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EUROPEAN COURT OF JUSTICE AS LAW-MAKER: EXAMPLE OF INTELLECTUAL PROPERTY PROTECTION ON EU INTERNAL MARKET

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Abstract
Specific legal system of the European Union entails specific judiciary methods realized by the European Court of Justice (ECJ). Its task consists among others in filling gaps and lacunae in EU law. Gaps in primary law are filled by secondary law and ECJ case law. As ECJ is a very creative court, sometimes it is very difficult to assume, if its decision is still an interpretative one or if it creates new legal rules. The aim of this presentation is to demonstrate Court's activities in the field of intellectual property protection of goods on EU Internal Market. The protection of different intellectual property rights seems to be in contradiction with the free movement of goods protected by those rights. The ECJ gives solution by separating the existence of a right from its exercise - the right cannot be exercised in a way that would make impossible the free movement of protected goods. Another "invention" of the ECJ case law is the theory of the exhaustion of the right in the whole EU by introducing the goods anywhere (in any country) of the EU Internal Market.

Key words
European Court of Justice; Teleological interpretation; Gaps filling; Intellectual property; Existence of a right; Exercise of a right; Community exhaustion of a right.

1. LAW-MAKING FUNCTION OF THE EUROPEAN COURT OF JUSTICE THROUGH INTERPRETATION: IS THE LAW-MAKING ACTIVITY OF THE COURT POSSIBLE AND HOW IS IT EXERCISED?

Specific legal system of the European Union entails specific judiciary methods realized by the European Court of Justice (ECJ).[1] The wording of the primary and often the secondary law is not unambiguous, is often too general and permits different interpretation. The correct interpretation may not be obvious. As examples we can mention Art. 30 (measure with equivalent effect to a quantitative restriction), 82 (dominant position), 48 (public policy) of the EC Treaty. The Rome Treaty is a framework treaty. It is concise and sets out sometimes very generally its objectives. The details

1 According to the Lisbon Treaty the new denomination of the Court is "Court of Justice of the European Union".

are missing, but they are needed. How could we apply a legal provision if we do not know what is its exact scope and meaning?

Let us now quote a note by a famous English judge, Lord Denning:[2] "*The Treaty is quite unlike any of the enactments to which we have become accustomed. The draftsmen of our statutes have striven themselves with the utmost exactness. They have tried to foresee all possible circumstances that may arise and to provide for them...*

How different is this Treaty. It lays down general principles. It expresses its aims and purposes. All in sentences of moderate length and commendable style. But it lacks precision. It uses words and phrases without defining what they mean.

An English lawyer would look for an interpretation clause, but he would look in vain. There is none. All the way through the Treaty, there are gaps and lacunae. These have to be filled in by the judges, or by regulations and directives. It is the European way."

EU law must be uniform. This concerns not only its wording (text) but its interpretation and application as well. How to realize that? If a court is supposed to provide for a uniform interpretation, it must first be correct and binding. Fortunately, the EC Treaty gives the solution in its Art. 220.[3] One of the ECJ basic functions is to assure uniform interpretation and application of EU law in the whole Union. The CJ is entitled to give the authoritative and consequently binding interpretation of the primary and secondary law. Its task consists among others in filling gaps and lacunae in EU law.

For EU law, the reason of a too general wording of its provisions is sometimes the unability of Member States to reach an agreement on the exact wording of a Treaty provision or a regulation or directive. It thus remains very general and the ECJ is supposed to provide its exact sense by interpretation, since exact scope and meaning of its provisions are often not quite clear.

How should the interpreting court proceed? The result should correspond to the will of the law-maker, which has not been exactly expressed. The court will use different interpretation methods that must be combined together and the court should not overpass its field of operation - within the limits of the interpreted rule. Those limits are determined by:

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2 Lord Denning was one of the most significant personalities of the English judiciary. He died in 1999 aged 100. This quotation has been taken from the publication Dehousse, R., The European Court of Justice, the Politics of Judicial Integration, New York, St. Martin's Press, 1998, p. 73.

3 Newly Art. 19 of the Treaty on European Union.

- the text (wording) of the rule,
- the context of the rule, i.e. its position in the whole document,
- historical context,
- purpose of the rule,
- other circumsatnces and existing case law,
- sometimes "travaux préparatoires" able to clarify indirectly the motivation of the legislator.

