiplying the patented plant variety to an extent that is adequate for the needs of the national economy.'

B — *Pre-litigation procedure*

(1) By letter of 21 October 1987 the Commission drew the Italian authorities' attention to the fact that certain Italian provisions on failure to exploit patents and rights for new plant varieties were incompatible with Article 30 of the EEC Treaty.

The letter envisaged primarily Article 14 of Decree No 974 of the President of the Republic of 12 August 1975. In the Commission's view the provisions of that article may adversely affect trade between Member States. They encourage a patent proprietor who wishes to maintain his exclusive right to establish his own production in Italy rather than to satisfy demand on the Italian market by importing the patented plant variety from other Member States. The provisions constitute an unlawful means of attracting investments to Italy and deprive the proprietor of the patent of the opportunity of freely choosing, as the principle of a unified common market requires, the most appropriate methods of exploiting the patent. Although it does not prohibit the proprietor of the patent from importing the product, the grant of a compulsory licence inevitably leads to a reduction in sales of the imported product.

For the same reasons the Commission claims in the second place that the articles of Royal Decree No 1127 of 29 June 1939 on compulsory licences are incompatible with Article 30 of the Treaty.

The Commission is also concerned to show that the Italian provisions cannot be justified on grounds relating to competition on the Italian market, the protection of industrial and commercial property rights or arguments based on the interpretation of the Community Patent Convention.

(2) In its reply of 10 December 1987 the Italian Permanent Representative to the European Communities forwarded to the Commission a note of 4 December 1987 from the Ministry of Agriculture and Forests and a note of 2 December 1987 from the Ministry of Industry, Trade and Craft Trades (Central Patent Office).

The note from the Ministry of Agriculture and Forests relates solely to Decree No 974 of the President of the Republic of 12 August 1975. According to that note the provisions of Decree No 974 are not incompatible with Community law since they do not seek to prevent the exploitation of the patent but to allow it actually to be used by Italian industry where the proprietor does not do so. Moreover, the provisions, which are similar to those in other Member States, have not been applied since they entered into force.

The observations in the note from the Ministry of Industry, Trade and Craft Trades relate more particularly to the following issues:

(i) the problem raised concerns not only Italy but all Member States whose legislation contains provisions which are identical and consistent in that respect with the aforementioned provisions of Article 5 of the Paris Convention;

(ii) the contested national provisions in no way prohibit imports;

(iii) the effect of the provisions is solely to attenuate the exclusivity of the exploitation of the patented invention and thus 'the rigidity of the monopolistic protection associated with the possession of the patent'. They thus encourage free competition. In view of the obligation to pay an appropriate royalty to the proprietor of the patent, the interest of the licensee will subsist only if the importer charges an 'excessive monopolistic price';

(iv) as is shown by the derogations under Article 36 and the case-law of the Court on the exhaustion of patent proprietors' rights, Article 30 does not apply to national provisions concerned with limiting the protection of industrial property. It would be paradoxical to invoke Community law to extend such protection;

(v) even assuming that Article 30 of the Treaty applies, it should be possible to rely on Article 36 to justify the national provisions. Although it may be difficult to apply the condition relating to the indispensable nature of the measures in issue, they are not discriminatory since it is not possible to identify the persons liable to be affected by the alleged discriminatory effect. In addition the measures do not constitute a disguised restriction on imports since they are justified by the need to ensure a balance between the rights of patent proprietors and the public interest;

(vi) there is a precise correlation between the territorial protection conferred by

the patent and the localization on that territory of the industrial exploitation of the invention;

(vii) the First CPC sanctioned the principle of a compulsory licence on the ground of lack or insufficiency of exploitation. In addition Article 89 of the First CPC allows Member States to formulate reservations regarding the application of Articles 47 and 82 within their territory.

(3) On 10 November 1989 the Commission issued a Reasoned Opinion pursuant to the first paragraph of Article 169 of the Treaty.

That Reasoned Opinion repeats the arguments put forward in the letter of 21 October 1987 and cites more particularly the judgments in Case 249/81 *Commission* v *Ireland* [1982] ECR 4005 and in Case 434/85 *Allen and Hanburys* v *Generics* [1988] ECR 1245.

In the Reasoned Opinion the Commission also puts forward the following counterarguments in rebuttal of the Italian Republic's contentions:

(i) the argument that there are similar provisions in the laws of other Member States is immaterial. Article 5 of the Paris Convention does not justify the contested provisions and in any event cannot be relied upon in relations between Member States;

(ii) the discrimination complained of by the Commission results from the disadvantageous position in which the exploitation of the patent by way of importation from other Member States is placed in relation to exploitation of the patent by way of production on Italian territory;

(iii) Article 36 of the Treaty does not apply where the object of the contested national provisions is not to protect industrial and commercial property;

(iv) Article 89 of the First CPC must be interpreted in the light of Article 93 thereof according to which no provision of the convention may be invoked against the application of any provision of the Treaty;

(v) the fact that the provisions on the production of new plant varieties have not been applied in no way alters the Commission's position since the provisions themselves have an influence on the conduct of patent proprietors.

