

JUDGMENT OF THE COURT
18 February 1992 *

In Case C-235/89,

Commission of the European Communities, represented by Giuliano Marenco, Legal Adviser, and Eric White, a member of its Legal Service, acting as Agents, with an address for service in Luxembourg at the office of Roberto Hayder, a member of its Legal Service, Wagner Centre, Kirchberg,

applicant,

v

Italian Republic, represented by Professor Luigi Ferrari Bravo, Head of the Legal Department of the Ministry of Foreign Affairs, acting as Agent, assisted by Oscar Fiumara, Avvocato dello Stato, with an address for service in Luxembourg at the Italian Embassy, 5 Rue Marie-Adélaïde,

defendant,

supported by

Kingdom of Spain, originally represented by Javier Conde de Saro, Director-General for Community Legal and Institutional Coordination, and subsequently by Alberto José Navarro Gonzalez, Director-General for Community Legal and Institutional Coordination, and Antonio Hierro Hernández-Mora, Abogado del Estado, of the Department for Matters before the Court of Justice, acting as Agents, with an address for service in Luxembourg at the Spanish Embassy, 4-6 Boulevard Emmanuel Servais,

intervener,

* Language of the case: Italian.

United Kingdom of Great Britain and Northern Ireland, represented by Rosemary Caudwell, of the Treasury Solicitor's Department, acting as Agent, assisted by Nicholas Pumfrey QC, of the Bar of England and Wales, with an address for service in Luxembourg at the British Embassy, 14 Boulevard Roosevelt,

intervener,

Portuguese Republic, represented by Luis Inez Fernandes, Director of the Legal Department of the Directorate-General for the European Communities at the Ministry of Foreign Affairs, Maria Isabel Mota Capitão, Legal Adviser in the same department, and Ruy Serrão, Director of the National Institute of Industrial Property of the Ministry of Industry and Energy, acting as Agents, with an address for service in Luxembourg at the Portuguese Embassy, 33 Allée Scheffer,

intervener,

APPLICATION for a declaration that, by providing for the grant of compulsory licences where the holder of a patent for industrial invention or for the production of new plant varieties does not exploit the patent by way of production in Italian territory, the Italian Republic has failed to fulfil its obligations under Article 30 of the EEC Treaty,

THE COURT,

composed of: O. Due, President, Sir Gordon Slynn, R. Joliet, F. A. Schockweiler and F. Grévisse (Presidents of Chambers), P. J. G. Kapteyn, G. F. Mancini, C. N. Kakouris, J. C. Moitinho de Almeida, G. C. Rodríguez Iglesias, M. Díez de Velasco, M. Zuleeg and J. L. Murray, Judges,

Advocate General: W. Van Gerven,
Registrar: D. Lousterman-Hubeau, Principal Administrator,

having regard to the Report for the Hearing,

after hearing oral argument from the parties at the hearing on 16 October 1991,

after hearing the Opinion of the Advocate General at the sitting on 13 December 1991,

gives the following

Judgment

- 1 By application lodged at the Court Registry on 27 July 1989, the Commission of the European Communities brought an action under Article 169 of the EEC Treaty for a declaration that, by providing for the grant of compulsory licences where the holder of a patent for industrial invention or for the production of new plant varieties does not exploit the patent by way of production in Italian territory, the Italian Republic has failed to comply with its obligations under Article 30 of the EEC Treaty.
- 2 In Italy, patents for industrial inventions are governed in particular by Royal Decree No 1127 of 29 June 1939 (*Gazzetta Ufficiale* No 189 of 14 August 1939), as amended by Decree No 849 of the President of the Republic of 26 February 1968 (*Gazzetta Ufficiale* No 193 of 31 July 1968).
- 3 Article 52 of Royal Decree No 1127 provides: 'An industrial invention which is the subject of a patent must be exploited in the territory of the State in a way that is not seriously disproportionate to the country's needs.' Article 53 states: 'The introduction or the sale in the territory of the State of articles produced abroad does not constitute exploitation of the invention.'
- 4 The consequences of the lack of exploitation of inventions protected by patents in Italy are laid down by Articles 54, 54a and 54b of Royal Decree No 1127, as

amended by Decree No 849 of the President of the Republic. The first paragraph of Article 54 provides: 'If after three years from the date of grant of the patent, or four years from the date of application for a grant if that is later, the patentee or his successor in title has not either directly or through one or more licensees exploited on the territory of the State the patented invention or has exploited it in a way that is seriously disproportionate to the country's needs, a compulsory licence may be granted for the non-exclusive use of the said invention to any person who applies for one.'

5 Patents for new plant varieties are governed by Decree No 974 of the President of the Republic of 12 August 1975 (*Gazzetta Ufficiale* No 109 of 26 April 1976), as amended by Law No 620 of 14 October 1985.

Article 14 of Decree No 974 provides:

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

6 The Commission took the view that those national provisions constituted measures having an effect equivalent to quantitative restrictions on imports within the meaning of Article 30 of the Treaty and therefore brought the present Treaty infringement proceedings.

