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Abstract

In this Note, the Present Draft is examined in light of the goals and history of Community competition policy. After a discussion of patents and licensing, the previous drafts and criticisms thereof are examined. An analysis of the recent decisions in Nungesser v. Commission (Maize Seed) and Coditel v. Ciné Vog as they relate to the proposed regulation follows. Finally, it is suggested that the Commission's present position, as evidenced by the Present Draft of the proposed regulation, constitutes an appropriate balance between the demands of industry and the needs of the Community.

TECHNOLOGY TRANSFERS IN THE EEC: A LOOK AT THE PROPOSED BLOCK EXEMPTION FOR EXCLUSIVE PATENT LICENSING AGREEMENTS

INTRODUCTION

The Commission[1] of the European Communities[2] (Commission) circulated the *Present Draft*[3] of its proposed block exemption[4]

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1. The Commission was created by the Treaty establishing the European Economic Community, (EEC or Community) Mar. 25, 1957, 298 U.N.T.S. 3 [hereinafter cited as Treaty of Rome]. It is "the administrative or executive arm" of the EEC, the European Coal and Steel Community, and the European Atomic Energy Community. B. HAWK, UNITED STATES, COMMON MARKET AND INTERNATIONAL ANTITRUST: A COMPARATIVE GUIDE 412 (1979 & Supp. 1983); *see infra* note 2. The Commission acts in three general areas. First, it initiates Community policy. *See* D. LASOK & J.W. BRIDGE, AN INTRODUCTION TO THE LAW AND INSTITUTIONS OF THE EUROPEAN COMMUNITIES 166 (1982). Second, it has a "wide range of legislative and executive powers and functions." *Id.* at 168. Third, it is "the guardian of the Community Treaties." *Id.* at 166. The Commission is especially interested in alleged violations of the provisions of the Treaty of Rome pertaining to competition. *See* Regulation 17, 5 J.O. COMM. EUR. 204 (1962), 1 COMMON MKT. REP. (CCH) ¶ 2401 [hereinafter cited as Regulation 17]. Regulation 17 "establishes and defines the powers of the Commission in the competition field." B. HAWK, *supra*, at 412.

2. There are three legally definable, treaty-based Communities in Europe. *See* D. LASOK & J.W. BRIDGE, *supra* note 1, at 14-25. They are the European Coal and Steel Community (ECSC), the European Economic Community (EEC) and the European Atomic Energy Community (Euratom). *See* B. HAWK, *supra* note 1, at 411. The ECSC was created by France, the Federal Republic of Germany, Italy, Belgium, the Netherlands and Luxembourg in Paris on April 18, 1951. Treaty Instituting the European Coal and Steel Community, Apr. 18, 1951, 261 U.N.T.S. 140. It was originally made up of five organs. D. LASOK & J.W. BRIDGE, *supra* note 1, at 13. These organs consisted of the High Authority, which was the executive organ, the Consultative Committee, the Special Council of Ministers, the Assembly, and the Court of Justice. *Id.* The treaties establishing the EEC and Euratom were both signed by the ECSC countries in Rome in March 1957. Treaty of Rome, *supra* note 1; Treaty Establishing the European Atomic Energy Community, Mar. 25, 1957, 295 U.N.T.S. 259.

The aim of each Community is different. The goal of Euratom "is to develop nuclear energy, distribute it within the Community and sell the surplus to the outside world." D. LASOK & J.W. BRIDGE, *supra* note 1, at 17. The aim of the EEC is the economic integration of the member states of the three Communities and its scope is therefore broader than that of the other two Communities. *Id.* at 18.

The institutions of the EEC and Euratom were patterned after those of the ECSC. *Id.* This resulted in a multiplicity of executive, judicial and legislative bodies. *Id.* Consequently, the merger of the separate institutions was inevitable. *Id.* "A Convention relating to certain Institutions common to the European Communities was concluded simultaneously with the Rome Treaties and provided for the establishment of a single Court of Justice and a single Parliamentary Assembly to serve all three Communities." *Id.*

The need for further unification was still clear. *Id.* at 18-19. In May of 1965 the member states instituted "a single Commission to replace the High Authority of the ECSC and the Commission of the EEC and Euratom, and a single Council to replace the separate Councils of the three Communities." D. LASOK & J.W. BRIDGE, *supra* note 1, at 19. This Commission is in charge of enforcing the competition laws of the EEC. *See supra* note 1.

The competition laws of the EEC involving enterprises are found in articles 85 through 90 of the Treaty of Rome, *supra* note 1; *see also* D. LASOK & J.W. BRIDGE, *supra* note 1, at 385-402 (discussing articles 85-90). Article 85 deals with agreements which have an anti-competitive effect. Treaty of Rome, *supra* note 1, art. 85 (for the text of article 85, see *infra* note 9). Article 86 prohibits a firm's abuse of its dominant position "[t]o the extent of which trade between any Member States may be affected." *Id.* art. 86. Article 87 directs the Council to create detailed rules regarding competition. *Id.* art. 87; *see* D. LASOK & J.W. BRIDGE, *supra* note 1, at 385-86. Articles 88 and 89 contain temporary provisions which last only until the Council implements article 87. Treaty of Rome, *supra* note 1, arts. 88-89; *see* D. LASOK & J.W. BRIDGE, *supra* note 1, at 386. Article 90 is concerned with the application of the rules of competition to undertakings controlled in some form or degree by the government of a member state, or "public enterprises." Treaty of Rome, *supra* note 1, art. 90.

3. Proposal for a Commission Regulation (EEC) on the Application of Article 85(3) of the Treaty to Certain Categories of Patent Licensing Agreements, No. 84/CC/1 [hereinafter cited as Present Draft] (copy on file at the offices of the *Fordham International Law Journal*).

4. A block exemption automatically exempts the otherwise unlawful practices listed in the regulation from the prohibition of article 85 of the Treaty of Rome, *supra* note 1. *See* D. LASOK & J.W. BRIDGE, *supra* note 1, at 392-93. They are created to expedite the exemption process. *Id.* Regulation No. 19/65/EEC, 5 J.O. COMM. EUR. (No. 36) 533 (1962), 1 COMMON MKT. REP. (CCH) ¶ 2717, gives the Commission the power to apply article 85(3) to certain categories of agreements which merit article 85(3) exemption. *See id.*

There are three ways in which alleged anti-competitive behavior comes before the Commission. First, it may come by way of the Commission's own investigation. *See* Regulation 17, *supra* note 1, art. 3. Second, the parties may notify, *id.* art. 4, the Commission of the agreement in order to get either a "negative clearance," *see id.* art. 2, or an individual exemption, *see id.* arts. 4-8, from an article 85 prohibition. Third, complaints to the Commission may come from third parties. *Id.* art. 3(2). Article 3(2) lists member states and "[n]atural or legal persons and associations of persons, who show a justified interest" as those parties entitled to make an application to the Commission for review of an agreement, decision, or practice for possible article 85 or 86 violations. *Id.* art. 3(2).

Article 3 of Regulation 17 gives the Commission the power to require parties to terminate an agreement which, "acting on request or *ex officio*," it finds to be an infringement of article 85, or article 86 of the Treaty of Rome. *Id.* art. 3.

Article 4 calls for the notification of "agreements, decisions or concerted practices referred to in Article 85, paragraph 1 . . . [and] [a]s long as such notification has not taken place, no decision to issue a declaration under Article 85, paragraph 3, may be rendered." *Id.* art. 4. Article 2 makes it possible for an enterprise, or an association of enterprises, to seek a "negative clearance" from the Commission. *Id.* art. 2. This is simply a certification by the Commission that, "according to the information it has obtained, there are, under Article 85, paragraph 1, or Article 86 of the Treaty, no grounds for it to intervene with respect to an agreement, decision or practice." *Id.* The "negative clearance" is restricted to the facts as presented to the Commission at a certain time; therefore, any change in the facts may give rise to a violation of article 85(1) or article 86. *See* B.I. CAWTHRA, PATENT LICENSING IN EUROPE 27-28 (1978).

Articles 4 through 8 of Regulation 17 set up the rules which the parties and the Commission must follow for granting of an individual exemption under article 85(3). Regulafor exclusive patent licensing agreements[5] in February, 1984. The *Fourth Draft*[6] and *Fifth Draft*[7] of the proposed regulation were changed due to criticisms[8] of the Commission's strict view of the types of agreements that should be exempt from scrutiny under article 85 of the Treaty of Rome.[9] It has been the Commission's

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tion 17, *supra* note 1, arts. 4-8. Article 4 deals with notification of new agreements. *Id.* art. 4. Article 5 deals with notification of agreements existing at the time Regulation 17 went into effect. *Id.* art. 5. Article 6 requires, with certain exceptions, that the Commission specify the date from which the decision under article 85(3) shall take effect. *Id.* art. 6. Article 7 deals with special provisions for existing agreements, and article 8 sets out the requirements for the duration and revocation of the decision under article 85(3). *Id.* arts. 7, 8.

5. An exclusive patent licensing agreement is an agreement in which the patent holder licenses the exclusive use of the patent to one licensee for a particular territory or technical field. P. AREEDA, ANTITRUST ANALYSIS ¶ 411(g) (1981).

6. Of the previous drafts only the fourth was officially published. Proposal for a Commission Regulation (EEC) on the application of Article 85(3) of the Treaty to Certain Categories of Patent Licensing, 22 O.J. EUR. COMM. (No. C 58) 12 (1979) [hereinafter cited as the Fourth Draft].

7. In October 1983, the Commission circulated a fifth draft of the proposed regulation under the same title as the *Fourth Draft*, *supra* note 6. *See* Proposal for a Commission Regulation (EEC) on the application of Article 85(3) of the Treaty of Certain Categories of Patent Licensing Agreements [hereinafter cited as Fifth Draft] (copy on file at the offices of the *Fordham International Law Journal*).

8. Notice pursuant to Article 5 of Council Regulation No 19/65/EEC of 2 March 1965 on the application of Article 85(3) the Treaty to Certain Categories of Agreements and Concerted Practices, 22 O.J. EUR. COMM. (No. C 58) 11 (1979). This is attached to the *Fourth Draft* and "invites all interested parties to send their comments" regarding the proposed block exemption to the Commission. *Id.*

9. *See* Treaty of Rome, *supra* note 1, at article 85. Article 85 states:

> 1. The following shall be deemed to be incompatible with the Common Market and shall hereby be prohibited: any agreements between enterprises, any decisions by associations of enterprises and concerted practices which are likely to affect trade between the Member States and which have as their object or effect the prevention, restriction or distortion of competition within the Common Market, in particular those consisting in:
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> (a) the direct or indirect fixing of purchase or selling prices or of any other trading conditions;
>
> (b) the limitation or control of production, markets, technical development or investment;
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> (c) market-sharing or sharing of sources of supply;
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> (d) the application to parties to transactions of unequal terms in respect of equivalent supplies, thereby placing them at a competitive disadvantage; or
>
> (e) the subjecting of the conclusion of a contract to the acceptance by a party of additional supplies which, either by their nature or according to commercial usage, have no connection with the subject of such contract.
>
> 2. Any agreements or decisions prohibited pursuant to this Article shall be null and void.
>
> 3. Nevertheless, the provisions of paragraph 1 may be declared inapplicable in the case of:

position that some provisions in patent licensing agreements may work against the EEC goal of economic integration.[10]

In this Note, the *Present Draft* is examined in light of the goals and history of Community competition policy. After a discussion of patents and licensing, the previous drafts and criticisms thereof are examined. An analysis of the recent decisions in *Nungesser v. Commission*[11] *(Maize Seed)* and *Coditel v. Ciné Vog*[12] as they relate to the proposed regulation follows. Finally, it is suggested that the Commission's present position, as evidenced by the *Present Draft* of the proposed regulation, constitutes an appropriate balance between the demands of industry and the needs of the Community.

