Abdulmecit Nuredin, PhD[1]
Vesna Poposka, MA[2]

UDC:
347.77/.78(4-672 ЕУ)

E DREJTA E PRONËS INTELEKTUALE DHE PARIMI I THITHJES - PERSPEKTIVA E UE-së

ПРАВОТО НА ИНТЕЛЕКТУАЛНА СОПСТВЕНОСТ И ПРИНЦИПОТ НА ИСЦРПУВАЊЕ – ЕУ ПЕРСПЕКТИВА

INTELLECTUAL PROPRETY LAW AND THE PRINCIPLE OF EXHAUSTION-THE EU PERSPECTIVE

Abstract:

Traditionally, the law of the EU-countries conceptualized exhausttion in two different ways: Either "Contract" (e.g. UK law) or "Principle of exhaustion" (e.g. German law). Whereas, the first model left much to the parties - e.g. to decide on parallel importation - the second is based on precise rules in the IPR legislation. Early on, EU law opted for the exhaustion model. The principle of exhaustion basically means that the holder of an IP right loses his absolute right with the first sale in the EU territory. In other words, the first commercialization of a good in a territory of the European Union – or in the European Economic Area EEA - made by the holder of an industrial property right, or by a legitimate licensee, has as a consequence that that good may freely circulate in Europe, and the legitimate IP holder may not oppose the successive acts of reselling. Intellectual property includes all exclusive

[1] Ass. Professor, International Vision University ,Faculty of Law, e-mail: nuredin@vizyon.edu.mk
[2] Assistant, International Vision University, Faculty of Law, e-mail:vesna.poposka@vizyon.edu.mk

rights to intellectual creations. It encompasses two types of rights: industrial property, which includes inventions (patents), trademarks, industrial designs and models and designations of origin, and copyright, which includes artistic and literary property. For many years the European Union has had an active policy in this area, aimed at harmonizing legislation between Member States. The Lisbon treaty brought new perspective into the matter, although the basic principles are located in the practice of the European Court of Justice. This paper aims to examine the cornerstones of the matter.

Key words: EU, law, IPR, intellectual property rights

1. Introduction

For more than one hundred years, copyright - droits d'auteur, as we prefer to say in continental Europe – was associated with art, and the protection of the artist – no matter whether they were writers, musicians, painters or executer. The Berne Convention (1886) was devoted to the protection of "Literary and artistic works". Intellectual property rights are based on four pillars – trademark, patent, copyright and design – erected on the common stream of competition law. According to classical principles, IP rights are absolute, and have a territorial nature. However, the rise of the common market brought new perspectives into this dimension.

2. The origins of the concept

Article 28 and 29 of the EC Treaty envisage a fundamental obligation on Member States that quantitative restrictions and all measures having equivalent effects on imports and exports are prohibited between the Member States by preserving, in Article 30 of the EC Treaty, the right of the Member States to impose prohibitions or restrictions on imports and exports required to protect their industrial and commercial property as long as those restrictions or prohibitions are neither a means of arbitrary discrimination nor disguised restriction on trade between the Member States. Article 222 of the EC Treaty sets forth that "the Treaty shall in no way prejudice the rules in Member States governing the system of property ownership", thereby leaving the policy on intellectual property protection to the domestic law of the Member States. The EC Treaty has envisaged a free area for the Member States to frame their substantial intellectual property laws by stressing the importance of the establishment of the internal market without internal

frontier, which at the end one of the main objectives of the European Union.

Therefore, while the EC Treaty sets the Member States free to envisage the rules and to determine the extent and scope of their protection of intellectual property rights, it puts forward its reservation that any means of arbitrary discrimination or a disguised restriction on trade between the Member States will certainly be caught by the EC laws and finally by the Community Institutions[3].

In one of the leading case, Centrafarm[4], the Court of Justice has discussed the right of the licensee to prevent the import by the other licensee of the patented product to the former's country and concluded by the reference to Article 30 of the EC Treaty 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 these rights[5] … be affected by the prohibitions of the Treaty … in relation to patents, the specific subject matter of the industrial property is the guarantee that the patentee, to reward the creative effort of the inventor, has the exclusive right to use an invention with a view to manufacturing industrial products and putting them into circulation for the first time, either directly or by the grant of licences to third parties, as well as the right to oppose infringements"[6].

