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Licensing in The European Community

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I. Introduction

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 the following situations:

- 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. 81 and 82** as well as **Arts. 28, 30** EC 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.

- for the *enforcement* of patents, trademarks, know-how or copyrights within the EU which is governed by the principle of EU-wide exhaustion 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. 28, 30, 85 EC Treaty.

The general rules under Art. 28, 30 EC Treaty 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 arbitrary discrimination nor a disguised restriction on trade between the Member States. Industrial property rights which fall under Art. 30 are patents, utility models, plant variety rights, industrial designs, marks (trademarks and service marks), trade-names, geographic indication of source and appellations of origin[2].

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 the existence of the right was guaranteed, but the exercise could be

[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 EC 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)

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 consent[3]. 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 Market[4]. 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 goods[5].

[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

[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. 28, 30 EC Treaty were issued in the field of trademark law, they shall be presented first.

a) Sirena

One of the basic decisions on the concept of free flow of goods was the Sirena decision[6] 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.

The ECJ argued that if the right to the trademark has been obtained by contractual agreement among the parties concerned, Art. 81 (1) EC 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 EC Treaty.

For the determination whether also a violation of Art. 82 EC 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 Art. 82 EC Treaty, namely a dominant position, a misuse of this position and the possibility to interfere with the trade among Member States, are given[7].

b) Centrafarm vs. American Home Products[8].

The trademark owner had marketed a pharmaceutical product in the Benelux countries under a 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*.

The defendant referred to Arts. 28, 30 EC 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 occured 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. 30 first sentence would be regarded as a disguised restraint of trade in the sense of Art. 30 second sentence and thus would lead to a dismissal of an action for an injunction[9].

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[6] 1971 GRUR Int. 278.

[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)

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

c) Hoffmann-LaRoche vs. Centrafarm[10]

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. 30 EC Treaty and is not contrary to Art. 82 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.

d) Recent Cases

More recent repackaging cases have been decided by the ECJ in three consolidated decisions Bristol-Myers Squibb/Boehringer/Bayer v. Paranova, Eurim Pharm v. Beiersdorf/Boehringer/Farmitalia and MPA Pharma v. Rhone-Poulenc[11].

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. 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.

e) Kaffee HAG
aa) HAG I

An important influence on the case law of the ECJ concerning the free flow of goods in the field of trademark law has for a long time been the case *Hag I*. It concerned a situation of parallel trademarks in Germany and Belgium of a German trademark

[10] ECJ 9 IIC 580 (1978)

[11] ECJ 28 IIC 715 (1997).

owner. The Belgian marks of the German company Hag had been confiscated after World War II and sold by the 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 with the free movement of goods to prohibit the marketing of a product legally bearing an identical mark if that mark had *the same origin.*[12]

The reasons of the ECJ were that the enforcement of the trademark would lead to an isolation of national markets, and although the indication of origin of a product may be regarded as useful, this could be ensured by means other than prohibition which would affect the free movement of goods.

bb) HAG II

Five years after that decision the Belgian company Van Zuylen was taken over by the Swiss company Jacobs Suchard AG. A subsidiary of Jacobs Suchard, Sucal, started another five 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.

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. 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 others[13].

The same result was reached in a case of a voluntary assignments of marks in the Ideal Standard case[14]. The prohibition of imports by one of the parallel, now independent owners was not regarded as a violation of Arts. 28, 30 EC Treaty.

f) r + r

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

[12] ECJ 5 IIC 338 (1977) - HAG

[13] 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.

[14] ECJ 1994 GRUR Int. 614-Ideal Standard

respective abbreviations and a common trading symbol "r + r"[15]. After the bankruptcy of the German parent company and the other subsidiaries the only still active company was the French subsidiary which already in 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 plaintiff's argument was that German consumers who in the majority only knew the German company, would be misled as to the source of the products. The Munich District Court filed a request for a preliminary ruling to the ECJ, and the ECJ had to decide whether the principle of free movement of goods took precedence over the national rules of unfair competition.

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 discrimination if imports and sales from France could be forbidden on the only ground of a different origin of the products. Citing a long line of case law it was pointed out that the ECJ had repeatedly confirmed the principle that obstacles to free movement within the Community can only be accepted if they are necessary in order to satisfy *mandatory requirements* relating to the protection of public health, the fairness of commercial transactions and to the defense of consumers[16].

The ECJ primarily examined whether in the case of a purely national situation an injunction 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 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 affirmed for a situation within different member countries of the EU.

g) Pall

This reasoning determined already the otherwise not comprehensible result in the *Pall* case[17]. The defendant in that case, an Italian company had used in Germany behind its trademark the notice ® which has always been held by German courts to constitute a deception of the consumer, if no trademark protection exists *in Germany*. One of the reasons behind this case law was that German trademarks are

[15] 16 IIC 751 (1985) - *r + r* with comment by Pagenberg at 754.

[16] 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?

[17] 20 IIC 799 (1989) - *Pall*

only registered after a thorough examination with severe 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.

h) 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. 28, 30 EC Treaty does not belong to trademark law. It has been cited in many later decisions as a guiding principle: "Cassis de Dijon"[18] and also influenced decisions dealing with trademarks and unfair competition law. It concerned the importation of a liquor from France into Germany with an alcohol content between 15% and 20%. The German government agency for the control of alcoholic beverages enjoined the importation, because the alcohol content was not in conformity with 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. 30.

The German government had argued that the lower alcohol percentages which are allowed in France may lead to alcoholic consumption without any noticeable effect at the beginning, so that alcohol drinking can become a habit. Therefore the German law which requires 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. 28 EC Treaty.

The rule laid down by the Court in this decision was that if a product is lawfully marketed in a Member State, it can freely circulate in all other countries if there are no urgent and *high-ranking considerations* for the protection of consumers which justify restrictions. A relationship with the exhaustion principle exists insofar as the criterion in "Cassis de Dijon" is equally the lawfulness of the first marketing in one of the Member Countries which determines the free flow of goods throughout the Community[19].

i) Keck

In a later decision[20] the ECJ has limited the "Cassis de Dijon" doctrine by refusing to apply Art. 28 EC 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

[18] ECJ 11 IIC 357 (1980) - *Cassis de Dijon*

[19] Cf. also ECJ 21 IIC 692 (1990) - Import of Pharmaceuticals, for the private importation of drugs by an individual.

[20] ECJ of 24 November 1993 25 IIC 414 (1994)-Keck.

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.

j) The Silhouette Case

A discussion on 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 Directive[21]. Art. 7 provides for an exhaustion of rights for goods which have been marketed by the proprietor or with his consent in the European Community or in the European Economic Area.

Silhouette manufactures high price spectacles which are marketed world-wide and are normally sold by the producer to opticians. Hartlauer, the defendant in this case, is a low-price 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 courts arguing that these spectacles had not been commercialized within the EU with the consent of the trademark owner.

Silhouette lost in two instances and filed an appeal on the law to the Austrian Supreme Court. The Supreme Court acknowledged that no consent of the trademark proprietor was in fact 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 the 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].

[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 a contract state?

The ECJ agreed with the majority in the literature and the EU governments as well as the Advocate General and argued that it is the purpose of the Directive to safeguard the functioning of the internal market, and that different exhaustion rules would give rise to barriers to the free movement of goods. It therefore affirmed the principle of a European-wide exhaustion for trademarks in the EU[23].

[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

2. Patents

a) Sterling Drug/Negram II

One of the landmark cases in patent law was the decision Sterling Drug[24] which confirmed the application of the exhaustion rule established in former trademark and patent decisions. In this case the patent owner Sterling Drug had patents in several member countries, and the pharmaceutical product which was manufactured under these patents was marketed by the patent owner and its subsidiaries in those countries. Centrafarm had taken advantage of the price difference and had imported the products from one member country into another. The decision re-affirms the basic rules of exhaustion which are today common ground for all considerations of marketing and licensing within the EU, therefore it is interesting to cite some excerpts from this decision[25]:

It is clear from Art. 36 (sic), in particular its second sentence, as well as from the context, that whilst the Treaty does not affect the existence of rights recognized by the legislation 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.

In as much as it provides an exception to one of the fundamental principles of the 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 himself 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.*

The result of the grant of a (sales) license in a Member State is that the patentee can no longer prevent the sale of the protected product throughout the Common Market"[26].

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 infringers[27]. 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

[24] ECJ 6 IIC 102 (1975).

[25] 6 IIC p.106

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

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

patent owner to the simple opportunity of profitable use[28]. 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]

b) Tylosin

In the *Tylosin* case[30] 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.

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.

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 available[31]. 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 approval, namely to market in the territorial limits of the license contract[32].

c) Merck

On the basis of the exhaustion rule as explained before, another decision could not come as a surprise, namely in the case of Merck[33]. 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 considerably 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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[28] Cf. Korah, p. 87

[29] For the entire problem see Loewenheim, Report FIDE, Dublin 1980.

