Licensing in the European Community

Jochen Pagenberg

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Dr. Jochen Pagenberg

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Dr. jur. University of Munich (1974)

LL.M. Harvard Law School (1973)

Fellow, <u>Max Planck Institute</u> for International Patent, Copyright and Competition Law, Munich since 1973

Professional Activities:

Admitted to Munich Bar in 1973, <u>Partner of Bardehle, Pagenberg et al.</u> since 1979, a firm of lawyers and patent agents who have offices in <u>Munich</u>, <u>Düssseldorf</u>, <u>Mannheim</u>, <u>Paris</u>, <u>Alicante</u> and a liaison office in Shanghai and who exclusively specialize in intellectual and industrial property law, especially in Patent</u>, Trademark and Copyright Litigation

Special Activities and Publications:

Excecutive Editor of the <u>International Review of Industrial Property and Copyright Law</u> (IIC) since 1973; Lecturer at the <u>Universities of Strasbourg (France)</u>, <u>Pierce Law Center</u> (Concord, NH-USA) and Alicante (Spain), numerous other lectures

Author of 4 books on patent, trademark and computer law,

e.g. <u>License Agreements</u>, (English-German Licensing Handbook for Patents, Know-how and Computer Software), 4th Edition, Cologne 1997, <u>Manual on the European Community</u> <u>Trademark</u>, Heymanns, Köln 1996, and <u>more than 50 articles</u> in all fields of industrial property law, among them

Opposition based on unregistered Rights under the future Community Trademark System, 20 IIC 595 (1989)

Protection of Famous Trademarks, International Intellectual Property Law Vol 2, Hansen, ed., Fordham University School of Law, 1998, Vol 2, p.44-1

The Community Trademark - Pros and Cons of the System Revisited, INTA 1997 Bulletin Annual Meeting p. 498

The Scope of Article 69 European Patent Convention: Should Sub-Combinations be Protected?, 24 IIC 314 (1993)

More Refined Rules of Claim Interpretation in Germany, 26 IIC 228 (1995)

The WIPO Patent Harmonization Treaty, 19 AIPLA Quarterly Journal 1 (1991)

The Opposition Procedure of the Community Trademark - New Trademark Law Strategies, 29 IIC * (1998)

Membership:

AIPLA, AIPPI, ALAI, ECTA, IBA, INTA, LES, Marques, German-American Chamber of Commerce, Computer Law Association, ATRIP, PTMG

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· ·	CONTENTS	•		Rechtsanwälte RICHARD SCHLÖTTER
	CONTENTS			Patentarwähte & European Patent Attorneys
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3. Copyright Law

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4. The Exhaustion Doctrine

III. Art. 85 EU Treaty and the exemption rules for license agreements - Exemption by categories of agreements -

1. Distribution agreements

有限的 经资产股份 医内外的 化合合物 a) Selective Distribution

b) Exclusive Distribution

c) Franchising

2. License Agreements

a) Group Exemption Regulation for Technology Transfer Agreements - GER (Technology) -Regulation No.240/96 (1) General - Scope of application (2) Clearance of license agreements - Notification Procedure (3) Case law of the Commission (4) Contents of the Exemption Regulations (5) Individual contract provisions and proved the address and a RESPONDENCE. b) GER (R&D) - Regulation No. 418/85 (1) General and the second states of the (2) Individual Provisions and the second

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c) Special issues of trademark license agreements 요즘 전 소설을

d) Special issues of software license agreements

IV. Art.86 - Abuse of a dominant position

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1.3.870 AN ARE

EU licensing law is part of the competition law and must be understood as the equivalent of US antitrust law. It is important for the marketing of products in particular with respect to

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- 3 -

for the conclusion of distribution and/or *licensing agreements* between manufacturers/patentees and distributors/licensees for which the knowledge of the boundaries of contractual freedom is necessary. The competition rules, Arts. 85 and 86 as well as Arts.
 30, 36 EU Treaty which are interpreted as guaranteeing the free flow of goods and services, are part of the public order of all Member States and cannot be circumvented by a choice of law rule referring to a non-member country.

- the *enforcement* of patents, trademarks, know-how or copyrights within the EU which is governed by the principle of <u>EU-wide exhaustion</u> which means that **one** lawful sale in one Member Country, i.e. normally a sale with approval of the right holder, precludes any interference with the further distribution of the same products by the right holder in another Member State.

For both areas an overwhelming number of cases decided by the European Court of Justice (ECJ) exist which define the impact of *approval or authorization*¹.

The treatment of the different industrial property rights will first of all be dealt with under the viewpoint of the case law of the European Court of Justice on the *free movement of goods*, and then with respect to the *lawfulness of licensing agreements* and the most important contract clauses used therein. In this context also the group exemption regulations and their significance for the drafting of agreements will be discussed.

II. Case law of the ECJ on the enforcement of industrial property rights - Applicability of Art. Art. 30, 36, 85 EU Treaty.

The general rules under <u>Art. 30, 36 EU Treaty</u> are that restrictions of the free movement of goods and services are only justified for the protection of industrial and commercial property and do not constitute a means of <u>arbitrary discrimination</u> nor a disguised restriction on trade between the Member States. Industrial property rights which fall under Art. 36 are patents, utility models, plant variety rights, industrial designs, marks (trademarks and service marks), tradenames, geographic indication of source and appellations of origin².

¹ From the pertinent literature see Reimer, 12 IIC 493 (1981); Reischl, 13 IIC 415 (1982); Ubertazzi, 1984 GRUR Int. 327; Walter, in: Cornish, Copyright in Free and Competitive Markets; Korah, An Introductory Guide to EEC Competition Law, 3rd ed. 1986;

² Cf. Beier, Industrial Property and the Free Movement of Goods in the Internal European Market, 21 IIC 131, 145 (1990)

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- 4

The most important doctrine developed by the European Court of Justice concerning the distinction between admissible and inadmissible import or export restrictions was the differentiation between the existence and exercise of industrial property rights, where thee existence of the right was guaranteed, but the exercise could be regulated. In several decisions the Court has defined this doctrine. The typical example of what the ECJ does not regard as belonging to "the specific subject matter" of a trademark or a patent was to stop parallel imports of genuine goods which had been put into commerce within the EU by the trademark or patent owner or with his consent³. The later case law concentrated to a greater extent on the clearer concept of improper use of industrial property rights, which would be given in case of discrimination or an artificial partition within the Common Market⁴. The typical case of an improper use of industrial property rights consists in the attempt to enforce vertical price maintenance and distribution systems, while their proper use and main purpose consists in preventing the distribution of infringing goods⁵.

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³ Cf. Beier, Industrial Property and the Free Movement of Goods in the Internal European Market, 21 IIC 131, 148 et seq. (1990)

⁴ ECJ 14 IIC 515 (1983) - Keurkoop v. Nancy Kean Gifts recital 24 parale denominations 网络拉拉瓦 计自己分离子

⁵ See Beier 21 IIC 131, 152 (1990)

1. Trademark and Competition Law

Since the first decisions on the free movement of goods under Arts. 30, 36 EU Treaty were issued in the field of trademark law, they shall be presented first. andena 2 i 13 een vie

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One of the basic decisions on the concept of free flow of goods was the Sirena decision⁶ radong séréphongi ba which concerned a case of parallel trademark licenses in different countries of the EU. One of the licensees objected against the importation into his territory of products originally marketed by one of the other licensees.

mineral alteration than have a second sec as education with the scheme de la service de la contractual agreement among the parties concerned, Article 85 (1) EU Treaty is applicable, i.e. market sharing under sub-par. (c) constitutes a violation of the competition rules, even if such agreements have been entered into before the entry into force of the EU Treaty.

which with the base of the work of the work To according to the determination whether also a violation of Art. 86 EU Treaty is given, the fact that a trademark can be the basis for an injunction against third parties is not sufficient; it must further be examined whether the prerequisites for the application of Article 86 EU Treaty, namely a dominant position, a misuse of this position and the possibility to interfere with the trade among Member States, are given'.

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SE CRASSING AN The trademark owner had marketed a pharmaceutical product in the Benelux countries unrestances of product in the UK under the trademark Serestra, and an identical product in the UK under the trademark Serenid. The defendant, Centrafarm, had purchased the pharmaceutical in the UK at a cheaper price

and resold it in the Netherlands after having changed the name of the Serenid trademark to the one more familiar to Dutch consumers, Serestra, and the source of the second of the second

> The defendant referred to Arts. 30, 36 EU Treaty and the principle of the free flow of goods. He relied on the fact that the products had been marketed by the trademark owner or with his consent, so that his rights were exhausted. The Court decided that the defendant could not rely on the approval by the trademark owner, since the sale had occurred under a different trademark. The only reservation which the ECJ made in the decision was a warning that if the different trademarks in the countries of the EU were only used for the purpose of partitioning the markets, the rights granted under Art. 36 first sentence would be regarded as a disguised restraint of trade in the sense of Art. 36 second sentence and thus would lead to a dismissal of an action for an injunction⁹.

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> ⁷ Cf. for the different situation where the mark is owned by different entities within and outside the Community ECJ 7 IIC 275 (1976) - EMI/CBS

⁸ ECJ 10 IIC 231 (1979)

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⁹ In the same sense already ECJ 7 IIC 275 (1976) - EMI/CBS

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- 6 -

c) Hoffmann-LaRoche vs. Centrafarm¹⁰

This case was the first in a row of cases which concerned the repackaging of goods, but with the same trademark, after a parallel importation from another country in the EU. Centrafarm had purchased pharmaceuticals manufactured by Hoffmann-LaRoche (Valium) from the Netherlands where those pharmaceuticals had been repackaged after they had been imported from the United Kingdom. Centrafarm fixed the trademark Valium on the products together with the registration numbers of the German health authorities and imported the products into Germany. While the original packages purchased contained 100 and 250 tablets respectively, the repackaged products were sold in packages of 1000 tablets.

The ECJ confirmed the injunction issued by the German Courts confirming that the exercise of a trademark right is lawful under Art. 36 EU Treaty and is not contrary to Art. 86 on the sole ground that it is the act of an undertaking enjoying a dominant position on the market, if the trademark right has not been used as an instrument for the abuse of such a position. The ECJ indicated however that a disguised restriction on trade between member states may be given, if it is established that the use of the trademark right having regard to the marketing system which the proprietor has adopted, will contribute to the artificial partitioning of the markets between member states. all manufactures of any of

d) Recent Cases

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More recent repackaging cases have been decided by the ECJ in three consolidated decid sions Bristol-Myers Squibb/Boehringer/Bayer v. Paranova, Eurim Pharm v. Beiersdorf/Boehringer/Farmitalia and MPA Pharma v. Rhone-Poulenc¹¹

લ અનેનું છેલા તેને પૈરી અનેને વર્ષે તેનું પ્રતા છે. તેનું પ્રત

The three cases all concerned imports of pharmaceuticals into Denmark where the importer had entirely repackaged the products and affixed the trademark of the manufacturer.

The Court repeated its view that the trademark owner's rights are infringed when a product is repackaged or a trademark re-affixed, except under specified and well-defined conditions. shere in she≣ard at he The ECJ held that an importer may only do so, if it is necessary to permit importation and distribution within the importing country. Repackaging will not be allowed if simple affixation of new labels or the addition of a new package insert will suffice. In any case the trademark owner may object, if the repackaging could impair the reputation of a trademark. The criteria applied seem to be somewhat vague so that conflicting decisions of national Danish courts were the result. 化增加试验测试 化乙烯酸过多 sos extres and a dalah da perser dari wa wa marta

e) Cassis de Dijon

A decision which exemplifies another line of arguments of the ECJ with respect to the principle of "free flow of goods" and the interpretation of Arts. 30, 36 EU Treaty does not belong to trademark law. It has been cited in many later decisions as a guiding principle: "Cassis de Dijon"¹² and also influenced decisions dealing with trademarks and unfair competi-

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¹⁰ ECJ 9 IIC 580 (1978)

¹¹ ECJ 28 IIC 715 (1997).

¹² ECJ 11 IIC 357 (1980) - Cassis de Dijon

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Defendence in the second state of the second the importation of a liquor from France into Germany with an alcohol -9 reached will avoid the subscontent between 15% and 20%. The German government agency for the control of alcoholic should be a spontation beverages enjoined the importation, because the alcohol content was not in conformity with and the another and the German law. The importing company attacked this decision and the case went to the ECJ which had to decide on the consumer protecting effect of the German law, one of the exceptions of Art. 36.

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the grave and the second the beginning, where how of the or the southat alcohol drinking can become a habit. Therefore the German law which requires No solve cover government higher alcohol percentages protects the health of the consumers. The Court did not accept these arguments in view of the fact that the consumer is confronted with a great variety of alcoholic beverages and that he also drinks some higher percentage beverages diluted with water or other soft drinks. Therefore the import prohibition constitutes a violation of Art. 30 EU Treaty.

and a share for work and the rule laid down by the Court in this decision was that if a product is lawfully marketed in he mainsteness a member State, it can freely circulate in all other countries if there are no urgent and highbighted with according to a ranking considerations for the protection of consumers which justify restrictions. A relationsubject the and have been ship with the exhaustion principle exists insofar as the criterion in "Cassis de Dijon" is Management subjects of an equally the lawfulness of the first marketing in one of the Member Countries which deterthe balance of the community¹³.

provide the provide the second sec an anna handigar guarda $\mathbf{f}(\mathbf{r}+\mathbf{r})$ h bar dhé gain anhar a rúceann a bhulad grann i reg sticulation and the fight of the local sector contribution of the sector and

No without this we had tow A German company, a leading manufacturer for pharmacy furniture, had founded subsidiaries in different European countries, among them France. Over a period of about ten years these companies had used the same company name with the respective abbreviations and a which no unloss the decommon trading symbol "r + r"¹⁴. After the bankruptcy of the German parent company and Les assessed you make the other subsidiaries the only still active company was the French subsidiary which already soft and to the black detain the past during the co-existence of the German company had made deliveries into Germany. It continued such sales also after the German company had ceased its activities.

A competitor filed actions for unfair competition based on alleged *confusion of consumers* under § 3 of the Act Against Unfair Competition. The plaintiffs argument was that German and the destant of the second aconsumers who in the majority only knew the German company, would be misled as to the or a preliminary ruling to and to decide whether the principle of free movement of goods took and astance assessed to be precedence over the national rules of unfair competition. a star presidente constituire d'accompanya de la familia de la seconda de la seconda de la seconda de la second

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The defendant argued that the French company had lawfully used the company symbol in France during the co-existence of the two companies and the fact that the trademarks were of common origin would make the incorrect belief of German consumers as to the origin of the products irrelevant. The defendant also relied on the fact that it would constitute a disstrain a crimination if imports and sales from France could be forbidden on the only ground of a dif-

Bootestag screed stand 13 Cf. also ECJ 21 IIC 692 (1990) - Import of Pharmaceuticals, for the private importation of drugs by an individual. More thanks the second s

¹⁴ 16 IIC 751 (1985) - r + r with comment by Pagenberg at 754. (1985) - r + r with comment by Pagenberg at 754.

