Block Exemption for Technology Licensing Agreements under Commission Regulation (EC) No. 240/96

Jianming Shen

Follow this and additional works at: http://lawdigitalcommons.bc.edu/iclr

Part of the European Law Commons, Intellectual Property Commons, and the Science and Technology Commons

Recommended Citation

Block Exemption for Technology Licensing Agreements under Commission Regulation (EC) No. 240/96†

Jianming Shen*

INTRODUCTION

On April 1, 1996, the long-awaited new block exemption for technology transfer transactions in the European Union (EU), entitled Regulation (EC) No. 240/96 on the Application of Article 85(3) of the Treaty [of Rome] to Certain Categories of Technology Transfer Agreement (Regulation or new Regulation),1 went into effect. After protracted circulation for comment and harmonization of opinions among the Commissioners, this double-purpose EU "block exemption" regulation with respect to technology licensing agreements was finally approved by the Commission of the European Communities on January 31, 1996.2 The newly adopted legislation is designed to continue, combine, amend and replace the expired Regulation No. 2349/843 on patent licensing block exemptions (Patent Regulation) and Regulation No. 556/894 on know-how licensing block exemptions (Know-how

† © Copyright 1996, 1997, Jianming Shen.

* Kenneth Wang Research Professor of Law, St. John’s University School of Law. S.J.D., 1994, University of Pennsylvania; LL.M., 1988, University of Pennsylvania; M.A., 1984, University of Denver; LL.B., 1983, Peking University. Former faculty member, International Law Institute and Faculty of Law, Peking University, Beijing, China. The author is thankful to his research assistants, Neil Axelrod and John Stahl, for their assistance in the research and writing of this article.


4 Commission Regulation 556/89 of 30 November 1988 on the Application of Article 85(3) of
Like its predecessors, the new Regulation grants automatic group exemption to patent and know-how licenses from the effect of the competition provisions of Article 85(1) of the Treaty of Rome, now incorporated in the Maastricht Treaty on European Union of 1992. Significantly, the new Regulation shall remain in force until March 31, 2006, about four years longer than expected.

Article 85(1) of the Treaty of Rome declares illegal all agreements and practices which "may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the common market." Unlike the American rule-of-reason approach, EU competition law would thus automatically render contractual provisions or any conduct which has adverse effect on competition per se invalid. On the other hand, under Article 85(3) of the Treaty, certain restrictions on competition may be declared not subject to the prohibitions of Article 85(1), i.e., they may be granted exemption from such prohibitions if such restrictions (a) contribute to "improving the production or distribution of goods or to promoting technical or economic progress," (b) provide consumers with "a fair share of the resulting benefit," (c) do not contain restrictions in excess of those which are "indispensable to the attainment of [the above] objectives," and (d) do not create the "possibility of eliminating competition."

The well-known Regulation No. 17, which was adopted by the EEC Council of Ministers on February 6, 1962 mainly for the purpose of establishing a scheme for enforcing Articles 85 (prohibiting restrictions on competition) and 86 (prohibiting abuse of dominant position) of the Treaty of Rome, provides the means for businesses to benefit under the exemptive provisions of Article 85(3). To forestall any possible Commission action, undertakings may seek an individual

---

7 See Reg. 240/96, supra note 1, art. 13.
8 EEC TREATY art. 85(1).
9 See id. art. 85(2).
10 See id. art. 85(3).
exemption by notifying the Commission of the terms of any new\textsuperscript{12} or existing\textsuperscript{13} agreement, decision or concerted practice which falls within the scope of Article 85(1) but may satisfy the exemptive requirements of Article 85(3).

As a result of Regulation 17, the Commission received a flood of Article 85(3) notifications in the areas of, inter alia, patent and other technology licensing. To avoid being further overloaded with individual notifications from businesses respecting similar agreements and practices, the Commission sought from and was given by the Council the authority to adopt regulations to exempt certain classes of agreements and practices from the general prohibitions of Article 85(1) for limited periods of time. The Commission thus issued the 1984 Patent Regulation and the 1989 Know-how Regulation.\textsuperscript{14}

The 1984 Patent Regulation for patent licensing block exemptions was to expire on December 31, 1994, but was extended to June 30, 1995,\textsuperscript{15} then to the end of 1995,\textsuperscript{16} and was further extended through March 31, 1996.\textsuperscript{17} The 1989 Know-how Regulation was to expire on December 31, 1999.\textsuperscript{18} With the new Regulation entering into effect, the Know-how Regulation was "repealed" as of April 1, 1996.\textsuperscript{19}

The main purpose of the new Regulation is to continue to provide a safe harbor, without the need for individual notification, for certain categories of pure patent, pure know-how or mixed technology licensing agreements under one common umbrella. The Commission recognizes:

[Both] block exemptions ought to be combined into a single regulation covering technology transfer agreements, and the rules governing patent licensing agreements and agreements for the licensing of know-how ought to be harmonized and simplified as far as possible, in order to encourage the dis-

\textsuperscript{12} See id. art. 4(1).
\textsuperscript{13} See id. art. 5(1).
\textsuperscript{14} See generally Reg. 556/89, supra note 4; Reg. 2349/84, supra note 3.
\textsuperscript{17} See Reg. 240/96, supra note 1, art. 11(2).
\textsuperscript{18} See Reg. 556/89, supra note 4, art. 12.
\textsuperscript{19} See Reg. 240/96, supra note 1, art. 11(1).
semination of technical knowledge in the Community and to promote the manufacture of technically more sophisticated products. In those circumstances Regulation (EEC) No. 556/89 should be repealed.\textsuperscript{20}

According to the Commission, certain license restriction provisions, including exclusive rights, "generally contribute to improving the production of goods and to promoting technical progress," and provide incentives for patentees and holders of know-how "to grant licenses" and for licensees "to undertake the investment required to manufacture, use and put on the market a new product or to use a new process."\textsuperscript{21}

As in the two predecessor Patent and Know-how Regulations, the core provisions in the new Regulation are those of Articles 1 through 4. Most commentators have traditionally divided the relevant articles in these regulations into three lists of obligations or practices: the white list, the grey list, and the black list, respectively representing permissible, questionable and prohibited licensing obligations or practices. However, there has been some confusion about which represents what. While a considerable number of commentators have viewed Article 1 of these regulations as the "white list," Article 2 as the "grey list," and Article 3 the "black list,"\textsuperscript{22} others have allocated the provisions among these lists differently. One variant approach is to treat Article 2 as the white list, Article 3 as the black list, and Article 4 as the grey list.\textsuperscript{23} Another approach considers that Article 1 represents the white list, Articles 3 and 5 the black list, and Article 4 the grey list.\textsuperscript{24} A further variant approach deems Article 1 as the grey list, Article 2 the white list, and Article 3 the black list.\textsuperscript{25}

\textsuperscript{20} Id. recital (3).
\textsuperscript{21} Id. recital (12).
A careful examination of the new Regulation and its two predecessors reveals that the practices listed under Article 1 and Article 2 are either exempted from or not prohibited by Article 85(1) of the Treaty.26 Those under Article 3 are not exempted, and are specifically prohibited.27 Those under Article 4 are neither automatically prohibited nor automatically exempted, and they may benefit from the exemption provisions if the Commission, within a specified time after being notified of such intended practices, fails to raise any objection.28 Article 5 relates to the exclusion of certain types of agreements which are beyond the scope of the Regulation, and has nothing to do with the black list.29 The fact that the Regulation does not apply to these excluded agreements does not necessarily mean that they are prohibited agreements; rather, they may well be, now or in the future, subject to and/or exempted by different regulations. For the purposes of this paper, therefore, the white list refers to Articles 1 and 2, the black list to Article 3, and the grey list to Article 4.

I. Scope of Application

A. Included Agreements

The new Regulation applies to the following categories of technology transfer agreements: (a) agreements solely for the licensing of patents ("pure" patent licensing agreements); (b) agreements solely for the licensing of know-how information and technology ("pure" know-how licensing agreements); and (c) agreements for the licensing of both patented technology and non-patented know-how (the so-called "mixed" patent and know-how licensing agreements).30 The scope of applicability of the Regulation extends to certain other types of technology transfer agreements as well.

1. Patent and/or Know-how Licensing Agreements

Patent licensing agreements covered by the new Regulation denote "agreements whereby one undertaking which holds a patent . . . permits another undertaking . . . to exploit the patent thereby licensed

---

26 See Reg. 240/96, supra note 1, arts. 1–2.
27 See id. art. 3.
28 See id. art. 4.
29 See id. art. 5.
30 See id. recital (4), art. 10(6).
... in particular for purposes of manufacture, use or putting on the market."31 The term "patent" includes patents granted under the patent system of any individual Member State of the EU, under the 1975 Community Patent Convention, or under the 1973 European Patent Convention.32 Also deemed to be patents are patent applications, utility models, applications for registration of utility models, topographies of semiconductor products, certificats d'utilité and certificats d'addition under French law, applications for such certificats d'utilité and certificats d'addition, supplementary protection certificates for medicinal products or other products for which such supplementary protection certificates may be obtained, and plant breeder's certificates.33 The new Regulation further applies to agreements for the licensing of an "invention" if an application for "patent" (in its broader meaning) is filed within the period of time from the date of the licensing agreement set by the applicable national law or international convention.34

With respect to patent licenses, the Commission continues that "it is possible to define a category of licensing agreements covering all or part of the common market which are capable of falling within the scope of Article 85(1) but which can normally be regarded as satisfying the conditions laid down in Article 85(3), where patents are necessary for the achievement of the objects of the licensed technology by a mixed agreement."35 It is not clear whether the requirement that the licensed patents be essential to the achievement of the agreement's objectives is intended to apply merely to mixed agreements or to both mixed agreements and pure patent licensing agreements. It may be noted that in the September 1994 draft of the Commission's proposed regulation (1994 Draft Regulation or 1994 Draft), the relevant paragraph relating to the above requirement did not contain the words "by a mixed agreement."36 Absent those words, the 1994 Draft could well

31 Reg. 240/96, supra note 1, recital (5).
32 See id. recital (4).
33 See id. art. 8(1).
34 See id. art. 8(2). Note that in the 1984 Patent Regulation and the 1994 Draft Regulation, such patent application respecting an invention must be made "within one year" after the licensing agreement enters into effect, irrespective of any different time limits as may be required under national law or any applicable patent convention. See Reg. 2349/84, supra note 3, art. 10(2); Preliminary Draft Commission Regulation of 30 September 1994 on the Application of Article 85(3) of the Treaty to Certain Categories of Technology Transfer Agreements, art. 8(2), 1994 O.J. (C 178) 3, 12, reprinted in INTELLECTUAL PROPERTY, supra note 23, at 971, 989 [hereinafter 1994 Draft Reg.].
35 Reg. 240/96, supra note 1, recital (5) (emphasis added).
36 1994 Draft Reg., supra note 34, recital (4).
indicate that the licensed patents had to be essential to achieving the objects of the licensed technology in both pure patent agreements and mixed agreements. If that was the intention of the Commission, then the addition of the words "by a mixed agreement" in the newly adopted Regulation would appear unnecessary and misleading. Thus, those words seem to have been added on purpose, possibly indicating that only in mixed licensing agreements are patents required to be necessary for the achievement of the objectives of the licensed technology. It may be helpful to recall that in Regulation No. 2349/84, covering patent licensing agreements, a similar requirement was contained only in the context of exemptible agreements covering know-how as well as patents, where it is provided that agreements involving the licensing of know-how (and patents as well) were to be covered by that Regulation "only in so far as the licensed patents are necessary for achieving the objects of the licensed technology . . . ."

