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Intellectual Property and the External Power of the European Community: The New Extension

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INTELLECTUAL PROPERTY AND THE EXTERNAL POWER OF THE EUROPEAN COMMUNITY: THE NEW EXTENSION

*A. David Demiray**

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INTRODUCTION

"[T]heory is somewhat lagging behind the facts and developing only in reaction to these facts," argues C.W.A. Timmermans regarding the European Community's (the EC or the Community) legal basis for extending its external power.¹ The Community tends to extend its external competence before having a clear authority for doing so and only later provides a *post hoc* rationale. This observation suggests that the justification, not the propriety, of a newly acquired external competence is the question. Nowhere is this *modus operandi* better illustrated, or more sorely tested, than by the Community's growing involvement with and pursuit of international intellectual property issues. Indeed, not only has the EC begun to act before having an obvious or agreed upon legal basis, but it also does so in the face of argument that it cannot.

The parameters of the Community's external powers *vis à vis* the Members States' defy easy definition. Generally stated, once the Community exercises external competence in a particular field, the Member States' power correspondingly decreases.² Actual practice, however, presents a far more complicated picture. There exist two sources for external Community power: explicit, which are based upon provisions within the Treaty of Rome (the Treaty), particularly Article 113;³ and implicit (or implied), which are derived from internal Community competence. External powers derived from explicit sources are exclusive to the Community; no Member State may pursue actions that may affect

1. C.W.A. Timmermans, *Division of External Powers Between Community and Member States in the Field of Harmonization of National Law—A Case Study*, in *DIVISION OF POWERS BETWEEN THE EUROPEAN COMMUNITIES AND THEIR MEMBER STATES IN THE FIELD OF EXTERNAL RELATIONS* 15, 15 (C.W.A. Timmermans & E.L.M. Völker eds., 1981) [hereinafter *DIVISION OF POWERS*].

2. See, e.g., Ulrich Everling, *The Law of the External Economic Relations of the European Community*, in *THE EUROPEAN COMMUNITY AND GATT* 85, 86–89 (Meinhard Hilf et al. eds., 1986) (Studies in Transnational Economic Law Vol. 4); Richard Lauwaars, *Scope and Exclusiveness of the Common Commercial Policy—Limits of the Powers of the Member States*, in *DISCRETIONARY POWERS OF THE MEMBER STATES IN THE FIELD OF ECONOMIC POLICIES AND THEIR LIMITS UNDER THE EEC TREATY* 73 (Jürgen Schwarze ed., 1988); F. Burrows, *The Effects of the Main Cases of the Court of Justice in the Field of External Competencies on the Conduct of member States*, in *DIVISION OF POWERS*, *supra* note 1, at 111, 111–12.

3. See also *TREATY ESTABLISHING THE EUROPEAN ECONOMIC COMMUNITY* arts. 111, 238, reprinted in 298 U.N.T.S. 11 (1958) [hereinafter *EEC TREATY*]. For a discussion of Articles 111 and 238, see *infra* notes 28–30 and accompanying text.

explicit Community external competence.⁴ The exclusivity of implicit external powers, however, is far more problematic. Implicit external powers stem from internal Community provisions that necessarily require an external power in order to realize the internal goals.⁵ Exclusivity of such external powers depends upon the extent such powers are exclusive internally or, in other words, upon the intensity of the internal arrangement.⁶ Ultimately, the issue becomes a question of interpretation. Nevertheless, if the Community acts internationally regarding intellectual property issues, the Member States should refrain from undertaking any domestic or international actions that might affect the Community's endeavors.⁷ In short, they cannot pursue their own agendas. This, however, has not happened.

Although the Community pursues intellectual property issues, the Member States also continue to act internationally. The majority belong to organizations such as the World Intellectual Property Organization (WIPO) and are also parties to the Berne and Rome Conventions.⁸ More significantly, the Treaty of Rome refers to intellectual property, or "industrial and commercial property," only in Article 36, which specifically permits Member States to derogate from the single market idea to protect their intellectual property rights.⁹ The Court of Justice observed

4. See Case 22/70, *Commission v. Council*, 1971 E.C.R. 263, 274 [hereinafter *ERTA*]. "[E]ach time the Community, with a view to implementing a common policy envisaged by the Treaty, adopts provisions laying down common rules, whatever form these may take, the Member States no longer have the right, acting individually or even collectively, to undertake obligations with third countries which affect those rules." *Id.*

5. Opinion 1/76, Opinion Given Pursuant to Article 228(1) of the EEC Treaty, 1977 E.C.R. 741, 755.

6. See E.L.M. VÖLKER, *BARRIERS TO EXTERNAL AND INTERNAL COMMUNITY TRADE* 199-200 (1993); P.J.G. KAPTEYN & P. VERLOREN VAN THEMATAAT, *INTRODUCTION TO THE LAW OF THE EUROPEAN COMMUNITIES* 773-74 (Laurence W. Gormley ed., 2d ed. 1990).

7. See *ERTA*, 1971 E.C.R. at 275; see also VÖLKER, *supra* note 6, at 199 ("In addition, [the Court] made clear [in subsequent decisions] that external exclusivity *also* results from the usage of the implied power itself, where it had not become exclusive already by the use of the internal power from which it is derived."); Inge Govaere, *Intellectual Property Protection and Commercial Policy, in THE EUROPEAN COMMUNITY'S COMMERCIAL POLICY AFTER 1992: THE LEGAL DIMENSION* 197, 209 (Marc Maresceau ed., 1993) [hereinafter *THE LEGAL DIMENSION*] ("[T]he adoption of new national intellectual property legislation would also run counter to the spirit of the common commercial policy and be contrary to Article 5 EEC.").

8. Berne Convention For the Protection of Literary and Artistic Works, Sept. 9, 1886, as revised at Paris Jul. 24, 1971, 1161 U.N.T.S. 31 [hereinafter *Berne Convention*]; International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations, Oct. 26, 1961, 496 U.N.T.S. 43 [hereinafter *Rome Convention*]. Only Belgium and the Republic of Ireland, being signatories of the earlier text, do not belong to the Berne Convention while Greece, the Netherlands, Portugal, Spain as well as Belgium are not signatories to the Rome Convention. See PETER GROVES ET AL., *INTELLECTUAL PROPERTY AND THE INTERNAL MARKET OF THE EUROPEAN COMMUNITY* 93 (1993).

9. Article 36 reads in pertinent part that "the provisions of Article 30 to 34 shall not

that the Member States still determine the rules and conditions for intellectual property protection while the Community's intellectual property law is "characterized by a lack of harmonization or approximation."¹⁰

Despite the Member States' international activity, the Community has pursued international intellectual property matters since the mid-1980s, including the negotiations on trade-related aspects of intellectual property rights (TRIPs) in the recently concluded Uruguay Round of the General Agreement on Tariffs and Trade (GATT). Although the EC initially was reluctant to endorse the GATT approach to intellectual property protection, the Community has emerged as a "major *demandeur*, perhaps stimulated by the ambitious submissions from the private sector and other participants."¹¹ In a significant development for its trading partners, the EC also has begun to retaliate against nations that do not protect Community producers' intellectual property and has required recognition as well as acceptance of intellectual property standards in its trade treaties.¹² Furthermore, the EC makes tariff preferences

preclude prohibition or restrictions on imports, exports or goods in transit justified on grounds of . . . the protection of industrial or commercial property. Such prohibitions shall not, however, constitute a means of arbitrary or disguised restriction on trade between Member States." EEC TREATY art. 36; see VÖLKER, *supra* note 6, at 198, 210 ("The regulation of industrial and commercial property rights in the Community is still largely a competence of the individual Member States.").

10. Case 144/81, *Keurkoop v. Nancy Kean Gifts*, 1982 E.C.R. 2853, 2871.

11. Thomas Cottier, *The Prospects for Intellectual Property in GATT*, 28 COMMON MKT. L. REV. 383, 388-89 (1991). Indeed, the Community's draft proposals on TRIPs submitted to the GATT in March 1990 were considered a "landmark." *Id.* at 387; see Draft Agreement on Trade-Related Aspects of Intellectual Property Rights, GATT Doc. MTN.GNG/NG11/W/68 (29 Mar. 1990); see also Frank Emmert, *Intellectual Property in the Uruguay Round—Negotiating Strategies of the Western Industrialized Countries*, 11 MICH. J. INT'L L. 1317, 1337-44; Working Programme of the Commission in the Field of Copyright and Neighboring Rights: Follow-up to the Green Paper, COM(90)584 final at 21-31 [hereinafter Commission Copyright Paper].

12. Regarding retaliation, see Commission Notice of an 'Illicit Commercial Practice' Procedure Concerning the Unauthorized Reproduction of Sound Recordings in Indonesia, 1987 O.J. (C 136) 3 [hereinafter *Indonesia Proceeding*]; Council Regulation 4257/88 Applying Generalized Tariff Preferences for 1989 in Respect of Certain Industrial Products Originating in Developing Countries, 1988 O.J. (L 375) 1; and Commission Notice of an Examination Procedure Concerning an Illicit Commercial Practice, within the Meaning of Council Regulation (EEC) No. 2641/84, Consisting of Piracy of Community Sound Recordings in Thailand, 1991 O.J. (C 189) 26 [hereinafter *Thailand Proceeding*]. The EC has assumed the power to retaliate against unfair acts abroad under the "new Commercial Policy" instrument. Council Regulation 2641/84 of 17 September 1984 on the Strengthening of the Common Commercial Policy with Regard to Protection Against Illicit Commercial Practices, 1984 O.J. (L 252) 1. Regarding trade agreements, see Agreement between the European Economic Community and the European Atomic Energy Community and the Union of Soviet Socialist Republics on Trade and Commercial and Economic Cooperation, art. 19, 1990 O.J. (L 68) 3, 7; Europe Agreement Establishing an Association between the European Communities and their Member States and the Republic of Hungary, arts. 65, 68 & Annex XIII, 1993 O.J. (L 347) 2 [herein-

contingent upon adequate intellectual property rights for its goods.¹³ In January 1991, the Commission proposed a Council Decision that all Member States that had not done so accede to the Berne and Rome Conventions. It flatly declared, "the subject matter of the Berne Convention . . . and the Rome Convention falls within the competence of the Community."¹⁴ The Council did enact a resolution on May 14, 1992, but did not adopt the broad language or claims of the Commission.¹⁵ All these actions imply exclusive Community competence, yet no Member State has either changed its behavior regarding intellectual property matters or objected to the behavior of other Member States.

Naturally, the immediate reaction to this is: "something is wrong." This response, however, neither appreciates the significance of Timmermans' observation nor accounts for Community experience. As one commentator remarked in reviewing the Court of Justice's jurisprudence regarding the Community's external competence, "[o]ne inescapable conclusion is that with a single-minded purpose, the Court has gradually enlarged the scope of the Community's external competence and has correspondingly diminished that of the Member States. Moreover, it is reasonable to expect that this trend will continue."¹⁶ The trend will likely continue in light of the extensive EC activity regarding intellectual property and the chaos that would result if deprived of this authority. Accordingly, the more correct reaction would be: "something

after Hungary Europe Agreement]; and Commission Copyright Paper, *supra* note 11, at 27.

13. Council Regulation 4257/88, 1988 O.J. (L 375) 1, 3 (suspending Korea from generalized tariff preferences for not providing EC goods the same protection as offered to other trading partners).

14. Proposal for a Council Decision concerning the Accession of the Member States to the Berne Convention for the Protection of Literary and Artistic Works, as revised by the Paris Act of 24 July 1971, and the International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organisations (Rome Convention) of 26 October 1961, COM(90)582 final at 12 [hereinafter Commission Proposal on the Berne and Rome Conventions].

15. Council Resolution of 14 May 1992 on Increased Protection for Copyright and Neighboring Rights, 1992 O.J. (C 138) 1. The Council, without referring to any legal foundation, merely stated that the conventions enjoy increased international acceptance, and given the problems of piracy (of protected works), the Member States should join. Nonetheless, this resolution also implicitly assumed the Commission's competence to negotiate copyright agreements with third countries and to ensure third country compliance with the agreements by inviting

the Commission, when negotiating agreements between the Community and third countries, to pay particular attention, within the terms of the mandates given to them for the purpose, to ratification of [the aforementioned conventions] by the third countries concerned, or to the accession of the latter thereto, and to the effective compliance of such countries with these instruments.

Id.

16. Burrows, *supra* note 2, at 118.

is not yet right."

This does not mean that the Member States will be *non plus* about the legal foundation, which could have enormous implications for their sovereignty. Arguably, the Community has progressed thus far regarding intellectual property because its actions had no obvious direct effect upon Member State power despite the theoretical implications. In other words, the Member States simply did not consider the consequences. The deliberations on the legal basis for the Council Decision regarding the Member States' accession to the Berne and Rome Conventions, however, indicate the member States have begun to do so.¹⁷ Because every expansion of Community external power means a decrease in Member State authority,¹⁸ the Member States will be careful not to endorse a legal basis which surrenders too much power. The larger Member States especially will resist relinquishing too many powers because they fear that the Community's policy would be flawed or unenforceable and that the Member States's external identity would be compromised.¹⁹ According to one commentator, "Member States are only impressed by *a priori* exclusive Community powers."²⁰ Finally, the issue of whether the Community, as an international entity, or the Member States individually have competence regarding intellectual property issues (or other trade issues, for that matter) has consequences for their respective international obligations, particularly within the GATT.²¹

17. See, e.g., Commission Proposal on the Berne and Rome Conventions, *supra* note 14; see also Govaere, *supra* note 7, at 118.

18. This means a decrease in authority "in the sense that Member States are no longer entitled to take on their own any measure in this field." Jacques H.J. Bourgeois, *Some Comments on the Practice*, in DIVISION OF POWERS, *supra* note 1, at 97, 98.

19. Jacques H.J. Bourgeois, *The Common Commercial Policy—Scope and Nature of the Powers*, in PROTECTIONISM AND THE EUROPEAN COMMUNITY 1, 4 (E.L.M. Völker ed., 2d ed. 1987) [hereinafter PROTECTIONISM].

20. C.D. Ehlermann, *The Scope of Article 113 of the EEC Treaty*, in ÉTUDES DE DROIT DES COMMUNAUTÉS EUROPÉENNES 145, 146 (1984).

21. For example, if the EC does not have competence regarding international intellectual property obligations and the Member States do, then, arguably, the GATT Article XXIV exemption regarding customs unions does not apply and whatever Community relationship the Member States have created regarding intellectual property among themselves may be subject to the national treatment and most favored nations clauses of the GATT. In short, other contracting parties may maintain that they deserve the same benefits as offered to the Member States. Steenbergen addressed this issue when analyzing the Standards code as adopted in the Tokyo Round of the GATT negotiations. He stated:

[T]he Agreement on technical barriers to trade is signed jointly by the Community and the Member States, which makes it very difficult to know whether the Community is to be considered as a single market or party for the purpose of the application of the Agreement, or whether each of the ten Member States are individually bound by the agreement in the same way as each of the other parties.

....

Ultimately, the Community must square Member State prerogatives under Article 36 with external Community competence in the same arena; theory must catch up with circumstance. Resolving this question requires examining intellectual property within the Community and the international arena as well as examining the basis for EC external power. In short, one must determine what relation Article 36 has to external Community competence either based on the common commercial policy²² or derived from other powers.