3. The Centrafarm case as a cornerstone of the community law

The Court of Justice, in Centrafarm case has pointed out the specific subject matter of the IPRs covers:

i. to manufacture the industrial products either directly by itself or through its licensee,

ii. first putting onto the market thereof,

iii. to prevent its intellectual property rights from any violation by the third parties.

---

[3] Gifford, J. Daniel. "Government Policy Towards Innovation in the United States, Canada, and the European Union as Manifested in Patent, Copyright, and Competition Laws", SMU Law Review, Fall, 57, 1339

[4] Case 15/74, Centrafarm BV v. Sterlin Drug Inc., ECR 1147 ("Centrafarm Case"), para. 7, 9.

[5] See for further information with respect to the exercise of IPRs, Ruping, Karl. "Copyright and an Integrated European Market: Conflicts with Free Movement of Goods, Competition Law and National Discrimination", Temple International and Comparative Law Journal, Spring, 1997

[6] Centrafarm Case, paras. 7, 9

The first two rights derived from as being the owner of the intellectual property right, as can be inferred by jurisprudence of the Court of Justice, will be exhausted[7], once the industrial product has been lawfully introduced to the market either by the holder of the IPRs or through its licensee[8]. Once those two rights will be exhausted, the owner of the right or the licensee will not, as a general rule, be in a position to restrict the importation to or exportation from its country of the industrial products by the other licensee or by any third party obtained the industrial products either from owner of the IPRs or the latter licensee. Therefore, the Court of Justice has launched the doctrine of exhaustion of rights[9] in this case by emphasizing also the difference between the existence of the right and the exercise of the right. (Using the wording of the Centrafarm Case: "It cannot be reconciled with the principles of free movement of goods under the provisions of the Treaty of Rome if a patentee exercises his rights under the legal provisions of one Member State to prevent marketing of a patented product in said State when the patented product has been brought into circulation in another Member State by the patentee or with his consent" [10](1975).

[7] The same reasoning has been upheld by the Court of Justice in the Case C-337/95, Parfums Christian Dior SA v. Evora BV, ECR I-6013, 1998, paras. 35-36 ("Christian Dior Case") where the Court of Justice has underlined that "… the exhaustion of the rights conferred by a trade mark, provides that a trade mark is not to entitle its proprietor to prohibit its use in relation to goods which have been put on the market in the Community under that trade mark by its proprietor or with his consent. If the right to prohibit the use of his trade mark in relation to goods … is exhausted once the goods have been put on the market by himself or with his consent, the same applies as regards the right to use the trade mark for the purpose of bringing to the public's attention the further commercialization of those goods".

[8] For further information with respect to the exhaustion of IPRs under Turkish law regime, see Arıkan, A. Saadet and Hamdi Pınar and Fahrettin Kayhan. "Fikri Mülkiyet Hakları ve Rekabet Hukuku-Hakkın Tüketilmesi" See for further information with respect to the IPRs system under World Trade Organization, Ongun, Tuba. "Günümüzde Fikri - Sınai Mülkiyet Hakları", Perşembe Konferansları, Rekabet Kurumu, p. 37-50; Bakırcı, M. Enes. "Teknoloji Transferinde 'Patent ve Know-How Lisansı' Sözleşmeleri", Master Thesis, Istanbul Üniversitesi, Sosyal Bilimler Enstitüsü, 1999, p. 47-51

[9] Ruping, p. 4; Korah, Valentine. "The Interface Between Intellectual Property and Antitrust: The European Experience", American Bar Association, Antitrust Law Journal, Issue 3, 2002, ("Korah, Interface") p. 4. 20

[10] verbatim Centrafarm B.V. and Adriaan de Peijper v. Sterling Drug Inc., in 6 IIC 102 (1975)

4. The meaning of the principle of exhaustion

The principle of exhaustion basically means that the holder of an IP right loses his absolute right with the first sale in the EU territory. In other words, the first commercialization of a good in a territory of the European Union – or in the European Economic Area EEA - made by the holder of an industrial property right, or by a legitimate licensee, has as a consequence that that good may freely circulate in Europe, and the legitimate IP holder may not oppose the successive acts of reselling[11]. The aim of the exhaustion theory is to strike a balance between the free movement of goods on the one hand, and the proprietor's exercise of exclusive intellectual property rights to distribute his goods on the other hand. The holder of an IP right holds therefore the right to choose where, under which conditions and at which price his goods are put on the market.

