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Piracy and Gray Markets in the European Economic Community

by RICHARD L. MOXON*

I

The Treaty of Rome

The European Economic Community (EEC) consists of twelve member states with a total population of approximately 322,362,000.¹ The countries are separated by language but, with the exception of Great Britain and Ireland, not by geography. Each member state is required to adhere to the Treaty of Rome (Treaty),² which founded the EEC and defines its aims. The aims of the EEC (often called the Common Market) are to establish a common market for goods, services, labor and capital between the national territories and to effect the progressive coordination of each country's economy.³

Article 3 of the Treaty requires the elimination of duties and restrictions on the movement of goods originating within the EEC.⁴ The laws of the member states are to be amended, if necessary, to achieve this end.⁵ Under article 5, member states must take appropriate measures to ensure fulfillment of the aims of the Treaty,⁶ and, again, they must legislate to satisfy this requirement. Article 7 outlaws discrimination against goods on the grounds of their country of origin,⁷ while article 30 provides that "quantitative restrictions on imports and all measures having equivalent effect shall be prohibited between member states."⁸ Quantitative restrictions on exports from one

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1. WORLD ALMANAC 1988, 650-738, 741 (1987).

2. EEC Treaty of Rome, 1957. For an annotated text (as amended) see [Vol. B] ENCYCLOPEDIA OF EUROPEAN COMMUNITY LAW 11 (1972).

3. *Id.* at art. 2.

4. *Id.* at art. 3.

5. *Id.* at art. 5.

6. *Id.*

7. *Id.* at art. 7.

8. *Id.* at art. 30.

member state to another are also prohibited.⁹ In order to create this multi-national free market, rules regulating the preservation of free competition were needed. Article 85 satisfies this need by prohibiting practices which may affect trade between member states.¹⁰ The underlying principle of this competition policy is to allow the consumer to buy at the cheapest possible cost,¹¹ but the effect is to enable a trader to trade across frontiers outside "authorized" distribution channels.

*Consten & Grundig v. EEC Commission*¹² is a good example of this problem. Equipment was manufactured in West Germany and exported to France bearing a trademark. A French importer had an exclusive license for the trademark in France, which it anticipated would keep out competing cheaper imports. The EEC Commission (Commission) found that this arrangement restricted competition between distributors of the same brand of product and effectively isolated the French market from competition.¹³

The *Grundig* case illustrates that an agreement to combat unfair competition may fall within the provisions of article 85¹⁴ if it has the effect of causing a distortion in the free traffic of goods. However, the Commission has stated that local laws or actions for passing off may be used to control unfair trade practices.¹⁵ Article 85 also applies to imports from non-EEC countries if the effect is to restrict competition within the EEC, including the export into or re-export of goods within the EEC.¹⁶ In order to mitigate the effect of this article, the Commission has created two exceptions. First, the Commission has indicated it is firmly of the opinion that the way to control such matters is by utilizing local laws or by instituting actions for passing off. Second, since 1983, exclusive distribution agree-

9. *Id.* at art. 34.

10. *Id.* at art. 85.

11. F.M. SCHERER, INDUSTRIAL MARKET STRUCTURE AND ECONOMIC PERFORMANCE 12-13 (2d ed. 1980).

12. 1966 E. Comm. Ct. J. Rep. 299, [1961-1966 Transfer Binder] Common Mkt. Rep. (CCH) ¶8046 (July 13, 1966).

13. *Id.* at 243, [1961-1966 Transfer Binder] Common Mkt. Rep. (CCH) ¶8046, p. 7653.

14. EEC Treaty of Rome, 1957, at art. 85.

15. *Rewe-Zentral v. Bundesmonopolverwaltung*, 1979 E. Comm. Ct. J. Rep. 649, [1978-1979 Transfer Binder] Common Mkt. Rep. (CCH) ¶8543 (Feb. 20, 1979).

16. *Béguelin Import Co. v. G.L. Import Export S.A.*, 17 Recueil 949, [1971-1973 Transfer Binder] Common Mkt. Rep. (CCH) ¶8149 (Nov. 25, 1971).

ments are exempted from the provisions of article 85.¹⁷

II Intellectual Property Rights

A. Trademark

In the area of intellectual property rights, there is clearly a tension between national laws and the Treaty. Copyrights, patents, trademark rights, and registered designs can prevent competition by virtue of a system of territorial grants. Articles 30 to 36 provide several defenses to an action for infringement.¹⁸

One such defense, exhaustion of rights, allows resale of goods purchased in a member state in another member state if the defendant can show the owner had consented to a sale in any other member state.¹⁹

In addition, the "common origin" principle precludes a trademark owner in one member state from suing for infringement in order to prevent the importation of goods bearing a similar mark if the two trademarks have a common origin.²⁰ However, neither of these principles applies in actions involving goods originating in non-member countries.

