

directors in cases where there is a conflict of interests with the company fall outside the scope of application of the First Company Directive and are therefore subject to national law. *Siemens v. Nold*<sup>16</sup> established that the Second Company Law Directive leaves it to the national laws to determine whether or not existing shareholders should have pre-emption rights in the event of an increase of capital for consideration in kind rather than for cash. The Court found that German law, which, in the interests of shareholder protection, renders any decision of a company's general meeting to withdraw pre-emption rights in such a case subject to review by a judicial body, was compatible with the Directive.

*Kefalas*<sup>17</sup> is the latest in a series of cases concerning the application of Article 25(1) of the Second Company Law Directive<sup>18</sup> to Greek companies which are subject to a regime of compulsory State administration. In previous cases the Court had held that Article 25(1) precludes the increase of the capital of a public company by an administrative measure without a resolution of the general meeting.<sup>19</sup> In *Kefalas* the referring court considered that, in the circumstances, the plaintiff shareholders' reliance on Article 25(1) amounted to an abusive exercise of a right contrary to the Greek Civil Code. That was so, because the increase in capital was beneficial to the company, which otherwise would have been declared insolvent. Also, when the capital was increased, the shareholders had a preferential right to acquire shares of which they declined to avail themselves. The Court of Justice accepted that Community law may not be relied upon for abusive or fraudulent ends, but it also held that a shareholder could not be said to be abusing his right to rely on Article 25(1) on the ground that the increase in capital contested by him averted the insolvency of the company and enured to his economic benefit. The Court further held that a shareholder's failure to exercise his preferential rights did not estop him from contesting the increase of capital. By exercising his preferential rights, a shareholder would have shown his willingness to assist in the implementation of the decision to increase the capital without the approval of the general meeting, which is the very decision he contests.

Overall, recent developments suggest that company law has ceased to be a priority policy area and that the relative importance of case law has increased. Indeed, it may be argued that judicial intervention through cases like *Centros* does much more to facilitate free movement of companies than harmonisation measures.

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### III. INTELLECTUAL PROPERTY

#### A. Introduction

This area of law is dominated by the drive towards harmonisation, and a

16. Case C-42/95 [1996] E.C.R. I-6017.

17. Case C-367/96, *Kefalas v. Greek State and OAE* [1998] E.C.R. I-2843.

18. Art.25(1) states that any increase in capital must be decided upon by the general meeting.

19. See e.g. Case C-441/93, *Pafitis v. TKE and Others* [1996] E.C.R. I-1347; Case C-20/90, *Karellas* [1991] E.C.R. I-2691.

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considerable body of legislation and case law continues to be generated. The vision is of investment in creativity and innovation, leading to growth and competitiveness of a wide range of European industries. Significant progress—sometimes unexpected—can be recorded in certain areas, but it should also be acknowledged that the scale of the problems precludes easy solutions in others.

### *B. Patents and Know-How*

Measures to improve the framework for obtaining patent protection in the European Union were outlined by the Commission.<sup>1</sup> They include a regulation creating a unitary patent valid throughout the EU, with immediate effect, on the basis of a single application. This is a welcome step forward. The Community Patent Convention, signed in 1975, also envisaged a unitary patent, but serious obstacles prevented its implementation. The system would coexist with patents issued by national offices and the European Patent Office. A directive to harmonise the conditions for the patentability of inventions related to computer programs is also proposed, harmonising national rules and practices to the extent necessary to ensure that software companies could gain effective patent protection in all member States. A Commission Communication would clarify how patent agents can benefit from EU rules on freedom of establishment and freedom to provide services. Finally, a pilot action is proposed to support the efforts of national patent offices in promoting innovation. The paper reflects the result of wide consultations on the Commission's 1997 Green Paper.<sup>2</sup>

A proposal for a directive concerning a harmonised approach to utility models has been adopted by the Commission.<sup>3</sup> Protection would be limited to ten years, and cover new products and processes, although excluding biological materials, chemical or pharmaceutical substances or processes, and computer programs. A utility model application would give rise to no more than a check to see that the formal requirements for protectability were satisfied, without any examination to establish novelty or inventive step.