I. *EEC ORGANIZATION*

Italy, France, West Germany, Belgium, Luxembourg and the Netherlands formed the European Economic Community (EEC) in 1957 by signing and ratifying the Treaty of Rome.[13] The principal goal of the EEC is to promote the free movement of goods, persons, services and capital within the Common Market.[14] To ensure that

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— any agreements or classes of agreements between enterprises,

— any decisions or classes of decisions by associations of enterprises, and

— any concerted practices or classes of concerted practices which contribute to improvement of the production or distribution of goods or to the promotion of technical or economic progress while reserving to users an equitable profit resulting therefrom, and which:

(a) neither impose on the enterprises concerned any restrictions not indispensible to the attainment of the above objectives;

(b) nor enable such enterprises to eliminate competition in respect of a substantial part of the goods concerned.

Id.

10. *See infra* notes 255-85 and accompanying text.

11. 1982 E. Comm. Ct. J. Rep. 2015, 3 COMMON MKT. REP. (CCH) ¶ 8805 [hereinafter cited as *Maize Seed*].

12. 1982 E. Comm. Ct. J. Rep. 3381, 3 COMMON MKT. REP. (CCH) ¶ 8865.

13. *See* Treaty of Rome, *supra* note 1. The number of member states increased in 1972, with the accession of the United Kingdom, Denmark and Ireland, *see* Treaty of Accession of Denmark, Ireland and the United Kingdom, Jan. 22, 1972, 1973 Gr. Brit. T.S. 1, 11 I.L.M. 397, and again in 1979 when Greece joined the Common Market, *see* Treaty of Accession of the Hellenic Republic, May 28, 1979, 22 O.J. EUR. COMM. (No. L 291) 9 (1979) 18 I.L.M. 897.

14. *See* Treaty of Rome, *supra* note 1, arts. 2, 3. For example, in order to facilitate these goals, article 3(a) eliminates customs, duties, and quotas on the import and export of goods, *id.* art. 3(a), and article 3(c) abolishes obstacles "to the free movement of persons, services and capital" as between the member states, *id.* art. 3(c).

no agreement interferes with this goal, article 85(1) of the Treaty bars any agreement which has as an object or effect the "prevention, restriction or distortion of competition within the Common Market."[15] Article 85(2) renders null and void any agreement falling under article 85(1).[16]

It is nevertheless generally recognized that some agreements may be beneficial even though they prevent, restrict or distort competition.[17] Under article 85(3),[18] prohibited restrictions that contribute to "the improvement of the production or distribution of goods,"[19] or promote "technical or economic progress,"[20] are exempt from article 85(1) liability if they meet two conditions. The restrictions imposed must be "indispensable to the attainment of the objectives" of the agreement,[21] and must not provide a firm with an opportunity to "eliminate competition."[22] Article 85(3) applies to any and all agreements having effect within the Common Market,[23] and the Commission is authorized to direct member states to take the necessary steps to eliminate violations.[24]

II. *THE PROPOSED BLOCK EXEMPTION*

A. *Reasons for a Block Exemption for Patent Licensing Agreements*

1. Patents in General

A patent system has two goals.[25] The first goal is to reward individual inventors for their inventions by removing the threat of

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15. Treaty of Rome, *supra* note 1, art. 85. For the text of article 85(1), see *supra* note 9.
16. Treaty of Rome, *supra* note 1, art. 85. For the text of article 85(2), see *supra* note 9.
17. *See* P. AREEDA, *supra* note 5, at ¶¶ 124-30.
18. Treaty of Rome, *supra* note 1, art. 85(3). For the text of article 85, see *supra* note 9.
19. Treaty of Rome, *supra* note 1, art. 85(3).
20. *Id.*
21. *Id.*
22. *Id.*
23. *See* Control of Restrictive Business Practices in the European Economic Community, U.N. Doc. TD/B/608 paras. 7, 8, 49 (1977). "The rules of competition apply essentially to restrictive business practices with effects in the Common Market." *Id.* para. 49.
24. Treaty of Rome, *supra* note 1, art. 89; *see* D. LASOK & J.W. BRIDGE, *supra* note 1, at 171.
25. *See* P. DEMARET, PATENTS, TERRITORIAL RESTRICTIONS AND EEC LAW 3 (1978).

competition for a term of years.[26] The second goal is to "encourage in the public interest the development of technology, of industrial techniques and of new industries, thus contributing to the economic and social development of the territory in which the particular patent system is operative."[27] In essence, the patent system is a balance between the desire for unfettered competition and the need to promote technological progress.[28]

It should be noted that a patent is not a government created "monopoly" in the antitrust sense;[29] it gives the patent holder only the right to exclude others from the protected information.[30] Though a patent may create a dominant position in the relevant market for the limited life of the patent, a monopoly will not necessarily result.[31] Furthermore, the patent holder's exclusive rights apply only with respect to manufacturing; they do not give him the right to regulate the product once it is placed on the market.[32] On the other hand, the patent does give the owner the right to restrict the use of unpatented, or unpatentable, information developed for use with the patent.[33]

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26. *Id.* at 4.

27. Confederation of British Industry, Industrial Panel Meeting: CBI submission to the European Commission, and-or the Office of Fair Trading, on the draft block exemption regulation for patent licenses para. 2 (May 10, 1979) [hereinafter cited as CBI] (available from the Confederation of British Industry, London, England) (commenting on the *Fourth Draft*, *supra* note 6).

28. *See* P. DEMARET, *supra* note 27, at 8.

29. *See* K.P. Ewing, Antitrust Enforcement and the Patent System: Similarities in the European and American Approach, Remarks before the Max Plank Institute 4 (Jan. 4, 1980) (copy on file at the offices of the *Fordham International Law Journal*).

30. *Id.* at 5; *see* CBI, *supra* note 27, para. 3.

31. *See* K.P. Ewing, *supra* note 29, at 5. "In many instances in reality a patent will confer little, if any, market power, and it certainly will not create a monopoly in the antitrust sense." *Id.*

32. *See* P. AREEDA, *supra* note 5, ¶ 411(f). "It is usually said that the 'first sale' of the product exhausts the patentee's legitimate interest" to control the patented product. *Id.* The patentee may not restrict a customer from using or reselling the patented product anywhere he chooses, whether that customer is an ordinary consumer or a dealer. *Id.* This is known as the "exhaustion of rights" doctrine. *Id.*; *see, e.g.*, Keeler v. Standard Folding Bed Co., 157 U.S. 659 (1895) (no restriction on dealer who purchased the product); Adams v. Burke, 84 U.S. 453 (1873) (no restriction on consumer allowed). *See also* B.I. CAWTHRA, *supra* note 4, 63-77 (discussing territorial restrictions).

33. *See* P. DEMARET, *supra* note 25, at 8.

2. Patent Licensing

It is sometimes in the interest of the patent holder to license the use of the patent to one or more firms.[34] Licensing may also have procompetitive benefits.[35] With a license, the patent holder gives up some of the exclusivity granted by the patent[36] which results in a greater distribution of new technology.[37] Furthermore, when the patent ends, the licensee will be ready to compete actively with the licensor and other licensees.[38]

One problem with licensing agreements is that the patent holder may sometimes unlawfully try to extend his patent rights through certain clauses in the agreement.[39] These attempts are usually considered anti-competitive and are generally prohibited under relevant antitrust laws.[40] Ordinarily, parties entering into an

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34. *See* P. AREEDA, *supra* note 5, ¶ 410(b):

> His reasons might include the following. (1) The patentee may think it more profitable to license than to risk expansion beyond his usual geographic or product specialty. (2) Industry-wide usage might increase consumer acceptance of the new product and thus generate greater sales for the patentee than he could have generated himself. (3) On any new undertaking, moreover, the patentee may prefer to avoid taking the entire risk of product and market development. (4) To occupy the whole market might require a substantial investment which might be lost if the patent were held invalid or if his rivals discovered an alternative to the patent. (5) There may be an industry custom by which each patentee permits his rivals to use his invention, albeit at a price. (6) A patentee might fear that occupying the whole of a significant market invites antitrust troubles under [the relevant antitrust statute]. (7) A second source of production reduces the risk of supply interruptions and thus may help attract industrial patronage.

Id.

35. *Id.*; *see* P. DEMARET, *supra* note 25, at 36-37.

36. *See* CBI, *supra* note 27, para. 4. The patent grant gives the patentee exclusive rights to the invention and in licensing its use he is relaxing this exclusivity by increasing the number of parties who are allowed to use the invention. *Id.*

37. *Id.*; *see* P. AREEDA, *supra* note 5, ¶ 410(b).

38. *See* Handler & Blechman, *An American View of the Common Market's Proposed Group Exemption for Patent Licenses*, 14 INT'L LAW. 403, 407 (1980). Note that the "exhaustion of rights" doctrine, *see supra* note 32, applies to the licensee's "first sale." Handler & Blechman, *supra*, at 409-10; *see* P. AREEDA, *supra* note 5, ¶ 411(f).

39. *See* K.P. Ewing, *supra* note 29, at 10.

40. Examples of the types of provisions which come under antitrust scrutiny include: 1) tie-ins, *see, e.g.*, Motion Picture Patent Co. v. Universal Film Mfg. Co., 243 U.S. 502 (1917) (patent holder of motion picture projector could not limit its use to projection of certain non-patented material); *see also* P. AREEDA, *supra* note 5, ¶¶ 530-56 (analyzing tying arrangements); 2) territorial restrictions, *see infra* notes 70-94, 243-90 and accompanying text; *see also* P. AREEDA, *supra* note 5, ¶ 411(f) ("[T]he territorial restriction has been a frequent vehicle for the elimination of competition between firms that would otherwise compete.");

agreement containing such clauses notify[41] the Commission in order to get an individual exemption under article 85(3),[42] or at least a negative clearance.[43] To reduce the number of applications for exemption, the Commission has proposed a block exemption for exclusive patent licensing agreements.[44]

B. *The* Fourth Draft

1. General Structure

The *Fourth Draft*[45] of the proposed block exemption for exclusive patent licensing agreements[46] is composed of thirteen articles.[47] Provisions in the first three articles have received extensive criticism.[48] Article 1[49] deals with obligations placed on the licensee or

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B.I. CAWTHRA, *supra* note 4, at 63-76 (discussing territorial restrictions); 3) field of use restrictions, *see infra* notes 95-102, 291-94 and accompanying text; *see, e.g.*, General Talking Pictures Corp. v. Western Elec. Co., 305 U.S. 124 (1938) (defendant's licensing of use of vacuum tube for use in home radios while retaining the rights to its use in theater amplifiers was held permissible because use restrictions are not inconsistent with defendant's exclusive patent rights); *see also* P. AREEDA, *supra* note 5, ¶ 425 (discussing field of use restrictions; 4) restrictions on price, *see* B.I. CAWTHRA, *supra* note 4, 184-91; and 5) restrictions relating to know-how, *id.*, 130-69; *see infra* notes 103-20, 296-311 and accompanying text.

41. *See* Regulation 17, *supra* note 1, art. 4. For a discussion of the notification procedure, see *supra* note 4.

42. See *supra* notes 4, 17-24 and accompanying text.

43. *Id.*

44. *See* D. LASOK & J.W. BRIDGE, *supra* note 1, at 393. At the end of 1979 there were an estimated 5000 applications for exemptions under article 85(3). *Special Issue: Patent Licensing*, 2 COMPETITION L. EUR. COMMUNITIES 99, 110 (1979) [hereinafter cited as *Special Issue*].

45. *See* Fourth Draft, *supra* note 6.

46. *See supra* note 5.

47. Fourth Draft, *supra* note 6, at 14-18. Article 4 requires that any disputes regarding provisions which fall under articles 1 or 3 which are settled by arbitration must be communicated to the Commission. *Id.* art. 4. Article 5 lists agreements, such as patent pooling and licenses relating to plant breeding, to which the exemption does not apply. *Id.* art. 5. Articles 6 and 7 deal with the retrospective applicability of the Regulation to agreements existing or amended before certain dates. *Id.* arts. 6, 7. Article 8 discusses how articles 6 and 7 apply to the United Kingdom, Ireland and Denmark. *Id.* art. 8. Article 9 gives the Commission the right to review a specific agreement under article 7 of Regulation 19/65, *supra* note 4, if it has anti-competitive effects even though it falls under the block exemption. *Id.* art. 9. Article 10 lists the types of agreements to which the block exemption will apply. *Id.* art. 10. Article 11 defines "economic connections." *Id.* art. 11. Article 12 makes the Regulation applicable to assignments of patents which have restrictions which fall under articles 1 or 3 of the Regulation. *See id.* art. 12. Article 13 gives the date upon which the Regulation will go into effect. *Id.* art. 13.