7 Reference is made to the Report for the Hearing for a fuller account of the Community and national provisions, the procedure and the pleas in law and arguments of the parties, which are mentioned or discussed hereinafter only in so far as is necessary for the reasoning of the Court.

The subject-matter of the application

- 8 The Commission makes it clear in its arguments in the application that it is not challenging in principle the patentee's obligation to work the patent and satisfy domestic demand for the patented product or the right of the competent authorities of a Member State to grant a compulsory licence where that obligation is not complied with. It is solely contesting the aforementioned provisions of the Italian legislation in so far as they distinguish between the manufacture of the patented product on national territory and the importation of the product from the territory of another Member State and place imports at a disadvantage by virtue of the conditions on which they allow the competent authorities to grant a compulsory licence where the patent is being worked by importation. It is on the application as so defined that the Court must rule.
- 9 The Commission also points to the incompatibility with Article 30 of the Treaty of national provisions which limit the exercise of rights conferred by a compulsory licence to the national territory. Such incompatibility constitutes a separate complaint and since it is not included in the form of order sought it will not be examined by the Court in these proceedings.

The merits of the action

- 10 According to the Commission the aforementioned national provisions encourage domestic production by discriminating against the working of the patent by importation into the national territory. Such provisions have the effect of encouraging the patentee to manufacture in the national territory rather than to import from the territory of other Member States and constitute measures having equivalent effect to quantitative restrictions on imports. Since the Court has already recognized that a mere publicity campaign organized by the authorities of a Member State to promote domestic products constitutes a measure having equivalent effect (Case 249/81 *Commission v Ireland* [1982] ECR 4005), it ought, *a fortiori*, in view of the seriousness of the legal consequences attaching to the grant of a compulsory licence, to find that the contested provisions are incompatible with the Treaty. Those provisions cannot be justified by the derogating provision of Article 36 of the Treaty since the object of the contested rules is not to ensure the protection of industrial and commercial property but, on the contrary, to limit the rights conferred by such property. Furthermore, the objective sought, namely

to encourage domestic production, is diametrically opposed to the objectives of the Treaty. Finally, the measures adopted are, in any event, disproportionate to that objective.

11 The Italian Republic, the defendant, and the Kingdom of Spain, the United Kingdom and the Portuguese Republic, intervening, ask the Court to reject the application and, to that end, put forward various submissions. In the first place, they say, the conditions under which a system of compulsory licences may be set up in relation to industrial and commercial property fall, pursuant to Articles 222 and 36 of the Treaty, within the exclusive competence of the national legislature. Secondly, the contested provisions are in accordance with Article 5 of the Paris Convention for the Protection of Industrial Property of 20 March 1883, last amended at Stockholm on 14 July 1967 (hereinafter referred to as 'the Paris Convention'). Thirdly, the contested provisions do not prevent or restrict imports. Fourthly, the Commission's argument is aimed not at ensuring free movement of goods but at reinforcing the rights of the patentee in circumstances which disregard the requirements of free competition between the economic operators in the various Member States. Fifthly, the objection to the provisions in question is essentially academic since in practice they are seldom applied. Sixthly, it is only in the context of Community harmonization directed at the laws of all the Member States that the Commission's object in bringing the present action could be achieved. Finally the Commission's reasoning would lead to certain provisions of the Community Patent Convention signed at Luxembourg on 15 December 1975 (hereinafter referred to as 'the First CPC') and the Community Patent Convention annexed to the Agreement signed at Luxembourg on 15 December 1989 (hereinafter referred to as 'the Second CPC') being regarded as contrary to the Treaty.

12 As Community law stands, the provisions on patents have not yet been the subject of unification at Community level or in the context of approximation of laws. The First CPC, which envisages the creation of a Community patent and the establishment of Community rules for national patents, has not yet entered into force, not having been ratified by all the Member States. The Second CPC, which is intended to replace the First CPC, is in the process of being ratified.

- 13 In those circumstances it is for the national legislature to determine the conditions and rules regarding the protection conferred by patents.
- 14 However, the provisions of the Treaty, and in particular Article 222 according to which the Treaty in no way prejudices the rules in Member States governing the system of property ownership, cannot be interpreted as reserving to the national legislature, in relation to industrial and commercial property, the power to adopt measures which would adversely affect the principle of free movement of goods within the common market as provided for and regulated by the Treaty.
- 15 First, the prohibitions and restrictions on imports justified on grounds of the protection of industrial and commercial property are allowed by Article 36 of the Treaty only subject to the express proviso that they do not constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States.
- 16 Secondly, as the Court has consistently held, Article 36 only admits derogations from the fundamental principle of the free movement of goods within the common market to the extent to which such derogations are justified for the purpose of safeguarding rights which constitute the specific subject-matter of such property (Case C-10/89 *CNL-SUCAL v HAG* [1990] ECR I-3711, paragraph 12).
- 17 In the case of patents, the specific subject-matter of the industrial property is, in particular, the exclusive right for the patent proprietor 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 (Case 434/85 *Allen and Hanburys v Generics* [1988] ECR 1245, paragraph 11). The specific subject-matter of patents for the product of new plant varieties is similar.

