been put into circulation in that other Member State by or with the consent of the owners of those copyrights, in order to claim the payment of a fee equal to the royalties ordinarily paid for marketing on the national market less the lower royalties paid in the Member State of manufacture.

Mertens de Wilmars Pescatore Mackenzie Stuart

Koopmans O'Keeffe Bosco Touffait

Delivered in open court in Luxembourg on 20 January 1981.

A. Van Houtte
Registrar

J. Mertens de Wilmars
President

OPINION OF MR ADVOCATE GENERAL WARNER DELIVERED ON 11 NOVEMBER 1980

My Lords,

These two cases come before the Court by way of references for preliminary rulings by the Bundesgerichtshof. In each of them the respondent in the proceedings before that court is the GEMA or, to give it its full name, the Gesellschaft für Musikalische Aufführungs- und Mechanische Vervielfältigungsrechte. In Case 55/80 the appellant is the Firma Musik-Vertrieb membran GmbH, which carries on business in Hamburg as an importer and distributor of sound recordings. In Case 57/80 the appellant is the Firma K-tel International GmbH, which carries on a similar business in Frankfurt-am-Main. Essentially the question at issue between the GEMA and the appellants is whether the latter are liable to make payments to the GEMA in respect of the copyright in musical works reproduced on recordings

imported into the Federal Republic of Germany from other Member States.

The GEMA is, as Your Lordships know, a German copyright protection society. So far as here relevant, its duty is to look after the interests of composers. It is a member of the BIEM (the Bureau International des Sociétés gérant les Droits d'Enregistrement et de Reproduction Mécanique) to which copyright protection societies in many countries, including all such societies established in Member States of the Community, belong.

There is between the members of the BIEM and between them and the manufacturers of sound recordings who are members of the IFPI (the International Federation of the Phonographic Industry) a network of agreements as a result of which virtually the whole world repertoire of musical works the subject of copyright is protected.

Among the papers before the Court are two standard forms of contract, one used by the GEMA and the other used by other members of the BIEM, for the grant to a record manufacturer of a licence to make and sell records of works within that repertoire. Those standard forms envisage that the manufacturer may export all or part of his production, and they lay down the rates of royalty to be paid by him on the records he manufactures according to their destination.

Paragraph 10 of the GEMA's standard form provides that, in the case of records destined for sale in the Federal Republic of Germany, the manufacturer shall pay a royalty equal to 8% of the German retail price, subject to variations therein provided for, which according to the case, may operate either upwards or downwards. Paragraph 11 provides, broadly speaking and subject to exceptions, that, in the case of exports, royalties shall be such as are normally paid by manufacturers in the country of destination.

The BIEM standard form, by the combined effect of Article V and Annex IV, provides, so far as material, that:

(1) In Continental Europe the rate of royalty shall be 8% of the retail price of the record in the country concerned;

(2) In countries where the royalty is fixed by law, works covered by the licence "jouiront à tous les égards des conditions qui sont ou seraient accordées aux œuvres des répertoires nationaux par les producteurs de ces pays."

There again there are provisions for variation up or down in particular cases.

The argument before us proceeded on the footing that, in the result, the rate of royalty paid in all the Member States of the Community other than the United Kingdom and Ireland was 8%, or thereabouts, of the local retail price.

The position in the United Kingdom is different because of section 8 of the Copyright Act 1956. That section, the side heading of which reads "Special exception in respect of records of musical works", provides, putting it shortly, that, once records of a musical

work have been made in or imported into the United Kingdom for the purposes of retail sale by or with the licence of the owner of the copyright in the work, any other manufacturer may, without infringing the copyright, make records of the work for sale by retail on giving notice of his intention to the owner of the copyright and on paying to him a royalty of 6·25% of the ordinary retail selling price of each record, subject to a minimum of three farthings (now 0·313 p.) per record.

It appears that the result in practice of the existence of section 8 is that no record manufacturer in the United Kingdom will agree to pay a royalty of more than 6·25% because, if he did, he would risk being undercut by competitors. The importance of the section thus lies, so it seems, not in the actual application of the statutory licencing system — for the number of cases in which that procedure is used is apparently small — but in its influence on negotiations for licences. The section establishes a ceiling above which a prudent manufacturer will not go. (See the Report of the Committee to consider the Law on Copyright and Designs, Cmnd. 6732, 1977, the "Whitford Report", Chapter 6).