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Reducts and a long line of case law it was pointed out that the EC) had repeatedly confirmed the principle that obstacles to free movement within the Commuis the design of the second to an only be accepted if they are necessary in order to satisfy mandatory requirements the second secon defense of consumers¹⁵

The ECJ primarily examined whether in the case of a purely national situation an injunction the proton of a strategies would have been granted, e.g. if after the bankruptcy of a German group of companies two independent companies survive and consumers are allegedly misled because the company in addential double was a self. Northern Germany is selling in Southern Germany. Since no such case could be cited by the plaintiff, the ECJ declared that it was a discrimination if a misrepresentation were to be af-To advise the second states in firmed for a situation within different member countries of the EU. and the second We have a constraint so a set of a Kaffee HAG: the set of a context and the constraint so that the constraint of

aa) HAG I

at he before the second at he for an important influence on the case law of the ECJ concerning the free flow of goods in the High was the set of the shield of trademark law has for a long time been the case Hag I. It concerned a situation of subtrain descendances of parallel trademarks in Germany and Belgium of a German trademark owner. The Belgian the design of the German company Hag had been confiscated after World War II and sold by the which accur converses a Belgian government to a third party which afterwards assigned them to another company,

Van Zuylen. In spite of the existence of those former marks, the German company started in 1971 sales under their identical German mark in Belgium. The Belgian trademark owner Van Zuylen, initiated proceedings against Hag AG and the Luxembourg regional court referred the case to the ECJ for preliminary ruling. The ECJ decided that it was incompatible Address between the state with the free movement of goods to prohibit the marketing of a product legally bearing an

couperated a state of the identical mark if that mark had the same origin.¹⁶ and the same origin.¹⁶ a han arealaiste die coldonamente data de traine de composition area la francisca de compositional para a serv

heat the special of the trademark would lead to an isolaviscous define sublicities tion of national markets, and although the indication of origin of a product may be regarded state and an available that as useful, this could be ensured by means other than prohibition which would affect the free califying at the sourcement of goods. If one offer the same should be a ferrer source of any figure s

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the states and have decised. Five years after that decision the Belgian company Van Zuylen was taken over by the Swiss Constitution of Jacobs Suchard AG A subsidiary of Jacobs Suchard, Sucal, started another five the stand for the second states and years later to import coffee from Belgium into Germany, i.e. the reverse situation of the first Hag case. This time Hag AG attacked Sucal. Hag prevailed before the German courts, but the Federal Supreme Court referred the case again to the ECJ for preliminary ruling. o sélicit país de los pareceles.

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¹⁵ This decision must be criticized for several reasons: the Court first of all overlooked that the defendant had anyway used a separate package for the product, a blood filter, with German explanations, so that he could have also removed the ® or add a small reference behind the ® to "Italy". It is also questionable whether the Court has taken other consequences into account: would also the patent registration in a country without substantive examination be sufficient to use the claim "patented" without further specification even if a more severe deception of the consumer, for whom a patented product has a greater quality indication than a trademark, would result?

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The ECJ overruled HAG I and stated that the doctrine of common origin does not constitute a legitimate rule of community law, since it would deprive a trademark of its function to distinguish goods from those of a competitor. Where trademarks have been divided against the will of its owner and in the absence of legal or economic links each proprietor may oppose the importation of goods with the identical marks within the territory of his own mark. endor to ansis to policie The situation would be different, if there is a "dependency through legal links", e.g. licensing arrangement by which one party could control the use of the mark of another. As a result, the ECJ has given back to the trademarks in the different countries of the EU their original function as an industrial property right which can exclude the use by others¹⁷. 网络拉尔达 计推动可以表示可能的现在分词 e de la classique d'Aligi Contrage e actualité

> The same result was reached in a case of a voluntary assignments of marks in the Ideal Standard case¹⁸. The prohibition of importations by one of the parallel, now independent owners was not regarded as a violation of Art. 30. 36 EU Treaty. ana ali anjari na na maranja aliji matala na d

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Horea, feer boakings careerafelt i roome In a later decision¹⁹ the ECJ has limited the "Cassis de Dijon" doctrine by refusing to apply Art. 30 EU Treaty to national rules concerning sales methods ("selling arrangements") if they apply to all competitors on the market. A restriction of the free flow of goods is only given (and its admissibility must be justified by public interest), if the restrictions concern the presentation of the goods as such, i.e. their weight, get-up, packaging or labeling, but it is not of concern under European law whether products are offered at rebates or with a specific form of advertisement. This decision has reduced to some extent the increasing number of applications for preliminary ruling on the basis of national unfair competition laws.

His a contract with periods di na sa and have been added to a second and second and un alle a coloridade de la color de las This reasoning determined already the otherwise not comprehensible result in the Pall case²⁰. The defendant in that case, an Italian company had used in Germany behind its nder vollikker og klasserere trademark the notice [®] which has always been held by German courts to constitute a decep--and as mention or by: tion of the consumer, if no trademark protection exists in Germany. One of the reasons beof a reliable of a set of the bar hind this case law was that German trademarks are only registered after a thorough examisublice objective requirements as to distinctiveness which is not the case in a number of other countries. The ECJ came to the conclusion that it is sufficient that trademark protection exists anywhere within the EU, otherwise separate packaging would be necessary for export purposes which then would constitute a restraint of trade between Member States.

> ¹⁷ See for an extensive commentary on the case Joliet, Trademark Law and the Free Movement of Goods: The Overruling of the Judgement in HAG I, 22 IIC 303 (1981). Cf. also thereafter the Ideal Standard case for a voluntary assignment, where also an importation under the same mark was prohibited.

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i) Pall

¹⁹ ECJ of 24 November 1993 25 IIC 414 (1994)-Keck. 化基达拉 化化学的 人名英格兰英格兰英格兰 Carpense processories 20 20 IIC 799 (1989) - Pallory LOTS DITION GEODAGEORIAN STORES AND AND A SAME AND A SAME

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h) Keck



j) The Silhouette Case establishe and a second and an

es antique la la Coulona and the factor of the second of the scope of trademark rights and the question of exhaustion has started after the decision by the ECJ in the Silhouette case. This was referred to the ECJ by the Austrian Supreme Court for a preliminary ruling under Art. 177 on the interpretation of Art. 7 of the Harmonization Directive²¹. Art. 7 provides for an exhaustion of rights for goods which have been marketed by the proprietor or with his consent in the European Commustat. US will be established nity or in the European Economic Area.

¹² novie we had the dealers and the first sectors region

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Silhouette manufactures high price spectacles which are marketed world-wide and are norhad in the advectory we are mally sold by the producer to opticians. Hartlauer, the defendant in this case, is a low-price instance fail and that see chain of distributors, which is not being supplied by Silhouette because of its low price policy. Silhouette sold ca. 20.000 out-of-fashion spectacle frames to Bulgaria for export in that country. The agreement with the Bulgarian company contained an export prohibition to the European Union. Hartlauer then purchased those spectacles and re-imported them into Austria. Silhouette attacked and asked for a preliminary injunction before the Austrian status of pression of pression courts arguing that these spectacles had not been commercialized within the EU with the U (The a processing weather consent of the trademark owner.

<u>to</u>mpasse valto) the second appeal on the law to the Austrian Supreme is and confident to consent of the trademark proprietor was was a defendent and infact given. It examined the scope of Art. 7 of the Harmonization Directive and indicated that in view of the former principle of international exhaustion in Austrian law it stayed proceedings and referred the case to the ECJ with the following question

Is Article 7 (1) of the First Council Directive of 21 December 1988 to approximate the laws of the member states relating to trademarks to be interpreted as meaning that the trademark entitles its proprietor to prohibit a third party from using the mark for goods which have been put on the market under that mark in a state which is not contracting state?²². trades cause is at buck to a general called on personal a contention

register a product of the ECJ agreed with the majority in the literature and the EU governments as well as the Reveaue the rest of Advocate General and argued that it is the purpose of the Directive to safeguard the funcstatute digrestable tasks tioning of the internal market, and that different exhaustion rules would give rise to barriers to the second state was another free movement of goods. It therefore affirmed the principle of a European-wide exhaus--searce dramatical fraction for trademarks in the EU22, at early a first of the second second second second and

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²¹ Art. 7: (1) The trademark shall not entitle the proprietor to prohibit its use in relation to goods which have been put on the market in the community under that trademark by the proprietor or with his consent.

⁽²⁾ Par. 1 shall not apply where there exist legitimate reasons for the proprietor to oppose further commercialization of the goods, especially where the condition of the goods is changed or impaired after they have been put on the market.

²² The second question submitted to the ECJ by the Austrian Supreme Court reads as follows:

^{2.} May the proprietor of the trademark on the basis of Art. 7 (1) of the Trademark Directive alone seek an order that the third party cease using the trademark goods which have been put on the market under that mark in a state which is not contract state?

²³ Cf. Also Federal German Supreme Court 30 IIC 210 (1999)-Mexitil for a repackaging case, and French Supreme Court 30 IIC 325 (1999)-Ocean Pacific

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One of the landmark cases in patent law was the decision Sterling Drug²⁴ which confirmed the application of the exhaustion rule established in former trademark and patent decisions. botheraped for all member countries, and the her for more work than the pharmaceutical product which was manufactured under these patents was marketed by the of the state of the patent owner and its subsidiaries in those countries. Centrafarm had taken advantage of the that been distributed and price difference and had imported the products from one member country into another. The -consistent and the set of the decision re-affirms the basic rules of exhaustion which are today common ground for all sectors of the end of some excerpts from this decision²⁵:

explore a test of hadden over all is clear from Art. 36, in particular its second sentence, as well as from the context, end by and an intervention that whilst the Treaty does not affect the existence of rights recognized by the legislathe distance and the souther different tion of a Member State in matters of industrial and commercial property, yet the exercise of these rights may nevertheless, depending on the circumstances, be affected by the prohibitions of the Treaty.

optioning with the actions of a same capturer works are to the approximation only have and cash blank concerned. In as much as it provides an exception to one of the fundamental principles of the count of a state of the free movement of Common Market, Art. 36 in fact only admits derogations from the free movement of goods where such derogations are justified for the purpose of safeguarding rights which constitute the specific subject matter of this property.

... A derogation from the principle of the free movement of goods is not justified where the product has been put on the market in a legal manner, by the patentee himis an entropy of the second self or with his consent, in the Member State from which it has been imported, in particular in the case of a proprietor of a parallel patent.

a substitution in a state our to Morely with a state of the court set of the Cross The result of the grant of a (sales) license in a Member State is that the patentee can al heading and consistent of no longer prevent the sale of the protected product throughout the Common Marboxino cultanena indea s**ket**i e institucia ja par orei horegen e ara a ite energy e se vier

> The exhaustion theory as applied by the ECJ is founded in that the patent right is a reward to the patent owner for his inventive efforts and further gives him the right to take action against infringers²⁷. The ECJ's position is that the amount of the reward is not essential, since it is up to the patent owner to decide where and how he exploits his patent. It is criticized that thereby the ECJ reduces the monopoly of the patent owner to the simple opportu-

²⁴ ECJ 6 IIC 102 (1975).

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ander on ander date graft. In de det er en bestellt i der endeligten egte at hast over allemente bland. In Forde konstituen vielen **6.000 p.106** av privegger för breiter for i nærendelt och infektiver opprochtenss. An addition of the second for a sequence to base when the stands of

²⁶ Cf. the same arguments in case of a protected design ECJ 14 IIC 515 (1983) - Keurkoop/Nancy term and the set is the Kean Gifts: only if the right owner has no influence on marketing in another Member State, no extrained by haustion is given

> ²⁷ Recital 9 of the decision; see for an overview of the case law M.Burnside, 1993 les Nouvelles 107. ARCAN CONTRACT

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nity of profitable use²⁸. A different situation is only given in the case of parallel imports from third countries which can be prosecuted by the patent owner based on his patent rights.29 e vaka se kour de particulte e

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In the Tylosin case³⁰ the patentee held a patent in the UK and in Germany. He had consented to the marketing of his products, pharmaceuticals, in the UK which at that time was not yet a member of the Common Market. From the UK part of the products were exported - without consent of the patentee - to Italy where then no patent protection was available, and part to Holland where patent protection would have been available but the patentee had not applied for. When products from those two countries were imported into Germany the patentee requested an injunction for patent infringement.

toward out much an Arran The German Supreme Court (BGH) found that the patentee was entitled to an injunction against the importation of the products, because the initial commercialization for which a consent had been given, had occurred outside the EU and therefore could not result in an exhaustion. and analyses are addressed or accessed per panels of and

> One could also assume from this decision that a consent cannot be presumed, if a patentee does not seek patent protection in a country although such protection would have been available³¹. From Arts. 32 and 81 of the Luxembourg Convention, which is not yet in force, the conclusion is anyway drawn that the approval by the patentee has to be an express ap proval, namely to market in the territorial limits of the license contract³².

and provide the formation of the contract c) Merck and the space particulation of another above a edum (5) protect has breasting an the convect in contact fractive remains fractive parenter lift. On the basis of the exhaustion rule as explained before, another decision could not come as a surprise, namely in the case of Merck³³. At the time when pharmaceuticals were not yet patentable in Italy the patent owner Merck, with patents in all other countries of the Community, had manufactured the patented product also in Italy and sold it there at a considera--add deacad) of t bly lower price than in the countries with patent protection. The products were purchased in

Italy by a competitor and imported into the Netherlands where patent protection existed.

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³⁰ BGH 8 IIC 64 (1977) - Tylosin

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³¹ That this could also lead to a prohibition of importation within the EU form Italy where no patent protection was available to Germany as headnote 3 suggests, was later overruled by the Merck decision of the ECJ.

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32 Ullrich, Intellectual Property, p. 530; the review; Demaret, Patents, Territorial Restrictions and EEC Law, 2 IIC Studies 97 (VCH Weinheim/New York 1978; also Hanseatisches Oberlandesgericht, 20 IIC 213 (1989) - Bandaging Material. 网络马克 经正式邮件 网络

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The Court ruled that a proprietor of a patent who sells the preparation himself in a market of another member state, even if no patent protection exists there, is prevented from enforcing his patent rights, if the same products are later marketed by parallel import in another member country where patent protection exists. It follows from this decision that the decisive criterion is not the existence of patent protection in the country of first sale, but only and exclusively the consent of the patent owner or his licensee to the marketing of the product in auestion. sensing where a second

off the base of the second of the second s d) Pharmon as when large and all they are they all stight and ást na stá splation a local - Section and the section of the sec

A case where no exhaustion was assumed is the Pharmon decision³⁴ in which the ECJ stated that the grant of a compulsory license and the subsequent marketing of the products by the nd via ac ad chilt o compulsory licensee cannot be seen as a direct or indirect approval of the patentee, so that the patentee can defend himself against imports from the country of compulsory license into other European Union countries. It is irrelevant in such a situation that the patentee received royalties based on the compulsory license. Although only the direct import by licensee into another European Union country is concerned in this case, the reasoning of the ECJ³⁵ indicates that the ECI generally does not recognize an exhaustion of the patent through marketing by the compulsory licensee. The same treatment has been advocated for a prior use a**right³⁶ de la completa de Lileo, societa de la completa de completa**

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A different result was obtained in a case of a license of right. According to the decision, the patentee was restrained from acting against imports from other Member States, because the license was only granted for one producer within his state. The ECJ considered it irrelevant that the product was manufactured in a country without a patent, since the importer, following the declaration of willingness to grant a license by patentee, had attempted to obtain a license³⁷.

