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Law Studies from 1964 to 1969 at the Universities of Hamburg, Lausanne and Munich
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He has been the Executive Editor of the International Review of Industrial Property and Copyright Law (IIC) published by the Max Planck Institute since 1973; he is a Lecturer at the Universities of Strasbourg (France), Pierce Law Center (Concord, NH-USA) and Alicante (Spain), and he has given numerous other lectures in all fields of industrial and intellectual property law. He has extensively written in patent, trademark and computer law, and in the field of licensing law (5 books and ca. 70 articles in German, English and French).

Dr. Pagenberg has been appointed special advisor of the German Justice Department for the preparation of the European Patent Litigation Protocol (now called the European Patent Litigation Agreement – EPLA). In this capacity he has also been appointed as one of two Experts to the intergovernmental European Working Party on Litigation.

He is active in a number of international organizations and is serving on several of their committees, a.o. he is the chairman of the Special Committee on Litigation concerning European Patents and the Community Patent of the AIPPI. He is a member of the Special Committee for the Revision of the Hague Convention on Litigation of INTA, the Trademark Committee of LES, and of a number of other organizations like AIPLA, ALAI, ECTA, IBA, Marques, PTMG, the Computer Law Association, the American Chamber of Commerce and ATRIP.

Franklin Pierce Law Center

Summer Institute 2003

Licensing in The European Community

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I. Introduction

European 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:

- (1) 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** EC Treaty 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.

- (2) for the *enforcement* of patents, trademarks, know-how or copyrights within the EU **Arts. 28, 30** EC Treaty are important which are interpreted as guaranteeing the <u>free flow of goods</u> and services. Claims for an injunction are limited by the principle of <u>EU-wide exhaustion</u> which means that **one** lawful sale in one Member Country, i.e. normally a sale with approval of the right holder, precludes any interference with the further distribution of the same products by the right holder in another Member State.

For both areas an overwhelming number of cases decided by the European Court of Justice (ECJ) exist which define the impact of *approval or authorization of the patent or trademark holder*[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,*

[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;

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, 81 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 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].

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

[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 occurred under a different trademark. The only reservation which the ECJ made in the decision was a warning that if the different trademarks in the countries of the EU were only used for the purpose of partitioning the markets, the rights granted under Art. 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].

c) Hoffmann-La Roche 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

[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

[10] ECJ 9 IIC 580 (1978)

Netherlands where those pharmaceuticals had been repackaged after having been imported from the United Kingdom. Centrafarm affixed 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[12].

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 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.*[13]

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

[11] ECJ 28 IIC 715 (1997).

[12] Cf. also the Hamburg Court of Appeals of Febr. 18, 1999 on "artificial partitioning", 2001 IIC

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

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[14].

The same result was reached in a case of a voluntary assignments of marks in the Ideal Standard case[15]. 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 respective abbreviations and a common trading symbol "r + r"[16]. 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 dif-

[14] 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.

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

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

ferent 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[17].

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[18]. 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 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

From the above cases one can conclude so far that

- Original products
- Under the same trademark
- Not repackaged

cannot be stopped by the trademark owner.

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"[19] 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.

[17] 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?

[18] 20 IIC 799 (1989) - *Pall*

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

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[20].

i) Keck

In a later decision[21] 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 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

An extensive discussion on the scope of trademark rights and the question of exhaustion has started after the decision by the ECJ in the Silhouette case[22]. 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[23]. This Directive forces all European countries to harmonize their national laws with European law. Art. 7 of this Directive 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.

The company 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

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

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

[22] See for more extensive comments on the case Pagenberg, 30 IIC 19 (1999)

[23] 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.

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 Community Harmonization Directive of 21 December 1988 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 a contracting state?[24].

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[25].

The Court left a number of questions open:

- What does *consent* mean? Would one require an express consent or is also an implied consent sufficient? What if the implied consent is limited to a certain territory outside the EU, but the importer has no contractual relations with the trademark proprietor?[26]

- What does *putting on the market* mean? If the products are still in the hands of distributors, are they already on the market? What if the distributor is contractually linked with the trademark proprietor who has made a reservation as to a certain form or territory of sale?