The Treaty offers no guidance in determining the relation of Article 36 to external Community competence,²³ and while secondary Community law and the Court's case law provide some clues about the external effect of Article 36 derogations, they are inconclusive.²⁴ Consequently, this inquiry identifies both the ill-defined division of powers between the Member States and the Community and the limitations of the theories of EC external competence. This does not suggest that there are no justifications for extending EC power; rather, among them is sheer practicality.²⁵ Still, until the Court and Council decide on the appropriate foundation, they remain only arguments. Nonetheless, the Community's progression thus far without a clear legal foundation reveals much about the dynamics of exercising external competence: namely, that it grows less from design and more from opportunity and need. The growth of external competence through need has been possible because the scope of EC's external power has defied precise definition. The EC's actions with respect to intellectual property, however, may force the Community to better define the scope of its powers *vis à vis* the Member States. All things considered, the EC probably would have preferred to avoid this situation.

In any event, the current situation cannot endure. The Court of Justice has held that Community acts must include:

a statement of the facts and law [that] led the institution in question to adopt [the acts], so as to make possible review by the Court

Because the Member States also signed the Agreement individually . . . it is more difficult to justify a difference between rules applicable to intracommunity trade and rules applicable to trade with other parties to the GATT Agreement.

J. Steenbergen, *Trade Regulation Since the Tokyo Round*, in PROTECTIONISM, *supra* note 19, at 185, 188-89.

22. EEC TREATY arts. 110-16.

23. See VÖLKER, *supra* note 6, at 131; cf. Ehlermann, *supra* note 20, at 147 (discussing scope of Article 113); Bourgeois, *supra* note 19, at 3-4 (discussing scope of Article 113).

24. See VÖLKER, *supra* note 6, at 96, 102.

25. After all, the alternative is an EC hindered in its ability to protect Community intellectual property concerns abroad.

and so that Member States and the nationals concerned may have knowledge of the conditions under which the Community institutions have applied the Treaty.

....

It must be observed that in the context of the organization of the powers of the Community, the choice of the legal basis for a measure may not depend simply on an institution's conviction as to the objective pursued but must be based on objective factors [that] are amenable to judicial review.²⁶

Beyond this, the Community's trading partners will want to know whether the EC or its Member States possesses the power to negotiate and enforce agreements.²⁷

As intellectual property's international trade implications continue to grow, if the Community claims to represent European economic interests abroad it will need authority over intellectual property issues and therefore must find a legal justification. The present difficulty stems from events outrunning theory. The EC will play catch-up; the only question is how much this route will strain credulity.

26. Case 45/86, *Commission v. Council*, 1987 E.C.R. 1493, 1519-20. The Court has consistently held that

[t]he question whether the conclusion of a given agreement is within the power of the Community and whether, in a given case, such power has been exercised in conformity with the provisions of the Treaty is, in principle, a question which may be submitted to the Court of Justice, either directly, under Article 169 or Article 173 of the Treaty, or in accordance with the preliminary procedure of Article 228.

Opinion 1/75, Opinion of the Court Given Pursuant to Article 228 of the EEC Treaty, 1975 E.C.R. 1355, 1361. Under Article 228 of the Treaty, the Council, the Commission, or a Member State may obtain beforehand the opinion of the Court "as to whether an agreement envisaged is compatible with the provisions of this Treaty." EEC TREATY art. 228. Furthermore, Community measures based upon the inappropriate legal foundation contravene Article 190 and may be found void. Article 190 reads in part, "[r]egulations, directives and decisions of the Council and of the Commission shall state the reasons on which they are based." EEC TREATY art. 190. In order for the Community to exercise its external relations power, commentators generally believe that a more specific authority is needed. Ami Barav, *The Division of External Relations Power between the European Economic Community and the Member States in the Case-Law of the Court of Justice*, in *DIVISION OF POWERS*, *supra* note 1, at 29, 33.

27. See Burrows, *supra* note 2, at 115.

There is already a discernible tendency in multilateral relations for others to ask for a detailed explanation of the items for which the Community is responsible and those for which the Member States must answer. This is not altogether unreasonable. [Third countries] wish to know who will be obliged to carry out each of the provisions of the proposed Treaty, and they can perhaps be forgiven for wanting to have these matters recorded as part of the travaux préparatoires, rather than wait for internal Community squabbles to be settled by the Court.

Id.; see also Marc Maresceau, *The Concept "Common Commercial Policy" and the Difficult Road to Maastricht*, in *THE LEGAL DIMENSION*, *supra* note 7, at 3, 19.

INTELLECTUAL PROPERTY AND THE COMMUNITY'S EXTERNAL COMPETENCE

The EC has two sources of external power: explicit provisions²⁸ and implied powers. Of the three explicit provisions only Article 113 could possibly provide a basis for external competence in intellectual property because the other two, Articles 111 and 238, cover tariffs and association agreements.²⁹ The implied external powers, on the other hand, flow from the internal powers that are necessary for reaching specific Treaty or legislative goals. Unlike explicit powers, derived competencies are not necessarily exclusive.³⁰ Consequently, neither source possesses a well-defined, all-inclusive scope that gives EC external competence its essential evolutionary and adaptable character.³¹ Bearing this in mind, one cannot *a priori* exclude international intellectual property issues from the Community's competence. Determining whether either source can reach intellectual property depends, however, upon different considerations.

A. Article 113 and the Common Commercial Policy

The Community has exclusive competence over the scope of the common commercial policy, but determining the extent of that scope presents another issue. In its first opinion applying Article 113, the Court of Justice held that the Treaty conceived of the common commercial policy through a Common Market that defends the common interests of the Community, which would be impaired by any concurrent Member State power.³² Moreover, the Court declared that it would be impossible for Member States to exercise concurrent powers in this matter under Articles 113 and 114.³³ In light of Article 36 and Member

28. EEC TREATY arts. 111, 113, 238.

29. Article 111 essentially outlined the provisions governing the Community and the Member States regarding external commercial relations during the transitional period. EEC TREATY art. 111. Article 238 deals with the establishment of association agreements between the Community and the third states, a union of states, or an international organization. EEC TREATY art. 238.

30. E.L.M. Völker, Annotation, Case 174/84, Bulk Oil (Zug) A.G. v. Sun International Limited and Sun Oil Trading Company, 24 COMMON MKT. L. REV. 99, 106 (1987) ("Implicit or implied powers become exclusive . . . whenever the internal power of the Community becomes exclusive . . .") (emphasis deleted) (discussing *ERTA*).

31. See, e.g., Opinion 1/78, Opinion of the Court Given Pursuant to the Second Sub-paragraph of Article 228(1) of the EEC Treaty, 1979 E.C.R. 2871 [hereinafter *Natural Rubber*]; see also Timmermans, *supra* note 1.

32. Opinion 1/75, 1975 E.C.R. at 1363-64.

33. *Id.* at 1364.

State actions regarding intellectual property, however, this explicit exclusivity poses conceptual problems for basing EC action on Article 113. Nevertheless, the Community has based its international intellectual property initiatives on this article. The choice is understandable, given Article 113's inherent and mandated adaptability to changing international trading conditions, and perhaps defensible, given the proper theoretical approach and facts. Ultimately, Member State and EC competence could be differentiated so as to constitute distinct competencies, or, without this differentiation, Member State activity will occur pursuant to a derogation of Community power.³⁴ To support either approach one must examine intellectual property regulation within the Community. After all, "the internal market programme has served as an amplifier of the question of determining the scope and content of the common commercial policy."³⁵

1. Article 113's Inherent Adaptability to New Concepts of Commercial Policy

Article 113 has been called one of "the most poorly drafted parts of the . . . Treaty."³⁶ It contains procedural requirements for the conclusion of trade agreements and then merely stipulates that uniform principles must support the common commercial policy.³⁷ The Article reads in part:

After the transitional period has ended, the common commercial policy shall be based on uniform principles, particularly in regard to changes in tariff rates, the conclusion of tariff and trade agreements, the achievement of uniformity in measures of liberalization, export policy and measures to protect trade such as those to be taken in case of dumping or subsidies.³⁸

34. Essentially stated, in Case 41/76, *Donckerwolcke v. Procureur de la République*, 1976 E.C.R. 1921 [hereinafter *Donckerwolcke*], the Court held that derogations from exclusive competence of the common commercial policy "are only permissible after the end of the transitional period by virtue of specific authorization by the Community." *Id.* at 1937.

35. Piet Eeckhout, *The External Dimension of the Internal Market and the Scope of a Modern Commercial Policy*, in *THE LEGAL DIMENSION*, *supra* note 7, at 79, 83.

36. Ehlermann, *supra* note 20, at 147; *see also* Bourgeois, *supra* note 19, at 3 ("The EEC Treaty is rather poorly drafted with respect to commercial policy.").

37. Völker, *supra* note 6, at 131. "This requirement is followed by a non-exhaustive enumeration of trade policy instruments, including customs duties and quantitative restrictions." *Id.*

38. EEC TREATY art. 113. Significantly, subsection 4 of Article 113 declares that "in exercising the powers conferred upon it by this Article, the Council shall act by a qualified majority." *Id.* The possibility that a majority may outvote a Member State's interest must contribute to the Member States' reluctance to surrender external power to the Community.

This open-ended, non-exhaustive description permits Article 113 to adapt to changing international trading conditions. The Court of Justice explained that

[a] commercial policy is in fact made up by the combination and interaction of internal and external measures, without priority being taken by one over the others. Sometimes agreements are concluded in execution of a policy fixed in advance, sometimes that policy is defined by the agreements themselves. . . . [It] is above all the outcome of a progressive development³⁹

Moreover:

The common commercial policy is above all the outcome of a progressive development based upon specific measures [that] may refer without distinction to "autonomous" and external aspects of that policy and [that] do not necessarily presuppose, by the fact that they are linked to the field of the common commercial policy, the existence of a large body of rules, but combine gradually to form that body.⁴⁰

Accordingly, internal legislation is not necessary before concluding a treaty.⁴¹

A static concept of commercial policy would be destined to become nugatory in the course of time. As the Court of Justice observed, new practices and instruments of international trade continue to develop alongside traditional ideas.⁴² If Article 113 could not extend to these new concepts and practices, the Community would find itself unable to deal with a changing international commercial environment. A restrictive interpretation of the common commercial policy would ultimately lead

39. Opinion 1/75, 1975 E.C.R. at 1363. Prior to *Opinion 1/75*, the Court laid the foundation for an expansive reading of the Community's external powers in Case 8/73, *Hauptzollamt Bremen v. Massey-Ferguson*, 1973 E.C.R. 897, which stated that

the proper functioning of the customs union justifies a wide interpretation of Articles 9, 27, 28, 111 and 113 of the Treaty and of the powers which these provisions confer on the institutions to allow them thoroughly to control external trade by measures taken both independently and by agreement.

Id. at 908. Kapteyn and VerLoren van Themaat explained that the founders wanted a commercial policy which was a "dynamic one, not . . . static . . . written in stone in 1957." KAPTEYN & VERLOREN VAN THEMAAT, *supra* note 6, at 791.

40. Opinion 1/75, 1975 E.C.R. at 1363.

41. Barav, *supra* note 26, at 35; see Burrows, *supra* note 2, at 112-13 (stating that "[t]his was not altogether surprising, since [Article 113] expressly conferred an external competence on the Community and made no suggestion that its exercise was in any way dependent upon the prior existence of internal rules, made under Article 112").

42. *Natural Rubber*, 1979 E.C.R. at 2873.

to disruptions in intra-Community trade because Member States would pursue their own trade policies to adjust to the new international conditions. For these reasons, the Court of Justice has interpreted Article 113 as "a non-exhaustive enumeration which must not, as such, close the door to the application in a Community context of any other process intended to regulate external trade."⁴³ Determining what constitutes a commercial policy measure "must be governed from a wide point of view."⁴⁴

The Court of Justice has stated that the Community's commercial policy should not be more limited than any of the Member States'⁴⁵ thus enabling it to include "a new concept of international trade relations."⁴⁶ In Case 45/86, the Court of Justice extended Article 113 to general tariff preferences because they represented a new and growing method of promoting international trade and economic development even though such instruments contained major development aims beyond classic commercial policy. The Court also declared that beyond practicality and realism, the Treaty itself prompts such an approach. The Court held that

[i]n defining the characteristics and the instruments of the common commercial policy in Article 110 . . . , the Treaty took possible changes into account. Accordingly, Article 110 lists among the objectives of commercial policy the aim of contributing 'to the harmonious development of world trade,' which presupposes that commercial policy will be adjusted in order to take account of any changes of outlook in international relations. Likewise, Articles

43. *Id.*

44. *Id.* The *Natural Rubber* decision legitimized the Community's sole participation (that is, without the Member States) in all but two of the Tokyo Round Code negotiations. J.H.J. Bourgeois, *The Tokyo Round Agreements on Technical Barriers and on Government Procurement in International and EEC Perspective*, 19 COMMON MKT. L. REV. 5, 21 (1982). According to Bourgeois, the two exceptions, the standards and the aircraft codes, are

difficult to justify on legal grounds. As it was rightly decided by the Council when it approved all the agreements by a Decision under Article 113 of the EEC Treaty, these two Codes come within the scope of this provision; they could only have been concluded by the Community acting alone since the power under 113 is exclusive.

Id. at 22; see also Ehlermann, *supra* note 20, at 151.

45. The concept of commercial policy has "the same content whether it is applied in the context of an international action of a State or to that of the Community." Opinion 1/75, 1975 E.C.R. at 1362. While this statement does little to explain what exactly a commercial policy entails, by linking the idea of commercial policy to prevailing state practices, the Court ensured that the Community's commercial policy would not be ham-strung by definitional limits. "[I]ndeed, any other approach would have flown in the face of reality and threatened the ability of the Community as an international partner to cope with changes in international trading relationships." KAPTEYN & VERLOREN VAN THEMAAT, *supra* note 6, at 781.

46. Case 45/86, 1987 E.C.R. at 1521.

113 to 116 provide not only for measures to be adopted by the institutions and for the conclusion of agreements with non-member countries but also for common action '*within the framework of international organizations of an economic character*,' an expression which is sufficiently broad to encompass the international organizations which might deal with commercial problems from the point of view of a development policy.⁴⁷

In addition to Article 113, the preamble and various other provisions of the Treaty support applying a liberal approach to commercial policy.⁴⁸ A liberal approach, however, does not mean unlimited expansion; rather, the Article's adaptability must be circumscribed by necessity. For example, in Opinion 1/75, the Court of Justice held that the "field of the common commercial policy, and more particularly that of the export policy, *necessarily* covers systems of aid for exports and more particularly measures concerning credits for the financing of local costs linked to export operation."⁴⁹ Accordingly, to implement the principles embodied in the abovementioned provisions, the Community may conclude the agreements at issue.⁵⁰

2. The New Concept: Intellectual Property Protection as an International Trade Issue

The following subsections will show that intellectual property issues have evolved from primarily national concerns to international trade questions and that the Community, recognizing the trade implications of intellectual property, has long acted to protect EC interests abroad.

a. The Internationalization of Intellectual Property Issues

The international trade dimension of intellectual property is a relatively recent phenomena that international organizations have been slow to appreciate.⁵¹ In spite of the TRIPS negotiations, GATT Article XX

47. *Id.* (emphasis added).

