

The Implications For Licensing in Enlarged EC

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As EC expands, influence on licensing increases; problems decrease for licensing in multiple countries

Increasingly, the EC can be looked at as a single territory for licensing purposes. As harmonization in the EC increases, pressure on the EC to expand continues. Such expansion will have considerable influence on license agreements and licensing policy. The greatest advantage will be that the need to take into account a multitude of national laws and regulations will be dramatically reduced.

IMPLICATIONS FOR EXISTING AND FUTURE LICENSE AGREEMENTS

EC Enlargement

The EFTA countries Austria, Sweden, Finland, Norway and Switzerland have applied to join the EC. Switzerland has signed the EEA Agreement, and its EC accession application is on hold. The other EFTA countries, Liechtenstein and Iceland, have no plans to join. Accession negotiations with Slovenia, Finland, Sweden and Norway were concluded in March 1992, subject to approval by the European Parliament in May and by the citizens of each country in referenda this year; the way has been opened for these four new members to join the EC in 1993.

Other countries are lining up to join the EC. Morocco declared its intention in 1986 of applying for EC membership. In December 1990 the Council of Ministers authorized EC negotiations with Monaco by a treaty of partnership modeled on those with central Europe. However, such agreement will not lead to eventual membership. It will

only lead to an as yet undefined partnership. The Commission is working on negotiation letters for similar agreements with Tunisia and Israel. Turkey, Cyprus and Malta have also all applied to join.

Turkey's membership request has been stalled for years, although it has been recognized as being strategically important and is now working toward a customs union with the Community by 1995. The hurdles it faces to EC membership are significant — its human rights record, relative poverty and its relationship with Greece, particularly over Cyprus. Cyprus itself poses the problem of being a divided territory and a "mini-state." Malta similarly is a "mini-state." The Commission issued its opinion on Cyprus and Maltese membership in July 1991, recognizing their eligibility for membership was clear but listing a number of obstacles to such membership. Cyprus must first settle the ethnic dispute splitting the island. Malta needs to overhaul its financial, economic and budget structures (it has a heavily protected and regulated economy). The Commission is proposing to offer assistance to help restructuring. A 1992 review of the EC's institutional organization should address how to adapt the EC to the accession of new member countries. Talks with both countries will continue but until the above issues are resolved, full negotiations for accession will not begin.

• Europe Agreements •

Poland, Hungary and Czechoslovakia (as if there was one) have each stated that EC membership is a long-term goal. In May 1992 they stated their intention to apply jointly for EC membership. All three signed association accords with the Community in December 1991,

known as the Europe Agreements. In March 1991 Hungary announced its intention, essentially to apply for membership of the Community after that negotiations could begin in 1993. Poland has indicated that it might apply for full or partial membership at the same time as Hungary.

The Europe Agreements have also been entered into with the new Czech Republic and Slovakia, and also with Bulgaria and Romania. EC membership will not be on the table for a number of years. These new agreements now contain, *inter alia*, safeguard clauses allowing the EC to suspend operation of the Europe agreements, if political and economic reforms do not continue or if there are human rights violations.

The Europe Agreements must be ratified by all EC Member States and the recipient countries before they can come into force. So far, only the Agreements with Poland and Hungary are in force (since February 1, 1994). The Agreements are based on two operational periods of five years each. It is unlikely that full benefits will be in effect for some time. Poland and Hungary are required to bring their EPR protection up to EC levels within five years. Time on this five-year period started running on March 1, 1992, when the Polish-Hungarian interim trade agreements entered into operation. These interim agreements in force in the other states which, among other things, similarly require the recipient countries to bring EPR protection up to EC levels within five years.

EC membership is also clearly viewed as a goal not only for countries

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of central and eastern Europe but also for the Baltic republics, with whom the EC has already entered into trade cooperation agreements, and which are expected to develop into free trade agreements. Even Russia has recently stated that its long-term goal is EC membership, and is currently negotiating a partnership agreement with the EC to include provisions on IPB protection.

The EEA

In the meantime, and soon by treaty in a stepping-stone to full membership of the EC, the EEA Agreement between the EC and EFTA countries was signed on May 2, 1994, and came into force on January 1, 1994.

