EU Review

A recurring feature
by Alec Burnside, Linklaters & Alliance, Brussels

A review and commentary on recent decisions relating to licensing in the European Union.

RECENT ANTI-TRUST CASES

European Commission Prohibits Proposed Schneider/Legrand Merger

Following a phase-two investigation, the Commission has prohibited the merger of Schneider Electric and Legrand, the two main French manufacturers of electrical equipment. The effects of the merger on competition related primarily to low-voltage electrical equipment, i.e. all the systems used for electricity distribution and the control of electrical circuits in homes, offices or factories. The Commission's investigation showed that there was substantial overlap between the activities of Schneider and Legrand in the markets for electrical switchboards, wiring accessories and certain products for industrial use or for more specific applications. In France, the merger gave rise to particularly serious problems over virtually the whole range of products concerned and would, in most cases, have resulted in the strengthening of a dominant position. Schneider and Legrand are by far the largest players on the French market, and the Commission's investigation demonstrated clearly that there was little prospect of any significant development in the activity of foreign competitors in the short and medium terms. Furthermore, competition problems were also identified in Denmark, Spain, Greece, Italy, Portugal and the United Kingdom.

In an attempt to remedy these problems, Schneider submitted an initial series of undertakings to the Commission on September 14, 2001, the deadline for presenting undertakings. However, it became evident that these initial undertakings were not enough to restore the conditions of effective competition.

Schneider submitted new undertakings on September 24, but they left serious doubts as to the competitive capacity of the entities to be sold off, notably in regard to access to distribution in France and the economic risks associated with the actual separation of these entities from the rest of the group to which they belonged. In any event, the uncertainties associated with the fact that these were last-minute proposals could not be cleared up within the deadlines set. Lastly, Schneider's proposals did not provide any effective solution in regard to a number of geographic markets and/or product markets on which competition problems had been identified.

The merger took the form of a public offer on the Paris stock exchange and, under the rules of the exchange, it had already been implemented, conditional bids not being permitted. Therefore Schneider is required to divest itself of the 98 percent of Legrand's shares that it had acquired.

The European Commission Imposes Fine of Nearly Euro 72 Million on DaimlerChrysler

The Commission has imposed a fine of ¤ 71.825 million on DaimlerChrysler AG, one of the world's leading car manufacturers, for three infringements against Article 81 of the EC Treaty. This is the fourth Commission decision imposing a fine against a car manufacturer that does not respect EC competition rules.

The Commission identified three types of infringements of the EC competition rules. The first one consists of measures by DaimlerChrysler that constitute obstacles to parallel trade. The undertaking instructed the members of its German distribution network for Mercedes passenger cars, roughly half of which are agents, not to sell cars outside their territory. In addition, DaimlerChrysler instructed its distributors to oblige foreign, but not German, consumers to pay a deposit of 15 percent to DaimlerChrysler when ordering a car in Germany.

In a second infringement, in Germany and Spain, DaimlerChrysler limited the sales of cars by Mercedes agents or dealers to independent leasing companies as long as these companies had not yet found customers ("lessees") for the cars concerned. As a consequence, it restricted the competition between its own leasing companies and independent leasing companies because the latter could not put cars on stock or benefit from rebates

that were granted to all fleet owners.

Finally, DaimlerChrysler participated in a price fixing agreement in Belgium with the aim of limiting to 3 percent the rebates granted by its subsidiary Mercedes Belgium and the other Belgian Mercedes dealers to consumers. This amounts to resale price maintenance, a practice for which the Commission had already imposed sanctions in its decision against Volkswagen last June.

The amount of the fine takes into account the gravity and duration of the infringements. The fine must also have a sufficient deterrent effect on DaimlerChrysler and other companies.

Commission Fines Six Companies in Sodium Gluconate Cartel

Six international companies, Akzo Nobel NV, Archer Daniels Midland Company Inc., Avebe BA, Fujisawa Pharmaceutical Company Ltd., Jungbunzlauer and Roquette Frères SA, have been fined by the European Commission for their involvement in a price-fixing and market-sharing cartel.

