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# The Balancing Impact of General EU Law on European Intellectual Property Jurisprudence

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## A. The Impact of General EU Law on Intellectual Property

The Europeanization of intellectual property (IP) law takes various forms. EU secondary law directly defines the building blocks of EU and national IP rights. These building blocks include the subject-matter of IP rights, the scope of protection, the rights, the exceptions and limitations, the infringement criteria, and the terms. General EU law is affecting IP law more indirectly through the work of the judges and in particular the Court of Justice in the European Union (CJEU).

General EU law has played an important role in shaping IP law in Europe. For our purpose, general EU law mainly comprises the rules of the Treaty prohibiting any discrimination based on nationality, all obstacles to freedom of goods or services, and anti-competitive practices. General EU law also includes the principles of EU law, such as the proportionality principle, and the fundamental rights now included in the Charter of Fundamental Rights of the EU ('EU Charter'). All those rules, principles, and fundamental rights contribute to the Europeanization of IP law.

The interpretation of general EU law by the CJEU and its application in the IP field reminds us that IP law does not stand alone, that its rules are not insulated from more general rules. The CJEU case law in particular highlights the need for a good balancing between IP rights and other interests, such as those resulting from the preservation of equality between EU citizens, the protection of economic freedoms, or the maintenance of a competitive market. General EU law as interpreted by the CJEU also reintroduces the overarching proportionality principles into the IP landscape. The requirement to balance IP rights with fundamental freedoms, such as the protection of privacy or freedom of expression, also contributes to a less formalistic approach to IP issues.

To assess how general EU law has impacted IP law through the case law of the CJEU, this chapter considers the following rules in relation to IP: non-discrimination, preservation of national property, free movement, and competition rules. Before analysing those issues (sections D to H), we offer an overview of the CJEU case law based on statistics (section B) and show how the approach and method of the CJEU might differ depending on the type of IP right involved (section C).

## B. An Overview of the CJEU Case Law on IP

The caseload for each category of IP right highlights the state of the legislation for the different IP rights. According to the statistics of the CJEU, over 1,300 decisions were issued between 2001 and 2011 in the field of 'industrial and commercial property'. More than 1,100 cases involved trade marks. Table 1 provides an overview of the CJEU's IP cases classified according to specific legal basis such as EU directives or regulations concerning IP.



**Table 1:** Overview of CJEU's IP cases by search criteria[1]

| Selected Search Criteria | Number of Cases (01/01/2001–19/12/2011) |
|---|---|
| Industrial and commercial property | 1,337 |
| Trade marks | 1,145 |
| Community Trade Mark Regulation 1994 | 927 |
| Trade Marks Directive | 197 |
| Community Trade Mark Regulation 2009 | 165 |
| Copyright (based on seven Directives)[2] | 82 |
| Plant Variety Directive 91/414 and/or Directive 98/44 | 56 |
| Design (Regulation 2002/6 and/or Directive 1998/71) | 25 |
| SPC (Regulation 1768/92) | 14 |
| Biotechnology Directive | 10 |

[1] Note that as claimants often use more than one relevant legal basis, the possibility of multiple counts is not excluded. The purpose of this table is to provide an approximate sense of the relative volume of cases concerning each area of legislation.

[2] Resale Right Directive; Information Society Directive; Database Directive; Satellite and Cable Directive; Term Directive; Rental and Lending Rights Directive; Software Directive.

The majority of CJEU cases concern trade marks, either in relation to Community trade marks (CTMs) or the approximation of the trade mark laws of the Member States. Even though the numbers for the remaining IP cases appear less significant, many played an important role in advancing the substance of European jurisprudence for IP. When searched by the seven directives in the copyright field, over 80 cases appear as results in the CJEU database system. A similar number of cases concern issues broadly related to plant varieties or patents, including supplementary protection certificates (SPCs) and biotechnology inventions. Only 25 cases relate to Community designs or design rights under the laws of Member States.

Table 2 shows that the numbers of new IP cases filed with the Court of First Instance (and the General Court since December 2009) and the CJEU have increased significantly in the past two decades. To some extent, the dramatic increase may be explained in connection with the overall increase of the caseloads of the two European Courts. Yet, interestingly, the proportion of IP cases compared with the total cases appears also to be on the rise. In 2011, for example, 58 IP cases, eight per cent of the 679 total, were filed with the CJEU. By contrast, two IP cases out of 541 total cases were filed with the CJEU in 1999. At the General Court, this percentage is much bigger. The 219 IP cases out of 722 total cases filed with the General Court in 2011 represent over 30 per cent of its caseload. In 1999, 18 out of 384 total new cases filed with the Court of First Instance concerned IP matters.

**Table 2:** Overview of CJEU's newly filed IP cases (1999–2011)

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| CFI & GC | 18 | 34 | 37 | 83 | 100 | 110 | 98 | 143 | 168 | 198 | 207 | 207 | 219 |
| CJEU | 2 | 6 | 15 | 8 | 9 | 8 | 24 | 23 | 28 | 36 | 39 | 49 | 58 |

## C. The Role of the CJEU in Applying General EU Law and in Interpreting Secondary IP Law

### (1) The effect of the CJEU case law in shaping different IP rights

By offering some guidance for interpreting EU law and by balancing several, often opposing, interests, such as the need to avoid fragmentation of the internal market, the CJEU has forced the national judges and the IP community to take into account other rules and principles than those expressly embedded in (national) IP laws. The influence of the CJEU has been criticized by commentators who have often expressed fears about the growing influence of EU law in the field of IP where they felt comfortable. The Luxembourg judges are usually asked to respond *in abstracto* to questions posed by national courts (in case of referrals for preliminary rulings). Because the CJEU judges in principle do not have to apply their reading of EU law to the specific facts of the case, the CJEU case law appears unfinished, or even confusing. The trade mark rulings resulting from referrals have been held unsatisfactory, if not contradictory, by many observers.

The harmonization effect of CJEU case law partly differs according to the types of IP right involved. For instance, the CJEU case law on trade marks involves a casuistic interpretation of the guiding notions of the EU trade mark legal framework—the Community Trade Mark Regulation and the Trade Marks Directive. The Court's fine-tuning role applies even to new issues such as AdWords and indirect liability for online platforms (the Google- and eBay-type cases).[1] But this also leaves many issues undecided as the CJEU rulings systematically refer to the (somewhat obscure) functions of the trade mark. By contrast, the CJEU case law on design has played a more defining role by providing the first interpretations of the core issues in EU design law, such as the notions of novelty, individual character, and informed user.[2] The interpretation of the fundamental building blocks of EU design law by the CJEU over the last two years seems prudent, although not precise enough. It could

[1] Case C-236/08 *Google v Louis Vuitton* [2010] ECR I-2417; Case C-324/09 *L'Oréal SA v eBay International AG* (12 July 2011).