(4) The Italian Republic enclosed with its reply of 31 May 1989 a note of 15 May 1989 from the Ministry of Industry, Trade and Craft Trades (Central Patent Office).

That note repeats the arguments previously put forward by the Italian authorities and makes the following specific points:

(i) contrary to what the Commission maintains the legislation of the other Member States is not irrelevant. Italy is indeed being discriminated against since if it is found to have infringed its obligations, exporters from other Member States will be treated more favourably than Italian exporters;

(ii) Article 5 of the Paris Convention establishes a gradation of sanctions and allows the national legislature to penalize, by the grant of a compulsory licence, abuse resulting from the exercise of the exclusive right on the territory of the State which has granted the patent. In that respect importation of the product covered by the patent does not constitute genuine exploitation of the patent and does not answer the requirements of the country which has granted the patent;

(iii) in those circumstances the infringement proceedings are unjustified. The only proper course would be steps to harmonize the laws of the Member States;

(iv) if the Commission's argument were accepted it would allow the proprietor of the patent to exploit it in circumstances which would constitute an abuse of a dominant position within the meaning of Article 86 of the Treaty;

(v) the contested national provisions ensure protection of industrial property in so far as they make it possible to avoid the lapse of the patent and, without prohibiting imports, they allow its exploitation in accordance with the consumers' interests, the requirements of competition and the needs of the country;

(vi) the Commission's arguments on the First CPC lead to aberrant and illogical results since they ultimately presuppose that the transitional provisions of Article 89 of the First CPC are contrary to the Treaty;

(vii) by encouraging proprietors of patents to grant licences voluntarily the contested provisions attenuate the monopolistic rights attached to the possession of patents and promote competition and the movement of goods.

C — *Procedure before the court*

Since the Reasoned Opinion had no effect, the Commission brought the present application for a declaration that the Italian Republic had failed to fulfil its obligations which was lodged at the Court Registry on 27 July 1989.

The Kingdom of Spain, by order of 15 November 1989, and the United Kingdom and the Portuguese Republic, by orders of 17 January 1990, were given leave to intervene in support of the defendant's conclusions.

Upon hearing the report of the Judge-Rapporteur and the views of the Advocate General the Court decided to open the oral procedure without any preparatory inquiry. The Italian Republic was, however, requested to answer a question.

II — Forms of order sought by the parties

The *Commission* claims that the Court should:

(i) declare that, by providing for the issue of compulsory licences where the proprietor of a patent for industrial invention or for production of new plant varieties does not exploit the patent by way of production in Italian territory, the Italian Republic has failed to fulfil its obligations under Article 30 of the EEC Treaty;

(ii) order the defendant to pay the costs.

The *Italian Republic* contends that the Court should:

(i) dismiss the application;

(ii) order the Commission to pay the costs.

The *Kingdom of Spain*, the *United Kingdom* and the *Portuguese Republic*, the interveners, contend that the Court should:

(i) dismiss the application;

(ii) order the Commission to pay the costs, including those of the interveners.

III — Summary of the pleas in law and arguments of the parties

The provisions of the Treaties

A — The *Commission* in its arguments seeks to demonstrate that (1) the contested national provisions disregard Article 30 of the Treaty, and (2) there is no justification in law or in fact for the national provisions.

(1) Under the contested national provisions the proprietor of a patent is obliged to exploit it by production on the national territory. Inadequate production on the national territory by the proprietor of the patent, even where it is compensated for by imports, opens the possibility for a third party to obtain a compulsory licence.

The grant of such a licence is a disadvantage for the proprietor of the patent even if the royalty paid by the licensee is fair since it deprives him of 'his right to determine freely the conditions under which he markets his products' (judgment in Case 19/84 *Pharmon* v *Hoechst* [1985] ECR 2281, paragraph 25).

The object of those national provisions is not to ensure an adequate supply to the

market but, as the Italian authorities admitted (note from the Ministry of Industry, Trade and Craft Trades of 2 December 1987), to attract jobs and productive investment to the national territory.

To achieve that objective the national provisions discriminate between production on the national territory and imports. If the patent is exploited by way of production on the national territory, the invention enjoys full legal protection. If on the other hand the national market is supplied by imports, legal protection of the invention is restricted since exclusivity is replaced by fair royalties following the grant of a compulsory licence. The proprietor of the patent is thus encouraged to produce in Italy rather than to import from other Member States.

Such provisions constitute measures having an effect equivalent to quantitative restrictions on imports within the meaning of Article 30 of the Treaty. The concept of measure of equivalent effect is not confined to prohibitions of imports but covers a simple 'moral incitement', as for example a campaign to encourage the purchase of domestic products (judgment in *Commission* v *Ireland*, cited above).

In view of the legal consequences attendant on non-production on the national territory, the national provisions in the present case go well beyond simple moral incitement and thus *a fortiori* constitute measures falling within the prohibition of Article 30 of the Treaty.

In the course of its argument the Commission draws attention to the fact that the compulsory licence provided for by the national provisions is granted solely for production on the national territory. In itself such a licence is discriminatory and disregards the provisions of Article 30 (judgment in *Allen and Hanburys* v *Generics*, cited above).