Know-how licensing agreements covered by the new Regulation are those "whereby one undertaking which holds . . . know-how . . . communicates the know-how to" another undertaking for the same purposes as patent licensing agreements.\[38\] "Know-how" is defined to comprise "non-patented technical information such as descriptions of manufacturing processes, recipes, formulae, designs or drawings."\[39\] For the purpose of the new Regulation, "know-how" must be "secret, substantial and identified in any appropriate form," and the terms "secret," "substantial" and "identified" are further defined in separate paragraphs.\[40\]

2. Agreements Containing Ancillary Provisions Involving Other Rights

The new Regulation's scope of application is also extended to pure or mixed patent and/or know-how licensing agreements with "ancillary" provisions. These provisions involve the additional licensing of other types of intellectual property rights such as "trademarks, design rights and copyrights, especially software protection," provided that "such additional licensing contributes to the achievement of the objects of the licensed technology . . . ."\[41\] To be ancillary, the provisions

---

37 Reg. 2349/84, supra note 3, recital (9).
38 Reg. 240/96, supra note 1, recital (5).
39 Id. recital (4).
40 Id. art. 10(1)-(4).
41 Id. recital (6).
regarding the exploitation of other intellectual property rights may not contain any “obligations restrictive of competition other than those” which are “also attached to the licensed know-how or patents and exempted under [the] Regulation.”42 There was a similar requirement in the Know-how Regulation.43

3. Agreements for the Assignment of Rights

The new Regulation also covers agreements for the assignment of patents, know-how or both “where the risk associated with exploitation remains with the assignor,” as in the case, for example, “where the sum payable in consideration of the assignment is dependent on the turnover obtained by the assignee in respect of products made using the know-how or the patents, the quantity of such products manufactured or the number of operations carried out employing the know-how or the patents.”44 The Commission believes, because of the similarity between sale and exclusive license, and to avoid the possibility that “exclusive licenses restrictive of competition” would evade the requirements of the new Regulation by presenting the licenses as assignments, that the distinction should be drawn on the basis of whether “the risk associated with exploitation” passes from the assignor or the licensor to the assignee or the licensee.45 Should such risk remain with the assignor or the licensor, the new Regulation should apply.46

4. Other Agreements Covered

In addition, the new Regulation is applicable to “agreements where the licensor is not the holder of the know-how or the patentee, but is authorized by the holder or the patentee to grant a licence.”47 This provision is comparable to Article 11(1) of the Patent Regulation and Article 6(1) of the Know-how Regulation.48 Also covered by the exemption of the new Regulation are “licensing agreements in which the rights or obligations of the licensor or the licensee are assumed by undertakings connected with them.”49 Again, this provision is an almost

42 Id. art. 10(15).
43 See Reg. 556/89, supra note 4, recital (2), art. 1(1).
44 Reg. 240/96, supra note 1, art. 6(2). Cf. Reg. 556/89, supra note 4, art. 6(2); Reg. 2349/84, supra note 3, art. 11(2).
46 See Reg. 240/96, supra note 1, recital (9).
47 Id. art. 6(1); see also id. recital (9).
48 See Reg. 556/89, supra note 4, art. 6(1); Reg. 2349/84, supra note 3, art. 11(1).
49 Reg. 240/96, supra note 1, art. 6(3).
verbatim restatement of the corresponding provisions in the two prede­
cessor Regulations.50

Where a licensing agreement otherwise covered by the new Regula-
tion contains obligations relating to both territories within the com-
mon market and territories beyond the EU, the involvement of non-EU territories does not affect the Regulation’s applicability “to the obligations relating to territories within the common market.”51 This implies that in such an agreement, that portion of the obligations which relates to non-member countries only would not be covered by the Regulation. However, the new Regulation will apply in an equal manner to those licensing agreements covering solely non-EU territories or covering both EU territories and non-EU territories if they have competitive effects within the common market “which may fall within the scope of Article 85(1).”52 The corresponding provisions in the two prede­
cessor Regulations were virtually the same.53

B. Agreements Excluded

1. Pure Sales Agreements

As under Regulation No. 2349/84 and Regulation No. 556/89, the block exemption under the new Regulation does not apply to agree­
ments solely for the purpose of sale of licensed products.54 The Com­
mission reasons that because the objective of the Regulation is “to facilitate the dissemination of technology and the improvement of manufacturing processes,” it “should apply only where the licensee himself manufactures the licensed products or has them manufactured for his account,” or, in the case of a licensed service, only where the licensee “provides the service himself or has the service provided for his account.”55 It does not matter whether or not the licensee is also licensed to use confidential information supplied by the licensor to promote and sell the licensed product.56

50 See Reg. 556/89, supra note 4, art. 6(3); Reg. 2349/84, supra note 3, art. 11(3).
51 Reg. 240/96, supra note 1, recital (7).
52 Id.
53 See Reg. 556/89, supra note 4, recital (4); Reg. 2349/84, supra note 3, recitals (4)–(5).
54 See Reg. 240/96, supra note 1, art. 5(5).
55 Id. recital (8).
56 See id. recital (8); see also Reg. 556/89, supra note 4, recital (5); Reg. 2349/84, supra note 3, recital (7). Note that under Regulation No. 556/89, despite a general exclusion of agreements solely for the purpose of sale, an exception is allowed if the licensor sells the licensed products for a preliminary period before the licensee begins production with the licensed technology. See
2. Franchising Arrangements Involving Marketing Know-How

Like its predecessors, the new Regulation does not apply to "agreements relating to marketing know-how communicated in the context of franchising arrangements." This exclusion, however, is stated in the recital part, i.e., the preamble, of the Regulation only, not in any of the articles. One may see no reason why the Commission could not have expressly provided in Article 5 or elsewhere in the Regulation for the explicit exclusion of franchising arrangements involving marketing know-how.

3. Agreements Involving "Pooled Technologies"

Also excluded from the Regulation are licensing agreements involving pooled technologies. Article 5 excludes licensing agreements "between members of a patent or know-how pool which relate to the pooled technologies." Such agreements relating to pooled technologies will nonetheless be covered by the Regulation if they do not contain any territorial restrictions within the EU "with regard to the manufacture, use or putting on the market of the licensed products or to the use of the licensed or pooled technologies."

4. Agreements Involving Competing Joint Ventures and Parents

Similarly, the Regulation does not apply to "licensing agreements between competing undertakings which hold interests in a joint venture, or between one of them and the joint venture, if the licensing agreements relate to the activities of the joint venture." The exemption will nonetheless apply to licensing agreements between a technol-

---

Reg. 556/89, supra note 4, recital (5). The 1994 Draft Regulation similarly contains the following words: "... [E]xcept where the licensor undertakes for a preliminary period before the licensee himself commences production using the licensed technology to supply the licensed products for sale by the licensee." 1994 Draft Reg., supra note 34, recital (7). Such wording, however, was apparently removed from the approved new Regulation.


Reg. 240/96, supra note 1, recital (8), art. 5(1)(1). Cf. Reg. 556/89, supra note 4, recital (5), art. 5(1)(1); Reg. 2349/84, supra note 3, recital (8), art. 5(1)(1).

Reg. 240/96, supra note 1, art. 5(2)(2).

Id. art. 5(1)(2). Cf. Reg. 556/89, supra note 4, art. 5(1)(2); Reg. 2349/84, supra note 3, art. 5(1)(2) (in almost identical language).
ogy-providing parent to a joint venture and the joint venture, if the combined market share of the parent licensor and the joint venture licensee is “not more than 20%” for “a license limited to production,” or “not more than 10%” for “a license covering production and distribution.” This exception, absent in the original texts of its predecessors, was created and retained in accordance with a 1992 regulation which amended, *inter alia*, Regulation No. 2349/84 and Regulation 556/89. The new Regulation contains an additional provision, which was absent in the 1994 Draft Regulation: the new Regulation will continue to apply for two consecutive financial years if the above-mentioned market shares “are not exceeded by more than one-tenth;” if such market shares are exceeded by more than one-tenth, the Regulation will continue to apply for six months “from the end of the year in which the limit was exceeded.”

5. Agreements for Reciprocal Licensing of Unrelated Technologies

The exemption in the new Regulation does not cover reciprocal licensing agreements between competitors “in relation to the products covered by those agreements,” i.e., agreements under which Competitor A grants Competitor B a license to exploit A’s patents and/or know-how, and in return Competitor B, either directly or “in separate agreements or through connected undertakings,” grants Competitor A a license to exploit Competitor B’s own patents and/or know-how “or exclusive sales rights.” Such excluded reciprocal licenses denote those “arrangements in which a licence is granted in exchange for other licenses not related to improvements to or new applications of the licensed technology.” The Commission considers that these arrangements, as well as franchising agreements involving marketing know-how and agreements made in connection with joint ventures and patent pools, “pose different problems which cannot at present be

---

61 Reg. 240/96, *supra* note 1, art. 5(2)(1).
63 Reg. 240/96, *supra* note 1, art. 5(3).
64 See id. art. 5(1)(3).
65 *Id.* recital (8) (emphasis added).
dealt with in a single regulation. On the other hand, the exemption provided in the new Regulation remains applicable to those reciprocal patent and/or know-how licensing arrangements if "the parties are not subject to any territorial restriction within the common market."67

6. Agreements Involving Non-Ancillary Provisions on Other Rights

Further, Article 5(1)(4) of the new Regulation does not apply to "licensing agreements containing provisions relating to intellectual property rights other than patents which are not ancillary."68 When a technology transfer agreement is concluded mainly for the purpose of transferring intellectual property rights other than patents such as trademarks and copyrights, it would be out of the intended scope of application of the new Regulation even if the agreement may also involve the transfer of patents and/or know-how technology. There was no comparable provision in either the Know-how Regulation or the Patent Regulation for the specific exclusion of agreements containing non-ancillary provisions respecting trademarks, copyrights and other non-patent intellectual property rights. A similar outcome would ensue, however, under the extension of the scope of those two Regulations to "patent licensing agreements containing ancillary provisions relating to trade marks,"69 or "those [know-how or mixed] agreements containing ancillary provisions relating to trademarks or other intellectual property rights,"70 implying that agreements containing non-ancillary provisions relating to non-patent intellectual property rights would in fact be excluded.

An express exclusion of such agreements appeared in Article 5(1)(4) of the 1994 Draft Regulation, which provided for the non-applicability of the Draft to "licensing agreements of intellectual property rights other than patents except where these licenses enable the better achievement of the object of the licensed technology and contain only ancillary provisions."71 This provision ultimately became Article 5(1)(4) of the new Regulation, although the same principle is stated in slightly different expressions.72 At the very least, the above-emphasized words

66 Id.
67 Id. art. 5(2)(2).
68 Reg. 240/96, supra note 1, art. 5(1)(4).
69 Id. recital (10).
70 See Reg. 556/89, supra note 4, recital (2), art. 1(1).
71 1994 Draft Reg., supra note 34, art. 5(1)(4) (emphasis added).
72 See Reg. 240/96, supra note 1, art. 5(1)(4).
of Article 5(1)(4) of the 1994 Draft Regulation would have the same
effect as paragraph (6) of the recital part of the new Regulation.\textsuperscript{73}

C. Removal of Market Share Thresholds

Ever since the 1994 Draft Regulation was circulated, one of the major
concerns among industries and legal circles has been a prior proposal
to limit the availability of the Article 1 exemption to undertakings
below specified market shares only.\textsuperscript{74} Certain members within the Com­
mission tried to finalize a text which would have specified that compa­
nies concluding licensing agreements would only benefit from the
block exemption if they did not have a dominant position on the
market, not exceeding forty percent of market share. This proposal
has been fiercely opposed by industries, experts on industrial affairs
within the Commission, and legal commentators. The Draft of Septem­
ber 1994 stated:

5. The exemption in paragraph 1(1) of the obligation on the
licensor not to grant other licences shall apply only where the
licensee’s market share does not exceed 40\% at the time the
agreement is concluded.