[2] See, eg Case C-32/08 *Fundación Espanola para la Innovacion de la Artesania v Cul de Sac Espacio Creativo SL and Acierta Product & Position SA* [2009] ECR I-5611; Case T-9/07 *Grupo Promer Mon Graphic v Office for Harmonisation in the Internal Market ('OHIM')* [2010] ECR II-981; Case T-153/08 *Shenzhen Taiden Industrial Co Ltd v OHIM* [2010] ECR II-2517; Case T-148/08 *Beifa Group Co Ltd v OHIM* [2010] ECR II-1681; Case C-168/09 *Flos SpA v Semeraro Casa e Famiglia SpA ('Flos')* (27 January 2011); Case T-68/10 *Sphere Time v OHIM* [2011] ECR II-02775; Case T-10/08



nevertheless pave the way for a more detailed analysis by the national judges and for a deeper understanding of the high level notions developed by the CJEU. In the patent field, the cases before the CJEU have not yet dealt with the core issues because EU secondary patent law is limited in scope and only concerns specific issues, such as SPCs, biotech inventions, and plant protection.

### (2) The different phases of the CJEU case law on IP: illustrations from the copyright field

The impact of the Rome Treaty, which formed the essential part of general EU law in the early days, was significant until the end of the 1980s (first phase). The very first IP cases concerned the impact of competition rules.[3] This was in part due to the fact that the provisions on freedom of goods did not come into effect before 1968. From the 1970s to the end of the 1980s, there were mainly two groups of cases on primary EU law: exhaustion and free competition cases. In the field of copyright, cases concerning exhaustion include *Deutsche Grammophon*, *Coditel I*, *Coditel II*, *Musik Vertrieb*, *Polydor*, *Warner Brothers*, and *EMI Electrola*.[4] Cases concerning free competition, namely the ex-Articles 85 and 86 of the Rome Treaty, now Articles 101 and 102 of the Treaty on the Functioning of the European Union (TFEU), include *GEMA I*, *GEMA II*, *BRT*, *Basset*, *Tournier*, and *Lucazeau*.[5] In these cases, the Court was confronted with the question of how best to combine the requirements of the internal market as well as free competition with the territoriality of copyright. The territoriality principle on which IP law is still based is increasingly challenged where the distribution, such as over the internet, does not know frontiers. The EU legislature is still trying to facilitate the pan-European licensing of copyright, at least with regard to the musical field.[6]

From 1990 to 2009 (second phase), the CJEU case law shows a mix of cases. Some concern the interpretation of primary EU law, in particular the rules on free movement of goods. Examples of copyright cases involving exhaustion include *Metronome*

*Kwang Yang Motor v OHIM* (9 September 2011); Case T-246/10 *Industrias Francisco Ivars v OHIM* (6 October 2011); Case C-281/10P *PepsiCo Inc v Grupo Promer Mon Graphic SA* (20 October 2011); Case C-488/10 *Celaya Emparanza y Galdos Internacional SA v Proyectos Integrales de Balizamientos SL* (16 February 2012).

[3] See, eg Joined Cases 56/64 and 58/64 *Consten and Grundig v Commission* [1966] ECR 382; Case 24/67 *Parke, Davis v Probel* [1968] ECR 55.

[4] Case 78/70 *Deutsche Grammophon v Metro SB* [1971] ECR 487; Case 62/79 *Coditel v Ciné Vog Films ('Coditel I')* [1980] ECR 881; Case 262/81 *Coditel v Ciné Vog Films ('Coditel II')* [1982] ECR 3381; Joined Cases 55/80 and 57/80 *Musik Vertrieb v GEMA* [1980] ECR 147; Case 270/80 *Polydor v Harlequin and others* [1982] ECR 329; Case 158/86 *Warner Brothers v Christiansen* [1988] ECR 2605; 341/87 *EMI Electrola v Patricia Im-und Export and others* [1989] ECR 79.

[5] Case 45/71R *GEMA v Commission ('GEMA I')* [1971] ECR 791; Case 125/78 *GEMA v Commission ('GEMA II')* [1979] ECR 3173; Case 127/73 *BRT v SABAM* [1974] ECR 51; Case 402/85 *Basset v SACEM* [1987] ECR 1747; Case 395/87 *Ministère public v Tournier* [1989] ECR 2521; Joined Cases 110/88, 241/88, and 242/88 *Lucazeau and others v SACEM and others* [1989] ECR 2811.

[6] See Proposal for a Directive of the European Parliament and of the Council on collective management of copyright and related rights and multi-territorial licensing of rights in musical works for online uses in the internal market, COM(2012) 372 final (11 July 2012).

and *Laserdisken*.[7] *Tremblay*[8] concerns free competition and collecting societies. In *Phil Collins*, *Ricordi/Puccini*, and *Tod's*, the compatibility of copyright rules with the EU principle of non-discrimination was considered.[9]

During this period (1990–2009), cases focusing on secondary copyright law started to reach the CJEU. For instance, *Egeda/Hoasa*, *Lagardère*, and *SGAE/Hoteles Rafael* considered the notion of 'communication to the public'.[10] *Sena* concerned the artists' rights to remuneration.[11] *Butterfly Music*[12] and *Ricordi/Puccini* considered copyright terms issues. Further, *BHB*, *Fixtures Marketing*, and *Directmedia* concerned the conditions and scope of the rights that apply to a database.[13]

Since 2009 (third phase), many cases involving the interpretation of the copyright directives have been decided or are still pending before the CJEU. The July 2009 decision in *Infopaq I*[14] was probably the turning point as many more cases started to appear before the CJEU after mid-2009.[15] Overall, the effect of CJEU case law on copyright has led to court-made harmonization by filling the various gaps of EU copyright directives. The CJEU faced questions on the subject-matter and substantive conditions for copyright and clarified the meaning and scope of certain rights such as temporary reproduction, communication to the public, lending, and so on. The CJEU also considered exceptions and limitations to copyright including private copying and levies. Some technology issues such as the scope of software and database protection and the liability of intermediaries were also considered.

[7] Case C-200/96 *Metronome Musik v Music Point Hokamp* [1998] ECR I-1953; Case C-479/04 *Laserdisken ApS v Kulturministeriet* [2006] ECR I-8089.

[8] Case C-91/95P *Tremblay and others v Commission* [1996] ECR I-5547.

[9] Case C-92/92 *Collins and Patricia Im-und Export/Imtrat and EMI Electrola* ('*Phil Collins*') [1993] ECR I-5145; Case C-360/00 *Land Hessen v Ricordi* ('*Ricordi*') [2002] ECR I-5089; Case C-28/04 *Tod's v Heyraud* [2005] ECR I-5781.

[10] Case C-293/98 *Egeda v Hoasa* ('*Egeda*') [2000] ECR I-629; Case C-192/04 *Lagardère v SPRE and GVL* [2005] ECR I-7199; Case C-306/05 *SGAE v Rafael Hoteles SA* [2006] ECR I-11519.

[11] Case C-245/00 *SENA v NOS* [2003] ECR I-1251.

[12] Case C-60/98 *Butterfly Music v CEMED* [1999] ECR I-3939.

[13] Case C-203/02 *The British Horseracing Board and others* [2004] ECR I-10415; Case C-46/02 *Fixtures Marketing v Oy Veikkaus Ab* [2004] ECR I-10365; Case C-338/02 *Fixtures Marketing Ltd v Svenska Spel AB* [2004] ECR I-10497; Case C-444/02 *Fixtures Marketing v OPAP* [2004] I-10549; Case C-304/07 *Directmedia v AlberT-Ludwigs-Universität Freiburg* [2008] ECR I-7565.

[14] Case C-5/08 *Infopaq v Danske Dagblades Forening* ('*Infopaq I*') [2009] ECR I-6569.