Often a concrete rule, which is needed, does not exist. Gaps in primary law are filled by secondary law and ECJ case law. Numerous gaps appearing in secondary law are filled by ECJ case law only. ECJ creates this missing rule generally through teleological interpretation of the whole document (for instance the EC Treaty).

As ECJ is a very creative and activist court, sometimes it is very difficult to assume, if its decision is still an interpretative one or if it creates new legal rules, especially in cases when the Court uses teleological interpretation of the Treaty as a whole. Teleological interpretation is the motive power of the interpretation by the ECJ, taking into account the purpose of the rule. However, this method of interpretation must not be absolutized and must not go against the express wording of a provision. Yet it happened for instance in the Chernobyl case (70/88), where the ECJ accorded the European Parliament the power to bring the action on the basis of Art. 230 of the Treaty against other institutions, even though did not permit it.

The Court has through its jurisprudence established in more than 50 years of its activities many general principles of European law, such as effet utile, Francovich liability, primacy, direct effect and the whole system of general principles of Community (now Union) law. When filling gaps - its function to form new rules is absolutely necessary - who else would do that? In the majority of cases it is not possible to wait until legislative changes take place, or even primary law treaties are amended. The development of EC (EU) law is, in this sense, spontaneous. The consequence is that the wording of the CJ judgments is sometimes very general, similar to the general rules contained in the primary or secondary law.

The Court of Justice is an absolutely independent body, not subordinated to any other EU body or to Member States. Its rulings could be overruled only by an amendment of the primary law or the adoption of a new act of secondary law.

The ECJ sometimes replaces political institutions.[4] The Community legislature is in many cases unable to fulfill its task to adopt a detailed regulation of some matter. Consequently, the ECJ must complete its details to make it sufficiently specific. It "has become one of the principal engines in the integration process."[5] The result of the ECJ interpretation can be not only a negative obligation for Member States, but also new rights for individuals. Those interpretative decisions are based on the principle of supremacy of EC (now EU) law, established by the Court as well.

To give an other example - let us mention the judgment Cassis de Dijon (120/78). The Court deviates from the wording of the EC Treaty and brings new exceptions from the general prohibition of limitation of EC internal trade contained in Art. 30. In fact, the Court did not add new items to the list of exceptions in Art. 30, but determined that certain measures of Member States apparently restricting the EC internal trade do not fall into the very general definition of Art. 28. In addition to that, it did not follow its own extremely wide definition of such a measure given formerly in the Dassonville judgment (8/74).

With its interpretative cornerstone decisions concerning the system of Community law the ECJ becomes the policy-maker. It can suggest new areas to be explored and initiate EU legislative intervention.[6] It can "substitute" the absence of details in the Community legislation. The Court can be considered as a "laboratory" of influence of national and international (European) politics.[7] For instance the Cassis judgment, according to some views, influenced the harmonization policy in the EC.[8]

A pertinent question arises: Are still Member States "Masters of the Treaty"? Why do Member States accept unwanted ECJ jurisprudence? There are undoubtly at least two reasons:

- The Court had not deviated from Member States' interests.[9] But what are "Member State interests"? Different Member States may have different interests. They do not act as a unique (and uniform) force. There is no "opposition coalition". Consequently, there is no general opposition against the ECJ jurisprudence. For instance the Francovich judgment on state

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4 Alter, K.J., The European Court's Political Power, Oxford University Press, 2009, p. 125

5 Dehousse, R., ibid., p. 75.

6 Ibidem., p. 82.

7 Alter, K.J., ibid., p. 29.

8 Ibidem, p. 147

9 Ibidem, p. 124

liability is hardly acceptable for some member states, but others remain indifferent and their reaction is thus none, i.e. not negative.

- What means "Member State"? In fact the reaction to the activist ECJ jurisprudence, if any, emanates from Member States governments, not Parliaments. Parliaments are "too far" and governments are in most member countries much more "European" than Parliaments or public opinion.

- There is another aspect that must be taken into account. It is the recognition of the autonomy of EC (EU) law, and consequently of the European Court of Justice. This autonomy has been accepted by Member States.[10]

Let us now examine how the decision-making power of the ECJ has influenced one of the most practical areas of the Community law, the intellectual property protection.