- Is there a difference between parallel imports (source outside of the EU) and re-importation (source within the EU with subsequent exportation and re-importation)[27]?

- What is the relationship with Art. 81? Does Art. 7 of the Directive allow a prohibition of re-importation? Can the *Javico/Yves Saint Laurent* decision[28] of the ECJ be interpreted as allowing a re-importation prohibition, if it concerns a territory outside the Community, or would Art. 81 (1) EC Treaty be applicable also in such a case? Should one keep silent about re-importation in a sales agreement? Is a clause "To be sold in country X" to be preferred to

[24] 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?*

[25] 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

[26] Patents Court of October 9, 1995 Roussel Uclaf) - 28 IIC 744 (1997) -Deltamethrin

[27] Cf. for this distinction Quality King Distributors v. L'Anza Research Int'l, (118 S.Ct. 1125 (1998)

[28] ECJ 29 IIC 798 (1998)-Javico

an express prohibition? And finally, is the effect of a such a clause or the intent of the parties decisive?[29]

It remains to be seen whether the other exhaustion cases which are still pending before the ECJ might answer some of them[30].

[29] Cf. for a discussion of these questions also Joller, GRUR Int. 1998, 751, 760

[30] See also for a discussion of the *Silhouette* case Pagenberg, 30 IIC (1999); Albert/Heath, GRUR 1998, 275, 279

2. Patents

a) Sterling Drug/Negram II

One of the landmark cases in patent law was the decision Sterling Drug[31] 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[32]:

*It is clear from Art. 36 (*now Art. 30*), 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 (=30) 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"[33].

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[34]. The ECJ's position is that the amount of the reward is not essential, since it is up to the patent owner to decide where and how he exploits his patent. It is criticized that thereby the ECJ reduces the monopoly of the patent owner to the simple opportunity of profitable use[35]. 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.[36]

b) Tylosin

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[31] ECJ 6 IIC 102 (1975).

[32] 6 IIC p.106

[33] 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

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

[35] Cf. Korah, p. 87

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

In the *Tylosin* case[37] 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[38], since the approval by the patentee has to be an express approval, namely to market in the territorial limits of the license contract[39].

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[40]. At the time when pharmaceuticals still were not 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.

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[41] 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

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

[38] 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.

[39] 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*.

[40] ECJ 13 IIC 70 (1982)

[41] 17 IIC 357 (1986) - *Pharmon*

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[42] indicates that it 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[43].

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 by manufacturers making use of the license of right, only because the license was granted for one producer within his own country. 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[44].

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 in the *Maize Seed*[45] case which influenced to a large extent the contents of the various Group Exemption Regulations, one has to distinguish in the future between so-called "<u>open exclusive licenses</u>" and exclusive <u>"licenses with absolute territorial protection</u>". In an open exclusive license the exclusivity of the license relates only to the contractual relationship between the patent owner and the licensee. The licensor only promises 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[46]. Attention is drawn to the fact that in accordance with the ECJ the applicability of the EC Treaty is not dependent upon proof that a given contract has actually affected the trade within the European Union but merely that the agreement is capable of <u>appreciably affecting the intracommunity trade</u>[47].

The first situation (open exclusive license) according to the ECJ is compatible with Art. 81 (l) EC Treaty, if by such an agreement the distribution of a 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 EC Treaty[48]. Thus any means to prevent parallel imports are inadmissible. Ini-

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[42] recital 20, 25 and 26

[43] See Blok, 13 IIC 729, 743 (1982); Österborg, 12 IIC 442 (1981).

[44] See ECJ 19 IIC 528 (1988) - *License of Right*; ; see also Brown, XXVI Les Nouvelles 1991, 145.
[45] 17 IIC 362 (1986)

[46] Cf. Cawthra, p. 44

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

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

tially 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[49].