This has created the world's largest free-trade zone comprising the EC Member States and all but Switzerland of the EFTA countries (i.e., Austria, Finland, Iceland, Liechtenstein, Norway and Sweden).

The rejection of bilateralism by Denmark in April 1992, although unilaterally, overthrew the signature of this agreement, and relatively little attention was given to it. Thus, in December 1992, the Swiss Government took rights and showed their power in a referendum rejected the EEA Agreement. While disappointing, this rejection did not destroy the EEA. Many thought Liechtenstein would follow Switzerland, but it did not. Following negotiations among the remaining parties, a Protocol was agreed simply providing for the deletion of Switzerland from the Treaty in all relevant places, entry by Liechtenstein when this is possible, and for changes to the special relations text. It also envisaging the future membership of Switzerland is included.

Liechtenstein must hold a further plebiscite on the Protocol and an amendment to its Customs Treaty with Switzerland. Switzerland will take observer status in EFTA on matters relating to the EEA. No participation for membership by Switzerland is envisaged in the short term. Instead, Switzerland wants to keep closer bilateral links with the EC.

The EEA Agreement

The EEA is a hybrid between a free-trade area and an economic community. The free trade area (of goods, people, services and capital) are supported by so-called "banking" policies on competition and in other fields, such as environmental and social policy to which there is to be "close cooperation."

Under the EEA Agreement, the EFTA states accepted, in the relevant fields, almost the entirety of the EC legislation up to July 1993 (the date of substantive agreement) and relevant EC law including jurisdiction of the ECJ (known as the "acquis communautaire") has been jointly identified, and is contained in Annexes to the Agreement. Those Annexes are being updated to include all EC legislation in December 1993. The Council reached political agreement on the contents of the package in March 1994. It is hoped that the necessary legislative process will be completed by July 1994. The EFTA states have also accepted that all provisions of the Agreement, which are in substance identical with provisions of the EC/EEC, treaties or derived legislation, will be interpreted in accordance with ECJ rulings given prior to the date of the Agreement.

The EFTA states have only a limited "autonomous" role in the development of future EC legislation. On the other hand, such legislation will not automatically become part of the EEA law. Likewise, the application of future EC interpretations of EC law is corresponding EEA provisions will not be automatic. The EEA Joint Committee, set up by the Agreement, must take the decision concerning whether and how to amend the Annex to the Agreement affected by the new EC legislation.

EFFECTS OF THE EEA AGREEMENT

The agreement introduces important measures that will affect all those who do business in the EFTA countries. This paper concentrates on those provisions most relevant to technology licensing.

The general rules that what now applies in the EC applies to the

entire EEA. This includes a vast body of both EC legislation and international conventions governing the protection of intellectual property rights. In order to ensure that the rules operating in the EEA do mirror those currently existing within the EC, Protocol 28 of the Agreement contains specific provisions concerning intellectual property. Essentially, the Protocol provides that the EFTA states (and EC states whose appropriate) must amend their legislation on intellectual property "so as to make it compatible with the principles of free circulation of goods and services and with the level of protection of intellectual property attained in Community law" upon signature of the Agreement.

The EEA Agreement (in Articles 15, 12 and 13) reproduces the free movement provisions (Articles 30, 34 and 56) of the Treaty of Rome. The promise that the free movement of goods shall not preclude restrictions for the protection of intellectual property (so long as there is no arbitrary discrimination or disguised restriction on trade between Member States) is thus retained in relation to the whole of the EEA.

The EEA Agreement provides that provisions that are in substance identical with those in the EC Treaty should be interpreted in the same way. This means effectively that they will have direct effect in EFTA countries and prevail over national law. For example, the classic "Cassis de Dijon" principle that a product lawfully on the market in one Member State must be able to circulate freely within the whole of the EEC, subject to objectively justifiable exceptions ("mandatory requirements") now applies throughout the EEA. Free movement within the EEA will be considerably more effective than that resulting from the existing free-trade agreements.

This is at least the case for goods of "EEA origin" as defined in the Treaty. It is not so clear that the same applies to goods originating from outside the EEA.

The Agreement expressly states that the free movement provisions only apply to goods originating in the EEA. Accordingly, origin rules

are needed to determine which goods are EEA-produced and may circulate freely, so that they can be applied uniformly by all the Contracting Parties of the EEA. There are set out in Protocol 4 to the Agreement.