[15] See, eg Case C-168/09 *Flos* (27 January 2011); Case C-387/09 *Egeda* (30 November 2010); Case C-393/09 *Bezpečnostní softwarová asociace—Svaz softwarové ochrany v Ministerstvo kultury* ('*BeSoft*') (22 December 2010); Case C-431/09 *Airfield NV and Canal Digitaal BV v SABAM* (13 October 2011); Case C-462/09 *Stichting de Thuiskopie v Opus Supplies Deutschland GmbH and others* (16 June 2011); Case C-135/10 *Società Consortile Fonografici (SCF) v Marco Del Corso* (15 March 2012); Case C-162/10 *Phonographic Performance (Ireland) v Ireland and Attorney General* (15 March 2012); Case C-198/10 *Cassina SpA v Alivar Srl and Galliani Host Arredamenti Srl* (9 September 2011); Case C-228/10 *UEFA v British Sky Broadcasting* (11 January 2012); Case C-271/10 *VEWA v Belgische Staat* (30 June 2011); Case C-277/10 *Luksan v Petrus van der Let* (9 February 2012); Case C-283/10 *Circus Globus București v UCMR—ADA* (24 November 2011); Case C-302/10 *Infopaq International A/S v Danske Dagblades Forening* ('*Infopaq II*') (7 January 2012); Case C-360/10 *SABAM v Netlog* ('*Netlog*') (16 February 2012); Case C-406/10 *SAS Institute v World Programming Ltd* (2 May 2012); Case C-461/10 *Bonnier Audio AB v Perfect Communication Sweden AB* (19 April 2012); Case C-604/10 *Football Dataco Ltd and others v Yahoo! UK Ltd and others* ('*Football Dataco I*') (1 March 2012); Case C-5/11 *Titus Alexander Jochen Donner* (21 June 2012); Case C-103/11P *Commission v Systran*; Case C-128/11 *UsedSoft v Oracle* (3 July 2012); Case C-173/11 *Football Dataco II*; Joined Cases C-457/11 to 460/11 *VG Wort*; Case C-521/11 *Amazon*.



Interestingly, the general EU law rules and principles resurface within the interstices of the interpretation of secondary copyright law by the abundant CJEU case law. Good illustrations include *Promusicae*, *Painer*, *Scarlet*, and *Netlog*.[16] In other rulings, the issues of secondary copyright law are treated along with questions involving EU primary law (*Premier League*[17]).

Among several other cases, the two recent CJEU decisions on the role of internet service providers (ISPs), ie *Scarlet* and *Netlog*, show that the judges in Luxembourg are keen to apply a method that balances copyright with other fundamental rights. The growing role of the proportionality principle in the copyright case law is a positive development, although it might generate new uncertainties.

In *Scarlet*,[18] the CJEU gave some guidance as to the power of national courts to award injunctive relief to prevent internet piracy. Specifically, the CJEU held that while national courts can enjoin ISPs to restrict access to a particular website engaged in or facilitating copyright infringement, courts cannot order ISPs to filter or monitor *all* of their customers' traffic in order to prevent copyright infringement via peer-to-peer (P2P) transfers on their network. In 2004, SABAM (the largest Belgian collective rights management society) established that users of Belgian ISP Scarlet's services were downloading and exchanging works in SABAM's catalogue via P2P protocols, without authorization and without paying royalties. SABAM sued Scarlet and sought two remedies: a declaration that Scarlet's subscribers were infringing its members' copyrights; and an order requiring Scarlet to end the infringements by blocking all P2P traffic that could contain a media file (ie a musical/audio-visual work). The Brussels court of first instance granted both remedies, although the order was only issued in 2007 following an expert feasibility report confirming that it was technically possible to implement the order. Scarlet appealed to the Brussels Court of Appeal on the basis that the order could not be effectively implemented and, more fundamentally, that it would require Scarlet in practice to monitor all traffic on its network and thus violate (i) Article 15 of the E-Commerce Directive, which provides that ISPs have no duty to monitor activities on their networks, and (ii) EU data protection laws. As these questions impacted EU legislation, the Brussels Court of Appeal referred the matter to the CJEU. The CJEU ruled that although rights holders may apply for an injunction against intermediaries, such as ISPs, whose services are used by third parties to infringe copyrights and other rights (under the Information Society and Enforcement Directives), those injunctions must respect certain limits, such as those flowing from the prohibition of any general monitoring obligation (E-Commerce Directive, Article 15). In reaching its conclusion, the CJEU considered the extent of the order, which would

[16] Case C-275/06 *Promusicae v Telefónica de España SAU* [2008] ECR I-271; Case C-145/10 *Eva-Maria Painer v Standard Verlags GmbH* [2012] ECDR 6; Case C-70/10 *Scarlet Extended v SABAM* (24 November 2011); Case C-360/10 *Netlog* (16 February 2012).

[17] Case C-403/08 *Football Association Premier League Ltd and others v QC Leisure and others* ('*Premier League*') (4 October 2011).

[18] Case C-70/10 *Scarlet Extended v SABAM* (24 November 2011). The discussion of this decision relies on the Covington & Burling review of *Significant Developments in US and European Copyright Law 2011* (<http://www.cov.com>). Thanks to Mark Young who was the main author of this discussion.

have required Scarlet, on an ongoing basis, to: (1) identify all P2P traffic on its network; (2) identify all files transferred over P2P that could be copyrighted music or other media files; (3) determine which files were being transferred unlawfully; and (4) block the unlawful content. The CJEU said that these obligations, taken together, would amount to a general monitoring obligation exactly of the kind that Article 15 prohibits.

In reaching its conclusion, the CJEU also relied on the principle of proportionality—a central piece of general EU law—and applied a balancing method. The Court acknowledged rights holders' property rights under Article 17 of the EU Charter. But the Court emphasized that these rights must be balanced against the rights of the ISP and its customers under the EU Charter. The CJEU held that the order on Scarlet to install a complicated, costly, permanent computer system at its own expense would result in 'a serious infringement' of the right of the ISP to conduct its business (EU Charter, Article 16), as well as the rights of the ISP's customers to protection of their personal data and freedom to receive and impart information (EU Charter, Articles 8, 11). Customers' rights were especially at risk, as the filtering system would analyse and identify content on the basis of customers' internet protocol addresses, and because the system might fail adequately to distinguish differences between lawful and unlawful content and therefore block the transfer of lawful communications. Judge Malenovsky, who was the judge-rapporteur in most of the recent copyright cases and thus plays an important role in shaping the case law of the CJEU in this field, clearly favours a balancing approach. In a May 2012 paper entitled 'The contribution of the CJEU in harmonising EU copyright law',[19] he defends the need 'to weight copyright against other fundamental rights'. For example, referring to *Scarlet*, he considers that this method allows the law to address 'the gap between generations', the gap between 'younger people' who are 'passionate about new computer technology and, ultimately, about the protection of their personal data', and 'older generations...with their more structured and more heterogeneous experience, who are more often wealthy and are more interested in the effective protection of their property'! Interesting thoughts about how the judge-made law takes into account the varying expectations of people over time.