(2) The Commission's arguments purporting to show that there is no justification in law or in fact for the national provisions relate to the following issues:

(a) The discriminatory nature of the contested provisions and the principle of 'Community exhaustion' under the case-law of the Court

The principle of Community exhaustion of the rights of patent proprietors is concerned not with discrimination between the proprietor of the patent and the licensee but rather to prevent different legal consequences attaching to the first marketing in the territory of the importing Member State by comparison with the first marketing in the exporting Member State. It thus replaces the principle of 'domestic exhaustion' under which importation of the product may be opposed, irrespective of the first marketing in another Member State.

In formal terms the discrimination at issue in the present application is substantially the same as that which is prohibited by the principle of Community exhaustion. Such discrimination results from the different

legal consequences attaching on the one hand to importation from another Member State of products protected by a patent and on the other to production of the same product in the territory of the Member State in which the patent has been granted.

Article 30 does not require that exploitation of a patent by way of importation should be put in a privileged position by comparison with exploitation by way of production on the national territory. It requires that there should be no discrimination between the two forms of exploitation of the patent.

(b) The existence of disguised restrictions on trade between Member States

The Commission states that neither in the pre-litigation procedure nor in the procedure before the Court has it referred to the concept of disguised restrictions on trade between Member States. The Italian Government's arguments seeking to establish that there are no such restrictions is therefore irrelevant.

(c) The consequences of the contested provisions on free competition

In reply to the argument that the contested provisions encourage competition by reducing the 'monopolistic protection' inherent in a patent, the Commission maintains that Article 30 is a provision which prohibits restrictions on imports and not a provision intended to protect competition between undertakings within one Member State.

By removing restrictions on imports, Article 30 seeks to promote international competition.

Although until now Article 30 has indeed been applied to limit and not extend exclusive rights, it must be recognized that that article prohibits any national provision limiting such rights in a discriminatory manner which is likely to affect imports.

Nor can it be maintained that a law authorizing a patent proprietor to supply the market through imports would allow an abuse of a dominant position within the meaning of Article 86 of the Treaty.

In the first place it would be paradoxical to adopt an interpretation of the Treaty, and in particular of Article 86, which would militate against the opening of frontiers and encourage separate production in each Member State.

In the second place a proprietor of a patent does not necessarily have a dominant position (judgment in Case 78/70 *Deutsche Grammophon* v *Metro* [1971] ECR 487, paragraph 16). Furthermore, even if the proprietor of a patent does have a dominant position the price which he charges is not necessarily an abuse.

In the third place the restriction of production is inherent in the concept of exclusivity and cannot be challenged without calling in question the very validity of protecting inventions by patents.

(d) The derogations under Article 36 of the Treaty

It is difficult to see, as indeed the Italian authorities originally recognized during the pre-litigation procedure, how the contested national provisions aim to protect industrial and commercial property within the meaning of the derogations under Article 36 of the Treaty whereas they seek precisely to undermine it.

For the provisions to fall under Article 36 of the Treaty it would be necessary, as the Italian Government subsequently argued, to regard the measures intended to establish a balance between the rights of patent proprietors and the requirements of the public interest as seeking to protect industrial and commercial property.

But even viewed in that light, the Italian provisions are not justified. The public interest does not require that production on the national territory should be treated more favourably than imports. The provisions are therefore disproportionate to the objective pursued. Furthermore, in so far as that protectionist aim is diametrically opposed to the objectives of the Treaty, the resulting discrimination is arbitrary within the meaning of the second sentence of Article 36 of the Treaty.

(e) The conditions under which the contested national provisions apply

The fact that the contested provisions are seldom applied, which the Commission does not deny, is irrelevant.

The mere existence of the provisions is likely to affect the conduct of potential or actual patent proprietors.

As is shown by the complaint from a French undertaking to the Commission, which is at the origin of the present application, the mere threat of the grant of a compulsory licence may dissuade an undertaking from seeking a patent.

That threat may also encourage patent proprietors to grant licences 'voluntarily' in circumstances which are not necessarily in their interests.

B — In defence the *Italian Republic* and the *three intervening Member States* put forward the following pleas in law and arguments:

(1) The circumstances in which a system of compulsory licences may be established in the field of industrial property fall within the exclusive competence of the national legislature.

In the *Italian Government's* view each Member State may freely determine the degree of protection it wishes to afford industrial property. The Commission cannot therefore validly claim that Community law requires that exploitation of a patent by imports should be placed on the same

footing as exploitation by production on the territory of the Member State in which the patent was granted.

The *Kingdom of Spain* admits that, as the Commission says, the grant of a compulsory licence is prejudicial to the proprietor of a patent.

It nevertheless considers that the grant of such a licence is not contrary to Community law (judgment in the *Pharmon* case).

It is clear both from the provisions of Article 222 of the Treaty and the case-law of the Court (judgment in Case 15/74 *Centrafarm and Adriaan de Peijper* v *Sterling Drug* [1974] ECR 1147) that the regulation of industrial property rights falls solely within the competence of the Member States. Only the exercise of those rights may be affected by the prohibitions of the Treaty.