48. *See, e.g.*, *Special Issue*, *supra* note 44 at 99-100 (listing the most criticized provisions); Siragusa, *Technology Transfers under EEC Law: A Private View*, 1982 FORDHAM

the licensor that the Commission deems so restrictive or disruptive of competition that they fall under article 85(1) of the Treaty.[50] If these restrictions meet the requirements of article 1, they automatically meet the criteria of article 85(3) of the Treaty and are thereby exempt from liability.[51]

The obligations in article 2[52] are usually not violations of article 85(1).[53] In order to reduce the number of formal requests,[54] and to provide legal certainty,[55] the Commission grants article 2 restrictions an automatic exemption.[56] Article 3[57] lists restrictions that in the Commission's view never meet the criteria of article 85(3), and, therefore, require individual examination.[58]

Concurrently with publication of the *Fourth Draft*, the Commission requested criticisms[59] of the proposed exemption and received an overwhelming response[60] from law firms,[61] trade associations,[62] and other interested parties.[63] Public meetings were held in Brussels, Belgium, at which many of these individuals and groups presented their comments to members of the Commission.[64] Although many parts of the proposed regulation were discussed, most of the criticism centered on five provisions: the turnover requirement;[65] the field of use restriction;[66] restrictions relating to know-

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CORP. L. INST. 95, 101-03 (discussing articles 1-3 and 9); *see generally* Handler & Blechman, *supra* note 38, *passim* (criticizing provisions in articles 1-3).

49. *See* Fourth Draft, *supra* note 6, at 14-15.

50. *Id.* at 12.

51. *Id.* at 12-13.

52. *Id.* at 15-16.

53. *Id.* at 13; Siragusa, *supra* note 48, at 102.

54. *See supra* note 44 and accompanying text.

55. *See* K.P. Ewing, *supra* note 29, at 13-14.

56. *See* Fourth Draft, *supra* note 6, at 13.

57. *Id.* at 16-17.

58. *Id.* at 13.

59. *See supra* note 8.

60. *See Special Issue*, *supra* note 44, at 99.

61. *See id.* For example, the Brussels office of Cleary, Gottlieb, Stein & Hamilton, a New York-based law firm, submitted a lengthy memorandum. *Id.*

62. *See id.* The Union of Industries of the European Communities (UNICE) and the Confederation of British Industries (CBI) were among the trade organizations filing comments. *Id.* at 99, 100.

63. *See id.* For example, Laporte Industries Ltd. and Mr. Pierre Hug also testified at the meetings. *Id.* at 99, 101.

64. *Id.* at 99. The meetings took place on October 9-11, 1979. *Id.*

65. *Id.*

66. *Id.*

how;[67] obligations to pay royalties;[68] and quantity restrictions.[69]

2. Criticisms of the Provisions

a. The Turnover Requirement

Subsections 3 and 4 of article 1(1) exempt from article 85(1) prohibition[70] provisions in patent licensing agreements containing territorial sales restrictions. Section 3 exempts a grant of an exclusive territory to the licensee in which neither the licensor nor other licensees may sell the patented product or product manufactured using the patented process.[71] Section 4 allows provisions that prohibit the licensee from selling in the licensor's or another licensee's territory.[72] However, not all agreements containing territorial sales restrictions are exempt under this article.[73] The firm to be protected by the restrictions must meet a size limitation set forth in article 1(2)(a).[74] Only firms with a total annual turnover of no more than 100 million European Units of Account are exempt.[75] This total annual turnover includes the sale of all goods and services by the firm,[76] and by other firms having "economic connections" with it.[77]

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67. *Id.* at 100.

68. *Id.* at 99.

69. *Id.* at 100.

70. *Fourth Draft, supra* note 6, at 14.

71. *Id.* The provision exempts "the obligation on the part of the licensor to refrain from selling the patented product or product manufactured by a patented process within the licensed territory, or to impose a corresponding prohibition on other licensees." *Id.*

72. *Id.* The provision exempts "the obligation on the part of the licensee to refrain from selling the patented product or product manufactured by a patented process within the defined territory of the common market reserved by the licensor for himself or in the licensed territories of other licensees." *Id.*

73. *See id.* at 13.

74. *See id.* at 13, 15.

75. *Id.* at 15. In 1979 E.U.A.100 million equalled approximately U.S.$140 million. *See Special Issue, supra* note 44, at 104.

76. Fourth Draft, *supra* note 6, at 15.

77. *Id.* "Economic connections" is defined in article 11 of the *Fourth Draft* as follows:

> For the purposes of this Regulation, two undertakings shall be deemed to have economic connections where one of them is in a position to exert a decisive influence on the other, directly or indirectly, with regard to the exploitation of a patent, or where a third undertaking is in a position to exercise such an influence on both of them.

Id. at 18.

The Commission states that the purpose of the turnover provision is to insure that "the exemption will not be available for a number of firms which have particularly large financial resources and which, moreover, hold the bulk of the patents in force in the common market."[78] This is consistent with the Commission's competition policy.[79] By exempting small and medium-size firms, the Commission is concentrating on the activities of those larger firms which have the potential power to affect competition within the territory of the Common Market.[80]

The turnover requirement has been criticized on numerous grounds. First, some critics argue that since a license reduces the patent holder's exclusive rights, any restriction in the license is less restrictive than no license at all.[81] Under the "inherency doctrine,"[82] a patent holder has the right to "relax a portion" of his exclusive rights to practice his invention by licensing, but he still retains the right to place restraints on the licensee.[83]

A second claim is that if the Commission views licensing as beneficial, any provision in the proposed regulation which deters licensing is not beneficial.[84] More specifically, if the Commission's premise that the large firms hold most of the patents is accepted, then a provision that expressly operates against these firms would

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78. *Id.* at 13.

79. The Commission has described the EEC's competition policy as having three goals: market integration, competition and fairness. *See* B. HAWK, *supra* note 1, at 423-24, Supp. 193. "So far as competition policy is concerned, . . . [fairness] makes it necessary to adapt the Community competition rules so as to pay special regard in particular to small and medium firms that lack market strength." *Id.* at Supp. 195 (quoting COMM'N, NINTH REPORT ON COMPETITION POLICY 9-11 (1980)).

80. *Id.* at Supp. 194. "An excessive concentration of economic, financial and commercial power can produce such far-reaching structural changes that free competition is no longer able to fulfill its role as an effective regulator of economic activity." *Id.* (quoting COMM'N, *supra* note 79, at 9-11 (1980)). The Commission "expressly acknowledges that 'social' and 'human' demands sometimes require a modification of results otherwise mandated on purely economic grounds." B. HAWK, *supra* note 1, at 423.

81. *See* P. AREEDA, *supra* note 5, at 411(b); Handler & Blechman, *supra* note 38, at 407; CBI, *supra* note 27, at para. 4.

82. *See* ABA SECTION OF ANTITRUST LAW, MONOGRAPH NO. 6, U.S. ANTITRUST LAW IN INTERNATIONAL PATENT AND KNOW-HOW LICENSING, 13 n.55 (1981).

83. *Id.* at 13.

84. *See* Handler & Blechman, *supra* note 38, at 409. "[T]he effect of limiting the availability of territorial restrictions to companies having turnovers of more than 100 million units of account is to discourage licensing by precisely those companies that have something to license." *Id.*

greatly deter licensing agreements.[85] Technology would not be developed and disseminated as quickly because the large firms would either not license at all,[86] or license only in certain territories.[87] The effect would be to restrict the flow of technology within the Common Market,[88] or to make technology available only within certain areas of the Common Market.[89] Finally, since the turnover requirement would directly affect multinationals,[90] the flow of technology into the Common Market would be impaired.[91]

Three options were suggested to the Commission. Many argued that the Commission should remove the turnover requirement altogether.[92] Failing this, it was thought the turnover requirement should be limited to the relevant product market.[93] As a last alternative, it was suggested that the Commission should allow these large firms to establish "exclusive areas of solicitation."[94]

b. Field of Use Restrictions

Some criticisms pertain to the qualification in article 2(1), subsection 1, which requires that "the relevant products in each of the fields from which the licensee is excluded differ in a material respect from the products for which the license is granted."[95] Sometimes identical patented products may be used in more than one way,[96] and the patent holder may wish to license only one of the uses.[97] A literal reading of article 2(1), section 1, would make such a

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85. *Id.*
86. *Id.* at 408.
87. *See id.*
88. *See id.*
89. *Id.*
90. *See id.* at 408 n.25 and accompanying text.
91. *Id.*
92. *Id.* at 408-10; ABA Section of Antitrust Law, ABA Comments on the Proposal for a Commission Regulation on the application of Article 85(3) of the Treaty to Certain Categories of Patent Licensing Agreements 7 (Mar. 3, 1979) [hereinafter cited as ABA Memorandum] (memorandum submitted to the Commission in response to its request for criticisms on the proposed regulation).
93. ABA Memorandum at 7-8.
94. *See id.* at 8. These exclusive areas of solicitation would be "territories where the protected party would be the only authorized to solicit sales of the product although other authorized persons could deliver there." *Id.*
95. *See* Fourth Draft, *supra* note 6, at 15.
96. *See* General Talking Pictures Corp. v. Western Elec. Co., 305 U.S. 124, 126 (1938).
97. *Id.*

restriction unexemptable because the "relevant products" may not "differ in material respects."[98]

The same general arguments made against the turnover provision have also been made against the field of use provision.[99] That is, the provision would deter patent licensing, thereby impairing the flow of technology into and within the Common Market.[100] Furthermore, two commentators, Handler and Blechman, have argued that

> there is no way that field-of-use restrictions can conceivably have an adverse impact on economic integration. Unlike territorial restraints, which may in some cases divide a common market into exclusive geographic areas, perhaps coinciding with national boundaries, for the exploitation of technology, field of use restrictions cut across such divisions and promote the development of technology in commercial fields that extend geographically to the whole market.[101]

The American Bar Association suggested to the Commission that it change this ambiguous language because a field of use restriction is actually procompetitive.[102]

c. Restrictions Relating to Know-how

Article 3(10) and (11) respectively condemn clauses prohibiting a licensee from using know-how *after* the expiration of the license,[103] and clauses providing for field of use restrictions on know-how.[104]

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98. *See* Fourth Draft, *supra* note 6, at 15. For example, the amplifiers in *General Talking Pictures* were exactly the same, thus they did not "differ in material respects." *Id.*

99. *See supra* notes 81-91 and accompanying text.

100. *Id.*

101. *See* Handler & Blechman, *supra* note 38, at 420-21.

102. *See* ABA Memorandum, *supra* note 92, at 5-7.

103. *See* Fourth Draft, *supra* note 6, at 16. The provision reads:

> [A] clause prohibiting the licensee from using after the expiry of the agreement secret manufacturing processes or other secret know-how communicated by the licensor; this is without prejudice to any right of the licensor to require payments for the use of such processes or know-how for an appropriate period, even after the expiry of the agreement, but subject to paragraph 4(d) of this Article.

Id.