The third defense involves the doctrine of "passing off," as illustrated by *B.V. Industrie Diensten Groep v. J.A. Beele*.²¹ In that case, the sale of German cable ducts similar to those already sold in Holland was prevented. The Commission, finding that the intent of the importer was to cause confusion, barred the sale in the interests of fairness and protecting consumers.²² By contrast, in the earlier *Dansk Supermarked*²³ case, pottery "seconds" were permitted to be sold in Denmark in competition with the Danish importer's perfect pottery. The manufac-

17. This regulation has limitations and exceptions. It is due to expire December 31, 1997. 26 O.J. EUR. COMM. (No. L 173) 1, 4 (1983).

18. EEC Treaty of Rome, 1957, at arts. 30-36. The general principles of those articles should be borne in mind. See OLIVER, FREE MOVEMENT OF GOODS IN THE EEC (1982 & Supp. 1984).

19. *Deutsche Grammophon v. Metro-SB-Grossmärkte*, 17 Recueil 487, [1971-1973 Transfer Binder] Common Mkt. Rep. (CCH) ¶8106 (June 8, 1971).

20. *Van Zuylen Frères v. Hag A.G.*, 1974 E. Comm. Ct. J. Rep. 731, [1974 Transfer Binder] Common Mkt. Rep. (CCH) ¶8230 (July 3, 1974).

21. 1982 E. Comm. Ct. J. Rep. 707, [1981-1983 Transfer Binder] Common Mkt. Rep. (CCH) ¶8817 (Mar. 2, 1982).

22. *Id.*

23. *Dansk Supermarked v. Imerco*, 1981 E. Comm. Ct. J. Rep. 181, [1979-1981 Transfer Binder] Common Mkt. Rep. (CCH) ¶8729 (Jan. 22, 1981).

turer of both items was located in the United Kingdom and had been permitted to sell seconds there. The Commission refused to grant an injunction against the importation of these goods, citing a lack of intent to confuse.²⁴

B. Copyright

1. Sound recordings

In *Deutsche Grammophon v. Metro-SB-Grossmärkte*,²⁵ the plaintiff manufactured records under the "Polydor" label. In Germany, there was a retail price maintenance arrangement which required retailers to agree to sell Polydor records at a fixed price regardless of the source. In France, another company held a similar license. The defendant attempted to import Polydor records from France into Germany. The German courts granted an injunction restraining the sale of the records which would have violated the price maintenance agreement. The European Court decided that such an arrangement, although similar to copyright, had the effect of restricting the importation of goods that the owner had legitimately sold in another member state; thus, article 85 had been violated.²⁶

2. Films

Deutsche Grammophon has created confusion in the legal community when its reasoning has been applied to motion pictures. The problem has arisen because films are not in free circulation but are instead shown in cinemas before audiences. A distributor has the right to distribute a film in a specific territory for a period of years and will sub-license the rights to cinemas in that territory.

In *Coditel v. Ciné Vog Films*,²⁷ (*Coditel I*) the plaintiffs had acquired a right to exhibit the film "Le Boucher" in Belgian

24. *Id.* at 181, [1979-1981 Transfer Binder] Common Mkt. Rep. (CCH) ¶8662, p.7843.

25. 17 Recueil 487, [1971-1973 Transfer Binder] Common Mkt. Rep. (CCH) ¶8106 (June 8, 1971).

26. It is generally felt that a similar decision would be given allowing the importation of books into another member state in breach of an exclusive arrangement. The only limitation on this would be that the books be acquired legitimately in another member state. By and large, language differences preclude wide-spread application of this exception. *But see infra* note 42 and accompanying text (discussing the importation of Spanish language books from Latin America into Spain).

27. 1980 E. Comm. Ct. J. Rep. 881, [1979-1981 Transfer Binder] Common Mkt. Rep. (CCH) ¶8662 (Mar. 18, 1980).

theaters. In Germany, TV rights to broadcast the film were owned by a German company. The film was shown on German television and was also picked up by three Belgian cable companies for transmission to their subscribers in Belgium. The Commission indicated that a film could be infinitely repeated and, in this respect, was different from tangible goods.²⁸ The essential function of copyright is to entitle the owner of the copyright to receive a fee arising from exploitation of his rights. Therefore, the Commission found that the owner should be entitled to regulate when the film was shown on television.²⁹ It was further stated that the protection given by copyright is not exhausted once the film has been shown.³⁰ The requirement of "exhaustion" in movie distribution is not the same as that associated with literary and artistic works, the circulation of which is inseparable from the material form of those works. As a result, the plaintiffs were able to invoke their rights under national law to enjoin the cable TV companies.³¹