It is in particular for the national legal system to determine the level of legal protection of the invention. Pending harmonization, therefore, it is, for example, for the national legislature to fix the period available to the patentee for the exploitation of his patent and the period at the end of which the right expires or lapses.

The *United Kingdom* maintains on the basis of Article 222 of the Treaty that (a) Article 30 of the Treaty has no effect upon national provisions relating to compulsory licences, and (b) assuming that Article 30 does apply, Article 36 of the Treaty may lawfully justify such national provisions.

(a) The provisions on compulsory licences constitute rules relating to property ownership. According to established case-law Article 30 has no effect on such rules (Opinion of Mr Advocate General Roemer in Case 24/67 *Parke Davis* v *Centrafarm* [1968] ECR 55, at p. 77; aforementioned judgment in Case 15/74 *Centrafarm* v *Sterling Drug*, at paragraph 7; judgment in Case 144/81 *Keurkoop* v *Nancy Kean Gifts* [1982] ECR 2853; judgment in Case 35/87 *Thetford* v *Fiamme* [1988] ECR 3585; and judgment in Case 341/87 *EMI Electrola* v *Patricia* [1989] ECR 79).

Those rules are essentially defined by what is considered by the Member State concerned to be in the public interest (Opinion of Mr Advocate General Mancini in *Pharmon* v *Hoechst*, cited above, at p. 2289; Opinion of Mr Advocate General Darmon in *EMI Electrola* v *Patricia*, cited above, at p. 88).

Given the territorial nature of patent rights it is consistent with Article 222 of the Treaty for the proprietor of a patent to be required to exploit it by means of production on the national territory and, failing that, for a compulsory licence to be granted to a person wishing to exploit the patent on the national territory. Those requirements, like the obligation to pay a fee to maintain the patent, are inseparable from the right itself.

(b) Article 36 of the Treaty provides that the provisions of Articles 30 to 34 do not preclude prohibitions or restrictions on imports justified on grounds of the protection of industrial and commercial property.

The national legislature's power to grant protection by way of patents and to determine the extent of the rights conferred has been consistently affirmed by the Court (judgment in *Keurkoop* v *Nancy Kean Gifts*, cited above, and the judgment in Case 53/87 *CICRA and Another* v *Renault* [1988] ECR 6039).

As Mr Advocate General Capotorti observed in his Opinion in Case 102/77 *Hoffmann-LaRoche* v *Centrafarm* [1978] ECR 1168, it is the very essence of patent rights that their exclusive and territorial nature should impede the free movement of goods. The object of Articles 30 and 36 of the Treaty is to reconcile those contradictory requirements. The case-law of the Court on the principle of the exhaustion of industrial property rights demonstrates the Court's concern to strike a balance between the fundamental provision of Article 30 and the preservation of inherently obstructive national rights in the field of intellectual property.

Thus, and without it being necessary to refer to the aforementioned judgment in *Commission* v *Ireland*, it may be said that Community law:

recognizes and upholds the different criteria for design protection (*Keurkoop* v *Nancy King Gifts*) and patentability in different Member States (*Thetford* v *Fiamme*);

recognizes the differences between the periods of validity of intellectual property rights in the various Member States (*EMI Electrola* v *Patricia*);

provides for the exhaustion of the patentee's right only where goods have been marketed in the Member State of origin with the express consent of the patentee (*Pharmon* v *Hoechst*);

does not recognize the exhaustion of a right not recognized by the law of the Member State of origin (judgment in Case 158/86 *Warner Brothers* v *Christiansen* [1988] ECR 2605).

The Commission's argument is based on the judgment of 20 January 1981 in Joined Cases 55 and 57/80 *Musik-Vertrieb* v *GEMA* [1981] ECR 147, in paragraph 14 of which the principle of the territoriality of copyright laws is contrasted with the essential purpose of the Treaty, which is to unite national markets into a single market.

Notwithstanding the view of the Advocate General, that view was not adopted by the Court in its judgment in the *Warner Brothers* case.

In that judgment the Court accepted that specific rights given by national law to

authors in relation to the hiring-out of video cassettes may, on the basis of Article 36 of the Treaty, constitute an obstacle to the free movement of goods.

In the same way it must be possible to rely on Article 36 of the Treaty in the present case to justify the contested provisions which apply without distinction to all patentees in the Italian Republic.

The *Portuguese Republic* refers to the distinction made in the case-law of the Court between the exercise of industrial and commercial property rights, which are subject to the rules of the Treaty, and the existence of those rights, which, pursuant to Article 222 of the Treaty, are solely governed by national law. That distinction applies to patents (judgments in *Parke Davis* v *Centrafarm* and in *Thetford* v *Fiamme*, cited above).

The Portuguese Republic relies in particular on the judgment in *Allen and Hanburys* v *Generics*, which shows that the limits which Community law places on the exercise of patent rights are governed in each Member State on the basis of the national rules on industrial and commercial property.

(2) The contested national provisions have no effect upon imports and do not lead to any discrimination between imported products and products manufactured domestically.

The *Italian Republic* states that the contested national provisions in no way preclude the proprietor of the patent from importing the patented product into Italy. While observing the spirit of Article 36 of the Treaty, they merely limit the protection of the industrial property right where the invention is not being exploited on Italian territory.

