

AMAT I VIDAL-QUADRAS

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REPORT ON IP-RELATED MATTERS IN SPAIN

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Non-competition clauses in franchise agreements

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One question that has been raised in the Spanish courts in recent years concerns non-competition clauses, which tend to be common in franchise agreements, and whether they are compatible with the competition regulations. In the last few months, two judgements have been laid down by the Barcelona Provincial High Court concerning the 'Il Caffé di Roma' franchise, which go a long way towards clarifying whether or not these clauses infringe the regulations in force.

Two judgements about the same problem.

Division 16 of Barcelona Provincial High Court laid down a judgement on 23 February 2006 overturning a prior judgement on 21 January 2005. The first judgement had declared null and void a non-competition clause put in place for a two-year term from the termination of the agreement. European Regulation 4087/1988 on block exemptions for vertical agreements, replaced by Regulation 2790/1999, was the grounds for this. The appeal court set out three arguments for doing so. (1) The regulation established a set of criteria for exemptions to anti-competitive practices stated in articles 81 and 85 of the European Community Treaty. These articles

concern concerted practices "which may affect trade between Member States", which is not the case in a dispute between private individuals due to termination of a franchise agreement. (2) This regulation does not envisage the revocation or cancellation of such clauses, but merely means they are not covered by the exemption in the regulation. (3) The exclusion established in that regulation concerns clauses with a maximum term of one year. Therefore, if it were considered that the Commission's criteria were applicable to this case and that applying it would make the clause invalid - i.e. the maximum permitted term for non-competition should not exceed one year - it would affect this specific case only insofar as the one-year term were exceeded. Under no circumstances would there be any reason whatsoever, whether formal or material, for declaring the non-competition agreement null and void with regard to the first year of the agreement. The Provincial High Court found against the defendant with regard to the breach of this clause, ordering him to refrain from competing with the plaintiff himself, or through related natural or legal persons, for the term of two years from actual termination of the agreement.

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In a second case concerning the same franchise, the judgement of Division 15 of Barcelona Provincial High Court on 20 June 2006 upheld on appeal a prior judgement by Barcelona Court of First Instance number 34 on 29 July 2004. The lower court judgement dealt with the matter of the effects of terminating the agreement and focussed on the non-competition clause, in particular its two-year term. The defendant alleged that the clause was null and void as it regarded the two-year term to be incompatible with the one-year term stipulated as the maximum in European Regulation 4087/1988 on block exemptions for vertical agreements, replaced by Regulation 2790/1999. The court nevertheless considered that although this regulation did allow or authorise agreements containing a non-competition clause with a term of no more than one year, setting a longer term did not make the clause null and void. This could only take place if the reasons for the nullity of agreements set out in the Civil Code were met.

The court exercised its power to moderate contractual clauses and change the non-competition term to one year.

Conclusions drawn from these judgements

These judgements raise an important issue, which is that Community regulations concerning block exemptions affect anti-competitive situations that must be assessed in light of this right and may not be taken as rules that limit the parties' freedom to reach a contractual agreement. That is not the underlying philosophy of European competition regulations - protection of the market is. So, in order to find out whether or not a clause infringes the competition rules, it is necessary to find out its effects on the market. The mere inclusion of a clause in an agreement does not make it null and void if it does not come within the parameters for exemption from Community regulations, since they have a different purpose to contractual rules.

“WOMEN’S SECRET” v. “SECRETOS DE MUJER”

A recent judgement, on 22 June 2006, by Administrative-Contentious Division 3 of the Supreme Court, has confirmed the decision by the Spanish Patent and Trademark Office rejecting the application for the “*Secretos de Mujer*” trademark (for class 25 products “clothing, footwear, headgear”) as it could be confused with several previously registered trademarks using the name “*Women’s Secret*”.

The Judgement considers that in this case general case law does not apply. According to this the trademark applied for (“*Secretos de Mujer*”) and the priority trademark (“*Women’s Secret*”) could not be considered identical or able to be confused with one another, since one should never take into account the Spanish translation of English words, only whether they are phonetically or graphically similar, and they are not.

The Supreme Court has laid down on several occasions that foreign names should be regarded as fantasy signs. For example, see the Judgements of Administrative-Contentious Division 3 on: 1 June 2000 (“*Wise*” v. “*Bise*”), 30 January 1997 (“*San Fernando*” – composite mark - v. “*Saint Ferrant*”), 6 November 1997

(“*Giorgio*” v. “*Berberly Hills*”) and 16 January 1997 (“*Mahou-cinco Estrellas*” v. “*Five Stars*”).