In a later case involving the same parties, the court held that an exclusive license to exhibit a film did not, in itself, violate article 85.³² However, the possibility of the application of article 85 in the event of some unreasonable exploitation was left open.³³

3. Videocassettes

Videocassettes, unlike movies, fit more readily into the type of rights recognized in *Deutsche Grammophon*. Thus, an importer could acquire cassettes in one member state and sell them in another in contravention of an exclusive licensing arrangement. Of greater concern is the importation of pirated cassettes from a non-member state into a member state where a pirate may choose to plead article 85 as a defense to any pur-

28. *Id.* at 902, [1979-1981 Transfer Binder] Common Mkt. Rep. (CCH) ¶8662, p.7843.

29. *Id.* at 902-03, [1979-1981 Transfer Binder] Common Mkt. Rep. (CCH) ¶8662, p.7843.

30. *Id.* at 894, [1979-1981 Transfer Binder] Common Mkt. Rep. (CCH) ¶8662, p.7838.

31. *Id.* at 904, [1979-1981 Transfer Binder] Common Mkt. Rep. (CCH) ¶8662, p.7844.

32. *Coditel v. Ciné Vog Films*, 1982 E. Comm. Ct. J. Rep. 3381, [1981-1983 Transfer Binder] Common Mkt. Rep. (CCH) ¶8865 (Oct. 6, 1982).

33. *Id.* at 3382, [1981-1983 Transfer Binder] Common Mkt. Rep. (CCH) ¶8665, p.8172.

ported action for copyright infringement.³⁴

4. *Television Broadcasts*

Few decisions on the rights recognized in television broadcasts have been rendered. However, broadcasts seem to be more analogous to movies because they are not in "free circulation" in the same way as goods. Thus, under the reasoning of *Coditel I*, television signals should be entitled to protection.

5. *Performances*

In 1978, an Italian television company wished to broadcast an opera from La Scala in Milan. A German company, Unitel, sought to enjoin the broadcast, stating that four of the performing artists were contractually prohibited from performing in televised broadcasts Unitel had not authorized.³⁵ The Commission requested information from Unitel about these contracts; Unitel refused, claiming its arrangements did not affect trade between member states.³⁶ The Commission found otherwise and ordered the production of the information. It stated that exclusive contracts with major artists could have the effect of distorting competition and could violate article 85.³⁷

Thus, in an effort to ensure the development of a common market, free of national trade barriers, the Commission has exacted a price from the holders of intellectual property rights. Although the doctrine of exhaustion of rights allows copyright owners an initial exclusivity to reward their efforts, additional rights are recognized only to a minimum extent.

III Piracy and Counterfeiting

The first section of this commentary outlined the provisions relating to the movement of goods within the EEC. The removal of internal barriers within the EEC has resulted in greater opportunity for illegal trading. Thus, the countries of the EEC must attempt to improve the protection of intellectual

34. See *supra* note 19 and accompanying text.

35. Re Unitel Film und Fernseh Produktionsgesellschaft, 23 Common Mkt. L. Repts. 306 (1978).

36. *Id.*

37. *Id.* at 308.

property rights from unauthorized exploitation, particularly in respect to imports from non-member states.

A. Counterfeit Goods

Once goods are imported from a non-EEC country into one of the member states, they can be transferred into other member states with relative ease. Even if the goods infringe a patent, trademark or copyright, the provisions of the Treaty may prevent any cause of action.³⁸ As a result, national laws of member states must be used to combat the circulation of such goods before they can be exported to other such states.

B. Designs

In *Keurkoop v. Nancy Kean Gifts*,³⁹ the owner of a design registered under Dutch law was found to be entitled to enjoin the importation of similarly designed goods from another member state. The Commission held that national laws prohibiting the imitation of another trader's product fall within "the scope of the provisions of Article 36 of the treaty on the protection of industrial and commercial property."⁴⁰ As a result, judgments under these laws are enforceable in other jurisdictions of the EEC.⁴¹

C. Copyright

Levi Strauss & Company carry at least nine different trademarks in relation to their products, including the design, wording, stitching, and labelling. Nevertheless, faithful reproductions have been imported from the Far East. When discovered, such goods may be seized by the national customs authorities. If the goods still enter the stream of commerce, the copyright holder can enforce his rights under the national copyright or unfair competition laws. In addition, luxury goods, such as Cartier watches, have been the subject of well-publicized destruction orders.