The patented product may be manufactured outside the national territory by the proprietor of the patent or his successor in title and in consequence be imported without any restriction.

If he does not exploit the patent in the national territory the proprietor of the patent loses, not the Italian market which is open to his imports, but the exclusivity of that market by reason of competition from the products manufactured under the compulsory licence.

The provisions do not constitute a disguised restriction on imports, which would presuppose that they have a protectionist aim or that they seek to impede the free movement of goods in the common market. They are in fact justified by the requirements of sufficient protection of inventions.

The requirement that the patent should be exploited in the national territory is a decisive factor in legislation governing that protection. That legislation strikes a balance between the rewards afforded the inventor and the advantages which society is entitled to expect from the invention. The effect of the contested provisions is to require something in return for the exclusivity of exploitation without which the inventor

would have an excessive benefit to the detriment of the public.

Finally it must be said that no State is required to guarantee producers from another Member State better or equal market conditions. If the proprietor of the patent does not wish to exploit the patent in Italian territory he must necessarily suffer the consequences of his choice and accept competition from the product manufactured by the licensee.

On that issue the *intervening Member States* take up the arguments put forward by the defendant. The *United Kingdom* refers in particular to the unreasonable conduct of the undertaking whose complaint is at the origin of the present infringement proceedings. In foregoing any form of legal protection the undertaking gave up any claim to an exclusive right without being able to obtain any royalty in return.

(3) The Commission's arguments are not aimed at ensuring free movement of goods and free competition.

In the view of the *Italian Republic* and *Kingdom of Spain* the Commission's arguments serve not to ensure free movement of goods in the intra-Community market but to maintain a specific protection for a patentee's rights. The Commission has not shown how free movement of goods within the Community will benefit by greater protection under national law for a proprietor of a patent who does not exploit his invention in the national territory.

The *Kingdom of Spain* further asserts that free movement of goods is one means of facilitating greater competition between the economic operators in the intra-Community market. The contested national provisions encourage such competition between imported products and products manufactured by a licensee on the national territory. Such competition can but benefit consumers, whose protection constitutes a mandatory requirement which may justify restrictions on free movement of goods (judgment in Case 120/78 *REWE Zentral* v *Bundesmonopolverwaltung für Branntwein* [1979] ECR 649, the '*Cassis de Dijon*' case).

(4) The Commission's objections are essentially theoretical.

The *Kingdom of Spain* states that the system of compulsory licences has fallen into disuse since around 1950 and the contested provisions have no practical effect upon free movement of goods.

In addition, from a strictly economic point of view, a third party has sufficient interest in exploiting a patent under a compulsory licence only if the following two conditions are both met:

(i) demand on the domestic market must be sufficient, which presupposes that it is not adequately supplied by imports;

(ii) exploitation of the patent must lead to manufacture of a product which, notwithstanding the royalties paid by

the licensee, would be more competitive than the imported product.

The *United Kingdom* also refers to the low number of compulsory licences granted on the ground that the proprietor of the patent merely imports the product without manufacturing it domestically.

Industrial property conventions

A — The Paris Convention

In the *Commission's* view the provisions of Article 5 of the Paris Convention, which authorize the contracting parties to provide for the grant of compulsory licences to prevent abuses arising from exclusivity, cannot be interpreted as treating the satisfaction of demand on the domestic market by imports as a lack of exploitation of the patent justifying the grant of a compulsory licence.

In any event, whatever the interpretation given to the Paris Convention, it cannot prevail over the obligations under Article 30 of the EEC Treaty. Pursuant to Article 234 of the Treaty, Member States may not rely on pre-existing conventions with non-member countries to derogate from their obligations under the Treaty in their dealings with one another (judgment in Case 286/86 *Ministère Publique* v *Deserbais* [1988] ECR 4907).

The *Italian Republic* maintains that the contested national provisions are consistent with the Paris Convention.

The *Kingdom of Spain* points out that the effect of Article 5 of the Paris Convention is that the penalty for lack of industrial exploitation of a patent is no longer forfeiture but merely the grant of compulsory licences.

B — The Community Patent Conventions

In the *Commission's* view, contrary to the contentions of the Italian authorities in the note from the Ministry of Industry of 2 December 1987, the provisions of the First CPC do not lay down an obligation to exploit a Community patent. They merely empower Member States to apply the national rules on compulsory licences while requiring imports from other Contracting States to be treated on an equal footing with domestic production.

It is not therefore possible to maintain that there is any correlation under the Convention between the territory where protection is given and the location of industrial exploitation of an invention on that territory. Article 82, which extends Article 47 to compulsory licences in relation to national patents, embodies a principle diametrically opposed to any such correlation.

If the Commission's view is accepted, Article 89, which allows contracting States

to make reservations regarding Article 82, is not applicable. Such a result is not absurd. Article 93 of the First CPC, which enshrines the principle of the EEC Treaty's precedence over the Convention, shows that the signatory States to the Convention contemplated the possibility of a provision of the Convention conflicting with the Treaty.

The *Italian Republic* observes that the principles underlying the contested national provisions are also those which are temporarily embodied in the First CPC.