104. *Id.* Article 3(11) states:

> [A] restriction on the licensee against using secret manufacturing processes or other secret know-how communicated by the licensor except for specified purposes; with-

The Commission's view of know-how has been that it is less important than a patent because the latter is protected by legislation whereas the former is not.[105] This attitude has come under vigorous attack.[106] One of the chief criticisms of article 3(10) is that it would not allow the licensor to stop the licensee from using the know-how after the agreement expires.[107] The owner of a patent will not want to license the know-how required to use the patent if there is no assurance that the licensees will stop using the information once the agreement has ended.[108] The critics envision three situations: the patent owner could be forced to sell the know-how at a high one-time price rather than license it at a lower price;[109] the patent owner could decide to grant a perpetual license to continue to receive royalties from the licensee's use of the know-how;[110] the patent owner could decide not to license anywhere in the Common Market if he cannot impose field of use and other restrictions on know-how.[111]

All of these possibilities would adversely affect small and medium-sized businesses. In the first situation, only large firms would be able to afford the high one-time price to acquire the know-how.[112] In the second, it may not be economically sound for a firm to commit itself to a perpetual license.[113] In the third situation, if large international firms do not license within the Common Market, small and medium-sized firms will not be able to acquire the latest technology.[114] Although the Commission attempts to protect

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> out prejudice to any right of the licensor to require payments at an appropriately higher rate for any use by the licensee not covered by the agreement and not protected by patents of the licensor.

Id.

105. *See* Siragusa, *supra* note 48, at 104.

106. *See* ABA Memorandum, *supra* note 92, at 2-5; CBI, *supra* note 27, paras. 21-25, 39(vii); Siragusa, *supra* note 48; *Panel Discussion on International Technology Transfers in the EEC*, 1982 FORDHAM CORP. L. INST. 163, 172-75 [hereinafter cited as *Panel Discussion*]; *Special Issue, supra* note 44, at 108-10; Handler & Blechman, *supra* note 38, at 410-15.

107. *See supra* note 103.

108. *See* ABA Memorandum, *supra* note 92, at 3-4; Handler & Blechman, *supra* note 38, at 413.

109. *See Panel Discussion, supra* note 106, at 174.

110. *See* Handler & Blechman, *supra* note 38, at 414.

111. *Id.*; *see Panel Discussion, supra* note 106, at 174-75.

112. *See Panel Discussion, supra* note 106, at 174.

113. *See* Handler & Blechman, *supra* note 38, at 414.

114. *See id.*

small and medium-sized firms through article 3(10), the critics view the effects of the provision as contrary to that goal.[115]

From the point of view of a small business licensor, the field of use restriction in article 3(11) provides two options: the licensor could either not license at all,[116] or grant a license to the firm which could exploit the know-how to its fullest, thereby providing him with a maximum return on his license.[117] Under the circumstances, licensing to a large firm would be more profitable than licensing to a small firm.[118]

The overall result of both provisions is to put small and medium-sized firms in a less attractive position *vis-à-vis* the larger firms.[119] It was suggested that the Commission re-evaluate its attitude toward know-how, at least in the context of patent licensing, in order to allow agreements with restrictions relating to know-how to come under the block exemption.[120]

d. Royalties

Article 3(4)(a)[121] prohibits a requirement that the licensee pay royalties "on products covered neither wholly nor partly by the patent,"[122] nor manufactured by the patented process or "other know-how communicated under the license" agreement.[123] The problem created by this provision is that the licensee may want to pay the licensor a percentage of its total annual sales as royalties rather than basing the payment on the number of sales of the patented product.[124] According to the critics, this article would require constant monitoring of the licensee's production and sale of the relevant products in order to assess the amount of royalties due.[125] They suggest that the Commission allow a measure of royal-

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115. *Id.* at 413.

116. *See supra* note 112.

117. ABA Memorandum, *supra* note 92, at 4; *see Panel Discussion*, *supra* note 106, at 174-75.

118. ABA Memorandum, *supra* note 92, at 4; *see Panel Discussion*, *supra* note 106, at 174-75.

119. *See* Handler & Blechman, *supra* note 38, at 414.

120. *See* ABA Memorandum, *supra* note 92, at 4-5; CBI, *supra* note 27, para. 25. Handler & Blechman, *supra* note 38, at 415.

121. *See* Fourth Draft, *supra* note 6, at 16.

122. *Id.*

123. *Id.*

124. *See* ABA Memorandum, *supra* note 92, at 8.

125. *Id.* at 8-9. The Antitrust Section argues that:

[This prohibition would be] a wholly impractical obligation. Both parties would be ties based on the total annual sales of the licensee provided the licensee is not coerced into such an agreement.[126]

e. Quantity Restrictions

Article 3(6)[127] precludes any restriction on the maximum number of products manufactured[128] or the number of operations employing the patent.[129] The argument in favor of quantity restrictions is based on the "inherency doctrine";[130] as the patentee retains the right to altogether exclude others, any restriction in the license is less restrictive than no license at all.[131]

3. Commission's Response

After evaluating criticisms of the *Fourth Draft* in 1979, the Commission decided to amend the proposed block exemption.[132] In the meantime, the Commission awaited[133] the European Court of Justice's decision in *Maize Seed*,[134] which involved certain licensing restrictions.[135] In June 1982,[136] the Court of Justice issued a judgment in *Maize Seed*,[137] followed four months later by its decision in Coditel v. Ciné Vog.[138] These cases have had considerable impact on the proposed regulation[139] and on analysis of Article 85 in general.[140]

> obligated to retain patent attorneys and technological specialists knowledgable about the scope of patents under different national patent systems and knowledgable about the specific methods of manufacture, composition and workings of the licensed products.

Id. at 9.

126. *Id.*; Handler & Blechman, *supra* note 38, at 423; CBI, *supra* note 27, para. 39(iii).
127. *See* Fourth Draft, *supra* note 6, at 16.
128. *Id.*
129. *Id.*
130. *See supra* notes 82-83 and accompanying text.
131. *Id.*
132. *See Panel Discussion*, *supra* note 106, at 166.
133. B. HAWK, *supra* note 1, at Supp. 326.
134. 1982 E. Comm. Ct. J. Rep. 2015, 3 COMMON MKT. REP. (CCH) ¶ 8805.
135. *See infra* notes 154-61 and accompanying text.
136. The *Fourth Draft* was published in 1979, *see supra* note 6, and the Commission decision from which *Maize Seed* arose was published in 1978, 21 O.J. EUR. COMM. No. L 286) 23 (1978), 3 COMMON MKT. REP. (CCH) ¶ 10,083 [hereinafter cited as Commission Decision].
137. 1982 E. Comm. Ct. J. Rep. 2015, 3 COMMON MKT. REP. (CCH) ¶ 8805.
138. 1982 E. Comm. Ct. J. Rep. 3381, 3 COMMON MKT. REP. (CCH) ¶ 8865.
139. *See infra* notes 388-423 and accompanying text.
140. *See infra* notes 162-82, 214-37 and accompanying text.

III. *THE* MAIZE SEED *AND* CODITEL *CASES*

A. Maize Seed

1. The Facts

During 1960 and 1961, a French state agency[141] (INRA) assigned its breeder's rights[142] to a newly developed variety of maize seed[143] to Kurt Eisele, a resident of the Federal Republic of Germany.[144] In 1965, the parties reached a new agreement.[145] The new agreement granted Eisele the exclusive right to distribute INRA's maize seed in West Germany[146] and obligated INRA to prevent other imports of its maize seed into West Germany.[147] In exchange for the exclusive distribution rights, Eisele agreed to buy two-thirds of the maize seed from INRA, the remaining one-third to be produced in West Germany by Eisele, or by someone under his supervision.[148] Eisele also agreed to set prices in agreement with INRA and to refrain from selling competitors' seeds.[149]

In 1973, Eisele brought an action for infringement of exclusive rights against Louis David, K.G., (David), on the ground that

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141. *See Maize Seed*, 1982 E. Comm. Ct. J. Rep. 2015, 2018, 3 COMMON MKT. REP. (CCH) ¶ 8805, at 7512. "The *Institut National de la Recherche Agronomique* (National Institute for Agricultural Research) . . . is a French public body whose task it is, *inter alia*, to carry out research with a view to improving and developing plant production." *Id.*

142. *Id.* at 2054, 3 COMMON MKT. REP. (CCH) ¶ 8805, at 7537. Breeder's rights are defined in the decision as:

> those rights conferred on the breeder of a new plant variety or his successor in title pursuant to which the production, for purposes of commercial marketing, of the reproductive or vegetative propagating material, as such, of the new variety and the offering for sale or marketing of such material are subject to the prior authorization of the breeder.

Id.

143. *See* Commission Decision, 21 O.J. EUR. COMM. (No L 286) 23, 24-25 (1978), 3 COMMON MKT. REP. (CCH) ¶ 10,083, at 10,311-12 (regarding the economic importance of maize seeds and Community and national regulations dealing with maize seeds).

144. *See* Siragusa, *supra* note 48, at 113. The rights were assigned rather than licensed because German law required that the registered person be a German national. *Id.*

145. *Id.*

146. *See* Commission Decision, 21 O.J. EUR. COMM. (No. L 286) 23, 27 (1978), 3 COMMON MKT. REP. (CCH) ¶ 10,083, at 10,314.

147. *Id.* at 28, 3 COMMON MKT. REP. (CCH) ¶ 10,083, at 10,315. In the meantime, Mr. Eisele had re-assigned his breeder's rights to Nungesser, KG, a partnership in which he was the sole partner and holder of the majority of the capital. *Id.* at 27, 3 COMMON MKT. REP. (CCH) ¶ 10,083, at 10,315. For the sake of clarity, the name Eisele will refer to both Mr. Eisele and Nungesser, KG.

148. *Id.* at 28, 3 COMMON MKT. REP. (CCH) ¶ 10,083, at 10,315.

149. *Id.*

David had imported INRA seed from France for resale in West Germany.[150] The parties reached a court-approved settlement in West Germany whereby David undertook to refrain from selling or marketing the maize seed in West Germany without Eisele's authorization.[151]

In a 1978 decision, the Commission found that the restrictions in the agreements between Eisele and INRA, and the settlement between Eisele and David, violated article 85(1)[152] and were not subject to an individual exemption under article 85(3).[153]

2. The Court of Justice's 1982 Judgment

In 1982 the Court of Justice reversed the part of the Commission's 1978 decision that dealt with exclusive licensing restrictions relating to the parties themselves[154] and not third parties.[155] It held that the following provisions were not automatic violations of article 85(1):

> — An obligation upon INRA or those deriving rights through INRA to refrain from having the relevant seeds produced or sold by other licensees in Germany, and
> — An obligation upon INRA or those deriving rights through INRA to refrain from producing or selling the relevant seeds in Germany themselves.[156]

The Court upheld the Commission's decision that the following restrictions were automatic violations of article 85(1):

> — An obligation upon INRA or those deriving rights through INRA to prevent third parties from exporting the relevant seeds

150. *See Maize Seed*, 1982 E. Comm. Ct. J. Rep. 2015, 2020, 3 COMMON MKT. REP. (CCH) ¶ 8805, at 7547. Meanwhile, in June of that same year INRA granted an exclusive license to the *société anonyme* Française des Semences de Mais (FRASEMA) whereby the latter received exclusive rights for all import purchases and export sales, and undertook to prohibit re-importation of the seed into France. Commission Decision, 21 O.J. EUR. COMM. (No. L 286) 23, 27 (1978), 3 COMMON MKT. REP. (CCH) ¶ 10,083, at 10,314.

151. Commission Decision, 21 O.J. EUR. COMM. (No. L 286) 23, 27 (1978), COMMON MKT. REP. (CCH) ¶ 10,083, at 10,314.

152. *See id.* at 36, 3 COMMON MKT. REP. (CCH) ¶ 10,083, at 10,323 (art. 1).

153. *Id.* (art. 2).

154. *See Maize Seed*, 1982 E. Comm. Ct. J. Rep. 2015, 2027, 3 COMMON MKT. REP. (CCH) ¶ 8805, at 7548.

155. *Id.* at 2077, 3 COMMON MKT. REP. (CCH) ¶ 8805, at 7548.