### *C. Trade Marks*

The harmonised trade mark regime continues to bed down. The European Court provides important guidance on the scope of protection for trade mark owners.<sup>4</sup> The question of exhaustion continues to be controversial. A previous note discussed the use of trade mark rights to resist parallel imports from other States within the common market.<sup>5</sup> The Trade Mark Directive allows a proprietor to oppose further commercialisation of goods where there is a legitimate reason for doing so,<sup>6</sup> and the Court has given detailed guidance in relation to pharmaceutical

1. 12 Feb. 1999. For the full text see <http://europa.eu.int/comm/dg15>.

2. COM(97)314.

3. Proposal for Directive on Utility Models (1998) O.J. C36/13, adopted 12 Dec. 1997. See Suthersanen [1998] E.I.P.R. 47.

4. Early decisions by OHIM Opposition Division are now beginning to be reported also (E.T.M.R.). For the opposition procedure see Gevers & Tatham [1998] E.I.P.R. 22.

5. (1997) 46 I.C.L.Q. 712.

6. Council Directive 89/104/EEC (1989) O.J. L40/1, Art.7(2).

products.<sup>7</sup> Recent case law considers how far these guidelines apply to other goods. In a case involving the relabelling of whisky bottles, the Court used the same principles, although slightly modified to take account of the particular product and circumstances.<sup>8</sup> The application of these principles to further products should be a matter for the national courts, although doubtless requests for explicit rules will continue.

In the *Dior* case<sup>9</sup> an attempt was made to use the same provision to oppose the advertising of trade-marked perfume products by parallel importers, arguing that the advertising did not correspond to the luxurious and prestigious image of the Dior marks. There was no challenge to the legality of retailing the goods, since the goods had been marketed with the trade mark proprietor's consent. The Court held that, if the exhaustion rule were not to be undermined, a reseller must be free to use the trade mark to bring his further commercialisation of the product to the attention of the public. The Court reacted cautiously to the claim that the image of the marks was being compromised: although damage to the trade mark's reputation was in principle a legitimate reason for opposing further commercialisation, serious damage would have to be shown.<sup>10</sup>

In the widely discussed case *Silhouette*,<sup>11</sup> the Court considered whether Community law required member States to provide for exhaustion only when goods had been marketed within the EEA, or whether member States could provide for exhaustion when goods had been marketed in a third country—the principle of international exhaustion. Controversially, given the powerful concerns for free trade at international level, the Court held that national rules providing for international exhaustion were contrary to Article 7(1) of the Trade

7. Joined Cases C-427, 429 and 436/93, *Bristol-Myers Squibb & Others v. Paranova AS*; Joined Cases C-71, 72 and 73/94, *Eurim-Pharm Arzneimittel GmbH v. Beiersdorf AG & Others*; Case C-232/94, *MPA Pharma GmbH v. Rhône-Poulenc Pharma GmbH* [1997] F.S.R. 102.

8. Case C-349/95, *Loendersloot (Frits), trading as F. Loendersloot Internationale Expeditie v. George Ballantine & Son Limited* [1998] F.S.R. 544, [1998] 1 E.T.M.R. 10, [1998] 1 C.M.L.R. 1015. Here a goods carrier "decoded" bottles of Scotch whisky by removing identification numbers which their producers had put on them in order to trace parallel imports. Some labels with trade marks were removed and replaced with similar labels. The trade mark owner cannot resist this if his marketing system contributes to the artificial partitioning of the markets, if repackaging cannot affect the original condition of the product, if the presentation of the relabelled product is not such as to be liable to damage the reputation of the trade mark and its owner and the person who relabels the products informs the trade mark owner of the relabelling before the relabelled products are put on sale. This final condition is less stringent than for pharmaceuticals, where a repackager must also supply a specimen of the repackaged product if asked, and state on the repackaged product the person responsible for the repackaging. For concerns about this approach see Clark [1998] E.I.P.R. 328. See also Case C-352/95, *Phytheron International SA v. Jean Bourdon SA* [1997] F.S.R. 936.

9. Case C-337/95, *Parfums Christian Dior SA & Parfums Christian Dior BV v. Evora BV* [1997] E.C.R. I-6013, [1998] R.P.C. 166, [1998] E.T.M.R. 26, [1998] 1 C.M.L.R. 737.

10. There was little explanation of what might be considered serious damage. For possible options see Advocate General Jacobs's opinion in Case C-63/97 *BMW v. Deenik* [1998] E.T.M.R. 348.