## D. Non-discrimination

### (1) The non-discrimination principle as a way to reaffirm the primacy of EU law over national and international IP law

Non-discrimination is one of the fundamental principles of general EU law. Both the TFEU (Article 18) and EU Charter (Article 21(2)) provide that within the scope of application of the Treaties, and without prejudice to any special provisions

[19] Unpublished paper delivered at the ERA Annual Conference on Copyright Law in Trier on 10 May 2012.



contained therein, any discrimination on grounds of nationality shall be prohibited. Further, the CJEU held that the rules on equal treatment preclude open discrimination based on nationality and all covert forms of discrimination leading to the same result by applying distinguishing criteria.[20]

Several decisions, including *Phil Collins*, provide the rationale for the primacy of EU law over national IP law finding that all IP rights, including copyright and related rights, fall within the scope of application of the TFEU.[21] Consequently, those rights are necessarily subject to the general principle of non-discrimination laid down by Article 18 of the TFEU.

In *Phil Collins*, Imtrat, a German phonogram company, produced and marketed a CD containing the recording of a concert given by Mr Phil Collins, a British singer and composer, in the United States. Under the German rules for related rights, only German performers could prohibit the distribution of their performances if recorded and fixed on a phonogram without their consent. Imtrat argued that the difference between German nationals and those of other Member States in this case could be objectively justified by the existing disparities among national laws and by the fact that not all Member States have acceded to the Rome Convention, which grants certain rights to performers. However, the CJEU rejected both arguments.

The CJEU found that the prohibition of discrimination based on nationality in the TFEU (Article 18, ex Article 12 TEC) requires each Member State to ensure that persons of other Member States in a situation governed by EU law be placed on a 'completely equal footing' with nationals of the Member State.[22] In *Ricordi/Puccini*, the CJEU reiterated this approach and found that different copyright terms provided by Member States is discrimination on the grounds of nationality which must be prohibited under Article 18 TFEU.[23]

The CJEU's strong commitment to prohibit discrimination underscores the primacy of general EU law principles over provisions in international IP law. In *Tod's/Heyraud*, the non-discrimination principle was in conflict with the reciprocity obligation under the Berne Convention. Tod's claimed to own the design rights of the shoes it sold in France. Heyraud was selling, under its own name, shoes which copied the principal characteristics of Tod's' shoe designs. Tod's sued Heyraud for infringement of its copyright. Heyraud's defence was that the action was inadmissible under Article 2(7) of the Berne Convention because Tod's could not claim copyright protection in France for designs that did not qualify for such protection in Italy. Tod's counter-argued that Article 2(7) of the Berne Convention could not apply since it would constitute discrimination based on the copyright owner's nationality under Article 18 TFEU.[24]

The CJEU held that Article 2(7) of the Berne Convention is not applicable because 'the right of an author to claim in a Member State the copyright protection

[20] Case C-92/95 *Pastoors and Trans-Cap* [1997] ECR I-285, para 16; Case C-224/00 *Commission v Italy* [2002] ECR I-2965, para 15; Case C-28/04 *Tod's v Heyraud* [2005] ECR I-5781, para 19.

[21] Case C-92/92 *Phil Collins* [1993] ECR I-5145, para 22.

[22] *Phil Collins*, paras 30–32.

[23] Case C-360/00 *Ricordi* [2002] ECR I-5089, paras 31–34.

[24] Case C-28/04 *Tod's v Heyraud* [2005] ECR I-5781, paras 6–12.

afforded by the law of that State may not be subject to a distinguishing criterion based on the country of origin of the work'.[25] Following the 'completely equal footing' requirement,[26] if a Member State grants its own nationals something above the minimum standard set by the Berne Convention, Article 18 TFEU requires that such a Member State grant the same treatment to nationals of other Member States. Here, the non-discrimination rule under EU law is 'the higher norm that overrules the Berne Convention rule'.[27]

## E. Preservation of National Property

Article 345 TFEU states that Member States govern the national system of property ownership. It is for Member States to establish the conditions and detailed rules of IP rights subject to compliance with applicable international IP conventions.[28] At the same time, Member States' right to protect national IP needs to be balanced with general EU law principles.

The primacy of EU law over national IP law is confirmed in the *Phil Collins* case. The CJEU provided that the 'specific subject matter' of copyright and related rights is to ensure the protection of the moral and economic rights of their holders, the latter of which include the right to commercially exploit the marketing of the protected work. The commercial exploitation of copyright, like other types of IP rights, can affect trade in goods and services and also competitive relationships within the EU. For that reason, the CJEU held that 'although governed by national legislation, [those] rights are subject to the requirements of the Treaty and therefore fall within its scope of application'.[29] Therefore, those rights are subject to EU law principles such as non-discrimination, free movement of goods, and competition.

To draw a line between the IP aspects that can be overruled by EU law and those that are preserved from the operation of EU law, the CJEU first distinguished between the existence and exercise of IP rights. In other words, EU law does not affect the existence of such rights, only their exercise.

Such dichotomy is open to criticisms.[30] Is it possible to separate the exercise from the existence of a right? Can a right exist without being exercised? It is difficult to identify what remains reserved for Member States as part of the existence of the right. Other arguments can be developed against the legal construction elaborated by the CJEU. Ultimately, this dichotomy is a clever tool for the CJEU to retain some discretion as to the IP issues (belonging to the exercise) it wishes to address and those (belonging to the existence) it does not. The distinction between

25 *Tod's*, para 38.
26 *Phil Collins*, paras 30–32; Case C-360/00 *Ricordi* [2002] ECR I-5089, paras 31–34.
27 J Fawcett and P Torremans, *Intellectual Property and Private International Law* (Oxford: Oxford University Press, 2nd edn, 2011) §12.35.
28 See, eg *Phil Collins*, para 11.
29 *Phil Collins*, para 22.
30 See, eg C Stothers, 'Article 36 TFEU: Intellectual Property', in P Oliver (ed), *Oliver on Free Movement of Goods in the European Union* (Oxford: Hart Publishing, 5th edn, 2010) §9.05.



existence and exercise has been a recurring theme since the early IP decisions of the CJEU.

In *Consten and Grundig*,[31] Grundig, a German electronic device manufacturer, allowed Consten, its sole distributor in France, to use the name and emblem of Grundig and to register in its own name 'GINT' (which stands for Grundig International). Later, another French company bought Grundig products from German traders against Grundig's export prohibition policy and resold them to French retailers at more favorable prices than those asked by Consten. Consten brought two actions against this parallel importer—one for unfair competition and the other for the infringement of the GINT trade mark—and prevailed in the first instance. Meanwhile, the alleged infringer took the matter to the European Commission claiming that the sole distributorship contract between Grundig and Consten violated Article 101 TFEU (ex Art 85 TEC).

The European Commission concluded that (1) the agreement on the registration and use of the GINT trade mark constituted an infringement of Article 101; and, thus, (2) Grundig and Consten 'are required to refrain from any measure likely to obstruct or impede the acquisition by third parties, in the exercise of their free choice, from wholesalers or retailers established in the European Economic Community, of the products . . . with a view to their resale in the contract territory'.[32]

On appeal, Grundig and Consten argued, *inter alia*, that the Commission's decision infringed Article 345 TFEU (ex Art 12 TEC) because the guarantee of property rights laid down in that provision should extend to trade mark rights as confirmed by Article 36 TFEU (ex Art 30 TEC). They argued that the Commission exceeded the limit of its competence by interfering in a sphere reserved to national authorities.