Because of the language barrier, books are not profitably pirated within the EEC. However, the greater problem arises when books from South America are imported into Spain. Two

38. See *supra* note 4 and accompanying text.

39. 1982 E. Comm. Ct. J. Rep. 2853, [1981-1982 Transfer Binder] Common Mkt. Rep. (CCH) ¶8861 (Sept. 14, 1982).

40. *Id.* at 2874.

41. *Id.*

issues arise in this area: first, pirated works are difficult to detect; and second, the copyright protection period in South America is shorter than in Spain.⁴² Thus, no infringement has taken place within South America which can be prosecuted in Spain. Therefore, import regulations in Spain need to be strengthened.

D. Video Piracy

The Federation Against Copyright Theft ("FACT") was formed to combat the loss of legitimate video trade to piracy. FACT has been successful in reducing video piracy by one-half. One method utilizes *Anton Piller* orders,⁴³ which allow the court to order the seizure of the infringing goods, manufacturing equipment, and records of defendants shown to be in possession of items and/or documents that infringe copyright.⁴⁴ The trade in "back door" prints of films borrowed from cinemas has been stamped out by the prosecution of projectionists and by numbering prints.

E. Audio Piracy

The retail value of pirated sound recordings sold in 1978 in the EEC is estimated at \$193,400,000. This accounts for seven percent of the estimated retail value of all recordings sold, including legitimate and pirate.⁴⁵ Counterfeiting in this area involves the unauthorized duplication of the original record and its packaging. The method of protecting rights in this area is complicated because each country has developed its own laws to address the problem. For example, Belgium, France and Holland protect audio recordings through rather complicated rules of unfair competition.⁴⁶

F. Bootlegging

Bootlegging is the unauthorized recording of a live performance. The Common Market has established two conventions

42. Spanish copyright law protects literary works for a period of 80 years from the death of the author, compared to, for example, Brazil's protection for 60 years from January 1st of the year of the death of the author and Chile's protection for 30 years from death. See generally, 32 COPINGER AND JAMES ON COPYRIGHT (12th ed. 1980).

43. After *Anton Piller KG v. Manufacturing Processes Ltd.*, 1 Ch. 55 (1975).

44. *Id.*

45. G. DAVIES, PIRACY OF PHONOGRAMS 141 (1981).

46. *Id.* at 68-73, 77-81, 100-105.

for the protection of performers. In 1961, the Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organisations was enacted.⁴⁷ A decade later, the Convention for the Protection of Performers Against Unauthorised Duplication of Their Phonograms was adopted.⁴⁸

These Conventions protect the rights of producers of performances. Under the 1961 Convention, the producer is protected against unauthorized duplication of his record, *i.e.*, against piracy.⁴⁹ The 1971 Convention was specifically established to combat piracy, although the implementation of the Convention is left to the domestic law of each member state which adheres to the Convention.⁵⁰ Under the 1961 Convention each contracting state gives the same protection to the producers of records from other countries as it does to its own nationals, while the 1971 Convention imposes an obligation to protect such producers. The majority of the member states have adhered to both Conventions.⁵¹ Most of those countries give protection to producers against unauthorized duplication of records by specific rights granted in national legislation.

For example, between 1958 and 1972, the United Kingdom passed the Performers' Protection Acts.⁵² These acts make it a criminal offense for any person knowingly to make a record or a film from the performance of a musical or dramatic work without written consent from the performers.⁵³ It is also an offense under the Acts to exploit a record or film so made.⁵⁴ However, the effectiveness of the Acts is limited by the *de minimis* penalties which authorize fines of only £20 for each record to a maximum of £1,000 and/or a term of imprisonment of not more than two years.⁵⁵ In Denmark, Germany and Italy,

47. Oct. 26, 1961, 496 U.N.T.S. 43 [hereinafter 1961 Convention].

48. Oct. 29, 1971, 25 U.S.T. 309, T.I.A.S. No. 7808, 866 U.N.T.S. 67 [hereinafter 1971 Convention].

49. 1961 Convention, *supra* note 47, at art. 10.

50. 1971 Convention, *supra* note 48, at art. 10.

51. Six member states adhere to the 1971 Convention: Denmark, France, Federal Democratic Republic, Italy, Luxembourg, and the United Kingdom. The 1961 Convention was adhered to by Denmark, Federal Democratic Republic, Ireland, Italy, Luxembourg, the United Kingdom, Belgium, France and the Netherlands.

52. Dramatic and Musical Performers' Protection Act, 1958, 6 Eliz. 2. Performers' Protection Act 1963. Performers' Protection Act 1972.