Subsection (3) of section 8 confers power on the Board of Trade (now the Department of Trade) with the approval of a resolution of each House of Parliament to vary the statutory rate of royalty if, in consequence of a public enquiry, it appears that that rate has ceased to be equitable. Such an enquiry was held in 1976 and 1977. The result of it was that no change was recommended either in the normal rate of 6·25% or in the minimum of 0·313 p. It appears that evidence was given at that enquiry as to the position resulting from the operation of the BIEM agreements in three other Member States, namely the Federal Republic of Germany, France and the Netherlands. The enquiry found that, because of variations from the basic 8% rate, the average effective rate of royalty in those Member States was lower than 8%: 7·18% in the Federal Republic, 7·01% in France and 6·96% in the Netherlands. (See the Report of the Enquiry, Cmnd. 6903, 1977, particularly at pp. 14-15 and 37).

The system in Ireland, established by the Copyright Act 1963, is similar to that obtaining in the United Kingdom, but differs in one important respect. Section 13 of the Act of 1963, like section 8 of the United Kingdom Act of 1956, provides that the copyright in a musical work is not infringed where a manufacturer makes, for sale by retail, records of that work in Ireland if records of it have previously been made in or imported into Ireland for the purposes of retail sale, by or with the licence of the owner of the copyright, and if the manufacturer has given to the owner of the copyright notice of his intention to make the records. The difference is that, under the Irish Act, the manufacturer is required to pay to the owner of the copyright "a fair royalty". The Act does

not define a fair royalty, but it provides that, where the parties are in dispute as to the amount of it, either of them may refer the dispute to the Controller of Industrial and Commercial Property, who may either determine the amount himself or refer the case to an arbitrator. Where that procedure is invoked the manufacturer may in the meantime proceed with the making of the records upon paying to the owner of the copyright a sum on account of the royalty equal to 5% of the ordinary retail selling price of each record. Once the amount of the royalty has been determined, the manufacturer must pay to the copyright owner or, as the case may be, may reclaim from him, the difference between the 5% and the amount so determined (see sections 13 (2), 31 and 41 of the Act). We have no information as to the effect in practice of the operation of those provisions.

Before I turn to the facts of the present cases I must also mention a Decision of the Commission of 2 June 1971 addressed to the GEMA (71/224/EEC — OJ L 134/15 of 20. 6. 1971). That was a Decision under Article 86 of the Treaty following upon proceedings under Regulation No 17. The Commission thereby held that the GEMA was an undertaking with a dominant position in a substantial part of the common market (namely in the Federal Republic of Germany) and that it had abused that position in a number of ways. One of them was that it had exacted from German importers a full royalty of 8% on imports of records from other Member States although a royalty had already been paid in respect of such records either to the GEMA itself or to another copyright protection society. In relation to that the Commission said that "this Decision does not prevent the GEMA from requiring where appropriate, importers to pay the difference between the lower royalty applicable in the country of origin and the higher royalty usual in Germany". In essence, the issue in these two cases is whether and if so to what extent, in the event of the importation of sound recordings from one Member State into another, the exaction of a supplementary payment of the kind envisaged by the Commission in that Decision is compatible with the provisions of the Treaty relating to the free movement of goods, whatever the position may be under Article 86.

In Case 55/80 the facts are these.

In 1974 the Firma Musik-Vertrieb membran GmbH (which I shall call for short "Musik-Vertrieb") published a price list from which it appeared to the GEMA that Musik-Vertrieb was marketing in Germany records imported from abroad, to a large extent from the USA, for the distribution of which in Germany no copyright licence had been granted. The GEMA brought an action against Musik-Vertrieb in the Landgericht of Hamburg claiming a detailed account of all sound recordings imported by Musik-Vertrieb since 1 April 1973 and payment of the sum that might thereby be shown to be due on the basis of the GEMA's published royalty scales. The GEMA's claim was founded on paragraph 97(1) of the Urheberrechtsgesetz (Statute on Copyright) of 9 September 1965, which provides:

"Any person infringing a copyright or any other right protected under this statute may be required by the injured party to put an end to the infringement and, if there is a likelihood of repetition, to desist therefrom and if the infringement occurs deliberately or negligently, to pay damages. Instead of damages the person injured may require the surrender of the profit obtained by the person infringing the right and the submission of an account of such profit".