156. *Id.*

to Germany without the licensee's authorization for use or sale there, and

— Mr. Eisele's concurrent use of his exclusive contractual rights and his own breeder's rights to prevent all imports into Germany and all exports to other Member States of the relevant seeds.[157]

In reaching this judgment, the Court made a distinction between "open" and "closed" exclusive licenses.[158] "Open" licenses are those relating "solely to the contractual relationship between the owner of the right and the licensee, whereby the owner merely undertakes not to grant other licenses in respect of the same territory and not to compete himself with the licensee on that territory."[159] "Closed" licenses are those in which "the parties to the contract propose, as regards the product and the territory in question, to eliminate all competition from third parties, such as parallel importers or licensees for other territories."[160] The Court's conclusion was that "in a case such as the present, the grant of an open exclusive license . . . is not in itself incompatible with Article 85(1) of the Treaty."[161]

This conclusion is significant because the Court made what some consider a radical shift in the analysis of article 85.[162] The Court did not find that the "open" exclusive license violated article 85(1) but still meets the requirements for an individual exemption under article 85(3).[163] Instead, it decided that the agreements did not violate article 85 at all[164] because of these factors:[165] (1) the nature of the product;[166] (2) the novelty and importance of the transferred technology;[167] (3) the investment risks assumed by the

157. *Id.* at 2068, 3 COMMON MKT. REP. (CCH) ¶ 8805, at 7544.
158. *Id.*
159. *Id.*
160. *Id.*
161. *Id.* at 2069, 3 COMMON MKT. REP. (CCH) ¶ 8805, at 7544.
162. *See* B. HAWK, *supra* note 1, at Supp. 326-33; Siragusa, *supra* note 48, at 199.
163. *See* Siragusa, *supra* note 48, at 119.
164. *See Maize Seed*, 1982 E. Comm. Ct. J. Rep. 2015, 2068-69, 3 COMMON MKT. REP. (CCH) ¶ 8805, at 7544.
165. *Id.* at 2069, 3 COMMON MKT. REP. (CCH) ¶ 8805, at 7544.
166. *Id.*
167. *Id.*

licensee;[168] and (4) the development of interbrand competition.[169] The opinion does not specify which of these factors is the most important,[170] or whether additional factors might also be applicable or important.[171] However, commentators see in this case the possible introduction of a "rule of reason" type analysis into Community competition law.[172] Under such an analysis, the issue before the Court is whether an agreement that prevents, restricts or distorts competition is justifiable under a particular set of facts and, therefore, does not fall under article 85(1).[173] The introduction of such an analysis into the interpretation of article 85(1) "would constitute a radical if not revolutionary departure from current EEC enforcement policy and practice."[174] Consequently, one of the most important questions raised by this judgment is whether the Court's reasoning is applicable to all technology transfers, or limited to the special field of breeder's rights.[175]

It is significant that the Court expressly rejected the claim that breeder's rights should not come under articles 85 and 86 of the Treaty because the special nature of the rights makes them different from other industrial property rights.[176] The reasoning in *Maize Seed*, therefore, "could be applicable to patent licenses and knowhow transfers, and perhaps to trademark licenses as well."[177] This would be true "at least where the products concerned involve considerations analogous to those raised in the *Maize Seed* case."[178]

The Commission has been reluctant to read any type of rule of reason analysis into the *Maize Seed* decision.[179] Indeed, some of its members have warned of the folly of extending the reasoning of the Court of Justice beyond the facts of any particular case.[180] Nonethe-

168. *Id.*
169. *Id.*
170. Siragusa, *supra* note 48, at 121.
171. B. HAWK, *supra* note 1, at Supp. 332.
172. *Id.* at Supp. 331; Siragusa, *supra* note 48, at 141-42.
173. *See* Siragusa, *supra* note 48, at 119.
174. B. HAWK, *supra* note 1, at Supp. 333.
175. *See* Siragusa, *supra* note 48, at 137.
176. *Id.*
177. *Id.* at 138.
178. *Id.*
179. B. HAWK, *supra* note 1, at Supp. 331.
180. *See* Johannes, *Technology Transfer under EEC Law—Europe between the Divergent Opinions of the Past and the New Administration: A Comparative Law Approach*, 1982

less, it cannot be denied that in the *Maize Seed* case, the balancing process commonly used to determine whether an agreement could be exempt under article 85(3)[181] was shifted to determine whether the agreement comes within the scope of article 85 at all.[182]

B. Coditel

1. The Facts

In July of 1969, a Belgian film distribution company, Ciné Vog, received the exclusive right from a French producer[183] to show a certain film[184] in Belgium for seven years.[185] This right could not be exercised until forty months after the first showing of the film in Belgium.[186]

The producer later assigned the right to broadcast the same film in the Federal Republic of Germany to German television.[187] The film was shown in Germany in January of 1971 where three Belgian cable television companies, Coditel, picked it up and forwarded it to their cable subscribers in Belgium.[188] Ciné Vog brought an action against Coditel charging infringement of its copyright.[189]

The *Tribunal de Premiere Instance* ruled in favor of Ciné Vog in June of 1975,[190] and the decision was appealed.[191] In 1981 the Belgian *Cour de Cassation*, while rejecting part of the lower court's

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FORDHAM CORP. L. INST. 65, 69. ("One must be cautious in generalizing [Court of Justice] judgments beyond the issues at stake.")

181. *See supra* notes 174-75 and accompanying text.

182. *Id.*

183. The producer was Les Films La Boetie. *Coditel v. Ciné Vog*, 1982 E. Comm. Ct. J. Rep. 3381, 3398, 3 COMMON MKT. REP. (CCH) ¶ 8865, at 8173.

184. The film was "Le Boucher." *Id.* at 3384, 3 COMMON MKT. REP. (CCH) ¶ 8865, at 8173.

185. *Id.*

186. The first performance of the film in Belgium took place on May 15, 1970. *Id.*

187. *Id.*

188. *Id.*

189. *Id.*

190. *Id.*

191. In 1979, the *Cours D'Appel*, Brussels, held *inter alia*, "first that the Coditel companies required the authority of Ciné Vog to show the film . . . basing its decision upon the Berne Convention on the Protection of Literary and Artistic Works, . . . secondly that a performing right was part of the specific subject matter of copyright and that consequently Article 85 did not apply . . . ." *Id.* Coditel appealed.

reasoning,[192] took the view that the rest of the issues in the case raised a question of interpretation of Community law.[193] It stayed the proceedings[194] and, pursuant to article 177 of the Treaty,[195] presented a question to the Court of Justice.[196]

The question consisted of three parts. The court first asked whether on the facts, the agreement between Ciné Vog and the French producer constituted a violation of article 85, sections 1 and 2.[197] Second, whether article 36 of the Treaty[198] would allow the application of article 85 to the agreement.[199] Third, whether the assignee's right was protected through independent legal status which did not properly allow the application of article 85 to the agreement.[200]

2. The Court's Judgment

In answering the question, the Court used a two step approach.[201] It first emphasized the distinction between the "existence"[202] of a right as a result of member state legislations, and the "exercise" of that right.[203] Although the exercise of that right might prove "incompatible"[204] with article 85 by preventing, restricting or distorting competition, its mere existence cannot be condemned.[205] The Court cited two of the factors discussed in *Maize Seed* to show

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192. The *Cours D'Appel* rejected the appellant's submission relating to infringement under the Berne Convention. *Id.* at 3384-85, 3 COMMON MKT. REP. (CCH) ¶ 8865, at 8173.

193. *Id.* at 3385, 3 COMMON MKT. REP. (CCH) ¶ 8865, at 8173.

194. *Id.*

195. *Id.* Article 177 provides for the referral of a question which deals with the interpretation of Community law by a national court to the Court of Justice. *See* Treaty of Rome, *supra* note 1, art. 177.

196. *Coditel*, 1982 E. Comm. Ct. J. Rep. 3381, 3385, 3 COMMON MKT. REP. (CCH) ¶ 8865, at 8173.

197. *Id.*

198. *See* Treaty of Rome, *supra* note 1, art. 36. "Article 36 allows the Member States to derogate from their obligations on several grounds provided such derogations do not constitute 'a means of arbitrary discrimination or a disguised restriction on trade.' " D. LASOK & J.W. BRIDGE, *supra* note 1, at 360.

199. *Coditel*, 1982 E. Comm. Ct. J. Rep. 3381, 3385, 3 COMMON MKT. REP. (CCH) ¶ 8865, at 8173.

200. *Id.*

201. *See id.* at 3401, 3 COMMON MKT. REP. (CCH) ¶ 8865, at 8183-85.

202. *Id.*, 3 COMMON MKT. REP. (CCH) ¶ 8865, at 8184.

203. *Id.*

204. *Id.*

205. *Id.*

that the mere existence of the exclusive grant did not violate article 85.[206] It mentioned the need to protect the licensee because of the investment risks common to the film industry[207] and the need to promote interbrand competition.[208]

The Court then applied this distinction to the facts before it.[209] It held that although the licensee had been granted exclusive exhibition rights in a member state, and consequently the right to prevent others from showing the film in that country for a specified period,[210] no automatic violation of article 85 existed.[211] The Court noted that the violation might be in the exercise of the exclusive right to the film[212] but that it lacked enough information to decide this issue.[213] The Court, therefore, instructed the national court to make the necessary inquiries into this area.[214]

C. *The Effects of* Maize Seed *and* Coditel *on Exclusive Agreements*

Maize Seed developed two categories of exclusive licensing agreements: "open" and "closed."[215] "Open" agreements place restrictions on the parties to the agreement and are not per se unlawful.[216] "Closed" agreements restrict third parties and, therefore, violate article 85.[217] Whether the grant of an "open" license violates article 85 depends on a number of factors set out by the Court.[218] One question raised by this distinction is whether unilateral enforcement of exclusive rights by the licensee in order to prohibit third parties from infringing on these rights causes an "open" li-

206. *Id.*
207. *Id.*
208. *Id.*
209. *Id.* at 3401, 3 COMMON MKT. REP. (CCH) ¶ 8865, at 8184-85.
210. *Id.*, 3 COMMON MKT. REP. (CCH) ¶ 8865, at 8184.
211. *See id.*
212. *Id.* at 3402, 3 COMMON MKT. REP. (CCH) ¶ 8865, at 8184.
213. *Id.*
214. *Id.*
215. *See supra* notes 156-61 and accompanying text.
216. *See supra* notes 159, 162 and accompanying text.
217. *See supra* notes 157, 160 and accompanying text.
218. *See supra* notes 162-71 and accompanying text.

cense to automatically become "closed."[219] A second question is whether, if the rule of reason analysis of *Maize Seed* applies to technology transfers in general,[220] it can be extended to agreements that do not involve the transfer of technology at all.[221]

Coditel v. Ciné Vog may shed some light on these questions. In *Coditel*, the Court emphasizes the distinction between the existence and the exercise of these rights,[222] and notes that the existence of exclusive rights implicitly allows the owner to restrict third parties.[223] The Court states that the analysis should be whether or not the "exercise" of the right, not its "existence," had the object or effect of preventing, restricting or disrupting competition within the Common Market.[224] Consequently, an "open" license may become "closed" as a result of the unilateral exercise of the exclusive right if it violates an article of the Treaty.[225] Conversely, where there is no other violation of the Treaty, the exercise of the rights granted under an "open" licensing agreement in order to prohibit the actions of third parties need not automatically create a "closed" license.[226] It is the reasonableness of the exercise that should be examined.[227]

The Court mentioned only two of the *Maize Seed* factors in finding that the existence of an exclusive license is not within the ambit of article 85: protection of the licensee due to the investment risks of the industry,[228] and promotion of interbrand competition.[229] This analysis is "clearly grounded in a rule of reason approach."[230] It appears that with *Coditel* the Court takes the rule of reason approach out of the specific area of technology transfers and into a

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219. *See* Siragusa, *supra* note 48, at 136-37.
220. *See supra* notes 177-78 and accompanying text.
221. Siragusa, *supra* note 48, at 138-41.
222. *See supra* notes 202-03 and accompanying text.
223. *See supra* notes 202-03, 212 and accompanying text.
224. *Coditel v. Ciné Vog*, 1982 E. Comm. Ct. J. Rep. 3381, 3401, 3 COMMON MKT. REP. (CCH) ¶ 8865, at 8184.
225. *See* Siragusa, *supra* note 48, at 132-37.
226. *See id.*
227. *See supra* notes 162-73, 206-08 and accompanying text.
228. *See supra* notes 206-08 and accompanying text.
229. *Id.*
230. Siragusa, *supra* note 48, at 138-39.

broader area of application.[231] Thus, the radical shift[232] implicit in *Maize Seed* is reinforced by *Coditel*.[233]

There is disagreement about how these two cases should be interpreted,[234] but there is no question as to their importance.[235] At the very least, they are developments in Community law that affect the way in which the Commission must look at exclusive patent licensing agreements,[236] and specifically the way in which it approaches revision of the proposed block exemption.[237]

IV. *THE* FIFTH DRAFT *OF THE PROPOSED BLOCK EXEMPTION*

The *Fifth Draft*[238] of the proposed block exemption represented the Commission's reaction to the criticism of the *Fourth Draft*[239] and recent developments in Community competition law.[240] Although certain strongly criticized provisions remained intact in either form or effect,[241] the changes in the *Fifth Draft* show that the Commission was aware of the need for a new attitude with respect to the kind of agreements it would place within the block exemption.[242]

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231. *Id.* at 138-41. According to Siragusa:

> The Court's holding goes beyond the *Maize Seed* case in that it applies to performance rights for a film and therefore does not involve any transfer of technology. Thus by holding that the grant of the exclusive rights did not per se violate Article 85(1), the Court adopted a rule of reason analysis where no technology transfer was involved.