53. Dramatic and Musical Performers' Protection Act, 1958, 6 Eliz. 2, § 1.

54. *Id.* at §§ 1-2.

55. Dramatic and Musical Performers' Protection Act, 1958, 6 Eliz. 2, *as amended by* Performers' Protection Act, 1972.

producers' rights are protected by the laws of copyright.⁵⁶ In Greece, on the other hand, producers have to rely on the criminal code in order to enforce their rights. France's law of unfair competition is utilized.⁵⁷ In practice, however, this has not proven to be an effective means of protection because all the remedies available have procedural drawbacks and none provide for prompt and automatic repression of piracy. To succeed in an action against a pirate it is necessary to prove the duplicate is likely to mislead the public.⁵⁸ Injunctions are not generally available.

G. Computer Software

The laws of the member states have modified the traditional protection given by copyright and trademarks.⁵⁹ Re-importation of tangible goods, such as books and records, lawfully sold by the owner in other member states is permissible regardless of attempted restrictions. On the other hand, the exclusivity of a film license is upheld. An interesting comparison is provided by the treatment accorded to computer software, which can either be licensed or sold.

Initially, the World Intellectual Property Organization (WIPO) discussed a form of protection which was outside the scope of copyright.⁶⁰ This solution was abandoned as the national law-makers grappled with the difficulties of adapting existing legislation to conform with the WIPO suggestions.

With the abandonment of the WIPO solution, the individual member states have enacted national legislation to address the problem. In England, Germany and France, software is given

56. Denmark - Act no. 158 on Copyright and Literary and Artistic Works of May 31, 1961, as amended on March 21, 1973 (Act no. 174) and June 8, 1977 (Act no. 240). Germany - Act dealing with Copyright and Related Rights (Copyright Act) of September 9, 1965, as amended up to March 2, 1974. Italy - Law for the Protection of Copyright no. 633 of April 22, 1941, as amended up to July 29, 1981 (Law no. 406).

57. C. CIV. 1382 (1983). See also Tribunal Commercial, Paris, January 12, 1976, CBS Disques v. Metro, FNAC and Others and Tribunal de Grande Instance Paris 1977 Ste. Barclay v. Paul Lederman and other (1979) RIDA 182.

58. Article 1 of the Law on the Repression of Fraud in the Sale of Goods of August 1, 1905 is also applicable in this respect.

59. See *infra* notes 62 and 63 and accompanying text.

60. Expert Group on the Legal Protection of Computer Software, 16 COPYRIGHT BULL. 36 (1980) (First Session, Nov. 27-30, 1979); Committee of Experts on the Legal Protection of Computer Software, 19 COPYRIGHT BULL. 271 (1983) (Second Session Geneva June 13-17, 1983); and Group of Experts on the Copyright Aspects of the Protection of Computer Software, 19 COPYRIGHT BULL. 38 (1985) (Final Session Geneva February 25 - March 1, 1985).

the same protection as a literary work: the life of the creator plus a term of years. In Holland, Denmark and Ireland, no new legislation was created in the belief that existing legislation gave software copyright protection. In Italy, a computer program was given protection as a scientific work.⁶¹ Greece has some relevant legislation but does not enforce it vigorously.⁶² Spain and Portugal are both wrestling with the post-accession harmonization and have not yet addressed the problem.

IV Conclusion

As the transfer of goods between EEC states becomes easier, it will become more difficult to control the flow of imports and exports. Thus, local laws must provide a solution. Stringent customs controls already exist, but in most cases shipping details for the goods must be known in advance for such controls to be of adequate and efficient use. As far as future policy is concerned, article 229 of the Treaty obliges the Commission to maintain relations with the United Nations and the General Agreement on Tariffs and Trade (GATT).⁶³ GATT is examining a framework to combat commercial counterfeiting but not all countries are members of the organization. WIPO continues to make representations to the Commission to encourage member states to adopt common action in this area. The Customs Union established under article 9 of the Treaty which controls the customs regulations in each member state has also been asked to look more closely at the problem.

Such cooperation in reaching sources of illegally copied goods and a common policy to combat piracy are capable of becoming a powerful weapon for the member states. In the meantime, counterfeit goods are able to circulate freely until dealt with under a national jurisdiction.

61. Judgment of April 11, 1984 Pret. Pisa 56 Il Diritto Di Autore [DIR AUT] 85 (1985).

62. For example, 1981 estimates indicated that eighty percent of the total domestic market in tape recordings consisted of pirated goods. Reimer, *Copyright Law and the Free Movement of Goods*, 12 INTL. REV. INDUS. PROP. & COPYRIGHT L. 511 (1981).

63. EEC Treaty of Rome, 1957, art. 229.