The companies, producers of virtually all the world's supply of the cleaning agent sodium gluconate, for which the EEA market during the lifetime of the cartel was worth Euro 18 million annually, operated the illegal agreement from 1987 to 1995. They held regular meetings in Europe, Japan and North America where they agreed on individual sales quotas, fixed minimum and target prices and even shared out specific customers. The cartel members then monitored each other's compliance with the quotas and if any company had oversold, it would be penalised by a reduction in its quota for the next year.

The overall fine in the case was, at Euro 57.53 million, the ninth largest ever imposed — this despite the fact that all of the companies took advantage of the Commission's leniency program, which allows for full or partial immunity from fines for companies that cooperate with the Commission in a cartel case. Fujisawa, fined Euro 3.6 million, was given an 80 percent reduction, the highest percentage reduction ever allowed, for providing decisive evidence of the cartel. It would have been eligible for total immunity but for its failure to come forward before the Commission sent a request for information. Archer Daniels Midland, at 10.13 million, and Roquette Frères, at 10.8 million benefited from a 40 percent reduction in fines for "adding value" by their cooperation. Akzo Nobel, at Euro 9 million and Avebe at 3.6 million, were granted only a 20 percent reduction, as they provided no new information to the Commission.

Jungbunzlauer, although it was given a 20 percent reduction in its fine for corroborating information before the Statement of Objections was issued, was regarded as the "driving force" behind the cartel and the basic fine was therefore increased by 50 percent, bringing it up to Euro 20.4 million.

The investigation into the case was begun in 1997 after similar conduct on the part of some of the parties to the cartel was uncovered in the United States. This resulted in the companies pleading guilty and being fined in the United States and Canada.

Provisional Suspension of Commission Decision against IMS Health

The President of the Court of First Instance has adopted a provisional suspension order of the decision of the Commission taken in July of this year in a case concerning IMS Health, which has wide implications in the field of intellectual property rights. At issue is to what extent the Commission can override copyright protections by arguing that, in exceptional circumstances, the exercise of an exclusive intellectual property right can constitute abuse of a dominant position. (This argument draws its precedent from the Magill case of 1995). A further sensitive issue in this case is that the Commission decision in question amounts to a direct countermand of an explicit decision of a national court.

IMS Health Incorporated is a market research company providing a broad range of market research, marketing and sales management services to the pharmaceutical sector. It had developed a system in Germany known as the "1860 brick structure," whereby the country was broken down into 1,860 geographical areas, or "bricks," within which data on prescriptions given and sales at pharmacies could be analysed in a meaningful way. IMS had copyrighted this structure. When two prospective competitors, NDC Health of the United States and AzyX of Belgium, tried to use their own versions of this structure, they were held, by the German courts to be in breach of IMS's copyright. When, subsequently, IMS refused to grant them licences to use the structure, they complained to the European Commission.

The Commission's decision, which has now to some extent been put in doubt, was that IMS, in keeping the 1860 brick structure to itself, was abusing a dominant position and locking competitors out of the market. It found that the brick structure had become an "essential facility" and without access to it, no competitor could enter the market — a finding directly contrary to that of the German court. The Commission made an interim order that IMS should issue licences to its competitors on commercial terms, receiving agreed royalties. IMS appealed this decision and made an application for interim relief. IMS argued that the Commission, in making an interim order that licences should be granted had failed to maintain the status quo pending a substantive decision in the case.

The President of the CFI has now ordered that it is in the interest of the proper administration of justice that the Commission decision be suspended pending the outcome of the full hearing on the question of interim relief. He stated that the suspension was a protective measure that was not such as to cause irreparable harm either to the Commission's interests or those of the competitors in the market, NDC Health and AzyX.

PATENTS

Judgement Concerning Words with a Customary Meaning

The company Merz & Krell filed an application for registration of the wordmark "Bravo" in respect to writing implements. That application was refused by the Deutsches Patent und Markenamt on the ground that the word "Bravo" is, for the class of persons to whom it is addressed, purely a term of praise and an advertising slogan devoid of any distinctive character, thus rendering it ineligible for protection.