Id. at 138.

232. *See supra* notes 162-65 and accompanying text.

233. *See supra* note 231 and accompanying text.

234. *Compare* Siragusa, *supra* note 48, *passim* (favoring rule of reason interpretation) *with* Johannes, *supra* note 180, at 69 (warning against looking beyond facts of any particular case). *See generally Panel Discussion, supra* note 106 (differing views of *Maize Seed*).

235. *See Panel Discussion, supra* note 106.

236. The Court of Justice is the highest body in the EEC and the Commission must apply the law in accordance with the Court's rulings. Caspari, *State Aid in the EEC*, 1983 FORDHAM CORP. L. INST. 1, 5.

237. *See infra* notes 388-423 and accompanying text.

238. *See supra* note 7.

239. *See infra* notes 243-327 and accompanying text.

240. *See infra* notes 388-423 and accompanying text.

241. For example, article 1(1), sections 3 and 4 of the *Fourth Draft* have been consolidated in the *Fifth Draft*, but they are still limited by the turnover requirement of article 1(2), section a. *See infra* note 245 and accompanying text.

242. *See infra* notes 331-32 and accompanying text.

A. *The Turnover Requirement*

Article 1(1), section 1, of the *Fifth Draft*[243] combines article 1(1), sections 3 and 4 of the *Fourth Draft*.[244] It exempts import and export restrictions by the licensing parties, subject to the turnover provision in article 2(1), section 1.[245]

The Commission grants the power to impose territorial restrictions only to undertakings which required "protection against the risk of investment."[246] According to the Commission, large undertakings have "considerable financial capacity"[247] and, therefore, do not need as much protection as small and medium-sized businesses.[248] The availability of exemption for territorial sales restrictions is based on a measure of the firm's annual turnover[249] because, in the Commission's view, this is the only practical objective indication of a firm's financial capacity.[250]

The Commission's desire to retain the provision is probably based on the idea that there is no valid economic reason for allowing territorial sales restrictions.[251] An economic examination of territorial sales restrictions is beyond the scope of this Note. Nevertheless, a summary of Paul Demaret's excellent analysis is helpful in

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243. Fifth Draft, *supra* note 7, at 9.

244. *Compare* Fifth Draft, *supra* note 7, at 9 ("without prejudice to Article 2(1)(1), restrictions on the imports or exports of the patented product or a product manufactured using the patented process (licensed product) made by the contracting parties within the common market.") *with supra* text accompanying notes 71-72.

245. Fifth Draft, *supra* note 7, at 9.

246. *Id.* at 4.

247. *Id.*

248. *See id.*

249. *Id.*; *see id.* at 10 (art. 1.2(a))

250. *See Panel Discussion*, *supra* note 106, at 168. Mr. Johannes explained the Commission's attitude toward the turnover provision:

> We know that the turnover limitation is very much contested but when we asked industry and member states whether they can provide an alternative, there was none. The imaginable alternatives are: turnover in the licensed product, market share of the licensed product, and number of employees. The last is the worst, everybody agrees; turnover in the licensed product is a business secret which the companies concerned do not want to make known and market share is, theoretically, the best; but generally smaller and medium-sized companies do not know their market share and if they know it they are not willing to make it known. Since there is a growing tendency in Europe that all companies will be obliged to publish their turnovers, we have stuck to this criterion as, in theory, only the second best but in practice the only available figure.

Id.

251. *See* P. DEMARET, *supra* note 25, at 41-58.

understanding the Commission's position on territorial sales restrictions.[252]

In examining the possible purposes parties might have for including territorial restrictions in licensing agreements, Demaret makes a number of distinctions.[253] First, he distinguishes between natural barriers that prohibit cross-sales between territories and territorial restrictions used to prevent cross-sales when no natural barriers exist.[254] Where no natural boundaries exist, he further distinguishes between those situations in which one firm is licensed within the territory and those in which several competing firms are licensed.[255]

In the case of a single licensee, he examines five arguments in favor of territorial sales restrictions.[256] The first of these is the "cost argument," which essentially is that the licensee or patentee needs territorial restrictions to prevent sales from other licensees having lower costs.[257] Demaret finds this argument "irrelevant," because the patentee would want to license firms which are more efficient and have lower cost conditions than he does.[258] "Thus, one may expect the patentee to license the firm in each region that can supply customers located in that region at the lowest cost."[259]

A second purpose may be "territorial discrimination," whereby the patentee restricts "the licensees established in the lower price territories (and paying lower royalty rates) from selling in the higher price territory."[260] According to Demaret, this is an inefficient instrument of economic discrimination[261] because, under the "exhaustion of rights" doctrine,[262] the patentee could not prevent the resale of products by his buyers, by his licensee's buyers, or by subsequent buyers.[263]

252. *See infra* notes 283-90 and accompanying text.
253. *See* P. DEMARET, *supra* note 25, at 44.
254. *Id.*
255. *Id.*
256. *Id.*
257. *Id.* at 45.
258. *Id.*
259. *Id.*
260. *Id.*
261. *Id.*
262. See *supra* note 32.
263. P. DEMARET, *supra* note 27, at 45-46.

A third purpose for creating territorial sales restrictions may be collusion between competitors, especially if the patent has little economic value.[264] In that case, members of the industry may want to license the patent not for its economic value but because the license may "serve as a convenient, if less obvious, shelter for collusive behavior."[265]

Fourth, the market power of licensees within a territory may force the patentee to include territorial restrictions in the license.[266] An example of this would be where two firms, each dominant within its own territory, and therefore the only logical licensee in that territory, are "potential competitors."[267] Each firm, because of its strong market power, might demand that the patentee restrict the other "potential competitor" licensee from selling in its territory.[268] Both would safeguard their positions by eliminating "potential competition."[269]

The fifth ground for supporting territorial sales restrictions is the "development argument."[270] This is based on the idea that without exclusive territorial restrictions no licensees would take the investment risks necessary "to adapt the invention to the characteristics of a particular market or to bring a basic invention to the level of commercial exploitation."[271] Demaret responds that a territorial manufacturing restriction would be enough to give the licensee sufficient protection for his investment risks.[272]

Where several firms are licensed per territory, neither the collusion theory nor the market power of the potential patentee theory explains the use of such a licensing structure.[273] The only possible reasons for this structure would be that "(1) territorial discrimination is profitable, and (2) the grant of a single license per territory would mean a lower volume of royalties for the paten-

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264. *Id.*
265. *Id.*
266. *Id.* at 49-50.
267. *See* United States v. Penn-Olin Chem. Co., 378 U.S. 158, 174 (1964) (discussing the potential competition doctrine).
268. *See* P. DEMARET, *supra* note 25, at 49.
269. *See Penn-Olin*, 378 U.S. at 174.
270. P. DEMARET, *supra* note 25, at 50-53.
271. *Id.* at 50.
272. *Id.* at 50-51.
273. *Id.* at 53.

tee."[274] However, because of the "exhaustion of rights" doctrine, the licensor would find it hard to keep different parts of the domestic market separate.[275] Thus, where a domestic licensing system includes territorial sales restrictions, "the existence of several competing licensees per territory and discriminatory royalty rates has little practical relevance."[276]

When natural barriers prevent actual or potential competition between firms in different territories, economic discrimination need not be imposed through territorial sales restrictions.[277] The natural barriers would make it feasible to have different royalty rates for each territory.[278]

Finally, Demaret proposes two rules regarding territorial restrictions.[279] The first is that territorial sales restrictions in patent licensing agreements should be treated as illegal restraints of trade[280] because "territorial sales restrictions may serve as a tool to allocate markets between competitors. Licensing one firm per territory should be prohibited, therefore, unless one can demonstrate that this procedure constitutes an indispensable instrument for achieving justifiable patent policy purposes."[281] The second rule proposed by Demaret is that territorial manufacturing restrictions should be dealt with on a case by case basis because they do not present as much of a threat to trade as territorial sales restrictions.[282]

Thus, an economic analysis suggests that there is usually no valid economic reason to allow territorial sales restrictions in licensing agreements.[283] However, noneconomic values also play a large role in the Commission's competition policy.[284] The principal goal of the EEC is the creation of a common market through economic

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274. *Id.*
275. *Id.*
276. *See id.*
277. *Id.* at 54.
278. *Id.*
279. *Id.* at 55-58.
280. *Id.* at 55.
281. *Id.*
282. *Id.* at 57-58.
283. *See supra* notes 251-82 and accompanying text.
284. B. HAWK, *supra* note 1, at Supp. 201. "[T]he Commission expressly acknowledges that social and human demands sometimes require a modification of results otherwise mandated on purely economic grounds." *Id.*

integration of the member states.[285] One danger of integration is "that formerly isolated smaller (and even medium-sized) firms may find it difficult to compete successfully with larger firms located both within and without the Common Market."[286] The Commission exempts small and medium-sized firms that meet the requirements of the regulation because these firms need greater protection for their investment.[287] Thus, the Commission is interested less in undistorted competition[288] than in preservation of "the right amount of competition" in order to achieve the Treaty's goal of economic integration.[289] It should also be remembered that large firms not within the block exemption may still get individual exemptions for territorial sales restrictions under article 85(3).[290]

B. *Field of Use Restrictions*

Although the Commission has retained the field of use provision, it has removed the ambiguities from the *Fourth Draft*.[291] The requirement that "the relevant products in each of the fields from which the licensee is excluded differ in material respect from the products for which the license is granted"[292] has been changed.[293] The licensor may now restrict the use to one or more "distinct

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285. *See* Treaty of Rome, *supra* note 1, arts. 2, 3.

286. B. HAWK, *supra* note 1, at Supp. 200.

287. *See* Fifth Draft, supra note 7, at 4.

288. B. HAWK, *supra* note 1, at Supp. 194, (quoting COMM'N, *supra* note 79, at 9-11). It is the Commission's position that:

> [T]he perpetual struggle to unify the common market is not the only objective of the system to insure undistorted competition. It is an established fact that competition carries within it the seeds of its own destruction. An excessive concentration of economic, financial and commercial power can produce such far-reaching structural changes that free competition is no longer able to fulfill its role as an effective regulator or economic activity. Consequently, the second fundamental objective of the Community's competition policy must be to insure that at all stages of the common market's development there exists the right amount of competition in order for the Treaty's requirement to be met and its aims attained.

Id.

289. *Id.*

290. A block exemption automatically exempts those agreements which fall within it without the need for notification, *see* D. LASOK & J.W. BRIDGE, *supra* note 1, at 393, but those agreements which do not fall within the block exemption have to be notified through the regular process. *See supra* note 4.

291. *See supra* notes 95-102 and accompanying text.

292. *See supra* note 95.