[30] BGH 8 IIC 64 (1977) - *Tylosin*

[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.

[32] Ullrich, *Intellectual Property*, p. 530; the review; Demaret, *Patents, Territorial Restrictions and EC Law*, 2 IIC Studies 97 (VCH Weinheim/New York 1978; also Hanseatisches Oberlandesgericht, 20 IIC 213 (1989) - *Bandaging Material*.

[33] ECJ 13 IIC 70 (1982)

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 question.

d) Pharmon

A case where no exhaustion was assumed is the Pharmon decision[34] in which the ECJ stated that the grant of a compulsory license and the subsequent marketing of the products by the 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 ECJ[35] indicates that the ECJ 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 right[36].

e) Allen & Hanbury's

A different result was obtained in a case of a license of right. Here thee ECJ ruled in favor of free trade. 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 license[37].

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 Seed*[38] which influenced to a large extent the contents of the former Group Exemption Regulation for Patent Licensing

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[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*; ; see also Brown, XXVI Les Nouvelles 1991, 145.

[38] 17 IIC 362 (1986)

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 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 manner[39]. 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 appreciably affecting the intracommunity trade[40].

The first situation (open exclusive license) according to the ECJ is compatible with Art. 81 (l) EC 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 Treaty[41]. 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 statements[42].

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 thereof[43];

(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].

[39] Cf. Cawthra, p. 44

[40] see ECJ, 9 IIC 473 (1978) - *Miller International.*

[41] See recital 53 et seq. of the decision.

[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 (l) 2 GER (exclusive use clause).

[44] Cf. Art. 1 (l) 3, 4 GER.

[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.

(c) The licensee may also promise not to pursue sales activities in the territory of other licensees, and particularly not to engage in advertising specifically aimed at those territories or not to have a sales office, etc.[46];

(d) The licensee may agree to an obligation limited to five years not to make any direct sales into the territory of other licensees[47];

(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. 81 (l) EC Treaty[48].

For the European Commission the contractual prevention of parallel imports (absolute territorial protection) constitutes a "serious infringement" of the Rome Treaty, which is generally subject to a fine[49]. If the export prohibition however relates to countries outside of the European Union, Art. 81 (1) does not apply, although few decisions exist for this situation[50].

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 patent, however, does not take place, if the initial placing into commerce occurs outside of the European Union[51]. 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 exploitation[52].

[46] Cf. Art. 1 (l) 5 GER.

[47] Cf. Art. 1 (l) 6 GER (Patents).

[48] See recital 11 and 15, and Art. 3 (3) of the GER (Technology)

[49] See European Commission in the case *Sandoz SpA*, where the term "export prohibited" printed on the invoices to the customer was penalized with a fine of 800,000 ECU: press release of the European Commission, 1987 IP 284.

[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 examined whether the refusal to give approval, i.e. a restriction agreed to in the license contract, was legally binding under Arts. 28, 30 and 85.

3. Copyright Law

In a number of copyright cases the exhaustion principle was applied, although there existed originally some doubts whether Arts. 28, 30 EC Treaty are also applicable to copyright law.

a) Polydor

One of the first decisions in the field of copyright law was the Polydor case[53]. A record producer, Deutsche Gramophon (DG), produced records in Germany which it distributed in other member countries through subsidiaries. One of the subsidiaries was Polydor S.A. in France. DG had concluded license agreements with its subsidiaries which also provided for price maintenance clauses. DG attacked the sale of records by a German company which marketed re-imported records at a cheaper price than the original Polydor price in France.

After having examined Arts. 81 and 82 EC Treaty the Court applied Art. 30, the exception from the principle guaranteeing the free flow of goods, which does not apply if the right enforced constitutes a disguised and arbitrary restraint of trade. The Court used the distinction between the *substance* of a commercial protective right which is not affected by the Treaty, and its *exercise* under national legislation of the member states which can fall under the prohibitions contained in the Treaty. The restrictions of the free movement of goods according to the Court are only justified in order to protect the so-called specific subject of ownership of industrial property rights. It follows from this principle that a prohibition which is exercised with the approval of the copyright owner, although the product in question was first marketed in another Member State , would be regarded as a discrimination and a concealed restriction on trade between Member States. This decision therefore for the first time affirmed the application of the exhaustion principle with respect to copyrights[54,55].

b) Warner

More refined rules were developed by the ECJ in another parallel import case[56]. Warner Brothers was the copyright owner for a film which was sold on video in the UK where renting of cassettes, video and audio, is lawful. A Danish importer bought the cassettes in the UK, imported them to Denmark and rented it to customers, although letting or renting of works protected by copyright law is subject to the authorization of the copyright owner in Denmark. The defendant was of the opinion that the lawful marketing in England renders the renting lawful under the same conditions as in the country of origin.

[53] ECJ 2 IIC 429 (1971) - *Polydor*

[54] See also the announcement of the Commission concerning the application of the competition rules to copyright agreements, 1982 OJ EC No.6 p.33

[55] The opposite result, i.e. the granting of an injunction against imports of records from a non-member country was confirmed by the ECJ in the "*Bee Gees II*" case, 13 IIC 499 (1982)

[56] ECJ 19 IIC 666 (1988) - *Hiring-out of Video-cassettes*

The Court first of all examined whether the national rules apply to imported products and nationally produced products alike, which was the case. It furthermore affirmed the view that there was a separate market for the renting of video cassettes and the market for sales. It also recognized that the question of renting of cassettes has become an important factor for the generation of income for copyright owners. If therefore a remuneration could only be claimed for the sale -to private end-consumers or to renting firms -, the film producer would be unable to obtain an adequate remuneration, so that he should be able to control such renting and claim adequate payment[57].

Therefore, if such rules on renting of cassettes have been introduced in a country, they must be regarded as important for the protection of commercial and industrial property in the sense of Art. 30 EC Treaty. The argument that the copyright holder can in principle freely choose where to market his products, so that an exhaustion must be assumed if he markets the product in a country without such renting rules, was not regarded as relevant by the Court. If in such a case an exhaustion occurred, rules in other member states which control renting would be totally voided, if the copyright owner could not make renting dependent on his approval. Less protective rules in other member states would have no influence on such a situation.

It follows that although normally authorization by the rightholder has the consequence that the rights are exhausted, this is not the case if the rights which are to be enforced either serve the interest of the consumers against deception or are qualified as essential for the protection of industrial property rights as such.

c) GEMA

A similar approach as in the preceding cases was taken in the GEMA case[58]. Audio cassettes and records were imported from other Member Countries into Germany containing musical works protected under copyright law. In the respective countries of origin licenses had been granted for the reproduction and distribution, and royalties had been paid under the schedule of the respective countries. The German collecting society GEMA had attacked several of the distributors and asked for royalties under the German schedule, at least in the amount of the difference between the foreign royalties and the German schedule. In the first instance before the German Court the latter was of the opinion that an exhaustion in the different countries outside Germany had not occurred so that the claim for a royalty difference was justified.

Again the Court applied the exhaustion principle and examined whether the records and tapes had been lawfully marketed in the country of origin with approval and authorization of the rightholder. In the hearing before the ECJ the French government argued that the exhaustion decisions on trademarks and patents cannot be applied to copyrights. The Court seemed to agree that a different approach would probably be warranted for cases where the droit moral is an issue. However, in case of commercial licenses for copyrighted works, the ECJ affirmed the common character of copyright and other commercial property rights. The fact that licenses are on the one hand a source of

[57] More rigid rules in favor of the copyright owner apply with respect to the licensing of software which can be controlled e.g. with respect to copying and leasing, see A.Bertrand, *Le Droit d'Auteur et les Droits Voisins*, Paris, 1991, at p.537 et seq.

[58] 20 IIC 526 (1989)

income for the author and on the other hand allow a control over the form of distribution, also speaks in favor of the application of Arts. 28, 30 EC Treaty.

Accordingly, it follows that a collecting society which acts in the name of the copyright holder cannot oppose imports of protected works which have been sold with the authorization of this same author. The fact that a claim for a difference of royalty does not prevent the sale but only increases the royalty rate in favor of the author was not regarded as a proper evaluation by the Court. The ECJ indicated that the basis for such a claim is an infringement of copyright law and presupposes the enforcement of exclusive rights; it thereby limits the free flow of goods. In particular the fact that such a claim by a private party would lead to a partitioning of the markets which the EC Treaty wants to abolish was regarded as an important aspect of the case.

The Court rejected the claims of GEMA by indicating that differences between national laws cannot lead to barriers between the different member countries. Also, and here the argument is in contradiction to the Warner decision, the Court argued that the author has the choice how and where to market copies of his work by taking into account the level of remuneration which he will obtain in the different countries[59].

d) SACEM

In another decision concerning the French Collecting Society SACEM the Court distinguished the situation in France from the German GEMA case (without however referring to it) and allowed the additional charging of a "mechanical reproduction fee" for the public performance of recorded music which is charged in addition to the performance fee. The ECJ did not regard this supplementary fee as a violation of Arts. 28, 30 EC Treaty although such a fee was not known in the Member Country in which the sound carrier was first put into commerce. Its reason was that the fee was not charged for the mere importation but for a separate act, namely the public performance.