Merz & Krell brought an action against that decision before the German patent court. The court pointed out that the term "Bravo" has the same meaning in many European languages as a term of praise in the sense of a job well done. It also observed that that word is in fact used in advertising in Germany and various other European countries as a term of praise in respect of various goods and services. The court found that registration could be refused if the word "Bravo" had become customary in current language or in established practice of the trade. But, under German patent law, the word must have become customary to describe the goods for which the patent was sought in order for registration to be refused.

The German court sought clarification of the meaning of the directive from the European court. The European court ruled:

Under the Trademark Directive, registration should only be refused if the word for which registration was sought had become customary (i.e., generally used in respect of the goods in question).

If such usage of the word has become customary, it does not matter if it is generally used as an advertising slogan or an indication of quality.

Registration is not precluded if a word is generally used as an advertising slogan or an indication of quality. It is for the national court to determine in each case whether the signs or indications have become customary in the current language or in the bona fide and established practices of the trade to designate the goods or services covered by that mark.

Therefore, the only test, under the directive, is whether the words for which registration is sought have entered into general usage to describe the goods or services in question: if so, registration may be refused.

Case Reference: C-517/99, Merz & Krell GmbH & Co

TRADEMARKS

Community-wide Exhaustion of Trademark Rights

The debate on Community-wide versus international trademark exhaustion was re-opened in October with the publication of a European Parliamentary Report on the issue. The question is whether the EU should stick to the current regime of EU-wide exhaustion of trademark rights or change to a system of international exhaustion of such rights, thus allowing "parallel imports" from third-party countries into the EU of trademarked products at supposedly much lower prices than those paid by EU consumers. Parallel imports are a highly controversial issue among MEPs because of their far-reaching economic and social consequences. Those who would prefer to keep the current system of Community-wide exhaustion argue that the benefits of parallel imports to EU consumers would be minimal (estimated 2 percent price falls on average), while the adverse effects for European industry — in particular, employment — would be enormous, as production units and hence jobs would be shifted to low-wage, non-EU countries. In addition, piracy would flourish.

Parliament's compromise called on the Commission:

• to produce a detailed study of the implications of a possible transition to an international exhaustion regime for European manufacturers and consumers as well as for jobs;

• to produce a report on cases of abuse of trademark rights notified to the Commission;

• to ascertain the prospects for the conclusion of an international agreement on harmonized rules on exhaustion of trademark rights under the WTO or WIPO;

• to submit to Parliament, by December 31, 2002, a report on these points, containing detailed proposals.

The Commission, however, has declined to act on this request. Commissioner Bolkestein has told the European Parliament that the Commission at present sees no reason to re-examine the issue of exhaustion of trademark rights. The Commission is in favor of maintaining the present regime of Community-wide exhaustion rather than changing to international exhaustion of trademark rights and is not convinced that a change would have a significant impact on consumer prices. It is of the view that the present system strikes a balance between the interests of consumers and the legitimate interests of trademark holders. Commissioner

Bolkestein acknowledged that there were price differences on certain consumer goods between member states but did not agree that this could be attributed to the trademark regime. He noted that, as far as comparisons with the United States were possible, the EU market was the cheaper market. Commissioner Bolkestein stated that all the aspects had been thoroughly studied and analysed by the Commission services and no new elements had been put forward that would require further examination or which would give the Commission reason to reconsider its decision.

Advocate General's Opinion Concerning Trademarked Goods

The Advocate General has given an opinion to the effect that someone selling goods cannot be stopped from orally referring to trademarked goods to describe qualities of the goods being sold. The question posed in the case was:

Where a person owns a national trademark in the form of a name for goods possessing certain characteristics, does the Trademarks Directive entitle him to prevent another person from using that name in the course of trade in order to indicate characteristics of other similar goods, which that other person is offering for sale but which are not produced by the trademark proprietor and the seller makes no claim to that effect and there can be no confusion as to their origin? Advocate General Jacobs concluded:

Article 5(1) of the 1988 Trademarks Directive does not entitle a trademark proprietor to prevent third parties from referring orally to his trademark when offering their goods for sale if they make it clear that he did not produce those goods and if there can be no question of the mark being perceived in trade, whether at that stage or subsequently, as indicating the origin of the goods offered for sale.