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[50];

(b) The licensee can agree to the obligation not to use or produce the patented article or process outside of the licensed territory[51] [52].

(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.[53];

(d) The licensee may agree to an obligation limited to five years not to make any direct sales into the territory of other licensees[54];

(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[55].

For the European Commission the contractual prevention of parallel imports (absolute territorial protection) constitutes a "serious infringement" of the EC Treaty, which is generally subject to a fine[56]. 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[57].

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

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[49] 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.

[50] Cf. Art. 1 (l) 2 GER (exclusive use clause).

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

[52] 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.

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

[54] Cf. Art. 1 (I) 6 GER (Patents).

[55] See recital 11 and l5, and Art. 3 (3) of the GER (Technology)

[56] 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.

[57] Cf. European Commission, 6 IIC 480 (1975) - *Kabelmetal-Luchaire*.

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[58]. 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[59].

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

[59] 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. The Exhaustion Doctrine

From the above case law one can derive a definition of exhaustion which is applicable to all industrial property rights:

Exhaustion occurs if 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[60].

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[61], the exhaustion occurs only with the sale of the *individual product* by the licensee or the patentee[62]. 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[63]. 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[64]. It cannot be 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[65];

- 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[66].

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

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

[62] 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.

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

[64] Demaret, 18 IIC 161 (1987)

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

[66] 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 -

As explained on the first pages of this presentation, Arts. 28 and 30 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) EC Treaty however 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 certain 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[67]. 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. And if it does not fall under Art.81 then there is no restraint of competition and no need for an exemption. The latter point would take into account the market power of the contracting parties and the duration of the agreement[68].

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.

- 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 indi-

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

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

vidual 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[69].

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

(Omitted)

2. License Agreements

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

- for Technology Agreements No. 240/96

- for Research and Development Agreements No. 2659/2000

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[70]. 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[71] requires 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.

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

[70] Recital 8 of the GER (Technology)

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

Usually the admissibility under antitrust viewpoints does not follow from the formulation of an individual clause, but rather from the connection between a plurality of provisions and their legal and economic consequences[72]. 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 of 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[73]. Such a notification 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 so far however need exemption or negative clearance from the Commission, if they contain competition restricting clause or if they are not only ancillary to a patent or know-how agreement.

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

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

a) Group Exemption Regulation for Technology Transfer Agreements - GER (Technology) -Regulation No.240/96[74]

(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[75] 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)[76]. 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[77]. 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[78].

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[79], 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[80] 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 1994 according to which Art. 81 EC Treaty does not apply to agreements if the total turnover of the parties in one calendar year does not exceed 300 mio. € 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[81].

[74] 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.

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

[76] See recital 4 GER (Technology).

[77] 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.

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

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

[80] Art. 5 (2) 1.

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

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[82].

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[83]. 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[84]. 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 maintained[85]. In this context it must be remembered that also a contract c oncerning 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*[86] 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[87]. Also if 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[88] and even interim statements of the Commission that a certain clause "is

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

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

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

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

[86] 16 IIC 598 (1985); see also ECJ, 27 September 1988 in 1988 NJW 3086, *Wood Pulp*.

[87] 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.

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

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[89] 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[90]. This will however change in the future under the new policy of the EU Commission.

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 the black clauses of 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[91] in accordance with which all notified agreements are presumed to be exempted after four months, if the Commission does not oppose the exemption[92]. The agreement must be notified to the Commission in accordance with the provisions of Regulation No. 17/62[93].

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[94] up to 1 Mio € or beyond, namely up to 10 % of the yearly turn-over of the respective companies[95]. An unequivocal clearance under the competition rules is therefore in the interest of both parties[96] 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[97].

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[89] 16 IIC 598 (1985) - *Hydrotherm (Ghibli)*.

[90] 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.

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

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

[93] 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.

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

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

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

[97] Reference is made here e.g. to the decision of the ECJ with respect to the inclusion of a no-contest clause

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 is 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[98].