11. Case C-355/96, *Silhouette International v. Hartlauer Handelsgesellschaft* [1998] 2 C.M.L.R. 953, [1998] F.S.R. 474 and 729.

Mark Directive, given the need for a unified approach within the internal market.<sup>12</sup>

A further series of cases clarify the concept of infringement, particularly where possible dilution of a trade mark is alleged. The Trade Mark Directive entitles a trade mark proprietor to prevent registration or use of any sign where, because of its identity with, or similarity to, the trade mark and the identity or similarity of the goods or services covered by the trade mark and the sign, "there exists a likelihood of confusion on the part of the public, which includes the likelihood of association between the sign and the trade mark".<sup>13</sup> The concept of non-origin association, which applies irrespective of confusion as to origin, has its roots in Benelux case law. Some doubt had arisen as to the correct interpretation of the Directive. *Sabel* makes it clear that likelihood of association is not an alternative to likelihood of confusion, but serves to define its scope.<sup>14</sup> Furthermore, the likelihood of confusion must be appreciated globally, taking into account all circumstances of the case. From that perspective, the more distinctive the earlier mark, the greater the risk of confusion. This approach was confirmed and developed in *Canon*,<sup>15</sup> which held that the distinctive character of an earlier mark, and in particular its reputation, must be taken into account when determining whether the similarity between the goods or services covered by the mark is sufficient to give rise to the likelihood of confusion.<sup>16</sup>

12. Competition law may offer an alternative: see e.g. Case C-173/98 *Sebago Inc. & Ancienne Maison Dubois et Fils SA v. G-B Unic SA*. For further discussion of the merits of the exhaustion problem see Cornish, [1998] E.I.P.R. 172; Hays and Hansen [1998] E.I.P.R. 277; Wooldridge [1998] I.P.Q. No.4436; Carboni [1998] E.I.P.R. 470; Clark [1999] E.I.P.R. 1; Alexander (1999) 24 E.L.R. 56. Note also the view of the EFTA Court that the principle of international exhaustion is in the interest of free trade and competition, and that, in the EEA context, Art.7(1) of Directive 89/104 is to be interpreted as leaving it up to the EFTA States to decide whether they wish to introduce or maintain the principle of international exhaustion of rights conferred by a trade mark with regard to goods originating outside the EEA: E-2/97 *Mag Instrument v. California Trading Company Norway* [1998] E.T.M.R. 85.

13. Council Directive 89/104/EEC (1989) O.J. L40/1, Arts.4(1)(b) and 5(1)(b).

14. Case C-251/95 *Sabel BV v. Puma AG* [1997] E.C.R. I-6191, [1998] 1 C.M.L.R. 445, [1998] 1 E.T.M.R. 1. This offers the trade mark owner a narrower area of protection than Benelux law, which is sympathetic to the idea that non-origin association is harmful to trade marks. For the approach in the English courts see *Wagamama Ltd v. City Centre Restaurants* [1995] F.S.R. 713 and *British Sugar Plc v. James Robertson & Sons Ltd* [1996] R.P.C. 281. For the debate see Harris [1995] 12 E.I.P.R.; Prescott [1996] E.I.P.R. 317; Carboni [1998] E.I.P.R. 107; Gielen [1998] E.I.P.R. 109; Norman [1998] E.I.P.R. 306; Dawson [1998] I.P.Q. No.4 350; Van de Kamp [1998] E.I.P.R. 364. Art.5(2) of the Directive allows for the protection of a trade mark against use of the mark which takes unfair advantage of, or is detrimental to, its distinctive character or repute. The question had arisen as to whether the use complained of had to be a confusing use; *British Sugar plc (supra)*; *Baywatch Productions Co. v. The Home Video Channel* [1997] F.S.R. 22; *British Telecommunications plc & Ors v. One in a Million Ltd* [1999] E.T.M.R. 61. *Sabel*, though obiter, makes it clear that it does not.

15. *Canon Kabushiki Kaisha, Japan v. Metro-Goldwyn-Mayer Inc. (formerly Pathé Communications Corporation, USA)* [1999] E.T.M.R. 1.

16. This test has been criticised for increasing the protection available to distinctive marks by suggesting that, the more distinctive the mark is, the greater the scope for interpreting what may be regarded as "similar goods". See Carty [1997] E.I.P.R. 684; Montagnon [1998] E.I.P.R. 401.