- 18 Those principles must be applied in assessing whether the national provisions at issue are compatible with Articles 30 and 36 of the Treaty.
- 19 Under the national provisions the benefit constituted by the exclusive right conferred by a patent may, in the framework of the grant of compulsory licences, be adversely affected where the invention or plant variety covered by the patent is not exploited by way of production in the national territory.
- 20 To avoid any risk of loss of his exclusive right, which could not, in his view, be duly compensated by the payment by the licensee of the reasonable remuneration provided for by the second paragraph of Article 54a of the abovementioned Royal Decree No 1127/39, the patentee is thus encouraged to manufacture on the territory of the State where the patent has been granted rather than to import the patented product from the territory of other Member States.
- 21 Irrespective of the number of compulsory licences granted, such provisions are capable of hindering, directly or indirectly, actually or potentially, intra-Community trade.
- 22 Moreover, as the Advocate General pointed out in his Opinion (point 10), the application of such provisions, when it leads to the grant of a compulsory licence to a national manufacturer, necessarily reduces imports of the patented product from other Member States and thus affects intra-Community trade.
- 23 In that respect such provisions constitute measures having an effect equivalent to quantitative restrictions on imports within the meaning of Article 30 of the Treaty (Case 8/74 *Procureur du Roi v Dassonville* [1974] ECR 837, paragraph 5).

- 24 Although the penalty for lack or insufficiency of exploitation of a patent may be regarded as the necessary counterpart to the territorial exclusivity conferred by the patent, there is no reason relating to the specific subject-matter of the patent to justify the discrimination inherent in the contested provisions between exploiting the patent in the form of production on the national territory and exploiting it by importation from the territory of other Member States.
- 25 Such discrimination is in fact motivated not by the specific requirements of industrial and commercial property but, as the defendant State moreover recognizes, by the national legislature's concern to encourage domestic production.
- 26 Such a consideration, the effect of which is to frustrate the objectives of the Community as laid down in particular in Article 2 and specified in Article 3 of the Treaty, cannot be accepted as a justification for a restriction on trade between Member States.
- 27 Neither the provisions of Article 5 of the Paris Convention, which merely allow signatory States the option of providing for the grant of compulsory licences to prevent abuses which might arise from the exercise of the exclusive right conferred by the patent, such as failure to work it, nor concern to promote competition between the various economic operators by restricting the exclusive rights conferred by patents can, in any event, justify measures which, by virtue of their discriminatory nature, are contrary to the Treaty.
- 28 Those rules have been taken into account by the signatories to the two Community Patent Conventions. Article 82 of the First CPC and Article 77 of the Second CPC provide for the application to national patents of rules relating to Community patents which do not allow for the grant of compulsory licences on the territory of a Member State where the needs of that State are satisfied by imports of the

product from another Member State. It is true that Article 89 of the First CPC and Article 83 of the Second CPC provide that Member States may, in certain circumstances, make reservations as regards the application of the aforementioned provisions and that such reservations may prove to be incompatible with Article 30 of the Treaty as herein interpreted by the Court. However, the possibility of such incompatibility was expressly envisaged in Article 93 of the First CPC and Article 2(1) of the Luxembourg Agreement of 15 December 1989 according to which no provision of the Convention may be invoked against the application of any provision of the Treaty.

- 29 In consequence it must be held that, by envisaging the possibility of granting compulsory licences where a patent for industrial invention or for the production of new plant varieties is not exploited by way of production in Italian territory and where the patent is exploited by imports from other Member States, the Italian Republic has failed to fulfil its obligations under Article 30 of the EEC Treaty.

Costs

- 30 Under Article 69(2) of the Rules of Procedure, the unsuccessful party is to be ordered to pay the costs if they have been applied for in the successful party's pleadings. Since the Italian Republic has failed in its submissions, it must be ordered to pay the costs.
- 31 The Kingdom of Spain, the United Kingdom and the Portuguese Republic, which intervened in support of the Italian Republic, must, in accordance with Article 69(4) of the Rules of Procedure, pay their own costs.

On those grounds,

THE COURT

hereby:

1. Declares that, by envisaging the possibility of granting compulsory licences where a patent for industrial invention or for the production of new plant varieties is not exploited by way of production in Italian territory and where the patent is exploited by imports from other Member States, the Italian Republic has failed to fulfil its obligations under Article 30 of the EEC Treaty;
2. Orders the Italian Republic to pay the costs;
3. Orders the Kingdom of Spain, the United Kingdom and the Portuguese Republic to bear their own costs.

Due	Slynn	Joliet	Schockweiler	Grévisse
Kapteyn	Mancini	Kakouris	Moitinho de Almeida	
Rodríguez Iglesias	Díez de Velasco	Zuleeg	Murray	

Delivered in open court in Luxembourg on 18 February 1992.

J.-G. Giraud
Registrar

O. Due
President