However, the Judgement considered that this doctrine is not applicable to this case. On the contrary, there should be an exception, whereby names in a foreign language cease to be considered fantasy names when they can be understood by the average consumer, the population as a whole or a consumer specialising in the products the trademark is intended for, due to their widespread use. The aforementioned judgement also referred to the recent judgement of the same court on 20 April 2006, which declared the signs “*Andros Food*” v. “*Andros*” incompatible, stating that the general public are aware of the association between the word ‘food’ and comestibles, and that the predominant and distinctive element in both signs was “*Andros*”.

If consumers can understand the foreign distinctive sign then it cannot be regarded as a fantasy sign

The Supreme Court thus confirmed that the conflicting signs “*Women’s Secret*” and

“Secretos de Mujer” were incompatible, deeming that “*the expression ‘Women’s Secret’ is undoubtedly understandable by the average Spanish consumer [...]. Both the words ‘man-woman’ or their plural forms ‘men-women’, and the word ‘secret’, which is practically*

identical to the Spanish ‘secreto’, can be considered common knowledge for the average Spanish citizen, and obviously for clothing consumers, a commercial setting in which certain expressions in foreign languages are common”.

SPCs: the ECJ clarifies the meaning of the expression ‘combination of active ingredients’

According to the judgement, “*the reference was submitted in the context of an appeal brought by the MIT against the rejection by the BPG (Federal Patent Court) of a complaint brought by the MIT against the decision of the German Patent and Trade Mark Office rejecting the application for a supplementary protection certificate (SPC) which the MIT had filed for the medicinal product Gliadel 7.7 mg Implant (‘Gliadel’)*”.

The important aspect in this case is the European Court of Justice’s definition of the concept ‘combination of active ingredients’. This is one of the prerequisites that makes it possible to determine what a product is in order to apply for an SPC. An important aspect of this is that only one SPC can be obtained for a product and article 1(b) of Regulation No 1768/92 provides that “*‘product’ means the active ingredient or combination of active ingredients of a medicinal product*”.

The marketing authorisation for Gliadel was the basis for the MIT’s application for an SPC in Germany. Gliadel comes in the form of a device, which is implanted into the cranium, for the treatment of recurrent brain tumours. The Court explained that “*the mechanism of its action consists in the carmustine, a highly cytotoxic active ingredient, being released slowly and gradually by the polifeprosan, which acts as a bioerodible matrix*”. In this context, the doubt that the BGH raised in the ECJ concerned whether both compounds must have therapeutic effects in order to be considered active ingredients, or whether a combination of substances could comprise two components, where one component is a known substance with a therapeutic effect for a specific indication, while the other component enables a pharmaceutical form of the medicinal product that changes the efficacy of the medicinal product for that indication.

The ECJ’s answer to the questions raised in the case

The court stated that Regulation No 1768/92 does not provide any definition of what an active ingredient is. However, the court stated that “*In this case, it is important to note that it is common ground, as the file in this case shows, that the expression ‘active ingredient’ is generally accepted in pharmacology not to include substances forming part of a medicinal product which do not have an effect of their own on the human or animal body*”. The Court further noted that point 11 of the Explanatory Memorandum to the Proposal for said Regulation specified “*that [t]he proposal for a Regulation therefore concerns only new medicinal products. It does not involve granting an [SPC] for all medicinal products that are authorised to be placed on the market. Only one [SPC] may be granted for any one product, a product being understood to mean an active substance in the strict sense. Minor changes to the medicinal product such as a new dose, the use of a different salt or ester or a different pharmaceutical form will not lead to the issue of a new [SPC]*”.

In tune with this approach, the ECJ drew the following conclusions:

- a) *a substance which does not have any therapeutic effect of its own and which is used to obtain a certain pharmaceutical form of the medicinal product is not covered by the concept of ‘active ingredient’, which in turn is used to define the term ‘product’.*
- b) *Therefore, the alliance of such a substance with a substance which does have therapeutic effects of its own cannot give rise to a ‘combination of active ingredients’ within the meaning of Article 1(b) of Regulation No 1768/92.*

c) *The fact that the substance without any therapeutic effect of its own renders possible a pharmaceutical form of the medicinal product necessary for the therapeutic efficacy of the substance which does have therapeutic effects cannot invalidate that interpretation.*

combination of two substances, only one of which has therapeutic effects of its own for a specific indication, the other rendering possible a pharmaceutical form of the medicinal product which is necessary for the therapeutic efficacy of the first substance for that indication”.

The facts and conclusions in the case led the Court to a clear outcome: Article 1(b) of Council Regulation No 1768/92 of 18 June 1992 “*must be interpreted so as not to include in the concept of ‘combination of active ingredients of a medicinal product’ a*

In this case, the combination of carmustine, the active ingredient, and polifeprosan, made a pharmaceutical form of the medicinal product possible. This could not be considered a different product to carmustine, for which an SPC had already been granted in Germany.

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