During the course of the proceedings before the Landgericht it transpired that some of the records in question had been imported from other Member States of the Community. As to them the GEMA made it clear that it would give credit for any royalties already paid in such Member States, claiming only the difference between them and the royalties calculated by applying its scales to the German retail selling prices, which were, it said, at the relevant time the highest in the Community.

The Landgericht decided in the GEMA's favour and, by an interlocutory judgment dated 18 June 1976, ordered the account claimed by the GEMA, subject to an immaterial modification. Against that judgment Musik-Vertrieb appealed to the Hanseatisches Oberlandesgericht, which, by a judgment dated 5 May 1977, affirmed the judgment of the Landgericht.

Musik-Vertrieb now appeals to the Bundesgerichtshof.

That Court, by an order dated 19 December 1979, has referred to this Court a question of which the substance is this: Where sound recordings of a musical work subject to copyright have been produced and placed on the market in a Member State under a licence restricted to that Member State and providing for payment of royalties calculated on the quantity and final selling price relevant to that Member State, is it compatible with the provisions of the Treaty concerning the free movement of goods (Article 30 *et seq.*) for a copyright protection society in another Member State to invoke the copyright in that Member State in order to require, in respect of the marketing of the recordings there, a payment equal to the difference between the royalty that is customary there and the (lower) royalty already paid in the first Member State?

It is a feature of Case 55/80 that it has been argued before us on the footing that the relevant importations were all from the United Kingdom, although there is no suggestion in any of the judgments or orders of the German courts concerned that that was so.

The facts in Case 57/80 are simpler.

In March 1976 the Firma K-tel International GmbH (which I shall call "K-tel") imported into the Federal Republic of Germany from the United Kingdom 100 000 copies of a long-playing record entitled "25 Rocking' and Rolling' Greats". The musical works reproduced on that record were the subject of copyright, the protection of which in the United Kingdom was entrusted to the Mechanical Copyright Protection Society Limited (the "MCPS"). The MCPS had issued to K-tel International Limited, a sister company of K-tel, a licence to record and distribute the musical works in

question in the United Kingdom in consideration of a royalty of 6·25% of the ordinary retail price of the record in the United Kingdom. Upon learning that some of the records thus licensed were to be, or had been, exported to the Federal Republic of Germany, the MCPS attempted to obtain payment in the United Kingdom by K-tel International Limited, in respect of them, of a sum equal to the difference between the United Kingdom royalty and the royalty customarily charged in the Federal Republic. That attempt having failed, the MCPS informed the GEMA of the facts and the GEMA instituted proceedings against K-tel in the Landgericht of Frankfurt. Here again the GEMA founded its action on Article 97 of the Urheberrechtsgesetz. It contended that K-tel had infringed the copyright of the composers of the works in question, and claimed a sum of DM 156 192.75 with interest, that sum representing the difference between the total amount of the royalties paid in the United Kingdom on the records in question and royalties calculated by applying the GEMA's scale to the German retail price.

By a judgment dated 30 March 1977 the Landgericht upheld the GEMA's claim. An appeal by K-tel to the Oberlandesgericht of Frankfurt-am-Main failed and K-tel now appeals to the Bundesgerichtshof. The Bundesgerichtshof has referred to this Court a question in terms identical to those of the question in Case 55/80.

In both orders for reference the Bundesgerichtshof states that, in its opinion, on the basis of German law alone, the decisions of the Courts below were correct.

Before I turn to the real questions that arise for Your Lordship's decision I must advert briefly to an argument that was put forward on behalf of the GEMA, to the effect that it was entitled to rely on the Commission's Decision of 2 June 1971, which I mentioned earlier, and on the fact that, ever since that Decision, it (the GEMA) has, on the basis of the Decision, exacted without challenge supplementary payments of the kind here in issue.

That argument is, in may opinion, misconceived. The Decision of the Commission dealt only, and could deal only, with the position under Article 86 of the Treaty. It did not even mention Article 30. In any event, the Decision could not bind the appellants in the present cases. Much less could it bind this Court.

The first question that Your Lordships have to decide is whether Article 30 of the Treaty applies at all in circumstances such as these.