In any event it seems difficult to maintain, as the Commission does, that certain provisions of the Convention are directly and expressly contrary to the Treaty.

The *Kingdom of Spain* puts forward the following arguments to establish that, as the Community Patent Convention now stands, the national legislature remains competent to define the rules relating to the rights conferred by national patents:

(1) The First CPC was not ratified by all the Member States and therefore does not constitute a rule of law in the Community or in the national legal systems.

(2) The principal subject-matter of that Convention is the Community patent and not national patents.

(3) Member States may continue to grant national patents under the national legal system (see to that effect Article 6 of the Paris Convention).

(4) The Convention cannot go beyond the present limits of the Community in which the single market is to be established only at the end of 1992. For that reason Article 46(1) of the Convention provides that compulsory licences in respect of Community patents shall be restricted to the territory of the State concerned.

(5) In relation to the Second CPC there was a resolution providing for common rules on compulsory licences; pending such rules the national authorities remain competent.

(6) Article 89 of the First CPC allows Member States to make reservations with regard to the application of Article 47 to national patents. That reservation remains applicable so long as the period provided for by Article 89 has not expired or the common rules on compulsory licences have not been adopted.

(7) Article 93 of the First CPC could have been omitted since it only repeated a pre-existing obligation of the Member States. Furthermore it is contrary to the principle of the Member States' good faith to include a void provision in an international convention.

The *United Kingdom* observes that Article 83 of the Second CPC gives Member States the same right to formulate reservations as they were given by Article 89 of the First CPC. However, the Commission never raised that issue in the course of the negotiations.

The Commission's objective will be achieved by implementation of common rules governing the grant of compulsory licences, as provided for in particular by Article 83 of the Second CPC, and not by a piecemeal challenge to the laws of the Member States under the procedure for failure to fulfil obligations under Article 30. There is no reason of urgency to justify bringing such actions.

The *Portuguese Republic* considers that the First CPC recognizes the Member States' competence to lay down rules regarding compulsory licences.

It is only by standardizing and harmonizing national laws that the Community will be able to achieve its objective of protecting patentees in the territory of the Community, wherever production is located.

That is the objective of the Convention which, as Community law now stands, is a sufficient instrument of harmonization.

As soon as the common rules on the grant of compulsory licences enter into force the reservation provided for by Article 89(1) of the First CPC will cease to apply.

The question of any incompatibility between certain provisions of the Convention and the Treaty cannot be considered until after the Convention enters into force.

The laws of the other Member States

The *Italian Republic* submits that rules similar to the contested provisions exist in the laws of eight Member States and it expresses its surprise that it was at first the only Member State to have infringement proceedings brought against it, even if subsequently, very much later, proceedings were brought against other Member States.

The *Kingdom of Spain* also observes that the laws of almost all Member States continue to regard compulsory licences as a remedy for lack or insufficiency of exploitation of the patent.

The *United Kingdom* maintains that provisions similar to the contested provisions exist in all the Member States with the exception of the Benelux countries.

The *Commission* observes that the Italian Republic was the first Member State to have infringement proceedings brought against it in relation to the rules on compulsory

licences because it was the subject of a complaint made by an undertaking.

A finding by the Court that the Italian Republic has failed to fulfil its obligations cannot have discriminatory effects for it. Article 30 is a directly applicable provision and the interpretation of that article given by the Court will be binding on the other Member States.

The position of the other Member States is as follows:

Belgium, Netherlands: the law of these States precludes the grant of compulsory licences where the national market is supplied by imports;

Federal Republic of Germany: the provisions on the grant of compulsory licences in the public interest have never been applied on grounds of lack of exploitation of the patent on the national territory;

France: the national provisions requiring exploitation on the national territory are to be amended; pending such amendment circulars have drawn attention to the incompatibility of the provisions with Community law;

Spain, Denmark, United Kingdom: infringement proceedings have been brought against these States.

IV — Answers to the questions put by the Court

A — Questions to the Italian Republic

First question

1. The Italian Republic is requested:

(i) to produce Decree No 974 of the President of the Republic of 12 August 1975 on rights for production of new plant varieties in the version in force at the expiry of the period stipulated in the Reasoned Opinion of 10 November 1989;

(ii) to state whether the version of the decree in force at that date is the result of amendments to the original text and if so to produce the amending decree or decrees.

Answer

The Italian Republic produced the text of Decree No 974 of the President of the Republic of 12 August 1975, in the version in force when the period prescribed in the Reasoned Opinion expired. It also indicated the texts which had amended the initial version of that decree.

Second question

2. Article 14 of Decree No 974 of the President of the Republic of 12 August 1975

provides: 'The provisions of Decree No 849 of the President of the Republic of 26 February 1968 on compulsory licences shall apply to patents for the production of new plant varieties in so far as they are compatible with the provisions of the present decree.'

The Italian Republic is requested to state whether the provisions of Royal Decree No 1127 of 29 June 1939, as amended by Decree No 849 of the President of the Republic of 26 February 1968, on compulsory licences and the conditions in which they are granted, are compatible with the provisions of Decree No 974 of 12 August 1975 and whether, in consequence, the articles corresponding to those provisions are, on the basis of the aforementioned provisions of the decree of 12 August 1975, applicable to patents for the production of new plant varieties.