2. EXAMPLE OF THE LAW-MAKING ACTIVITY OF THE COURT IN THE FIELD OF INTELLECTUAL PROPERTY PROTECTION ON INTERNAL MARKET

The interpretation function of the European Court of Justice within the meaning of Article 234 of the Treaty establishing the European Community (hereinafter “EC Treaty”) relates to primary legislation regulating especially general principles of Community functioning on the one hand, and secondary legislation whose aim is to regulate certain areas on the other hand. The ECJ plays its important interpretation role especially in cases where no secondary legal framework exists and actual legal problem arises which is brought to the ECJ. In such a situation, the ECJ is dependant only on the wording of the primary legal acts which sometimes leads to adoption of the new doctrine on the basis of interpretation of those acts. Through the legislative process of the institutions of the Community, such a new doctrine is reflected into secondary legislation (especially directives) and by virtue of them to the law and orders of the Member States.

One of such examples is the **principle of exhaustion of intellectual property rights** which closely relates to the so-called parallel imports of products, with which intellectual property rights are connected, from one country to another. The exhaustion principle means that once the genuine goods are put on the market by the rightful owner or with his consent (for instance, by his subsidiary or his licensee)11, some of his intellectual

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10 Dord, O., Systčmes juridiques nationaux et cours européennes: De l'affrontement ŕ la complementarité? In: Les cours européennes, Pouvoirs, No. 96, Seuil, Paris, p. 7.

11 In case of IHT Internationale Heiztechnik (C-9/93) the ECJ, inter alia, examined who may put the goods on the market with the consequence of exhaustion of trademark rights.

property rights are exhausted and these goods can be freely distributed without his consent. It is crucial in what territory the rights are exhausted. In general, two types of exhaustion are recognized, i.e., national and international. In case of application of the national principle, the rights are exhausted only within the territory of one state in which the product was put on market. This product can freely move (distribute, sell) merely on the market of that state. If a third person aimed to import this product into that country, the intellectual property right holder is entitled to prohibit such an import. According to the international principle, the rights are exhausted world-wide. As it will be demonstrated below, the regional (Community) principle of intellectual property rights exhaustion has been created by the ECJ based on its case-law.

The link between the exhaustion principle of rights and parallel imports results in part out of the previous text. Let us mention a hypothetical example for illustration. A company having its registered office in country A is selling its goods, with which the intellectual property rights are connected, to another undertaking from country B but at a lower price than it itself sells its goods in state A. If country A applies international exhaustion, a third party could purchase those products in state B, import them to state A, and sell them at a lower price there. The right owner could not prevent this parallel import and could not object to the infringement of its intellectual property rights. However, if state A applied the principle of national exhaustion, in such a case the right owner would be able to stop this parallel import. As it is obvious, the principle of exhaustion has a great impact on the scope of intellectual property rights, particularly, in relation to the imported products, in which intellectual property rights are incorporated, to the domestic country of the right holder.

This example shows that the principle of domestic exhaustion is very restrictive; however, it insures more protection for the private interests of right owners. But this situation may lead to an artificial partitioning of the market because only the right owner has the power to determine where his goods will be sold and to whom he will give his permission to distribute them. On the other hand, international exhaustion helps free movement of goods among states, and therefore, it is good for the public interest, i.e. especially for consumers who can buy goods at a lower price.

National type of exhaustion constituted an obstacle to free movement of goods within the internal market of the Community. At the beginning of 70s of the last century, first cases regarding parallel imports between Member

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In paragraph 34 the ECJ ruled: “This principle, known as the exhaustion of rights, applies where the owner of the trade mark in the importing State and the owner of the trade mark in the exporting State are the same or where, even if they are separate persons, they are economically linked. A number of situations are covered: products put into circulation by the same undertaking, by a licensee, by a parent company, by a subsidiary of the same group, or by an exclusive distributor.

States were brought to the ECJ. In this respect, it is important to emphasize that no directives regulating area of intellectual property rights, let alone exhaustion of those rights, existed at that time.

With regard to the exhaustion of economic copyrights (right of distribution), the judgment in case of *Deutsche Grammophon v Metro*12 belongs to the most important decisions of the ECJ. German sound recording company (Deutsche Grammophon) sold sound recordings through its French subsidiary in France. Metro acquired those records sold in France and resold them in Germany, but at a lower price than Deutsche Grammophon. One of the questions was whether an interpretation of certain articles of the EC Treaty allowed Deutsche Grammophon to rely on its exclusive right of distribution included in certain provisions of the German law on Copyright and related rights, to prohibit the marketing the German market of sound recordings lawfully sold (by this company or with its consent) in France.