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f) Maize Seed

The last patent decision to be presented does not concern a case of exhaustion but of license contract admissibility and enforceability, in particular as to territorial exclusivity clauses.

According to the decision of the ECJ Maize Seed³⁸ which influenced to a large extent the contents of the former Group Exemption Regulation for Patent Licensing Agreements (GER (Patents)), the predecessor of the GER (Technology), one has to distinguish in the future between so-called "open exclusive licenses" and exclusive "licenses with absolute territorial

lares from the electrony 34 17 IIC 357 (1986) - Pharmon ³⁵ recital 20, 25 and 26 ³⁶ See Blok, 13 IIC 729, 743 (1982); Österborg, 12 IIC 442 (1981). ³⁷ See ECJ 19 IIC 528 (1988) - License of Right. ben este de nar brêge das Bostiga

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protection". In an open exclusive license the exclusivity of the license relates only to the contractual relationship between the patent owner and the licensee, and the licensor only accepts the obligation not to grant any further licenses for the same territory or, not to compete with the licensee in the territory. In contrast the license with absolute territorial protection is an agreement by which the parties to the contract intend to exclude all competition of third parties for the respective goods in the licensed territory, e.g. that of parallel importers or licensees in other territories.

Although the "Maize Seed" decision did not concern a patent license agreement, but protection rights for seed species, it is the general understanding that the legal principles for patent licensing are to be applied in the same manner³⁹. Attention is drawn to the fact that in accordance with the ECJ the applicability of the Rome Treaty is not dependent upon proof that a given contract has actually affected the trade within the European Union but merely that the agreement is capable of <u>appreciably affecting the intra-community trade</u>⁴⁰.

The first situation (open exclusive license) according to the ECJ is compatible with Art. 85 (I) EU Treaty, if by this agreement the distribution of new technology is enhanced. However, the granting of absolute territorial protection including a prohibition of parallel imports results in an artificial maintenance of separate national markets which is incompatible with the Rome Treaty⁴¹. Thus any means to prevent parallel imports are inadmissible. Initially the question whether licensees could be subjected to an export prohibition for the markets of the other licensees was not unequivocally clear because the reasons of the ECJ decision contain contradictory statements⁴².

The rules of the "Maize Seed" decision can be summarized as follows:

(a) The licensor may agree to the obligation not to exploit the licensed invention in the licensed territory or part thereof⁴³;

(b) The licensee can agree to the obligation not to use or produce the patented article or process outside of the licensed territory^{44 45}.

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³⁹ Cf. Cawthra, p. 44

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⁴² Cases decided by the European Commission against exclusive licenses and export prohibition clauses are particularly *Davidson Rubber* 3 IIC 528 (1972) and *Raymond Nagoya* 1972 O.J. L 143,39.

⁴³ Cf. Art. 1 (I) 2 GER (exclusive use clause).

44 Cf. Art. 1 (1) 3, 4 GER. (1. 1994) 1993 (1993) 1994 (1995) 1994 (1995) 1995

⁴⁵ This can also apply to the so-called pure know-how licenses, see European Commission, 1986 OJ L, L 50-Boussois/Interpane. This however does not hold when as in the *Windsurfing* case, the licensee was forbidden to manufacture in a patent-free country.

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(c) The licensee may also promise not to pursue sales activities in the territory of other the second secon ritories or not to have a sales office, etc.⁴⁶;

stantes incluit e ell'herite e invite ten este same. (d) The licensee may agree to an obligation limited to five years not to make any direct sales into the territory of other licensees⁴⁷;

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(e) According to the European Court such obligations of the licensee are prohibited, under which also the customers of the licensee are subject to an export prohibition with respect to other countries of the European Union, because this amounts to a violation of Art. 85 (l) EU Treaty⁴⁸. อาร์ชาว 16.856 พระวิทยาว 16.66. เป็นข

and a section of a section of the se For the European Commission the contractual prevention of parallel imports (absolute terinterview of the Rome Treaty, which is generally subject to a fine⁴⁹. If the export prohibition however relates to countries outside of the European Union, Art. 85 (1) does not apply, although few decisions exist for this situation⁵⁰.

The consequence of the "Maize Seed" decision for the territory of the European Union is that in spite of the granting of territorially exclusive licenses, parallel imports cannot be prevented - at least not without time limits - on the basis of the exclusive character of the license. Thus if the first sale occurs with the consent of the patent owner or his licensee, an exhaustion of the patent throughout the European Union takes place. An exhaustion of the which are a set of patent, however, does not take place, if the initial placing into commerce occurs outside of the European Union⁵¹. An exhaustion also does not occur if articles covered by the patent are placed into commerce by an infringer or by a licensee exceeding his right of exploitation⁵².

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4. The Exhaustion Doctrine

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46 Cf. Art. I (1) 5 GER.

47 Cf. Art. 1 (1) 6 GER (Patents). Barrelists (2011) (2012) (2012) (2012) (2012) kanga 165 Kulkaha

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⁴⁸ See recital 15 of the GER (Patents) and Art. 3 (10) and (11).

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⁴⁹ See European Commission in the case Sandoz SpA, where the term "export prohibited" printed from our consistences on the invoices to the customer was penalized with a fine of 800,000 ECU: press release of the European Commission, 1987 IP 284. a statistic contrast of fore an difference conditions a

⁵⁰ Cf. European Commission, 6 IIC 480 (1975) - Kabelmetal-Luchaire.

⁵¹ For such a case under national law see German Supreme Court (BGH) 8 IIC 64 (1977) - Tylosin.

⁵² Regarding exhaustion in general see Ullrich, Intellectual Property, p. 525 et seq. who notes that it is not the amount which patentee receives when first entering the market which is important, but only the fact that he has given his approval for this. In his opinion, it should be additionally exami-1038. NO NO 13 ned whether the refusal to give approval, i.e. a restriction agreed to in the license contract, was legally binding under Arts. 30, 36 and 85.

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consent⁵³. It has no influence whether the owner has received by the marketing of the product his "due reward to his creative activity", as had been put forward in the past by some authors and also the ECJ in some decisions. If one speaks of consent or the putting of products onto the market⁵⁴, the exhaustion occurs only with the sale of the *individual product* by the licensee or the patentee⁵⁵. The grant of a license as such does not influence the status of products only manufactured. Even if products are manufactured by the licensee, but the latter has not complied with the contractually agreed approval procedure, an exhaustion cannot occur and the products can be attacked by the licensor by way of an infringement procedure. 1002年1月1日,1月月,2007月1日)へ

The ECJ has confirmed the relevance of consent as the only decisive criterion also in a case of a compulsory license for a patent by arguing that the marketing under such a license occurs without the consent of the patent holder⁵⁶. As some authors have explained, the patent holder cannot be deprived of his right to decide freely upon the conditions under which he wants to market his product, therefore the criterion cannot be whether the marketing in the first country was legal as such⁵⁷. It cannot be decisive either under which conditions, fair or halimi hariyek daga unfair, a compulsory license has been granted, since at any rate the patentee had not granted his consent.

Francesses of the "state Serd" armian Contract of the burger states in along net som all minimum before en anna a trade don al disheathautha annana má Do adam al tarti eff och fear och social av samataser och 3 i social essenant i sakref ander socialisk vari senarti. Is i social Summarizing the case law of the ECJ it can be stated that กรับว่าการหลังแหล่งของ และ และห้น ความสาวิตารกลุ่มหมืองกับ การณ์สุดกระบับว่าเสตรู หลัง 66 สนต์ การแรก parallel imports within the EU can no longer be prevented based on national indus trial property rights if the first sale occurred within one of the Member Countries of searching to a low the EU with the approval of the right owner;

> - the competition rules of the EU Treaty regulate only the exercise of industrial property rights, not their existence⁵⁸; 化化乙基合合物 网络新闻

- a product which has been lawfully marketed under the laws of one Member Country can freely circulate within the entire Community if no mandatory rules for safety, residuate and an end of the public health or the protection of consumers are at stake⁵⁹. nia dahar yina, baadi arasi bardaran 1 anar 6 shi ya ama'a viya maasi maala di sanla dalamar

> ⁵³ Beier 21 IIC 131, 151 (1990). The exhaustion principle was not included into the TRIPS Agreement, cf. Art 6 TRIPS.

⁵⁴ Cf. Jeremy Brown, Exhaustion of Rights in the Community, 1991 les Nouvelles 145, 146 ing the entries of the story of states we are an information perception? or a indeler i endel de Broch

out he was det search 55 Cf. BGH 29 IIC 207 (1998)-Brochure Rack, where it was examined whether the license covered embodimentsnwith certain features which were not all delivred by the patentee.

56 ECJ 17 IIC 357 (1986) - Pharmon v. Hoechst

ral 147 - Alf 19 dec 1**57 Demaret, 18 IIC 161 (1987)** and there we we structure when your million of [

⁵⁸ ECJ 20 IIC 64 (1989) Volvo - recital 7, similarly ECJ 20 IIC 186 (1989) - Renault ica managati di Add and an two generation concerned of define Announces and the sur-59 ECJ 19 IIC 232 (1988) - Purity Requirement for Beer, 21 IIC 695 (1990) - Import of Meat Prodede and south and sucts; 21 IIC 344 (1990) - Deep-frozen Yoghurt Real Contractor and the second second second

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bette dia 1916 metalampan langka fan en yr shir fri o'r serer farf o'r 'r an bolant rear yn yn ate y franklary superiors and the soft in stitle security of the second state of III. Art. 85 EU Treaty and the exemption rules for license agreements

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- Exemption by categories of agreements - and the second s

While Arts. 30 and 36 concern the free flow of goods within the Community and prohibit where some states are justified on the Here The same reaction basis of industrial property rights, Art. 85 (1) concerns contractual agreements and conwhich the companies which may influence trade between Member States. Bottom subset of the state of t

tween competitors. Art. 85 (2) declares such restrictions of trade as null and void, whereas Art. 85 (3) allows an exemption for agreements if those are primarily beneficial for the conbill of his in a selecter was sumer, commence consistent for a flags a smither range maximum . - Alexandrian and a second state of the second

With respect to the first condition of Art. 85 EU Treaty, namely that the contract concluded must be sufficiently important in order to influence competition in the Common Market, the Announcement with respect to Agreements of Minor Importance has to be taken into account⁶⁰. The Announcement defines minor importance as a market share of less than 5% for the total market of the products in question with a turnover of the contractual partners below 300 million ECU. These numbers are examined at the very moment when the competitive situation around moved and violation making examined by the Commission, not on the date of the conclusion of the contract. If a product becomes successful, the parties therefore have to watch whether the competition rules become applicable at a later date.

-The second condition, namely that the trade between Member Countries must be affected was in the past nearly always given according to the Commission where sales had an international aspect. Here the Commission will not examine the efsub beach of marked methods fect of the individual clause upon competition, but the contract in its entirety.

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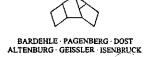
WERE AND AN ADDRESS OF COMPRESS OF COMPARISON OF A DESCRIPTION OF A DESCRI set est i suo structure decision and the structure of the ECJ the above two-step test has been mitigated by the ECJ which thereby has somewhat raised the threshold for the applicability of Art. 85 (1) EU Mich was a birt all address a Treaty. There are now two conditions which must both be present before a specific contract -detection and the structure of the needs an exemption, where the structure of the relative structure of the sec

and the said has to be the set of the set has the second set of the second second second second second second s The first test is whether the cumulative effect of similar agreements of the licensor would make it more difficult for competitors to enter the market; a further barrier is that the indidiscourse of the significantly to the distortion must by itself contribute significantly to the distortion is the marked of competition. If these two points can be denied, the agreement does not fall under Art. 85. entries brocks a low change. The latter point would take into account the market power of the contracting parties and the Successive a conducation of the agreement⁶¹. So a release offer the accessive here

et seditarenter a trederouder mensen et lederer er erretentet (E. 1. Året et endet i meleter er erret It nevertheless remains a double hurdle

e og af som verens som en som en som er standaret, som har som fagnerale som er • A Contact of grave Action of Staward Property ⁶⁰ Notification of the Commission of 12 September 1986, amended 1994 O.J. C 368/20 计一级 电超过分 计算法的复数形式 ⁶¹ See with more details Bay, EC Competition Law and Software IPRs, 9 Computer Law and Prac-

tice 176, 1993. (Ltd. 1997) which we also we are 1983 (1996) which have a strength of the second second



- the per se effect of an individual clause which is regarded as anti-competitive by the practice of the EU Commission as will later be explained, like tie-ins, customer exclusivity etc. 2*4.00% -9%)(173353334331

- as well as the overall evaluation of the entire contract

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which does not always make it easy to enforce protective rights in Europe although such enforcement would be totally lawful under the rule of reason of American law. For the individual contract this means that one cannot rely on a benevolent evaluation in case of conflict, but has to submit the contract for individual exemption whenever an anti-competitive clause is contained in the contract, or at least for negative clearance if no automatic exemption through one of the exemption regulations is given 62 .

If no exemption regulation applies and without a voluntary notification of the contract to the EU Commission the parties of such an agreement must even fear heavy fines for the violation of the competition rules. 이 동네는 이 이지를 주는 것 같아?

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As regards the applicability of those Group Exemption Regulations, it must be noted that only if the licensee also manufactures and not only distributes, the exemption regulations for license agreements become applicable⁶³. If the licensee does not manufacture and also none Us (1) is applicable, the contract needs a negative clearance or individual exemption depending on the circumstances. The parties should know and use the possibilities of the exemption regulations as well as the requirements for the notification of agreements which therefore will be discussed hereafter.

In the field of patent law Art. 72 EPC and Art. 40 (1), 45 (1) CPC⁶⁴ require a written document for the assignment of patents or patent applications, but no such provision exists for a license contract. This does not mean, of course, that an oral license contract, whether for a which after all would cover a bundle of national rights, would be necessarily valid under the laws of all of the Member States. A number of national laws require a form in writing if the contract contains clauses which have a competition re-建立间 建氯 中心的主流 计 经由产生的现在分词 stricting effect.

> ⁶² For details of the procedure and the distinction between the two procedures see Pagenberg/Geissler, License Agreements, page 38, note 21 et seq.

⁶³ Recital 8 of the GER (Technology)

Falle of all the base and On Art.72 and Rule 20(1) EPC see Notices of the EPO, OJ 1987, 215.