The CJEU found that those TFEU provisions do 'not exclude any influence whatever of Community law on the exercise of national industrial property rights'.[33] According to the CJEU, Article 36, which limits the freedom of traded goods, cannot limit the application of Article 101. The CJEU held that the injunction contained in the Commission's decision did not affect the grant of those rights but only limited their exercise to the extent necessary to give effect to the prohibition under Article 101. Therefore, the CJEU concluded that 'the power of the Commission to issue such an injunction is in harmony with the nature of the Community rules on competition'.[34]

The CJEU considered this issue in the context of patents in *Parke, Davis/Probel*.[35] The claimant was the holder of Dutch patents for certain medical preparation processes, and the defendants resold the claimant's products without its consent. The defendants argued that the claimant breached Articles 101 and 102 TFEU (ex Arts 85 and 86 TEC) by using its Dutch patents to prevent the import of the medicinal products into Italy, where the medicines and processes for their preparation were not patentable.

31 Joined Cases 56/64 and 58/64 *Consten and Grundig v Commission* [1966] ECR 382.
32 *Consten and Grundig*, para 304.
33 *Consten and Grundig*, para 345.
34 *Consten and Grundig*, paras 345–346.
35 Case 24/67 *Parke, Davis v Probel* [1968] ECR 55; see also Case 15/74 *Centrafarm BV v Sterling Drug Inc* [1974] ECR 1183.

The CJEU analysed whether the claimant's conduct violated Articles 101 and 102. The CJEU observed that, although a patent exhibits none of the elements required by Article 101(1), 'the use of one or more patents, in concert between undertakings', may lead to a situation under Article 101(1).[36] The CJEU further noted that, although a patent conferred on its holder a special protection at national level, it could only infringe Article 102 'if the use of the patents were to degenerate into an abuse of the abovementioned protection'.[37]

In summary, the CJEU confirmed that: (i) the existence of the national patent rights is not affected by the prohibitions contained in Articles 101(1) and 102; (ii) in the absence of any anti-competitive agreement, decision, or concerted practice, the exercise of patent rights cannot fall under Article 101(1); and (iii) in the absence of any abuse of a dominant position, the exercise of patent rights alone is not covered by Article 102. Such a ruling is not really a surprise. EU law can regulate the exercise of IP rights granted under national IP regimes if the legal conditions for the EU law to apply are met.

## F. Balancing IP with Economic Freedoms of the Treaty

There is an extensive amount of CJEU case law dealing with balancing IP rights with economic freedoms under the TFEU—free movement under Articles 34 and 36 and undistorted competition under Articles 101 and 102. Has this case law, and the balancing it requires, been translated into secondary law? The CJEU case law in relation to the balancing with the freedom of goods has already been largely codified in secondary IP law.[38]

By contrast, the balancing with competition has not yet resulted in such codification into secondary law. One can wonder why. Is it because the body of CJEU case law concerning the conflict between IP and competition is not yet as clear as the case law concerning free movement and IP? Is it because alternative types of legal instruments such as guidelines, notices, and sector inquiries, can be used in the competition field which do not require 'hard rules' and their implementation by Member States? Probably. We also believe that the need for codifying the delicate balancing between IP and competition law has not been very strong because the fragmentation of the internal market is not directly involved in the competition-IP nexus.

[36] *Parke, Davis v Probel*, paras 71–72. [37] *Parke, Davis v Probel*, para 72.

[38] See, eg Trade Marks Directive, Art 7; Community Trade Mark Regulation, Art 13; Computer Programs Directive, Art 4(c); Information Society Directive, Art 4; Community Designs Regulation, Art 21.



## G. Free Movement and IP

### (1) Articles 34 to 36 TFEU

Articles 34 and 35 TFEU prohibit quantitative restrictions on imports or exports and all measures having equivalent effect between Member States. However, Article 36 provides that these provisions 'shall not preclude prohibitions or restrictions on imports, exports or goods in transit justified on the grounds of... the *protection of industrial and commercial property*' (emphasis added). It also emphasizes that such prohibitions or restrictions shall not 'constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States'.

### (2) Criticisms of the existence and exercise dichotomy

As noted, the CJEU's earlier approach distinguished the existence of IP rights and their exercise. In some ways, this approach provided a practical tool for defining the boundaries of IP rights. However, it also raised several questions. First, we have already mentioned that drawing a formal line between existence and exercise is not an easy task. Second, the dichotomy presupposes that IP is simply a distinguishable stand-alone right, for example to manufacture, import, or distribute articles incorporating such IP. In reality, however, IP rights often consist of a complex bundle of varied rights. For instance, copyright typically includes a reproduction right, a distribution right, a rental right, and several other rights. Although the right to distribute would be exhausted after the first sale in the European Economic Area (EEA), the rental right survives. Whether the reproduction right is exhausted when the distribution right can no longer be exercised remains controversial.[39]

The CJEU has subsequently developed two further regulatory notions: the criteria of 'the specific subject matter'; and the reference to the 'essential function' of IP rights. The latter is used primarily in the context of trade marks, whereas the former is used in other types of IP.

### (3) The specific subject-matter of copyright

In *Deutsche Grammophon*, the CJEU noted that, even if the exercise of rights did not exhibit elements of Article 101(1) TFEU, it would still be necessary to further consider whether the exercise of the right in question is compatible with other provisions of the Treaty, in particular those relating to the free movement of goods.

The CJEU stated that 'although [Article 36 TFEU] permits prohibitions or restrictions on the free movement of products, which are justified for the purpose of protecting industrial and commercial property, Article 36 only admits

[39] In the field of software, the CJEU recently ruled that the reproduction right is also extinguished when the distribution right is exhausted; see C-128/11 *Oracle v UsedSoft* (3 July 2012).

derogations from that freedom to the extent to which they are justified for the purpose of safeguarding rights which constitute *the specific subject matter* of such property'.[40]

In subsequent cases, the CJEU interpreted the 'specific subject-matter' of various IP rights. According to the CJEU in *Phil Collins*, the specific subject-matter of copyright and related right is to protect the moral and economic rights of their holders. The protection of moral rights enables authors and performers, in particular, to object to any distortion, mutilation, or other modification of a work which would be prejudicial to their honour or reputation. Those rights are also economic in nature in that they confer the right to exploit the marketing of the protected work commercially, particularly in the form of licences granted in return for payment of royalties.[41] By their nature, those rights affect trade in goods and services and also competitive relationships within the Union. Therefore, they are subject to the requirements of the Treaty and fall within its scope of application.[42]

### (4) The essential function of trade marks

In *Hoffmann-La Roche*,[43] the CJEU stated that the specific subject-matter of trade marks is to guarantee to the proprietor of the trade mark the exclusive right to use that trade mark for the purpose of putting a product into circulation for the first time. This is to protect him against competitors wishing to take advantage of the status and reputation of the trade mark by selling products illegally bearing that trade mark.[44] To determine the scope of the exclusive right, the CJEU held that 'the essential function' of the trade mark must be considered. According to the Court, the essential function of a trade mark is 'to guarantee the identity of the origin of the trade-marked product to the consumer or ultimate user, by enabling him without any possibility of confusion to distinguish that product from products which have another origin'.[45]

Although the trade mark holder may be justified in preventing any use of the trade mark to safeguard the specific subject-matter of the trade mark as the guarantor of origin, the CJEU finds it necessary to consider whether the exercise of such right may constitute a 'disguised restriction on trade between Member States' within the meaning of Article 36 TFEU (ex Art 30 TEC).[46] The CJEU in *Hoffmann-La Roche* and later cases provided a set of cumulative conditions which could constitute such disguised restriction on intra-Community trade under the provision.