The theory of exhaustion obviously improved in the course of time. In order to be applicable, various conditions have to be met. It requires the consent of the legitimate holder (consent that may be express or implied). And it also requires – if we may say - that the legitimate holder receives, with the first sale, a "reasonable" (or if you prefer, "appropriate") remuneration. Depending on the jurisdiction concerned, one often distinguishes between national exhaustion and international exhaustion. In the European Union the term "regional exhaustion" is frequently used. Regional exhaustion, in the EU member States, means that IP rights are considered exhausted for the territory of the EEA when the product has been put on the market in any of the EEA Member States.

Traditionally, the law of the EU-countries conceptualized exhausttion in two different ways: Either "Contract" (e.g. UK law) or "Principle of exhaustion" (e.g. German law). Whereas, the first model left much to the parties - e.g. to decide on parallel importation - the second is based on precise rules in the IPR legislation. Early on, EU law opted for the exhaustion model. It is pointed out, that this was the logical method to apply in EU law because of the strong policy goals of Market Integration. On the basis of case law on the concept of "consent" from the Trade Marks-Directive a Common Principle is then established. According to this, the legal framework for understanding the exhaustion rules is IPR and not national contract law. The principle would seem to

[11] Franceschelli, Vincenzo "To what extent does the principle of exhaustion of IP rights apply to the on-line industry?", international report,2014

have horizontal effects and apply also outside of trade mark law e.g. to copyright.

5. The importance of IPRs (Intellectual Property Rights) and competition laws- the business persepective

Promoting innovation and fostering economic development and thereby enhancing, inter alia, consumer welfare and a fair return for innovators are the most important objectives of the protection of intellectual property. Leading to this end, IPRs provide incentives for innovation by establishing enforceable and exclusive property rights for the creators of new and useful products, more efficient processes and original work of expression[12].

Competition law, on the other side, promotes innovation and efficiency and consumer welfare[13] by prohibiting certain actions that may harm or 'restrict, distort or prevent' competition. What competition law tries to avoid is that the abusive conducts or restrictive practices of undertakings which may be resulted by holding, inter alia, any exclusive right by aiming to achieve allocative efficiency in order to establish competitive markets and thereby bring the consumers the widest variety of choices with the possible lowest prices[14].

Even they have the same objectives at the end, since they try to achieve their goals in different ways[15], scholars have thought for many years that they create a conflict. The interactions between the IPRs policy and the competition policy and the positive correlation thereof on innovation have, however, been nowadays mostly agreed by the scholars[16].

---

[12] Lemley, A. Mark. "Property, Intellectual Property, and Free Riding", Texas Law Review, 83 Tex. L. Rev. 1031, March, 2005, p. 2-13

[13] For further information with respect to the objectives of competition law and policy see Gürkaynak, Gönenç. Türk Rekabet Hukuku Uygulaması İçin "Hukuk ve İktisat" Perspektifinden "Amaç" Tartışması, 1. Baskı, Ankara: Rekabet Kurumu, 2003, p. 98-100

[14] Balto, A. David and Andrew M. Wolman. "Intellectual Property and Antitrust: General Principles", PTC Research Foundation of Franklin Pierce Law Center IDEA: The Journal of Law and Technology, 2003, p. 2.

[15] Ateş, Mustafa. "Fikri Mülkiyet Koruması ve Rekabet Hukuku", Rekabet Hukukunda Güncel Gelişmeler Sempozyumu-VII, Rekabet Kurumu, 17-18 Nisan 2009, p. 59-61.

