A new challenge for distribution systems and the protection of intellectual property rights

Subject to ratification of the Treaty of Accession, the European Union will be enlarged on 1 May by the territories of the Czech Republic, Slovakia, Poland, Hungary, the Baltic States (Latvia, Lithuania and Estonia), Slovenia, as well as Malta and Cyprus. On the one hand, this offers economic opportunities but, on the other, it prompts companies to adjust their distribution systems and re-examine the protection of their intellectual property rights. In particular, companies which were already operating in the new member states must attune themselves to the new legal framework and re-organise and adjust their distribution strategies and contractual relationships. The following comments explain the effects of enlargement on intellectual property rights and distribution structures.

**Effective date 1 May 2004**

From 1 May, the fundamental economic freedoms under community law, in particular the free movement of goods and services and freedom of establishment, will apply to cross-border transactions involving the new member states. There are exceptions to this rule, in particular with regard to the free movement of migrant employees and the free trade of patented pharmaceutical products.

In addition, all community legislation will be binding on the new member states from the effective date, unless the Treaty of Accession contains special provisions or transitional periods. European regulations, which are directly applicable in all member states, will have to be observed by market participants in the new member states. European directives, which require implementation by national legislators, will have to be implemented by the

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effective date. Most new member states have already started to implement the directives some time ago. However, despite the considerable efforts they have made to adjust their legal systems, not all of the community legal standards will have been fully implemented in every new member state by the effective date.

**Intellectual property rights**

The enlargement will have a direct impact on the scope of intellectual property rights. With the Athens Treaty, a decision was made to extend the community trade mark to the new member states. This enables companies to protect their trade marks in the new member states without a separate national registration. However, holders of trade marks which were registered in the new member states prior to the effective date may prevent the use of identical or confusingly similar community trade marks in their territories as long as they did not acquire their marks in bad faith. Some community trade mark owners therefore registered national trade marks in the new member states before accession in addition to their community trade marks. This will prevent the use of their community trade marks being restricted by third party national registrations in the new member states.

Community design rights will also be extended from the effective date to the territories of the new member states. Applicants or holders of existing rights in the new member states may object to the use of a community design right in their territory but, again, only if the pre-existing national right was acquired in good faith.

Furthermore, the new member states will adopt the Copyright and Related Rights Directive (2001/29/EEC). The minimum rights for authors as well as the various limitations set out in that directive will apply in the new member states, provided that they have implemented it fully.

As the planned directive for the implementation of a community patent has not yet been enacted, enlargement will have no direct impact on patent law. However, Estonia, Slovakia, Slovenia, the Czech Republic, Hungary and Cyprus have entered into the European Patent Convention so that applications for the registration of European Patents with the European Patent Office will confer patent protection in these states through the uniform registration procedure. Poland has also entered into the European Patent Convention with effect from 1 March 2004.

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Parallel Imports

EU enlargement will not only extend legal protection for existing intellectual property rights but will also limit the scope of national trade mark rights. The Trade Marks Directive (89/104/EEC) provides for the exhaustion of trade mark rights for goods put on the market by or with the consent of the trade mark owner within the territory of the EU or the European Economic Area (EEA). Trade mark rights are not exhausted with respect to goods which are first marketed outside this area and trade mark proprietors can prevent such goods being imported into the EU or the EEA.

With the enlargement of the European single market, exhaustion of trade mark rights now also occurs when goods are first marketed within the territory of the new member states so that re-imports within EU or the EEA can no longer be prevented. The new member states have apparently implemented the Trade Marks Directive. Just recently new trade mark laws were enacted in the Czech Republic and Poland which implement the relevant provisions of the directive.

As price differentials between the current EU member states and the new member states is quite substantial in some cases, an increase in re-imports can be expected. The same applies to imports of goods which have been produced in the new member states by the trade mark holder or its licensee. Therefore, it is important to adjust distribution systems and contractual relationships with market participants in the new member states to reflect the changed economic and legal circumstances. In particular, companies should consider whether to restructure existing distribution systems as “selective distribution” systems or to incorporate legally permissible restrictions on distribution (such as regarding the distribution territory) in authorised dealer agreements.

This will probably be of particular importance for manufacturers of trade marked products which sell their goods in the new member states in a different composition or with different equipment. Re-importing such goods into Germany could cause confusion on the market and damage the reputation of the trade mark. In particular, if such products do not meet relevant regulations for marketing in Germany.

Goods which were put on the market in the new member states by or with the consent of the trade mark owners prior to the effective date will probably not be subject to exhaustion of trade mark rights (because they were not put
on the market in a member state of the EU for the first time). There are indications that importers in the new member states are already accumulating goods in order to introduce them into the existing member states from the effective date. This is particularly true for high-quality and well known branded products, such as perfumes and cosmetics. Trade mark owners should monitor the market closely, especially during the period directly following the effective date, and invoke their trade mark rights against such goods coming from the new member states. As the Athens Treaty does not contain any transitional regulations in this respect, it remains to be seen how the courts will regard such goods.