48. KAPTEYN & VERLOREN VAN THEMAAT, *supra* note 6, at 795.

49. Opinion 1/75, 1975 E.C.R. at 1362 (emphasis added).

50. Barav maintains that adaptation must be assessed in light of two considerations: 1) "will an international treaty, if concluded by the Member States alone, necessarily interfere with the exercise of the powers transferred to the Community by the Member States?" and 2) "whether an international agreement, if adhered to by the Member States, could be effectively applied on the Community's territory without the Community's participation." Barav, *supra* note 26, at 40. Barav relied upon *Natural Rubber*, 1979 E.C.R. at 2902-08.

51. At the end of the Tokyo Round, in 1979, for example, the only proposal dealing with this issue was the unsuccessful draft of the Anti-Counterfeit Code, relating to counterfeited trademarks and copyright piracy, submitted by the United States and the EC. *Draft Agreement*

has permitted the contracting parties to derogate from the principle of free trade to safeguard intellectual property interests.⁵² Thus, this intellectual property based exception to trade liberalization can be invoked when entering agreements with third countries that are contracting parties to GATT.⁵³ Even within free trade areas or customs unions, the GATT does not prohibit trade restrictions between and among members as long as the restrictions protect intellectual property rights.⁵⁴ Before the Uruguay Round negotiations ended, the GATT intellectual property provisions, as well as other international conventions, were "minimal and permissive."⁵⁵

Though varying in details, intellectual property laws throughout the world essentially seek to ensure that the creator is rewarded for his or her inventiveness and to motivate further creativity.⁵⁶ These laws protect

on Measures to Discourage the Importation of Counterfeit Goods, GATT Doc. L/4817 (July 31, 1979).

52. That article reads in pertinent part:

Subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination . . . or a disguised restriction on international trade, nothing in this Agreement shall be construed to prevent the adoption or enforcement by any contracting party of measures: . . . (d) necessary to secure . . . the protection of patents, trademarks and copyrights

General Agreement on Tariffs and Trade, *opened for signature* Oct. 30, 1947, art. XX, 61 Stat. A3, 55 U.N.T.S. 187 [hereinafter GATT]. Article IX:1 to 5 of the GATT deals with labeling requirements (which differs from trademarks) while Article IX:6 concerns methods to prevent misrepresentation regarding geographical origin.

53. Govaere, *supra* note 7, at 212.

54. GATT, art. XXIV(8); *see* VÖLKER, *supra* note 6, at 108 n.99.

55. Cottier, *supra* note 11, at 394 n.35. Cottier explained that the nature of intellectual property rights is inherently different from other trade issues.

Rights and obligations of the existing GATT are primarily related to goods. Rules are applied with respect to the origin of a particular widget, independently of the nationality or origin of an actual holder of rights vested in such goods. Persons and intellectual property rights are, in other words, merely protected indirectly by way of reflection. The subject of protection is basically different in intellectual property: rights and protection are basically attached to right holders, not the product or service which they trade. From a conceptual perspective, the difference is significant.

Id. at 394.

56. GILLIAN DAVIES & HANS HUGO VON RAUSHER AUF WEEG, CHALLENGES TO COPYRIGHTS AND RELATED RIGHTS IN THE EUROPEAN COMMUNITY 12-13 (1983). Article 2(1) of the Paris Act of the Berne Convention protects all literary and artistic works which it defines as including:

every production in the literary, scientific and artistic domain, whatever may be the mode or form of its expression, such as books, pamphlets and other writings; lectures, addresses, sermons and other works of the same nature; dramatic or dramatic-musical works; . . . musical compositions with or without words; cinematographic works to which are assimilated works expressed by a process analogous to

the creator from rival enterprises and competitors pirating the creator's process or idea.⁵⁷ Since the creation of the GATT, however, intellectual property has undergone a fundamental conceptual change: the emphasis has moved away from sovereign matters — *e.g.*, one of protective norms restricted to the territory of the state — to issues of adequate protection of intellectual property rights abroad. As the economic importance of exports has increased, so have the needs for improved extra-territorial protection of intellectual property rights. This is particularly true for inventors and producers of technological goods who, having spent great sums in research and development, demand that their national governments protect their investments from pirating and the subsequent undermining of their competitive positions. "As such, it was no longer the existence but rather the absence of, or deficiencies in, intellectual property protection which became the central issue in the international trade debate"⁵⁸ While strong intellectual property rights were once believed to create possible trade barriers, today the international exchange of goods is threatened by insufficient or non-existent intellectual property rights.⁵⁹

The international dimension of intellectual property is not altogether new, however. The Berne Convention on Copyright protection has existed for over one hundred years⁶⁰ and similar treaties have been adopted, including the Universal Copyright Convention and the Rome Phonograms Conventions.⁶¹ In addition, organizations such as WIPO predate the Uruguay Round. These treaties, conventions, and organizations largely provide permissive regulatory protection based upon the reciprocity of national treatment. What is new, however, is the awareness of the effect that intellectual property protection may have on international trade and an active desire to protect these rights abroad. It

cinematography; works of drawing, painting, architecture, sculpture, engraving and lithography; photographic works to which are assimilated works expressed by a process analogous to photography; works of applied art; illustrations, maps, plans, sketches and three-dimensional works relative to geography, topography, architecture or science.

Berne Convention, *supra* note 8, art. 2(1).

57. W.R. CORNISH, *INTELLECTUAL PROPERTY: PATENTS, COPYRIGHT, TRADE MARKS AND ALLIED RIGHTS* 18 (2d ed. 1989).

58. Govaere, *supra* note 7, at 205–06.

59. Ulrich Joos & Rainer Moufang, *Report on the Second Ringberg Symposium, in GATT OR WIPO?: NEW WAYS IN THE INTERNATIONAL PROTECTION OF INTELLECTUAL PROPERTY* 31 (Friedrich-Karl Beier & Gerhard Schricker eds., 1989) (IIC Studies: Studies in Industrial Property and Copyright Law Vol. 11) [hereinafter *GATT OR WIPO*]; *see also* Commission Copyright Paper, *supra* note 11, at 21–31.

60. Berne Convention, *supra* note 8.

61. Rome Convention, *supra* note 8.

has been discovered that the absence of adequate protection of intellectual property or the existence of excessive protection can undermine the benefits derived from the elimination of high tariffs and the reduction of non-tariff barriers.⁶²

The growing interdependence of national economies in the increasing globalization and regionalization of markets has revealed insufficiencies in the present international regulatory framework.⁶³ Many current market factors combine to demonstrate a growing need for effective *transnational* protection of intellectual property rights. As indicated above, intellectual creation and know-how increasingly comprise the value of products and services as well as represent a substantial cost in research and development. Given the relative ease that modern technology permits intellectual creation or know-how to be copied, inadequate international intellectual property safeguards hinder investment recoupment and inhibit further research and development. Furthermore, without intellectual property protection, the producer or supplier of services will find itself at a disadvantage in the highly competitive foreign market. This situation is exacerbated considering the trend toward research and development in one country and licensed development in another. One commentator noted that "[t]he present state of law in international intellectual property protection increasingly impairs or even nullifies acquired benefits accruing under the [GATT]."⁶⁴

In its Green Paper on copyrights and neighboring rights, the Com-

62. Cottier, *supra* note 11, at 383.

63. See generally *Id.*; Frederick M. Abbott, *Protecting First World Assets in the Third World: Intellectual Property Negotiations in the GATT Multilateral Framework*, 22 VAND. J. TRANSNAT'L L. 689 (1989); Emmert, *supra* note 11.

64. Cottier, *supra* note 11, at 384; see also Council Resolution of 14 May 1992, *supra* note 15. It must be pointed out, however, that granting worldwide intellectual property protection does not improve trade in technology-based goods.

The territoriality principle combined with the exclusive character of the right has as a consequence that the home market will continue to be protected against parallel imports. Real trade liberalization of technology-based products could only be obtained through the abolishment of the reference to intellectual property protection in Article XX(d) GATT, or through the insertion of an explicit reference to the exhaustion of rights in case of parallel protection. The current TRIPS negotiations, which to a great extent focus on standards and norms of protection, will, however, lead to a partial trade liberalization in the sense that new export markets will be created and secured against counterfeiting and piracy. In other words, a successful conclusion of the TRIPS negotiations will increase the transfer of technology and the export of technology-based goods, but (re-) importation into the home market of technology-based goods will still be restricted In this sense, the adoption of higher standards of intellectual property protection worldwide will essentially benefit and increase the trade performance of those countries which have a technology worth protecting.

Govaere, *supra* note 7, at 205-06; see also GROVES ET AL., *supra* note 8, at 1.

mission observed that new technologies during the last ten years have created the need for a "global approach" to intellectual property (in this case, copyrights). The Commission cited three main developments: 1) copyrights and neighboring rights in western economies play an increased role; 2) the use made of goods and services with links with copyright has undergone profound changes; and 3) questions of copyright and neighboring rights have become international as the new technologies have blurred national borders thus making purely domestic protection inadequate.⁶⁵ Because the new uses of copyright and neighboring rights are often practiced on an international scale, the Community must recognize this new dimension and take a multilateral approach to intellectual property.⁶⁶

The international trade realities explained above have compelled the Community to act to secure its intellectual property rights abroad. This new development in international trade is the sort to which the Court of Justice intended Article 113 to adapt.⁶⁷ As some commentators have noted with respect to the international provision of services:

If negotiations in the GATT take place on matters such as the international provision of services and international establishment in an international trade organisation such as the GATT and such matters become a permanent concern of the GATT then it is not conceivable that the concept of a common commercial policy would not also embrace these subjects in the long run.⁶⁸

Similarly, it is inconceivable that the common commercial policy would not also embrace intellectual property.

b. The New International Trade Concept at Work in the Community

Without apparent question about the legal foundation, the Commission has maintained that protecting EC producer intellectual property

65. Commission Copyright Paper, *supra* note 11, at 2.

66. *Id.* at 4 ("a response to the challenges of new technology which is limited to the Member States of the Community will deal with only part of the problem").

67. Concern for intellectual property protection comes not only from the industrialized world but also from the developing world whose infant industries have benefitted from the "largely permissive international regulatory network." Cottier, *supra* note 11, at 384. Indeed, increased protection of intellectual property may impede development through additional administrative burdens, further dependence on foreign investment, as well as continued economic transfers to the industrialized world. See generally CHAKRAVARTHI RAGHAVEN, RECOLONIZATION: GATT, THE URUGUAY ROUND & THE THIRD WORLD 114-41 (1990); Hanns Ullrich, *GATT: Industrial Property Protection, Fair Trade and Development*, in GATT OR WIPO, *supra* note 59, at 127.

68. KAPTEYN & VERLOREN VAN THEMAAT, *supra* note 6, at 781.

rights internationally falls within the scope of Article 113. At least three actions have been initiated under the new commercial policy instrument to defend against "illicit trade practices" involving international intellectual property issues.⁶⁹ In 1987, for example, the Community brought an action against the United States for excluding imports of certain aramid fibers manufactured by the Dutch company AKZO NV (AKZO).⁷⁰ The Community essentially attempted to change a third country's procedural law by alleging a breach of an international convention relating to intellectual property. Here, the Commission complained that the U.S. procedure denying AKZO the right to counter-claim against E.I. Dupont de Nemours' (Dupont) patent violation claim constituted a denial of national treatment within the meaning of Article III of the GATT and did not come within the Article XIX(d) exception.⁷¹

The EC also began proceedings against Indonesia and Thailand for not protecting Community intellectual property rights. In March, 1987, the Community alleged that Indonesia had failed to prevent unauthorized sound recordings. The Commission argued that by failing to provide adequate protection against unfair competition, Indonesia had infringed Article 10 of the Paris Convention — even though Indonesia is not a member.⁷² Moreover, the Commission maintained that Indonesia, by requiring that EC products first be placed on the Indonesian market in order to obtain copyright protection, violated the national treatment principle of both the Berne Convention and the Universal Copyright Convention. At least one commentator has argued that "[a]part from the rather dubious contention that a state can be held to comply with a convention it has not signed, the Community seems to consider the very level of protection granted by Indonesian law . . . an illicit commercial practice."⁷³

In July, 1991, the Commission commenced a similar action against Thailand, alleging a violation of the Berlin revision and the Paris Act of the Berne Convention, for failing to prevent the piracy of Community sound recordings.⁷⁴ The Commission claimed that Thailand's inaction

69. See *supra* note 12.

70. Commission Decision 87/251 of 12 March 1987, 1987 O.J. (L 117) 18.

71. See M.C.E.J. Bronckers, *The Potential and Limitations of the Community's New Trade Policy Instrument*, in *TRADE LAWS OF THE EUROPEAN COMMUNITY AND THE UNITED STATES IN A COMPARATIVE PERSPECTIVE* 33, 140-41 (P. Demaret et al. eds., 1992).

72. See *Indonesia Proceeding*, *supra* note 12; see also Commission Decision of 23 November 1987 Suspending the Illicit Commercial Practices Procedure Concerning the Unauthorized Reproduction of Sound Recordings in Indonesia, 1987 O.J. (L 335) 22, 23.

73. Govaere, *supra* note 7, at 202.

74. See *Thailand Proceeding*, *supra* note 12.

harm the EC through reduced sales of legitimate Community products. Furthermore, the Commission claimed that Thailand, by failing to prevent sales of pirated recordings to third countries, restrained Community access to those markets. By calculating the injury as a lost benefit, the EC characterized international intellectual property protection as a right rather than as a favor granted by foreign authorities.⁷⁵

The Community also has granted tariff preferences, a subject matter exclusively under Article 113,⁷⁶ contingent upon the adequate intellectual property protection for Community goods in the requesting country. In 1988, the Community suspended the Republic of Korea from the list of nations that benefit from the general system of tariff preferences in retaliation for discriminating against Community products and in favor of American products through its industrial property protection.⁷⁷ The Community declared that

[w]hereas the Republic of Korea does not treat the Community on an equal footing with other trade partners and whereas it has taken discriminatory measures in respect of the Community in the sphere of the protection of intellectual property; whereas, therefore, it is inappropriate that the Republic of Korea should benefit from the scheme of generalized tariff preferences as long as this situation continues.⁷⁸

In October 1991, after this suspension was terminated, however, the Commission negotiated an agreement with South Korea that led to a Council Decision giving the Commission a negotiating mandate to conclude an agreement on matters of mutual interests, including intellectual property.⁷⁹

In the Community's recent bilateral trade agreements, the EC has attempted to increase levels of intellectual property protection by including clauses that not only direct third countries to comply with their international obligations, but also attempt to raise the level of intellectual property protection for Community products abroad. Exemplifying this trend, the Community recently concluded agreements with Poland, Hungary, and the Czech Republic where these countries agreed to approximate the level of intellectual property protection existing in the

75. Govaere, *supra* note 7, at 202.

76. See Case 45/86, 1987 E.C.R. at 1493.

77. See Council Regulation 4257/88, *supra* note 12, at 3.

78. *Id.*

79. See BULL. EC 10-1991, point 1.2.38. For termination of the suspension, see Council Regulation 282/92, 1992 O.J. (L 31) 1.