The Court also rejected the allegation that the charging of such a fee could constitute a violation of Art. 82 EC Treaty inspite of the monopoly position of SACEM[60].

e) EMI

A complementary decision to the Polydor case was issued 18 years later in the case of EMI Electrola[61].

This case concerned the importation of records from Denmark into Germany. The records had first been marketed in Denmark by a third party, however without violating the law, since the protection period had already expired in Denmark. In Germany the copyright was still valid so that the question arose whether the enforcement of the German copyright law constituted a restraint of trade and a violation of Arts. 28, 30 EC Treaty.

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[59] See for a similar case the decision of the Belgian Cour de Cassation of 9 April 1981 - *Plattenexport*, Cass. 1981 I 879

[60] ECJ 19 IIC 368 (1988) - *Copyright Management*

[61] ECJ 21 IIC 689 (1990) - *EMI*

The ECJ referred to its case concerning the royalty difference[62] and the fact that in that case sales abroad had occurred with the express consent of the copyright owner, so that the exhaustion rule had to be applied. However, in the EMI case the situation was opposite, because sales abroad had occurred without the consent of the copyright owner. The difference between national legislation as to the protection period had to be accepted by the EC Treaty in the present, not-yet-perfect situation of harmonization among member states. The Court argued that the period of protection is inseparable from the existence of the right as such, and since there were no indications that the copyright owner exercised his right with discrimination, an injunction was justified[63].

f) Imerco

The importance of the content of approval by the right holder was finally clarified in the Imerco Anniversary case[64]. The Court repeated its often repeated doctrine that a right holder is not entitled to prohibit, on the basis of a copyright or trademark, the sale of an article within its territory if such article was marketed in the country of origin by the proprietor of such copyright or trademark right, or with his authorization. The basis for this decision was, as mentioned before, Arts. 28, 30 EC Treaty.

The case concerned a Danish company, Imerco, which had bought for its 50th anniversary pottery from a famous British company on which the anniversary was mentioned on the back of plates, cups etc. Because of the high quality standard which Imerco wanted to have applied, ca. one thousand complete sets were selected as unfit for sale, because they were of inferior quality. The British and the Danish companies agreed that these sets could be marketed by the British company with the exception of the Scandinavian countries.

A competitor of Imerco purchased 300 of those sets and sold them at a cheaper price in Denmark. After an injunction had issued in the first instance, the second instance requested a preliminary ruling by the ECJ. In the proceeding before the ECJ the EC Commission repeated its opinion that Art. 30 also comprised copyright law. Where the author's work was represented in an article sold on the market, the copyright although not mentioned in Art. 30, should be treated the same way as an industrial property right mentioned in Art. 30. Similarly as with other industrial property rights, the exhaustion principle should apply to copyright law in case of a lawful sale within one of the member countries of the EC.

Irrespective of the fact whether the copyright owner authorizes a sale only with effect for one or a few member states, the copyright is exhausted with the first lawful sale in view of the fact that the Community must be regarded as a uniform economic area. Therefore, any territorial limitation for parts of the Community must be regarded as irrelevant. Even the additional fact that in the case decided sets sold in the UK and those sold originally in Denmark were of a different quality, should be regarded as irrelevant. The fact that the trademark was used by the trademark owner himself for

[62] 20 IIC 526 (1989) - *GEMA*

[63] The same result applies, if the first sale, although with approval of the right holder, outside the Community: ECJ 13 IIC 499 (1982) - *Bee Gees II/Polydor*; as to the exhaustion principle applied to software agreemetns see A. Bertrand, *Le Droit d'Auteur et les Droits Voisins*, Paris 1991, p. 536 et seq.

[64] 12 IIC 831 (1981)

different qualities excluded his right to interfere in the marketing of such products after a first lawful sale.

This view of the Commission was confirmed by the Court with practically the same arguments. It interpreted the exhaustion rule in the same way as the Commission, namely that an authorization by the rightholder cannot territorially be limited and therefore has effect for the whole Community[65].

In addition to the cases cited above one other ruling of the ECJ is of interest where it held that the refusal to grant a license[66] concerned the specific object of the right under the design laws, i.e. its existence. Only in case of a dominant market position the result could be different and Art. 82 regarded as applicable.

4. The Exhaustion Doctrine

From the above case law one can derive a definition of exhaustion which is applicable for all industrial property rights, namely that a product has been put into circulation in another member state in intra community trade by the owner himself or by a third party with his consent[67]. 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 market[68], the exhaustion occurs only with the sale of the *individual product* by the licensee or the patentee[69]. 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.

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 holder[70]. 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 such[71]. It cannot be

[65] The opposite result in the case of a design import for which however no consent was given by the right holder: ECJ 14 IIC 515 (1983) - *Keurkoop/Nancy Kean Gifts*.

[66] Volvo case: 1988 ECR 6232 recital 7

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

[68] Cf. Jeremy Brown, *Exhaustion of Rights in the Community*, 1991 les Nouvelles 145, 146

[69] Cf. BGH 29 IIC 207 (1998)-Brochure Rack, where it was examined whether the license covered embodiments with certain features which were not all delivered by the patentee.

[70] ECJ 17 IIC 357 (1986) - *Pharmon v. Hoechst*

[71] Demaret, 18 IIC 161 (1987)

decisive either under which conditions, fair or unfair, a compulsory license has been granted, since at any rate the patentee had not granted his consent.

Summarizing the case law of the ECJ it can be stated that

- parallel imports within the EU can no longer be prevented based on national industrial property rights if the first sale occurred within one of the Member Countries of the EU with the approval of the right owner;

- the competition rules of the EC Treaty regulate only the exercise of industrial property rights, not their existence[72];

- 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, public health or the protection of consumers are at stake[73].

[72] ECJ 20 IIC 64 (1989) *Volvo* - recital 7, similarly ECJ 20 IIC 186 (1989) - *Renault*

[73] ECJ 19 IIC 232 (1988) - *Purity Requirement for Beer*; 21 IIC 695 (1990) - *Import of Meat Products*; 21 IIC 344 (1990) - *Deep-frozen Yoghurt*

III. Art. 81 EC Treaty and the exemption rules for license agreements
- Exemption by categories of agreements -

While Arts. 30 and 36 concern the free flow of goods within the Community and prohibit restraints of trade between Member States, except where such restraints are justified on the basis of industrial property rights, Art. 81 (1) concerns contractual agreements and concerted practices between companies which may influence trade between Member States. This provision therefore concerns the relationship between licensor and licensee, not between competitors. Art. 81 (2) declares such restrictions of trade as null and void, whereas Art. 81 (3) allows an exemption for agreements if those are primarily beneficial for the consumer.

- **With respect to the first condition of Art. 81 EC 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 account[74]. 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 is 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 effect of the individual clause upon competition, but the contract in its entirety.**

Under the more recent practice 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. 81 (1) EC Treaty. There are now two conditions which must *both* be present before a specific contract needs an exemption.

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 individual agreement under examination must by itself contribute significantly to the distortion of competition. If these two points can be denied, the agreement does not fall under Art. 81. The latter point would take into account the market power of the contracting parties and the duration of the agreement[75].

It nevertheless remains a double hurdle

- 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.

[74] Notification of the Commission of 12 September 1986, amended 1994 O.J. C 368/20

[75] See with more details Bay, *EC Competition Law and Software IPRs*, 9 Computer Law and Practice 176, 1993.

- as well as the overall evaluation of the entire contract

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[76].

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.

1. Distribution Agreements

Since many areas of contract clauses and distribution systems have not yet been clarified in the field of software distribution, it is generally advisable to submit any competition restrictive clauses to the European Commission for a negative clearance or an exemption in order to avoid the invalidation of an important agreement or even fines in case of serious violations of the competition rules.

A clarification whether a license agreement or a distribution agreement does or does not fall under Art. 81(1) EC Treaty or is exempted under Art. 81(3) must be in the interest of both parties. Therefore, the drafting of the agreement should already take account of the practice of the Commission and the case law of the European Court of Justice in order to avoid clauses which have been regarded as a violation of the antitrust rules. A restriction on the buyer is inadmissible, e.g. prohibiting the sale of licensed parts to unlicensed dealers, when no selective marketing system exists according to objective criteria[77].