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)[99]. The *request for negative clearance* requires an explanation by the applicant why he considers that 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[100] 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, 30 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 an individual clause in an agreement is whether the clause is necessary for guaranteeing the existence or the 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

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into a license contract in the case *Windsurfing International* 17 IIC 362 (1986).

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

[99] 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.

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

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[101]. 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[102].

The European Court of Justice in the decision *Windsurfing International*[103] 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[104]. In the Notice categories of 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*[105] 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 82 will override any provision of national intellectual property law.

A similar approach was taken by the Commission in the *Fyffe vs. Chiquita*[106] 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. In the GER (Technology) in 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).

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 as "white" clauses for reasons of legal certainty.

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

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

[103] 17 IIC 362 (1986).

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

[105] (1991) 4 CMLR 745.

[106] 9 IIC 603 (1978)-*United Brands.*

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[107]. In contrast to the former 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.

Market share criteria as a condition of the benefit of exemption are now found in Art. 7[108], 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 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.

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

[108] 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 fü r 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.

(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[109]. An exclusive license however is not exemptable, if the licensor dominates the market in the sense of Art. 82 EC Treaty[110].

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)[111]. 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[112]. 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)[113]. 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[114]. 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 royalties on to embodiments which are not covered by the scope of patent protection[115]. 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

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[109] 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.

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

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

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

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

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

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

of the rig were very frequently sold separately, because the license-free boards were offered at lower prices by non-licensed producers.

Already in the decision Raymond Nagoya[116] 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[117]. The agreement on a minimum royalty or a minimum number of use operations may however 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 be an extreme case, so that Art. 2 GER generally applies[118].

(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[119]. 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[120]. This practice was confirmed by the ECJ in the Windsurfing decision[121]. The ECJ determined in this case that a no-contest clause does not belong to the subject matter of a patent.

In a later decision[122] 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. In contrast to the GER (Patents) in which a no-challenge clause was prohibited[123], the GER (Technology) has transformed it into a grey clause and provides an exemption for it under 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 examine 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[124].

(iv) Obligation to use

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[116] 1972 CMR 9513; Burroughs/Geha 3 IIC 259 (1972); European Court of Justice, 17 IIC 362 (1986) - *Windsurfing International*.

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

[118] 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).

[119] 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.

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

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

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

[123] See Art. 3 No. 1.

[124] See GER (Technology) recital 8.

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[125].

An agreement on a maximum production or to supply only a limited quantity of the licensed products to a particular customer is only permissible within the limits of Art. 2 (13) GER ("second source")[126], i.e. it is not regarded as restrictive, if the license was granted in order to provide the customer with a second source of supply[127].

(v) Price-fixing

Under the GER a price fixing-clause is among the prohibited clauses[128], 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[129].

(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[130]. 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[131].

(vii) Quality Control

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[132]. 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[133].

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

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

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

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

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

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

[131] See ECJ 17 IIC 362 (1986) - *Windsurfing International*, in that case labeling on a non-protected surfboard.

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

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

(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)[134].

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[135]. 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[136]. An obligation by licensor to inform licensee about modifications and improvement inventions is generally not recognized as restricting competition[137]. Conversely, for the validity of a licensee's obligation to inform about improvement inventions, there must be a corresponding obligation by the licensor[138].

(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[139]. Under the former GER (Patents) this clause 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[140]. 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

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[134] 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.

[135] 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.*

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

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

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

[139] 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).

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

patented parts only, if for these unpatented parts a royalty is also paid[141]. 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)[142].

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[143].

(x) Non-Competition Clause

A non-competition clause is listed in the GER among the prohibited clauses[144]. 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[145]. In the 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[146].

(xi) Use restrictions

According to the GER (Technology) a use restriction to specific fields is permissible[147]. This is, however, only the case if it does not result in a restriction of customers[148]. 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[149]. 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[150].

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

142 ECJ 17 IIC 362 (1986) - *Windsurfing International.*

143 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.*

144 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.

