FRESHFIELDS BRUCKHAUS DERINGER

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BRIEFING

EU enlargement: intellectual property and competition law issues

Contents

On 1 May 2004, 10 new member states will join the existing 15 members of the European Union (EU). They are:

Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia.

The Treaty of Accession was signed by the new member states on 16 April 2003 and will come into force on 1 May 2004.

Deadline for compliance

The Accession Treaty provides that new member states must comply with EU law by 1 May 2004, in the absence of a specific derogation. Individual countries have negotiated temporary derogations on specific laws (marketing authorisations for medicinal products is one example) but none of these relate to IP. All new member states must therefore implement the EU directives relating to IP by 1 May 2004. However, in certain situations, the Accession Treaty confers a six-month grace period on agreements existing on 1 May 2004 that would fall foul of article 81 of the EU Treaty after accession, which is discussed below.

Changes to EU law

The Accession Treaty also amends certain EU laws, including the Community trade mark regulation, Community design regulation, and certain other pharmaceutical-related measures (which we deal with in a separate briefing).

This briefing outlines the main IP and competition law issues arising from EU enlargement, and highlights some action that companies trading in or with the accession countries might usefully take now in preparation.

Community trade marks

The amended Community trade mark (CTM) regulation provides that CTM registrations and applications existing (or claiming priority) before 1 May 2004 will automatically extend to the new member states. An automatically extended CTM registration cannot be invalidated or an application be refused registration because of an earlier national right, or by absolute grounds (such as descriptiveness) which apply only in new member states.

Registration of a CTM application filed (or with a priority date) before 1 November 2003 cannot be opposed on the basis of an earlier right in a new member state. CTM applications filed between 1 November 2003 and 1 May 2004 may be opposed, provided the earlier national right was acquired in good faith and predates the filing date (or priority date) of the CTM application.

However, the proprietor of a national right acquired in good faith in a new member state that pre-dates 1 May 2004 can prevent the use of a CTM in that member state. This creates a potentially significant problem for CTM owners. A CTM owner with business in an accession state, but no national rights, might consider an urgent application for national protection to pre-empt the possibility of such an application being made by a third party before May 2004.

After 1 May 2004, it may be more difficult to register a CTM. There will be a larger pool of potentially conflicting national rights and a greater chance that the mark is descriptive or generic in the language of one member state, as the number of EU languages will increase from 11 to 21.

It is likely that the fees payable for the registration of CTMs will increase as OHIM (the Community trade mark office) is likely to incur increased translation costs. It is also possible that the CTM registration process may take longer if there is a big influx of applications to OHIM from the new member states.

Action:

- File new CTM applications before 1 November 2003 if possible. In any case, aim to file before 1 May 2004.
- Even if you already have a CTM (or pending CTM application), consider filing national trade mark applications in any of the new member states where you intend to start trading, to prevent third parties from acquiring national registrations for marks identical to your CTM which could enable those parties to prevent use of your CTM in those member states.
- Conduct searches for earlier national rights that may potentially prevent use of a CTM in a new member state before expanding use of a CTM to that member state.

Community designs

The amended Community design regulation provides that Community designs registered or applied for, and unregistered Community designs acquired before 1 May 2004, will automatically extend to the new member states. An automatically extended Community design (or application) cannot be invalidated (or refused registration) because of a national right that pre-dates 1 May 2004, or on grounds of invalidity or non-registrability that exist only in new member states.

As with CTMs, there are provisions for dealing with the existence of earlier conflicting national rights in new member states. Owners of national rights that have been registered, applied for or acquired in good faith before 1 May 2004 may oppose the use (but may not attack the registration) of the Community design in the relevant new member states.

The substantive examination requirements applicable to Community registered designs are not affected by enlargement. As with CTMs (and for similar reasons), registration fees may rise and registration may take longer.

Action:

- File Community design applications before 1 May 2004.
- Conduct searches for earlier national design rights that may potentially prevent use of a Community design in a new member state.

Pricing and parallel imports

It is likely that prices charged in existing member states will be higher than those in the new member states. If there are major price differences that cannot be justified, an IP right holder with a dominant position may be found to have abused that position by charging excessive prices. Similarly, unjustified differential pricing based on the customer's location may constitute an abuse of a dominant position.

Parallel importers are likely to take the opportunity to buy lower priced goods in the new member states and resell them at a higher price in the existing member states. Except for a specific provision applying to pharmaceutical products (not covered in this briefing), the principle of 'exhaustion of rights' will apply to the new member states (as it does to the existing EU member states and the other three countries of the European Economic Area (EEA): Iceland, Liechtenstein and Norway).

The principle is that once a product has been put on the market in the area comprising the enlarged EU and EEA by an IP right holder, or with his consent, the IP right holder will not be able to prevent the product being resold anywhere within the area comprising the enlarged EU and EEA states.

Action:

- Review pricing strategy, aiming for consistency across the EU, and ensuring any differentials can be objectively justified.
- Be prepared for increased competition from parallel imports. Consider whether marketing your goods or services in the new member states is commercially appropriate if they are to be priced beneath the level of the existing member states.