In theory two forms of distribution could be used in the context of distribution of hardware and software in the EC, an exclusive dealing arrangement or a form selective distribution. Since the latter form is the most common for computer goods, it will be dealt with first.

a) Selective Distribution

aa) In a system of selective distribution the supplier chooses and then appoints dealers under a contract. The choice is dependent on the fulfilment of certain qualitative requirements concerning performance and technical knowledge of the dealer which are laid down in the agreement. Although the requirement are purely objective and the supplier must accept every dealer who can prove that he fulfils them[78], nobody outside

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

[77] See European Commission 1984 GRUR Int., 171 - *Windsurfing International*, 17 IIC 362 (1986); for the earlier opposite practise of the Commission, see Venit, 18 IIC 1, 16 (1987).

[78] see ECJ 1977 ECR 1875 - Metro 1; ECJ 1986 ECR 3021 - *Metro 2*

the system has a right to be supplied, and outsiders may even be enjoined from selling under national rules of unfair competition if they interfere with the distribution system. Since one of the goals of selective distribution was the guaranty of a price level for the dealers which allowed them a reasonable profit for the maintenance and after-sale services, the defense against outsiders who do neither comply with the qualitative requirements nor the customer services has always been of concern to the members of the network and the supplier. Selective distribution enjoys protection only if the individual system has received the blessing of the Commission. Price fixing, export prohibition and territorial exclusivity cannot be combined to increase and maintain profit rates. Minimum purchase obligations and price recommendations, although not unlawful per se, may influence the overall appreciation in an exemption procedure before the Commission[79].

Since one of the goals of selective distribution is the guaranty of a price level for the dealers which allow them a reasonable profit for the maintenance and after-sale services, the defense against outsiders who do neither comply with the qualitative requirements nor the customer service has always been of concern to the members of the network and the supplier. The enforcement of a selective distribution system against outsiders after approval by the Commission is a matter of national law. In some countries like France the violation of the rules of a selective distribution system may be prosecuted under criminal law, in other countries like Germany under unfair competition law, and this under two conditions

- that the distribution system is theoretically "closed"(lückenlos), i.e. all dealers are bound by contract, the supplier only sells to the selected dealers and they are not allowed to sell to outsiders

- that the system is also in practice "tight", i.e. that if a dealer breaks out of the network and sells to outsiders, this will immediately be stopped, if necessary by court action, by the supplier. Also imports from abroad must be enjoined for this purpose.

Claims against outsiders depend on the national competion laws on the one hand and the lawfulness of the agreements, i.e. that they are duly exempted by the Commission. A restriction on the buyer is inadmissible, e.g. prohibiting the sale of licensed parts to unlicensed dealers, if no selective marketing system exists according to objective criteria[80]. The Commission has already approved the possibility of selling software through selective distribution[81], but also through a franchising system[82]. Although selective distribution enjoys protection, this only applies if the individual system has been notified with the Commission and received a negative clearance or individual exemption[83].

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[79] Cf. Commission decision of April 1984, OJ L 118/24 of 4 May 1984; more liberal still in AEG-Telefunken, OJ 1982 L 117/15.

[80] See European Commission 17 IIC 362 (1986) - *Windsurfing International*, for the earlier opposite practise of the Commission, see Venit, 18 IIC 1, 16 (1987).

[81] European Commission 1984 OJ L 118-24 - *IBM Personal Computer*,

[82] European Commission 1987 OJ L 222-12 - *Computer Land*

[83] For non-exemptable clauses, e.g. an export prohibition, cf. European Commission OJ No. L 131, 32 of 16 May 1992 - *Dunlop* and OJ No. C 202, 50 of 10 August 1992.

The enforcement of a selective distribution system against outsiders after aproval by the Commission has so far been regarded to be a matter of national law. In some countries like France the violation of the rules of a selective distribution system may even be prosecuted under criminal law[84], in other countries like Germany under unfair competition law. In Germany for example selective distribution systems are only protectable against outsiders under the conditions

- that the distribution system is theoretically "closed"(lückenlos), i.e. all dealers are bound by contract, the supplier only sells to the selected dealers and they are not allowed to sell to outsiders

- that the system is also in practice "tight", i.e. that if a dealer breaks out of the network and sells to outsiders, this will immediately be stopped, if necessary by court action, by the supplier. Also imports from abroad must be enjoined for this purpose.

In the recent ECJ decision Metro v. Cartier[85] the ECJ has taken the position that if a selective distribution system is exempted under Art. 81 (3) EC Treaty, its enforcement cannot be blocked by rules of national unfair competition law. If German law has more severe legal and factual requirements as to the exclusion of parallel imports than the European competition rules this would lead to the "paradox result"[86] that the tightest and best closed distribution systems would be treated more favorably than the more flexible systems which tolerate imports to a certain extent. The Court therefore declared a provision as lawful and enforceable, which limited the guaranty for watches to those purchased from a dealer who is a member of the exclusive dealing system.

bb) Exclusive Distribution

The block exemption concerning exclusive distribution[87], if its requirements are met[88], would make the notification of the agreement unnecessary. The manufacturer and his distributor would normally conclude an exclusive distribution agreement, and such agreements would be exempted if the clauses do not exceed those which are contained in the regulation. The exclusivity as such does not exclude a possible exemption if the purpose of the contract is the importation of a new technology within the respective territory.

The Commission is still concerned with exclusive distribution systems which include an export ban. It imposed a fine on Parker Pen and its distributor Herlitz AG, which had led to artificially high prices. This decision was appealed but confirmed by the court of first instance (CFI)[89].

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[84] But also under civil and unfair competition law, cf. Cour de Cassation of 27 October 1992 in the *Rochas* case.

[85] ECJ of 13 January 1994 Case C-376/92

[86] Recital 25 of the Cartier decision

[87] Commision Regulation 1983/84, OJ L 173/1 1983

[88] See McGrath, *Group Exemptions*, 9 North Carolina J.Int'l L.& Com.Reg. 231 (1984); Reding, *La qualification du contrat de distribution*, 1985 *Droit de l'informatique* 14; Thieffry, *L'appréhension des systèmes de distribution*, 1986 Rev.trim.dr.eur.663

[89] OJ C 1-10 of 5 January 1993

In 1992 the Commission withdrew the benefits of the block exemption for exclusive purchasing agreements from Langnese and Schöller, two German companies, which had forced retailers to purchase ice cream exclusively from them. The Commission concluded that Art. 81 (1) was infringed and that an exemption under Art. 81 (3) EC Treaty had to be denied. The two companies were forbidden to enter similar agreements until the end of 1997[90].

cc) Franchising

A special form of product distribution is a franchise system which would be most suitable for the distribution of hardware and software products either in the from of a retail franchise or in a manufacturer-distributor relationship. Franchising constitutes the licensing of a trademark or trade-name to a retail network in combination with sales of service know-how which concerns a uniform offer and presentation of the goods and services involved[91]. The Commission has also issued an exemption regulation for franchise agreements.

The EC Commission has issued a number of decisions with respect to franchise agreements, among them decision of 17 December 1986, case no. IV/31.428/432 in the case "Yves Rocher"[92]. The Commission indicated that obligations which are imposed on the franchisee to ensure that he exploits the proprietary industrial property rights and know-how in a manner in keeping with their subject matter are inherent in the very existence of the right owner's intellectual creation and therefore fall outside the scope of the contractual and concerted practices of Art. 81 (1) EC Treaty.

Clauses which have been accepted by the Commission as admissible and falling outside the scope of Art. 81 (1) are the following

- that the change of the franchisee's location is subject to the franchisor's consent
- requirements on the interior decoration and lay-out of shops
- the obligation to use know-how and training methods developed by the franchisor
- the necessity of approval of local publicity
- the exclusion of competing products from the licensed shop
- the prohibition on resale to dealers not belonging to the franchise network
- a non-competition clause limited in time after the expiration of the franchise contract within the former territory of the franchisor.

Clauses which the Commission regarded as falling under Art. 81 (1) are

- the grant of an exclusive territory to the franchisee
- the franchisor's undertaking not to establish a shop itself within such territory
- the prohibition on the opening by franchisees of a second shop.

[90] Commission Press Release IP/92/1109 of 23 December 1992

[91] Cf. Commission Regulation No. 4087 88 of 30 November 1988, 1988 OJ L 359-46 and the ECJ decision 1986 ECR 353 - *Pronuptia*

[92] 18 IIC 200, 243 (1987)

The Commission has stated that such clauses result in the sharing of markets between the franchisor and the franchisee or between different franchisees and thereby restrain competition within the distribution network. The Commission however underlined that such clauses may be exempted under Art. 81 (3) EC Treaty. It has at the same time announced that price maintenance clauses and the prohibition on cross supplies between franchisees would not qualify for an exemption from the application of Art. 81 (1)[93].

2. License Agreements

Two exemption regulations play a role for licensing agreements, namely the Group Exemption Regulation (GER)

- for Technology Transfer Agreements No. 240/96

- for Research and Development Agreements No. 418/85

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 applicable[94]. If the licensee does not manufacture and also none of the distribution exemption regulations 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) CPC[95] 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 patent, a trademark, or know-how, 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 restricting effect.