Answer

The first paragraph of Article 14 of Decree No 974 of the President of the Republic of 12 August 1975, as amended, states that the provisions on compulsory licences in Decree No 849 of the President of the Republic of 26 February 1968, and the subsequent amendments thereto, shall apply, in so far as they are compatible. The proviso 'in so far as they are compatible' refers to any technical aspects without affecting the substance of the matter referred to in the present case: in consequence, the provisions of Royal Decree No 1127 of 29 June 1939, as amended by Decree No 849 of the President of the Republic of 26 February 1968, on compulsory licences and the conditions for their grant, do apply to patents for the production of new plant varieties.

B — Question to the Commission

Question

The Commission is requested to explain precisely, in the case of Member States other than Italy and the United Kingdom, the content of the provisions of national law relating to cases where, in the matter of patents, compulsory licences are granted and to the consequences of the non-exploitation of a patent in the national territory.

Answer

The laws of the Member States other than Italy and the United Kingdom on compulsory licences and the consequences of the non-exploitation of a patent in the national territory are as follows:

Belgium

Article 31(1) of the Belgian Law on patents of 28 March 1984 provides that a compulsory licence is to be granted where the patented invention is not used by way of serious and continuous manufacture in Belgium within a period of four years from the date of application or three years from the date of grant without the holder of the patent justifying his inaction by reasonable excuses.

This same provision goes on to expressly state that a compulsory licence for failure or inadequacy of use cannot be granted where

the product covered by the Belgian patent made in a State forming part of one Union or Economic Community with Belgium is placed on the market on Belgian territory in sufficient quantities to satisfy demand on the national territory.

The Commission is therefore satisfied that the Belgian rules on compulsory licensing do not constitute an incitement to manufacture within Belgium rather than in other Member States.

Denmark

Article 45 of the Danish Law on patents (No 733 of 27 November 1989) provides that if a patented invention is not worked to a reasonable extent in Denmark within three years of the grant or within four years of the application, any person wishing to exploit the invention in Denmark may obtain a compulsory licence to this end, unless the absence of exploitation is justified on legitimate grounds.

Paragraph 2 of this article provides that the Minister for Industry may provide, by decree and subject to reciprocity, that the working of an invention in a foreign country is assimilated to the working of the invention in Denmark.

Article 48 of the same Law provides that any person who worked, or had made serious preparations for the working of an invention in Denmark which is the subject of a patent application which has been published may, if the application results in the grant of a patent, obtain a compulsory licence for the working of this invention if special circumstances render this desirable and if this person did not know and could not have known of the application.

The Commission delivered to Denmark a Reasoned Opinion on 8 May 1991 by which it considered that the Danish rules on compulsory patent licences infringed Article 30 of the EEC Treaty.

France

Article 32 of French Law No 68-1 of 2 January 1968 on patents — as amended by Law No 90-1052 of 26 November 1990 (*Journal Officiel de la République Française* of 28. 11. 1990) — provides that after three years from the grant of a patent or after four years from the filing of the application, a compulsory licence may be obtained if, at the moment of the petition, and without legitimate excuse, the patentee has not worked the invention or commenced serious and effective preparations for such working on the territory of a Member State of the European Economic Community or has not marketed the product which is the subject of the patent in quantities sufficient to satisfy the needs of the French market. A compulsory licence is also available if such working or marketing has been abandoned for more than three years.

The possibility of supplying the French market from production facilities in other Member States was created by Law No

90-1052 of 26 November 1990 following the initiation of infringement proceedings by the Commission pursuant to Article 169 of the EEC Treaty (which the Commission has now therefore closed).

Germany

Paragraph 24, subparagraph 1, of the German Law on patents of 16 December 1980 provides that if an applicant for a patent or a patentee refuses to license another person who so requests and offers to pay reasonable royalties and provide security therefor, that person may be granted a compulsory licence where this is in the public interest.

The second subparagraph provides that, in so far as there are no contrary international obligations, a patent may be revoked if the invention is being worked entirely or chiefly outside Germany. This revocation can only occur two years after the grant of a compulsory licence and when the public interest cannot any more be satisfied by the grant of compulsory licences.

It appears to the Commission that these provisions may, depending on interpretation given by the German authorities to the condition concerning international obligations, allow for revocation of a patent or the grant of compulsory licences where the patented invention is being worked in another Member State although such revocation or grant of compulsory licence would not be possible if the invention were being worked in Germany, all other circumstances being the same.

The Commission has therefore written to the German Government on 17 April 1991 asking it to communicate its views on the matter.

Greece

Article 13(1) of Greek Law No 1733/1987 on the transfer of technology, inventions and technical innovations provides for the grant of a compulsory licence where:

(a) a period of three years has elapsed since the patent was granted or a period of four years has elapsed since the filing of the patent application;

(b) the relevant invention has not been exploited in Greece, or in case it has, the production of the products is insufficient to cover local demand;

(c) the applicant is in a position to exploit productively the invention covered by the patent;

(d) the applicant notified the patentee, one month prior to the initiation of the judicial proceedings, regarding his intention to request a compulsory licence.