As to that, the GEMA emphasizes that what it seeks in these cases is not to prohibit or restrict the importation into the Federal Republic of records manufactured in the United Kingdom but to levy on such records a pecuniary charge designed to compensate for the lower level of royalty obtainable in the United Kingdom. The levying of such a charge is not, says the GEMA, a quantitative

restriction or a measure having equivalent effect. The Italian Government has lodged observations supporting that argument.

It is at first sight a formidable argument, but it seems to me to that, from the point of view of the GEMA, it proves too much. There is no doubt that the provisions of the Treaty relating to the free movement of goods draw a distinction between two mutually exclusive categories of obstacles to trade. One is "customs duties and charges having equivalent effect", which are the subject of Articles 12 to 17 of the Treaty; the other is "quantitative restrictions and measures having equivalent effect", which are the subject of Articles 30 to 37. Nor is there any doubt that, in general, a pecuniary charge levied on goods by reason of their crossing a frontier is a customs duty or charge having equivalent effect, whether or not it is levied for the benefit of the State, so long, at all events, as it is levied in pursuance of national legislation — there are numerous judgments of the Court to that effect — and paragraph 97(1) of the Urheberrechtsgesetz is unquestionably national legislation. There is, however, no doubt either that Article 36 of the Treaty cannot be invoked in relation to a customs duty or charge having equivalent effect — see Case 7/68 *Commission* v *Italy* [1968] ECR 423, Case 29/72 *Marimex* v *Amministrazione Finanziaria Italiana* [1972] 2 ECR 1309 and Case 46/76 *Bauhuis* v *Netherlands* [1977] 1 ECR 5. Thus the argument of the GEMA would logically lead to the conclusion that what it seeks to achieve is absolutely prohibited by the Treaty, regardless of whether it is justified for the protection of industrial or commercial property within the meaning of Article 36. One could only escape from that conclusion, consistently with the argument of the GEMA, by holding that such a pecuniary charge as it seeks to levy was not an obstacle to trade of a kind with which the Treaty was concerned at all.

An argument to that effect was indeed urged upon us on behalf of the French Government at the hearing. That argument rested, as I understood it, upon the fact that, in the laws of most Member States, and certainly in the contemplation of the Berne Convention, to which all the Member States are parties, an author's or composer's copyright comprises two elements, "economic" rights and "moral" rights. Economic rights are those enabling the author or composer to earn money from his work and they do not, the French Government conceded, differ from any other sort of industrial or commercial property. Moral rights, however, the French Government said, were inalienable and entitled an author or composer in all circumstances to impose restrictions on the use made of his work, including the free movement of recordings of it.

That argument was in my opinion ill-founded.

As Article 6 bis of the Berne Convention makes clear, the moral rights of an author or composer are (i) the right "to claim authorship of the work" and

(ii) the right "to object to any distortion, mutilation or other modification of, or other derogatory action in relation to, the said work, which would be prejudicial to his honour or reputation". (That is the wording in the latest version of the Convention, resulting from the Paris revision of 1971, by which four Member States, namely the Federal Republic of Germany, France, Luxembourg and the Netherlands, are bound. The wording in the Brussels version of 1948, by which the other Member States are bound, does not, for present purposes, materially differ).

With great respect to the French Government, I cannot for my part see how those moral rights could be infringed by the mere importation from one Member State into another of recordings of a work the manufacture of which in the former Member State was licensed by the composer. It is moreover to be observed that the French Government's argument, if accepted, would lead to the conclusion that a composer was entitled to impose an absolute prohibition on the export of recordings of his work from one Member State to another, which is much more than the GEMA claims and which would manifestly be incompatible with the concept of a common market. In truth what the GEMA relies on it these cases is the composer's economic rights, not his moral rights.

The difficulty remains that, at first sight, it does seem inappropriate to classify the levying of a pecuniary charge as a "quantitative restriction or measure having equivalent effect". That difficulty is not in my opinion overcome by citing the familiar definition of "measures having an effect equivalent to quantitative restrictions' enunciated by the Court in Case 8/74 *Procureur du Roi* v *Dassonville* [1974] 1 ECR 837, and often repeated since, because that definition is wide enough, if read literally, to cover all customs duties and charges having equivalent effect, which it is clearly not intended to do. In Case 74/76 *Inannelli* v *Meroni* [1977] 1 ECR 557 (paragraph 9 of the judgment) the Court said: "However wide the field of application of Article 30 may be, it nevertheless does not include obstacles to trade covered by other provisions of the Treaty ... Thus obstacles which are of a fiscal nature or have equivalent effect and are covered by Articles 9 to 16 and 95 of the Treaty do not fall within the prohibition in Article 30".