The most important validity issues concern however antitrust questions. Many clauses are to be qualified as restrictions of competition which may fall under Art. 81 EC 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. 81 (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

[93] See also the case of the ECJ 28 January 1986 case 161/85 - *Pronuptia*, 1987 OJ No. L 13-39

[94] Recital 8 of the GER (Technology)

[95] On Art.72 and Rule 20(1) EPC see Notices of the EPO, OJ 1987, 215.

provisions and their legal and economic consequences[96]. 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 insignificant[97]. Such an application procedure is however not obligatory under Regulation No. 17.

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.

New Developments

In May 2000 the European Commission has published three proposals for new exemption regulations under Art. 81 § 3 EU Treaty, namely an

- exemption regulation concerning research and development agreements,
- exemption regulation concerning specialization agreements,
- exemption regulation concerning agreements on horizontal cooperation.

The new policy of the Commission is to remove all so-called white clauses from the exemption regulations and only maintain the black clauses which are not allowed. The purpose of the Commission is twofold.

- To offer more freedom to the parties for such agreements,
- to shift the responsibility for the evaluation of the admissibility of agreements to industry and their advisors. This could also mean that the Commission will try to shift the burden of proof on the parties that their agreement does not violate Art. 81 § 1 EU Treaty.

Many enterprises will see this change, if it becomes law, as a disadvantage and as a lack of legal security, although they could of course choose to remain within the white clauses of the former exemption regulations, since it can be assumed that at least those clauses will also remain admissible in the future.

The main difference is however, that in the proposed new exemption regulations market share criteria can be found so that only companies below certain market shares will be allowed to enter into agreements which limit competition. Market share criteria are in particular unreasonable for research and development

[96] See ECJ decision 1986 GRUR Int., 635 - *Windsurfing International*

[97] See European Commission, 7 IIC 286 (1976) - *AOIP/Beyrard*

agreements, since for the development of a new product there is often a market share of 100 %. Therefore the most innovative developments would not enjoy an exemption.

Independent of the great difficulty for companies to evaluate and calculate their market share and to find out about turnovers of competitors the Commission is proposing different percentages for each of the proposed exemption regulations. For the Research and Development Regulation the Commission has included 25 %, for Specialization Agreements 20 %. If one adds other exemption regulations like the one for Purchase Agreements which has a market share requirement of 15 %, the Regulation on Vertical Agreements with a market share of 30 % and finally The Regulation on Technology Transfer Agreement with 40 % (which authorizes the Commission to withdraw the exemption), the picture becomes quite confusing. It is obvious that industry is opposing these rather arbitrary figures and opts for a uniform percentage.

Another open question for the new exemption regulations is whether clauses which are not contained in the black list, but which afterwards might be regarded as unlawful, make the whole agreement non-exemptable, or whether only the respective clause will have to be deleted. Surprisingly in this context, the no-contest clause has been included into the black list for research and development agreement, although in the present exemption regulation this prohibition had been deleted.

It has been criticized that the exemption regulations only provide for an exemption for a period of five years which is much too short, in particular for research and development agreements for which often the marketing period only starts after five or seven years.

The Commission has invited industry to comment on the proposals. But the Commission had only granted a deadline of one month, which has been severely criticized by industry as much too short. So far some organizations only have submitted their comments to the Commission.

With an aim to facilitate the application of the new exemption regulations, in particular the evaluation of lawful and unlawful clauses, the Commission has also drafted anti-trust guidelines which however are also criticized by industry as being too abstract and theoretical and has asked for more examples which would help the industry in dealing with the new rules. It must be expected that the discussion will still continue in this area for some time before one has to deal with the new rules.

a) Group Exemption Regulation for Technology Transfer Agreements - GER (Technology) -Regulation No.240/96[98]

(1) General - Scope of application

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, 1996[99] 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 non-patented technical information ("know-how") and to combined patent and know-how licensing agreements ("mixed" agreements)[100]. 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 form[101]. 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 products[102].

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 venture[103], 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 services[104] 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.

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[98] 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.

[99] See the review of the different GERs by Burnside, 1988 les Nouvelles 168.

[100] See recital 4 GER (Technology).

[101] 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.

[102] See Art. 8 No. 1 d and g GER (Technology Transfer Agreements).

[103] Art. 5 (1) 1 and 2.

[104] Art. 5 (2) 1.

81 EC Treaty 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 Union[105].

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 provisions[106].

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 right[107]. For agreements involving Member States of the EU and also third states, the European Commission considers the non-exempted clauses under Art. 3 GER (Technology) acceptable as long as they only apply to countries outside the EEA[108]. 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 maintainede[109]. In this context it must be remembered that even a contract concerning one single Member State may fall under Art. 81 (1) EC Treaty, and this even if the parties only belong to one member state. In the decision *Hydrotherm*[110] 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. 81 (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 sale[111]. Also if

[105] Art. 5 (1) 3 and (2) 2.

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

[107] See European Commission 1972 OJ EC L 143/39 - *Raymond/Nagoya*.

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

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

[110] 16 IIC 598 (1985); see also ECJ, 27 September 1988 in 1988 NJW 3086, *Wood Pulp*.

[111] 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 EC Treaty to enforce Art. 81 (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.

more than two parties are involved in the license contract, or the GER (Technology) is not applicable for some 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 tedious[112] 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. 81 (1) is present, so that the clause, at least without exemption, is not enforceable in a national court. According to a decision of the ECJ[113] 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 itself[114].

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[115] in accordance with which all notified agreements are presumed to be exempted after four months, if the Commission does not oppose the exemption[116]. The agreement must be notified to the Commission in accordance with the provisions of Regulation No. 17/62[117].

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 fines[118]

[112] A procedure can take 4 - 5 years.

[113] 16 IIC 598 (1985) - *Hydrotherm (Ghibli)*.

[114] 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 EC Treaty to enforce Art. 81 (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.

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

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

[117] 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.

[118] A fine can no longer be imposed, if the agreement is notified.

up to 1 Mio ECU or beyond, namely up to 10 % of the yearly turn-over of the respective companies[119]. An unequivocal clearance under the competition rules is therefore in the interest of both parties[120] 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,
(2) that there is no accelerated opposition procedure
(3) that the Commission can impose fines for antitrust violation, if the agreement is not notified[121].

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. 81 (1) EC Treaty is as such applicable but reasons for an exemption under Art. 81 (3) are given. These reasons are specified in Art. 81 (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. 81 (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 clauses[122].

The notification procedure according to Art. 81 (3) can either be a so-called *negative clearance* or an *exemption*. With the negative clearance the applicant knows for certain that the contract filed does not violate the prohibition clause of Art. 81 (1) EC 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. 81 (1), or if the contract is exempt due to a group exemption in accordance with Art. 81 (3)[123]. The *request for negative clearance* requires an explanation by the applicant why he considers that

[119] See Art. 15 (2) of the Regulation No. 17.

[120] Cf. for details on the notification procedure *infra* chapter 2.

[121] 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).

[122] Cf. for a checklist as to the exemption regulations at the end of this chapter.

[123] Cf. the view of the Commission 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.

Art. 81 (1) EC 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.

The notification must be made on a prescribed form which has been published by the Commission[124] 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. 28, 36 EC 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. 81 (3) is possible.

If a clause violates Art. 81 (1) and it is not accessible to exemption, it follows from the wording of Art. 81 (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 courts[125]. Despite the wording of Art. 81 (2), contracts which fall under Art. 81 (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 issued[126].

The European Court of Justice in the decision *Windsurfing International*[127] 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. 81[128]. In the Notice categories of

[124] Form A/B OJ EC L 240/1 of 7 September 1985.

[125] ECJ 1987 GRUR Int. 868 - *VAG France/Mange.*

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

[127] 17 IIC 362 (1986).

[128] Notice of the EC Commission No. 93/C 43/72.

joint-ventures are mentioned which the Commission regards as falling under Art. 81 (1), but for which it would grant a negative clearance automatically.

In the *Magill*[129] 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. 81 and 86 will override any provision of national intellectual property law.

A similar approach was taken by the Commission in the *Fyffe vs. Chiquita*[130] 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.

(4) Contents of the Exemption Regulations

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. 7[131], 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.

In Art. 2 those clauses are given which according to the view of the Commission usually do not fall under Art. 81 (1), i.e. do not restrict competition, but are included for reasons of legal certainty. Art. 3 of the GER (Technology) contains those clauses which according to the opinion of the Commission fall under Art. 81 (1) EC 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 norms[132].

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[129] (1991) 4 CMLR 745.

[130] 9 IIC 603 (1978)-*United Brands.*

[131] 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. 81 III des Vertrages auf Gruppen von Technologie-Transfervereinbarungen, 1995 GRUR, 571 et seq.

[132] See Venit, 18 IIC 1, 32 (1987).

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.