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The most important validity issues concern however antitrust questions. Many clauses are to be qualified as restrictions of competition which may fall under Art. 85 EU Treaty. Some of these restrictions do not exceed the contents of the patent or do not affect trade between Member States and therefore are admissible. Others, although with anti-competitive effect, may be exempted under Art. 85 (3), if they contribute to promoting technical or economic-progress. In the already mentioned GERs the Commission has included those clauses which it regards as admissible and non admissible.

Usually the admissibility under antitrust viewpoints does not follow from the formulation of an individual clause, but rather from the connection between a plurality of provisions and their legal and economic consequences⁶⁵. It is therefore recommended, if an agreement does not or not entirely fall under one of the exemption regulations to use the possibility of the clearance or opposition procedure with the European Commission in accordance with Regulation No. 17/62 and 240/96 respectively, particularly in case important and long-term license contracts. A notification with the European Commission may also be advisable, if, in spite of the fact that the license contract relates only to a single Member State and the parties also belong to only one member state, by exports or imports of one of the parties an impact on competition is to be expected, which is not insignificant⁶⁶. Such an application procedure is however not obligatory under Regulation No. 17.

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It is impossible within the framework of this chapter to deal with all the clauses in the GERs, therefore only some of the most important ones found in license agreements shall be discussed. Although so far only exemption regulations for technical protection rights have issued, it can be assumed from a number of decisions that a similar treatment will be applied to trademark and copyright licenses which however need exemption or negative clearance from the Commission, if they contain competition restricting clauses.

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⁶⁵ See ECJ decision 1986 GRUR Int., 635 - Windsurfing International

66 See European Commission, 7 IIC 286 (1976) - AOIP/Beyrard

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a) Group Exemption Regulation for Technology Transfer Agreements - GER (Technology) -Regulation No.240/9667

(1) General - Scope of application

Rendre Annald Receil Seland The Group Exemption Regulations for license agreements, in particular the GER (Technology), are of major importance for the evaluation of the legal validity of license clauses and therefore for the formulation of license contracts. The GER (Technology) constitutes a merger of the former GER (Patents) and GER (Know-how) which expired on March 31, 1996⁶⁸ in order to simplify and encourage the dissemination of technical knowledge in the Community.

> The GER (Technology) applies to the licensing of national patents, Community patents and European Patents ("pure" patent licensing agreements) as well as to the licensing of nonpatented technical information ("know-how") and to combined patent and know-how li-censing agreements ("mixed" agreements)⁶⁹. In Art. 10 (1) GER (Technology) the term know-how is defined as a body of technical information that is secret, substantial and identified in any appropriate form⁷⁰. In case of an invention for which a patent application has not been made, it is to be noted that Art. 8 (2) requires that the application be made at the Patent Office at the latest within one year after signing the contract. Not only patents, patent applications, utility models and utility model applications fall under the GER (Technology), but also topographies of semiconductor products and certificates for medical products⁷¹.

> Like the former GER (Patents), the Regulation does not apply to agreements between members of a patent pool or between competitors, who participate in a joint venture⁷², however it shall apply to agreements by which a parent undertaking grants a joint venture company a patent or know-how license, provided that the licensed products and all interchangeable or substitutable goods and services⁷³ of participating undertakings represent in case of a license limited to production not more than 20%, and in case of a license covering production and distribution not more than 10% of the market.

> Another market share rule is contained in the Notice of the Commission on Agreements of Minor Importance of 1986, last amended in 1994 according to which Art. 85 EU Treaty

⁶⁸ See the review of the different GERs by Burnside, 1988 les Nouvelles 168.

⁶⁹ See recital 4 GER (Technology).

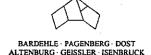
⁷⁰ See the definition of the term "secret" in Art. 10 No. 2, "substantial" in Art. 10 No. 3 and "identified" in Art. 10 No. 4.

⁷¹ See Art. 8 No. 1 d and g GER (Technology Transfer Agreements).

⁷² Art. 5 (1) T and 2. Despected and a set and set of the state and a large set

⁷³ Art. 5 (2) 1. Complete States (WWH Sold THEY provide rate of the point of the ³

⁶⁷ This Regulation takes the place of Regulations No.2349/84 (Group Exemption Regulation for Patent Licensing Agreements) and No.556/89 (Group Exemption Regulation for Know-how Licensing Agreements. The Regulation entered into force on April 1, 1996 and will expire March 31, 2006.



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does not apply to agreements if the total turnover of the parties in one calendar year does not exceed 300 mio. ECU and their combined market share of all the products which may be affected by the agreement does not exceed 5% of the market. For cross licenses the Regulation applies when the contract parties are not subject to any territorial restrictions within the European Union⁷⁴.

The GER (Technology) also extends to agreements containing the licensing of intellectual property other than patents, e.g. trademarks, when such additional licensing contributes to the achievement of the objects of the licensed technology and contains only ancillary provisions⁷⁵.

In international license agreements involving parties and territories from the European Union, the effect on the European Union is to be examined. Enforcement of patents "against external parties" is inherent in the protection right⁷⁶. For agreements involving Member States of the EU and also third states, the European Commission considers the nonexempted clauses under Art. 3 GER (Technology) acceptable as long as they only apply to countries outside the EEA⁷⁷. An export prohibition is only of concern when countries are included in which no parallel patents or secret know-how exists.

An import prohibition from countries outside of the European Union does not affect competition within the Community as long as free trade between the Member States is maintainede⁷⁸. In this context it must be remembered that even a contract concerning one single Member State may fall under Art. 85 (1) EU Treaty, and this even if the parties only belong to one member state. In the decision *Hydrotherm*⁷⁹ regarding Regulation No. 67/1967, the ECJ ruled that a GER also applies when a contract includes not only the territory of the European Union but also countries outside the Community. If the EC Commission is of the opinion that the effects on the trade between Member States can be proven, e.g. if by the license contract the theoretical possibility of importing from other Member States is limited or prevented, Art. 85 (1) is applicable.

As already mentioned, the GER does not hold for pure marketing agreements the precondition being that the licensee manufactures the licensed products himself, or has them manufactured, and for agreements solely for the purpose of sale⁸⁰. Also if more than two parties

⁷⁴ Art. 5 (1) 3 and (2) 2.

⁷⁵ Recital (6). A similar result already in Moosehead/Whitbread, 1990 OJ L 100/32, where an individual exemption was necessary.

⁷⁶ See European Commission 1972 OJ EC L 143/39 - Raymond/Nagoya.

⁷⁷ See recital 4 GER (Technology); also Alexander, 17 IIC 1, 15 (1986).

⁷⁸ Cf. recital 4 GER (Technology); see also Alexander, 17 IIC 1, 15 (1986).

⁷⁹ 16 IIC 598 (1985); see also ECJ, 27 September 1988 in 1988 NJW 3086, Wood Pulp.

⁸⁰ See recital 8 GER (Technology). As to the respective national authorities on the one hand and the European Commission on the other hand, reference is made to Art. 9 (3) of Regulation No. 17. Thus the national authorities have the power based on Art. 88 EEC Treaty to enforce Art. 85 (1) of the Treaty as long as the European Commission has not initiated a procedure. The European Commission will inform the national authority when a contract has been submitted, in order to clarify whether possible national requirements for application have been fulfilled.

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escultury robertan and sa are involved in the license contract, or the GER (Technology) is not applicable for some 영제의 활동물이 실망되는 것은 것은 other reason, a notification under Art. 4 of Regulation No. 17/1962 is necessary.

(2) Clearance of license agreements - Notification Procedure

For practical reasons it is generally recommended to stay within the Group Exemption Regulations and to include only the so-called "white clauses" from the list proposed by the European Commission when formulating license contracts, and in any case not to hope for an individual exemption of a clause which is expressly prohibited. An exemption procedure is usually tedious⁸¹ and even interim statements of the Commission that a certain clause "is possibly exemptable" provide little help, since with such a formulation it is implicitly stated that a violation of Art. 85 (1) is present, so that the clause, at least without exemption, is not enforceable in a national court. According to a decision of the ECJ⁸² the national courts however are empowered to decide whether a clause falls under the automatic exemption of a GER or is exemptable under Art. 4 of Regulation no. 17/1962, but cannot declare an exemption itself⁸³. es ministra seiv monto

> If the requirements for the application of the Regulation as such are given and no black clauses are contained in the contract, the parties can assume that it is exempted without the necessity of notification to the Commission. If the contract contains other clauses, which must not fall, however, under Art. 3, it may obtain an exemption in accordance with Art. 4 of the GER (Technology), if it is notified with the Commission under Reg. (EU) 3385/94. The Commission has maintained for these situations the accelerated opposition procedure? in accordance with which all notified agreements are presumed to be exempted after four months, if the Commission does not oppose the exemption⁸⁵. The agreement must be notified to the Commission in accordance with the provisions of Regulation No. 17/62⁸⁶.

Both sides of a license contract should be aware of the fact that any violation of the competition rules, especially violations which have already been dealt with in former decisions of the European Commission, are subject to considerable fines⁸⁷ up to 1 Mio ECU or beyond, derena of all and a set a set of

HERRE CORT HAVE si A procedure can take 4 - 5 years.

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⁸³ As to the respective national authorities on the one hand and the European Commission on the other hand, reference is made to Art. 9 (3) of Regulation No. 17 and the Announcement of the Commission of 13 February 1993, 1993 O.J. No.C, 6. Thus the national authorities have the power based on Art. 88 EEC Treaty to enforce Art. 85 (1) of the Treaty as long as the European Commission has not initiated a procedure. The European Commission will inform the national authority when a contract has been submitted, in order to clarify whether possible national requirements for application have been fulfilled.

⁸⁴ See for details on notification, exemption and opposition procedure Pagenberg/Geissler, License Agreements, p. 37 et seq. notes 20 et seq.

⁸⁵ Art. 4 (1) GER (Technology); under the GER (Patents) the opposition period was six months.

⁸⁶ As amended by Regulation no. 1699/75, O.J. no. 35 of 10 May 1962 p. 1118/62 and O.J. no. L 172 of 3 July 1975 p. 11 respectively.

⁸⁷ A fine can no longer be imposed, if the agreement is notified.

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- 23 -

namely up to 10 % of the yearly turn-over of the respective companies⁸⁸. An unequivocal clearance under the competition rules is therefore in the interest of both parties⁸⁹ because in the case of disagreement each party has the possibility to prevent the enforcement of the contract by bringing it to the attention of the European Commission.

If a license contract contains clauses which fall under Art. 3 ("black clauses"), this means

(1) that the license contract is not exempt,

(1) that there is no accelerated opposition procedure

(3) that the Commission can impose fines for antitrust

violation, if the agreement is not notified⁹⁰.

If an agreement does not fall into one of the categories for which exemption regulations have been enacted, a notification under Art. 4 of Regulation No. 17/62 must equally be made if it assumed or even obvious that Art. 85 (1) EU Treaty is as such applicable but reasons for an exemption under Art. 85 (3) are given. These reasons are specified in Art. 85 (3): the agreement should bring about an improvement in the production or distribution of goods or the promotion of technical advance.

Also the fact that customers adequately participate in the improvement and the clause which is limiting competition is necessary for this purpose, and finally that the contract does not exclude competition for a significant portion of the goods or services in question, are reasons which speak in favor of an exemption under Art. 85 (3). In view of the effect of notification that the Commission is prevented from imposing fines, the application procedure is always recommendable if the agreement does not clearly fall into one of the exempted categories and only contains exempted clauses⁹¹.

The notification procedure according to Art. 85 (3) can either be a so-called *negative clear*ance or an exemption. With the negative clearance the applicant knows for certain that the contract filed does not violate the prohibition clause of Art. 85 (1) EU Treaty. It should be noted, however, that the Commission in accordance with Art. 2 Regulation 17/62 is not obligated to issue a negative clearance. The Commission will, e.g. not issue such a negative clearance if there is no need for the application, because the contract clearly does not fall under Art. 85 (1), or if the contract is exempt due to a group exemption in accordance with Art. 85 (3)⁹². The request for negative clearance requires an explanation by the applicant why he considers that Art. 85 (1) EU Treaty is not applicable. The reasons should state that no sensible prevention or restriction of competition is intended or that the trade between member states is not sensibly obstructed.

⁸⁸ See Art. 15 (2) of the Regulation No. 17.

⁸⁹ Cf. for details on the notification procedure *infra* chapter 2.

⁹⁰ Reference is made here e.g. to the decision of the ECJ with respect to the inclusion of a no-contest clause into a license contract in the case *Windsurfing International* 17 IIC 362 (1986).

⁹¹ Cf. for a checklist as to the exemption regulations at the end of this chapter.

⁹² Cf. the view of the Commision OJ L 240/6 of September 7, 1985 expressed along with the publication of the application form sheet A/B with regard to recital 27 of the GER (Technology), where it appears that the undertakings have the right to receive a negative clearance or an exemption.

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The notification must be made on a prescribed form which has been published by the Commission⁹³ and requires a detailed explanation on the contents of the agreement and its intended purpose as well as the answering of a multitude of questions to the competition effects of the contract clauses. The distinction between admissible and non-admissible clauses is based on the interpretation of the ECJ of Art. 30, 36 EU Treaty and its distinction between the guaranty of the *existence* of an industrial property right and its *exercise*.

The question asked with respect to individual clauses in an agreement is whether it is necessary for guaranteeing the existence or this specific object of the licensed right. If the answer is no, the Commission applies a two-step test: (1) does the clause (or conduct) have the effect of preventing, restricting or distorting competition within the Common Market, and (2) if so, does the conduct nevertheless have overall a pro-competitive effect because it contributes to promoting technical or economic progress, so that an exemption under Art. 85 (3) is possible.

If a clause violates Art. 85 (1) and it is not accessible to exemption, it follows from the wording of Art. 85 (2), that the agreement on the whole is invalid. According to general practice of the Commission and the ECJ only invalidity of the restrictive clause is assumed and the question of the validity of the rest of the contract is left up to the judgement of national courts⁹⁴. Despite the wording of Art. 85 (2), contracts which fall under Art. 85 (1) are not invalid from the start, moreover, the ECJ assumes that such contracts when filed at the European Commission are to be seen as being preliminarily binding (and therefore can be enforceable) until a negative or positive decision of the European Commission is issued⁹⁵.

The European Court of Justice in the decision *Windsurfing International*⁹⁶ has also ruled in recital 95 et seq. that it is not to be examined whether a clause restricting competition is also suited to influence the competition in the European Union, when the entire agreement does this; the subject of examination is therefore always the license contract as a whole.

(3) Case law of the Commission

With respect to the more recent practice of the Commission one might gain the impression that the latter is inclined to grant negative clearance by applying a rule of reason. This policy is reflected in the Commission's Notice concerning the assessment of cooperative joint-ventures under Art. 85⁹⁷. In the Notice categories of joint-ventures are mentioned which the Commission regards as falling under Art. 85 (1), but for which it would grant a negative clearance automatically.

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⁹³ Form A/B OJ EC L 240/1 of 7 September 1985.