The Court's first decision on the interpretation of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) involved a case of trade mark infringement.<sup>17</sup> Somewhat controversially the Court ruled that it has jurisdiction to interpret TRIPS. The similarly difficult issue of the possible direct effect of TRIPS was also raised, although the Court did not find it necessary to consider it. Further cases will be needed before the matter is resolved.<sup>18</sup>

#### D. Copyright and Related Rights

The Community continues to make significant progress towards harmonisation. Measures so far have addressed various elements of copyright.<sup>19</sup> The Court rejected a challenge to the Rental and Lending Directive,<sup>20</sup> in which it was argued that the introduction of an exclusive rental right was incompatible with the principle of exhaustion of the distribution right. Rental is a different form of exploitation from distribution, and the rental right remains one of the prerogatives of the author and producer notwithstanding sale of the physical recording. The rental and lending right is therefore not exhausted by the distribution of the object.<sup>21</sup> Further proposals, contained in an important draft directive,<sup>22</sup> address central aspects of copyright. The aim is to provide a harmonised legal framework for copyright and related rights in the information society, building on the existing framework of laws of the member States, with the aim of stimulating creativity and innovative activities within the Community.

The proposal covers four main issues: the right of reproduction; the right of communication to the public; the right of distribution (including its exhaustion); and legal protection against piracy, given the ease with which works can be distributed digitally and electronically. Space precludes mention of more than the first of these. The draft directive grants an exclusive right of reproduction to authors, performers, phonogram producers, film producers and broadcasting organisations to authorise or prohibit direct or indirect, temporary or permanent reproduction by any means. There is an obligatory exception for transient and incidental acts of reproduction which have "no economic significance for the rightholders".<sup>23</sup> The list of optional exceptions, which includes reprography and

17. Case C53/96, *Hermès International v. FHT Marketing Choice BV* [1998] E.T.M.R. 425.

18. See Wooldridge [1999] I.P.Q. No.1 124.

19. Directive 91/250 on the Legal Protection of Computer Programs (1991) O.J. L122/42, Directive 96/9 on the Legal Protection of Databases (1996) O.J. L77/20; Directive 92/100 on Rental Right and Lending Right and on Certain Rights Related to Copyright in the Field of Intellectual Property (1992) O.J. L346/61; Directive 93/83 on the Coordination of Certain Rules Concerning Copyright and Rights Related to Copyright Applicable to Satellite Broadcasting and Cable Retransmission (1993) O.J. L248/15; Directive 93/98 Harmonising the Term of Protection of Copyright and Certain Related Rights (1993) O.J. L290/9.

20. Directive 92/100 (1992) O.J. L346/61.

21. Case C-200/96 *Metronome Musik GmbH v. Music Point Hokamp* [1998] 3 C.M.L.R. 919. Nor is the rental right exhausted when it is first exercised in one of the member States of the Community: Case C-61/97, *Foreningen af danske Videogramdistributører v. Laserdisken*, judgment of 22 Sept. 1998.

22. European Parliament and Council Directive on the Harmonisation of Certain Aspects of Copyright and Related Rights in the Information Society COM(97)628 final (1998) O.J. C108/6.

23. For instance, the creation of "cache" copies during transmission over the Internet.

private copying, inevitably weakens the harmonising effect, particularly since digital technology will highlight discrepancies.<sup>24</sup> Although the proposal represents a brave attempt at the task, significant problems and weaknesses remain, and it is to be hoped that some of these can yet be addressed.<sup>25</sup>

An amended proposal on artists' resale rights has been adopted by the Commission.<sup>26</sup> Concerns remain as to the real benefits for artists once administrative costs have been accounted for, and the possible negative impact which might result in a displacement of art sales to rival markets.<sup>27</sup>

### E. Other Legislation

The Database Directive has necessitated various changes to UK law.<sup>28</sup> Databases which, by reason of the selection or arrangement of their contents, constitute the author's "own intellectual creation" are protected (as a literary work) by copyright. A new *sui generis* right to prevent unauthorised extraction has been introduced for cases where there has been a substantial investment in obtaining, verifying or presenting the contents of the database. The term of protection is 15 years, but is renewed following a substantial change to the database.<sup>29</sup> Hence protection is, in essence, indeterminate.