Community and to accede to intellectual property conventions.⁸⁰

Regarding multinational negotiations such as the GATT, the EC has taken an active role, which the Commission characterized as "a leading force in its commitment to the highest possible level of intellectual property protection."⁸¹ Also, the Commission "strongly believes that the agreement on TRIPs should become an integral part of the GATT."⁸² Essentially, the TRIPs negotiations seek to establish universal intellectual property norms for providing protection and for enforcing rights.⁸³ The Commission emphasized in its proposed guidelines and objectives that "the main objective of [TRIPs] . . . should be to eliminate (or at least substantially reduce) the distortions and impediments to international trade created by the inadequacies or excesses of substantive standards."⁸⁴ The Commission also maintained that the Community assume a greater role in WIPO because WIPO's recent initiatives concerning standards for intellectual property rights and dispute resolution "are of particular interest to the Community."⁸⁵ Moreover, "[the] further evolution of the Community's role within WIPO in general is a matter of considerable importance given the likelihood of further Community legislation on copyrights and . . . on other forms of intellectual property."⁸⁶

3. The Unclear Concept: the Intra-Community Status of Intellectual Property

Despite the Commission's seemingly easy acceptance of intellectual property as an international trade issue within its competence,⁸⁷ it

80. See Inge Govaere, *The Impact of Intellectual Property Protection on Technology Transfer Between the EC and the Central and Eastern European Countries*, J. WORLD TRADE, Oct. 1991, at 57, 57-76; Hungary Europe Agreement, *supra* note 12, arts. 65 & 68 and Annex XIII; see also Commission Copyright Paper, *supra* note 11, at 21-31. According to Govaere, it "seems that this change in approach is to be situated around the year 1990." Govaere, *supra* note 7, at 204.

81. Commission Copyright Paper, *supra* note 11, at 22.

82. *Id.*

83. See generally Cottier, *supra* note 11.

84. *Guidelines and Objectives Proposed by the European Community for Negotiations on the Trade Related Aspects of Substantive Standards of Intellectual Property Rights*, GATT Doc. MTN.GNG/NG11/W/26 (July 7, 1988), reprinted in GATT or WIPO, *supra* note 59, at 325. Ironically, given its actions against Thailand and Indonesia, the Community proposed that if trade-related intellectual property problems arise with other signatories, the parties should refer to the dispute settlement mechanism provided by the Agreement rather than result to bilateral or unilateral action. Commission Copyright Paper, *supra* note 11, at 22.

85. Commission Copyright Paper, *supra* note 11, at 24-25.

86. *Id.* at 25.

87. See, e.g., Commission Proposal on the Berne and Rome Conventions, *supra* note 14.

remains at heart a national concern, which Article 36 and GATT articles XX and XXIV demonstrate. The Member State still creates intellectual property laws and enforcement is restricted to the territory of the State. Within the EC, however, one cannot say that the Community has no power regarding intellectual property laws. On the contrary, the Community circumscribes the Member States' exercise of intellectual property rights when the integrity of the internal market is at issue. The secondary Community law possibly even suggests that the EC has power over intellectual property. Ultimately, however, intellectual property's status within the Community appears somewhat hazy. Fortunately, this haze presents opportunities because uncertainty feeds flexibility.

a. Intellectual Property as a Measure of Equivalent Effect

The original drafters of the Treaty may not have considered the potential problems posed by intellectual property because it is inherently difficult to reconcile granting intellectual property rights, which may divide markets, with creating a common market.⁸⁸ Such intellectual property rights do not promote free trade. One commentator has explained the dilemma and described these rights as

exclusive rights granted for the territory of the state where protection was brought. This implies that the holder can prohibit the marketing of products [that] infringe his right, and in practice often comes down to having a legal monopoly on the market concerned. It is because of their exclusive character that intellectual property rights have traditionally been regarded as barriers to trade. . . .⁸⁹

This is known as the "principle of territoriality," which means that the legal protection granted within a state depends on the rules of that state's laws.⁹⁰ Often, goods produced by one corporation, organization, or association of enterprises can be blocked from crossing territories through adopting the appropriate legal technique.⁹¹ It must be remembered that Article 36 is based upon Article XX of the GATT, which permits a contracting party to derogate from the principle of free trade

88. GROVES ET AL., *supra* note 8, at 1-2; see also Cottier, *supra* note 11, at 384 ("In terms of trade barriers, the global problem of varying national standards is not fundamentally different from the situation within the European Economic Community . . .").

89. Govaere, *supra* note 7, at 199.

90. DAVIES & VON RAUSCHER AUF WEEG, *supra* note 56, at 51-52. For a general discussion on the principle of *terata* in the field of intellectual property, see Friedrich-Karl Beier, *La territorialité du droit des marque et les échanges internationaux*, 98 JOURNAL DU DROIT INTERNATIONAL 5, 16-17 (1971).

91. CORNISH, *supra* note 57, at 18.

to protect intellectual property concerns.⁹²

Intellectual property rights are thus "measures of equivalent effect," which are "trading rules enacted by Member States [that] are capable of hindering directly or indirectly, actually or potentially, intra-Community trade."⁹³ Such measures violate Article 30's prohibitions⁹⁴ if they do not fall within one of the mandatory requirements exceptions developed by the Court of Justice's case law⁹⁵ or within one of the stated exceptions in Article 36. Under Article 36, the Court of Justice has defined "industrial or commercial property" to include patents, utility models, plant variety rights, industrial designs, trademarks, service marks, trade names, geographic indications of source and appellations of origin, and copyrights.⁹⁶

Even though the Treaty permits derogations from Article 30 to protect national intellectual property rights, the right to protect is circumscribed by the requirements of the internal market. Consistently, the Court has interpreted Articles 30 and 36 "as meaning that the territorial protection afforded by the national laws to industrial and commercial property may not have the effect of legitimizing the insulation of national markets and of leading to an artificial partitioning of the markets."⁹⁷ Unlike other Article 36 interest balancing in terms of proportionality and need,⁹⁸ the Court of Justice examines the restrictions created by intellectual property rights in terms of existence versus exercise. The Court of Justice has held that while the Treaty does not affect the *existence* of commercial and industrial property rights, the Treaty may prohibit their

92. See Govaere, *supra* note 7, at 218-19.

93. Case 8/74, *Procureur du Roi v. Benoît and Gustav Dassonville*, 1974 E.C.R. 837, 852 [hereinafter *Dassonville*]; see also Joined Cases 55 & 57/80 *Musik-Vertrieb Membran v. GEMA*, 1981 E.C.R. 147, 161; Giuliano Marengo & Karen Banks, *Intellectual Property and the Community Rules on Free Movement: Discrimination Unearthed*, 15 EUR. L. REV. 224, 228 (1990).

94. Article 30 provides: "[q]uantitative restrictions on imports and all measures having equivalent effect shall . . . be prohibited between Member States." EEC TREATY art. 30.

95. See Case 120/78, *Rewe-Zentral AG v. Bundesmonopolverwaltung für Branntwein*, 1979 E.C.R. 649 [hereinafter *Cassis de Dijon*]. The Court of Justice has also held that intellectual property constitutes a mandatory requirement. See Case 62/79, *Coditel v. S.A. Ciné Vog Films*, 1980 E.C.R. 881, 903-04.

96. See, e.g., Case 15/74, *Centrafarm v. Sterling Drug*, 1974 E.C.R. 1147 (patents); Case 10/89, *SA CNL-Sucal NV v. HAG GF AG*, 1990 E.C.R. I-3711 (trademarks); Case 144/81, 1982 E.C.R. at 2853 (industrial design); Joined Cases 55 & 57/80, 1981 E.C.R. at 147 (copyrights).

97. Case 270/80, *Polydor v. Harlequin Record Shops*, 1982 E.C.R. 329, 348-49 [hereinafter *Polydor*]; see also Case 119/75, *Terrapin (Overseas) Ltd. v. Terranova Industrie C. A. Kapferer & Co.*, 1976 E.C.R. 1039.

98. See, e.g., *Cassis de Dijon*, 1979 E.C.R. at 649; *Dassonville*, 1974 E.C.R. at 837; cf. Case 302/86, *Commission v. Denmark*, 1988 E.C.R. 4607 (discussing proportionality and need in relation to environmental laws and Article 113).

exercise in the appropriate circumstances. The Court of Justice declared that "Article 36 in fact only admits of derogations from the free movement of goods where such derogations are justified for the purpose of safeguarding rights [that] constitute the *specific subject matter* of this property."⁹⁹ In short, the Treaty does not object to Member States creating intellectual property rights, but Articles 30 or 34 may condemn the exercise of those rights.¹⁰⁰

Essentially, Member States can create intellectual property rights provided that they are exercised in conformity with Community laws and goals. Particularly, Member States cannot use industrial and commercial property rights to maintain or establish artificial partitions within the Community or create disguised restrictions on trade between the Member States. In this regard, the "exercise of industrial and commercial property rights conferred by national legislation must consequently be restricted."¹⁰¹ Admittedly, the difference between existence and exercise is blurry and does not resolve the tension between free movement of goods and the protection of intellectual property.¹⁰² Moreover, some commentators criticize this approach because the "definition of the specific subject-matter of a given right has had to be modified with every new case in order to fit the particular problem under consideration and to justify the solution to be given to it."¹⁰³

99. Case 15/74, 1974 E.C.R. at 1162 (emphasis added); see also Case 16/74, *Centrafarm v. Winthrop BV*, 1974 E.C.R. 1183, 1194; Case 19/84, *Pharmon v. Hoechst*, 1985 E.C.R. 2281, 2297-98; Case 187/80, *Merck v. Stephar*, 1981 E.C.R. 2063, 2080. See generally PETER OLIVER, *FREE MOVEMENT OF GOODS IN THE EEC* 224-47 (2d ed. 1988); LAURENCE W. GORMLEY, *PROHIBITING RESTRICTIONS ON TRADE WITHIN THE EEC* 184-210 (1985); CHRISTOPHER BELLAMY & GRAHAM D. CHILD, *COMMON MARKET LAW OF COMPETITION* ch. 7 (3d ed. 1987); Corrina M. Wissels, *European Community Law, in THE LAW OF INFORMATION TECHNOLOGY IN EUROPE* 1992 3, 19-20 (A.P. Meijboom & C. Prins eds., 1991); Georges Friden, *Recent Developments in EEC Intellectual Property Law: The Distinction Between Existence and Exercise Revisited*, 26 COMMON MKT. L. REV. 192, 193-94 (1989).

100. OLIVER, *supra* note 99, at 225. By distinguishing between exercise and existence, the Court has sought to reconcile Article 30-36 with Article 222 of the Treaty. Wissels, *supra* note 99, at 20-21. Article 222 provides that the Treaty shall "in no way prejudice the rules in Member States governing the system of property and ownership." EEC TREATY art. 222. Intellectual property rights also differ from other Article 36 provisions in that these are personal rights, not the State's rights, whose enforcement depends on the holder.

101. Case 144/81, 1982 E.C.R. at 2872-73.

102. Friedrich-Karl Beier, *Industrial Property and the Free Movement of Goods in the Internal European Market*, 21 IIC 131, 147 (1990). Beier also states that "the proviso not only refers to the statutory provisions and their application by government agencies and courts, but also to private industrial property rights provided by these provisions and the exercise of these rights, i.e., their enforcement by individuals." *Id.*

103. Marengo & Banks, *supra* note 93, at 230. They also observed that the Court of Justice has "understandably hesitated to apply the specific subject-matter test beyond the exhaustion cases." *Id.* For a discussion of "exhaustion," see *infra* notes 110-12 and accompanying text.

In *Polydor*, the Court directed that the exercise of intellectual property law must be determined in the light of the Community's objectives and activities as defined by Articles 2 and 3 of the Treaty. Namely, establishing a common market, progressively approximating the economic policies of the Member States, and seeking to create a single market with the characteristics of a domestic market. Accordingly, the Court interpreted Article 30 and 36 to mean that the territorial protection provided by national industrial and commercial property laws may not legitimize the insulation of national markets and artificially partition the markets.¹⁰⁴ Thus, legitimate exercise, as defined by national law, ends where threats to, or interference with, Community interests begin. Essentially, this means that each Member State may define the criteria for intellectual property protection (i.e. trademark distinctiveness or the novelty required for a patent) but the holder of the right cannot use the national intellectual property laws to defeat the objectives of the single market. Article 36 confers only limited protection of intellectual property rights.¹⁰⁵

Although the specific subject matter criteria suggests the presence of a Community standard regarding intellectual property rights, one does not exist. The Court of Justice has never attempted to create an abstract Community definition of the essence of industrial property protection. Neither the Treaty nor secondary Community law provides a foundation for such a definition. Furthermore, nothing in the aims and principles of the Treaty, as described in the Preamble and in Articles 1 and 2, could allow the Court of Justice to define with sufficient certainty the extent of industrial property protection.¹⁰⁶ The Court of Justice determines the parameters of the specific subject matter,¹⁰⁷ and the Court has defined them in only a few areas.¹⁰⁸

104. *Polydor*, 1982 E.C.R. at 348-49.

105. Friden, *supra* note 99, at 194. Oliver argues:

For instance, were a Member State to limit the protection afforded by an industrial property right to products manufactured within its territory, that would surely be unjustified. Again, it would presumably be unjustified for a Member State to stipulate that a right may only be registered by a person with a place of business or representation in its territory.

OLIVER, *supra* note 99, at 227-28.

106. Beier, *supra* note 102, at 148; *see also* Marengo & Banks, *supra* note 93, at 230.

107. *See* Friden, *supra* note 99, at 194.

108. Regarding patents, the Court has stated that it 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." Case 15/74, 1974 E.C.R. at 1162. As for trade marks, the Court has held that its specific subject matter consists of the

The bulk of cases involving intellectual property rights and Article 36 examine and apply the exhaustion principle.¹⁰⁹ Essentially, the Court of Justice has declared that specific subject matter does not include attempts by a Community intellectual property right holder to block parallel imports of goods the holder or authorized agents placed into commerce in another Member State.¹¹⁰ "Exhaustion" further emphasizes the fundamental concern not to permit the artificial partitioning of the internal Market which would disrupt the flow of goods. As a consequence, if a product has been lawfully marketed in another Member State, the proprietor of an industrial or commercial property cannot rely on its Member State's intellectual property law to prevent importing the product.¹¹¹ Some commentators have criticized the Court of Justice's exhaustion principle, assessing that the Court values market unity over Member State intellectual property laws.¹¹²

The Court of Justice does respect national intellectual property rights, however, so long as they do not disrupt the internal market by maintaining or establishing "artificial partitions." This is far different

guarantee 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.

Case 16/74, 1974 E.C.R. at 1194. Moreover, in Case 238/87, *AB Volvo v. Erik Veng (UK) Ltd.*, 1988 E.C.R. 6211, the Court stated that "the right of the proprietor of a protected design to prevent third parties from manufacturing and selling or importing, without its consent, products incorporating the design constitutes the very subject-matter of his exclusive right." *Id.* at 6235.

109. Beier, *supra* note 102, at 151.

110. See Case 144/81, 1982 E.C.R. at 2853; Case 3/78, *Centraform v. American Home Products*, 1978 E.C.R. 1823.

111. *Polydor*, 1982 E.C.R. at 349.