6 Sector 294 ECJ 1987 GRUR Int. 868 "VAG France/Mange."

⁹⁵ European Commission 1 C.M.L.R., 1, 27 1962 - *Bosch*; see also Beier with further references, 3 IIC 1, 34 (1972).

⁹⁶ 17 IIC 362 (1986).

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In the Magill⁹⁸ case the Court of First Instance (CFI) held that when an intellectual property right is exercised for a reason which is not considered to be bona fide or in circumstances which do not correspond to a genuine protection of the intellectual property right, Art. 85 and 86 will override any provision of national intellectual property law.

A similar approach was taken by the Commission in the Fyffe vs. Chiquita⁹⁹ case where the Commission announced that it will investigate whether trademark rights are exercised in a bona fide manner and whether such exercise goes beyond which is necessary to fulfill the essential function of the relevant trademark rights. The same rules are of course applicable to the exercise of patent rights.

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(4) Contents of the Exemption Regulations

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1 mA to the design of the definer In the following first the GER (Technology) is discussed which in practice is the most frequently used. It differs from the GER (Research) only on specific points. In this Regulation, like in the former GERs (Patents) and (Know-how) and in the GER (Research), under Art. 1, those clauses are listed which restrict competition, however are exempted, since they generally contribute to improving the production of goods and to promoting technical progress (so-called white clauses). Art. 2 contains clauses which are also considered white and do not prevent an exemption.

In comparison to the former separate GERs the so-called black list of Art. 3 has been shortened considerably (from 11 to 7 provisions), and the white list has been extended and improved in the GER (Technology). The original market share criteria in Art. 1 (6) of the draft as a condition of the benefit of exemption are now found in Art. 7¹⁰⁰, which authorizes the Commission to withdraw the benefit of the Regulation if the it can show an anti-competitive effect because of some market power. Andrew and serve

Relight which the first a strate the s - re dan In Art. 2 those clauses are given which according to the view of the Commission usually do second is derive and header in and the state of t which is an example obtained a gal certainty. Art. 3 of the GER (Technology) contains those clauses which according to the opinion of the Commission fall under Art. 85 (1) EU Treaty and should not be included into license agreements if these are to benefit from the block exemption (so-called black clauses). Some of the rules under Art. 3 would fall under the concept "misuse of patent" according to US legal norms¹⁰¹.

Later states

selfes, egi infrazio secto seco In the following a number of clauses are presented which have significance in licensing agreements and which will be examined as to their competition restrictive effects.

⁹⁸ (1991) 4 CMLR 745.

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99 9 IIC 603 (1978)-United Brands.

1838-338-03 ¹⁰⁰ See Berman/Hunt, A nightmare in the making, 1995 MIP, 12 et seq.; Korah, The Preliminary Draft of a New EC Group Exemption for Technology Licensing, 1994 EIPR, 263 et seq.; Whaite, The Draft Technology Transfer Block Exemption, 1994 EIPR, 259 et seq.; Lieberknecht, Eingabe zur zweiten Anhörung des Beratenden Ausschusses für Kartell- und Monopolfragen zu der geplanten VO zur Anwendung von Art. 85 III des Vertrages auf Gruppen von Technologie-Transfervereinbarungen, 1995 GRUR, 571 et seq.

¹⁰¹ See Venit, 18 IIC 1, 32 (1987). A set of the catter as more to different quarter

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(5) Individual contract provisions Even of the state of the second second second states (i) Exclusivity

In conformity with the "Maize Seed" decision discussed before, the GER (Technology) emphasizes as already the former GER (Patents) in Recital 10 that exclusive licenses are not regarded by the European Commission as falling under Art. 85 (1) EU Treaty, if they are concerned with the introduction and protection of a new technology in the licensed territory. Under the GER (Technology) this is not only the case by reason of the scale of the research which has been undertaken, but also by reason of the increase in the level of competition, in particular inter-brand competition. As a general recommendation, to be on the safe side, exclusive licenses should generally be drafted by including the exemptable clauses of Art.1 GER¹⁰². An exclusive license however is not exemptable, if the licensor dominates the market in the sense of Art. 86 EU Treaty¹⁰³.

The exemption rules for territorial restrictions are found in Arts. 1 (1) No. 1 to 6 of the GER (Technology), where the automatic exemption for pure patent licensing agreements holds na substitution and for as long as the licensed product is protected by parallel patents (no. 1 to 5) and for a period not exceeding five years from the date when the licensed product is first put on the market by one of the licensees (no. 6: direct sales)¹⁰⁴. Where the agreement is a pure knowhow licensing agreement, the period for the exemption may not exceed ten years (no. 1 to 5) and five years (no. 6) from the date when the licensed product is first put on the market¹⁰⁵/ In case of a mixed patent and know-how licensing agreement, the exemption for nos. 1 to 5 holds for as long as the licensed product is protected in those Member States by such patents if the duration of such protection exceeds the periods specified in Art. 1 (3) GER (Technology)¹⁰⁶. It is to be noted that a know-how license which is territorially restricted is not automatically exempted when the license contract only covers a small technically limited portion of the protected knowledge¹⁰⁷. The Commission however considers such a knowhow agreement as exemptable even when an absolute territorial protection results, if the introduction or expansion of a new and rapidly changing technology is made easier in a market which is served by only a few producers. , na sana shane ni minin 1 sasa an wali shi ku shekara shekara sh

ese fi pelenção de cuenciones **(ii) Royalties**e filos elementos tructar estas procedurator controla a cuencio

As a general rule it should be noted that antitrust law provisions do not allow that the parties extend competition restrictive obligations, including the obligation to pay royalties on to

¹⁰² Cf. the exemption of an exclusive know-how license of limited duration by the European Commission in the decision OJ EC 1987 L 41 Mitchell Cotts/Sofiltra as well as 20 IIC 703 (1989) - Delta Chemie, where the necessity of individual exemption was expressly stated.

¹⁰³ See European Commission, 20 IIC 684 (1989) - Tetra Pak I.

in the state of a signal sector we shall 1.63.65 ¹⁰⁴ See Art. 1 (2) GER (Technology). ¹⁰⁵ See Art. 1 (3) GER (Technology).

¹⁰⁶ See Art. 1 (4) GER (Technology) where the exemption period for point 5 is regulated.

¹⁰⁷ European Commission, 1986 OJ L 50 - Boussois/Interpane.

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embodiments which are not covered by the scope of patent protection¹⁰⁸. In the Windsurfing case, the argumentation of licensor was rejected by the ECJ, that the total unit surfboard and rig represented a simpler calculation method. In practice, surfboards and the remaining parts of the rig were very frequently sold separately, because the license-free boards were offered less expensively by non-licensed producers.

Already in the decision Raymond Nagoya¹⁰⁹ the European Commission found a minimum royalty clause to be admissible. Like under the former GER (Patents), under the GER (Technology) a minimum royalty clause and also agreement on a minimum number of use nar i the suit araan al 😫 acts is permissible¹¹⁰. The agreement on a minimum royalty or a minimum number of use a to the base of the th operations may also not lead to a restriction of the licensee in his business activities in the in mercula with we concern sense of Art. 3 No. 2. In the view of the Commission, this would only be an extreme case, so that Art. 2 GER generally applies¹¹¹. and white which the set

> stal shabba shince des s assets (iii) No-contest clause

For a long time a no-challenge clause has been regarded by the Commission as a violation of Art. 85 (1) EU Treaty¹¹². The reasoning was that the obligation not to challenge has an effect on intra-community trade, which under the practice of the Commission was to be assumed if purchases in another Member State of the European Union are potentially made impossible. Under European law, therefore, at best the obligation of the licensee was regarded as permissible to assist the licensor against an infringer of the patent/utility model¹¹³. This practice was confirmed by the ECJ in the Windsurfing decision¹¹⁴. The ECJ determined that a no-contest clause does not belong to the subject matter of a patent.

In a later decision¹¹⁵ the ECJ, however, differentiated in the sense that the application of Art. 85(1) EU Treaty has to be evaluated in accordance with the respective legal and economic contents. For the case of a royalty-free license a limitation of competition does not exist just as in a case of a royalty bearing license which relates to a technically non-state-of-the-art process, which the licensee has thus not utilized. As a rule, therefore, it would be recomteatra uni val lectron m mendable to review the necessity of a promise not to challenge.

> ¹⁰⁸ See already under German law BGH 1979 GRUR 308 - Auspuffkanal für Schaltgase, and 13 IIC 645 (1982) - Rig.

> ¹⁰⁹ 1972 CMR 9513; Burroughs/Geha 3 IIC 259 (1972); European Court of Justice, 17 IIC 362 (1986) - Windsurfing International.

¹¹⁰ See Art. 2 (1) No. 9.

¹¹¹ E.g. a payment provision which extends beyond the term of the patent term is acceptable, where the license was granted before the patent filing, 22 IIC 61 (1991).

¹¹² See European Commission 3 IIC 52 (1972) - Davidson/Rubber; 1972 OJ No. L 143/39 - Raymond/Nagoya; 10 IIC 475 (1979) - Vaessen//Moris. Cf. also Art. 40 (2) TRIPS Agreement.

113 See Art. 2 (1) No. 6b GER (Technology).

¹¹⁴ See 17 IIC 362 (1986) - Windsurfing International.

horizzeren eren er NSCOLUMNOL ¹¹⁵ ECJ 21 IIC 212 (1990) - Promise not to challenge.

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della tra considente del constante della In contrast to the GER (Patents) in which a no-challenge clause was prohibited¹¹⁶, the GER (Technology) has transformed it into a grey clause and provides an exemption for it in Art. 4 (2) b if the agreement is notified and the Commission does not raise objections within a period of four months. The GER (Technology) and the rules concerning the exemption of a no-challenge clause are not applicable to distribution contracts¹¹⁷.

(iv) Obligation to use yours is convert non-even with a yoursele.

In the case of a nonexclusive license, the licensee is not obligated to exercise his right to use if this is not specified in the agreement. As an alternative, or additionally, the payment of a minimum royalty can be agreed upon as well as a right of termination by the licensor, if certain minimum sales have not been reached. Under European law, the obligation to use is even possible by an agreement on the minimal number of acts of use¹¹⁸. An agreement on a maximum production is only permissible within the limits of Art. 2 (13) GER ("second source")¹¹⁹.

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(v) Price-fixing

Under the GER a price fixing-clause is among the prohibited clauses¹²⁰, and therefore an individual exemption would be required, which however would rarely be granted. A price fixing clause coupled with an export prohibition has been found detrimental to free trade by the ECJ due to this coupling, however the clause was still exempted, because Art. 85 EU Treaty requires an *appreciable* influence on free trade which was not found in that case¹²¹.

(vi) Labelling

A provision prohibiting the licensee to use his trademark or his company name is accepted by the Commission, if the licensee has the right to refer to himself as the producer¹²². The ECJ holds it however inadmissible to obligate the licensee to attach a license label to a part of an item which is frequently sold as a unit which itself is not covered by the patent claim¹²³.

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(vii) Quality Control

ALE CLARENCE MAINTERNIE See Art. 3 No. 1.

¹¹⁷ See GER (Technology) recital 8.

¹¹⁸ Cf. Art. 2 (1) No. 9 of the GER (Technology).

¹¹⁹ See Art. 3 No. 5 of the GER (Technology).

120 See Art. 3 No. 1 GER (Technology).

¹²¹ ECJ 19 IIC 664 (1989) - Plant Seed License.

¹²² See Art. 1(1) No. 7 and 2(1) No. 11 GER (Technology) and recital 6.

¹²³ See ECJ 17 IIC 362 (1986) - Windsurfing International, there labeling on a non-protected surfboard.



A right of termination may be agreed upon for the situation in which after a written request to achieve the required standard of quality and after the expiration of the term therefor the licensee has not reached the required quality standard. The term in this case has to be sufficient and reasonable. Such a provision is also permissible under the GER¹²⁴. Not permissible is an obligation of licensee to restrict production to one specific plant for the produced items as a control right of licensor in order to maintain quality to supposedly avoid copying products by other licensees¹²⁵.

(viii) Grant back for changes and improvements of the invention by licensee

An agreement of a *royalty-free* right of licensor to use improvement inventions of the licensee or an obligation of licensee to assign the improvement or an use invention to licensor generally represents a restriction of competition of the licensee and is also among the prohibited clauses in accordance with the GER (Technology)¹²⁶.

An obligation of licensee to grant licenses for improvement inventions ("grant-back clause") is however admissible, if the licensor, too, enters into a corresponding obligation and in case of severable improvements the license is nonexclusive¹²⁷. Also the respective license conditions have to correspond, i.e. the licenses either both have to be free or both have to be royalty bearing. Furthermore, if the licensor in the case of a patentable improvement requests an increase in royalty, then an agreement for payment of royalties is also necessary for improvements of licensee which licensor plans to use¹²⁸. An obligation by licensor to inform licensee about modifications and improvement inventions is generally not recognized as restricting competition¹²⁹. Conversely, for the validity of a licensee's obligation to inform about improvement inventions, there must be a corresponding obligation by the licensor¹³⁰.

(ix) Tie-in of supply (Obligation to purchase)

Such a clause, also known as *procurement of goods and services* which are not necessary for a technically satisfactory exploitation of the licensed technology has been transformed into a grey clause¹³¹. Under the former GER (Patents) this clause was contained in Art. 3 (9) as a

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See Art. 2 (I) No. 5 GER (Technology). Contract of the second large state of the se

¹²⁶ See decision of European Commission, 1985 OJ 233 - Velcro/Aplix and also Art. 3 No. 6 GER. Cf. also Beier, 3 IIC 1, 23 (1972) and Art. 40 TRIPS Agreement.

> ¹²⁷ See Art. 4 (1) GER (Research), Art. 2 (1) No. 4 GER (Technology); European Commission 20 IIC 683 (1989) - *Rich Products/Jus-rol*; European Commission 1972 OJ No. L 143, 39 *Raymond* Nagoya.

> ¹²⁸ Cf. for a pure know-how license the decision of the European Commission, 1987 OJ No.L 41 - *Mitchell Cotts/Sofiltra*.

¹²⁹ See Ullrich, Intellectual Property, p. 550.

¹³⁰ See GER (Technology), Art. 2 (l) No. 4.

¹³¹ Such a procurement clause used to be permissible only if justified or necessary; cf. now GER (Technology) Art. 2 (1) No. 5a and Art. 4 (2a).

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black clause. Under the GER (Technology) a tie-in clause may now be notified for an exemption with the Commission under Art. 4 (2) a GER.

Under the former practice of the Commission an obligation to purchase parts which do not fall within the scope of the patent represented an illegal extension of the patent monopoly by contractual means¹³². Insofar antitrust prohibitions and patent infringement situations were in correlation: acts which can be prosecuted as patent infringement can be regulated by the license contract. Conversely, an exploitation act which does not fall under the scope of the patent does not represent an activity which is royalty bearing or which requires permission by the licensor.

