

# EU Review

A recurring feature  
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*A review and commentary on recent developments in the European Union affecting licensing, competition and trade law.*

## Recent Anti-Trust Cases

### Price-Fixing Cartel in Fine Art Market

**T**he European Commission has taken action on a price-fixing scandal involving the world's two major auction houses, Christie's and Sotheby's, by opening cartel proceedings against the two companies concerning the effect of an illegal agreement on the European market. This came shortly after the chairman of Sotheby's, Alfred Taubman, had been sentenced to a year in an American prison and fined \$7.5 million for his part in the conspiracy, the final part of the American prosecution process that began in January 2000.

Both the U.S. and the European authorities were presented with the same evidence of the cartel at the same time. Christie's—who knew from 1997 that the U.S. authorities had evidence against them—presented the two authorities with a mass of documents gathered together by the former CEO of Christie's, David Davidge. It admitted to the illegal activity and asked for leniency in both jurisdictions. In America, indictments were issued straight away against Sotheby's and against the senior individuals involved. Christie's was given immunity from prosecution in return for providing the information, as was Davidge. Sotheby's itself admitted the charges and was fined \$45 million. The CEO of Sotheby's, Diana Brooks, pleaded guilty and turned Queen's evidence on her boss, Mr. Taubman, who persisted in pleading not guilty. This led to his lengthy and scandalous trial. Alfred Tennant, chairman of Christie's, simply declined to travel to America to face prosecution.

The European Commission, on receiving the information in January 2001, began what proved to be a 28-month investigation. The basic charge in both jurisdictions is that, during the course of 1993, the chairmen and CEOs of the two companies met on several occasions and agreed to increase the commission paid by sellers at auction. The price-fixing continued until early 2000, thus defrauding sellers of many millions of dollars. In the U.S., around \$537 million has already been paid out in the settlement of a civil class action brought by 120,000 former buyers and sellers. The Commission's statement of objections considers that Christie's and Sotheby's hold a duopoly in the art auction market as they have a joint

market share of 90 percent. It also goes further than the U.S. case, alleging that there were advances paid to sellers, guarantees given for auction results and payment conditions imposed.

The fine art market is a rarefied world but the questions raised by this case are much more mundane and potentially far reaching. The effects of the clandestine back-of-a-limousine meetings of Messrs. Taubman and Tennant are rippling out far and wide, exemplifying a fact that has been becoming very apparent recently: cartel activity can be dangerous. Both companies could face massive fines from the European Commission in addition to what they have already paid in America, although both companies have requested leniency. Fines in the U.S. are based on the size of the market affected: E.U. fines can be levied at up to 10 percent of worldwide turnover. Huge civil damages have been paid out in the U.S. Such action is not at the moment common in Europe but may well become so. As well as making such actions easier in the UK, the passing of the Enterprise Bill will make cartel activity a criminal offence.

### Fines for Eight Austrian Banks

For their part in what Mario Monti described as “one of the most shocking cartels ever discovered by the Commission,” eight Austrian banks have been fined a total of 124.26 million Euros. The cartel, which began in the wake of World War II to prevent damaging competition among the commercial banks, had become part of the furniture in the Austrian banking world, involving banks in the cities, towns and villages. It even had a name, “the Lombard Club”. Meetings were held openly in Vienna every month and, although it was obvious that such arrangements were illegal under E.U. law, they were so entirely accepted that they were not questioned.

However, a series of Commission raids on banks in 1998 unearthed masses of documents minuting meetings at which agreements were reached on fixing interest rates for loans and savings for private and commercial customers, setting levels for fees for services, money transfers and export financing.

Although the cartel was of very long standing, the Commission was only able to levy fines in respect of the period since Austria joined the E.U. (January 1994), until

the time when the Commission raids were carried out (June 1998). The highest fine of 37.69 million Euros was imposed on Erste Bank. Bank Austria A.G. and Raiffeisen Zentralbank Österreich were fined 30.38 million Euros. Bank für Arbeit und Wirtschaft, Österreichische Postsparkasse and Österreichische Volksbanken were each fined 7.59 million Euros. NÖ Landesbank-Hypothekenbank and Raiffeisenlandesbank Niederösterreich-Wein were each fined 1.52 million Euros. The Commission allowed 10 percent reduction in the fines under the Leniency Notice in view of the fact that the banks did not contest the statement of objections.