293. *See* Fifth Draft, *supra* note 7, at 12.

technical fields of application."[294] This provision has also been made applicable to any know-how communicated for use with the patent.[295]

C. *Restrictions Relating to Know-How*

The Commission has substantially changed its position regarding the status of know-how in patent licensing agreements.[296] The changes make it possible to have territorial restrictions and field of use restrictions on know-how that is communicated for proper use of the patent.[297]

Article 1(1), section 6,[298] allows the territorial restrictions of article 1(1), sections 1-5,[299] to be applied to know-how having a "close connection with the exploitation of one or more of the licensed patents."[300] This, of course, is applicable only to small and medium-sized firms pursuant to article 1(2)(a).[301] Nevertheless, the Commission has allowed all firms to impose field of use restrictions on know-how communicated for the "utilization of the patented invention."[302]

The revision of article 1 greatly expands the scope of the proposed exemption; a number of agreements that would not have come under the previous drafts are encompassed by the *Fifth Draft*.[303] This change signals the Commission's recognition that know-how is an important element in patent licensing agreements.[304]

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294. *Id.*

295. *See id.* at 2-3, 12.

296. *See infra* notes 297-311 and accompanying text.

297. *See* Fifth Draft, *supra* note 7, at 10 (article 1.1(6)).

298. *Id.*

299. *Id.* at 9-10.

300. *Id.* at 10.

301. *Id.* Article 1(2) expressly provides that "[i]mport and export restrictions shall be exempted pursuant to paragraph 1(1) and (6) only" if they meet the requirements of article 1.2(a). *Id.*

302. *Id.* at 12 (article 2.1(2)).

303. *See supra* notes 103-20 and accompanying text.

304. Fifth Draft, *supra* note 7, at 2. Both the preamble to the *Fourth Draft,* and the preamble to the *Fifth Draft,* state that it is "appropriate" to extend the Regulation to know-how provisions. Fourth Draft, *supra* note 6, at 13; Fifth Draft, *supra* note 7, at 2. However, the *Fifth Draft* further recognizes that "mixed [patent/know-how] agreements are very common." Fifth Draft, *supra* note 7, at 2.

Article 3(10),[305] however, has not been changed. The licensee still may not be prohibited from using the know-how after the expiration of the agreement.[306] "The idea behind this treatment of know-how licensing is that know-how as a softer category of industrial property should not be in a better position under the competition rules than patent rights."[307] Another reason may be that know-how is usually not one datum, but a continuing flow of new information during the life of the agreement.[308] Access to such information is cut off once the agreement ends, thereby rendering the licensee's product less technologically advanced than the product using the new know-how.[309]

The changes in the know-how provisions do not fully meet the needs of industry because they do not yet consider know-how an important and valuable industrial property in its own right.[310] The changes do, however, suggest that the Commission is slowly liberalizing its attitude toward know-how.[311]

D. *Royalties and Quantity Restrictions*

The royalty provision[312] has been rewritten to make it easier to understand,[313] but it still requires that the payment of royalties be based on products "at least partly covered by a licensed patent."[314] The suggestion that it would be less burdensome to base the payment on a percentage of the licensee's annual turnover[315] was not

305. Fifth Draft, *supra* note 7, at 15. Article 3, however, has been reworded. *See infra* note 306.

306. *Compare* Fifth Draft, *supra* note 7, at 15 (article 3(10)) *with* Fourth Draft, *supra* note 6, at 16 (article 3(10)).

307. van der Esch, *Industrial Property Rights under EEC Law*, 1983 FORDHAM CORP. L. INST. at ___.

308. *See Panel Discussion, supra* note 106, at 171, 178.

309. *Id.* at 178.

310. *See generally* Bleeke & Rahl, *The Value of Territorial and Field-of-Use Restrictions in the International Licensing of Unpatented Knowhow: An Empirical Study*, 1 NW. J. INT'L L. & BUS. 450 (1979) (study indicating that the value of know-how licensing is probably greater than the value of patent licensing).

311. *See supra* notes 309-11 and accompanying text.

312. Fifth Draft, *supra* note 7, at 14 (article 3(4)(a), (b)).

313. *Compare* Fifth Draft, *supra* note 7, at 14 (article 3(4)(a), (b)) *with* Fourth Draft, *supra* note 6, at 16. (article 3(4)(a), (b)).

314. Fifth Draft, *supra* note 7, at 14 (article 3(4)(a), (b)).

315. *See supra* notes 125-27 and accompanying text.

accepted,[316] probably because the Commission views this as an extention of patent rights to unrelated products.[317]

Maximum quantity restrictions are still prohibited by article 3(6)[318] because this type of restriction may have the same effect as an export ban.[319]

Either of these restrictions, of course, may be eligible for an individual exemption[320] or a negative clearance.[321]

E. *Article 4 Exemptions*

A new provision has been added to the *Fifth Draft* which provides for a

> simplified procedure whereby the parties to agreements which do not come within the terms of Articles 1 or 2 and yet do not contain any of the restrictions of competition listed in Article 3 can establish, after notification but without a formal decision, the validity of their agreements and thus attain legal certainty.[322]

In essence, the new article 4 grants an automatic exemption for any agreement not opposed by the Commission within six months of notification.[323] This article gives the block exemption a "broader scope and greater flexibility."[324] It gives certain clauses in patent licensing agreements the "legal presumption" of inclusion in the block exemption if they are similar in effect to those exempted in article 1.[325]

The changes to the proposed block exemption indicate that the Commission was mindful of outside criticisms when revising the regulation.[326] This becomes clearer in the *Present Draft*.[327]

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316. *See* Fifth Draft, *supra* note 7, at 14 (article 3(4)(a) and (b)). The nonacceptance is evinced by the fact that no change was made.

317. *See* Fourth Draft, *supra* note 6, at 13.

318. *See* Fifth Draft, *supra* note 7, at 15 (article 3 (6)).

319. *See id.* at 6.

320. *See supra* note 4.

321. *Id.*

322. Fifth Draft, *supra* note 7, at 7.

323. *See id.* at 16-17 (article 4).

324. van der Esch, *supra* note 312, at ___.

325. *Id.* at ___.

326. *Compare supra* notes 70-140 and accompanying text (discussion of *Fourth Draft*) *with supra* notes 243-325 and accompanying text (changes in *Fifth Draft*).

327. *See infra* notes 327-87.

V. *THE* PRESENT DRAFT *OF THE PROPOSED BLOCK EXEMPTION*

The *Present Draft*[328] of the block exemption reflects a careful analysis by the Commission of the comments it received on the *Fourth* and *Fifth Drafts* of the proposed regulation.[329] The changes made in the *Present Draft* show that the Commission is trying to create a regulation that addresses the needs of industries in the Common Market.[330]

A. *The Turnover Requirement*

The sharply criticized size limitation for territorial sales restrictions[331] has been removed from the proposed block exemption.[332] Article 1(1)(5)[333] of the *Present Draft* allows a licensor to prohibit licensees from pursuing "active sales" policies in the territories of other licensees.[334] Thus, a licensing agreement may prohibit the licensee from engaging advertising specifically directed at these territories,[335] the creation of any branch or the maintenance of any distribution depot there,[336] or the general solicitation of customers in those territories.[337] Nonetheless, the licensee can engage in "passive sales,"[338] filling unsolicited orders from customers in the territory of another licensee.[339]

To ensure that such "passive sales" are not prevented, sections 10 and 11 have been added to article 3 of the *Present Draft*.[340] Section 10 would automatically exclude the agreement from the block exemption if, "without objectively valid reasons, one party refuses to meet demand from users or intermediaries in his territory

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328. Present Draft, *supra* note 3.
329. See *supra* notes 70-140, 238-327 and accompanying text.
330. See *infra* notes 331-423 and accompanying text.
331. See *supra* notes 70-94 and accompanying text.
332. Commission Working Document, Re: Draft Commission Regulation (EEC) concerning the application of Article 85 (3) of the Treaty to certain categories of patent licensing agreements, No. IV/84/1 (copy on file at the offices of the *Fordham International Law Journal*) [hereinafter cited as Working Document].
333. Present Draft, *supra* note 3, at 8.
334. *Id.*; *see* Working Document, *supra* note 332, at 2.
335. Present Draft, *supra* note 3, at 8; *see* Working Document, *supra* note 332. at 2.
336. Present Draft, *supra* note 3, at 8; *see* Working Document, *supra* note 332, at 2.
337. *See* Working Document, *supra* note 332, at 2.
338. *Id.*; *see* Present Draft, *supra* note 3, at 4.
339. Working Document, *supra* note 332, at 2.
340. Present Draft, *supra* note 3, at 13.

or one of the licensees refuses to meet such demand from the territory of other licensees (passive sales)."[341] Section 11 automatically removes an agreement from the block exemption if any of the parties try to prevent passive sales out of, or parallel imports[342] into, any licensed territory.[343]

The removal of the turnover requirement reveals a number of important changes in the Commission's attitude toward territorial sales restrictions. First, the Commission removed the turnover requirement because it has been "persuaded, while not having been entirely convinced,"[344] that all licensors need protection against active and passive competition from their licensees.[345] This change is a direct result of the response by interested parties to the Commission's position that a size limitation would help small and medium-sized business.[346] The Commission has been "persuaded" by the argument that, without territorial sales restrictions, the licensor "might be tempted to exploit his knowledge himself in the framework of an integrated industrial project, thus refusing the dissemination of his technology notably to the very [small and medium-sized enterprises] which the draft aims to protect."[347]

Second, the idea that small and medium-sized businesses are the only ones that need territorial sales restrictions in order to protect themselves from the risk of investment[348] has been abandoned.[349] The Commission has accepted the argument that territorial sales restrictions encourage all licensees to make the investments necessary to get new inventions off the ground,[350] because all of them are protected against active and passive competition from the licensor,[351] and against active competition from other licensees.[352] Thus, the Commission need not discriminate on the basis of size

341. *Id.*
342. *Id.*
343. *Id.*
344. Working Document, *supra* note 332, at 5.
345. *Id.*
346. *Id.* at 4; *see also supra* notes 70-94 and accompanying text (discussing criticisms of the turnover requirement).
347. Working Document, *supra* note 332, at 4-5.
348. *See supra* notes 284-89 and accompanying text.
349. *See* Working Document, *supra* note 332, at 5.
350. *See id.*
351. *Id.*
352. *Id.*

within the regulation because a "balanced network of licensees"[353] allows small, medium and large firms to compete under the same "equitable conditions of exploitation."[354]

Finally, it is the licensor's responsibility to create this "balanced network of licensees."[355] The *Present Draft* awards the licensor "maximum freedom" to "adopt the licensing structure which will create and maintain the optimal incentive for each of the economic agents involved."[356] Thus, the Commission has decided not to regulate the structure of patent licensing agreements as strictly as it has in the prior drafts.[357] Instead, it "has chosen to adopt very generous principles which allow the licensor maximum freedom but also leave him all his responsibilities."[358] The Commission is working with industry to promote economic integration by simplifying the proposed regulation,[359] and "encouraging the conclusion of patent licensing agreements conceived in a common market context."[360] However, it has added sections 10 and 11 to article 3 so that the agreements will be excluded from the block exemption if parties try to abuse this freedom.[361]

B. *Field of Use Restrictions*

The field of use provision remains virtually intact. The only change is the deletion of the word "distinct" from the phrase "distinct technical fields of application."[362] The Commission does not give any reason for this change, but it is fair to say that the change was made in the spirit of simplification that underlies the *Present Draft*.[363]

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353. *Id.* at 3.
354. *Id.*
355. *Id.*
356. *Id.*
357. For example, by no longer having a turnover provision that expressly favors small and medium-size businesses over large ones, the Commission has stopped telling licensors which licensees they should choose.
358. Working Document, *supra* note 337, at 3.
359. *Id.* at 7.
360. *Id.* at 3.
361. Present Draft, *supra* note 3, at 4, 13; *see* Working Document, *supra* note 337, at 6.
362. *Compare* Present Draft, *supra* note 3, at 8-9 (new provision) *with supra* notes 291-95 and accompanying text (discussing the provision in the *Fifth Draft*).
363. *See* Working Document, *supra* note 337, at 7.