A tie-in clause is permissible under antitrust law, if the parts to be purchased would constitute a contributory infringement if used by a third party. There may be an abuse of the control right of the licensor if he allows the use of unpatented parts or their combination with patented parts only, if for these unpatented parts a royalty is also paid¹³³. It was also considered an inadmissible restriction of competition when the licensee is obligated to always sell the licensed product together with another product not falling under the patent (e.g. the nonlicensed surfboard together with the rig according to the patent)¹³⁴.

An obligation on the licensee to supply only a limited quantity of the licensed product to a particular customer is not regarded as restrictive, if the license was granted in order to provide the customer with a second source of supply¹³⁵.

An obligation to purchase material for producing licensed products is no longer justified according to the Commission when the basic patent has lapsed in the meantime and only improvement patents still exist. After expiration of the patents, the license technology is free for use¹³⁶.

(x) Non-Competition Clause

A non-competition clause is listed in the GER among the prohibited clauses¹³⁷. If the prohibition of competitive use relates to the use of trade secrets, this is however not an impermissible restriction of the licensee, since the licensor may have a justifiable interest that the knowledge conveyed is not used for competing products¹³⁸. In the special case of a partner-

¹³² See European Commission of 10 January 1979, 10 IIC 475 (1975) - Vaessen/Moris; also European Commission 1985 OJ L 233,22 - Velcro/Aplix.

See ECJ 17 IIC 362 (1986) - Windsurfing International.

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¹³⁴ ECJ 17 IIC 362 (1986) - Windsurfing International.

¹³⁵ Art. 2 I No. 13 GER (Technology).

¹³⁶ 1985 OJ L 233, 22 - Velcro/Aplix. With respect to such an obligation for know-how licensing agreements see also European Commission 16 IIC 206 (1985) - Schlegel v. CPIO.

¹³⁷ See Art. 3 No. 2 and 4, and also European Commission 7 IIC 286 (1976) - AOIP/BEYRARD; 9 IIC 184 (1978) - Reuter/BASF; 1987 OJ L 41 - Mitchel Cotts/Sofiltra for the case of a "integrated industrial cooperation" in case of a joint venture.

¹³⁸ See also European Commission 20 IIC 703 (1989) - Delta Chemie, Art. 2 (1) 3 GER.



ship which had licensed know-how, the Commission regarded a prohibition to compete as necessary for producing products or trading such products which compete with the licensed products, since the partnership had an interest in the success of the new production facilities which they had built with considerable investments¹³⁹.

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(A) 新教育 (1996) (A)

een of benjamer at hearsoft we had a the u selfa kalcoltor e laft^{i Ma}dus. 1941 According to the GER (Technology) a use restriction to specific fields is permissible¹⁴⁰. This is, however, only the case if it does not result in a restriction of customers¹⁴¹. An obligation on the licensee not to use the licensor's technology to construct facilities for third parties does not constitute an unlawful restriction of competition¹⁴². Among the reasons for the admissibility of this competition-limiting clause is that the licensor can have an interest to limit the use of the special information he supplies to the manufacturer to the products of the agreement. This condition does not exist if the licensee already has the information required to produce the desired products or articles, because then he would be limited in his own economic activities¹⁴³

> an and sate with sense with sense the set A use prohibition after the termination of the agreement however would only be exempt if the license agreement ends prior to the expiration of the patents or if the licensed know-how is still secret¹⁴⁴.

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An exclusive patent license agreement expires at the latest with the expiration of the last of margi mass et in vibi the licensed patents. A duration past that point and an obligation to pay royalties is admissi-Èncess a singana si ble under antitrust law only if in addition to patents also secret know-how has been licensed and second of The last or if of several licensed patents, only one has expired or is declared invalid. The initial duration may be automatically extended by the inclusion of any new improvements communicated by the licensor, whether patented or not, provided that the licensee has the right to golimesca sell'e norma refuse such improvements or each party has the right to terminate the agreement at the expiry of the initial term of the agreement and at least every three years thereafter¹⁴⁵. If no provision has been made in the contract for such a situation then the question of a reduction several depends upon the importance of the invali-

·注意: 第38章 (187

¹³⁹ European Commission 1987 OJ L 41, 420 - Mitchell Cotts/Sofiltra.

140 See Art. 2 (1) 8 GER (Technology).

¹⁴¹ See Art. 3 No. 4 and Art. 2 (1) No. 8 GER (Technology).

142 See Art. 2 (1) No. 12 GER (Technology).

¹⁴³ See GER (Technology Transfer Agreements) Art. 2 (1) 1, as well as the decision of the European Commission 1987 OJ L 41, 418 - Mitchell Cotts/Solfiltra.

(1827) 144 See the preamble of the GER (Technology) recital 12, and Art. 2 (1) 3 GER. Cf. also ECJ 22 IIC 61 (1991)-Licensing Agreement.

145 See Art. 8 (3) GER (Technology). Research () Suther a she (1) Sure and

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dated patent for the activities of licensee, so that in a given case the royalty may remain as agreed upon¹⁴⁶.

The Commission in the decision $Henkel/Colgate^{147}$ held that an obligation to pay royalties beyond the duration of the patent is inadmissible, while a 50% reduction was considered appropriate if know-how was still used¹⁴⁸. The ECJ held in its decision *Kai Ottung v. Klee & Weilbach*¹⁴⁹ that a contractual obligation under which a patent licensee is required to pay royalties for an indeterminate period of time does not in itself constitute a restriction of competition within the meaning of Art. 85 (1) in a case where the agreement was entered into after the patent application was submitted and immediately before the grant of the patent.

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According to a decision of the European Commission¹⁵⁰ an exclusive patent license falls under Art. 85 (1) EU Treaty and is not automatically exempted when certain basic patents have expired and only patents for improvements or further developments exist. Such a situation does not justify the prohibition of the licensee to deliver in territories of other exclusive licensees. An exemption under Article 85 (3) EU Treaty is also not possible when the concerned products are manufactured only according to the expired basic invention, but make no use of the improvement invention. If the contract ends prior to the expiration of the patent or one of the patents licensed, then licensee has no right to continue the exploitation of the patent. A corresponding provision is also admissible under Art. 2 (1) 3 GER (Technology).

Conversely, an agreement of payments after the expiration or invalidity of the patent is normally among the prohibited clauses¹⁵¹ unless the continued payment represents a staggered royalty payment for the period of the validity of the licensed technology¹⁵². The licensee can be obliged to keep paying royalties until the end of the agreement independently of whether or not the licensed know-how has been disclosed¹⁵³ The European Commission bases this on the advantage which the licensee has over competitors¹⁵⁴. The duration of the exemption as far as competition restrictive clauses are concerned is regulated differently in Art. 1 (2)

¹⁴⁶ For the case that the basic patent expires and the license contract is continued with improvement inventions, see the decision of the European Commission, 1985 OJ L 233- "Velcro/Aplix".

¹⁴⁷ 1972 GRUR Int. 173.

148 Burroughs/Geha 3 IIC 259 (1972).

149 22 IIC 61 (1991) - Licensing Agreement.

150 1985 OJ L 233 - Velcro/Aplix.

¹⁵¹ European Commission, 1985 OJ L 233,22 - Velcro/Aplix.

¹⁵² See GER (Technology), recital 21, and the decisions of the European Commission 1986 OJ L 50 - *Boussois/Interpane*; see also the decision *Rich Products/Jus-rol* in 20 IIC 683 (1989); Ullrich, in *Intellectual Property*, p. 550, even sees no conflict with Art. 85 (1) due to agreements on payment modes; for the practice of the European Commission see also Venit, 18 IIC 1, 20 (1987).

¹⁵³ See GER (Technology), recital 22, Art 2 (1) No. 7.

154 See Art. 2 (1) No. 7 GER (Technology). The Market Protocol (A. Barra and



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GER (Technology) depending on the respective clause and the type of agreement: patent license, pure know-how license and mixed agreement.

(xiii) Confidentiality obligation

servera multiplicatio della vita andorimani è mana sell'estè è entisico e le ante estavora è Under the GER a confidentiality promise is also admissible if it exceeds the term of the agreement¹⁵⁵. Since the confidentiality and nonuse agreement depend upon the confidential character of the technical information, an agreement about an absolute confidentiality period bore enclosed and is not permissible. A secrecy obligation is no longer applicable when the licensed know-how becomes public knowledge. and the said friends and

(ivx) Assignment and sublicensing and detected the defined of the

Assignment and sublicensing by a licensee can be excluded, particularly if there is, a territorial division within the protected territory, which could be counteracted in the case of an asstory to have a signment or a sublicense by third parties. From an antitrust viewpoint this poses no prob-

ultimeter admin of the sector lem¹⁵⁶, does be returned by the ways of t^{sta}ctor starts at style ndennand vit enne Hanne be transit admitted for the second second second cidizzimle za Richneger additionen) nezerouti d'Unitablea regari jezuroza odzazzi -or all standard many only of constructed in a pivel administration of the standing of the standing of the stan mating of steers of group galaxy and will be generated and success of the stars of her from as

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¹⁵⁵ See Art. 2 (1) No. 1 GER (Technology); see also the decision Mittchell Cotts/Sofitra 1987 OJ L 我们出来感谢中国 41.). 的复数运行的 建物的 化可加度 化离子

156 Cf. e.g. Art. 2 (1) No. 2 GER (Technology) (1993) (1983) (1983) (1983) (1983) (1983)

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b) GER (R&D) - Regulation No. 418/85

(1) General

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Generally, under the opinion of the European Commission, only such provisions are capable of exemption in a cooperation agreement which are indispensable for the realization of the goals of Art. 85 (3) EU Treaty¹⁵⁷. An important criterion for the exemptability is whether other stronger competitors exist within the European Union for which one can assume that they too will continue to do research in the field of the agreement so that competing products would be available.

(2) Individual Provisions and a consideration and appletes (194)

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An agreement of a fixed term without possibility of termination for a period of eight years appears admissible¹⁵⁸. In view of the purpose of such an agreement to make possible long-term research projects by combining financial and personal means, the Commission has also exempted longer periods¹⁵⁹. The European Commission regarded it as admissible that in case of a premature termination by one of the parties the other party continues the research and in case of a success the licensing of the terminating party is made dependent upon a payment of up to 75 % of the research and development costs.

As an alternative to the independent exploitation of the research results with mutual licensing, one can agree that the exploitation of the research results is to be carried out by a company which is not a party of the agreement and which may not yet have been founded¹⁶⁰. The continued obligation to an exchange of experience after the expiration of the cooperation agreement serves the optimum product application, e.g. the development of the best form of administration of an invented pharmaceutical following the clinical tests. The European Commission considers such a temporally limited information exchange permissible if it is not set up differently from country to country¹⁶¹. It is also admissible to define the duration of this continued agreement from the product's first sale. The exchange of information in these cases is to be limited to technical information for the effective form of the exploitation of the results and excludes information relating to such things as marketing methods.

¹⁶⁰ The European Commission also considers such an agreement admissible, see European Commission 16 IIC 202 (1985) - *Rockwell/Iveco*, and 16 IIC 204 (1985) - *VW/MAN*, as well as Art. 1 (3)
 b) and Art. 2 e) GER (Research).

¹⁶¹ See Art. 3 (1) GER (Research): 16 and 16 (19 2000 (19) 10 and 100 (19)

¹⁵⁷ See European Commission 16 IIC 206 (1985) - Rockwell/Iveco.

¹⁵⁸ See GER (Research) Art. 3 (1) according to which the exemption applies for the duration of the research program.

¹⁵⁹ See European Commission *Beecham/Parke Davis*, 10 IIC 739 (1979) recital 39, as well as European Commission 16 IIC 202 (1985) - *Rockwell/Iveco* (exemption for 11 years); 16 IIC 204 (1985) - *VW/MAN*" (exemption for 15 years); 20 IIC 697 (1989) - *Continental/Michelin* up to expiration of the last patent.

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(ii) Territory of the licenses Collectores a soft a feet and a

di vero reale rècio altre ser In the opinion of the European Commission the contract party cannot be excluded from marketing the invention developed in individual territories of the European Union five years after the beginning of the marketing¹⁶² and designed of the

se differentias a motori la salemente tentre deux references en meri (iii) Purchase Obligation we are created to and the state and and and eba lobela dell'azona eta An exclusive purchase obligation in a cooperation agreement is admissible in accordance and the state of the second second with the European Commission¹⁶³. Reitheaus an sealarsta to effective address the

(iv) Prohibition of parallel research

ar angarat i ng rahar diribe. Such prohibition for the field of the agreement is permissible¹⁶⁴, except if they mutually

promise to share the results of their individual activities¹⁶⁵. In addition, a competition prohibition for activities, e.g. production and sale in one's own name in the field of the joint re-แต่ไปนี้ แระณาต search is also admissible¹⁶⁶

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Area and the constraints and the والمرجعة ويراجع فيوجر والمتلك ومساور A research agreement containing a promise not to attack is presumed not to be exempt, if the promise continues past the expiration of the research program¹⁶⁷. (vi) Confidentiality and use restriction

An obligation not to provide information of the other partner to third parties and in addition not to allow the use of research results for these third parties¹⁶⁸ is not objectionable under antitrust law. With respect to the secrecy obligation, the GER contains no temporal limitation in Art. 5(1)d, but rather permits an obligation even beyond the duration of the contract, as long as the research results are still confidential.

(vii) Assignability and sublicenses vel tele som en somette og b

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While in general the assignability and the granting of sublicenses can be excluded for a nonexclusive license agreement¹⁶⁹ with respect to contract law considerations, certain excep-

¹⁶² See European Commission 10 IIC 739 (1979) - Beecham/Parke, Davis; Art. 6 f), Art. 4 (1) f) GER (Research).

¹⁶³ See Art. 4 GER (Research) and European Commission, 16 IIC 204 (1985) - VW/MAN.

¹⁶⁴ See Art. 4 (1) a and b GER.

¹⁶⁵ See European Commission 1972 GRUR Int. 173 - Henkel/Colgate.

166 See European Commission 16 IIC 204 (1985) - VW/MAN and 16 IIC 203 (1985) - Carbon gas technology. See also Art. 6a GER (Research).

¹⁶⁷ See Art. 6 b GER (Research).

¹⁶⁸ The latter, however, for the duration of two years from the time of the commercial exploitability, see GER (Research) Art. 4(1)b and Art. 5(1)d.

¹⁶⁹ See Art. 6 g GER (Research).

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tions apply for a cooperation agreement between competitors, according to the European Commission. Art. 85 (3) EU Treaty permits an exemption from the cartel prohibition only in very narrow limits.

Therefore it has to be made certain that for the marketing phase of the inventions resulting from the cooperation each contract party regains the full freedom to act herein. This includes the right to grant licenses or sublicenses to third parties. If such a form of licensing requires the approval of the other party, then according to the European Commission this would constitute an influence on the individual marketing policy of the other party. In addition, the possibility of third parties to obtain licenses for the production of the product of the contract would be limited¹⁷⁰.