The answer to the conundrum is, I think, this.

One must first bear in mind that, when Article 30 refers to a "measure", it means a measure taken by a Member State; it does not mean a measure taken by a private person — see for instance Case 7/68 *Commission* v *Italy* (already cited), where the Court said, of the Chapter of the Treaty to which Articles 30 and 34 belong: "The subject of that chapter is State intervention in intra-Community trade by measures in the nature of prohibitions, total or partial, on import, export or transit, according to circumstances. It is to such measures that Article 36 refers ..."; see also the

"*Dassonville* definition", which refers to "trading rules enacted by Member States"; and see the opinion of Mr Advocate General Trabucchi in Cases 15 & 16/74 *Centrafarm* v *Sterling Drug* and *Centrafarm* v *Winthrop* [1974] 2 ECR at p. 1178 where he said "... the measure having equivalent effect is the national law itself". Thus, in the present cases, the relevant "measure" is not the GEMA's claim, but paragraph 97(1) of the Urheberrechtsgesetz. Secondly, one must, I think, interpret the Treaty as a whole, and with a proper appreciation of the problem confronting its authors when they came to deal with industrial and commercial property in relation to the free movement of goods. Patents, trade marks, copyright, and other kinds of industrial and commercial property have as their common and fundamental characteristic that they enable the owner of such property to restrain the unlicensed use of it by others, and in particular to restrain trade in infringing goods. It was therefore natural for the authors of the Treaty, in the part of it dealing with the free movement of goods (Title I of Part Two), to have adverted to industrial and commercial property in the Chapter about the elimination of quantitative restrictions and of measures having equivalent effect (Chapter 2) rather than elsewhere. A claim for damages, or for any other form of pecuniary relief, in respect of the infringement of a patent, of a trade mark, of copyright, or of any other kind of industrial or commercial property is, by its nature, a claim for a subsidiary remedy. It presupposes, in general, the existence of the greater right to restrain the infringement itself. That is illustrated by the terms of paragraph 97(1) of the Urheberrechtsgesetz, which mentions first the right of the injured party to require the infringer to put an end to the infringement and if there is a likelihood of repetition to desist therefrom, and which treats the payment of damages or an account and payment over of undue profits as secondary remedies available only in certain circumstances. Counsel for the appellants was, in my opinion, right to underline that the sums claimed by the GEMA in these cases were not in the correct analysis royalties — for they were not claimed from licensees under a contract — but sums claimed from independent importers on the statutory basis of breach of copyright.

I am for those reasons of the opinion that Article 30 is here in point. I am fortified in that conclusion by the judgment of the Cour d'Appel of Brussels in *SABAM* v *Time Limit* (26 October 1978, J.T. 1979, 407) to which we were referred on behalf of the appellants and of the Commission.

In logical order, the second question is whether Article 36 of the Treaty is in point.

As to that I can be brief. The question arises only because in the terminology of the legal systems of some Member States copyright is not "industrial or commercial property", but 'intellectual or artistic property". In the opinion that I delivered in Cases 52 & 62/79 the

Coditel cases (not yet reported) I expressed the view that in the context of Article 36 the phrase "industrial and commercial property" should be interpreted as including copyright. I need not repeat what I there said. It was suggested to us that one could infer from the wording of paragraph 15 of the Court's judgment in Case 62/79 that it shared that view. At all events no one in these cases argued that copyright was outside the scope of Article 36. Indeed, at the hearing, Counsel were unanimous in saying that it was within the protection of that Article.

On that footing, the next question is: what is the effect of Article 36?