**Product piracy**

Community law enables the holders of intellectual property rights to take action against the import of counterfeit goods or goods which otherwise infringe intellectual property rights. According to the Product Piracy Regulation (EC 3295/94), or its successor (EC 1383/2003) which will take effect on 1 July 2004, holders of property rights under Community law (Community trade marks, Community design rights, Community plant variety rights or Community protected designations of origin or geographical indications) may file an application with a national customs office which will be valid in several or all EU Member States. If the customs authorities discover goods which possibly infringe property rights, they will suspend the release of the goods or detain them. The right holder may effect the destruction of the goods. These measures enable holders of intellectual property rights to prevent the marketing of infringing goods, even before they are put on the market.

Border seizures have often been accomplished by German customs authorities because a large number of infringing products are introduced across the German outer border of the EU. With enlargement, a substantial portion of the German EU outer border will no longer exist. German right holders will have to liaise with the customs authorities of the new member states which will be guarding the new EU outer borders and can prevent the import of infringing goods.

The same applies to parallel imports of trade marked products which have not yet been exhausted. Trade mark owners who want to protect their distribution systems from being flooded by such goods, will have to

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cooperate with the customs authorities of the new member states. Unlike the case of counterfeit goods, where an application under the Product Piracy Regulations to one of the central customs authorities is sufficient, right holders who have themselves marketed their products on non-European markets must file separate applications in every member state. This presumes that the relevant national law provides for border seizures of parallel imported goods, as German law does.

The effective protection of European distribution systems will require not only more intensive cooperation with the customs authorities of the new member states, but also an increased monitoring of national markets. As a result of the increased outer border of the EU and possible short or mid-term gaps in the monitoring of imports across the new outer borders, increased numbers of infringing goods are likely to reach the European market. Quick and effective action will be necessary as soon as a right holder becomes aware of infringing goods on the market, in order to secure and maintain distribution systems. In particular, interim injunction proceedings, as provided under German law, offer an effective means of taking action against infringing goods and promptly preventing further infringing goods from being put on the market.

**Vertical distribution agreements**

European competition law is also part of the European legislation which will apply in the new member states from the effective date. Restrictive terms, in particular in licensing agreements, distribution agreements, franchise agreements and, if applicable, agency contracts, will be assessed pursuant to Article 81 EC Treaty and/or the applicable block exemption regulations.

For agreements entered into prior to 1 May, the Athens Treaty provides a transitional period of six months from the date of accession. During this period, market participants who have entered into distribution agreements, for example with commercial agents or dealers in the new member states, will have to amend them to reflect European competition law insofar as the agreements have a noticeable negative effect on competition. In particular, an adjustment will be required with regard to the “hardcore” restrictions set out in the block exemption regulations. Hardcore restrictions include price fixing or, under certain circumstances, territorial restrictions or customer restrictions. These provisions will become invalid on expiry of the transitional
period. Depending on the relevant national law, the entire contract may even become invalid. In addition, anti-trust authorities may commence investigations and possibly impose substantial administrative fines.

Agreements should be examined to determine whether they still comply with applicable national competition laws. Although the new member states have partially amended their competition laws to reflect Community law, it is possible that, outside the scope of European competition law, some new member states may consider certain agreements to be restrictive and therefore impermissible.

**Agency Contracts**

The European Commercial Agents Directive (86/653 EEC) obliges member states to include in their national commercial agency laws certain minimum notice periods and the commercial agent’s entitlement to indemnity in the case of termination of the agency contract. The minimum standards stipulated by the directive are mandatory and may not be excluded by the parties to the agreement. To the extent that national laws of the new member states did not previously include similar provisions, EU companies cooperating with commercial agents in the new member states were allowed to deviate from the mandatory provisions of the directive, for example, by excluding the entitlement to indemnity.

Since the Commercial Agents Directive must be implemented in the new member states by the effective date, several of them have already adjusted their commercial agency laws accordingly. For example, Poland and the Czech Republic amended their commercial agency laws in 2001 and provided for the mandatory entitlement to indemnity. In Hungary the Commercial Agents Directive was implemented in 2000. Future agreements with commercial agents in the new member states will be based on the minimum standards of the directive. However, in individual cases, it will be necessary to check whether there are any other mandatory provisions to protect the commercial agent in the relevant national jurisdiction. Agreements made prior to 1 May may already be subject to mandatory provisions if the directive has been implemented in the relevant new member state. All existing agency contracts should be adjusted to the new legislation in order to avoid the risk of being held null and void.

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Selective distribution

Operators of selective distribution systems will also be obliged to comply with European competition law and to adjust their agreements with distribution partners in the new member states to bring them in line with Community law. It is important to check whether the agreements comply with the provisions of the EC Treaty or the block exemption regulations. The same transitional period applies.

Operators of selective distribution systems will also have to adjust their agreements with distributors in the new member states to reflect their agreements with distributors in the existing member states. The principle underlying a selective distribution system is that all distributors are obliged to distribute their goods only to end consumers or distributors within the system. In addition, there must be uniform quality requirements within the system concerning, for example, shop equipment, packaging and goods display. Operators must therefore check whether existing agreements with authorised distributors in the new member states already contain an obligation to distribute only to end consumers or distributors within the system and ensure uniform quality requirements with respect to distribution.
Additional information

Further information is available on request from the contacts listed below or your usual Linklaters contact. Our offices in Warsaw, Budapest, Bratislava and Prague issued regular newsletters providing information on recent legal developments in the new member states.

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