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In the quoted decision, the European Commission also requested the following changes in 사가 교환 빈 산 비 문 관 the cooperation agreement: NACT STREET, SOLD ST

(a) The mutual licensing had to apply to all countries of the European Union.

(b) The practical ramifications of marketing must not lead to a division of the market.

(c) A profit-sharing clause for a specific country as well as a participation in the profits of the other party and its sublicenses was cancelled. The European Commission explained here that a profit-sharing can only be permitted, if for technical reasons only one of the parties is capable of the production and sale of the product, but not j both parties are in the business as producers of pharmaceuticals.

In 1993 the Commission adapted the GER (R+D) as well as the Specialization Agreement (Regulation 417/85) to allow exclusive distribution by a joint venture or also by one of the parties, subject to a maximum market share of 10% and a turnover of less than 1 billion ECU. For other restrictions the market share limit is 20 % of the market. With respect to the former GER (Patents) and GER (Know-how) the Commission allowed agreements between the parent company and the joint venture for automatic exemption, even in a case where the parties compete with each other. The market share for patented products and their equivalents is limited to 10% for agreements establishing cooperation which covers production and distribution, and 20% for a license limited to production only¹⁷¹.

A GER MAR OF MARKED HARR DEPARTURE OF AN OR STRUCTURE COMMUNICATION AND A SUB-经销售法 计正确 医肉肉肉 #4. mx未见,(326.)。(35. 文字本)、《学校书》》,《32. 字书》(34. 注意》)。(34. 字书》)。(35. 字书》)。) ¹⁷⁰ See European Commission 10 IIC 739 (1979)- Beecham/Parke, Davis, recital 42 of the deci-Attigent Andreas and Signa

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¹⁷¹ Regulation 151/93 of 23 December 1992 OJ L 21/8 of 29 January 1993

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c) Special issues of trademark license agreements Soldse protorial and sold.

destruit of each of since of serve a build and a serve nafor a krow ek serter Unlike patent licenses, trademark licenses under European law, if they contain clauses und war diener Holigier which may restrict competition, need an individual exemption, since no group exemption regulation for trademarks exists so far.

> In the decision Windsurfing International¹⁷² the European Commission did not exempt a promise not to attack a trademark. This view has been confirmed by the ECJ on appeal¹⁷³¹⁷⁴. In a more recent decision the EC Commission has taken a more lenient approach with respect to no-challenge clauses in trademark license agreements in comparison to patents and copyrights¹⁷⁵

In the Moosehead/Whitbread case the Commission has made it clear that even in a mixed agreement covering know-how and trademarks the GER Know-how does not apply, if the trademarks licensed are not ancillary to the know-how rights granted. Therefore an individual exemption was necessary in view of the fact that the license agreement contained an exclusivity clause, an export prohibition, a no-competition clause, a purchase obligation and a no-challenge clause with respect to the trademark licensed.

> Under the new GER (Technology Licensing Agreements) Recital (6) the scope of the regulation is extended to pure or mixed agreements containing the licensing of intellectual property other than patents, i.e. trademarks, when such additional licensing contributes to the achievement of the objects of the licensed technology and contains only ancillary provisions, weest to let up they add to policicly is as the protocol dura-

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The trademark right has been defined by the ECJ similarly as the right of a patent owner, since its object is

the guarantee that the owner of the trademark has the exclusive right to use that trademark, for the purpose of putting products protected by the trademark into circulation for the first time¹⁷⁶.

Surprisingly, in contrast to a no-challenge clause with respect to patents, this one was regarded as exemptable or, even more surprising, was regarded as not even falling under art. 85 (1). The Commission explained that it must be examined whether the restriction was "appreciable". It remarks in this context that only in case of a famous or well-known mark such a clause could constitute a trade barrier with a significant effect on competition.

¹⁷³ See 17 IIC 362 (1986) - Windsurfing International.

¹⁷⁴ For exemption from no-contest clauses, see also Venit, 18 IIC 1, 29 (1987), in particular footnote 73.

¹⁷⁵ See ECJ 1990 OJ L 100/32 - Moosehead/Whitbread (negative clearance); ECJ 1982 OJ L 379/19 - Toltecs/Dorset (exemption under art. 85 (3))

¹⁷⁶ ECJ 1974 ECR 1183, 6 IIC 110 (1975) - Centrafarm v. Winthrop

¹⁷² 1983 O.J. No. L 229, 1.

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It appears that primarily because of the fact that Moosehead was a Canadian brewery which was interested to enter the British market, the Commission was willing to grant a rather broad exemption with respect to a number of restrictive clauses which it might not have done under different circumstances¹⁷⁷. One of the reasons for the liberal attitude of the Commission obviously was the UK market structure, namely a tightly oligopolistic market with a strong inter-brand competition. The exemption was granted for a period of ten years. the Europeen Crosselsion del 200 erement handene seitene Frankrikes mermenen

> In the case Bayer/Dental the Commission objected to a clause which prohibited the re-sale in unopened form and warned against exploitation outside the territory in question, Germany, because of the possible existence of industrial property rights. The Commission found that the intention of the clause was the prevention of re-sales outside Germany after an exhaustion having occurred. With respect to the clause did not comply with the decision

of the ECJ in Hoffmann-LaRoche case where repackaging had been regarded as lawful if it did not interfere with the original state of the product. ors bureach chronobad

NOVED EXECTION OF THE PROPERTY OF The Commission expressly observed that the clause was abaa horadaa ay ee yoo to obiidiyaa is oo qoraactiyoo siya ay ahaa ahaa ahaa ahaa ahaa aad o

> able to awaken in the minds of resellers so much doubt as to their actual rights that they will refrain from reselling repacked products¹⁷⁸.

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sema haroskar i Kellett The Commission did not impose a fine because Bayer obviously had never enforced the clause. One must therefore be aware of the fact that not only if the clause is worded as an export ban, but also if it has the psychological effect of an export ban the Commission would regard this as a violation of the anti-trust rules. Bayer's defense that they only wanted to warn the distributors and wanted to protect themselves against contractual liability was

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d) Special issues of software license agreements. 化医水杨酸 医胆管 医马马勒氏静脉管 Constant sciences is stated (1) General e all de lamande de la

In the field of copyright law, and in particular with respect to software products, the interreeven francisco and lationship between the Software Directive and the general European competition rules are of particular importance. As already mentioned before, more specific regulations exist for patents and know-how, and therefore for lack of specific legislation in the field of copyright law, many conclusions must be drawn from those areas. The Commission has published an announcement¹⁷⁹¹⁸⁰ concerning the application of the Competition Rules on copyright license agreements. The Commission indicated that it will follow similar rules as they have already become common practice in patent license agreements.

One problem arises from the fact that software is generally understood to be a tangible product which can be sold in the form of diskettes and manuals, and on the other hand is an intangible entity with rights attached to it which can be enforced by the copyright owner. Similarly as with respect to patent license agreements, also software licensing or distribution agreements usually contain exclusivity clauses and other limitations which are anticompetitive. Mere distribution agreements covering mass produced low-price products, if such software lacks copyright, can impose fewer restrictions than software protected under copyright law which is licensed to an end-user. In such a case the control of the exploitation of the work is a prerequisite for the licensor to generate revenues.

Block exemption could be taken into consideration only if

-a program is patentable under national or European laws¹⁸¹ (Regulation No. 2349/84) -the agreement is not a pure software license, so that it would not be excluded under Regulation No. 556/89¹⁸²

-regulations concerning exclusive distribution like 1983/83 and 1984/83 are applicable; this requires that there must be a case of distribution of "goods", and these goods must be distributed for resale as opposed to the sale to end-users.

As regards the applicability of the GER (Technology) on the one hand and the GER 1983/83 and 1984/83 on distribution agreements on the other hand, it should be noted that only if the licensee also manufactures and not only distributes, the GER (Technology) is applicable¹⁸³.

¹⁷⁹ OJ 1982, p. 33

¹⁸⁰ See 12th Report on Competition Policy (1982), 73 note 88; Gutuso, Les Droits de Propriété Intellectuelle et les Règles de Concurrence, in Demaret, La Protection de la Propriété Intellectuelle, Aspects Juridiques Européens et Internationaux, 1989, at 131, 159; Korah, An Introductory Guide to EEC Competition Law and Practice, 1990, at 179

¹⁸¹ See Kolle, Patentability of Software-Related Inventions in Europe, 22 IIC 660 (1991); Sherman, The Patentability of Computer-Related Inventions in the United Kingdom and the European Patent Office, (1991) EIPR 85, and Geissler, The Patentability of Computer Software at the EPO at part I, 3311; for software protection under German patent law cf. Raubenheimer, Computer Law in Germany, below part II, 3.2.1

¹⁸² See Pagenberg/Geissler, License Agreements, p. 542 et seq. notes 30 et seq., 49 et seq.

¹⁸³ Recital 8 GER (Technology).

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Specific problems may arise in case were no contractual license is concluded between the copyright owner and the licensee, because e.g. the relationship is limited to a "shrink-wrap" agreement which includes restrictive clauses like the prohibition of sub-licenses. The European Commission could be of the opinion that such a restriction may not be necessary for the exercise of the copyright in the program. Observations on individual clauses will therefore be made hereafter.

Unlike patent law where the ownership of a patent can be originally documented by the presentation of the letters patent as well as by inspection of the patent register, copyrights in Europe are not registered so that a verification of the ownership of the right can be difficult. It will primarily be the task of the licensor to determine and finally to prove whether he has significant rights to use and in particular a right to sublicense. The off-the-shelf software (mass software) in the form of standardized user programs is often bought separately, and the contract form is usually a sales contract. Since the purchase of software has become an every day business, it is frequently overlooked that the buyer does not purchase an unlimited right of use¹⁸⁴.

This applies not only with respect to the license conditions submitted by the seller with the software, but limitations also arise by law. If the software is copyright-protected, then its use is vastly limited in particular in prohibiting copying and distributing. From national copyright law the right for a territorial, time-wise or subject matter limitation of the use follows, which is also used in conjunction with off-the-shelf software so that only a back-up copy is permitted and the multiple use within one company is thus not permitted. Specific provisions are found for the use in a network for which the seller of the software usually requests additional license fees.

The various fact patterns to be regulated follow from the highlights of the applicable provisions of the law, thus the assignment of use rights in know-how and copyrights for the development of special programs on the one hand and mere software supply to a user with limitations of the scope of use on the other hand. The different contractual provisions necessitate considering different antitrust law issues, because the classical limitations in competition, such as exclusivity, territorial limitation, limitation of use to a specific technical field, etc. are important in the field of a software license. Most issues of contract clauses have been dealt with in the context of patent law and the different group exemption regulations above. Only special questions of software licenses are therefore discussed hereafter.

(2) Individual contract clauses

(i) No-contest clause - Existence of copyright protection

If the software is protected by copyright, then provisions limiting the competition as they are contained in most license agreements are permissible. Unlike a patent license agreement in which the patentability of the patent is examined by the Patent Office, the examination for copyrightability of programs is up to the parties of the contract. Generally at the time of entering into the software agreement the parties will assume that the software is copyright protected since it is generally the individual character of a program which creates the inter-

¹⁸⁴ However, the resale of a copy lawfully sold cannot be prohibited under the Software Directive, Art. 4(c).

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constructed additional properties of the software as a whole or individual portions are copyright proextraction and tected is a legal question which will ultimately be determined by the courts. They have so far provided case law criteria which may provide some indications (see country reports...).

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In patent law, the recognition of the work quality of the licensed software corresponds to a non-challenge-clause. In the former GER (Patents) such a clause has been declared to be inadmissible by the EC Commission¹⁸⁵ and this view has also been confirmed by the Euro--viewood to heating being pean Court of Justice¹⁸⁶. In the new GER (Technology Transfer Agreements) the no-contest asian anitheration of the clause is not considered to be a black clause anymore. The Regulation provides an exempwhere is the state of the state of this restrictive clause in Art. 4 No. 2b if the commission is notified and does not opwhere take a stream of the pose the exemption within a period of four months. Whether this will also be applicable to becampage of huger porthe recognition of the work quality in software license agreements has so far not been de-199 grant (1993) and cided. Some authors are of the opinion that at least the recognition of the copyrightability by

the licensee must be permissible. In contrast to the patent-"monopoly", however, copyright central of metadology to law does not provide an absolute legal position. A software program with essentially identia bus short (19 12 state cal technical functions and the same field of use which has been created by a third party inresidences to redene a set dependently does not fall into the "scope of protection" of an earlier created program. The approximate the contract of the second secon description of the work quality thus does not enhance a right to exclude and is therefore not the second state of a second second

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Confidentiality obligation - Know-how protection (ii)

genus likelines suberda az additere tal tari teter di arteres si di veryelesek edi ad this block the mark mark Source codes and the comments are generally kept confidential by every software develachieves a second oper. Thus they fulfill one essential prerequisite in order to qualify as "know-how" in the bus control to survey sense of the GER (Technology)¹⁸⁸. The disclosure of this confidential information and the who such as the licensing of know-how in the sense of the GER. Thus this know-how is worthy of protection, i.e. its utilization can be conveyed contractually in a limited fashion and particularly can be protected by confidentiality provisions against passing on and publication.

an about the admissibility of such an obligation. Since no monopand invariant is reactive to oly pressure is exercised for such an obligation and since the European Commission has the obstation and the admissibility of the confidentiality obligation for know-how agreements even without time limitations¹⁸⁹, objections are not to be expected on this point. Although and the field of software may contain also know-how which the state of the state of the would qualify as subject matter under the former GER (Know-how) and now under the GER (Technology Transfer Agreements)¹⁹⁰, this is not the case where in reality a copyright

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185 See Art. 3 (1) of the GER (Patents).

186 See ECJ 17 IIC 362 (1986) - Windsurfing International.

¹⁸⁷ See Pagenberg/Geissler, License Agreements, p. 536 et seq. notes 21 et seq. with further references.

¹⁸⁸ See Art. 10 No. 1 GER (Technology Transfer Agreements). and Handston Stars and

¹⁸⁹ See GER (Technology) Art. 2 (1) No. 1. A Coste parte schift

¹⁹⁰ See Pagenberg/Geissler, License Agreements, page 539, note 23 et seq.; 541, note 28 et seq.

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Here object to the second description of the exemption regulations is applicable, the contract so the second second description depending on the circumstances.

(iii) Territorial limitation - Exclusivity

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south to isotation with know-how there is no territorially south and also in conjunction with know-how there is no territorially south of boards out calimited protection from which the contract territory would readily result.

Licensors and licensees often have an interest to grant and have granted territorial exclusivity, which in the EU has the immediate effect of the applicability of the competition rules. By the license a bundle of national copyrights is granted, if the license covers several countries. For the EU the licensor is able to promise not to grant a further license to a third party, however, an absolute territorial protection in favor of the licensee cannot be guaranteed, since this would violate the principle of the free flow of goods under Art. 30 EU Treaty¹⁹¹.