The earlier understanding was that the notion of the 'essential function' could be used to limit the scope of IP rights by narrowing the specific subject-matter of IP

[40] Case C-78/70 *Deutsche Grammophon v Metro SB* [1971] ECR 487, para 11 (emphasis added).

[41] *Phil Collins*, para 20 (citing Joined Cases 55/80 and 57/80 *Musik Vertrieb v GEMA* [1980] ECR 147, para 12).

[42] *Phil Collins*, para 22.

[43] Case 102/77 *Hoffmann-La Roche v Centrafarm* [1978] ECR 1139.

[44] *Hoffmann-La Roche*, para 7.

[45] *Hoffmann-La Roche*, para 7.

[46] *Hoffmann-La Roche*, para 10.



rights to the essence of their functions. However, as subsequent cases demonstrate, the CJEU began to recognize functions other than the guarantee of origin, and this expansion makes it harder for the CJEU to continue to limit the scope of IP rights by applying this principle.

For example, the CJEU in *L'Oreal v Bellure* noted that the exclusive right under Article 5(1)(a) of the Trade Marks Directive was conferred in order to enable the trade mark proprietor to protect his specific interests as proprietor, that is, to ensure that the trade mark can fulfil its functions. These functions include not only the guarantee regarding the origin of the goods or services, but also other functions, in particular that of guaranteeing the quality of the goods or services in question and those of communication, investment, or advertising.[47]

### (5) The proportionality test in the *Premier League* case

In *Premier League*, the CJEU reintroduced the proportionality principle by ruling that a restriction to an IP licence should not go beyond what is necessary to attain the objective of the IP rights. The Football Association Premier League (FAPL) runs the Premier League, the leading professional football league competition for football clubs in England. The FAPL organizes the filming of Premier League matches and exercises television broadcasting rights.[48] National television broadcasters paid a premium to the FAPL to guarantee their absolute territorial exclusivity of television broadcasting of Premier League matches. Some restaurants and bars in the UK began to improperly use foreign decoding devices to receive a satellite channel broadcast in another Member State where the subscription fee was less expensive than in the UK. The FAPL argued that these activities significantly damaged the exclusive rights granted by licence in a given territory.[49]

According to the CJEU, the FAPL cannot claim copyright in the Premier League matches themselves as they cannot be classified as 'works' being 'original in the sense that it is the author's own intellectual creation'.[50] Nonetheless, the CJEU considered that EU law does not preclude the possibility that a restriction on the free movement of services under national legislation may be justified.[51] (But the CJEU completely ignored the possibility of protecting the footage of sports events by copyright—to the extent possible after *Infopaq*—or at least by related rights.)

The CJEU emphasized that such a restriction should not go beyond what is necessary to achieve the objective of protecting the specific subject-matter of the IP rights at issue.[52] The CJEU held that the specific subject-matter of the IP does not guarantee right holders the opportunity to demand the highest possible

[47] Case C-487/07 *L'Oréal v Bellure* [2009] ECR I-5185, para 58.

[48] Case C-403/08 *Premier League* (4 October 2011), paras 30–31.

[49] *Premier League*, paras 42–43.

[50] *Premier League*, paras 96–97 (citing Case C-5/08 *Infopaq I* [2009] ECR I-6569, para 37).

[51] *Premier League*, para 104.

[52] *Premier League*, para 105 (citing Case C-222/07 *UTECA* [2009] ECR I-1407, para 25 and cases cited therein).

remuneration, but only 'appropriate remuneration' for each use of the protected subject-matter.[53] To be appropriate, such remuneration must be 'reasonable in relation to the economic value of the service provided'.[54]

In this case, the CJEU found that the premium paid resulted in artificial price differences between the partitioned national markets and that such an artificial price difference was irreconcilable with the fundamental aim of the internal market. Therefore, the Court ruled that the payment of such premium 'goes beyond what is necessary to ensure appropriate remuneration for those right holders'.[55]

Together with the reference to the specific subject-matter of the IP right, proportionality is increasingly used as the gold standard for defining the limit the exercise of an IP right must not exceed. For example, in *Donner*, the CJEU ruled that a criminal prosecution against aiding and abetting copyright infringement could be considered necessary to protect the specific subject-matter of the copyright. In the CJEU's view, the restriction on the free movement of goods was 'justified and proportionate to the objective' where the accused intentionally, or at least knowingly, engaged in copyright infringement.[56] In *UsedSoft*, the CJEU considered that limiting the application of the exhaustion principle to tangible copies of software (and not including intangible copies downloaded from the internet) would 'go beyond' what is necessary to safeguard the specific subject-matter of the IP in question.[57]

## H. Undistorted Competition and IP

### (1) The IP–competition tension in the EU

Although both IP protection and competition pursue a common objective of promoting consumer welfare and efficient allocation of resources,[58] a careful balance is often needed. The fact that IP law grants exclusive rights of exploitation does not imply that IP rights are immune from competition law intervention. Nor does it imply that there is an inherent conflict between IP rights and competition rules. Finding a right balance has been one of the most difficult tasks for the Commission's DG Competition and the judges in Europe.

In the 1960s and 1970s, the primacy of a common market with undistorted competition was an important goal to achieve. This trend started to change in the 1980s and 1990s with a refocus on the pro-competitive aspect of IP. For example, in *Hag II*, the CJEU observed that trade marks are 'an essential element in the system of undistorted competition'.[59] However, after the 1990s, the CJEU seemed to call for more scrutiny on the exercise of IP rights. In *Magill*, for example, the Court

[53] *Premier League*, para 108. [54] *Premier League*, para 109.
[55] *Premier League*, paras 115–116.
[56] Case C-5/11 *Titus Alexander Jochen Donner* (21 June 2012), paras 35–36.
[57] Case C-128/11 *UsedSoft v Oracle* (3 July 2012), para 63.
[58] See, eg Guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements (2004/C 101/02), OJ C101/2 (27 April 2004) para 7.
[59] Case C-10/88 *CNL-SUCAL NV v Hag (Hag II)* [1990] ECR I-1229, para 13.



found that the exercise of IP rights 'may in exceptional circumstances involve abusive conduct'.[60]

The evolving focus on different types of IP is also interesting. In the 1980s and 1990s, design and copyright were frequently discussed in the CJEU cases dealing with the cross-over between IP and competition laws, for example design rights in *Volvo*[61] and *Renault*[62] and copyrights in *Magill*. Patents and trade secrets were less frequently considered. As patent law is not yet harmonized in the EU, patent validity and infringements are typically handled by national courts under national laws. The so-called 'Euro-Defence' is recently emerging in some European jurisdictions, in which alleged infringers can raise anti-trust violation as a defence in patent infringement suits under certain conditions.