6. The exemption of the obligations referred to in paragraph
1(4)–(6) shall apply only where the [licensee] which is pro­
tected by such obligations holds a market share of no more
than 40\% at the time the agreement is concluded.\textsuperscript{75}

Subject to such market share thresholds, the 1994 Draft would have
continued the exemption of those obligations restrictive of competi­
tion but specifically exempted under the Patent and Know-how Regu­
lations, including restrictions on the licensor’s licensing of additional
licensees in the licensed territory, restrictions on the licensor’s com­
peting directly with the licensee in the licensed territory, restrictions
on the licensee’s exploitation of the licensed technology in territories
reserved for the licensor or other licensees, and restrictions on the
licensee’s ability to pursue active or passive sales in other licensees’
territories.\textsuperscript{76}

\textsuperscript{73}See supra notes 41–43 and accompanying text.
\textsuperscript{74}See, e.g., Industry Heralds Victory, supra note 2.
\textsuperscript{75}1994 Draft Reg., supra note 34, art. 1(5)–(6).
\textsuperscript{76}See Reg. 556/89, supra note 4, art. 1(1)(1)–(3), 1(1)(5)–(6); Reg. 2349/84, supra note 3, art.
1(1)(1)–(3), 1(1)(5)–(6).
An earlier draft regulation of May 1994 contained an even more complicated scheme on market share thresholds.\textsuperscript{77} For example, under this earlier draft, an obligation on the licensor not to license others in the licensee's territory would have been exempted only if (a) the products made by the licensee did not exceed forty percent of the relevant product and geographic market for the products, and (b) the licensee was not a member of an oligopolistic market.\textsuperscript{78} An oligopolistic market was defined as three or fewer undertakings having a combined share of over fifty percent, or five or fewer undertakings having a combined share of over two-thirds of the relevant market, where the licensee was among those three or five largest undertakings and the licensee's market share was at least ten percent.\textsuperscript{79}

The Commission in the September 1994 Draft stated that if dominant firms were to secure exclusive licenses they might prevent access by third parties to the technology's market, and eliminate competition in respect of a substantial part of the products in question.\textsuperscript{80} To avoid such a situation, the block exemption should not automatically apply to agreements where the licensor undertook to grant no other licenses for the licensee's territory, and the licensee's market share in products that can be substituted for the licensed products which were marketed by the licensee exceeded a certain threshold at the time the agreement


\begin{quote}
The exemption in paragraph 1(1) of the obligation on the licensor not to grant other licences shall apply only provided
- that the licensed products manufactured by the licensee and other goods manufactured by him which are considered by users to be equivalent in view of their characteristics, price and intended use account for no more than 40\% of the entire market in those products in the common market or a substantial part of it, and
- that the parties are not operating on an oligopolistic market; it may be presumed that the market is an oligopolistic one if the parties and one other undertaking together hold a market share of more than 50\%, or if the parties and no more than three other undertakings together hold a market share of more than two thirds.
\end{quote}

\textit{Id.}; see also Tritell & Lessor, \textit{supra} note 22, at 2.

\textsuperscript{78} See May 1994 Draft Reg., \textit{supra} note 77, art. 1(5).

\textsuperscript{79} See id. As to the reference to the licensee's 10\% market share, see Ronald W. Davis & M.E. Johnston, \textit{Contrast or Convergence? The IP Guidelines and the New EU Technology Transfer Exemption}, 9 ANTITRUST 16, 18 (1995); Tritell & Lessor, \textit{supra} note 22, at 5.

\textsuperscript{80} See 1994 Draft. Reg., \textit{supra} note 34, recital 11.
was concluded.\footnote{See id.} The market share thresholds were designed to prevent dominant undertakings deemed potentially capable of exercising market power individually or collectively from using exclusive licenses to deny access by third parties to technologies that they might desire.\footnote{See id.} That aim could be achieved, however, only at a cost of considerable uncertainty. While undertakings exceeding those market share thresholds would have remained free to seek an individual exemption, that process would be egregiously lengthy, burdensome, and uncertain. It would have been those undertakings with successful technologies sufficient to reach the market share limits that would be the most adversely affected. Under the 1994 Draft and the earlier draft, absent an individual exemption, licensors and licensees exceeding the thresholds would have lost the exclusivity and other protections offered by the block exemption.\footnote{See supra notes 75–78 and accompanying text.}

Fortunately for industries, the proposal on market share thresholds has been deleted from the adopted text of Article 1 of the new Regulation.\footnote{See Reg. 240/96, supra note 1, art. 1.} The new Regulation no longer requires, as it did in the Draft, that the licensee must have less than a forty percent share of the relevant market covered by the licensed technology in order to benefit from the Article 1 exemption of the Regulation.\footnote{See Convergence, Policy, Regulatory Watch, supra note 2, at 32.} This does not mean, however, that companies which are recipients of technology and have a market share exceeding forty percent may completely rest at ease, for that threshold may still be used by the Commission in assessing possible unjustifiable anti-competitive effects that an exemptible agreement may have before it withdraws the benefit of exemption in accordance with the provisions of Article 7.\footnote{See Reg. 240/96, supra note 1, art. 7. Paragraph (1) of Article 7 provides:}

\begin{quote}
The Commission may withdraw the benefit of this Regulation . . . where . . . the effect of the agreement is to prevent the licensed products from being exposed to effective competition in the licensed territory from identical goods or services or from goods or services considered by users as interchangeable or substitutable in view of their characteristics, price and intended use, which may in particular occur where the licensee's market share exceeds 40% . . . .
\end{quote}
Where agreements exempted under this Regulation nevertheless have effects incompatible with Article 85(3), the Commission may withdraw the block exemption, in particular where the licensed products are not faced with real competition in the licensed territory. . . . This could also be the case where the licensee has a strong position on the market. In assessing the competition the Commission will pay special attention to cases where the licensee has more than 40% of the whole market. . . .

What a dominant undertaking can do, in order to avoid being caught by the Commission under Article 7, is to seek an expedited individual exemption through the use of what is known as the opposition procedure. Undertakings remain entitled “to apply in individual cases . . . for exemption” even if their agreements are exempted by Articles 1 and 2, and “[t]hey can in particular notify agreements obliging the licensor not to grant other licenses in the territory, where the licensee’s market share exceeds or is likely to exceed 40%.” In other words, upon such notification, it will be left to the Commission to “oppose” agreements within a certain time period. If the Commission fails to do so, then the licensed undertakings, despite their excessive dominant position, can assume their agreements qualify for the block exemption.

II. THE WHITE LIST: ARTICLES 1 AND 2

It may be appropriate and necessary at the outset to clarify one important point: according to some commentators, the “white list” lists practices or obligations that must be contained in a license agreement. That assumption is a serious misunderstanding and misconstruction of the white list. No matter whether the “white list” denotes Article 1 or 2 or both, there is nothing in the new Regulation or its predecessors which requires that the licensing agreement must contain some or all of the white-listed practices. “White list” provisions should simply rep-

Id. art. 7(1).

87 Id. recital (26); see also Technology Transfer, supra note 2.
88 See infra notes 318–53 and accompanying text.
89 Reg. 240/96, supra note 1, recital (27).
90 See, e.g., Maria Sendra, A Comparative Study of the Relationship Between Innovation and the Patent/Antitrust Mechanisms of the United States and the European Union, 9 INT’L TAX BUS. LAW 382, 389–90 (1992) (stating, albeit in a different context, that “the white list consists of conditions [which the] parties must adopt in order to be eligible for an exemption.”).
resent *legal* and/or *permissible*, but in no sense *required*, obligations or practices.

Thus, the term "white list" covers those practices which are restrictive of competition and therefore fall within the scope of Article 85(1), but nonetheless satisfy the conditions of Article 85(3) for exemption, as well as those practices which are generally not restrictive of competition and therefore are not prohibited by Article 85(1) *per se*. In other words, the white list represents *legal* or *permissible* obligations or practices that are either not barred by the competition rules of Article 85(1), or exempted from Article 85(1) rules if they would have otherwise been barred by such rules. As the white-listed obligations found in Articles 1 and 2 of the Regulation represent permissible or legal obligations and practices, they are declared as two blocks that are to be automatically exempted from the Union’s competition rules and/or from the complex individual notification requirements. The Commission clearly states in the preamble of the Regulation that agreements or clauses “which come within the terms of Articles 1 and 2 and which have neither the object nor the effect of restricting competition in any other way need no longer be notified.”

A. Exempted Obligations Restrictive of Competition

Article 1 of the new Regulation, as part of the white list, contains the basic provisions for the block exemption of certain types of permissible obligations that may appear in technology transfer agreements. These obligations are considered to be restrictive of competition within the common market and therefore fall within the scope of prohibited practices under Article 85(1), but because they also satisfy the conditions of Article 85(3), they are declared to be exempted from Article 85(1). Specifically, under Article 1(1), and subject to specified conditions, the following obligations are automatically exempted:

1. Territorially exclusive licenses excluding third party licensees;
2. Territorially exclusive licenses excluding the licensor;
3. Restrictions on exploitation in the licensor’s territory;
4. Restrictions on manufacture or use in territories which have been licensed to other licensees;

---

91 Reg. 240/96, *supra* note 1, recital (27).
92 See *id.* art. 1.
93 See *id.*
(5) Restrictions on active sales in territories licensed to other licensees;
(6) Restrictions on passive sales in territories licensed to other licensees;
(7) Obligations to use the licensor’s trademark or get up;
(8) Restrictions on quantities of the licensed product used for manufacturing different products. 94

The Commission considers that the above types of obligations fulfill one important aspect of the conditions for the application of Article 85(3) of the Treaty of Rome, i.e., they “generally contribute to improving the production of goods and to promoting technical progress.” 95 With these restrictions, the patentees or the holders of know-how will be “more willing to grant licences,” while prospective licensees will be “more inclined to undertake the investment required to manufacture, use and put on the market a new product or to use a new process.” 96 These restrictions, continues the Commission, also satisfy the remaining conditions for exemption under Article 85(3), in that consumers “will, as a rule, be allowed a fair share of the benefit resulting from the improvement in the supply of goods on the market.” 97 Article 1(5) provides that “[t]he exemption provided for in paragraph 1 shall also apply where in a particular agreement the parties undertake obligations of the types referred to in that paragraph but with a more limited scope than is permitted by that paragraph.” 98

1. Territorial Protections to Exclude Other Licensees

Under Article 1(1)(1) of the new Regulation, Article 85(1) of the Treaty shall not apply to a pure or mixed technology licensing agreement between “two undertakings” that contains “an obligation on the licensor not to license other undertakings to exploit the licensed technology in the licensed territory.” 99 Except for a minor and necessary change in wordings, this provision is virtually identical to its counterparts in the prior Patent and Know-how Regulations. 100 The essence of a license comprises the right to exploit, exclusively or non-exclusively,

---

94 See id. art. 1(1)(1)–(8).
95 Id. recital (12).
96 Reg. 240/96, supra note 1, recital (12).
97 Id. recital (17).
98 Id. art. 1(5).
99 Id. art. 1(1)(1).
100 See Reg. 556/89, supra note 4, art. 1(1)(1); Reg. 2349/84, supra note 3, art. 1(1)(1).
the intellectual property rights so licensed. The right to exploit includes "any [exclusive or non-exclusive] use of the licensed technology in particular in the production, active or passive sales in a territory even if not coupled with manufacture in that territory, or leasing of the licensed products."101

The Commission recognizes that this type of exclusive license obligation, among others, may not be in itself incompatible with Article 85(1) if it introduces and protects a new technology in the licensed territory by virtue of (a) the degree of the research which has been undertaken; (b) the degree of the increase in the level of competition in general and inter-brand competition in particular; and (c) the degree of the competitiveness of the parties to the agreement resulting from the dissemination of innovation within the common market.102 If such an exclusive license does, however, fall within the scope of Article 85(1) of the Treaty in other circumstances, it should nonetheless be exempted under Article 1 of the Regulation.103