Paragraph 2 of the same article provides that the compulsory licence shall not be granted if the patentee justifies the lack of exploitation or the insufficient exploitation in the country. It is expressly stated however

that the importation of the product does not constitute an excuse for non-exploitation.

Further, paragraph 9 of the article provides that the compulsory licence does not grant the right to import the products covered by the invention.

The Commission wrote to the Greek Government on 17 April 1990 pursuant to Article 169 of the EEC Treaty expressing the view that those provisions were contrary to Article 30 of the EEC Treaty and invited the Greek Government to submit its observations.

The Greek Government has informed the Commission that it has proposed to parliament a modification to the Greek Patent Law which would remove the incompatibility with Article 30 of the EEC Treaty.

Ireland

In Ireland, section 39 of the Patent Act 1964 provides that a compulsory licence may be granted by the Comptroller of Patents at any time after the expiration of four years from the date of application for a patent, or three years from the date of sealing the patent, whichever is the later. Such a licence will be granted where there has been 'abuse of the monopoly rights under the patent'. The grounds deemed to constitute an abuse of monopoly rights are further enumerated in section 39(2). An abuse will be found where the patented invention is not being commercially worked in the State, or 'is not being so worked to the fullest extent that is reasonably practicable' or where a demand for the patented article in the State 'is being met to substantial extent by importation' or where 'the commercial working of the invention in the State is being prevented or hindered by the importation of the patented article' (b and c). In the same way, section 39(2) *in fine* provides that for the purpose of determining whether there has been an abuse of monopoly rights 'it shall be taken that patents for new inventions are granted not only to encourage invention but to secure that new inventions shall so far as possible be commercially worked in the State'.

The Commission wrote to the Irish Government on 8 March 1990 pursuant to Article 169 of the EEC Treaty expressing the view that those provisions were contrary to Article 30 of the EEC Treaty and asking the Irish Government to submits its observations. The Irish Government has intimated to the Commission that the infringement will be removed on the adoption of an amendment to the Patent Act which is currently in preparation.

Luxembourg

Article 18 of the Luxembourg Patent Law of 30 June 1880 provides that a patent may be revoked after three years if the patentee has not exploited his patent in the Grand Duchy to an appropriate extent or has not done everything which is necessary to ensure exploitation.

Article 18 also provides that a compulsory licence may be granted if the public interest requires that other persons who have so requested be entitled to exploit the invention.

The Commission has no reason to believe that those provisions are interpreted as to require manufacture in Luxembourg rather than in other Member States and has not so far considered it useful to contact the Luxembourg Government in this connection.

Netherlands

Article 34, paragraph 2, of the Netherlands Patents Law as amended on 13 December 1978 provides that where, after three years from the date of the patent, neither the patentee nor another person by virtue of a licence granted to him has in operation in the Netherlands, or in any other State designated by Order in Council an establishment of industry in which the product concerned is manufactured or the process concerned is used in good faith and on a sufficient scale the patentee shall be bound to grant a compulsory licence unless valid reasons are shown to exist for the absence of such an establishment.

An Order of 20 February 1979 designates all the Member States of the European Economic Community as being States in which the working of a patented invention will prevent compulsory licences becoming available in the Netherlands.

Portugal

Article 30 of the Portuguese industrial property code, approved by Decree No 30679 of 24 August 1940 and modified by Decree Law No 40/87 of 27 January 1987, provides that the owner of a patent who, without just cause, fails to exploit the patent himself or by means of his authorized representatives on Portuguese territory within three years from the grant of the patent or fails to cause this to be done in the interests of the national economy may be compelled to grant licences.

The Commission delivered to Portugal a Reasoned Opinion on 4 June 1991 in which it considered that the above provision infringed Article 30 of the EEC Treaty.

Spain

Article 83 of Spanish Law 11/1986 of 20 March 1986 imposes a general obligation on a patent owner to exploit the patented invention, either himself or through a person authorized by him, on the national territory within four years of the filing of an application or three years after the grant of the patent, whichever is the later, in such a way as to satisfy the demand on the national market.

Article 86 of the same Law provides that compulsory licences may be granted on the grounds of:

(a) insufficient working;

(b) need of exportation;

(c) dependency between patents;

(d) public interest.

Article 87 allows interested persons to apply for a compulsory licence on the expiry of the period mentioned in Article 83 if, at the time of the application and without legitimate reasons, working of the invention has not been initiated, or effective and serious preparations have not been made for working the invention, or such working has been interrupted for more than three years.

Additionally, Article 101, paragraph 2, of the same Law provides that the holder of a compulsory licence is not authorized to import the subject-matter of the patent unless the compulsory licence has been granted on the grounds of public interest and, in congruence with such public interest, he has been expressly authorized to import.

The Commission has written to the Spanish Government on 30 October 1989 and 5 July 1991 pursuant to Article 169 of the EEC Treaty expressing the view that the above provisions are contrary to Article 30 of the EEC Treaty and inviting it to present its observations.

F. Grévisse
Judge-Rapporteur