(5) Individual contract provisions

(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. 81 (l) EC 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 GER[133]. An exclusive license however is not exemptable, if the licensor dominates the market in the sense of Art. 82 EC Treaty[134].

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 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)[135]. Where the agreement is a pure know-how 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 market[136]. 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)[137]. 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 knowledge[138]. The Commission however considers such a know-how 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.

(ii) Royalties

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

[133] 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.

[134] See European Commission, 20 IIC 684 (1989) - *Tetra Pak I.*

[135] See Art. 1 (2) GER (Technology).

[136] See Art. 1 (3) GER (Technology).

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

[138] European Commission, 1986 OJ L 50 - Boussois/Interpane.

royalties on to embodiments which are not covered by the scope of patent protection[139]. 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 Nagoya[140] 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 acts is permissible[141]. The agreement on a minimum royalty or a minimum number of use operations may also not lead to a restriction of the licensee in his business activities in the 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 applies[142].

(iii) No-contest clause

For a long time a no-challenge clause has been regarded by the Commission as a violation of Art. 81 (1) EC Treaty[143]. 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 model[144]. This practice was confirmed by the ECJ in the Windsurfing decision[145]. The ECJ determined that a no-contest clause does not belong to the subject matter of a patent.

In a later decision[146] the ECJ, however, differentiated in the sense that the application of Art. 81(1) EC 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.

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[139] See already under German law BGH 1979 GRUR 308 - *Auspuffkanal für Schaltgase*, and 13 IIC 645 (1982) - *Rig*.

[140] 1972 CMR 9513; Burroughs/Geha 3 IIC 259 (1972); European Court of Justice, 17 IIC 362 (1986) - *Windsurfing International*.

[141] See Art. 2 (1) No. 9.

[142] 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).

[143] 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.

[144] See Art. 2 (1) No. 6b GER (Technology).

[145] See 17 IIC 362 (1986) - *Windsurfing International*.

[146] ECJ 21 IIC 212 (1990) - *Promise not to challenge*.

In contrast to the GER (Patents) in which a no-challenge clause was prohibited[147], 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. As a rule, therefore, it would be recommendable to review the necessity of a promise not to challenge.

The GER (Technology) and the rules concerning the exemption of a no-challenge clause are not applicable to distribution contracts[148].

(iv) Obligation to use

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 use[149]. An agreement on a maximum production is only permissible within the limits of Art. 2 (13) GER ("second source")[150].

(v) Price-fixing

Under the GER a price fixing-clause is among the prohibited clauses[151], 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. 81 EC Treaty requires an *appreciable* influence on free trade which was not found in that case[152].

(vi) Labeling

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 producer[153]. 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 claim[154].

(vii) Quality Control

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[147] See Art. 3 No. 1.

[148] See GER (Technology) recital 8.

[149] Cf. Art. 2 (1) No. 9 of the GER (Technology).

[150] See Art. 3 No. 5 of the GER (Technology).

[151] See Art. 3 No. 1 GER (Technology).

[152] ECJ 19 IIC 664 (1989) - *Plant Seed License.*

[153] See Art. 1 (1) No. 7 and 2 (1) No. 11 GER (Technology) and recital 6.

[154] 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 GER[155]. 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 licensees[156].

(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)[157].

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 nonexclusive[158]. 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 use[159]. An obligation by licensor to inform licensee about modifications and improvement inventions is generally not recognized as restricting competition[160]. Conversely, for the validity of a licensee's obligation to inform about improvement inventions, there must be a corresponding obligation by the licensor[161].

(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 clause[162]. Under the former GER (Patents) this clause

[155] See Art. 2 (l) No. 5 GER (Technology).

[156] See ECJ 17 IIC 362 (1986) - *Windsurfing International.*

[157] 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.

[158] 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.*

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

[160] See Ullrich, *Intellectual Property*, p. 550.

[161] See GER (Technology), Art. 2 (l) No. 4.

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

was contained in Art. 3 (9) as a 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 means[163]. 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 paid[164]. 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 non-licensed surfboard together with the rig according to the patent)[165].

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 supply[166].

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 use[167].

(x) Non-Competition Clause

A non-competition clause is listed in the GER among the prohibited clauses[168]. 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 products[169]. In the

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

[164] See ECJ 17 IIC 362 (1986) - *Windsurfing International.*

[165] ECJ 17 IIC 362 (1986) - *Windsurfing International.*

[166] Art. 2 I No. 13 GER (Technology).

[167] 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.*

[168] 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,

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

special case of a partnership 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 investments[170].

(xi) Use restrictions

According to the GER (Technology) a use restriction to specific fields is permissible[171]. This is, however, only the case if it does not result in a restriction of customers[172]. 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 competition[173]. 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 activities[174].

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 secret[175].

(xii) Term of Agreement

An exclusive patent license agreement expires at the latest with the expiration of the last of the licensed patents. A duration past that point and an obligation to pay royalties is admissible under antitrust law only if in addition to patents also secret know-how has been licensed 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 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 thereafter[176]. If no provision has been made in the contract for such a situation then the question of a reduction of royalties based on contract and antitrust law depends upon the importance of the invalidated patent

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[170] European Commission 1987 OJ L 41, 420 - *Mitchell Cotts/Sofiltra.*

[171] See Art. 2 (l) 8 GER (Technology).

[172] See Art. 3 No. 4 and Art. 2 (1) No. 8 GER (Technology).

[173] See Art. 2 (1) No. 12 GER (Technology).

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

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

[176] See Art. 8 (3) GER (Technology).

for the activities of licensee, so that in a given case the royalty may remain as agreed upon[177].

The Commission in the decision *Henkel/Colgate*[178] 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 used[179]. The ECJ held in its decision *Kai Ottung v. Klee & Weilbach*[180] 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. 81 (1) in a case where the agreement was entered into after the patent application was submitted and immediately before the grant of the patent.

According to a decision of the European Commission[181] an exclusive patent license falls under Art. 81 (1) EC 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 Art. 81 (3) EC 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 (l) 3 GER (Technology).

Conversely, an agreement of payments after the expiration or invalidity of the patent is normally among the prohibited clauses[182] unless the continued payment represents a staggered royalty payment for the period of the validity of the licensed technology[183]. 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 disclosed[184] The European Commission bases this on the advantage which the licensee has over competitors[185]. The duration of the exemption as far as competition restrictive clauses are concerned is regulated differently in Art. 1 (2) GER

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[177] 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*".

[178] 1972 GRUR Int. 173.

[179] *Burroughs/Geha* 3 IIC 259 (1972).

[180] 22 IIC 61 (1991) - *Licensing Agreement.*

[181] 1985 OJ L 233 - *Velcro/Aplix.*

[182] European Commission, 1985 OJ L 233,22 - *Velcro/Aplix.*

[183] 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. 81 (1) due to agreements on payment modes; for the practice of the European Commission see also Venit, 18 IIC 1, 20 (1987).

[184] See GER (Technology), recital 22, Art 2 (1) No. 7.

[185] See Art. 2 (1) No. 7 GER (Technology).

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

(xiii) Confidentiality obligation

Under the GER a confidentiality promise is also admissible if it exceeds the term of the agreement[186]. Since the confidentiality and nonuse agreement depend upon the confidential character of the technical information, an agreement about an absolute confidentiality period is not permissible. A secrecy obligation is no longer applicable when the licensed know-how becomes public knowledge.

(ivx) Assignment and sublicensing

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 assignment or a sublicense by third parties. From an antitrust viewpoint this poses no problem[187].

[186] See Art. 2 (1) No. 1 GER (Technology); see also the decision *Mitchell Cotts/Sofitra* 1987 OJ L 41.).

[187] Cf. e.g. Art. 2 (1) No. 2 GER (Technology).

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

(1) General

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. 81 (3) EC Treaty[188]. 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

(i) Term of agreement

An agreement of a fixed term without possibility of termination for a period of eight years appears admissible[189]. 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 periods[190]. 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 founded[191]. 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 country[192]. 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.

(ii) Territory of the licenses

[188] See European Commission 16 IIC 206 (1985) - *Rockwell/Iveco.*

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

[190] See European Commission *BECham/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.

[191] 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).

[192] See Art. 3 (1) GER (Research).

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 marketing[193].

(iii) Purchase Obligation

An exclusive purchase obligation in a cooperation agreement is admissible in accordance with the European Commission[194].

(iv) Prohibition of parallel research

Such prohibition for the field of the agreement is permissible[195], except if they mutually promise to share the results of their individual activities[196]. In addition, a competition prohibition for activities, e.g. production and sale in one's own name in the field of the joint research is also admissible[197].

(v) No challenge clause

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 program[198].

(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 parties[199] 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

While in general the assignability and the granting of sublicenses can be excluded for a nonexclusive license agreement[200] with respect to contract law considerations, certain exceptions apply for a cooperation agreement between competitors, accord-

[193] See European Commission 10 IIC 739 (1979) - *BECham/Parke*, Davis; Art. 6 f), Art. 4 (1) f) GER (Research).