According to Article 1, paragraph 2 of the new Regulation, if "the agreement is a pure patent licensing agreement, the exemption of [the obligation regarding territorially exclusive license] . . . is granted only to the extent that and for as long as the licensed product is protected by parallel patents, in the territories . . . of the licensee."104 This requirement is in effect somewhat different from that in Article 1(1)(1) of the Patent Regulation, which merely required that "one of the licensed patents [remain] in force."105 The ambiguity inherent in the latter could be interpreted in two ways: either that one of licensed patents had to remain in force in the licensee’s territory (as well as the licensor’s territory), or that it would suffice if such licensed patent remained in force in the licensor’s territory. This uncertainty is avoided by the amended language now found in Article 1(2) of the new Regulation, which certainly represents an improvement, and by a provision in the preamble which states that this kind of obligation is permitted only "in respect of territories where the licensed product is protected by patents."106

101 Reg. 240/96, supra note 1, art. 10(10).
102 See id. recital (10).
103 See id.
104 Id. art. 1(2).
105 Reg. 2349/84, supra note 3, art. 1(1)(1).
106 Reg. 240/96, supra note 1, recital (12). The legislative history of the new Regulation made this point clearer: "The Regulation should not apply to pure patent licensing agreements con-
Under Article 1(3) of the new Regulation, if "the agreement is a pure know-how licensing agreement," the practice of territorially exclusive licensing excluding other potential licensees will be exempted for a period "not exceed[ing] ten years from the date when the licensed product is first put on the market in the Community by one of the licensees."\textsuperscript{107} This ten year limit for pure know-how agreements is basically a restatement of a similar provision in Article 1(2) of the Know-how Regulation.\textsuperscript{108} The fourth sub-paragraph of Article 1(3) of the new Regulation resembles Article 1(3) of the Know-how Regulation in that both provide that the exemption regarding pure and exclusive know-how licenses shall apply only where the parties have identified the initial know-how and any subsequent improvements to it which become available to one party and are communicated to the other party pursuant to and for the purpose of their agreement, and only "for as long as the know-how remains secret and substantial."\textsuperscript{109}

In the case of exclusive licensing agreements involving mixed patent and know-how technology, (a) if "the licensed technology is protected by necessary patents" in a Member State (i.e., a licensed territory), and (b) "if the duration of such protection exceeds the periods specified in paragraph 3" (i.e., if it exceeds ten years or a period of ten years minus the number of years for which the know-how has entered into the public domain), the duration of the exemption for territorial exclusivity may then be extended in that Member State "for as long as the licensed product [or process] is protected ... by such [necessary] patents."\textsuperscript{110} The corresponding provision contained in the Know-how Regulation had the same effect although the wordings used therein were a little different.\textsuperscript{111}

"Necessary patents" are defined in the new Regulation as patents the license of which "is necessary for the putting into effect of the licensed technology insofar as, in the absence of such a licence, the realisation of the licensed technology would not be possible or would by [sic] possible only to a lesser extent or in more difficult or costly conditions," and which "must therefore be of technical, legal or economic interest

\textsuperscript{107}Reg. 240/96, \textit{supra} note 1, art. 1(2)(3).
\textsuperscript{108}See Reg. 556/89, \textit{supra} note 4, art. 1(2).
\textsuperscript{109}Reg. 240/96, \textit{supra} note 1, art. 1(3)(4); Reg. 556/89, \textit{supra} note 4, art. 1(3).
\textsuperscript{110}Reg. 240/96, \textit{supra} note 1, art. 1(4)(1).
\textsuperscript{111}See Reg. 556/89, \textit{supra} note 4, art. 1(4).
to the licensee."\textsuperscript{112} Such a definition was not provided in the Know-how Regulation.

Further, the obligation to exclude other licensees, among other obligations, in mixed agreements must meet one more condition in order to fully benefit from the exemption under Article 1 of the new Regulation. In order for the maximum allowable time limit to apply, \textit{either} the patents must remain in force, \textit{or} the know-how must be properly identified and continue to meet the standard of secrecy and substantiality. Within the time limit, the longer duration of protection between these two controls.\textsuperscript{113}

2. Territorial Protections Against Licensors

Article 1(1)(2) of the new Regulation exempts "an obligation on the licensor not to exploit the licensed technology in the licensed territory himself" from the prohibitions of Article 85(1) of the Treaty of Rome.\textsuperscript{114} The two predecessor Regulations contained similar corresponding provisions.\textsuperscript{115} An arrangement excluding the licensor from the territory of the licensee is just another aspect of an exclusive territorial protection that is intended to grant the licensee the sole right, even \textit{vis-à-vis} the licensor, to exploit the licensed patents and/or know-how within his or her territory. The Commission's reasoning as stated in recital (10) of the new Regulation applies equally to this kind of territorial exclusivity.\textsuperscript{116}

The exemption of the obligation excluding the licensor from exploiting the licensed technology in the licensee's territory is also subject to the same time limits as are applied to the exemption of exclusive territorial protection excluding other licensees. These time limits are: (a) in the case of a pure patent licensing agreement, the exemption will be in effect only for as long as the licensed product remains covered by parallel patents in the licensee's territory; (b) in the case of a pure know-how license, the obligation may not exceed ten years after the know-how was first marketed by any licensee, to the extent that the know-how remains secret and substantial and has been identified by the parties in an appropriate form; and (c) in the case of a mixed patent and know-how licensing agreement, the obligation may

\textsuperscript{112} Reg. 240/96, \textit{supra} note 1, art. 10(5).
\textsuperscript{113} See id. art. 1(4)(3).
\textsuperscript{114} Id. art. 1(1)(2); see also EEC Treaty art. 85(1).
\textsuperscript{115} See Reg. 556/89, \textit{supra} note 4, art. 1(1)(2); Reg. 2349/84, \textit{supra} note 3, art. 1(1)(2).
\textsuperscript{116} See \textit{supra} note 100 and accompanying text.
in no event go beyond the life of necessary patents if the life of such patents exceeds (i) the general ten-year know-how limit, (ii) a time limit shortened by the loss of secrecy and/or substantiality or by the lack of identification, or (iii) a time limit further shortened by the loss of both patent protection and know-how protection.\footnote{117}{See supra notes 101–11 and accompanying text.}

3. Territorial Reservations for Licensors

As the two prior Patent and Know-how Regulations did, the new Regulation also permits "an obligation on the licensee not to exploit the licensed technology in the territory of the licensor within the common market."\footnote{118}{Reg. 240/96, supra note 1, art. 1(1)(3). Cf. Reg. 556/89, supra note 4, art. 1(1)(3); Reg. 2349/84, supra note 3, art. 1(1)(3).} The new Regulation no longer uses the words "territories . . . which are reserved for the licensor." There seems to be no reason, however, why one can not understand the terms "the territory of the licensor" as a territory which the licensor has reserved for himself or herself, to the exclusion of any licensee or licensees, for the exploitation of the patent and/or know-how in question.\footnote{119}{The 1994 Draft Regulation continued to use "territories within the common market which are reserved for the licensor." 1994 Draft Reg., supra note 34, art. 1(1)(3). It is not known why the Commission changed the wordings in the adopted text, perhaps for reasons of simplicity. In any event, changes such as this are matters of drafting technique, not of substance.}

In order to benefit from the exemption, exclusive territorial protection clauses designed to exclude the licensee(s) from the territories within the EU reserved for the licensor must similarly meet certain conditions. First, where the clause concerns a pure patent license, the licensed product or technology must be "protected by parallel patents in the territories . . . of . . . the licensor," and the licensee's obligation may not exceed the duration of such patents.\footnote{120}{Reg. 240/96, supra note 1, art. 1(2) (emphasis added).} Second, for a pure know-how license, the duration of the exemption is subject to the maximum ten-year limit, which can be shortened if the technology has been commercially used by prior licensees, provided that during such time limit, the know-how does not become public knowledge and it is properly identified by the parties.\footnote{121}{See id. art. 1(3).} If, for example, the licensed goods or services, the production or provision of which requires the use of the licensed know-how, have been put on the market by Licensee X as the first marketer for five years, Licensee Y may then be required to refrain from exploiting the know-how in Licensor's territory for only
up to five additional years. Should the know-how enter the public domain two years prior to the expiration of the ten-year limit, Licensor would then be entitled to a maximum period of eight years of exemption vis-à-vis Licensee X, but only three years of such exemption vis-à-vis Licensee Y. Third, where the clause involves a mixed agreement, while the licensee’s obligation may be extended beyond the exemption periods for pure know-how licenses by the existence of longer-duration parallel patents, that obligation, whether or not so extended, may be exempted “only for as long as the patents remain in force or to the extent that the know-how is identified and for as long as it remains secret and substantial whichever period is longer.”

4. Territorial Reservations for Other Licensees

Points (4) through (6) of Article 1(1) of the new Regulation are comparable to the corresponding provisions in the predecessor Regulations. These points concern arrangements designed to protect the interests of other licensees in their own licensed territories. In other words, the licensor may agree to license the technology to a particular licensee on the condition that the latter does not exploit the technology in territories where other licensees have been granted a license to exploit it. However, the degree of protection appears to be different between the marketing aspect and other aspects of exploitation. Therefore, they are treated separately in three provisions.

Article 1(1)(4) deals with restrictions on the production or use aspects of exploitation, providing for the exemption of “an obligation on the licensee not to manufacture or use the licensed product, or use the licensed process, in territories within the common market which are licensed to other licensees.” The same conditions and duration of exemption apply to this obligation as those discussed in the contexts of exclusive territorial protection to exclude other licensees and/or the licensor from exploiting the licensed technology in the licensed territory, and of protection to exclude the licensee from exploiting the same in territories which are reserved for the licensor himself or herself.

As to the marketing aspect of exploitation, the Regulation and its two predecessors distinguish between active marketing and non-active

---

122 Id. art. 1(4).
123 See Reg. 240/96, supra note 1, art. 1(4)–(6).
124 Id. art. 1(1)(4). Cf. Reg. 556/89, supra note 4, art. 1(1)(4); Reg. 2349/84, supra note 3, art. 1(1)(4).
marketing by allowing the licensor a much shorter duration of exemp­tion for restricting the licensee from passively selling the licensed product in territories of third licensees. Article 1(1)(5) exempts "an obligation on the licensee not to pursue an active policy of putting the licensed product on the market in the territories within the common market which are licensed to other licensees."\textsuperscript{125} Examples of activities in pursuit of such a policy include the engagement "in advertising specifically aimed at those territories," the establishment of "any branch" in such territories and/or the maintenance of "any distribution depot there."\textsuperscript{126} The restriction on these active marketing activities benefits from the same duration of exemption as that available to restrictions on the production or use activities of the licensee in the territories of other licensees. In other words, such restrictions are exempted for as long as the parallel patents remain in force in the case of a pure patent license, or for up to ten years for a pure know-how license while the know-how remains secret and substantial. In the case of a mixed license, the restrictions are exempted for the longer period of the life of the necessary patent, or the life of secrecy and substanti­ality of the appropriately identified know-how within the permissible time limits.

Under Article 1(1)(6), it is permissible for the parties to include in their licensing agreement "an obligation on the licensee not to put the licensed product on the market in the territories licensed to other licensees within the common market \textit{in response to unsolicited orders}."\textsuperscript{127} This exemption is subject, however, to stricter limitations. Article 1(2) provides that in the case of a pure patent license, the

\begin{quote}
 exemption of the obligation referred to in point (6) of para­
   graph 1 is granted for a period \textit{not exceeding five years} from
   the date when the product is first put on the market within
   the common market by one of the licensees, to the extent
   that and for as long as, in these territories, this product is
   protected by parallel patents.\textsuperscript{128}
\end{quote}

Similarly, where the agreement is a pure know-how license, the dura­tion of exemption for this kind of obligation may not exceed five years after the licensed product is first placed on the market in the EU by

\textsuperscript{125} Reg. 240/96, \textit{supra} note 1, art. 1(1)(5).
\textsuperscript{126} \textit{Id}. Cf. Reg. 556/89, \textit{supra} note 4, art. 1(1)(5); Reg. 2349/84, \textit{supra} note 3, art. 1(1)(5).
\textsuperscript{127} Reg. 240/96, \textit{supra} note 1, art. 1(1)(6) (emphasis added).
\textsuperscript{128} \textit{Id}. art. 1(2) (emphasis added).
any of the licensees, and the know-how during that maximum five-year period must be properly identified and remain secret and substantial. The duration of such protection in the case of a mixed agreement “may not exceed the five-year period” either, and only for so long as the patent remains in force or the properly identified know-how remains secret and substantial, whichever is longer. The Commission is of the position that while the obligation on the licensee not to market the licensed product in the domains licensed to other licensees should be exempted,

the permitted period for such an obligation . . . should . . . be limited to a few years from the date on which the licensed product is put on the market in the Community by a licensee, irrespective of whether the licensed technology comprises know-how, patents or both in the territories concerned.