However, even in other circumstances in which Article 5(1) does give the trademark proprietor a right to prevent use, Article 6(1) precludes the exercise of that right if the use is for the purpose of indicating characteristics of the goods in question, unless such use is not in accordance with honest practices in industrial or commercial matters.

Case Reference: C-2/00, Michael Hölterhoff v Ulrich Freiesleben

Community Utility Model

The Commission has issued a consultative document to update information previously received from interested parties on the possible impact of a Community Utility model. The last consultation took place in July 1995 when the majority of replies were opposed to the introduction of such a model.

Utility models, sometimes called "petty patents," are registered rights that confer exclusive protection on inventions but that are granted without examination and require a lower level of inventiveness than is required for patents. Protection can be obtained more quickly and at lower cost than a patent, but with less legal certainty. At present, national utility model protection is available to varying degrees in many EU Member States but not in the United Kingdom, Sweden or the Benelux countries.

Work on the proposed directive to approximate national systems of utility model protection was put on hold in March 2000 while priority was given to the Community patent. In March this year, the Stockholm European Council expressed concern at the lack of progress on the community patent and utility model and the Commission has responded by issuing the consultative document.

The consultative document proposes the establishment of a Community utility model to complement, but not replace, national systems. It asks a number of questions concerning the potential impact on research and development and competition (both within the EU and between the EU and the rest of the world); and the effect on legal certainty; and estimates the number of applications likely to be filed in each year.

The Designs Directive

The EU Designs Directive (98/71/EC), which had to be implemented by October 28, 2001, is likely to make design registration a more attractive option. In particular, the introduction of a 12-month grace period, during which disclosure will not destroy novelty, is new to most member states and will allow companies to test the market or find financial backers for a new product without losing priority. Also new to most member states is the fact that it will not be necessary to limit registrations to a specified article or set of articles, protection will extend to any product incorporating a registered design.

The directive will not lead to complete harmonization of all aspects of national laws, in particular, with regard to spare parts. The Commission is required to review the consequences of the directive by October 2004 and, by October 2005, to propose any changes needed to complete the Internal Market in respect of component parts of complex products (i.e., spare parts) and any other changes that it considers necessary in the light of its consultations with affected parties.

Provisions relating to sanctions, remedies and enforcement are left up to the individual member states. The directive does not attempt to harmonize the concepts of "public policy" or "morality," which may lead to refusal of registration.

Implementation of the Designs Directive will be fol-

lowed by finalization of the Community Design Regulation, for which an amended proposal was published in October 2000. It will reflect all the relevant provisions on substantive design law featured in the directive and so will be fully compatible with the directive.

TRIPS AGREEMENT

Judgement of the European Court of Justice

In a case referred by the Netherlands, the court has ruled that Article 50 of the TRIPs Agreement (concerning provisional measures for the protection of intellectual property rights), although not binding, should be respected as far as possible by national courts.

In particular, the Court ruled:

Where TRIPs became applicable in the member state concerned at a time when the court of first instance has heard the case but not yet delivered its decision, Article 50 is applicable to the extent that the infringement of intellectual property rights continues beyond the date on which TRIPs became applicable with regard to the Community and the member states.

The procedural requirements of Article 50(6) are not such as to create rights upon which individuals may rely directly before the Community courts and the courts of the member states. Nevertheless, where the judicial authorities are called upon to apply national rules with a view to ordering provisional measures for the protection of IP rights falling within a field to which the TRIPs Agreement applies and in respect of which the Community has already legislated, they are required to do so as far as possible in the light of the wording and purpose of Article 50(6).

Article 50(6) is to be interpreted as meaning that a request by the defendant is necessary for provisional measures ordered by way of interim relief to lapse on the ground that no substantive action has been brought within the prescribed period.

It is for each member state to determine the limits of the powers of the judicial authorities in ordering provisional measures.

Case Reference: C-89/99 Shieving-Nijstad vif & ors v Groeneveld