[16] Kovacic, E. William and Andreas P. Reindl, "The European Union: Dedicated to Professor Valentine Korah: Article: An Interdisciplinary Approach to Improving Competition Policy and Intellectual Property Policy", Fordham University School of

It, therefore, may be correct to foresee that once the two aforementioned rights would be exhausted, the third right, the right to object any violation by a third party of the IPRs protected under the national laws of the Member States, may be strictly applied to the extent that such objection by the holder of the IPRs would not be a means of arbitrary discrimination nor disguised restriction on trade between the Member States.

6. Additional practice of the Court of Justice

In order to stress upon the importance of the single market[17], the Court of Justice has continued by mentioning that "… the question should therefore be answered to the effect that the exercise by a patentee of the right given him by the laws of a Member State to prohibit the marketing in that State of a product protected by the patent and put on the market in another Member State by such patentee or with his consent would be incompatible with the rules of the EEC Treaty relating to the free movement of goods in the common market"[18]. Therefore, the Court of Justice has pointed out that the exercise of IPRs will be within the scope of competition rules and thus enable the Community Institutions to intervene the disposal of such rights. The same view regarding the importance of the internal market has been put forward by the Court in the Pharman case that "if a patent proprietor could preclude the importation of protected products marketed in another Member States by him or with his consent, he would be able to partition the national markets and thus restrict trade between Member States, although such a restriction is not necessary to protect the substance of the exclusive rights under the patents"[19] The Court, in the Pharman

Law, Fordham International Law Journal, April, 2005, p. 1-4; Langenfeld, James. "Antitrust: New Economy, New Regime Second Annual Symposium Of The American Antitrust Institute: Intellectual Property and Antitrust: Steps Toward Striking a Balance", Case Western Reserve Law Review, Fall, 2001, p. 1-6; Azcuenaga, L. Mary. "Address To Boston University School Of Law: Recent Issues in Antitrust and Intellectual Property", Trustees of Boston University, Boston University Journal of Science and Technology Law, Winter, 2001, p. 1-3.

[17]Internal Market has been defined in Article 2 of the EC Treaty as "The internal market shall comprise an area without internal frontiers in which the free movement of goods, persons, services and capital is ensured in accordance with the provisions of this Treaty."

[18] 21 Centrafarm Case, para. 15.

[19] Case 19/84, Pharmon BV v. Hoechst AG, 1985, ECR 2281 ("Pharmon Case"), para. 23.

case, has also draw attention to the importance of the "consent"[20] of the IPRs holder by highlighting that "it is necessary to point out that where, as in this instance, the competent authorities of a Member State grant a third party a compulsory licence which allows him to carry out manufacturing and marketing operations which the patentee would normally have the right to prevent, the patentee cannot be deemed to have consented to the operation of that third party. Such a measure deprives the patent proprietor of his right to determine freely the conditions under which he markets his products."[21]

7. Conclusion

Intellectual property includes all exclusive rights to intellectual creations. It encompasses two types of rights: industrial property, which includes inventions (patents), trademarks, industrial designs and models and designations of origin, and copyright, which includes artistic and literary property. For many years the European Union has had an active policy in this area, aimed at harmonizing legislation between Member States. Since the entry into force of the Treaty on the Functioning of the European Union (TFEU)[22] in 2009, the EU has had explicit competence for intellectual property rights (Article 118). The general idea of the Lisbon agenda was the establishing a "knowledge economy". However, taking into consideration the political dimension and the latest crisis, as well as the Brexit events, another reforms might be coming on the way.

[20] The Court of Justice has ruled 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 been lawfully marketed in another Member State by the proprietor himself or with his consent. The same applies as respects copyright, commercial exploitation of which raises the same issues as that of any other industrial or commercial property right. Accordingly neither the copyright owner or his licensee, nor a copyright management society acting in the owner's or licensee's name, may rely on the exclusive exploitation right conferred by copyright to prevent or restrict the importation of sound recordings which have been lawfully marketed in another Member State by the owner himself or with his consent." See Cases 55 and 57/80, Musik-Vertrieb Membran GmbH v. Gesellschat für Musikalische Aufführungs und Mechanische Vervielfaltigungsrechte, 1981, ECR 147 ("Musik-Vertrieb Case"), para. 3.