Further, there exists a danger that this exemption, even if within the five-year time limit, may be withdrawn should the Commission find that “the licensee refuses, without any objectively justified reason, to meet unsolicited orders from users or resellers in the territory of other licensees.”

According to the Commission, the obligation referred to in Article 1(1)(6) “would ban not just active competition but passive competition too.” Since the restriction on active marketing competition is already covered by a longer period of exemption under Article 1(1)(5) and other related provisions, it is not necessary for Article 1(1)(6), which ensures a shorter duration of protection, to cover both active and passive marketing competition. The reference in Article 1(1)(6) to the phrase “in response to unsolicited orders” may appropriately be interpreted as excluding active marketing competition. It may be noted that neither the Patent Regulation nor the Know-how Regulation contained the words “in response to unsolicited orders.” The addition of these words in the new Regulation makes it clearer that the words “putting on the market” in the context of Article 1(1)(6) refer solely

129 See id. art. 1(3)(2), (4).
130 Id. art. 1(4)(2), (3).
131 Id. recital (15).
132 Reg. 240/96, supra note 1, art. 7(2).
133 Id.
134 Id. art. 1(1)(6).
135 See Reg. 556/89, supra note 4, art. 1(1)(6); Reg. 2349/84, supra note 3, art. 1(1)(6).
to passive selling activities, and therefore do not include any active activities to “put the licensed product on the market.”

5. Mandatory Use of Trademarks; Lawful Quantity Restrictions

Article 1(1)(7) of the Regulation exempts “an obligation on the licensee to use only the licensor’s trademark or get up to distinguish the licensed product during the term of the agreement, provided that the licensee is not prevented from identifying himself as the manufacturer of the licensed products.” This is almost identical to its corresponding provision in both the Patent and Know-how Regulations. Requiring the licensee to use only the trademark or get up determined by the licensor resembles the tying of unrelated obligations. However, if the licensor considers such trademark or get up necessary for identifying and distinguishing the licensed product from other competitive products, then he or she is allowed to restrict the licensee to using only designated trademark or get up. In no event may the licensor prohibit the licensee from indicating that the latter is the manufacturer of the licensed product, even if such product has to bear the trademark or get up of the former.

Under Article 1(1)(8) of the new Regulation, an obligation may be imposed on the licensee

- to limit his production of the licensed product to the quantities he requires in manufacturing his own products and to sell the licensed product only as an integral part of or a replacement part for his own products or otherwise in connection with the sale of his own products, provided that such quantities are freely determined by the licensee.

This is a restatement of Article 1(1)(8) of the Know-how Regulation. There was no comparable provision in the Patent Regulation.

The obligation mandating the use of the licensor’s trademark or get up, and the obligation limiting the licensee’s production to quantities necessary for the manufacture of derivative products, are commonly

---

136 See Reg. 556/89, supra note 4, art. 1(1)(6); Reg. 2349/84, supra note 3, art. 1(1)(6).
137 Reg. 240/96, supra note 1, art. 1(1)(7).
138 See Reg. 556/89, supra note 4, art. 1(1)(7); Reg. 2349/84, supra note 3, art. 1(1)(7).
139 Reg. 240/96, supra note 1, art. 1(1)(8).
140 See Reg. 556/89, supra note 4, art. 1(1)(8). Article 1(1)(8) of the Know-how Regulation was worded exactly the same as Article 1(1)(8) of the new Regulation. See Reg. 240/96, supra note 1, art. 1(1)(8).
subject to some conditions which are, in part, different from those for the exemption of other obligations. Where the agreement concerns a pure patent license, the conditions are the same as those for exclusive territorial protection, namely, the licensed product or the licensed process must continue to be protected by parallel patents in the territory of the licensee in order for the obligations to benefit from the exemption. 141 In the case of a pure know-how licensing agreement, however, the ten year limit does not apply to the obligations referred to in Article 1(1)(7) and (8). 142 Rather, such obligations “are exempted for the lifetime of the agreement for as long as the know-how remains secret and substantial.” 143

The duration of the agreement as a whole may be longer than ten years even if some of the obligations discussed earlier may not be imposed for more than ten years upon the initial marketing of the licensed product using the licensed know-how. Assuming, for example, that in a pure know-how license agreement which has a term of twenty years in its entirety, the licensee will be the first one to put the licensed product on the market. The agreement would contain a clause which would obligate the licensor to refrain from licensing other licensees to exploit the licensed know-how, or exploiting the same himself or herself (Clause A). It would also include a clause requiring the licensee to use the licensor’s trademark only while allowing the licensee to identify himself or herself as the manufacturer (Clause B). Under the Regulation, Clause A would be exempted for a maximum of only ten years, whereas Clause B could benefit from the exemption for up to twenty years—the lifetime of the agreement—unless such a period is shortened by the loss of secrecy and/or substantiality in the know-how. 144

B. Permissible Obligations Not Restrictive of Competition

Article 2 of the new Regulation contains a non-exhaustive list of practices which in the opinion of the Commission are generally not restrictive of competition, but may nonetheless be exempted in case they are in fact found to have an anti-competition effect. 145 The Commission reasons that

141 See id. art. 1(2) (referring to points (7) and (8) of Article 1(1)).
142 See id. art. 1(3)(3).
143 Id. (emphasis added).
144 See id. art. 1(3)(3).
145 See Reg. 240/96, supra note 1, art. 2.
It is desirable to list in [the] Regulation a number of obligations that are commonly found in licensing agreements but are normally not restrictive of competition, and to provide that in the event that because of the particular economic or legal circumstances they should fall within Article 85(1), they too will be covered by the exemption.146

Under paragraph 1 of Article 2 of the new Regulation, the obligations and practices which are considered "generally not restrictive of competition" include the following:

(1) an obligation not to disclose confidential know-how even after the expiration of the agreement;
(2) a restriction on sub-licensing or assignment;
(3) a restriction on post-term exploitation;
(4) non-exclusive reciprocal grant-backs on improvements of the licensed technology;
(5) an obligation to observe minimum quality specifications or to procure tied goods necessary for proper exploitation;
(6) a duty to cooperate regarding misappropriation of the licensed know-how or infringement of the licensed patent;
(7) an obligation to continue paying royalties (a) within the term of the agreement if the know-how becomes public knowledge by actions of the licensee or other licensees, or (b) after the licensed patents expire if such an obligation is necessary to facilitate payment;
(8) field of use restrictions;
(9) requirements on minimum royalty payments or production quantities;
(10) most-favored-licensee requirements;
(11) an obligation to indicate the licensor's name or the licensed patents;
(12) a ban on the use of the licensed technology for the construction of facilities for third parties;
(13) a restriction on the quantity of the licensed product that may be supplied to a particular customer in appropriate circumstances;
(14) a reservation of the right under the patent monopoly to oppose the use of the patent by the licensee beyond the

146 Id. recital (18).
licensed territory;
(15) a reservation of the right to terminate the agreement if status of know-how or validity of patents is contested or challenged;
(16) a reservation of the right to terminate a patent license if the licensee claims that the patent is not necessary;
(17) a best-effort exploitation requirement;
(18) a reservation to terminate the exclusivity and to stop licensing improvements when the licensee competes with the licensor.147

These types of obligations and practices do not have to be specifically exempted from Article 85(1) if they are not restrictive of competition. Insofar as they are not covered by the competition rules (and other applicable EU or national law), they are per se legal and permissible, thus rendering exemption unnecessary. However, as Article 2(2) reiterates, “[i]n the event that, because of particular circumstances,” the practices listed above “fall within the scope of Article 85(1), they shall also be exempted even if they are not accompanied by any of the obligations exempted by Article 1.”148 This contingency exemption “shall also apply where an agreement contains clauses of the types referred to in paragraph 1 but with a more limited scope than is permitted by that paragraph.”149

It is not clear whether the permissible practices listed in Article 2 are subject to any time limits, and if so, what limits should apply. It is arguable that insofar as these practices are not restrictive of competition and therefore are not prohibited by Article 85(1) of the Treaty, they may be considered not subject to any particular time limits, because in that event they themselves are not the targets of Article 85(1) prohibitions. They need not be exempted, because they are not prohibited. Article 2(1) of the new Regulation states that “Article 1 shall apply notwithstanding the presence” of any of the practices listed under Article 2.150 The reference to the entire Article 1 could mean, arguably, that the time limits of Article 1(2) through (4) could also be applied to Article 2. In any event, some of the provisions of Article 2(1), e.g., post-term use ban and non-disclosure clauses, are themselves evidence

147 See id. art. 2(1)(1)–(18).
148 Id. art. 2(2).
149 Id. art. 2(3).
150 Reg. 240/96, supra note 1, art. 2(1).
that they can operate for a duration longer than those permissible under Article 1.\textsuperscript{151}

1. Post-Term Non-Disclosure Obligations

Under Article 2(1)(1) of the new Regulation, the licensor may impose “an obligation on the licensee not to divulge the know-how communicated by the licensor,” not only for the lifetime of the agreement, but also for an indefinite period of time “after the agreement has expired.”\textsuperscript{152} This same permission was contained in Article 2(1)(7) of the Patent Regulation, and Article 2(1)(1) of the Know-how Regulation.\textsuperscript{153} In a pure or mixed licensing agreement involving the communication of know-how, it is only natural to expect that the licensor has a legitimate interest in requiring that the licensee protect the confidentiality of the licensed know-how during the term of the agreement. Moreover, the licensee is further expected to continue to refrain from disclosing the know-how to third parties or to the public beyond the expiration of the agreement until the know-how loses its secrecy and/or substantiality by actions not related to the licensee.

2. Sublicenses and Assignment Restrictions

It is permissible under Article 2(1)(2) of the Regulation for the parties to agree to a restraint on the licensee “not to grant sublicences or assign the licence.”\textsuperscript{154} The comparable provisions in the two predecessor regulations were Article 2(1)(5) of the Patent Regulation and Article 2(1)(2) of the Know-how Regulation.\textsuperscript{155} Given the nature of patent monopoly and/or the leverage of possessing useful know-how technology, and absent statutory requirements, the patentee and/or the holder of know-how should be allowed to determine whether or not to transfer the technology at all, and if he chooses to do so, whether to allow the licensee to sub-transfer the technology to other parties. It is not uncommon in technology transactions for the licensor to refuse to grant any right to the licensee with regard to sublicensing or assignment to parties unrelated to the principal transaction.

\textsuperscript{151} See id.
\textsuperscript{152} Id. art. 2(1)(1).
\textsuperscript{153} See Reg. 556/89, supra note 4, art. 2(1)(1); Reg. 2349/84, supra note 3, art. 2(1)(7).
\textsuperscript{154} Reg. 240/96, supra note 1, art. 2(1)(2).
\textsuperscript{155} See Reg. 556/89, supra note 4, art. 2(1)(2); Reg. 2349/84, supra note 3, art. 2(1)(5).
3. Post-Term Use Restrictions

Article 2(1)(3) allows "an obligation on the licensee not to exploit the licensed know-how or patents after termination of the agreement in so far and as long as the know-how is still secret or the patents are still in force." Similarly, Article 2(1)(4) of the Patent Regulation permitted such a post-term use ban if the patent remained in force after the expiration of the agreement, while Article 2(1)(3) of the Know-how Regulation allowed such ban if the know-how remained secret. It is the position of the Commission that the obligation on the licensee to cease using the licensed technology after the termination of the agreement "may be regarded as a normal feature of licensing, as otherwise the licensor would be forced to transfer his know-how or patents in perpetuity." The absence of permission for such a post-term use ban could discourage the licensor from licensing and "inhibit the transfer of technology."