Its effect in relation to patents and trade marks is established by a line of authorities in this Court so familiar that I need not cite them. The law as there laid down was conveniently summarized by the Court in its judgment in Case 119/75 *Terrapin* v *Terranova* [1976] 1 ECR 1039 in the following terms:

"As a result of the provisions in the Treaty relating to the free movement of goods and in particular of Article 30, quantitative restrictions on imports and all measures having equivalent effect are prohibited between Member States. By Article 36 these provisions nevertheless do not preclude prohibitions or restrictions on imports justified on grounds of the protection of industrial or commercial property. However, it is clear from that same article, in particular the second sentence, as well as from the context, that whilst the Treaty does not affect the existence of rights recognized by the legislation of a Member State in matters of industrial and commercial property, yet the exercise of those rights may nevertheless, depending on the circumstances, be restricted by the prohibitions in the Treaty. Inasmuch as it provides an exception to one of the fundamental principles of the common market, Article 36 in fact admits exceptions to the free movement of goods only to the extent to which such exceptions are justified for the purpose of safeguarding rights which constitute the specific subject-matter of that property.

It follows from the above that the proprietor of an industrial or commercial property right protected by the law of a Member State cannot rely on that law to prevent the importation of a product which has lawfully been marketed in another Member State by the proprietor himself or with his consent."

(Paragraphs 5 and 6 of the judgment.)

The judgment of the Court in Case 78/70 *Deutsche Grammophon* v *Metro* [1971] 2 ECR 487 suggests strongly that the same principles apply in relation to copyright. On that footing the circumstance that the records here in question were manufactured and marketed under licence in the United Kingdom would prima facie mean that their importation into other Member States could not lawfully be impeded.

It was however submitted on behalf of the GEMA and of the French Government that the *Deutsche Grammophon* case was distinguishable because it was concerned with a record manufacturer's right to control the distribution of his products, a right which the

Court had described as "related to copyright", and which was different from a composer's copyright. The difference lay, it was submitted, in the "personal" nature of a composer's copyright.

The reason why the Court described a record manufacturer's rights as "related to copyright" rather than as "copyright" simpliciter is no doubt that that is how they are described in the laws of some of the Member States and also in the relevant international Conventions. But nothing turns, in my opinion, on the label. The question is whether there is a material difference between such rights and the rights of a composer. The difference suggested, the "personal" nature of a composer's rights, turned out to consist in nothing more than the existence of the moral rights element in a composer's copyright. I have already said why I think that that element is irrelevant here.

On behalf of the GEMA reliance was also placed on paragraph 16 of the judgment of the Court in Case 62/79, where the Court held that the Treaty did not invalidate the imposition of geographical limits on copyright licences, even where those limits corresponded to the frontiers of Member States. That however was because the particular right in question in that case was performing right, the specific subject-matter of which imports that the owner of it is entitled to authorize or forbid each and every performance of the work to which it relates, from which it follows that one cannot apply in the domain of performing right the doctrine of "exhaustion of rights" as it applies in the domain of the marketing of goods. The Court indeed said as much in paragraph 12 of the judgment.

In the upshot I can see no reason for applying to a composer's copyright in relation to records of his work principles different from those applicable to patents, to trade marks and to a record manufacturer's rights.

So I turn to consider whether, consistently with those principles, the protection of the composer's copyright justifies the imposition on the records here in question of a charge such as is claimed by the GEMA.

The GEMA seeks to justify that charge on two distinct grounds.

First it submits (and in this it is supported by the Belgian Government) that, since royalties are in general fixed as a percentage of retail prices, and since retail prices differ from Member State to Member State, it is only fair that a composer, a recording of whose work is exported from a Member State where prices are low to one where they are high, should be entitled to receive a percentage of the difference. As the Commission points out, that submission is based on a total misapprehension of the concept of a common market. Differences in price levels between different parts of the common market are not a ground for seeking to isolate those parts from each other. On the contrary they are a reason for insisting on the free movement of goods between them that the Treaty envisages. What, it

seems to me, the GEMA overlooks is that (subject to what I shall say in a moment about the position created in the United Kingdom by section 8 of the Copyright Act 1956) the very existence of the common market entails that royalties should be fixed for that market as a whole and not for individual national markets. I am of course aware that to say this is to say that the arrangements made under the auspices of the BIEM need to be revised.

The GEMA's second submission (in which it is supported by the French Government) rests on the distorting effect of section 8 of the United Kingdom Copyright Act 1956. In my opinion the GEMA is here on surer ground.