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

[195] See Art. 4 (1) a and b GER.

[196] See European Commission 1972 GRUR Int. 173 - *Henkel/Colgate*.

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

[198] See Art. 6 b GER (Research).

[199] 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.

[200] See Art. 6 g GER (Research).

ing to the European Commission. Art. 81 (3) EC 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 limited[201].

In the quoted decision, the European Commission also requested the following changes in the cooperation agreement:

(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 if 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 only[202].

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[201] See European Commission 10 IIC 739 (1979)- *BECham/Parke, Davis*, recital 42 of the decision.

[202] Regulation 151/93 of 23 December 1992 OJ L 21/8 of 29 January 1993

c) Special issues of trademark license agreements

Unlike patent licenses, trademark licenses under European law, if they contain clauses which may restrict competition, need an individual exemption, since no group exemption regulation for trademarks exists so far.

In the decision *Windsurfing International*[203] the European Commission did not exempt a promise not to attack a trademark. This view has been confirmed by the ECJ on appeal[204][205]. 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 copyrights[206].

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.

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 time[207].

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. 81 (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.

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[203] 1983 O.J. No. L 229, 1.

[204] See 17 IIC 362 (1986) - *Windsurfing International.*

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

[206] See ECJ 1990 OJ L 100/32 - *Moosehead/Whitbread* (negative clearance); ECJ 1982 OJ L 379/19 - *Toltecs/Dorset* (exemption under Art. 81 (3))

[207] ECJ 1974 ECR 1183, 6 IIC 110 (1975) - *Centrafarm v. Winthrop*

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 circumstances[208]. 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.

In the case *Bayer/Dental* the Commission objected to a clause which prohibited the re-sale of pharmaceuticals 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 repackaging 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.

The Commission expressly observed that the clause was

> able to awaken in the minds of resellers so much doubt as to their actual rights that they will refrain from reselling repacked products[209].

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 not regarded as sufficient.

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[208] Cf. Rothnie, 1991 International Business Lawyer, 495, *EC Competition Policy, The Commission and Trademarks*

[209] 1990 OJ L 351/48 recital 11

d) Special issues of software license agreements.

(1) General

In the field of copyright law, and in particular with respect to software products, the interrelationship 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 announcement[210][211] 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 anti-competitive. 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 laws[212] (Regulation No. 2349/84)
- -the agreement is not a pure software license, so that it could be exempted as know how license under the Technology Regulation[213]
- -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

[210] OJ 1982, p. 33

[211] 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 EC Competition Law and Practice*, 1990, at 179

[212] 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

[213] See Pagenberg/Geissler, *License Agreements*, p. 542 et seq. notes 30 et seq., 49 et seq.

(Technology) is applicable[214]. 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 use[215].

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

[214] Recital 8 GER (Technology).

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

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 interest in licensing. Whether the software as a whole or individual portions are copyright protected 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...).

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 Commission[216] and this view has also been confirmed by the European Court of Justice[217]. In the GER (Technology) the no-contest clause is not considered to be a black clause anymore. The Regulation provides an exemption for this restrictive clause in Art. 4 No. 2b if the commission is notified and does not oppose the exemption within a period of four months.

Whether this will also be applicable to the recognition of the work quality in software license agreements has so far not been decided. 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 law does not provide an absolute legal position. A software program with essentially identical technical functions and the same field of use which has been created by a third party independently does not fall into the "scope of protection" of an earlier created program. The author is essentially protected only against the use, particularly the copying of his work. The recognition of the work quality thus does not enhance a right to exclude and is therefore not recommended[218].

(ii) Confidentiality obligation - Know-how protection

Source codes and the comments are generally kept confidential by every software developer. Thus they fulfill one essential prerequisite in order to qualify as "know-how" in the sense of the GER (Technology)[219]. The disclosure of this confidential information and the permission of its use are therefore to be viewed 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.

There should be no concern about the admissibility of such an obligation. Since no monopoly pressure is exercised for such an obligation and since the European Commission has also indicated the admissibility of the confidentiality obligation for know-how agreements even without time limitations[220], objections are not to be expected on this point. Although specific license agreements in the field of software

[216] See Art. 3 (1) of the GER (Patents).

[217] See ECJ 17 IIC 362 (1986) - *Windsurfing International.*

[218] See Pagenberg/Geissler, *License Agreements*, p. 536 et seq. notes 21 et seq. with further references.

[219] See Art. 10 No. 1 GER (Technology Transfer Agreements).

[220] See GER (Technology) Art. 2 (1) No. 1.

may contain also know-how which would qualify as subject matter under the former GER (Know-how) and now under the GER (Technology Transfer Agreements)[221], this is not the case where in reality a copyright license was intended. If also no other of the exemption regulations is applicable, the contract needs a negative clearance or individual exemption depending on the circumstances.

(iii) Territorial limitation - Exclusivity

In the case of copyrights and also in conjunction with know-how there is no territorially limited 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. 28 EC Treaty[222].

The ECJ has explained in a number of decisions[223] that an export prohibition in a license contract covering several EU countries constitutes a violation of Art. 81 EC 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.

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 violate the principle of the free flow of goods under Art. 28 EC Treaty[224][225]. A protection against other licensees does not appear to be necessary because the head-start of licensee and in addition the language borders for the software make an effective competition from other EU countries unlikely[226].

(iv) Scope of the license

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[221] See Pagenberg/Geissler, *License Agreements*, page 539, note 23 et seq.; 541, note 28 et seq.

[222] See for Patent Law ECJ 17 IIC 362, (1986) - *Windsurfing International.*

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

[224] See for patent law ECJ 17 IIC 362 (1986) - *Windsurfing International.*

[225] 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.

[226] 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).

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. 28, 36 and 85 EC Treaty, and on the other hand under certain conditions also the exemption possibilities under the GER (Technology) are made accessible. In contrast 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. 30 EC Treaty on the basis of copyright law.

(v) Term of the Agreement

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 clauses[227]. If the licensee is interested in a time-wise farther-reaching protection of confidentiality, a notification with the Commission should be made by precaution. Limitations, if any, thus result 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 obligation[228].

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. 81(3) EU-Treaty.

(vi) Prohibition of the Grant of Sublicense

The prohibition of the grant of a sublicense should normally be regarded as admissible for the same reason as mentioned before, namely that the copyright owner has a right to proper compensation which he should be able to control in order to avoid misuse[229]. A sub-license restriction has also been regarded as admissible in Art. 2 (2) GER (Technology).

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[227] See Art. 1 (2) GER (Technology).

[228] See Art. 2(7): a payment period of another three years after the publication would still be admissible.

[229] Cf. the corresponding rule in Art. 2 (5) GER (Technology Transfer Agreements).

More specific clauses often included in license contracts for software shall be enumerated hereafter[230].

(viii) Tying Clause.

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 combination[231]. The prohibition of tying is one of the misuse clauses which are expressly enumerated in Art. 81 (1) EC Treaty[232]. 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 case[233]. Art. 81 (1) EC 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 Directive[234]. 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 configurations[235]. 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 de-compilation in a license contract will in the future be regarded as void and

[230] 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.

[231] Cf. GER (Technology) Art. 3 (2)a).

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

[233] Cf. Powell *The Computer Lawyer, Expertise no. 145* page 420 note 45 (1991).

[234] Cf. Pagenberg/Geissler, *License Agreements*, p. 6 note 34 et seq.

[235] See Bay, 9 1993 Computer Law and Practice, 376, 181

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 Treaty[236]. 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. 82 EC Treaty.

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 readership[237]. 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. 81 (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 adaptations and modifications which are of a minor nature, it would go beyond his copyright if he can enjoin the adaptation of a program by the licensee for his own purpose. Also the requirement that modifications can only be made by the copyright owner would exceed 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 allowed[238]. Therefore, what

[236] O.J. No. C 91/16 of 12 April 1989

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

[238] 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).

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.

(xii) Use Restriction

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 royalties[239]. 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. 81 (1) (e)[240]. 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.

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 owner[241]. 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 videos[242].

(xiii) Maintenance

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.

IV. Art. 82 - Abuse of a dominant position

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

[240] See Bay, 9 Computer Law and Practice, 176, 180

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

[242] See ECJ, 1988 ECR 2605 - *Warner Brothers*; ECJ 1985 ECR 2605 - *Cinéthèque*.

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 competitors[243].

Violations under Art. 82 concern the imposition of unfair purchase or selling prices, clauses limiting production or distribution, the application of dissimilar conditions to equivalent 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. 82. Higher distribution costs especially with respect to language adaptations and the smaller markets in Europe cannot be compared with a distribution situation in the US[244].

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 significant[245]. Since an abuse under Art. 82 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 substantial[246].