4. Reciprocal Grant-Backs

The holders of patents and/or know-how technologies sometimes agree to license their technologies on the condition that the licensee simultaneously agrees to assign or license any improvement patents or know-how which may be subsequently developed or derived from the licensed technologies back to the original licensor. Agreements to that effect are called grant-back agreements or clauses. Grant-backs, especially mutual ones, may give rise to more innovations, and allow the licensor to license his or her patent or know-how without the risk that the technology in question "will be foreclosed from the market." In this sense, grant-backs may have the effect of increasing competition within the common market.

Article 2(1)(4) of the new Regulation thus allows the licensor to impose "an obligation on the licensee to grant to the licensor a licence in respect of his own improvements to or his new applications of the licensed technology." This obligation is subject to two conditions. First, if the improvements are severable from the licensed technology,

---

156 Reg. 240/96, supra note 1, art. 2(1)(3).
157 See Reg. 556/89, supra note 4, art. 2(1)(3); Reg. 2349/84, supra note 3, art. 2(1)(4).
158 Reg. 240/96, supra note 1, recital (20).
159 Id.
160 Fogt & Gotts, supra note 24, at 25.
161 Reg. 240/96, supra note 1, art. 2(1)(4).
the license of such improvements must be non-exclusive "so that the
licensee is free to use his own improvements or to license them to third
parties," unless the licensee's own use or license of his or her improve­
ments would "involve disclosure of the know-how communicated by
the licensor that is still secret."162 Second, the grant-back must be a
reciprocal arrangement, i.e., the licensor, in requiring grant-backs
from the licensee, must at the same time undertake "to grant an
exclusive or non-exclusive licence of his own improvements to the
licensee."163

It deserves mentioning that the conditions in the Regulation for the
permissibility of grant-backs are somewhat different from those in the
predecessor regulations and in the 1994 Draft Regulation. With respect
to non-exclusivity, the new Regulation appears to have confined the
licensor to that requirement only "in the case of severable improve­
ments," implying that if the improvements are not severable from the
licensed technology, the licensor would not be subject to the non-ex­
clusivity requirement.164 This reference to "severable improvements,"
however, could be found neither in the 1984 Patent Regulation, nor
in the 1994 Draft Regulation. The Patent Regulation, while permitting
an obligation on the parties to communicate to one another any
experience gained during the course of exploiting the licensed patents
and to grant one another a license with regard to any inventions
involving improvements or new applications of the licensed patents,
required the mutual grant-backs to be non-exclusive without distin­
guishing severable and non-severable improvements.165 The 1994 Draft
did not contain any reference to "severable improvements" when pro­
viding that the non-exclusivity requirement had to be satisfied.166 While
the 1989 Know-how Regulation did mention the word "severable," that
word was referred to in a sub-context and could hardly be used to limit
the words "non-exclusive license," which were contained in the over­
all beginning sentence of Article 2(1)(4) of the Know-how Regu­
lation.167 Contrary to the plain structure and language of the new Regu­
lation, the Patent and Know-how Regulations and the 1994 Draft could
all be properly interpreted to mean that the reciprocal grant-backs had

162 Id.
163 Id.
164 Id.
165 See Reg. 2349/84, supra note 3, art. 2(1)(10).
166 See 1994 Draft Reg., supra note 34, art. 2(1)(4).
167 See Reg. 556/89, supra note 4, art. 2(1)(4).
to be non-exclusive irrespective of whether the improvements or new applications were severable from the originally licensed technology.\footnote{See Reg. 556/89, supra note 4, art. 2(1)(4); Reg. 2349/84, supra note 3, art. 2(1)(10); 1994 Draft Reg., supra note 34, art. 2(1)(4).}

Another difference between the new Regulation and the Patent and Know-how Regulations is that Article 2(1)(4) of the new Regulation, unlike its predecessors, does not refer to any obligation on the licensee and vice versa to communicate any experience gained in the exploitation of the licensed technology.\footnote{See Reg. 240/96, supra note 1, art. 2(1)(4).} Further, the 1989 Know-how Regulation permitted the licensor to require the licensee to seek a prior approval from the licensor before the licensee granted a license with respect to his or her improvements to any third party.\footnote{See id. art. 2(1)(4)(a).} The licensor's prior approval could not be unduly withheld absent any justifiable reason to believe that the license of improvements would be likely to divulge the licensed know-how secrets.\footnote{See id. art. 2(1)(4)(b).} This provision is not contained in the new Regulation either.

In addition, the Know-how Regulation contained a limitation on the licensor's right to grant-backs that would not allow the licensor to exploit those of the licensee's improvements that are not severable from the licensed know-how beyond the term of the principal licensing agreement.\footnote{See id. art. 2(1)(4)(a).} The licensee could, however, waive this limitation by giving the licensor an option to continue using the improvements after the original agreement expired if the licensor himself or herself agreed to pay royalties for such continued use, or if he waived his or her own post-term use ban vis-à-vis the licensee.\footnote{See id. art. 2(1)(4)(b).} This limitation is absent in the new Regulation. The 1994 Draft Regulation provided a similar condition to the effect that the licensor, in addition to accepting other conditions, had to accept an obligation to pay appropriate royalties to the licensee when his or her right to exploit the licensee's improvements would be of a duration longer than the licensee's right to exploit the technology supplied by the licensor.\footnote{See 1994 Draft Reg., supra note 34, art. 2(1)(4).} This provision has been deleted from the new Regulation.

The new Regulation thus seems to underscore the requirement of reciprocity rather than non-exclusivity. As the Commission states in the preamble, "undertakings by the licensee to grant back to the licensor
a licence for improvements to the licensed know-how and/or patents are generally not restrictive of competition if the licensee is entitled by the contract to share in future experience and inventions made by the licensor."175 It is notable that the same paragraph (with a different number) in the preamble of the 1994 Draft further stated that as a second condition the licensee ought to be allowed to retain "the right freely to use his own improvements or to grant licences to third parties where to do so would not disclose the licensor’s know-how" in order to hold the grant-back arrangement not restrictive of competition.176 This second condition is not contained in the adopted text of the new Regulation.

5. Minimum Quality Requirements/Tying of Necessary Goods

Requirements with respect to minimum quality standards and/or the procurement and use of tied goods or services necessary for the proper exploitation of the licensed technology have been traditionally considered prima facie not within the scope of the prohibition of Article 85(1) of the Treaty of Rome.177 They therefore have constituted permissible obligations, or at least exemptible obligations, if they were found to have an anti-competition effect. Article 2(1)(5) of the new Regulation continues to authorize “an obligation on the licensee to observe minimum quality specifications, including technical specifications, for the licensed product or to procure goods or services from the licensor or from an undertaking designated by the licensor . . . and to allow the licensor to carry out related checks,” provided that these quality specifications, products or services are necessary for (a) “a technically proper exploitation of the licensed technology,” or (b) “ensuring that the product of the licensee conforms to the minimum quality specifications that are applicable to the licensor and other licensees.”178 This provision is virtually the same as Article 2(1)(5) of the Know-how Regulation.179 The Patent Regulation contained a similar but not identical provision.180 If the licensor and other licensees observe certain minimum quality standards, or use certain goods or services in order to meet those standards, there appears to be no reason why the licensor

175 Reg. 240/96, supra note 1, recital (20).
176 1994 Draft Reg., supra note 34, recital (16).
177 See Reg. 556/89, supra note 4, art. 2(1)(5); Reg. 2349/84, supra note 3, art. 2(1)(9).
178 Reg. 240/96, supra note 1, art. 2(1)(5).
179 See Reg. 556/89, supra note 4, art. 2(1)(5).
180 See Reg. 2349/84, supra note 3, art. 2(1)(9).
cannot also require the licensee to respect these standards or to procur­
se those same goods or services in order to ensure the conformity of the licensed product to those minimum standards. Similarly, where the minimum standards or the tying of goods or services not covered by the licensed technology are in any way necessary for exploiting the licensed technology in a technically satisfactory manner, the require­ment for such standards or tying would be justified.\textsuperscript{181}

6. Cooperation Respecting Misappropriation or Infringements

The licensor under Article 2(1)(6) of the Regulation may also re­
quire the licensee (a) "to inform [him] of misappropriation of the know-how or of infringements of the licensed patents," or (b) "to take or to assist [him or her] in taking legal action against such misappropriation or infringements."\textsuperscript{182} It is not uncommon for the parties to draft into their licensing agreement an obligation on the licensee to cooperate with the licensor with regard to dealing with any infringe­ment of the licensed patents or misappropriation of the licensed trade or technical secrets by third parties. The above provision is in essence a continuation and combination of the corresponding provisions in the prior Patent and Know-how Regulations.\textsuperscript{183} Unlike the new Regulation, however, the prior regulations specifically did not allow the obligation to cooperate with respect to know-how misappropriation or patent infringements to be used to affect the licensee’s right to contest the secrecy of the licensed know-how or to challenge the validity of the licensed patents.\textsuperscript{184} It is not known why this proviso was removed from the new Regulation. The licensee’s right to contest the know-how’s secrecy or the patents’ validity appears, however, to be upheld in the new Regulation given the provisions of Article 2(1)(15).\textsuperscript{185}

7. Royalty Payments after Loss of Protectability of Technology

Where the licensed know-how becomes publicly known for reasons other than through the action of the licensor, the licensor under Article 2(1)(7) of the Regulation is allowed to impose an obligation

\begin{footnotes}
\item[181] See Tritell & Lessor, \textit{supra} note 22, at 4 (stating that such exemptions are “based on the need to ensure quality standards . . . [and on the] rationale of ensuring a technically satisfactory exploitation of the licensed technology.”).
\item[182] Reg. 240/96, \textit{supra} note 1, art. 2(1)(6).
\item[183] See Reg. 556/89, \textit{supra} note 4, art. 2(1)(6); Reg. 2349/84, \textit{supra} note 3, art. 2(1)(8).
\item[184] See Reg. 556/89, \textit{supra} note 4, art. 2(1)(6); Reg. 2349/84, \textit{supra} note 3, art. 2(1)(8).
\item[185] See \textit{infra} notes 231–38 and accompanying text.
\end{footnotes}
on the licensee "to continue paying the royalties . . . until the end of the agreement in the amounts, for the periods and according to the methods freely determined by the parties."186 If the know-how becomes public knowledge "by the action of the licensee in breach of the agreement," the continued payment of royalties should not prejudice the licensor's entitlement to demand from the licensee "the payment of any additional damages."187 This provision is basically the same as Article 2(1)(7) of the Know-how Regulation,188 but the Patent Regulation contained nothing analogous. The Commission is of the opinion that the list of clauses in Article 2(1) "which do not prevent exemption" should also include "an obligation on the licensee to keep paying royalties until the end of the agreement independently of whether or not the licensed know-how has entered into the public domain through the action of third parties or of the licensee himself."189

Under Article 2(1)(7) of the new Regulation, the parties may also agree to an arrangement that would require the continued payment of royalties "over a period going beyond the duration of the licensed patents" if it is necessary or proper "to facilitate payment."190 For instance, where the licensed patents have a remaining life of protection of seven years, an undertaking by the licensee, for the purpose of convenience or otherwise, to spread the payment of royalties over ten years instead of within the seven-year time limit is unlikely to produce any anti-competitive effect. The Commission believes that "the parties must be free, in order to facilitate payment, to spread the royalty payments for the use of the licensed technology over a period extending beyond the duration of the licensed patents . . ." as, for example, ". . . by setting lower royalty rates."191 This principle was stated in the 1994 Draft Regulation with different wording.192 There was no comparable provision in the 1984 Patent Regulation, nor in the 1989 Know-how Regulation on this point.