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

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

147 See Art. 2 (I) 8 GER (Technology).

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

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

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

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[151].

(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[152]. 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 for the activities of licensee, so that in a given case the royalty may remain as agreed upon[153].

The Commission in the decision *Henkel/Colgate*[154] 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[155]. The ECJ held in its decision *Kai Ottung v. Klee & Weilbach*[156] 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[157] 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).

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

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

[153] 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*".

[154] 1972 GRUR Int. 173.

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

[156] 22 IIC 61 (1991) - *Licensing Agreement.*

[157] 1985 OJ L 233 - *Velcro/Aplix.*

Conversely, an agreement of payments after the expiration or invalidity of the patent is normally among the prohibited clauses[158] unless the continued payment represents a staggered royalty payment for the period of the validity of the licensed technology[159]. 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[160]. The European Commission bases this on the advantage which the licensee has over competitors[161]. The duration of the exemption as far as competition restrictive clauses are concerned is regulated differently in Art. 1 (2) GER (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[162]. 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[163].

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

[159] 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).

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

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

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

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

b)GER (R&D)

COMMISSION REGULATION (EC) No 2659/2000 of 29 November 2000 on the application of Article 81(3) of the Treaty to categories of research and development agreements

(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[164]. 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.

At the beginning of 2001 the EU Commission issued a new group exemption regulation for cooperation agreements in research and development. This regulation will be cited in the following as GER (Research), see introductory notes 7 et seq. supra. The group exemption for such contracts applies only to the cooperation of competitors, who together have not more than 25 % of the market share, and to cooperation between non-competing enterprises without market share threshold for a period of initially 7 years following the completion of the research and development; Art. 4 (2) and (3), Art 6 GER (Research).

As a result of the announcement by the EU Commission dated December 9, 1997, Art. 81(1) of the EC Treaty does not apply to companies which at present together have no more than 5% of the market (this figure will be raised to 10% following the draft amendment of the announcement) since in the view of the EU Commission trade between member states is not or only slightly (not perceptibly) affected. Such agreements, therefore, are subject neither to the conditions nor the restrictions of the GER, since in the event of an imperceptible impairment, the GER in conjunction with Art. 81(3) of the EC Treaty does not apply.

In the GER (Research), the EU Commission assumes that a cooperation between (potential) competitors in research and development can principally constitute a restriction of competition in the sense of Art. 81 (1) EC Treaty. Particularly also by the providing of own research results to a contract party a competitive advantage in the market is sacrificed. On the other hand, according to the EC Commission, such a cooperation promotes technical and economic progress. This also applies in cases in which the goal of the joint cooperation project is clearly defined and the exchange research results are also limited to the agreement only. If a certain level of market power is not achieved, it can be assumed for the application of Art. 81(3) as a matter of principle that the benefits of agreements concerning research and development outweigh possible disadvantages for competition, see the GER (Research), particularly recitals 5 as well as the exemption decisions of the EU Commission in 16 IIC 204 (1985) – Rockwell/Iveco; 16 IIC 202 (1985) – VW/MAN; Carbon Gas Technology; 16 IIC 203 (1985) – Continental/Michelin; 20 IIC 515 (1989) – BBC/NGK Insulators; EC Commission 1991 GRUR Int. 114 – Elopak; 1992 GRUR Int. 522.

While the EU Commission has been reluctant to extend the contractual agreement on the production phase, the GER (Research) under Recital 2 recognizes in particular the interest of small and medium-size companies in the continuation of the cooperation in the produc-

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

tion phase as necessary. Under certain circumstances, this is even the case for financially strong companies, see Commission 16 IIC 203 (1985) – Continental/Michelin. A criterion for the admissibility however, is the expected advantage for the consumer, namely the possibility to buy new and improved products at better prices. The consumers should benefit from the advantages resulting from the increased and more effective research and development (c.f. Recital 12, GER (Research)).