## Trademarks

### Registrability of Trademarks

In *Koninklijke Philips Electronics NV v. Remington Consumer Products Ltd*, a case concerning the registrability of a mark consisting of the graphical representation of a shaver head, the European Court of Justice has ruled: (1) there is no category of marks which is not excluded from registration by Articles 3(1)(b), (c) & (d) and 3(3) of the Trade Marks Directive which is none the less excluded by Article 3(1)(a); (2) in order to be capable of distinguishing an article for the purposes of Article 2, the shape of the article in respect of which the sign is registered does not require any capricious addition, such as an embellishment which has no functional purpose; (3) where a trader has been the only supplier of particular goods to the market, extensive use of a sign which consists of the shape of those goods may be sufficient to give it a distinctive character for the purposes of Article 3(3) in circumstances where, as a result of that use, the relevant public associates that shape with that trader or believes that goods of that shape come from that trader. The Court also held that Article 3(1)(e) means that a sign consisting exclusively of the shape of a product is unregistrable if it is established that the essential functional features of that shape are attributable only to the technical result. Moreover, that ground for refusal or invalidity cannot be overcome by establishing that there are other shapes which allow the same technical result to be obtained.

The Court pointed out that the purpose of refusing registration of signs consisting of the shape of a product is to prevent a trademark from granting its proprietor a monopoly on technical solutions likely to be used by competitors. The provision is in the public interest as it ensures that such a shape may be freely used by all.

### Advocate General's Opinion on Arsenal Football Club's Trademark

In the case *Arsenal Football Club v. Matthew Reed*, Advocate General Ruiz-Jarabo has given his opinion that a football club which registers a trademark is pursuing a commercial activity and may prevent third parties from using it to obtain economic benefits.

Arsenal Football Club had registered a number of trademarks, including the word "Arsenal," to distinguish items

of clothing. Mr. Reed is a trader who, since 1970, has been selling scarves outside that team's football ground. The word "Arsenal" appears prominently on them, although he states on a notice affixed to his stall that such goods are not official.

Arsenal brought proceedings against Mr. Reed in the English courts. The High Court of Justice referred two questions to the Court of Justice for a preliminary ruling on the 1988 trademark directive.

According to the Advocate General, the directive enables the proprietor of a trademark to prevent a third party from using signs which are identical to those of which the trademark consists for identical goods or services which are capable of indicating its origin, provenance, quality or reputation, provided that such use is intended to be commercial use.

In the Advocate General's view, use of a trademark by anyone other than the proprietor with the purpose of supplying goods or providing services in the market, even if it is perceived as a badge of support, loyalty or affiliation to its proprietor, constitutes commercial use. The decisive factors are whether the third party uses it in the course of trade and whether persons who purchase the goods or use the services which it represents do so because they identify it with the trademark and, in certain cases, with the proprietor; the reasons for which they decide to do so are irrelevant.

### Exhaustion of Trademark Rights

The Advocate General has given an opinion in a case which turned on whether trademark rights in certain products bearing the mark "Stüssy" had been exhausted and the question addressed was whether the trademark owner or the alleged trademark infringer had the burden of proof of establishing where the goods were first put on the market. If they were first put on the market in the European Economic Area (EEA) by the trademark owner, or with his consent, the rights are exhausted and there is no infringement under the Community Trademark Directive. If they were first put on the market elsewhere, or in the EEA without the owner's consent, there is an infringement.

Attorney General Stix-Hackl stated that national procedural law is not affected by the Directive, but in order to be compatible with the principle of the free movement of goods, national law should allow for the burden of proof to be shared to reflect a duty of cooperation on the part of the trademark owner. If the trademark owner succeeded in proving that there were no gaps in his distribution system within the EEA, prima facie there would be no exhaustion.

## Community Patent

The EU Presidency has submitted to the Council a proposal for a common political approach on the Community patent. The proposal covers the role of national patent offices, languages and costs, the distribution of

fees and certain elements of the jurisdictional system. It proposes that: the European Patent Office (EPO) will be responsible for examination of applications and the granting of Community patents. Applications for Community patents may be filed with the national patent office of a Member State in its working language(s) or directly with the EPO. National patent offices having an official language other than the three official languages of the EPO, may carry out any task up to and including novelty searches in their respective language(s). The applicant must present a complete application document in one of the three official languages of the EPO as well as, at the time of grant of the patent, a translation of the claims into the two other EPO languages. The first instance judicial panel will consist of a central Community Patent Panel (CPP) in Luxembourg attached to the Court of First Instance. A limited number of regional chambers will be set up in different parts of the Community and appeals will be heard by the Court of First Instance. The Commission will present a report to the Council on the func-

tioning of the Community patent five years after the entry into force of the Regulation on 6 May 2002.

### **EU Initiative on TRIPS Agreement**

The European Union has proposed a plan to ensure that developing countries with no domestic drug production can obtain affordable supplies of essential medicines.

The EU's proposal would add a new paragraph to the relevant article of the TRIPS agreement, Article 31. It would carve out a clearly circumscribed exception to the restriction imposed in the text so that compulsory licences may be issued to another World Trade Organization member in order to address its public health needs. This would provide a straightforward, clear, legally secure, effective and permanent solution to the problems facing poorer countries without manufacturing capacity within the existing legal framework. Safeguards would be put in place to avoid trade diversion, create transparency and ensure cooperation with rights holders.