The Commission is increasingly used as a forum to bring complaints against abuse of IP. The Commission does not hesitate to intervene when IP is likely to impede rather than stimulate competition. The Commission also tries to improve legal certainty by providing legal and policy guidance. Examples include the Horizontal Guidelines[63] and the Technology Transfer Block Exemption Regulation and Guidelines. [64]

### (2) Refusal to supply

In *Volvo*, for the first time, the CJEU considered whether an IP holder's refusal to license could be regarded abusive under EU competition law.[65] Volvo, the proprietor of UK-registered designs for its car body panels, sued the defendant for infringement. The defendant imported Volvo's car body panels manufactured without Volvo's consent. According to the CJEU, since the exclusive right of the proprietor of a protected design can prevent third parties from infringing, the proprietor's refusal to grant a licence could not, in itself, constitute an abuse of a dominant position under Article 102 TFEU.

Importantly, however, the CJEU warned that Article 102 may be violated if the behaviour involves, on the part of an undertaking holding a dominant position, certain abusive conduct such as 'the arbitrary refusal to supply spare parts to independent repairers, the fixing of prices for spare parts at an unfair level, or a decision no longer to produce spare parts for a particular model even though many cars of that model are still in circulation, provided that such conduct is liable to affect trade between Member States'.[66]

[60] Case C-241/91 *RTE and ITP v Commission (Magill)* [1995] ECR I-743, paras 49–50.
[61] Case 238/87 *Volvo v Veng* [1988] ECR 6211.
[62] Case 53/87 *CICRA v Renault* [1988] ECR 6039.
[63] Guidelines on the applicability of Article 101 of the Treaty on the Functioning of the European Union to horizontal co-operation agreements, OJ C11/1 (14 January 2011).
[64] Commission Regulation (EC) No 772/2004 of 27 April 2004 on the application of Article 81(3) of the Treaty to categories of technology transfer agreements, OJ L123/11 (27 April 2011); Guidelines on the application of Article 81 of the EC Treaty to technology transfer agreements, OJ C101/2 (27 April 2004).
[65] Case 238/87 *Volvo v Veng* [1988] ECR 6211. [66] *Volvo v Veng*, para 9.

In subsequent cases, the CJEU developed the so-called 'exceptional circumstances' doctrine. In the *Magill* decision, the CJEU concluded that the exercise of an exclusive IP right by the proprietor may, in exceptional circumstances, involve abusive conduct. According to the Court, such circumstances can include that (1) there is a specific, constant, and regular potential demand on the part of consumers for the protected work, which is indispensable; (2) the proprietor's refusal to provide access to the protected work prevents the appearance of a new product, and there is no justification for such refusal; and (3) the proprietor monopolizes the downstream market by excluding all competition on that market.[67]

In *Magill*, the claimed protected works were TV programme schedules provided by each of TV broadcasting companies. Magill attempted to publish a comprehensive weekly TV guide but it was constrained from doing so because the broadcasters, as the proprietors of their daily TV programme listings, threatened injunctions. The broadcasters' claims were based on the copyright of the TV programme listings.

Some viewed that the ruling in *Magill*, explained by the special circumstances of the case, shifted the balance in favour of an obligation to license. Advocate-General Jacobs observed that 'the provision of copyright protection for programme listings was difficult to justify in terms of rewarding or providing an incentive for creative effort'.[68] The seemingly low intrinsic value of the copyright in the materials at hand was not specifically questioned by the CJEU in *Magill*. But it may arguably be part of the 'exceptional circumstances' test. In any event, there was no alternative for Magill to develop a comprehensive weekly TV guide without triggering the obligation to license because the TV broadcasters were virtually the sole source of the information.

In *IMS Health*, the CJEU developed the 'exceptional circumstances' test in several ways. In Germany, IMS Health provided data on regional sales of pharmaceutical products to laboratories, which was framed according to the so-called 'brick structure'. IMS Health also set up a working group with its pharmaceutical company clients to improve the brick structure which eventually became a de facto standard in the industry. The CJEU considered whether the IP-protected brick structure was indispensable so as to allow a potential competitor to have access to the market in which IMS Health was a dominant undertaking.[69]

First, the CJEU articulated the two factors to consider when determining whether an IP-protected work is 'indispensable' to competitors: (1) the degree of participation by customers in the development of the protected work; and (2) the switching cost on the part of potential customers to purchase an alternative from competitors.[70]

[67] Case C-241/91 *Magill* [1995] ECR I-743, paras 50–56.
[68] Case C-7/97 *Oscar Bronner GmbH & Co KG v Mediaprint Zeitungs* [1998] ECR I-07794, para 63 (A-G Jacobs).
[69] Case C-418/01 *IMS Health v NDC Health* [2004] ECR I-5039.
[70] *IMS Health*, para 30.



Second, the CJEU established that the refusal to license by an IP holder with a dominant position can be abusive when the following cumulative conditions are met:

- the refusal prevents the emergence of a new product for which there is a potential consumer demand; and
- such refusal is not justified; and
- the refusal excludes any competition in a downstream market.

According to the CJEU, the refusal by a dominant IP holder must be capable of excluding 'all' competition in the downstream market.[71] But it is not necessary for the indispensable product, ie the brick structure of IMS Health, to be sold in the actual market. It is sufficient to identify a possible consumer demand in a potential or even hypothetical market.[72]

The exceptional circumstances test has been developed as one balancing principle when a refusal to allow access to IP-protected materials by a right holder prevents competition in a market.

### (3) Seeking an injunction on standard essential patents

The next area to explore at the intersection between IP and competition is the issue of standard essential patents (SEPs). Although seeking an injunctive measure against infringers is a fundamental part of IP rights, the European Commission has taken a particular interest in investigating abuse of an injunction to enforce SEPs.

SEPs are patents which are, or have been declared, essential to the implementation of a standard.[73] In order to comply with a standard, users have to implement SEPs by obtaining a licence from the SEP holder, because it cannot be designed otherwise. There is, by definition, no alternative or substitute for each such SEP.[74] This is also reflected in the Commission's view that 'each SEP constitutes a separate relevant technology market on its own'.[75]

Standard-setting organizations (SSOs) typically require SEP holders to promise to ensure that standard implementers have access to SEPs on fair, reasonable, and non-discriminatory conditions (FRAND commitments). The European Commission is currently considering whether having recourse to an injunctive relief on SEPs breaches FRAND commitments and therefore constitutes an abuse of dominance under Article 102 TFEU.

There is no CJEU jurisprudence yet on this issue. But in *ITT Promedia*, the General Court provided that a legal action could be characterized as an abuse under Article 102 only if: (1) the action before the court cannot reasonably be considered as an attempt to establish the rights of the undertaking concerned and

[71] *IMS Health*, para 47. [72] *IMS Health*, para 44.
[73] COMP/M.6381 *Google/Motorola Mobility* (13 February 2012) para 51.
[74] *Google/Motorola Mobility*, para 54. [75] *Google/Motorola Mobility*, para 54.

therefore only serves to harass the opposing party; and (2) it is conceived in the framework of a plan whose goal is to eliminate competition.[76]

In the *Google/Motorola Mobility* merger decision, the Commission opined that, depending on the circumstances, an injunction against a 'good faith' potential licensee may significantly impede effective competition by forcing the licensee into accepting to possibly onerous conditions to which it would otherwise not have agreed.[77]

## (4) Abuse of litigation and settlement

Litigation is one of the legitimate and effective means to ensure that IP rights are respected. The CJEU took an approach that Article 101 TFEU made 'no distinction between agreements whose purpose is to put an end to litigation and those concluded with other aims in mind'.[78] But the Court noted that a no-challenge clause in a patent licensing agreement may restrict competition depending on the legal and economic context.[79]