In Case 24/67 *Parke, Davis* v *Centrafarm* [1968] ECR 55 the Court held in effect that the owner of a Dutch patent was entitled to restrain parallel imports into the Netherlands of pharmaceutical products from Italy, in which country such products were not patentable. The Court did not examine whether the products had been marketed in Italy by the patentee or with his consent. It is implicit in the judgment that that was in the circumstances immaterial, as indeed it must have been. There can be no exhaustion of rights where no rights exist. Putting it in another way, the patentee had had no opportunity in Italy of exacting a reward for the invention. It has been suggested by Professor Michel Waelbroek that the effect of that judgment may have been cut down by the judgments of the Court in the *Deutsche Grammophon* case and in the *Sterling Drug* case, but I do not think that that can be so, for the reasons indeed that Professor Waelbroek himself gives (see his article "The Effect of the Rome Treaty on the exercise of National Industrial Property Rights" in 21 Antitrust Bulletin (1976) p. 99).

It follows that, if here there were no copyright protection for the composers in the United Kingdom, the GEMA would be entitled to exercise to the full their rights under German law. The fact is of course that there is such protection in the United Kingdom, but that it is limited by the effect of section 8.

Whereas in all other Member States (with the possible exception of Ireland) the rates of royalty are determined by free bargaining between copyright owners and record manufacturers, in the United Kingdom those rates are, by the effect of section 8, in the way I have mentioned, subject to a ceiling of 6.25 %. It follows in my opinion that the GEMA is entitled to exercise the composer's rights under German law to the extent necessary to counteract that limiting effect.

In saying that I do not overlook that, in the *Sterling Drug* case, the Court held that the patentee was not entitled to exercise his patent rights in the importing Member State to counteract "price differences resulting from governmental measures adopted in the exporting country with a view to controlling the price of that product". There seems to me, however, to be for present purposes a crucial difference between ordinary price control measures, which merely affect market conditions, more or less

temporarily, and a provision that cuts down the relevant industrial or commercial property right itself.

The French Government drew our attention in this connexion to Article 13 of the Berne Convention. Paragraph (1) of that Article (in the Brussels version) provides that authors of musical works are to have the exclusive right of authorizing the recording of their works. Paragraph (2) enables the legislation of any country to make that right subject to reservations and conditions, but provides that any such reservation or condition shall apply only in that country. The French Government submitted that, if the United Kingdom were allowed, as a result of the EEC Treaty, as it were to export its statutory ceiling on royalties to other Member States, there would be a conflict between the provisions of that Treaty and those of the Berne Convention. The French Government went on to submit that, by virtue of Article 234 of the Treaty, any such conflict must be resolved in favour of the Berne Convention. I do not think that that is correct, because, as between the Member States, the Treaty prevails; Article 234 preserves only rights and obligations subsisting between Member States and third countries — see Case 10/61 *Commission* v *Italy* [1962] ECR 1 and Case 812/79 *A.-G.* v *Burgoa* (14 October 1980, not yet reported). If however the view I have expressed as to the effect of Article 36 of the Treaty is correct, Article 13 of the Berne Convention is immaterial except perhaps as background.

I have said that, in my opinion, the GEMA is entitled to exercise the rights vested in it by German law to the extent necessary to counteract the effect of section 8 of the United Kingdom statute. That does not mean that I think it entitled to claim, crudely, the difference between the United Kingdom statutory rate of 6.25 % and a royalty calculated according to its own scales. Indeed I think that the GEMA's scales are irrelevant. What it is entitled to, in my opinion, is the difference between the royalty actually paid in the United Kingdom (be it 6.25 % of the United Kingdom retail price or some other amount) and the royalty that could have been negotiated in the United Kingdom in the absence of section 8 and on the footing that records in respect of which that royalty had been paid could be freely marketed anywhere in the Community. If Your Lordships share my view, it will of course be for the German courts to assess the actual sum to which the GEMA is entitled. That will no doubt impose on those courts a difficult task, but no more difficult, I think, than the sort of task with which courts throughout the Community are daily confronted when assessing damages in cases involving factors that have to be estimated.

In the result I am of the opinion that, in answer to the question referred to the Court by the Bundesgerichtshof in each of these cases, Your Lordships should rule as follows:

Where sound recordings of a musical work subject to copyright have been marketed in a Member State with the consent of the copyright owner, the provisions of the EEC Treaty concerning the free movement of goods forbid the exaction of any payment on the importation of those recordings into another Member State, unless legislation in force in the exporting Member State restricts the rights of the copyright owner, in which case the legislation of the importing Member State may be invoked to the extent necessary to counteract that restriction.