The EEA is furthermore a free-trade area, not a customs union and, as such, for the EC, goods imported into the EEA, even once they have been subject to the formalities of customs clearance in any part of the EEA, and import duties have been paid, do not acquire the same rights to circulate freely within any part of the EEA as goods originating within the EEA.

PROTECTION OF IPR

Effects on both the international and European fronts have largely been directed toward harmonization, although significant steps have also been taken to create pure EC patent and trademark rights. While the Protocol obliges EFTA states to adhere to a number of important international conventions on intellectual property, including the current text of the Paris Convention (Intellectual Property), the Rome Convention (Copyright), the Rome Convention (Copyright and Neighboring Rights), the Madrid Protocol (Trademarks) and the European Patent Convention and Patent Cooperation Treaty, most of the EFTA states (except Iceland and, to some extent, Finland and Norway) are already party to many of them.

Current EC legislation on intellectual property, including the soft-wire directive and the trademark harmonization directive, now apply to the EFTA states. There is also considerable proposed EC legislation on patents, copyrights, trademarks and designs, which will, it is hoped, be adopted before long. Although it is up to the EEA Joint Committee to decide whether to incorporate new EC legislation into EEA law pursuant to Protocol 28, the EEA states agree to enter into negotiations with a view to the full participation of the EFTA states in future Community measures relating to IP. This therefore includes much important discussion as there concerning the patentability of

biotechnology and the protection of databases, the creation of GPs, the new designs proposals, revisions to existing and new trademark provisions. Indeed, there are currently before the EEA Joint Committee for potential incorporation.

The EEA Agreement will perhaps speed up the process of harmonization of intellectual property rights within the whole of the new European Economic Area.

EXHAUSTION OF RIGHTS IN THE EEA

Each of the free-trade agreements concluded between the EC and each of the EFTA states contained provisions analogous to Articles 30 and 36 of the Treaty of Rome. It was held, however, by the European Court of Justice in *Deutscher Handel* (1982) ECR 3291 that the doctrine of exhaustion of rights did not apply to trade between the EC and associated countries, such as the EFTA states. The owner of intellectual property rights in the EC could therefore rely on those rights to prevent the importation into the EC of goods coming from one of the EFTA states. The incorporation of provisions in an EC-EFTA free trade agreement could be very different from that of identical provisions in the Treaty of Rome, since it was necessary to take into account the different context, object and purpose of a free-trade agreement.

Protocol 28 of the EEA Agreement provides, however, that the EC rules on exhaustion of intellectual property rights apply equally in the EEA. This is subject to a transitional period of up to one year for patents and a provision that these rules do not apply for products that cannot be patented in Finland or Iceland (pharmaceuticals and chemicals) even if those products had been marketed in those countries by the patentee or with his consent. This effectively introduces for Finland and Iceland similar provisions to those included in the accession agreements with Japan and Portugal.

This is at least the case for goods of EEA origin as defined in the Treaty. There is some uncertainty as to whether this applies to goods ever-

trading from outside the EEA, bearing in mind that EC rules on exhaustion arise out of EC rules on free movement, EEA rules, while similar, apply only to goods of EEA origin.

It seems unlikely that it was intended that goods made outside the EEA should be capable of better protection by national IP than those made in the EEA. But that is a possible consequence of the Treaty.

COMPETITION RULES

Competition rules are considered essential to the successful creation of the EEA and have accordingly been incorporated into the EEA Agreement as one of the significant "flanking" policies. Article 32 (which prohibits restrictive agreements and practices subject to exemptions) and 34 (which prohibits abuse of a dominant position) of the EEA Agreement mirror, respectively, Articles 85 and 86 EEC.

There are complex provisions allocating jurisdiction between the EFTA Surveillance Authority and the EC Commission. If Article 33(1) EEA is applicable to the dispute in question, there is nevertheless the possibility of exemption under Article 33(3) EEA corresponding to Article 85(1) of the Treaty of Rome. And perhaps most importantly, in the field of intellectual property licensing arrangements, all the Block Exemptions that currently apply in the EC, are included in Annex VII to the EEA Agreement (subject to some consequential amendments) and thus apply within the EEA.