A directive to harmonise the protection of designs has finally been agreed, following protracted discussions.<sup>30</sup> The highly controversial repair clause, particularly its potential effects on the automobile industry, threatened to prevent any agreement on a directive.<sup>31</sup> The revised directive side-steps this issue by establishing a "stand-still" clause on spare parts, coupled with a commitment to a consultation exercise.

The attempts to enact a Biotechnology Directive also proved highly contentious. A directive has now been adopted,<sup>32</sup> following the rejection of the first draft directive by the European Parliament in 1995. It seeks to provide effective and harmonised protection to encourage investment in biotechnology, but also to ensure that ethical matters are properly addressed. The extensive recitals contain much of the detail necessary for interpretation. To take one of the most

24. For criticism see Hart [1998] E.I.P.R. 169; G. P. Cornish [1998] E.I.P.R. 241. The European Parliament generally endorsed the amendments suggested by its Legal Affairs Committee, including those requiring some of the optional exemptions to be conditional on fair compensation for the right holders.

25. For more see von Lewinski [1998] E.I.P.R. 135; Dietz [1998] I.P.Q. No.4 335.

26. 12 Mar. 1998 (O.J. C125/8).

27. For discussion see Merryman [1997] I.P.Q. No.1 16; Hughes [1997] 12 E.I.P.R. 694; Booton [1998] I.P.Q. No.2 165.

28. Legal Protection of Databases Directive 96/9 (1996) O.J. L77/20. Implemented in the UK on 1 Jan. 1998 by the Copyright and Rights in Databases Regulations 1997 (S.I. 1997 No.3032).

29. Potential problems and uncertainties remain: see Adams [1998] E.I.P.R. 129; Chalton [1998] E.I.P.R. 178.

30. Directive 98/71 on the Legal protection of Designs (1998) O.J. L289/28, adopted by the Council 24 Sept. 1998, implementation by 28 Oct. 2001. The draft Regulation to create a Community Design Right has made no progress: (1994) O.J. C29/20 (adopted by the Commission 3 Dec. 1993).

31. Speyhart [1997] E.I.P.R. 603.

32. Directive 98/4 on the legal protection of biotechnological inventions (1998) O.J. L213/13, adopted by the Council 6 July 1998, implementation by 30 July 2000.

controversial subjects, the Directive provides that the human body and its elements in their natural state are unpatentable, but that inventions based on an element isolated from the human body may be patentable. Processes for cloning human beings, and the use of human embryos for industrial and commercial purposes are excluded from patentability, as is germ-line gene therapy. The same is true of processes for modifying the genetic identity of animals which are likely to cause them suffering without any substantial medical benefit to man or animal, and also animals resulting from these processes.<sup>33</sup> The Directive also attempts to clarify the exclusion from patentability of plant and animal varieties under Article 53(b) of the European Patent Convention.<sup>34</sup>

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#### IV. EXTERNAL RELATIONS

##### A. *The Treaty of Amsterdam*

The Treaty of Amsterdam, signed on 2 October 1997 and in force since 1 May 1999, will make important changes to the external powers and procedures of the European Union.

##### I. *Foreign and security policy*

The new Title V (Articles 11 to 28—ex Article J) sets out a clearer and more coherent framework for the Union's common foreign and security policy (CFSP). CFSP objectives are not greatly changed, but there is now a clear hierarchy of methods of making policy and law:

- defining the principles of and general guidelines for the common foreign and security policy;
- deciding on common strategies;
- adopting joint actions;
- adopting common positions;
- strengthening systematic cooperation between member States in the conduct of policy.

For each of these five methods clear institutional procedures and duties are set out. There is new provision for the presidency in its role of representing the Union in CFSP matters to be “assisted by the Secretary-General of the Council who shall exercise the function of High Representative for the common foreign and security policy”.

Unanimity in Council voting remains the basic rule, but there are new provisions for “constructive abstention”—a member abstaining “shall not be obliged to apply the decision, but shall accept that the decision commits the Union” and must not obstruct consequential Union action. The Council also has a

33. All ethical aspects of biotechnology are to be evaluated by the Commission's European Group on Ethics in Science and New Technologies. The Directive also acknowledges the need to recognise the fundamental rights guaranteed by the European Convention for the Protection of Human Rights and Fundamental Freedoms. See also Sterckx [1998] E.I.P.R. 123; Nott [1998] E.I.P.R. 347.

34. But now see Nott [1999] E.I.P.R. 33.

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