112. Oliver commented:

Some authors have criticised the Court's case law in the exhaustion of rights principle, claiming that the real concern of the Court has been the free movement of goods and that the Court has attached little importance to the protection of industrial property rights. These authors maintain that in defining the specific subject matter of the various industrial property rights the Court has failed to have regard to the varying purposes of these rights in the different Member States.

OLIVER, *supra* note 99, at 247. Groves commented:

In the absence of harmonised intellectual property systems in the Community, the Commission and the Court between them have done a good job of adapting the existing rules of the Treaty, of competition and of free movement, to minimise the effects on interstate trade of differences in national laws. Indeed, it is sometimes argued that this process has obviated the need for harmonisation; but harmonisation provides a more complete solution.

GROVES ET AL., *supra* note 8, at 15.

from other Article 36 derogations where market impact is assumed and then balanced against other interests. Essentially, although the EC does not possess the power to create norms, it has ultimate authority to decide whether those norms are exercised properly. Thus, while the EC cannot decree, it can deny. In any event, the Member States exercise their powers in the shadow of EC priorities.

b. Intellectual Property in Secondary EC Legislation

To add to the ambiguity about intellectual property's status within the EC, the Community's import and export regulations and several bilateral agreements contain clauses similar to Article 36.¹¹³ For example, Article 21 of the General Import Regulation No. 288/82 reads in part: "this Regulation shall not preclude the adoption or application by Member States: (a) of prohibitions, quantitative restrictions or measures of surveillance on grounds of public morality, public policy or public security; the protection of health and life of humans . . . or the protection of industrial and commercial property."¹¹⁴ This regulation can be interpreted either as a specific authorization of national commercial policy measures or as a declaration depending on how one defines the scope of the commercial policy.¹¹⁵

In sum, the Community's power regarding intellectual power remains an "open question." This in itself is important since theoretically Community competence is not *a priori* denied. The case law suggests that the Member States' intellectual property laws are less important than the integrity of the internal market. This fundamental priority is reflected in the common commercial policy's basic aim of avoiding deflections of trade and distortions of competition within the com-

113. These include Council Regulation 288/82 on Common Rules for Imports, art. 21, 1982 O.J. (L 35) 1, and Commission Regulation 2603/69 on Common Rules for Community Export, art. 11, 1969 O.J. (L 324) 25. See also Govaere, *supra* note 7, at 219; VÖLKER, *supra* note 6, at 63, 101; Bourgeois, *supra* note 19, at 10; Lauwaars, *supra* note 2, at 78-79.

114. Council Regulation 288/82, *supra* note 113, art. 21. For examples of bilateral trade agreements, see Commission Regulation 1842/71, 1971 O.J. (L 192) 14, and Commission Regulation 283/72, 1972 O.J. (L 300) 94. See also Agreements on the European Economic Area, arts. 11, 12, 1994 O.J. (L 1) 1; Hungary Europe Agreement, *supra* note 12, art. 35; Europe Agreement Establishing an Association between the European Communities and their Member States and the Republic of Poland, art. 35, 1993 O.J. (L 348) 2; Europe Agreement Establishing an Association between the European Communities and their Member States and the Czech Republic, Title III, signed Oct. 4, 1993 (unpublished).

115. Bourgeois, *supra* note 19, at 10. Similarly, Bronckers observed, "[t]he unresolved issue is whether the Council's provision is declaratory (reflecting residual, independent powers of the Member States) or whether it is to be interpreted as a Community authorization of national commercial policy measures." M.C.E.J. Bronckers, *A Legal Analysis of Protectionist Measures Affecting Japanese Imports into the European Community—Revisited*, in PROTECTIONISM, *supra* note 19, at 57, 74.

mon/internal market by creating a uniform external regime.¹¹⁶ Whether Article 113 can extend to intellectual property depends upon how one defines the scope of the common commercial policy — particularly in relation to sanctioned measures of equivalent effect.

4. The Scope of Article 113 — Adaptable, but How Far?

The following subsections will examine the various positions regarding the scope of Article 113 taken by the Commission and the Council, the Court of Justice, and academics. As will become apparent, while general consensus exists that Article 113 is adaptable, there is little consensus about the extent of that adaptability.

a. The Commission and the Council

Despite the serious implications of Article 113's exclusivity, there is still wide debate as to what acts constitute commercial policy measures — especially between the Council and the Commission. According to the Council, "the scope of Article 113 is limited to such action, whether autonomous or resulting from agreement, which has the aim of altering the volume or pattern of trade. In all other cases in which the aim is not pursued or is pursued only in addition to one or more other aims, Article 113 is not applicable."¹¹⁷ This view has been criticized because determining the criteria whether a measure affects the pattern of trade would be difficult to apply to autonomous commercial policy measures that are inherent to conducting any trade policy. For example, it is hard to argue that customs formalities or rules of origin influence the volume and flow of trade.¹¹⁸ Second, the Council's view has been criticized because there is a subjective element of this approach that can be abused by Member States claiming that they believe a measure's purpose takes it beyond the scope of the EEC Treaty or places it under Treaty provision requiring unanimity.¹¹⁹

The Commission, on the other hand, has argued that "any measure [that] is objectively appropriate for promoting the regulation of international trade, irrespective of any other aims it may have as well, falls within the area of the common commercial policy."¹²⁰ The Commis-

116. Eeckhout, *supra* note 35, at 94.

117. Case 45/86, 1987 E.C.R. at 1508.

118. Bourgeois, *supra* note 19, at 5.

119. *Id.*

120. Case 45/86, 1987 E.C.R. at 1508; *see also* *Natural Rubber*, 1979 E.C.R. at 2910-11; Ehlermann, *supra* note 20, at 148; Bourgeois, *supra* note 19, at 5-6.

sion's view has been interpreted to adapt well to measures that are applicable only to third countries or to measures that differentiate trade with third countries from internal intra-Community trade.¹²¹ This interpretation characterizes the nature of the Commission's interest in international intellectual property measures as confined to what other countries are doing. The Commission's view has been criticized, however, because it lacks "a convincing criterion if . . . faced with measures [that] apply . . . both to external and to internal trade."¹²² It also has been criticized because the term "instrument" is simply "too broad."¹²³

b. The Court

The Court of Justice responded but did not resolve the dispute between the Council and the Commission in the *Natural Rubber* opinion.¹²⁴ After declaring that the EC may develop a commercial policy designed to regulate the world market,¹²⁵ the Court held that whether an agreement falls under the common commercial policy "must be assessed having regard to its essential objective rather than in terms of individual clauses of an altogether subsidiary or ancillary nature."¹²⁶ Moreover, the effect an agreement has on certain sectors of economic policy do not exclude such objectives from the common commercial policy.¹²⁷ The agreement itself should indicate its essential objective through its motivation, structure, instruments, and effects and through the framework in which the agreement was reached.¹²⁸ Both the Council and the Commission have relied upon the *Natural Rubber* opinion "to defend their unchanged views."¹²⁹

Arguably, however, the Court of Justice in the *Chernobyl* case¹³⁰ not only implicitly embraced the Commission's stance, but also seemingly offered a distinction between external Community action and Member

121. Ehlermann, *supra* note 20, at 152.

122. *Id.*

123. Bourgeois, *supra* note 19, at 5.

124. *Natural Rubber*, 1979 E.C.R. at 2871.

125. *Id.* at 2913.

126. *Id.* at 2917. For example, "technological assistance, research programmes, labour conditions in the industry concerned, or consultations relating to national tax policies . . . may have an effect on the price" of the product concerned. *Id.*

127. *Id.* at 2915. An example is the supply of raw material to the Community or price policy. *Id.*

128. Bourgeois, *supra* note 19, at 7; see also Ehlermann, *supra* note 20, at 156.

129. See, e.g., Bourgeois, *supra* note 19, at 5; see also Ehlermann, *supra* note 20, at 151 (stating that "both institutions have retreated into their traditional trenches").

130. Case C-62/88, *Hellenic Republic v. Council*, 1990 E.C.R. I-1527 [hereinafter *Chernobyl*].

State action within the same field. In this decision, the Court held that Regulation No. 3955/87, which restricted the importation of food contaminated by radiation from the Chernobyl accident, could use Article 113 as a basis despite this measure's essential objective of safeguarding the health of Community consumers.¹³¹ Thus, commercial policy considerations were ancillary. The Court reasoned that

the preamble to [the] Regulation . . . indicates that "the Community must continue to ensure that agricultural products . . . intended for human consumption and likely to be contaminated are introduced into the Community only according to common arrangements" and that those "common arrangements should safeguard the health of consumers, [and] maintain, without having unduly adverse effects on trade between the Community and third countries, the unified nature of the market and prevent deflections of trade."¹³²

Article 113 constituted sufficient legal basis and did not require any additional basis such as Articles 130S-130T, because the Regulation's stated objective and content — not its predominant purpose — "as they appear from the very terms of the regulation . . . [are] intended to regulate trade between the Community and non-member countries . . . within the meaning of Article 113."¹³³ In short, even though the measure undeniably sought to protect health, because it was couched in the traditional terms of an international trading measure, it fell under Article 113, which is the result that commentators had foreseen.¹³⁴

More significantly, however, the Court of Justice's decision allows Article 113 to apply to matters which relate to measures of equivalent

131. *Id.* at I-1547-51.

132. *Id.* at I-1549.

133. *Id.*

134.

According to the Council only measures which are meant to influence the volume or pattern of trade with third countries fall within the common commercial policy. *Measures that would have as their primary objective the protection of health, of the environment or of the consumer, fall under this interpretation of the Council, outside the scope of Article 113. . . .*

On the other hand, the Commission's definition, by refusing to pay any regard to the objective pursued, goes to opposite extremes: *also measures taken for quite different purposes than regulating trade like for instance a temporal blockage of imports of meat of suspicious quality in order to protect national health would fall within the scope of Article 113 because the instrument used is a classic instrument of commercial policy.*

effect in intra-Community trade. Although environmental issues arguably fall under Article 36,¹³⁵ they constitute mandatory requirements that permit derogations from Article 30.¹³⁶ Since the EC adopted no internal measures under either Articles 130S or 100A regarding the sale or consumption of contaminated vegetables, the Member States under the mandatory requirements analysis still remained free to legislate in this area. However, as Professor Eeckhout observed, the Chernobyl Regulation had an essentially different goal compared to measures which the Member States might have pursued to prevent importation of contaminated food. The Regulation sought to "ensure that agricultural products and processed agricultural products intended for human consumption and likely to be contaminated are introduced into the Community *only according to common arrangements*," and to "maintain, without having unduly adverse effects on trade between the Community and third countries, *the unified nature of the market and prevent deflections of trade*."¹³⁷ The Court, after citing these aims, observed that the Regulation establishes uniform rules regarding the conditions of importation of potentially contaminated agricultural products. Without such a Regulation, trade patterns could be altered and competition distorted. Thus, the Court decided that the Regulation was rightly adopted on the basis of Article 113.¹³⁸

Eeckhout agreed that the effect of this decision means the common commercial policy can harmonize at the external level of national policies in areas such as the protection of public health or public security provided that a sufficient link with trade is alleged. The Community must claim that a uniform external regime is necessary to avoid deflections of trade or distortions of competition within the internal market. Such a framework of harmonization circumvents the issue of exclusive Community powers because these Community measures are essentially different from existing national regulation.¹³⁹

If the Community can show that external regulation of intellectual property is sufficiently linked to trade and that without such regulation competitive distortions would occur, then the EC's interest in intellectual property is "essentially different" from that of the Member States.

135. See Ludwig Krämer, *Environmental Protection and Article 30 EEC Treaty*, 30 COMMON MKT. L. REV. 111, 119-20 (1993).

136. Case 302/86, 1988 E.C.R. at 4622.

137. Council Regulation 3955/87 on the Conditions Governing Imports of Agricultural Products Originating in Third Countries Following the Accident at the Chernobyl Nuclear Power-Station, 1987 O.J. (L 371) 14 (emphasis added).

138. *Chernobyl*, 1990 E.C.R. at I-1549.

139. Eeckhout, *supra* note 35, at 99-100.

Consequently, the EC faces no exclusivity problem. While this facile approach has visceral appeal, it suffers from some drawbacks. First, although varying levels of aggressiveness among the Member States' protection of intellectual property rights can lead to trade deflections and competition distortions, avoiding such distortions does not result directly from regulating intellectual property internationally. The Commission's actions address what other nations have done or failed to do rather than how goods enter or leave the EC. Moreover, the distortion/deflection standard defies simple qualification and invites wide interpretations, and this approach fails to explain the status of Member State powers after the EC acts externally. Unlike intellectual property, the *Chernobyl* example involved a subject — radiation contaminated food — for which no Member State had a law. Beyond possibly endorsing the Commission's view, *Chernobyl* provides little guidance regarding permitted measures of equivalent effect and the common commercial policy.

The two decisions concerning Member State application of intellectual property law, a measure of equivalent effect, and external EC trade indirectly support Community competence over intellectual property matters. The *EMI* case examined whether EMI, the legal owner of the Columbia trademark in the Member States, can prevent the importation of records, which also bear the Columbia trademark, from a third country in which the records were lawfully produced and marketed (CBS, Inc. was the holder of the trade mark outside the EC).¹⁴⁰ The Court of Justice stated that the Articles 30-34 analysis regarding measures of equivalent effect has no place in an issue involving the free movement of goods between the EC and a third country.¹⁴¹ The Court of Justice held that

the exercise of a [trademark] right in order to prevent the marketing of products coming from a third country under an identical mark, even if this constitutes a measure having equivalent effect to a quantitative restriction, does not affect the free movement of goods between Member States and thus does not come under the prohibitions set out in Article 30 *et seq.* of the Treaty. . . . In such circumstances, the exercise of a [trademark] does not, in fact, jeopardize the unity of the Common Market which Article 30 *et seq.* are intended to ensure.¹⁴²

140. *EMI*, 1976 E.C.R. at 813.

141. *Id.* at 845.

142. *Id.* at 845-46. The Court also stated that complying with articles 9 and 10 does not necessarily means that goods may be marketed and freely moved throughout the EC in

In addition, and of more importance, the Court declared that, with respect to measures of equivalent effect,

the provisions of the Treaty on common commercial policy do not . . . lay down any obligation on the part of the Member States to extend to trade with third countries the binding principles governing the free movement of goods between Member States and in particular the prohibition of measures having an effect equivalent to quantitative restrictions. The arrangements concluded by the Community in certain international agreements such as the ACP-EEC Convention of Lomé . . . or the agreements with Sweden and Switzerland . . . form part of such a policy and do not constitute the performance of a duty incumbent on the Member States under the Treaty.¹⁴³

Furthermore, the Court declared that Regulation No. 1439/74 (the predecessor of Regulation 288/82) on common import rules is only a quantitative restriction to excluding measures having equivalent effect.¹⁴⁴ By stating that the Regulation related only to quantitative restrictions, the Court of Justice avoided having to deal explicitly with the issues presented by trade liberalization agreements, including measures of equivalent effect. Thus, the question remains unanswered.¹⁴⁵ In any event, it appears that national measures of equivalent effect are not expressly or impliedly prohibited, but may be prohibited as a matter of policy within agreements governing trade relations with a particular third party.¹⁴⁶

In another case, *Polydor*, the Court of Justice examined the legality of a Member State invoking intellectual property rights to prevent the importation of recordings lawfully produced and marketed in a country with which the EC had a trade agreement containing provisions similar to Articles 30-36.¹⁴⁷ The goods were marketed and produced in Portugal with the consent of the EC right holder and subsequently were imported into the Community — a classic exhaustion of rights scenario. The Court, however, found that similarity in terms was insufficient reason to transpose to the provisions of the trade agreement the principles derived from the Article 36 case law applying to the protection of intellectual property and the free movement of goods. Indeed, the Court declared

contravention of the trade mark rights. *Id.* at 846; see VÖLKER, *supra* note 6, at 93-94.