The immediate question for parties to relevant agreements will be whether existing licensing agreements in the EFTA states fall foul of the competition rules. Protocol 21, which is intended to implement the competition rules, sets out a coordinating system of transitional provisions more or less identical to those included in Regulation 17, which was the equivalent implementing legislation under the Treaty of Rome. In short, restrictive agreements falling foul of Article 85(1), which were in existence at the date of entry into force of the EEA Agreement (Janu-

any 1, 1994), must either be notified to the "competent surveillance authority" in Brussels within six months of the date of entry into force of the EEA Agreement (that, by the end of June 1994) or considered to have complied with any relevant block exemption.

Where the products covered by an agreement involving an EFTA state would normally find themselves imported into the EC as a result of consumer demand within Member States, the agreement may have already fallen within the institutional jurisdiction of the European Commission under the so-called "effects doctrine." Under the doctrine (logically developed by the U.S. courts) an agreement is said to infringe EC antitrust rules if its anticompetitive effects are felt within the EC. "EFTA agreements," which are under this doctrine, already caught by Article 85(1) will presumably not benefit from the transitional provisions of Protocol 21 of the EEA Agreement. However, agreements concerning trade in or between EFTA states, not previously caught by the EC competition rules, because, for instance, there was little or no effect on EC trade, will now be subject to Article 55 of the EEA Agreement and the transitional provisions of Protocol 21.

• Article 56 •

As far as Article 56 (freedom of a dominant position) is concerned, its application in the field of intellectual property rights to the EEA will depend largely on the same factors already present in the EC. Most significantly, the Court of First Instance's judgment confirming the Commission's decision in *Magill* — which essentially decided that the refusal of broadcasting services of copyright in TV listings to license their rights to the listings for their

use in a comprehensive TV guide constituted an abuse under Article 86 — was finalized at the time by some Commission officials as having wide-ranging consequences for all intellectual property owners in the computer, drug and other industries.

The decision was appealed to the ECJ and its decision is awaited.

While the decision of the ECJ, when it emerges, will not apply automatically to the EFTA states, there are procedures to ensure an homogeneous interpretation of the Agreement by the EFTA court and the ECJ and for the resolution of any differences in case law that may emerge. The implications of the *Magill* decision and other similar developments in EC case law for the EFTA countries will undoubtedly be significant, but remain as yet uncharted waters for most EFTA businesses.

While most (if not all) of the EFTA states do already have some form of national antitrust legislation, evidence suggests that it is rarely enforced and thus often ignored. If a lesson is to be drawn from recent experience in many EC Member States, the impact of the EC competition rules in the EFTA countries will be considerable. The impact will clearly be greatest in those countries where previously little or no thought would have habitually been given to the competitive aspects of doing business in Europe. While many of the larger multinational companies will be used to considering antitrust implications and already treat the whole of Europe (including the EFTA states) as a single block, there will be many who do not.

CONCLUSIONS

1. The EEA Treaty is likely to cause a considerable shakeup in

European technology licensing practices, particularly among corporations that have up until now treated agreements involving EFTA countries differently from those involving the EC. Licensing executives and legal advisors, again especially those not familiar with EC practices and problems, need now to look at agreements and their negotiations in a new light. And all must consider that what applies to the EC now includes the EFTA countries (except Switzerland).

2. Wherever it is commercially reasonable it might be recommended to aim for consistent licensing policies at least throughout areas that are likely in due course to form part of the EC. It is worth bearing in mind that even if countries do not presently in the EC, agreements with them may impose first effects on trade and competition in the EC that could bring them within the ambit of Article 85(1) of the Treaty.

3. As to existing agreements, these should be looked at carefully. Parties should prepare themselves for the possibility that now the EEA has come into force, these might be susceptible to renegotiation. Either or both might see opportunities for favorable renegotiation, arguing competition law issues. For example, a licensee who would like more freedom might argue that the agreement should become non-exclusive. A licensor might want to pay lower royalty rates and may try to argue that the licensee has got into not as valuable or has become less valuable than he hoped. A licensee already in a strong position who does not competitors might try to argue that his rights should be non-exclusive and that he should therefore pay less. Whatever the position, the EEA Treaty and its transitional provisions will cause parties to focus on important agreements.