---

186 Reg. 240/96, supra note 1, art. 2(1)(7)(a).
187 Id.
188 See Reg. 556/89, supra note 4, art. 2(1)(7).
189 Reg. 240/96, supra note 1, recital (21).
190 Id. art. 2(1)(7)(b).
191 Id. recital (21).
192 See 1994 Draft Reg., supra note 34, art. 2(1)(7). The 1994 Draft Regulation states that nothing prevents the "royalties for the use of the licensed technology being spread, in order to facilitate payment, over a period going beyond the duration of the licensed patents or the entry of know-how into the public domain." Id.
It may further be noted that the 1994 Draft Regulation dealt with the exemptibility of the obligation of continued royalty payments "in the event of . . . the [licensed] patents prematurely losing their validity other than by action of the licensor" or "by the action of the licensee in breach of the agreement" in the context not related to the use of spreading the royalty payments over a period beyond patent protection. In the event that the licensed patents, prior to their normal expiration date, lost their protectability because, for instance, third parties or the licensee successfully challenged their validity, as a result of this provision of the Draft the licensee would nonetheless have been required to keep paying royalties until the end of the licensing agreement—a result which would hardly be acceptable or justifiable. It appears to be a wise and applaudable decision of the Commission to exclude the situation of premature loss of patent validity in Article 2(1)(7) of the new Regulation.

8. Field-of-Use or Geographic Restrictions

The licensor may find it in his or her best interest to limit the use of his or her patents and/or know-how to a particular field or fields of technical or market application even if there may exist other fields in which such patents and/or know-how are equally useful. Article 2(1)(8) of the Regulation provides a classic exemption for "an obligation on the licensee to restrict his exploitation of the licensed technology to one or more technical fields of application covered by the licensed technology or to one or more product markets." This provision contains two types of distinguishable restrictions: technical fields-of-use restrictions and geographic or market application restrictions. According to the Commission, these restrictions are "not caught by Article 85(1) either, since the licensor is entitled to transfer the technology only for a limited purpose." The technical fields-of-use restriction was covered by Article 2(1)(3) of the Patent Regulation, while both the technical fields-of-use restriction and the geographic application restriction were covered by Article 2(1)(8) of the Knowhow Regulation.

193 \textit{Id.}
194 Reg. 240/96, \textit{supra} note 1, art. 2(1)(8).
195 See \textit{id.}
196 \textit{Id.} recital (22).
197 See Reg. 556/89, \textit{supra} note 4, art. 2(1)(8); Reg. 2349/84, \textit{supra} note 3, art. 2(1)(3).
9. Minimum Royalty, Production or Use Requirements

Article 2(1)(9) of the new Regulation permits the inclusion in a licensing agreement of "an obligation on the licensee to pay a minimum royalty or to produce a minimum quantity of the licensed product or to carry out a minimum number of operations exploiting the licensed technology."\(^ {198}\) This provision is similar to Article 2(1)(2) of the Patent Regulation, and exactly the same as Article 2(1)(9) of the Know-how Regulation.\(^ {199}\) Under both regulations the licensor could equally impose minimum royalty, quantity and/or use requirements.\(^ {200}\) The licensor as the patentee and/or the holder of know-how naturally has an interest in ensuring that his or her economic expectation be realized at a minimum level out of the exploitation of his or her patented and/or non-patented technology either by himself or herself or jointly through his or her licensees. A clause requiring the licensee to pay royalties at a minimum sum or rate, to produce the licensed product at a minimum quantity, or to exploit the licensed technology in a minimum number of operations may not necessarily cause the restriction of competition; rather, it may help create a chance of increasing competition.\(^ {201}\) If it does have an anti-competitive effect, the value it contributes to society by encouraging the use of new technology and allowing consumers to share the benefits may provide a sufficient counter-balance. On the other hand, if such a clause between competitors has "the effect of preventing the licensee from using competing technologies," the Commission is entitled to withdraw the benefit of exemption.\(^ {202}\)

10. Most-Favored-Licensee Clauses

The licensor may sometimes be compelled to render available to the licensee more favorable conditions or treatment which the licensor can offer to other licensees in the future. This kind of arrangement is sometimes referred to in legal literature as "MFN" or most-favored-nation clauses, a term which is used in the wrong context.\(^ {203}\) Indeed, such

\(^{198}\) Reg. 240/96, supra note 1, art. 2(1)(9).

\(^{199}\) See Reg. 556/89, supra note 4, art. 2(1)(9); Reg. 2349/84, supra note 3, art. 2(1)(2).

\(^{200}\) See Reg. 556/89, supra note 4, art. 2(1)(9); Reg. 2349/84, supra note 3, art. 2(1)(2).

\(^{201}\) Cf. Davis & Johnston, supra note 79, at 16.

\(^{202}\) Reg. 240/96, supra note 1, art. 7(4).

a clause can be properly called an “MFL” or most-favored-licensee clause.\footnote{See, e.g., Robert C. Kline, \textit{Key License Clauses}, in \textit{TECHNOLOGY LICENSING} 1987, \textit{supra} note 203, at 175, 177 (stating that “[t]he main purpose of an MFL clause is to provide a licensee with an option to obtain more favorable terms granted to a subsequent licensee.”).} Such a clause is seldom found to be restrictive of competition, and has been always included in the Article 2 list of clauses which do not destroy the exemption even if they might fall within the prohibition of Article 85(1) of the Treaty.\footnote{See infra note 207 and accompanying text.} The new Regulation, in Article 2(1)(10), thus allows “an obligation on the licensor to grant the licensee any more favourable terms that the licensor may grant to another undertaking after the agreement is entered into.”\footnote{Reg. 240/96, \textit{supra} note 1, art. 2(1)(10).} This language is identical to Article 2(1)(11) of the Patent Regulation and Article 2(1)(10) of the Know-how Regulation.\footnote{See Reg. 556/89, \textit{supra} note 4, art. 2(1)(10); Reg. 2349/84, \textit{supra} note 3, art. 2(1)(11).}

11. Name or Patent Marking Requirements

The licensee is sometimes required by the licensor to display the latter’s name or patents on the products produced by the former in order to indicate the source of technology used for production of such products. The new Regulation in Article 2(1)(11) confirms the lawfulness of “an obligation on the licensee to mark the licensed product with an indication of the licensor’s name or of the licensed patent.”\footnote{Reg. 240/96, \textit{supra} note 1, art. 2(1)(11).} The corresponding provisions in prior laws were Article 2(1)(11) of the Know-how Regulation, which concerned the obligation to mark merely the licensor’s name, and Article 2(1)(6) of the Patent Regulation, which had a third alternative—the marking of the patent licensing agreement on the licensed product.\footnote{See Reg. 556/89, \textit{supra} note 4, art. 2(1)(11); Reg. 2349/84, \textit{supra} note 3, art. 2(1)(6).}

12. Ban on Use of Technology to Benefit Third Parties

The licensor may wish to prohibit the licensee from using the provided patents and/or know-how to construct facilities for competitors or for any other unrelated undertaking. Under Article 2(1)(12) of the new Regulation, it is permitted for the parties to agree upon “an obligation on the licensee not to use the licensor’s technology to construct facilities for third parties.”\footnote{Reg. 240/96, \textit{supra} note 1, art. 2(1)(12).} This prohibition is without prejudice to
the licensee’s right “to increase the capacity of his or her facilities or to set up additional facilities for his own use on normal commercial terms, including the payment of additional royalties.”\(^{211}\) The Commission believes that the licensee “may lawfully be prevented” by the licensor from using the latter’s specific patents and/or know-how “to set up facilities for third parties, since the purpose of the agreement is not to permit the licensee to give other producers access to the licensor’s technology while it remains secret or protected by patent.”\(^{212}\) The Know-how Regulation contained a similar provision,\(^{213}\) but this matter was not dealt with in the Patent Regulation.

13. Quantity Restrictions on Supplies to Given Customers

The remaining items in the Article 2(1) list of clauses not restrictive of competition are added features of the new Regulation which were not dealt with either in the Patent Regulation or in the Know-how Regulation.\(^{214}\) Article 2(1)(13) of the new Regulation deals with restrictions on the quantity of the licensed product that may be supplied by the licensee to a given customer under appropriate circumstances.\(^{215}\) It declares permissible and exemptible “an obligation on the licensee to supply only a limited quantity of the licensed product to a particular customer,” but such restriction can be permitted only if accompanied with any of the following two situations: (a) “where the licence was granted so that the customer might have a second source of supply inside the licensed territory;” or (b) “where the customer is the licensee, and the licence which was granted in order to provide a second source of supply provides that the customer is himself or herself to manufacture the licensed products or to have them manufactured by a subcontractor.”\(^{216}\) This kind of agreement is distinguishable from customer sharing arrangements.\(^{217}\) The Commission is of the view that the general prohibition of customer sharing should not apply “to limitations on the quantities the licensee may supply to the customer concerned.”\(^{218}\)

\(^{211}\) Id.

\(^{212}\) Id. recital (24).

\(^{213}\) See Reg. 556/89, supra note 4, art. 2(1)(12).

\(^{214}\) See Reg. 240/96, supra note 1, art. 2(1)(13)—(18).

\(^{215}\) See id. art. 2(1)(13).

\(^{216}\) Id.

\(^{217}\) See infra notes 85–90 and accompanying text.

\(^{218}\) Reg. 240/96, supra note 1, recital (23).
The Patent Regulation did not contain any comparable provision regarding the restriction on supplies of the licensed product to a given customer. The Know-how Regulation did have similar provisions, but they were contained in the grey list, not the white list.\(^{219}\) That Regulation recognized that the black-list ban of customer sharing did not apply to “cases where the know-how license is granted in order to provide a single customer with a second source of supply,” nor to “limitations on the quantities the licensee may supply to the customer concerned.”\(^{220}\) It provided that these limitations could be individually exempted (rather than automatically) through the opposition procedure under Article 4(2).\(^{221}\) Under the new Regulation, it is no longer necessary for the licensor or the parties to file an individual notification in order to enjoy the benefit of exemption for the practices of limiting the quantity of supplies to a particular customer.\(^{222}\)

14. Licensee Best-Efforts Clauses

Article 2(1)(17) concerns licensee “best-efforts” exploitation requirements.\(^{223}\) It provides that the licensor may mandate that the licensee “use his best endeavours to manufacture and market the licensed product.”\(^{224}\) While this provision was not expressly included in Article 2 of the prior two Regulations, licensee “best-efforts” clauses were permitted in different contexts. The Patent Regulation recognized “the legitimate interest of the licensor in having his patented invention exploited to the full and to this end to require the licensee to use his best endeavours to manufacture and market the licensed product.”\(^{225}\)

\(^{219}\) See Reg. 556/89, supra note 4, recital (18).

\(^{220}\) Id.

\(^{221}\) See id. art. 4(2). Article 4(2) of the Know-how Regulation stated:

Paragraph 1 [i.e., the opposition procedure requiring notification] shall in particular apply to an obligation on the licensee to supply only a limited quantity of the licensed product to a particular customer, where the know-how licence is granted at the request of such a customer in order to provide him with a second source of supply within a licensed territory.

This provision shall also apply where the customer is the licensee and the licence, in order to provide a second source of supply, provides for the customer to make licensed products or have them made by a sub-contractor.

\(^{222}\) See Reg. 240/96, supra note 1, art. 2(1)(13).

\(^{223}\) See id. art. 2(1)(17).

\(^{224}\) Id.