143. *EMI*, 1976 E.C.R. at 846-47.

144. *Id.*

145. *Govaere*, *supra* note 7, at 213.

146. VÖLKER, *supra* note 6, at 103.

147. *Polydor*, 1982 E.C.R. at 329.

that in the context of the trade agreement, restrictions on trade of goods on the grounds of intellectual property protection, which would not be possible in the context of intra-Community trade, could be justified.¹⁴⁸ This non-applicability of the exhaustion doctrine openly discriminates against third countries because they do not enjoy the same rights as their Community competitors. The EC right holder can market his intellectual property in third countries and simultaneously prevent the products he circulated from being imported and exploited in the Member States.

Like *EMI*, *Polydor*'s implications for the relationship between measures of equivalent effect and the common commercial policy rest largely in what is not said. Govaere commented regarding these two cases:

In the *EMI* case, the Court stated that the Treaty rules on common commercial policy do not oblige Member States to extend to trade with third countries the principles applying to the free movement of goods. In the *Polydor* case, the Member States were not obliged to do so either on the basis of an agreement merely containing provisions similar to [A]rticles 30 and 36 [of the Treaty]. Applying an *a contrario* reasoning, this implies that in both cases the Member States were, however, free to do so. But what would the situation be like, were an agreement concluded with a third country on the basis of Article 113 [of the Treaty] to contain an express provision stating that the exhaustion principle either applies or does not apply. In the latter hypothesis, one could claim that this is an open discrimination vis-à-vis trade with the third country concerned. And in the first hypothesis . . . would the Member States then not be obliged by virtue of the common commercial policy to extend this principle to trade with third countries and thus lose concurrent competences in this field? A conclusion in the affirmative would not prejudice the competence of the Member States to legislate and conclude agreements with third countries as far as the essence of intellectual property rights is concerned. Merely the way in which the rights derived from intellectual property protection could be exercised would be curtailed on the basis of the common commercial policy.¹⁴⁹

Echoing the case law's exercise/existence rubric, Govaere sees a distinction between the Member States' concerns and the EC's regarding intellectual property. In other words, extending the common commercial

148. *Id.* at 348-49.

149. Govaere, *supra* note 7, at 214-15.

policy to include intellectual property does not alter the EC's essential interests.

Although not explicitly, both *Chernobyl* and *Polydor* support the idea that externally, the EC deals with issues distinct from Member State competence. Eeckhout bases the distinction on the necessity of avoiding trade deflections and competitive distortions, which is the essential policy goal of the EC, arguing that national measures simply do not have this aim.¹⁵⁰ Govaere also sees a distinction but one that already reflects the respective competencies of the EC and the Member States. Extending the commercial policy to this field, which is not disallowed by *EMI* and *Polydor*, would not change those basic interests.

In any event, while the Court of Justice has not defined precisely the scope of the common commercial policy, it nonetheless permits the Community to authorize specific derogations from its exclusivity at the end of the transitional period.¹⁵¹ The Court of Justice required that such derogations be strictly interpreted and applied¹⁵² but failed to specify what constitutes specific authorization. In its later decision in *Bulk Oil*,¹⁵³ however, the Court allowed a generous interpretation of what is considered a *specific* authorization.¹⁵⁴

In *Bulk Oil*, the Court held that a provision, Annex 10 of the 1969 general regime on exports,¹⁵⁵ which excluded a number of products, including oil, from the principle of freedom of exportation, was suffi-

150. Eeckhout, *supra* note 35, at 100.

Take the case of export controls on dual use goods. Insofar as such controls genuinely serve to protect public security, one should indeed acknowledge that they are not measures of commercial policy, and that the Member States have retained the competence to operate a system of controls. On the other hand, in case the Community would develop a common system of such controls, 'harmonizing' the existing national systems, this would be a measure of commercial policy, because it aims at creating uniform conditions of exportation. It goes without saying, of course, that once the Community has acted by virtue of its competence to pursue a commercial policy, the Member States lose all powers to adopt autonomous national measures.

Id.

151. *Donckerwolcke*, 1976 E.C.R. at 1937. The Court recognized that the Community had not completely established a common commercial policy. Accordingly, derogations were permitted under Article 115. *Id.*; see Bronckers, *supra* note 115, at 65. The *Donckerwolcke* ruling applies to all aspects of commercial policy and not only to measures concerning imports.

152. *Donckerwolcke*, 1976 E.C.R. at 1937.

153. Case 174/84, *Bulk Oil* (ZUG) A.G. v. Sun Int'l Ltd, 1986 E.C.R. 559.

154. C.W.A. Timmermans, *Community Commercial Policy on Textiles: A Legal Imbroglia*, in PROTECTIONISM, *supra* note 19, at 159, 161; see also Völker, *supra* note 30, at 106-08.

155. Commission Regulation 2603/69, *supra* note 113.

cient specific authorization for the United Kingdom's restrictive oil export regime in 1979. Annex 10 did not precisely describe the product, the measures permitted, or any sort of time frame for the authorized activity.¹⁵⁶ The provision was only specific in that it explicitly listed what was covered; it was not based on an evaluation of the situation in 1979 and the following years.¹⁵⁷ Moreover, if Annex 10 indefinitely authorized Member States to adopt whatever measures they believed necessary, then it would have created an internal division of power or a system of concurrent competencies.¹⁵⁸ Should it be determined that the common commercial policy extends to intellectual property, the generous understanding of specific derogation may prove extremely useful to explain Member State activity.

c. Academia Weighs In

Not unexpectedly, the lack of consensus about Article 113 has provided fertile grounds for scholars, including Edmund Völker, C.W.A. Timmermans, Jacques Bourgeois, C.D. Ehlermann, Geoge le Tallac, and Richard Lauwaars to advance their theories regarding its scope. Of those various theories, only Völker's and Timmermans' views address the issue of sanctioned measures of equivalent effect (either through Article 36 or mandatory requirements) within the common commercial policy.¹⁵⁹

156. Völker, *supra* note 30, at 107.

157. Timmermans, *supra* note 154, at 161.

158. Völker, *supra* note 30, at 107.

[I]t must be pointed out here that *Polydor* and *EMI* create some strain with the *Donckerwolcke* doctrine. It will be recalled that the Court held that Article 30's rules prohibiting measures having equivalent effect on intra-Community trade had no application on relations with third countries even if there is a directly effective bilateral trade agreement between the EC and the third country containing provisions similar to Article 30.

Bronckers, *supra* note 115, at 75. Although one may assume that national quota-equivalent restrictions are of a commercial policy nature and so fall under Article 113, the Court was not asked and did not inquire whether the Community specifically authorized the measures. *Id.*

159. This discussion purposely leaves aside Peter Gildorf's intriguing suggestion that the EC simply drop the common commercial policy's exclusivity in those fields which do not fall under the traditional definition of a commercial measure. Essentially, Gildorf does not see any Treaty or practical justification for exclusivity regarding new areas of commercial policy. Peter Gildorf, *Portée et Délimitation des Compétences Communautaires en Matière de Politique Commercial*, in 323 REVUE DU MARCHÉ COMMUN 195, 197 (1987). Gildorf's proposal represents a radical departure from established jurisprudence: he solves the problem by changing the rules, which is simply not practical — especially considering, given the Maastricht Treaty, there appears no desire to go in that direction. Moreover, he does not consider the fundamental difference between a prohibitive regime (Article 30) and a policy regime (Article 113). VÖLKER, *supra* note 6, at 191. Further, he fails to resolve the issues of dueling competencies and the potential disruption of market unity.

The predominant school, the *per se*/rule of reason analysis, runs as follows:

All measures [that] regulate openly and specifically trade with third countries should always be considered as part of the common commercial policy; they are *per se* measures of commercial policy unless the Treaty provides for an exception. Other measures should be considered as part of such policy by a sort of 'rule of reason' viz. when their dominant purpose is to influence the volume or flow of trade.¹⁶⁰

To determine the dominant purpose, both Bourgeois and Ehlermann have maintained that it should be accomplished in an "objective and incontestable" manner by examining the agreement (its purpose, structure, instruments, and effects) and the framework in which the agreement was reached.¹⁶¹

Per se commercial policy measures would include:

- (a) measures expressly mentioned in Articles 113 and 112 of the EEC Treaty (tariffs, quotas, protective measures in case of dumping and subsidies, export credits);
- (b) measures ancillary to measures under (a) (*e.g.* customs regulations, procedures for import and export licenses);
- (c) all other formally discriminating measures which are not expressly mentioned and not ancillary in character (*e.g.* taxes, and measures of equivalent effect to quantitative restrictions which discriminate openly between intra-Community trade and trade with third countries. . .).¹⁶²

Another scholar, Le Tallac, defined the "classical aspects" of the Community's commercial policy to include measures relating to customs

160. Bourgeois, *supra* note 19, at 6 (emphasis omitted); see also Ehlermann, *supra* note 20, at 152-53 ("It follows from the fundamental character and the examples given in Article 113 that it covers *all measures which regulate openly and specifically trade with third countries*, whatever their purpose and motivation might be, unless the Treaty contains a derogation."); KAPTEYN & VERLOREN VAN THEMAAT, *supra* note 6, at 790 ("The common commercial policy, it may be submitted, embraces all measures (autonomous or conventional) which serve to regulate economic relations with third countries and concern free movement of goods and related traffic in services and payments.").

161. Bourgeois, *supra* note 19, at 7. For example, one should ask "is it part of a wider package deal or is it negotiated within an international organization whose aim is to promote trade?" *Id.*; see Ehlermann, *supra* note 20, at 156. Ehlermann also stated that the number and hierarchy of goals should be examined but gave no bright line tests to measure them. Lastly, he suggested examining the motivation of the principle actors (*e.g.*, the Community or the Member States) regarding the particular legislation. Ehlerman, *supra* note 20, at 156.

162. Bourgeois, *supra* note 19, at 6. See Ehlermann, *supra* note 20, at 153.

tariffs and quantitative restrictions such as import prohibitions and quotas.¹⁶³

Timmermans objects to the broad sweep of the *per se* rule. He maintains that such a rule extends the common commercial policy to measures that do not serve a commercial policy objective but rather an objective such as environmental policy, public health, or something similar.¹⁶⁴ The *per se* rule brings matters within the Community's exclusive external competence while internally these matters still belong under the powers of the Member States.¹⁶⁵

Lauwaars has also criticized the *per se* analysis insofar as it applies to measures of equivalent effect. He argues that existing authority does not permit this extension. Regulation 288/82, the common rules for imports, states clearly that "importation into the Community of the products referred to in paragraph 1 shall be free, and therefore not subject to any quantitative restriction."¹⁶⁶ Moreover, Lauwaars asserts that both the *EMI* and *Bulk Oil* decisions stand squarely against applying the *per se* rule to measures of equivalent effect.¹⁶⁷ *EMI* held that Regulation 288/82's provisions "relate only to quantitative restrictions to the exclusion of measures having equivalent effect,"¹⁶⁸ while *Bulk Oil* stated that Regulation 2603/69, on the common rules for exports, "does not prohibit a Member State from imposing new quantitative restrictions 'or measures having equivalent effect' on its exports of oil to non-member countries."¹⁶⁹

Timmermans maintains instead that the scope of the common commercial policy should reflect the internal division of powers — a parallelism of competencies. Accordingly, all measures that directly affect trade flow with third countries fall within the common commercial policy.¹⁷⁰ Exceptions to this include measures enacted to protect the public

163. Georges Le Tallec, *The Common Commercial Policy of the EEC*, 30 INT'L & COMP. L.Q. 732, 735 (1971). "To sum up," Le Tallec maintains, "commercial policy consists of all action by the authorities which has a special influence on imports or exports or on the international exchange of services, in other words which modifies the behaviour of economic agents, but only in international relations." *Id.* at 738.

164. C.W.A. Timmermans, *La Libre Circulation des Marchandises et la Politique Commerciale Commune*, in RELATIONS EXTÉRIEURES DE LA COMMUNAUTÉ EUROPÉENNE ET MARCHÉ INTÉRIEUR: ASPECTS JURIDIQUES ET FONCTIONNELS 91, 95 (P. Demaret ed., 1988); see also Lauwaars, *supra* note 2, at 73-75.

165. Timmermans, *supra* note 164, at 95.

166. Council Regulation 288/82, *supra* note 113, art. 1, para. 2.

167. Lauwaars, *supra* note 2, at 78.

168. *EMI*, 1976 E.C.R. at 847.

169. Lauwaars, *supra* note 2, at 78 (footnotes omitted); see also Völker, *supra* note 30, at 105-07.

170. See Timmermans, *supra* note 134, at 680.

interests recognized in Article 36 and measures enacted to protect consumers, fair competition, and the other interests under the Court of Justice's *Cassis de Dijon* doctrine.¹⁷¹ Timmermans commented further that

[t]hese residual national powers [that] are accepted by the Treaty can also be exercised with regard to goods originating from third countries imported through other Member States where they have been brought into free circulation. What applies in cases of direct importation from a third country? Shouldn't Member States remain empowered to take similar measures and under similar conditions as they do with regard to intra-community trade in goods? I think so.¹⁷²

Timmermans' approach has the advantage of creating a uniformed external regime and not causing deflections of trade.¹⁷³ More importantly, it complements Govaere's analysis. Govaere reasoned that extending EC competence to intellectual property would not prejudice the Member States' competence because the common commercial policy would only restrict how Member States exercise these rights.¹⁷⁴ Thus, as Timmermans advocates, the parallelism between internal and external competencies would be applied fully.¹⁷⁵

Völker, however, criticizes both Timmermans' approach and the *per se*/rule of reason approach, claiming that they share the same problem. Each leaves

within the scope of trade policy all sorts of measures taken for entirely different purposes like public health, consumer protection or the protection of the environment. Such measures do not fit within the confines of trade policy which, as part of economic policy, should be concerned with the commercial conditions of the

171. *Id.* In *Cassis de Dijon*, the Court of Justice expanded the permitted derogations from Article 30 and expressly included grounds other than those provided by Article 36. The Court held that trading rules that might hinder intra-Community trade may nonetheless be permitted under Article 30 provided they are "necessary . . . to satisfy mandatory requirements relating . . . to the effectiveness of fiscal supervision, the protection of the public health, the fairness of commercial transactions and the defense of the consumer." *Cassis de Dijon*, 1979 E.C.R. at 662.

172. Timmermans, *supra* note 134, at 680. Ehlermann strongly rejected position declaring: "I do not believe that this objection is valid. The parallelism between internal and external consequences is intended to strengthen the Community's powers in the external field, not to weaken them." Ehlermann, *supra* note 20, at 154.