According to the opinion of the ECJ mentioned in paragraph 11 of this judgment, "Amongst the prohibitions or restrictions on the free movement of goods which it concedes Article 36 refers to industrial and commercial property. On the assumption that those provisions may be relevant to a right related to copyright, it is nevertheless clear from that article that, although the Treaty does not affect the existence of rights recognized by the legislation of a member state with regard to industrial and commercial property, the exercise of such rights may nevertheless fall within the prohibitions laid down by the Treaty. Although it 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 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 ."13

The ECJ answered the question mentioned above and held, "It is in conflict with the provisions prescribing the free movement of products within the Common Market14 for a manufacturer of sound recordings to exercise the exclusive right to distribute the protected articles, conferred upon him by the legislation of a member state, in such a way as to prohibit the sale in that state of products placed on the market by him or with his consent in another Member State solely because such distribution did not occur within the territory of the first member state ."

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12 C-78/70 Deutsche Grammophon v Metro [1971] ECR 487

13 Whereas this case was decided a long time before the Amsterdam Treaty, it still refers to the old numbering. In this situation, Article 30 of new numbering is at issue.

14The term Common Market has been replaced by Internal Market.

From this decision, it is clear that the ECJ had to balance between a policy of free movement of goods and exclusive intellectual property rights of private entities guaranteed in national legislation. The ECJ decided this situation in favour of the public interest, i.e. free movement of goods within Internal Market of the EC. In this and other judgments, the ECJ created a dichotomy between the existence of the intellectual property rights and the exercise of those rights. But this approach is disputable because the exclusive right exist in order to be exercised.

By way of the referred and other judgments, the principle of Community exhaustion of intellectual property rights was established and parallel imports among Member States were allowed. Thus, if the product is put on the internal market (i.e., market of any of the Member States) by the right owner or with his consent for the first time, some of his rights (in particular, right to distribution) are exhausted for all the Member States and these product can freely move without his express consent throughout whole Community.

Currently, the question of exhaustion of economic copyrights is regulated in provisions of crucial EC directives solving this area; especially Article 4 (c) of Council Directive 91/250/EEC of 14 May 1991 on the legal protection of computer programs, Article 5 (c) of Directive 96/9/EC of the European Parliament and of the Council of 11 March 1996 on the legal protection of databases, Article 4 of Directive 2001/29/EC of the European Parliament and of the Council of 22 May 2001 on the harmonization of certain aspects of copyright and related rights in the information society, Article 9 (2) of Directive 2006/116/EC of the European Parliament and of the Council of 12 December 2006 on the term of protection of copyright and certain related rights (codified version) – it derogated the Council Directive 92/100/EEC of 19 November 1992 having the same name.

The case-law of the ECJ and the mentioned directives set forth pertinent exceptions to the principle of exhaustion of copyrights as well

The principle of exhaustion of trademark rights was settled by the ECJ in case of *Centrafarm v Winthrop*15 in 1974. The ECJ in this judgment mentioned the specific subject-matter of a trademark by saying that "… the owner of the trade mark has the exclusive Right to use that trade mark, for the purpose of putting products protected by the trade mark into circulation for the first time, and is therefore intended 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 ."16 However, it held that the owner of a trademark cannot rely on protection of

15 C-16/74 Centrafarm v Winthrop [1974] ECR 1183

16 paragraph 8

legislation of a Member State allowing him to prevent the import or marketing of a product in that state which has been put on the market in another Member State by him or with his consent because it is incompatible with the rules of the EC Treaty concerning the free movement of goods within the internal market. Furthermore, the ECJ ruled that it is not important whether price differences between the exporting and importing Member States exist resulting from governmental measures adopted in the exporting state with a view to controlling the price of the product.

Based on *Centrafarm* judgment, the aforementioned principles have been reflected into Article 7 of the First Council Directive 89/104/EEC of 21 December 1988 to approximate the laws of the Member States relating to trade marks and Article 13 of Council Regulation (EC) No. 207/2009 of 26 February 2009 on Community trade mark (codified version) – this Regulation replaced Council Regulation (EC) No. 40/94 of 20 December 1993 on Community trade mark.

To conclude - we can see very well on the example of intellectual property protection how the Court of Justice by its very radical law-making activities adjusts Community law to the needs of the really free movement of goods on EU Internal Market.

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