An important question has been decided by the CFI of the ECJ, namely the relationship between Art. 81 and 86, more particularly, whether an exemption granted under Art. 81 (3) precludes measures of the Commission under Art. 82. The Court answered this question arguing that the purchase of an exclusive license by a company with a dominant position on the market could violate Art. 82, if the circumstances surrounding the acquisition have the effect of hindering the entry of new competitors and thereby weaken competition[247].

[243] ECJ of 13 February 1979 - 10 IIC 608 (1979) - *Hoffmann-LaRoche.*

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

[245] European Commission 1987 OJ L 222/12 - *Computer Land*

[246] 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.

[247] CFI 22 IIC 219, 225 (1991) - *Tetra Pak*

In an English case[248] the so-called Euro-defenses were an issue, namely defenses based on competition law in e.g. patent infringement actions. Judge Laddie refused to hear a number of those defenses, e.g. breach of a dominant position, since the patent owner is not required to grant a license on fair and reasonable terms, except in very extreme cases like the Magill case.

[248] Philips Electronics NV v. Ingman Ltd

Article 28 (ex Article 30)

Quantitative restrictions on imports and all measures having equivalent effect shall be prohibited between Member States.

Article 30 (ex Article 36)

The provisions of Articles 28 and 29 shall not preclude prohibitions or restrictions on imports, exports or goods in transit justified on grounds of public morality, public policy or public security;

the protection of health and life of humans, animals or plants; the protection of national treasures possessing artistic, historic or archaeological value;

or the protection of industrial and commercial property.

Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States.

> **It is clear from Art. 36, in particular its second sentence, as well as from the context, that whilst the Treaty does not affect the existence of rights recognized by the legislation 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.**

In as much as it provides an exception to one of the fundamental principles of the 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 himself 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.

The result of the grant of a (sales) license in a Member State is that the patentee can no longer prevent the sale of the protected product throughout the Common Market"

ECJ 6 IIC 102 (1975)- Sterling Drug

<u>Article 81 (ex Article 85)</u>

1. The following shall be prohibited as incompatible with the common market: all agreements between undertakings, decisions by associations of undertakings and concerted practices <u>which may affect trade between Member States</u> and which have as their object or effect the <u>prevention, restriction or distortion of competition</u> within the common market, and in particular those which:

(a) directly or indirectly <u>fix purchase or selling prices</u> or any other trading conditions;

(b) <u>limit or control production</u>, markets, technical development, or investment;

(c) <u>share markets</u> or sources of supply;

(d) <u>apply dissimilar conditions</u> to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;

(e) make the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.

2. Any agreements or decisions prohibited pursuant to this Article shall be automatically void.

3. The provisions of paragraph 1 may, however, be declared inapplicable in the case of:

-any agreement or category of agreements between undertakings;

-any decision or category of decisions by associations of undertakings;

-any concerted practice or category of concerted practices, which contributes to improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit, and which does not:

(a)impose on the undertakings concerned restrictions which are not indispensable to the attainment of these objectives;

(b) afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products in question.

Article 82 (ex Article 86)

Any abuse by one or more undertakings of a dominant position within the common market or in a substantial part of it shall be prohibited as incompatible with the common market insofar as it may affect trade between Member States.
Such abuse may, in particular, consist in:

(a) directly or indirectly imposing unfair purchase or selling prices or other unfair trading conditions;

(b) limiting production, markets or technical development to the prejudice of consumers;

(c) applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;

(d) making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.

The rules of the "Maize Seed" decision Error! Bookmark not defined.

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

(b) The licensee can agree to the obligation not to use or produce the patented article or process outside of the licensed territory

(c) The licensee may also promise not to pursue sales activities in the territory of other licensees, and particularly not to engage in advertising specifically aimed at those territories or not to have a sales office, etc.

(d) The licensee may agree to an obligation limited to five years not to make any direct sales into the territory of other licencees

(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) EEC Treaty.

Art. 28, 30 EC Treaty - Exhaustion Rules

Error! Bookmark not defined. **No exhaustion** **(= prohibition of parallel imports enforceable)** ***no consent***	**Exhaustion** **(= no prohibition of parallel imports and no additional license fee possible)** ***(express) consent***
Modification of trademark if originally marketed under different trademark (lack of consent); if no misuse of right ("artificial partition") ***(American Home, Hoffmann LaRoche)***	**Consent of right owner or licensee with respect to first sale (different royalty does not justify prohibition)** ***(Sirena,Sterling Drug, Polydor, Gema)***
If consent only for sale outside of the EU (no consent of patentee) ***(Tylosin)***	**Also if consent for sale in country without patent protection** ***(Merck)***
If sale authorized by national compulsory license *(Pharmon)*	**License of right makes sale by licensee lawful including exports within EU *(Allen & Hanbury's)***
Consent under lawful restrictions according to competition law enforceable, violation can be prohibited (specific subject matter of patent) ***(SACEM)***	**Unlawful restriction of production or customers cannot prevent exhaustion** ***(Art. 3 GER-Technology)***
If first marketed outside EU by third parties lawfully, but without consent, e.g. in a country without patent protection *(EMI)*	**Conditional consent with respect to different quality standard leads to exhaustion** ***(Imerco)***

Period of exemption for pure patent license agreement

Error! Bookmark not defined. ***Kind of restriction***	***Period of exemption***	***Art. GER (Technology)***
1. Sole license	**Life of patent in the respective territories**	**1 (1) 1 in conjunction with 1 (2) (cf. also 3(7) and 8(3))**
2. Promise of non-use by licensor	**as under 1**	**1 (1) 2 in conjunction with 1 (2)**
3. Promise of non-use by licensee for the territory of licensor	**as under 1**	**1 (1) 3 in conjunction with 1 (2)**
4. Promise of non-use by licensee for territory of other licensee	**as under 1**	**1 (1) 4 in conjunction with 1 (2)**
5. Prohibition of active sales within territory of other licensee	**as under 1**	**1 (1) 5 in conjunction with 1 (2)**
6. Export prohibition for licensee (passive sale)	**5 years from first marketing of licensed product, if patent is in force in respective country**	**1 (1) 6 in conjunction with 1 (2)**
7. Obligation on licensee to use licensor's trademark	**as under 1**	**1 (1) 7 in conjunction with 1 (2)**
8. Limitation of production under certain conditions	**as under 1**	**1 (1) 8 in conjunction with 1 (2)**

Period of exemption for pure know-how agreement

Error! Bookmark not defined.Kind of restriction	*Period of exemption*	*Art. GER (Technology)*
1. Sole license	**10 years from first marketing of licensed product within EU by one of licensees**	**1 (1) 1 in conjunction with 1 (3) (cf. also 3(7) and 8(3))**
2. Promise of non-use by licensor	**10 years as under 1.**	**1 (1) 2 in conjunction with 1 (3)**
3. Promise of non-use by licensee for the territory of licensor	**10 years as under 1.**	**1 (1) 3 in conjunction with 1 (3)**
4. Promise of non-use by licensee for territory of other licensee	**10 years as under 1**	**1 (1) 4 in conjunction with 1 (3)**
5. Prohibition of active sales within territory of other licensee	**10 years as under 4.**	**1 (1) 5 in conjunction with 1 (3)**
6. Export prohibition for licensee (passive sale)	**5 years as under 1.**	**1 (1) 6 in conjunction with 1 (2)**
7. Obligation on licensee to use licensor's trademark	**Life of the agreement if know-how remains secret**	**1 (1) 7 in conjunction with 1 (3)**
8. Limitation of production under	**Life of agreement if know-**	**1 (1) 8 in conjunction with**

certain conditions	how secret	1 (3)

Period of exemption for mixed patent and know-how agreement
Period of exemption for mixed license agreement

Error! Bookmark not defined.Kind of restriction	*Period of exemption*	*Art.GER (Technology)*
1. Sole license	**life of patent in respective country, minimum 10 years from first marketing of licensed product by one licensee**	**1 (1) 1 in conjunction with 1 (4) (cf. also 3(7) and 8(3))**
2. Promise of non-use by licensor	**as under 1.**	**1 (1) 2 in conjunction with 1 (4)**
3. Promise of non-use by licensee for the territory of licensor	**as under 1.**	**1 (1) 3 in conjunction with 1 (4)**
4.Promise of non-use by licensee for territory of another licensee	**as under 1.**	**1 (1) 4 in conjunction with 1 (4)**
5. Prohibition of active sales policy within territory of other licensee	**as under 1.**	**1 (1) 5 in conjunction with 1 (4)**
6. Export prohi-bition for licensee (passive sale)	**5 years from first marketing within EU by one of licensees????**	**1 (1) 6 in conjunction with 1 (4)**
7. Obligation on licensee to use licensor's mark	**as under 1 ????**	**1 (1) 7 in conjunction with 1 (4)**
8. Limitation of	**as under 1 ???**	**1 (1) 8 in con-**

production under certain conditions		**junction with 1 (4)**