173. See Timmermans, *supra* note 134, at 680; Eeckhout, *supra* note 35, at 94-95.

174. Govaere, *supra* note 7, at 215. As discussed, the EC regulates the exercise not the existence of intellectual property. Its external actions parallel its internal; the Member States' essential interests remain the same.

175. See *supra* text accompanying notes 162-68.

entry of foreign goods to the Community market and of Community goods to the world market.¹⁷⁶

Additionally, Timmermans' approach suffers from a "wide variety of opinions on the actual scope and content of the grounds provided."¹⁷⁷ Furthermore, Articles 30–36 and Article 113 have essentially distinct goals that make parallelism difficult. Articles 30–36 create a system of prohibitions and exceptions regarding Member State power in the context of establishing the internal market. Article 113, on the other hand, confers upon the Community the authority and responsibility to build an external competence. This distinction has been characterized as the difference between negative (Articles 30–36) and positive (Article 113) integration.¹⁷⁸

Völker offers a pragmatic solution that recognizes that measures of equivalent effect play a role in international commercial relations that do not fit precisely into existing categories.¹⁷⁹ He thus proposes an alternative approach that builds upon the *per se*/rule of reason analysis by creating a third category under Article 113, which includes international instruments primarily designed to regulate, minimize, or stop the effects of measures of equivalent effect on international trade.¹⁸⁰ Accordingly, Article 113 extends to:

- a) trade policy instruments *per se*, i.e. those measures affecting the price and quantity elements of the market mechanism in order to determine the commercial conditions on which third country goods may enter the Community's market, or on which Community goods may leave the Community for the world market . . . ;
- b) the measures ancillary to trade policy instruments proper This category comprises the measures required for the proper application of the trade policy instruments of [the first category];
- c) all measures [that] do not come within [the first and second categories] . . . and [that] have as their essential object to

176. VÖLKER, *supra* note 6, at 191.

177. *Id.*

178. Lauwaars, *supra* note 2, at 79–80 (quoting Opinion 1/75, 1975 E.C.R. at 1363); see also VÖLKER, *supra* note 6, at 191. Lauwaars maintained, in fact, that the parallelism advocated by Timmermans is "*a petitio principii*" — a begging of the question. Lauwaars, *supra* note 2, at 79.

179. VÖLKER, *supra* note 6, at 196. "[N]ot all international agreements covered by this criterion [international developments or international state practice] fit into one of the two categories of either trade policy instruments proper or trade instruments-related measures." *Id.* at 195.

180. *Id.* at 196.

prohibit, remedy or check the effects on trade caused by the external application of measures of equivalent effect. Such measures ensure that the effects of non-trade policy measures on international trade are minimised as much as possible. . . . [These measures] do not have "as their object the establishment and functioning of the internal market" . . . but rather the safe-guarding of the effectiveness of trade policy measures, which are part of economic policy.¹⁸¹

Völker adds that the third category of measures should be evaluated not in the context of the Community but rather in their international context.¹⁸² As a result, international intellectual property agreements, which reverse the impact on international trade of measures of equivalent effect, fall under this third category and thus under Article 113.¹⁸³ As for Member State activity, Völker has suggested that the proposed Council decision that Member States accede to the Berne and Rome Conventions can provide the specific justification in terms of the *Donckerwolcke* and *Bulk Oil* judgments.¹⁸⁴

5. Article 113 and International Intellectual Property Regulation — Within the Scope

Given the broad mandate of the common commercial policy, it is easy to understand why the Commission based its intellectual property actions on Article 113. As intellectual property is now perceived, it can fall within any of the aforementioned descriptions of the commercial policy. Essentially, the Commission has sought to regulate the external market through enforcing minimum standards of intellectual property protection, which is also what the TRIPs negotiations tackle.¹⁸⁵ This "essential objective" fulfills *Natural Rubber's* criteria.¹⁸⁶ Moreover, such measures undoubtedly seek to harmonize developing world trade — at least, in the eyes of the Commission and the GATT. Because these matters openly and specifically regulate trade with third countries, the *per se*/rule of reason analysis is also satisfied.¹⁸⁷ Additionally, if the

181. *Id.* at 196–97.

182. *Id.* at 197.

183. *Id.* at 198.

184. *Id.* The same could be said of Article 21(2)(a) of Council Regulation 288/82, *supra* note 113.

185. Govaere, *supra* note 7, at 204–06.

186. *Natural Rubber*, 1979 E.C.R. at 2917.

187. What is more, despite *EMI's* holding, the *per se* criteria covers measure of equivalent effect. Bourgeois, *supra* note 19, at 6; Ehlermann, *supra* note 20, at 153.

Court of Justice embraced the Commission's view through the *Chernobyl* decision, then extending the common commercial policy becomes even easier. Conceptually extending the common commercial policy, however, is not the main problem. Rather the issue has always been whether a theory regarding the common commercial policy can admit sanctioned Member State activity in seemingly the same field.

Timmermans, as interpreted by Govaere, offers the viscerally most attractive approach because it bypasses the exclusivity problem by distinguishing between Member State and Community activity. Moreover, it reflects the division of powers already existing in the Community: the Community regulates the Member States' exercise of intellectual property rights when that exercise may artificially partition the internal market, while the existence of such rights remain within the Member States' control. Since the EC already has authority over intellectual property when the exercise of such laws threatens market integrity, extending the common commercial policy to this field effectively changes nothing. This approach also avoids the problem of parallelism between mix-matched regimes — between a policy regime (Article 113) and a prohibitive regime (Articles 30-36). Recall that the Court of Justice has interpreted intellectual property rights in the internal market far different from other sanctioned measures of equivalent effect by not balancing the proportionality of market impact versus Member State rights, but rather by comparing existence versus exercise. Further, unlike other Article 36 derogations, intellectual property involves personal rights not sovereign state powers.

Timmermans' method, however, has its drawbacks. The integrity of the internal market is not directly connected to international protection of intellectual property. Varying degrees of Member State aggressiveness in protecting their nationals' rights can ultimately lead to some internal market partitioning, but the Community is essentially interested in other nations' activities. Thus, the parallelism is somewhat strained. More troublesome, however, is the exercise/existence standard itself. On a Community level, this concept is difficult and invites case by case analysis. Internationally, it would be very burdensome if Community action were constantly threatened by litigation. Furthermore, EC international activity (such as the joining of the Berne and Rome Conventions) will do more than regulate the exercise of intellectual property by actually creating normative standards.

Völker's approach does not suffer from such problems. The appeal of his ideas lie in their directness. Unlike Govaere's interpretation of Timmermans' and unlike Eeckhout, Völker acknowledges that this situation is wholly different and presents challenges that other theories

cannot adequately address. One cannot base international EC actions on a concern for internal market integrity because the connection to the establishment and internal functioning of the internal market is too slim.¹⁸⁸ Nonetheless, by the international criteria, intellectual property matters have become common commercial policy issues. Völker's new Article 113 third category covers such measures that aim "to prohibit, remedy or check the effects on trade caused by the external application of measures of equivalent effect."¹⁸⁹ Given the interpretation of the *Donckerwolcke* doctrine, Völker's reliance on it for Member State activity is reasonable. To the extent that Community action requires harmonization of national systems, such as with the proposal that the Member States accede to the Berne and Rome Conventions, Völker recommends that one add Article 100A as another legal basis.¹⁹⁰

Even with individual Member States participating as described above, the partitioning of the internal market by national intellectual property law remains intact. This will only end if the Community, rather than the Member States, becomes a party to the conventions (on the basis of Article 113), thereby leading harmonization laws, developing one Community system of intellectual property, and removing the national barriers.¹⁹¹ This tracks the approach that the Commission has already taken regarding its proposal to accede to the Berne and Rome Conventions.¹⁹²

The only disadvantage in Völker's approach also lies in its directness. Stating that the Community's exclusive power extends to intellectual property rights and that Member State activity stems from a delegation of EC power is confronting. Govaere has commented that it "clearly goes against the traditional view that intellectual property rights are part of their sovereign rights."¹⁹³ Indeed, the Council has trouble accepting the Commission's proposal.¹⁹⁴ Consequently, Govaere's interpretation of Timmermans' may have more appeal because it claims not to change existing relations. This, however, is not a legal argument but a policy one. Ultimately, the choice depends on how the Court of Jus-

188. For a discussion of implied powers, see *supra* part B.

189. VÖLKER, *supra* note 6, at 196.

190. *Id.* at 198. "International agreements concerning in essence the actual content of one or more . . . regulations will have to be approved by the Community, depending on the subject concerned, on the basis of either Article 100(A) or e.g. Article 130(R)(5) regarding environmental measures" *Id.* at 196.

191. *Id.* at 198.

192. See Commission Proposal on the Berne and Rome Conventions, *supra* note 14.

193. Govaere, *supra* note 7, at 220.

194. *Id.* at 220-21; see also VÖLKER, *supra* note 6, at 198.

tice measures the impact of international intellectual property matters on the internal market and to what degree it will accept a hazy standard in the common commercial policy. If the Council's reticence is any indication, part of the answer will also depend on the political climate.

B. *Implied External Competence and International Intellectual Property Issues*

"The most significant difference between external competence based on implied powers and the competence to conduct a commercial policy lies in the policy element. Implied powers do not require [that] a genuine comprehensive policy be developed."¹⁹⁵ Furthermore, a derived external competence need not be exclusive. Exclusivity depends on whether the Community receives its power from the Treaty or its application."¹⁹⁶ In other words, the particular nature of the internal source decides the extent of the exclusivity of the derived external power.¹⁹⁷ As shall be shown below, the jurisprudence regarding implied external powers is extremely liberal. Whether the EC's implied external power includes intellectual property requires an interpretation of internal Community legislation and its goals. While existing Community harmonization regarding intellectual property is probably insufficient to establish a derived external power, the demands of establishing and maintaining an internal market may provide the basis for external action. Again, the question depends on how one interprets the impact of international intellectual property upon the integrity of the internal market.

1. The Basics

The *ERTA* case introduced the concept of implied external Community action.¹⁹⁸ Simply stated, when the Community has adopted common rules in the internal sphere, it must also have the power to enter into any international agreements that affect these rules or alter their scope.¹⁹⁹ To determine whether the Community has the authority to enter a particular international agreement, the whole scheme of the Treaty, in addition to the substantive provisions, must be considered.²⁰⁰ The Community's authority not only may be expressly conferred by the

195. Eeckhout, *supra* note 35, at 85.

196. KAPTEYN & VERLOREN VAN THEMATAAT, *supra* note 6, at 773.

197. "The implied external powers cannot be more comprehensive than their source — the internal powers." Timmermans, *supra* note 1, at 21.

198. *ERTA*, 1971 E.C.R. at 263.

199. See Bourgeois, *supra* note 18, at 100.

200. *ERTA*, 1971 E.C.R. at 274.

Treaty, but also it may flow from other Treaty provisions and from measures that the Community institutions adopted within the framework of those provisions.²⁰¹

In the *Kramer* case, the Court of Justice expanded the basis of implicit external power by determining that the Community had the competence to enter international commitments regarding ocean biological resource conservation.²⁰² Although the Treaty provided no express authorization, the Court explained:

Article 210 provides that 'the Community shall have legal personality.' This provision, placed at the head of Part Six of the Treaty, devoted to 'General and Final Provisions,' means that in its external relations the Community enjoys the capacity to enter into international commitments over the whole field of objectives defined in Part One of the Treaty, which Part Six supplements.²⁰³

The Court further declared:

To establish in a particular case whether the Community has authority to enter into international commitments, regard must be had to the whole scheme of the Community law no less than to its substantive provisions. Such authority arises not only from an express conferment by the Treaty, but may equally flow implicitly from other provisions of the Treaty, from the Act of Accession and from measures adopted, within the framework of those provisions, by the Community institutions.²⁰⁴

Furthermore, the Court declared that the Community derived its power to regulate fishing not simply from internal rules and other provisions

201. *Id.*

202. Joined Cases 3, 4 & 6/76, *Kramer et. al.*, 1976 E.C.R. 1279 [hereinafter *Kramer*].

203. *Id.* at 1308. Burrows wrote regarding this reasoning:

Here was a non sequitur of monumental proportions. The *raison d'être* of a provision which gave the Community legal personality could just as easily have been held to be that the Community must have the legal capacity to exercise the powers which are specifically conferred upon it by the EEC Treaty. The only necessary implication to be drawn from the existence of Article 210 is that the authors of the Treaty must have contemplated that there would be some circumstances in which it would [be necessary] to have such personality.

Burrows, *supra* note 2, at 113.

204. *Kramer*, 1976 E.C.R. at 1308. The Court concluded that the Community had the internal power to take fishery conservation measures after reviewing the scope of Articles 38 to 46 of the Treaty, Council Regulations 2141/70 and 2142/70 as well as Article 102 of the Act of Accession. *Kramer*, 1976 E.C.R. at 1308-09. This was the first instance the Court used the expression "implicitly."

but from "the very nature of things."²⁰⁵

In Opinion 1/76, the Court continued to expand the range of implicit powers by holding:

[W]henver Community law has created for the institutions of the Community powers within its internal system for the purpose of attaining a specific objective, the Community has authority to enter into the international commitments necessary for the attainment of that objective even in the absence of an express provision in that connection.²⁰⁶

Thus, entering international commitments is both expressly authorized by the Treaty and implicitly permitted by its provisions.²⁰⁷ The Court refers here not only to the Treaty but also to "Community law." The Court continued:

This is particularly so in all cases in which the internal power has already been used in order to adopt measures which come within the attainment of the of common policies. *It is, however, not limited to that eventuality.* Although the internal Community measures are only adopted when the international agreement is concluded and made enforceable . . . the power to bind the Community *vis à vis* third countries nevertheless flows by implication from the provisions of the Treaty creating the internal power and in so far as the participation of the Community in the international agreement is . . . necessary for the attainment of one of the objectives of the Community.²⁰⁸

The Court's far reaching language carries great implications.

It must be emphasized that the Community's implied external power stems from a necessity to assume international obligations. In *ERTA*, although the Court noted that Article 75(a)(1) empowers the Council to adopt common rules of transport to or from the territory of a Member State or across the territory of one or more Member States, this was in itself insufficient basis. There had to be a necessity. The Court stated that "the powers of the Community extend to relationships arising from international law, and hence involve the *need* in the sphere in question

205. *Kramer*, 1976 E.C.R. at 1309. Burrows commented that ascertaining the nature of things is "a formidable task even for someone with an intimate knowledge of the Community from the inside, and even more formidable for somebody advising a third state on whether it should negotiate with the Community or with one or more of the individual Member States which belong to it." Burrows, *supra* note 2, at 114.

206. Opinion 1/76, 1977 E.C.R. at 755.

207. *Id.*

208. *Id.* at 755 (emphasis added).

for agreements with third countries concerned.”²⁰⁹ “ERTA was construed as having consecrated the Community’s *virtual capacity*, or *potential power*. The capacity becomes *real*, the power becomes *actual* upon the entry into force of *common rules*.”²¹⁰ Later case law demonstrates that potential power becomes effective and thus exclusive once Community international action becomes necessary.²¹¹ Both *Kramer* and Opinion 1/76 also relied upon the theme of necessity of external powers to accomplish EC goals.