C. *Restrictions Relating to Know-how*

The Commission has removed from the *Present Draft* sections 10 and 12 of article 3 of the *Fifth Draft*.[364] These provisions expressly prohibited restrictions on the use of know-how after the expiration of the license[365] and on its use outside the licensed territory or in a territory where a parallel patent exists.[366] The Commission does not include these provisions in the *Present Draft* because it claims not to have enough experience in dealing with these types of obligations.[367] It reasons that these types of obligations deal strictly with know-how, whereas the present regulation deals with know-how agreements only insofar as they accompany patent licenses.[368] Therefore, it will not "prejudge the way in which they are to be evaluated in the context of this draft."[369] Any future treatment of these provisions will probably be in the context of a block exemption for know-how licensing.[370]

Furthermore, the first paragraph of article 1 makes all the provisions in the article applicable to mixed patent and know-how licenses.[371] This is true only where "the licensed patents are essential for achieving the objects of the licensed technology and as long as at least one licensed patent remains in force."[372] However, the know-how must be "confidential"[373] and must represent a "certain advance in the state of the art."[374]

D. *Royalties and Quantity Restrictions*

Section 4 of article 3[375] has been modified in accordance with the comments the Commission received on royalty payment.[376] The

364. Working Document, *supra* note 332, at 11; *see supra* notes 309-24 and accompanying text.
365. Fifth Draft, *supra* note 7, at 15.
366. *Id.*
367. Working Document, *supra* note 332, at 10.
368. *Id.*
369. *Id.*
370. *See* Panel Discussion, *supra* note 106, at 171-72.
371. Present Draft, *supra* note 3, at 8; Working Document, *supra* note 332, at 8.
372. Present Draft, *supra* note 3, at 3.
373. Working Document, *supra* note 332, at 8. The Commission defines "confidential" as "secret." *Id.*
374. Present Draft, *supra* note 3, at 3.
375. *Id.* at 12.
376. *See supra* notes 121-26 and accompanying text.

section now permits an arrangement whereby the licensee pays royalties on products not covered by the licensed patent or know-how if the arrangement was entered into to facilitate payment by the licensee.[377]

Maximum quantity restrictions are still prohibited by article 3(5),[378] but more importantly, minimum quantity restrictions have been moved from article 1 to article 2.[379] This means that these restrictions are exemptable.[380] They are now among the obligations that are "not normally restrictive of competition"[381] but which are listed in the regulation so that they may benefit from the exemption if particular economic or legal circumstances bring them within the scope of article 85(1).[382]

E. *Article 4 Exemptions*

The new version of article 4[383] is not significantly different from the version in the *Fifth Draft*.[384] The underlying question is whether this procedure should cover "all of the grey area between exempted agreements and those contained in Article 3" or whether it should be confined only to "restrictions which by their nature, or effects correspond to those listed in Articles 1 or 2."[385] The Commission has invited member states to express their views on this question.[386]

Throughout the process of drafting this regulation, the Commission has examined the arguments made by all interested parties. It has also used recent developments in Community law to bring the proposed regulation into line with the reasoning of the Court of Justice.[387]

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377. Present Draft, *supra* note 3, at 12; Working Document, *supra* note 332, at 9.
378. Present Draft, *supra* note 3, at 12.
379. Working Document, *supra* note 332, at 9; *see* Present Draft, *supra* note 3, at 10.
380. Working Document, *supra* note 332, at 9.
381. *See* Present Draft, *supra* note 3, at 5.
382. *Id.*
383. *Id.* at 14.
384. *See* Fifth Draft, *supra* note 7, at 16.
385. *See* Working Document, *supra* note 332, at 10.
386. *Id.*
387. *See infra* notes 388-423 and accompanying text.

VI. MAIZE SEED, CODITEL *AND THE BLOCK EXEMPTION*

A. Maize Seed *and the* Fifth Draft

Clearly the most subtly complex change in the block exemption is the application of the Court of Justice's reasoning in the *Maize Seed* and *Coditel* decisions to the proposed regulation.[388] The Court in *Maize Seed* did not hold that all "open" exclusive licensing agreements do not violate article 85(1),[389] but rather, only those meeting the criteria set out by the Court.[390] Consequently, the Commission must determine, using the Court's requirements,[391] which particular "open" licenses are outside the scope of article 85.[392]

As a result of *Maize Seed*, the Commission extended the scope of the *Fifth Draft* to allow all "open" patent licensing agreements to come under the block exemption, whether they met the Court's criteria[393] or not.[394] Thus, the *Fifth Draft* represented an effort to provide legal certainty to firms that might have been unsure where their particular agreements stood after *Maize Seed*.[395]

The *Fifth Draft*, however, was somewhat confusing in its distinction of the types of "open" licenses which would be exempt under the regulation.[396] "Open" licenses containing territorial sales restrictions that did not meet the Court's criteria were exempt only in the case of small and medium-sized businesses.[397] "Open" licenses containing territorial manufacturing restrictions that did not meet

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388. *See* Present Draft, *supra* note 3, at 3-4; Fifth Draft, *supra* note 7, at 2.

389. *See supra* notes 161-72 and accompanying text.

390. *See id.*

391. *See supra* notes 161-72 and accompanying text.

392. *See* van der Esch, supra note 307, at ___.

393. Fifth Draft, *supra* note 7, at 2. Article 2(1)(1) allows an "open" license provided that it is "necessary for the introduction and protection of a new technology in the licensed territory, in view of the importance of research carried out and the risk incurred in manufacturing and selling a product unfamiliar to consumers in the licensed territory when the agreement was entered into." *Id.*

394. *Id.* at 2. Article 1(1)(2) exempts an "open" license even if it does "not satisfy the tests established by the Court." *Id.*; *see id.* at 9 (article 1(1)(2)).

395. *See* van der Esch, *supra* note 307, at ___.

396. *See* Fifth Draft, *supra* note 7, at 2.

397. *See id.* at 9.

the Court's criteria were exempt in every case.[398] Furthermore, "open" licenses that met the Court's criteria were listed in article 2 in case their "anti-competitive effect [might] come into question."[399] This confusion was further compounded by the inclusion of the word "sell" in article 2(1)(1),[400] because it was not clear whether a firm prohibited from imposing territorial sales restrictions under article 1[401] could still impose them if it met the criteria of article 2.[402]

Consequently, the *Fifth Draft* can be seen as an attempt to integrate the *Maize Seed* and *Coditel* decisions into the block exemption. The problems resulting from this integration have been cleared up by the *Present Draft*.[403]

B. Maize Seed, Coditel *and the* Present Draft

The *Present Draft* represents a better integration of the *Maize Seed* and *Coditel* cases into the block exemption in a number of ways. First, by removing the turnover requirement from the *Present Draft*,[404] the Commission has also removed the cause of the confusion regarding the exemptability of "open" licenses. This is because there is no longer a need to distinguish between "open" licenses for small and medium-sized firms and "open" licenses for large firms.[405] In protecting each licensee vis-à-vis the licensor by allowing all "open" licenses to come under the exemption,[406] the Commission obviates the need to expressly include in article 2 those licenses which meet the Court's criteria.[407] As a result, the simpli-

398. *See id.* at 9, 12.
399. *Id.* at 12.
400. *Id.*
401. *See id.* at 10.
402. *Id.* at 12.

> [P]rovided that such obligations are necessary for the introduction and protection of the new technology in the licensed territory, in view of the importance of the research carried out and the risk incurred in manufacturing and selling a product unfamiliar to consumers in the licensed territory when the agreement was entered into.

Id.

403. *See infra* notes 404-23 and accompanying text.
404. Working Document, *supra* note 332, at 5.
405. *See supra* notes 396-413 and accompanying text.
406. *See* Working Document, *supra* note 332, at 4.
407. *See* Present Draft, *supra* note 3, at 3-4; Working Document, *supra* note 332, at 9.

fied regulation is "more comprehensible to the enterprises to which it addresses itself and . . . increase[s] their legal certainty."[408] However, the Commission indicates that it has not gone beyond the Court's judgment by applying the exemption to all "open" licenses.[409] It notes that the exemption is based not on the theory of "non-application of article 85(1)" of the Treaty of Rome,[410] but on its exemption power under article 85(3).[411]

Second, the *Present Draft* does not allow application of the block exemption to absolute territorial sales restrictions,[412] that is, to "closed" licenses.[413] A manufacturer cannot be forced to ensure that his customers are not exporters or to refuse to sell to them to prevent parallel exports.[414] Such obligations would remove the agreement from protection under the block exemption.[415] Thus, it may safely be said that, in the context of patent licensing, sections 10 and 11 of article 3[416] will act to "close" an "open" license[417] where the parties act to eliminate all competition from third parties.[418]

Finally, the *Present Draft* also parallels the Court of Justice's reasoning in the *Coditel*[419] case. In Coditel, the Court distinguished between the "existence" of a right and its "exercise,"[420] and held that its mere existence did not violate article 85(1), but that is exercise might.[421] The Commission has taken a similar approach in the *Present Draft*. It allows for the existence of territorial sales restrictions,[422] but makes their wrongful exercise a cause for losing

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408. *See* Working Document, *supra* note 332, at 7.
409. *Id.* at 4.
410. *Id.*
411. *Id.*
412. *Id.* at 6.
413. *Compare id.* at 6 (discussing absolute territorial restrictions) *with supra* notes 157, 160 and accompanying text (discussing "closed" licenses).
414. Working Document, *supra* note 332, at 6.
415. *Id.*
416. Present Draft, *supra* note 3, at 13.
417. *See supra* notes 219, 225 and accompanying text.
418. Working Document, *supra* note 332, at 6; *see* Present Draft, *supra* note 3, at 13.
419. 1982 E. Comm. Ct. J. Rep. 3381, 3 COMMON MKT. REP. (CCH) ¶ 8865.
420. *See supra* notes 201-14 and accompanying text.
421. *Id.*
422. *See* Present Draft, *supra* note 3, at 8.

the exemption.[423] Thus the Commission has changed its approach from prejudging the validity of the mere existence of territorial sales restrictions to focusing on possible abusive exercise of those restrictions.

CONCLUSION

The *Present Draft* reflects a careful balance between the demands of industry and the needs of the Community in a number of ways. First, it shows that in removing the turnover requirement, the Commission takes into account more than economic criteria when implementing Community competition policy. The Commission has been persuaded by its critics that small and medium-sized businesses will benefit if all businesses are allowed to impose territorial sales restrictions. Thus, the *Present Draft* is based on the idea that in a balanced network of licensees, small, medium and large firms compete under the same equitable conditions of exploitation.

Second, the Commission is easing its attitude toward know-how. It has substantially altered the block exemption with regard to restrictions on know-how from the *Fourth Draft* to the *Present Draft* by making all of article 1 applicable to mixed patent and know-how licenses. Furthermore, the Commission has removed provisions that solely regulate know-how because it does not have experience with these types of restrictions. Yet, it does not prejudge them by including them in a regulation aimed primarily at mixed patent and know-how licenses. This indicates that the Commission is beginning to view know-how as an important and valuable industrial property in its own right, which may merit its own block exemption.

Third, the addition of article 4 to the *Fifth* and *Present Drafts* allows the regulation to grow beyond its present scope by providing an accelerated notification procedure for agreements analogous to those in article 1. It is foreseeable that this provision may engender a list of "article 4 exemptions" that are not expressly listed in the original regulation but are incorporated through later action by the Commission.

Finally, the *Present Draft*, in the wake of *Maize Seed*, provides legal certainty to all "open" patent licensing agreements by extend-

423. *Id.* at 13; *see* Working Document, *supra* note 332, at 6.

ing the exemption beyond the factors set out by the Court of Justice. However, the inclusion of the *Maize Seed* reasoning in the regulation does not settle the issue of whether a "rule of reason" approach may be applied outside technology transfers. In matters other than technology transfers, industry must turn to *Coditel* for guidance.

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