[21] Pharmon Case, para. 25.

[22] Treaty on the Functioning of the European Union (TFEU) availbale at http://eur-lex.europa.eu/resource.html?uri=cellar:2bf140bf-a3f8-4ab2-b506-fd71826e6da6.0023.02/DOC_2&format=PDF

Bilbiography

1. Arıkan, A. Saadet and Hamdi Pınar and Fahrettin Kayhan. "Fikri Mülkiyet Hakları ve Rekabet Hukuku-Hakkın Tüketilmesi"

2. Ateş, Mustafa. "Fikri Mülkiyet Koruması ve Rekabet Hukuku", Rekabet Hukukunda Güncel Gelişmeler Sempozyumu-VII, Rekabet Kurumu, 17-18 Nisan 2009, p. 59-61.

3. Azcuenaga, L. Mary. "Address To Boston University School Of Law: Recent Issues in Antitrust and Intellectual Property", Trustees of Boston University, Boston University Journal of Science and Technology Law, Winter, 2001, p. 1-3.

4. Bakırcı, M. Enes. "Teknoloji Transferinde 'Patent ve Know-How Lisansı' Sözleşmeleri", Master Thesis, Istanbul Üniversitesi, Sosyal Bilimler Enstitüsü, 1999, p. 47-51

5. Balto, A. David and Andrew M. Wolman. "Intellectual Property and Antitrust: General Principles", PTC Research Foundation of Franklin Pierce Law Center IDEA: The Journal of Law and Technology, 2003, p. 2.

6. Case 19/84, Pharmon BV v. Hoechst AG, 1985, ECR 2281 ("Pharmon Case"), para. 23.

7. Cases 55 and 57/80, Musik-Vertrieb Membran GmbH v. Gesellschat für Musikalische Aufführungs und Mechanische Vervielfaltigungsrechte, 1981, ECR 147 ("Musik-Vertrieb Case"), para. 3.

8. Case 15/74, Centrafarm BV v. Sterlin Drug Inc., ECR 1147 ("Centrafarm Case")

9. Case C-337/95, Parfums Christian Dior SA v. Evora BV, ECR I-6013, 1998, paras. 35-36 ("Christian Dior Case")

10. Franceschelli, Vincenzo "To what extent does the principle of exhaustion of IP rights apply to the on-line industry?", international report,2014

11. Gifford, J. Daniel. "Government Policy Towards Innovation in the United States, Canada, and the European Union as Manifested in Patent, Copyright, and Competition Laws", SMU Law Review, Fall, 57, 1339

12. Gürkaynak, Gönenç. Türk Rekabet Hukuku Uygulaması İçin "Hukuk ve İktisat" Perspektifinden "Amaç" Tartışması, 1. Baskı, Ankara: Rekabet Kurumu, 2003, p. 98-100

13. Kovacic, E. William and Andreas P. Reindl, "The European Union: Dedicated to Professor Valentine Korah: Article: An Interdisciplinary Approach to Improving Competition Policy and Intellectual Property Policy", Fordham University School of Law, Fordham International Law Journal, April, 2005, p. 1-4;

14. Langenfeld, James. "Antitrust: New Economy, New Regime Second Annual Symposium Of The American Antitrust Institute: Intellectual Property and Antitrust: Steps Toward Striking a Balance", Case Western Reserve Law Review, Fall, 2001, p. 1-6;

15. Lemley, A. Mark. "Property, Intellectual Property, and Free Riding", Texas Law Review, 83 Tex. L. Rev. 1031, March, 2005, p. 2-13

16. Ongun, Tuba. "Günümüzde Fikri - Sınai Mülkiyet Hakları", Perşembe Konferansları, Rekabet Kurumu, p. 37-50;

17. Ruping, Karl. "Copyright and an Integrated European Market: Conflicts with Free Movement of Goods, Competition Law and National Discrimination", Temple International and Comparative Law Journal, Spring, 1997

18. Treaty on the Functioning of the European Union (TFEU)