In recent years, settlement agreements in the pharmaceutical sector have been considered to undermine competition because they can allegedly delay market entry of generic products. The Commission analysed this issue in its pharmaceutical sector inquiry. The sector inquiry was launched in 2009 to provide better understanding of the competitive relationship between market players, ie between originator and generic companies and among originators. According to the Commission's findings, originator companies deploy various instruments of the 'tool-box' to allegedly delay or block the entry of rival products on the market, and patent litigation and settlements are regarded as examples of such instruments.[80] In some cases, there was a value transfer from the originator company to the generic company, either a monetary compensation or other forms of 'reverse payment' (also known as 'pay for delay').[81]

In the Commission's view, settlement agreements designed to keep competitors out of the market may run afoul of EU competition law[82] and are more than just 'potentially' problematic.[83] In particular, settlement agreements can be anti-competitive when motivated by profit sharing via a value transfer from

[76] Case T-111/96 *ITT Promedia NV v Commission* [1998] ECR II-2937, para 107.
[77] *Google/Motorola Mobility*, para 54.
[78] Case 65/86 *Bayer v Heinz Süllhöfer* [1988] ECR 5248, para 15.
[79] See, eg 65/86 *Bayer v Heinz Süllhöfer* [1988] ECR 5248, para 21; n 64, para 112.
[80] European Commission, Pharmaceutical Sector Inquiry: Final Report (8 July 2009) <http://ec.europa.eu/competition/sectors/pharmaceuticals/inquiry/staff_working_paper_part1.pdf> para 466.
[81] Commission, Pharmaceutical Sector Inquiry, para 765.
[82] Commission, Pharmaceutical Sector Inquiry, para 1573.
[83] D Hull, 'The Application of EU Competition Law in the Pharmaceutical Sector' [2011] *JECLP* 480, 487 (pointing out that the Commission's view is supported by: (i) the Commission's report on the first monitoring exercise suggesting that a reduction in the number of reverse-payment settlements was a positive development; and (ii) the Commission's announcement that a continued monitoring of



originator to generic companies to the detriment of patients and public health budgets.[84]

The issue of patent settlements requires broader consideration on balancing diverse interests. On the one hand, any presumptive unlawfulness of reverse payments may undermine a patentee's legitimate exclusive right during the life of a valid patent. Such presumption is also inconsistent with general public policy of preferring settlements to costly and complex litigation. On the other hand, as the Commission noted in its sector inquiry, the balance needs to tie with other EU initiatives and related frameworks aimed at providing for safe, effective, and affordable medicines and, at the same time, stimulating research, innovation, and competition in the industry.[85]

## (5) Collecting societies

Exclusivity and territorial restrictions have been the essential characteristics of collective copyright management in Europe.[86] A collecting society would normally grant licences to commercial users operating inside the territory for which it is in charge. For right holders located abroad, a collecting society in one Member State has a 'reciprocal representation contract' with a collecting society in another Member State. Under the reciprocal representation contract, one collecting society can offer its domestic users the repertoire of all the artists represented by the other collecting society and vice versa. Such bilateral relationship is often exclusive.

EU regulators have considered whether such arrangements between collecting societies are consistent with EU principles such as free competition and free movement. The CJEU generally found exclusivity and territorial restriction implemented by collecting societies to be pro-competitive. For instance, the Court in *Tournier* and *Lucazeau* noted that a reciprocal representation contract enables collecting societies to rely on the organization established by their partner collecting societies operating in other Member States without having to increase costs and add extra organization.[87] Therefore, the exclusive nature of such a reciprocal representation arrangement did not have the object or effect of restricting competition.[88]

The Commission believes that more competition needs to be introduced to collecting societies' multi-territory and multi-repertoire licensing mechanisms. In its *CISAC* decision,[89] the Commission vowed to bring more competition to the reciprocal representation agreements among European collecting societies. Although the Commission did not challenge the existence of reciprocal arrangements as such, it questioned certain potentially anti-competitive aspects of clauses on membership and

patent settlements and the opening of competition proceedings in the *Servier* case, see Commission MEMO/09/322 of 7 July 2009, might have had a deterrent effect).
[84] Commission, Pharmaceutical Sector Inquiry, para 1573.
[85] Commission, Pharmaceutical Sector Inquiry, para 5.
[86] T Riis, 'Collecting Societies, Competition, and the Services Directive' [2011] *JIPLP* 1, 2.
[87] See, eg Case 395/87 *Ministère public v Tournier* [1989] ECR 2521, para 17; Joined Cases 110/88, 241/88, and 242/88 *Lucazeau and others v SACEM and others* [1989] ECR 2811, paras 11–20.
[88] *Ministère public v Tournier*, para 17; *Lucazeau and others v SACEM and others*, paras 11–20.
[89] COMP/C2/38.698 *CISAC* (16 July 2008).

exclusivity. The Commission found that the membership clause limiting the ability of an author to become a member of the collecting society of his choice has the object and effect of restricting competition between collecting societies. It also found that the exclusivity clause guaranteeing the reciprocal relationship on an exclusive basis de facto ensures a monopoly to each in its respective national markets. The Commission further scrutinized certain parallel behaviours among collecting societies as a concerted practice of restricting competition.

On appeal, the collecting societies expressed their concern that the possible fragmentation of authors' rights could lead to the withdrawal of their rights from collecting societies.[90] The European Parliament's study on the impact of EU policy on music rights licensing on cultural diversity observed that such withdrawal could pose a fundamental challenge to cultural diversity in the EU. It found that '[s]hould revenues for local artists and publishers decrease, this will have a detrimental effect on cultural creation, and thus on cultural diversity. Cultural diversity will also be impaired, if smaller, specialised or less popular repertoires become less available on the market'.[91] Possible secondary law solutions are now being explored to improve the transparency and accountability of collecting societies as well as the multi-territorial licensing for musical works for online uses.[92] This might solve some issues but we expect that competition law will still be needed to find a satisfactory balance in this field. The example of collecting societies demonstrates the difficulty of striking a balance between competition and various other interests.

## I. Conclusion

This overview shows that EU general law has a growing impact on IP law in Europe. The case law of the CJEU, which is driving this trend but is not the only 'drive belt',[93] shows how IP law concepts have to be interpreted and applied in the light of other interests. The economic interests embedded in the Treaties, and other non-economic interests, are now shaping many core issues of IP through the balancing approach and the reference to proportionality. This trend is largely positive and should be applauded. It might, however, have a price in terms of legal certainty.

[90] M Franklin, 'Cisac decision forcing collecting societies down road to "suicide", EU court hears', *MLex* (20 October 2011).

[91] Hellenic Foundation for European and Foreign Policy, 'Collecting Societies and Cultural Diversity in the Music Sector' (June 2009) (study commissioned by the European Parliament) <http://www.europarl.europa.eu/committees/en/studiesdownload.html?languageDocument=EN&file=28328> 98.

[92] See n 6.

[93] This does not mean that other courts do not play a leading role in the Europeanization of IP law. Many national judges now take into account the European approach. Judge Arnold in the UK is probably a good example. The recent UK Supreme Court ruling in *Oracle America v M-Tech Data Ltd* [2012] UKSC 27 shows how influential and pervasive the case law and the reasoning of CJEU have become.

# PART IV

# THE IMPACT OF CONSTITUTIONAL RIGHTS AND VALUES