For the purpose of simplifying the official control and the legal framework, not only the filing and opposition proceedings have been abolished, but also the old GER (Research) so-called white-list clauses, the provisions exempted from the cartel prohibition (c.f. Recital 5, GER (Research)). The contents of the earlier white-list clauses must, however, in the author's opinion, continue to be regarded as a measure for the admissibility of changes after January 1, 2001. However, the new GER (Research), in addition to the exclusion of certain agreement (Art. 5), only specifies the limit to the market share of the competing enterprises involved (Arts. 4, 6) and general conditions (Art. 3) as requirements for exemption; this means that if the market share threshold is not exceeded in the case of competing enterprises (Arts. 4, 6), and no black-list clause (Art. 5) is included, and if the general conditions for exemption are met (Art. 3), the agreement is automatically excluded from Art. 81(1) of the EC Treaty pursuant to the GER (Research).

The general conditions for exemption are
a) access of all the contracting parties to the results of the joint research and development (Art. 3(2)),
b) the possibility of independent exploitation of the results obtained and of the existing know-how required in the event of a merely joint research and development agreement, although the scope of application may be limited if the contracting partners are not competing enterprises (Art. 3(3)),
c) the joint exploitation of results that contribute substantially to technical or economic progress and which are of decisive importance with respect to the manufacture or use of the contractual product, and
d) in the case of a division of functions, all the supply contracts of all the contracting parties are fulfilled. Thus these conditions for exemption cover a number of possible arrangements for the agreement for the exploitation of the results, e.g. granting (restricted) exploitation rights.
The decisions of the Commission, but even more so those of the national courts or the ECJ, rendered in particular as a result of private law proceedings, will show which contractual licensing conditions satisfy the requirements of these conditions for exemption.

The so-called black-list clauses of the GER (Research) are contained in Art. 5 and they correspond to Art. 3 of the GER (Technology). The inadmissible clauses of the new GER (Research) correspond in content essentially to the black-list clauses of the former Art. 6 GER. One additional black clause has been added (Art. 5(1)(f)) excluding the prohibition of passive sales from the exemption.

Also agreements with mutual price and royalty provisions to be applied to third parties for the period of future marketing of the products which have been developed under the research program are not exempted. There is however an exception: if joint distribution has been agreed upon, the prices towards direct purchasers may be fixed (see Art. 5 (1) (d) in conjunction with 5 (2) (b) of the GER (Research) as well as the decision of the EU Commission in 10 IIC 739 (1979) – Beecham/Parke, Davis. The EU Commission requires that the parties act as far as possible as competitors, particularly regarding the pricing of products and the continuation of research projects which are not subject of the agreement; in cases of doubt an express exemption of clauses for the marketing phase is required. For a 15 year exemption see EC Commission 20 IIC 512 (1989) – BBC/NGK Insulators.

Most decisions of the EU Commission regarding *joint ventures* have indicated a generous interpretation of the exemption requirements. In the decision *Olivetti/Canon*, the cooperation as a joint venture for developing copiers, telefax machines and laser printers was exempted, because a transfer of modern technology occurred from Canon to Olivetti was regarded as profitable for the European market. The contract involved a 50/50 participation of the two companies and the products in the joint venture were to be marketed independently by both competitors (Press Release of the EU Commission, IP (87) 607).

The Commission argued in a similar way in a decision for an extension of an exemption, which had already been granted in 1977. Despite the fact that the coordination of research, production and marketing activities represented a competition restriction of the parent companies in the field of gas turbines, the exemption was extended for a further 20 years because the American partner together with the party from the Netherlands could then more easily establish themselves in the European market as competitors (Press Release IP (87) 606).

IV. Art. 82 - Abuse of a dominant position

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[165].

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[166].

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[167]. 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 manu-

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

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

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

facturers on the market. This is not contradicted by the fact that the financial and research barriers for this market are substantial[168].

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[169].

In an English case[170] 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.

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[168] 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.

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

[170] Philips Electronics NV v. Ingman Ltd