The ECJ has explained in a number of decisions¹⁹² that an export prohibition in a license contract covering several EU countries constitutes a violation of Article 85 EU Treaty and is even subject to fines which the Commission has already imposed on a number of occasions. An export provision is therefore also regarded as one of the black clauses of the exemption regulations, e.g. in Article 3 (3) GER (Patents), where only a five year period is exempted. Software license agreements for which no exemption regulation exists, would always need an individual exemption if an export prohibition is included.

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For the territory of the European Union it must be noted that an absolute territorial protection can be guaranteed neither in favor of the licensee nor the licensor since this would vious late the principle of the free flow of goods under Art. 30 EU Treaty¹⁹³¹⁹⁴. A protection against other licensees does not appear to be necessary because the headstart of licensee and in addition the language borders for the software make an effective competition from other EU countries unlikely¹⁹⁵.

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(iv) Scope of the license attention of interactional interactions when you and a

The license grant relates both to the software protected by copyright as it is for example realized in the form of disks, and to the confidential know-how which exists in additional information, in particular in the disclosure of the source code with comments. Thus on the one hand the rules of the European Commission for treating industrial property rights become applicable, Art. 30, 36 and 85 EU Treaty, and on the other hand under certain conditions also the exemption possibilities under the GER (Technology) are made accessible. In con-

¹⁹¹ See for Patent Law ECJ 17 IIC 362, (1986) - Windsurfing International.

¹⁹² For the admissibility and enforceability of an exclusivity clause in a copyright contract see ECJ 14 IIC 405 (1983)- *Le Boucher (Coditel)*.

¹⁹³ See for patent law ECJ 17 IIC 362 (1986) - Windsurfing International.

¹⁹⁴ For a protection of the licensee against import of the products of the licensor see European Commission decision in *Mitchell Cotts/Sofiltra* 1987 OJ L 41: admissibility of a production and import prohibition for 10 years.

¹⁹⁵ For the admissibility of a prohibition of active marketing for the duration of five years, see GER (Technology) Art. 1 (1) 6 in conjunction with Art. 1 (3).

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trast to a patent which gives licensor and the exclusive licensee an absolute right and which can, if necessary also be enforced against the contract partner by way of patent infringement litigation, the ownership and transfer of know-how only provides a contractual position which is enlarged however if one assumes copyright protection in the case of an exclusive right to use. An exclusive license or respectively a sole license is also covered by Art. 36 EU Treaty on the basis of copyright law.

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Due to the complex nature of the contract between copyright agreement and know-how agreement one has to consider the GER (Technology) in conjunction with the duration of the agreement which for a ten year duration automatically exempts certain clauses¹⁹⁶. If the et exclusion for large ed. licensee is interested in a time-wise farther-reaching protection of confidentiality, a notifica-Stars og chref stiegt of tion with the Commission should be made by precaution. Limitations, if any, thus result esta est folka ettettet with respect to the duration, because the protectability of the know-how depends on its secret character. When the know-how becomes public knowledge, all clauses limiting competition in a pure know-how agreement become void, a fact that cannot be predicted time-wise when entering into the agreement. This also applies to the royalty payment obligation¹⁹⁷.

word one stable is build be a soor a This evaluation already follows from the fact that the disclosure of disassembled programs by third parties is subject to a significant uncertainty relating to propriety and completeness, not to speak of the lack of comments from the author. A complete disclosure of the licensed secret knowledge is not, therefore, generally to be found in such cases. One must, however, consider the fact that the exemption under the GER (Technology) is tied to the secret character, the apparent lack of which removes the exemption. This could result in the necessity of a negative clearance or an exemption under Art. 85(3) EU-Treaty.

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(vi) Prohibition of the Grant of Sublicense

The prohibition of the grant of a sublicense should normally be regarded as admissible for and bare determined before, namely that the copyright owner has a right to proper compensation which he should be able to control in order to avoid misuse¹⁹⁸. A sub-license entropy and the state of the restriction has also been regarded as admissible in Art. 2 (2) GER (Technology).

More specific clauses often included in license contracts for software shall be enumerated ten variable and a series of the second second second and the second second second second second second second

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¹⁹⁶ See Art. 1 (2) GER (Technology).

¹⁹⁷ See Art. 2(7): a payment period of another three years after the publication would still be admissible. Stable William Station Statistics in a first and the second statistics of the second statistics

¹⁹⁸ Cf. the corresponding rule in Art. 2 (5) GER (Technology Transfer Agreements).

¹⁹⁹ For a general survey on specific software clauses see Powell, The Computer Lawyer, Expertise no. 145, 412, 417 (1991); for the general enforceability of copyright in software agreements see A. Bertrand, Le Droit d'Auteur et les Droits Voisins, Paris 1991, p. 536.



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Any obligation to purchase hardware together with specific software (or vice versa) would no longer be regarded as unlawful per se, even if there is no technical necessity to ensure a satisfactory use of the combination²⁰⁰. The prohibition of tying is one of the misuse clauses which are expressly enumerated in Art. 85 (1) EU Treaty²⁰¹. Tying is of particular importance also with respect to maintenance clauses. How far maintenance clauses can restrict the freedom of the licensee would however depend on the circumstances of the case²⁰². Art. 85 (1) EU Treaty would therefore be applicable if the maintenance by the licensor is not necessary for the proper functioning, Art. 4 (2) a. GER (Technology).

(ix) Prohibition to Make Back-up Copies and to Examine the Program

Art. 5 of the Directive provides a broad authorization in favor of the user of a program to examine the functioning of the program ("black box analysis") and to make back-up copies for the proper use of the program. All clauses in existing licensing contracts which are contrary to this rule have to be adjusted to the Directive.

(x) Prohibition of De-compilation and Reverse Engineering

Such a clause is often found in software agreements which were concluded before the issuance of the Directive²⁰³. Reverse engineering, black box analysis and de-compilation are now authorized under certain conditions according to Art. 6 (1) and 6 (2) of the Directive. The primary reason for this rule was to grant access to the interfaces of hardware configurations²⁰⁴. Art. 6 must be regarded as *lex specialis* in the context of a software license, so that the licensee is entitled to de-compilation for the purposes described in the Directive, namely to obtain information necessary to achieve the interoperability of an independently created program. It is for the copyright owner to decide whether he wants to grant such a license, and for the licensee to use the legal means offered by the Directive and to stay within its limits. This means that for the purpose of creating interoperable programs ("interoperability with other programs") the de-compilation cannot be prohibited.

On the basis of Art. 9 (1) of the Directive it must be presumed that any prohibition of decompilation in a license contract will in the future be regarded as void and could even be regarded as a violation of the EC Competition Rules with the possibility of a fine. It is argued that a prohibition of de-compilation cannot even be justified by a protection of other industrial property rights, like trade secrets or know-how. It is therefore recommendable to provide for such a possibility and a clear definition in the license contract and eventually to modify agreements which have been concluded before 1 January 1993.

In the explanatory notes of the original draft of the Directive the Commission gave an evaluation of the relationship between the planned Directive and the competition rules of the

²⁰⁰ Cf. GER (Technology) Art. 3 (2)a).

²⁰¹ With respect to a tying clause cf. the limitation in Art. 2 of the GER (Technology).

²⁰² Cf. Powell The Computer Lawyer, Expertise no. 145 page 420 note 45 (1991).

²⁰³ Cf. Pagenberg/Geissler, License Agreements, p. 6 note 34 et seq.

²⁰⁴ See Bay, 9 1993 Computer Law and Practice, 376, 181



Treaty²⁰⁵. The Commission has come back to the distinction of the Court of Justice between the existence and the exercise of industrial property rights. According to the Commission, each extension by a contract of the rights in question or any prohibition of the use of such rights which is not expressly reserved for the right owner may constitute a violation of the competition rules. The same would be true for any abuse of a dominant position under Art. 86 EU Treaty.

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An abuse of the right of reverse engineering must however be assumed, if a program is dissembled and afterwards published in a computer journal in order to increase its readership²⁰⁶. As a general rule one can assume that the mere access to the program cannot be prohibited for somebody who wishes to write an independent but compatible program to the program concerned. A dominant manufacturer of computer software is therefore normally obliged to provide the necessary information with respect to interfaces in order to allow other software developers to write a program which functions in the same way as the one of the dominant manufacturer. The control of interfaces, according to the EC Commission, could lead to an important distortion of competition, since the market depends on such information for the development of competing products. One must add that a clause which prohibits the de-compilation but nevertheless is in conformity with Art. 6 of the Directive, might still be examined under Art. 85 (1), if the restriction goes beyond a reasonable protection of the program in question.

(xi) Prohibition of Modification and Adaptation

This clause is dealt with in Art. 4 (a) and 5 (1) of the Directive. Although the copyright owner must have an interest to prohibit the copying of his program and therefore to limit -13 Solda 1986 Baban adaptations and modifications which are of a minor nature, it would go beyond his copyooksebaba bestee o right if he can enjoin the adaptation of a program by the licensee for his own purpose. Also santo o ferrar acto the requirement that modifications can only be made by the copyright owner would exceed and the second second second second second the exercise of the right.

> The solution found by the Commission is similar to the white clauses in exemption regulations with respect to tying: if the use of the products or services of the right holder is necessary for the proper functioning of the product in question, like the maintenance service of the program, this should be allowed²⁰⁷. Therefore, what Art. 5 (1) provides, namely that the correction of errors must be allowed and that also the loading within the frame of proper use of the program should not be prohibited, is self-evident.

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²⁰⁵ O.J. No. C 91/16 of 12 April 1989

²⁰⁶ See Lehmann, The New Contract Under European and German Copyright Law-Sale and Licensing of Computer Programs, 25 IIC 39 (1994).

> ²⁰⁷ Art. 5 of the Directive; for more details see below part II: Raubenheimer, Computer Law in Germany, 2.6.3.3, 3, 1.5.2, 3.1.7 with detailed references, Lehmann, The New Software Contract Under European and German Copyright Law - Sale and Licensing of Computer Programs, 25 IIC 39 (1994). in the entropy of the second second

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A site/network license which limits the use of the software to one CPU or a specified network is legal and enforceable, since it constitutes a possibility to calculate royalties²⁰⁸. The combination of a use restriction clause with a specified hardware purchase or use supplied by the licensor would however be regarded as unlawful as a tying arrangement under Art. 85 (1) (e)²⁰⁹. The general admissibility of a use restriction would also be endangered, if the use restriction excludes the port or upgrading of the program in case of the exchange of the hardware configuration. The copyright owner has of course an interest that the quality of his program and thereby his reputation is not endangered and that through the change of hardware the extent of use remains under his control. For the same reason a modification of the software environment, e.g. the use of floating software should be subject to the authorization of the licensor. ndi segnetik na skradovne tran noravljajova

Such a clause can be regarded as a means to insure the proper payment of royalties due for the specific use of the program in order to avoid a multiple use without the authorization of the copyright owner²¹⁰. It therefore belongs to the existence of the copyright and would only constitute an abuse if the software in question is generally sold without limitation to a certain capacity of a machine or if the clause is further linked to hardware of the software supplier and this is not based on technical requirements. Use restrictions in the copyright field are also generally possible and lawful which can be shown by the distinction made by the ECJ between sales rights and renting rights with respect to videos²¹¹.

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Art. 8 (1) of the Directive intends to allow the normal maintenance work which consists primarily in the correction of faults and errors, however not in upgrading work which requires the alteration of the original program. The activities which do not need authorization of the right holder are listed in Art. 5, but one must assume that even restrictive clauses within Art. 4 and 5 will be examined closely by the Commission for their reasonableness. Such examination would be based on the question whether the clause is necessary for the "intended purpose" of the software.

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elle pel la companya per service delle Criteria for the determination of a dominant position are the market share and factors like the technological lead of an undertaking and the absence of potential competitors²¹².

> Violations under Art. 86 concern the imposition of unfair purchase or selling prices, clauses limiting production or distribution, the application of dissimilar conditions to equivalent

²⁰⁸ Cf. for similar situations ECJ (1980) ECR 881 - Coditel I and ECJ (1982) ECR 3381 - Coditel II

²⁰⁹ See Bay, 9 Computer Law and Practice, 176, 180

²¹⁰ See the Fourth Report of the EC Commission on Competition Policy, p. 20, as well as Art. 2 (8) GER (Technology).

²¹¹ See ECJ. 1988 ECR 2605 - Warner Brothers; ECJ 1985 ECR 2605 - Cinéthèque.

²¹² ECJ of 13 February 1979 - 10 IIC 608 (1979) - Hoffmann-LaRoche.

transactions or the imposition of obligations and duties which have no connection with the purpose of the agreement. Another typical case should also be mentioned, namely the refusal of a manufacturer to accept a distributor as a member of a selective distribution network if such dealer fulfills all criteria laid down in the selective distribution agreement. On the other hand, the mere existence of price differentials for specific computer products, within and outside the European Union cannot as such be regarded as an abuse under Art. 86. Higher distribution costs especially with respect to language adaptations and the smaller markets in Europe cannot be compared with a distribution situation in the US²¹³.

The ECJ has repeatedly underlined that an abuse of a dominant position refers not only to practices which may directly prejudice consumers but also covers conduct which causes indirect prejudice by adversely affecting the structure of effective competition, such as the granting of refunds or fidelity rebates. Elements which tend to show that the company in question plays the role of the price leader are also considered in this context. In the Hoffmann-LaRoche case the ECJ has also taken into account that the company was capable to preclude any attempt of competition due to its excellent distribution and marketing organization.

In spite of heavy competition in both areas of hardware and software, the Commission considered in *Computer Land* that already a market share of 3 to 4 % was significant²¹⁴. Since an abuse under Art. 86 requires a dominant position it mostly comes back to the definition of the relevant market where the Commission now seems to take a more lenient approach. The fast product development as well as price cuts which are daily events in this field are certainly elements which speak against market power of even the biggest manufacturers on the market. This is not contradicted by the fact that the financial and research barriers for this market are substantial²¹⁵.

An important question has been decided by the CFI of the ECJ, namely the relationship between Art. 85 and 86, more particularly, whether an exemption granted under Art. 85 (3) precludes measures of the Commission under Art. 86. The Court answered this question in the affirmative and argued that the purchase of an exclusive license by a company with a dominant position on the market could violate Art. 86, if the circumstances surrounding the acquisition have the effect of hindering the entry of new competitors and thereby weaken competition²¹⁶.

²¹³ Cf. also the legal and economic considerations by Bay, 9 1993 Computer Law and Practice 176, 187 et seq.

²¹⁴ European Commission 1987 OJ L 222/12 - Computer Land

²¹⁵ See Bay, 9 1993 Computer Law and Practice 176, 185 (1993): one must reckon between 5 and 10 Mio Dollars for marketing a new software product.

²¹⁶ CFI 22 IIC 219, 225 (1991) - Tetra Pak

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¹⁴ Serviki A. C. (2000) Secure C. C. C. and R. (Serviki H.S. (Serviki A.S.)) and the secure Sized Activity CONSCREPTION Constrained Conference on Conference on Security (ACC).

(258) Study (1021) Fig. (1020) 51 (2020)