The European patent system

When the Community patent system is introduced (which is likely to be in two or three years' time) this will cover the enlarged EU. The enlargement of the EU on 1 May 2004 will not directly affect the current national patent systems in member states. Nor will it affect the European Patent Convention (EPC) through which a single 'European patent' application can lead, with a single prosecution procedure, to the grant of national patents in 31 countries at the moment.

The EPC is separate from EU law, although all current EU member states are signatories to the EPC. Of the new member states, six (Cyprus, the Czech Republic, Estonia, Hungary, Slovakia and Slovenia) are signatories, and Latvia and Lithuania are 'extension states' (which means that a European patent application may be extended to include these). Poland and Malta have not yet signed, although they are planning to do so.

As a result of the extension of the exhaustion principle, and the consequent importance of pricing, patentees should consider either:

- securing patent protection in the 28 countries of the enlarged EU and EEA, including Poland and Malta; or
- ensuring that they do not consent to their goods being put on the market in one of the 28 countries of the enlarged EU and EEA where they have no patent protection.

Action:

- Review your patent portfolio to check your policy on coverage in the 28 countries of the enlarged EU and EEA states.
- Either
  - review internal policy on filing applications in any states not currently covered, either through an EPC application, a PCT application (for Poland) or, in the case of Malta, a national application; or
  - ensure that any goods you place on the market in a state where you do not have patent protection do not generate a threat of commercially damaging parallel imports (eg by avoiding large differentials in pricing);
- It could be useful to mark products (for example to show that products imported into a non-EPC country from outside the EU were not marketed with consent). Note, however, that marking can be illegal if used as part of a plan to prevent trade between EU member states. If in doubt, take advice on the point.

IP licences and other commercial agreements

Article 81 of the EU Treaty requires that various agreements, including licensing agreements, distribution agreements and agency agreements, comply with detailed rules to ensure that they are not anticompetitive. This must be considered in a review of any IP licences and pricing and distribution mechanisms, as these rules will now extend to the new member states.

If an agreement already exists on 1 May 2004, and would infringe the prohibition on anticompetitive agreements contained in article 81 on that date, the parties have the benefit of a six-month transitional period in which to amend it to come within one of the article 81 block exemptions (vertical agreements, technology transfer, R&D and specialisation).

Agreements must also comply with national competition laws, which are generally similar to the European rules. Notification requirements vary from country to country but it should be noted that enforcement by national competition authorities is increasing.

Enlargement may also affect the construction of the agreements, particularly where they refer to the 'European Community' or the 'European Union'. After 1 May 2004 this may be taken to include the new member states as well as the existing ones, depending on the construction of the agreement. This could present problems where, for example, a manufacturer has entered into an exclusive distribution agreement covering the 'European Community' before 1 May 2004 and has entered into a similar agreement with another party covering any of the new member states before that date. The change in the construction of the former agreement could mean that the latter agreement is breached.

Action:

- Review distribution, agency and franchise agreements, and check for compatibility with the block exemption on vertical agreements. Be particularly careful with exclusive distribution agreements, to which particularly stringent conditions are attached.
- Review agreements with a licence of 'technology' (patents, knowhow, software copyright, or design rights), and check for compatibility with the technology transfer block exemption (a new version is due to come into force on 1 May 2004 – see our briefing of August 2003).
- Review other IP licences in light of article 81 and national equivalents.
- Review agreements with local competitors, in case they raise suspicions of an illegal cartel. Even information sharing between competitors can be problematic. Review other 'horizontal' agreements and check for compatibility with the R&D and specialisation block exemptions.
- Notify agreements to national competition authorities if required.
- Review definitions, and territorial scope of agreements, and check no breaches will occur.

National IP and data protection laws

The new member states are, where necessary, amending their national IP laws in order to implement EU directives relating to trade marks, copyright, registered designs, databases, and data protection.

Action:

- Consider the effect of amendments to national laws of the new member states. These may, for example, affect applications for registered trade marks and designs, licences, and a range of business activities.

EU measures to combat piracy and counterfeiting

A proposal for a new EU directive to harmonise national laws on enforcement of IP rights is being debated. The proposal concentrates on infringements carried out for commercial purposes or which cause significant harm to rights-holders, and is based on best practice within member states' existing legislation. This, together with a new EU regulation relating to customs action, is aimed at reducing counterfeiting and piracy (particularly prevalent in some of the new member states) throughout the EU. The Commission is aiming for the directive to be adopted on 1 May 2004, although the deadline for implementation into national legislation is unlikely to be before the end of 2005.

For further information please get in touch with your usual Freshfields Bruckhaus Deringer contact. Freshfields Bruckhaus Deringer is running a series of seminars on the impact of the EU enlargement. These are taking place in Hungary and Slovakia from mid October to late November 2003 and will be in the local language. Additional seminars are being planned for 2004 in number of cities, including London, Vienna and Brussels. If you (or your colleagues) would like further details or to attend these seminars, please contact Clare Adshead-Grant either by email at clare.adshead-grant@freshfields.com or on T+44 020 7785 2779. If you would like copies of our *EU enlargement briefing for pharmaceutical companies*, please contact Clare Adshead-Grant.

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