The question of exclusivity of implied powers defies easy definition. Essentially, external powers are exclusive if the Community also possesses internal competence. Either the Treaty may establish an internal power as exclusive, which will result in making the derived external power also exclusive, or the exercise of an internal power leads to an exclusive derived power because the internal power requires a cession of competence from the Member States to the Community. In the latter instance, whether this has occurred depends upon interpretation. For example, the establishment of common rules in the context of a common policy implies that a transfer of competence has occurred. However, there are no bright-line rules. Not everything the Community has created in conjunction with the Member States amounts to a common policy. Further, common rules need not only be found in regulations. Ultimately, the question of whether the cession of competence by the Member States to the EC in particular field warrants an exclusive derived external power depends upon the intensity of the internal arrangement.²¹²

Accordingly, to have implied external competence regarding intellectual property matters, there must exist internal Community rules or goals which require external competence for their accomplishment.

2. Community Goals Regarding Intellectual Property

The Community has recognized that differences among the Member States’ intellectual property laws can undermine the efficiency and idea of a single market.²¹³ The fact that intellectual property interests are one of Article 36’s permitted derogations does not mean such powers

209. *ERTA*, 1971 E.C.R. at 275.

210. Barav, *supra* note 26, at 36 (footnotes omitted).

211. *Id.*

212. KAPTEYN & VERLOREN VAN THIEMAAT, *supra* note 6, at 773–74.

213. See, e.g., Completing the Internal Market: White Paper from the Commission to the European Council, COM(85)310 final; Commission Copyright Paper, *supra* note 11; Amended Proposal for a Council Directive Harmonizing the Term of Protection of Copyright and Certain Related Rights, COM(92)602 final.

permanently belong to the Member States.²¹⁴

Article 36 is not designed to reserve certain matters to the exclusive jurisdiction of Member States but permits national laws to derogate from the principle of free movement of goods to the extent to which such derogation is and continues to be justified for the attainment of the objectives referred to in that article.²¹⁵

In short, the Member States have lost the power to use national rules to protect mandatory requirements and Article 36 interests once the Community has taken over, secured, and acted to protect them.²¹⁶

The Community has had great success regulating trademarks. On December 20, 1993, the Council issued a regulation that created a registration procedure that enables trademark protection "throughout the Community, regardless of frontiers."²¹⁷ The EC established uniform protection throughout the Community because it promotes continuous, balanced, and harmonious economic development by simulating conditions of a national market and because it provides a legal method for adapting to Community-scale activities.²¹⁸

In addition to trademark regulation, the Community has begun other initiatives to harmonize intellectual property laws.²¹⁹ For example, the EC has made great progress in patent law although, admittedly, outside the framework of the Community.²²⁰ In 1986, the Council enacted a regulation developing a common procedure to prevent the release of counterfeit goods coming from third countries in the Community.²²¹ Moreover, in the Green Paper on Copyright and the Challenges of Technology, the Commission declares that copyright issues require immediate action and outlines various courses of action that should lay

214. In Case 62/79, intellectual property also constitutes a mandatory requirement. Case 62/79, 1980 E.C.R. at 881.

215. Case 35/76, *Simenthal v. Italian Minister for Finance*, 1976 E.C.R. 1871, 1886; *see also Dassonville*, 1974 E.C.R. at 852; Case 5/77, *Tedeschi v. Denkavit Commerciale*, 1977 E.C.R. 1555, 1576.

216. VÖLKER, *supra* note 6, at 180.

217. Council Regulation 40/94, 1994 O.J. (L 11) 1, 1.

218. *Id.* It is worth noting that the Community trade mark does not replace national trade mark laws which the Regulation states shall continue "to be necessary for those undertakings which do not want protection of their trade marks at Community level." *Id.*

219. *See* Amended Commission Proposal for a Council Regulation on the Community Trade Mark, 1984 O.J. (C 230) 1.

220. *See* respectively Council Directive 89/104 of 21 December 1988 to Approximate the Laws of the Member States in Relation to Trade Marks, 1989 O.J. (L 40) 1, and Convention on the Grant of European Patents, Oct. 5, 1973, 13 I.L.M. 270.

221. Council Regulation 3842/86, 1986 O.J. (L 357) 1.

the foundation for future legislation.²²² On May 14, 1992, the Council adopted a resolution calling on all Member States to adopt the Berne and Rome Conventions.²²³ More recently, the Commission has proposed that the Council harmonize the copyright laws of the Community along the lines of the Berne and Rome Conventions.²²⁴ Little, however, has been done so far regarding industrial design law.²²⁵

Regarding the harmonization of intellectual property, a trend exists away from Member States creating intellectual property rights and towards Community initiatives and standards. As shown, the EC has increased its legislative efforts, which thus preempt, to a degree, Member State activity. Moreover, the court decisions clearly demonstrate that the exercise of intellectual property must not be at the expense of the integrity of the internal market. Accordingly, Member State power is correspondingly circumscribed.²²⁶

Nonetheless, a trend does not mean achieved harmonization. Generally, Community regimes have been established in addition to national rules governing intellectual property so that enterprises can treat the community as a single market.²²⁷ As mentioned, the Community patent was attained not through the harmonization process but by intrastate negotiations. In any event, national regimes still continue. What is more, harmonization may not be enough. The Court of Justice has held that "[i]n the absence of such unification, the national character of the protection of industrial property and the variations between the different legislative systems . . . are capable of creating obstacles" to the free movement of goods and competition.²²⁸ Similarly, the Council has remarked regarding trademarks that "the barrier of territoriality of the rights conferred on proprietors of [trademarks] by the laws of the Member States cannot be removed by approximation of laws [Trademarks] need to be created [that] are governed by a uniform Community law directly applicable in all Community States."²²⁹ In short, harmonization does not mean the end of territorialization.²³⁰

222. Green Paper on Copyright and the Challenge of Technology—Copyright Issues Requiring Immediate Action, COM(88)172 final; see Friden, *supra* note 99, at 216.

223. Council Resolution of 14 May 1992, *supra* note 15, at 1.

224. Amended Proposal for a Council Directive Harmonizing the Term of Protection of Copyright and Certain Related Rights, 1993 O.J. (C 27) 7.

225. See Beier, *supra* note 102, at 133–34.

226. Friden, *supra* note 99, at 217.

227. Wissels, *supra* note 99, at 23.

228. Case 24/67, Parke, Davis v. Centrafarm, 1968 E.C.R. 55, 71.

229. Council Regulation 40/94, 1994 O.J. (L 11) 1, 1.

230. For example, Council Directive 89/104, *supra* note 220, continues to apply the

Although there has been much progress towards harmonization of intellectual property rights, particularly with respect to trademarks,²³¹ the legal situation remains sharply divided. Industrial property protection, patent grants, industrial designs, and trademark registration remain the responsibility of the individual Member States, whose protection extends only to their territories. Individual property rights must still be acquired for each individual Member State and can still conflict with other Member States' industrial property rights. In short, a genuine internal market for intellectual property has not yet come into existence.

As long as the protection of industrial property is a matter of national legislation, the rights granted must be guaranteed by national legislation, because European industrial property rights have not replaced all national rights; this is the present status of the law within the Community and will remain so for some time.²³²

Accordingly, it is difficult to assert that the level of harmonization creates a basis for external Community competence in intellectual property.

Nevertheless, interpreting and applying the Treaty's broad and uncertain language will intrigue academia, on the one hand, and frustrate practitioners, on the other.²³³ That harmonization of intellectual property laws fails to provide a suitable foundation does not end the inquiry. One needs to turn to the basic goals of the Treaty.

Article 8a requires the Community to adopt measures aimed at progressively establishing the internal market.²³⁴ To this end, the Treaty has directed that the Council harmonize the Member State measures that directly affect the establishment or functioning of the common market²³⁵ or concern the establishment and the functioning of the internal market.²³⁶ Accordingly, if one can reasonably argue that individual Member State intellectual property laws when applied externally to the Community can lead to distortions of competition and diversions of trade within the EC, then the Community has the power and obligation to harmonize such laws. While it is true that the harmonization would affect laws relating to external matters, "there are no indications

exhaustion principle thus permitting Member States to exclude goods from their territory.

231. See *id.*; Beier, *supra* note 102, at 138-39.

232. Beier, *supra* note 102, at 132, 143.

233. Burrows, *supra* note 2, at 115.

234. EEC TREATY art. 8a.

235. *Id.* art. 100.

236. *Id.* art. 100a.

whatever that the Chapter in the Treaty concerning harmonisation is restricted to measures applying solely to intra-Community trade."²³⁷ In any event, the Community has already applied harmonization directives that affect external matters based upon Article 100A without additionally referring to Article 113.²³⁸

Beyond its direct simplicity, the great charm of an Article 100A argument is that it avoids the problems brought on by Article 113's exclusivity. Article 100A applied externally to regulate trade does not demand that the Member States refrain from all activity affecting intellectual property. Unlike the internal application of national measures, which would have to be based on Article 36, or which fulfill mandatory requirements, external application of national measures creates no legal problems because there exists no prohibition against their application.²³⁹

Problems exist, however, with this approach. First, similar to Govaere's interpretation of Timmermans, the connection between the international regulation of intellectual property and the establishment and functioning of the internal market are, at best, indirect. As Völker maintained, international intellectual property measures are primarily designed to regulate, minimize, or stop the effects on international trade of measures of equivalent effect.²⁴⁰ Such regulations act to safeguard the effectiveness of trade policy measures²⁴¹ and not to ensure competition or prevent trade distortion within the EC; therefore, they more properly belong under Article 113.²⁴²

Furthermore, such use of Article 100A suffers from the breadth of its implications. If Article 100A can reach international intellectual property issues even with such an attenuated connection to the internal market, there can be little beyond its grasp. Its potential reach would intimidate Member States that may see a wholesale infringement on their sovereignty. The same holds true of the implied power doctrine in general. Recalling what the Court stated in Opinion 1/76, the Community had the implied power to enter international commitments to obtain objectives created by its internal power, especially where the internal power already has been used to adopt measures falling within the attainment of common policies.²⁴³ The Court, then, opened the door

237. VÖLKER, *supra* note 6, at 192.

238. *Id.*

239. *Id.* at 193.

240. *Id.* at 196.

241. *Id.* at 197. Trade policy measures are part of economic policy. *Id.*

242. See discussion *supra* Part A.5.

243. Opinion 1/76, 1971 E.C.R. at 755.

very wide and added, "[i]t is, however, not limited to that eventuality."²⁴⁴ This carries great potential power, and the Community has backed far away from this holding. "The political climate for actual application of the Opinion 1/76 construction has so far not been particularly favourable; that much may be clear from the fact that up till now the Council has refused to make use of it as compared with a regular application of the *ERTA* construction."²⁴⁵ In short, the Community has far reaching means to accomplish its ends but these means have equally far reaching implications for Member State sovereignty. While there may be a legal foundation, the Council has been reluctant to follow such an open-ended path.

Conceivably, Article 235 could also serve as a foundation for external Community power.²⁴⁶ The essential criteria of Article 235, absent the procedural requirements, restates the Article itself and may be reduced to three elements: 1) Community action should prove necessary; 2) the action must be in the course of the operation of the common market; and 3) the action must be to attain one of the objectives of the common market. The Court of Justice has stated that "Article 235 offers a supplementary means of action and applies only in the cases which the Treaty has not provided the necessary powers for realization of the object in view."²⁴⁷ Given the Commission's present stance regarding its powers over intellectual property, it is doubtful that it will now pursue such a foundation. In any event, this approach also suffers from the same indirect connection between international intellectual measures and the establishment of the internal market.

CONCLUSION

The question at the beginning of this study was not whether the Community could exercise external power over intellectual property but how. Three alternatives have been described — Govaere's interpretation of Timmermans' approach, Völker's approach, and the approach of using implied powers through Article 100A. Govaere's interpretation of Timmermans presents the most viscerally attractive approach since it

244. *Id.* (emphasis added).

245. VÖLKER, *supra* note 6, at 200; *see also* Bourgeois, *supra* note 18, at 102.

246. *See ERTA*, 1971 E.C.R. at 283. Article 235 reads: "If action by the Community should prove necessary to attain, in the course of the operation of the common market, one of the objectives of the Community and this Treaty has not provided the necessary powers, the Council shall, acting unanimously on a proposal from the Commission and after consulting the European Parliament, take the appropriate measures." EEC TREATY art. 235. Like the conditions for the application of applied powers, a necessity for action must exist.

247. Joined Cases 73 & 74/63, *Handelsvereniging Rotterdam v. Minister Von Landbouw*, 1964 E.C.R. 1, 13.

sees the Community's international activity regarding intellectual property essentially as an external application of a power it already has possessed. Relying on the existence/exercise analysis and a concern for the internal market's integrity, the Community can act to protect European intellectual property rights overseas. Nothing new, the argument goes, has happened. Concern for the establishment and function of the internal market also drives the Article 100A approach. This argument is the most direct since its basic qualification is that regulating intellectual property internationally is important to the workings of the internal market. While one could make a colorable argument about market impact for either approach, in both cases it is indirect. The Community interest in intellectual property internationally concerns primarily what *non-EC* countries are doing in *their* markets with European goods. The object of intellectual property protection, which constitutes a measure of equivalent effect, does not fit precisely within traditional notions of trade measures. It must be admitted that intellectual property's international dimension presents a new set of challenges to the EC that cannot easily be recast as "business as usual." For this reason, Völker, with his pragmatic assessment of the limits of Community powers and theories and of international realities, offers the most convincing argument.

Essentially, Völker recognizes that measures of equivalent effect play a role in international commercial relations which do not belong precisely to existing categories, yet undeniably play a role in international trade. Accordingly, he would extend Article 113 to include:

all measures . . . which have as their essential object to prohibit, remedy or check the effects on trade caused by the external applications of measures of equivalent effect. Such measures ensure that the effects of non-trade policy measures on international trade are minimized as much as possible. . . . [These measures] do not have "as their object the establishment and functioning of the internal market". . . but rather the safe guarding of the effectiveness of trade policy measures, which are part of economic policy.²⁴⁸

The problem of exclusivity is handled by the generous understanding of power derogation as developed in the *Bulk Oil* and *Donckerwolcke* decisions. Whether his ideas shall be followed depends not upon legal arguments but instead upon policy questions. The key consideration is the importance of the *status quo*. Both Völker and the implied powers argument give intellectual property power to the Community, which

248. VÖLKER, *supra* note 6, at 196-97.

goes against the traditional division of power and thus represents an encroachment upon Member State sovereignty. This underscores the inherent attraction of Govaere's interpretation of Timmermans' approach: it claims to change nothing. That may be enough of an appeal to overcome the inherent imprecision surrounding the existence/exercise standard.

Regardless of the justification, it will remain a *post hoc* explanation. No matter how one views the circumstances that led to the Commission's actions, the Community has assumed new powers that, at best, only debatably belonged to it. This is not intended to suggest that somehow the EC can expand where it wants. After all, the Council will prevent unauthorized or threatening growths of EC competence regardless of the Commission's assertions. The Community could do this precisely because the common commercial policy is so broadly written, and if the Maastricht Treaty is any indication, the Member States are satisfied with the existing structure of the EC's external powers. While drafting a clearer statement of powers has its appeal, it also risks losing the malleable and evolving nature that characterizes the EC external competence. Accordingly, the EC can expect more exercises as this study represents.