\(^{225}\) Reg. 2349/84, supra note 3, recital (21).
It also provided that the prohibition in Article 3(3) which black-listed restrictions on competition did not apply to "an obligation on the licensee to use his best endeavours to exploit the licensed invention."226 The Know-how Regulation, in Article 3(9), contained a similar provision.227 The new Regulation continues to provide that the prohibition of non-competition covenants under Article 3(2) does not apply to the best-effort obligation referred to in Article 2(1)(17).228 The express inclusion in the new Regulation of the licensee best-efforts requirement among the Article 2(1) list of permissible clauses229 is desirable as it enhances the certainty of the law on this point. Caution must still be exercised, however, with regard to the licensor's use of that legitimate right. If "the parties were competing manufacturers at the date of the grant of the licence" and the best-efforts obligations referred to in Article 2(1)(17) "have the effect of preventing the licensee from using competing technologies," the Commission may withdraw the benefit of exemption of such obligations.230

15. Permissible Reservations of Rights

Article 2(1)(14) through (16) and Article 2(1)(18) of the new Regulation list a number of permissible reservations of rights which were either not dealt with or not white-listed in the prior Regulations.231 The fact that a licensee is granted an exclusive or non-exclusive license to use the licensed technology within a defined territory inherently indicates that the licensor has a right to prevent the licensee from using the same technology in other territories not so licensed to him or her. Article 2(1)(14) of the new Regulation thus permits "a reservation by the licensor of the right to exercise the rights conferred by a patent to oppose the exploitation of the technology by the licensee outside the licensed territory."232 There was, however, absolutely nothing comparable in the two prior Regulations. The new Regulation involves the first time that this express authorization has been written into a block exemption regulation for technology licensing agreements. It is notable that this provision covers patented technology only, thereby exclud-

226 Id. art. 3(3).
227 See Reg. 556/89, supra note 4, art. 3(9).
228 See Reg. 240/96, supra note 1, art. 3(2).
229 See id. art. 2(1)(17).
230 Id. art. 7(4); see also Reg. 556/89, supra note 4, art. 7(8).
231 See Reg. 240/96, supra note 1, art. 2(1)(14)–(16), (18).
232 Id. art. 2(1)(14).
ing the opposability of exploitation by the licensee of know-how technology beyond the licensed territory.\textsuperscript{233} It is also notable that this provision does not confine the territories “outside the licensed territory” to those within the common market.\textsuperscript{234} This implies that the licensor may reserve the right to challenge the use of the licensed technology in non-EU territories such as in the United States.

The reservation under Article 2(1)(14) is similar to, but distinguishable from, the requirement that the licensee refrain from exploiting the licensed technology in the territories licensed to other licensees or reserved for the licensor himself or herself.\textsuperscript{235} The right contemplated by Article 2(1)(14) is a reserved right, not an immediately exercised one, i.e., it is not a direct obligation imposed on the licensee not to exploit the technology concerned in territories not within his or her scope of license.\textsuperscript{236} The licensee could arguably still engage in such exploitation unless and until the licensor subsequently exercises the reserved right to oppose such use. Further, by such a reservation, the licensor could oppose the use by the licensee of the licensed technology not only in the territories of the licensor and/or other licensees, but also in territories within the common market which have not been licensed to any party, and territories outside the common market.\textsuperscript{237}

Article 2(1)(15) authorizes “a reservation by the licensor of the right to terminate the agreement if the licensee contests the secret or substantial nature of the licensed know-how or challenges the validity of licensed patents within the common market belonging to the licensor or undertakings connected with him.”\textsuperscript{238} Patentees and/or holders of know-how are not permitted to prohibit their licensee(s) from contesting the secrecy of the licensed know-how or the validity of the licensed patents;\textsuperscript{239} however, when the licensee does so contest or challenge the secrecy, nothing precludes the licensor from prematurely terminating the agreement.\textsuperscript{240} This principle, while not having been explicitly white-listed before, was stated in the two prior Regulations in a different way.\textsuperscript{241}

\textsuperscript{233} See id.
\textsuperscript{234} Id.
\textsuperscript{235} See id. art. 1(1)(3)–(6).
\textsuperscript{236} See Reg. 240/96, supra note 1, art. 2(1)(14).
\textsuperscript{237} See id.
\textsuperscript{238} Id. art. 2(1)(15).
\textsuperscript{239} See infra notes 325–30 and accompanying text.
\textsuperscript{240} See Reg. 240/96, supra note 1, art. 2(1)(15).
\textsuperscript{241} See Reg. 556/89, supra note 4, art. 3(4); Reg. 2349/84, supra note 3, art. 3(1).
The licensor under Article 2(1) (16) of the new Regulation may also make a reservation of "the right to terminate the license agreement of a patent if the licensee raises the claim that such a patent is not necessary."242 This is a completely new provision which was not dealt with in the prior Regulations. It is apparent that this permissible reservation is intended to apply to pure patent licensing agreements and mixed agreements involving the license of "necessary patents."243 Nothing in the new Regulation precludes the licensee from raising questions with regard to the usefulness of a given patent to the entire licensed technology. This objection may take place when the licensee considers one or more of the patents in a pure patent-package license unnecessary for putting into effect the main licensed patents, or where he or she finds that one or more of the tied patents in a mixed agreement are not necessary for the exploitation of the licensed know-how or other licensed technology. At the same time, the licensor may well reserve the right to terminate the licensing agreement when such objection arises.244

Finally, Article 2(1) (18) permits the licensor to reserve the right "to terminate the [licensee's] exclusivity" and "to stop licensing improvements" to the licensee in the event that "the licensee enters into competition within the common market with the licensor," with the licensor's affiliated undertakings, or with third parties, "in respect of research and development, production, use or distribution of competing products."245 Further, the licensor may also reserve the right "to require the licensee to prove that the licensed know-how is not being used for the production of products . . . other than those licensed."246 This provision was contained in the Know-how Regulation with respect to the black-listed non-competition clause under Article 3(9).247

III. The Black List: Article 3

The new Regulation has shortened the black list of prohibited provisions in comparison with those in the prior two regulations concern-

242 Reg. 240/96, supra note 1, art. 2(1)(16).
243 See id.
244 See id. Where the licensor failed to reserve the right under Article 2(1) (16), however, he or she may presumably be precluded from terminating the licensing agreement simply because the licensee raises an objection. See id.
245 Id. art. 2(1)(18).
246 Reg. 240/96, supra note 1, art. 2(1)(18); see also id. art. 3(2) (prohibiting non-competition clauses without prejudice to the licensor's right under Article 2(1)(8)).
247 See Reg. 556/89, supra note 4, art. 3(9).
ing patent and know-how licensing agreements. Among the restrictive provisions which are *no longer* black listed are the following:

1. no-challenge clauses;\(^{248}\)
2. last-to-expire clauses covering newly obtained patents;\(^{249}\)
3. obligations to pay royalties on unpatented products or divulged know-how;\(^{250}\)
4. tying of products not technically necessary;\(^{251}\)
5. post-term non-use covenants for know-how having become publicly known;\(^{252}\)
6. exclusive and non-reciprocal grant-backs;\(^{253}\)
7. grant-back licenses requiring the licensee, in connection with a post-term use ban, to grant back any non-severable improvements regardless of exclusivity and reciprocity if the

\(^{248}\) *See* id. art. 3(4); Reg. 2349/84, *supra* note 3, art. 3(1). In the new Regulation, this provision has been moved from Article 3 to Article 4, namely, from the black list to the grey list. *See infra* notes 325–30 and accompanying text.

\(^{249}\) *See Reg.* 556/89, *supra* note 4, art. 3(10) (black-listing clauses extending the duration of the license term by including improvements of know-how); Reg. 2349/84, *supra* note 3, art. 3(2) (black-listing clauses extending the license term by including new patents).

According to Article 8(3) of the new Regulation, a last-to-expire clause would nonetheless be exempted unless the licensee opposes to such an extension. Article 8(3) states:

This Regulation shall furthermore apply to pure patent or know-how licensing agreements or to mixed agreements whose initial duration is automatically prolonged by the inclusion of any new improvements, whether patented or not, communicated by the licensor, provided that the licensee has the right to refuse such improvements or each party has the right to terminate the agreement at the expiry of the initial term of an agreement and at least every three years thereafter.

Reg. 240/96, *supra* note 1, art. 8(3).

\(^{250}\) *See Reg.* 556/89, *supra* note 4, art. 3(5) (prohibiting charging royalties for the use of know-how that has entered into the public domain); Reg. 2349/84, *supra* note 3, art. 3(4) (black-listing charges of royalties for non-patented products).

\(^{251}\) *See Reg.* 556/89, *supra* note 4, art. 3(3) (barring clauses requiring the licensee to accept unwanted and technically unnecessary licenses, goods or services); Reg. 2349/84, *supra* note 3, art. 3(9) (barring clauses requiring the licensee to accept unwanted and technically unnecessary licenses, goods or services). This tying practice is now covered in the grey list under Article 4. *See infra* notes 325–30 and accompanying text.

\(^{252}\) *See Reg.* 556/89, *supra* note 4, art. 3(1) (barring covenants preventing the licensee from exploiting the licensed know-how after the term of the agreement when the know-how has entered into the public domain other than by actions of the licensee).

\(^{253}\) *See id.* art. 3(2) (black-listing an obligation on the licensee, in whole or in part, to *assign* or grant an *exclusive license* of his or her rights in improvements or new applications of the licensed technology to the licensor, which obligation would prevent the licensee from using his or her own improvements severable from the original licensed technology); Reg. 2349/84, *supra* note 3, art. 3(8) (black-listing clauses requiring the licensee to *assign* the licensor in whole or in part his or her rights in patents for improvements or new applications of the licensed patents).
licensor's right under the grant-backs would be of a longer duration than the licensee's right under the know-how license.\footnote{See Reg. 556/89, supra note 4, art. 3(2)(c) (prohibiting clauses requiring the licensee, where the agreement also contained a post-term use ban, to grant back to the licensor a license for improvements which were not severable from the licensed technology, if the licensor's right to exploit the improvements would be of a duration longer than the licensee's right to exploit the licensed technology, even if the grant-backs are reciprocal and non-exclusive).}

Restrictions which are still included in the black list of Article 3 are the following:

1. price fixing by either party;
2. no-competition clauses;
3. restrictions on either party's ability to meet demand from users/resellers or parallel importers/exporters in licensed territories;
4. customer restrictions;
5. output restrictions on the licensed product;
6. mandatory assign-backs by the licensee; and
7. territorial exclusivity beyond permissible time limits.\footnote{See Reg. 240/96, supra note 1, art. 3.}

A. Price Restrictions

Article 3 of the new Regulation, in paragraph (1), continues to provide that the exemptions provided for in Articles 1 and 2(2) "shall not apply where . . . one party is restricted in the determination of prices, components of prices or discounts for the licensed products."\footnote{Id. art. 3(1).} This provision is identical with Article 3(6) of the Patent Regulation and Article 3(8) of the Know-how Regulation.\footnote{See Reg. 556/89, supra note 4, art. 3(8); Reg. 2349/84, supra note 3, art. 3(6).} Price setting is the number one item listed in the prohibited practices under Article 85(1) of the Treaty of Rome, which declares it anti-competitive and thus makes it illegal to "directly or indirectly fix purchase or selling prices or any other trading conditions."\footnote{EEC Treaty art. 85(1)(a).} It is the Commission's position that price-fixing clauses or any other resale price restrictions should be black-listed because "they seriously limit the extent to which the licensee can exploit the licensed technology."\footnote{Reg. 240/96, supra note 1, recital (24).} This explains why restrictions on the determination of purchasing or selling prices for the

\footnote{254 See Reg. 556/89, supra note 4, art. 3(2)(c) (prohibiting clauses requiring the licensee, where the agreement also contained a post-term use ban, to grant back to the licensor a license for improvements which were not severable from the licensed technology, if the licensor's right to exploit the improvements would be of a duration longer than the licensee's right to exploit the licensed technology, even if the grant-backs are reciprocal and non-exclusive).}
\footnote{255 See Reg. 240/96, supra note 1, art. 3.}
\footnote{256 Id. art. 3(1).}
\footnote{257 See Reg. 556/89, supra note 4, art. 3(8); Reg. 2349/84, supra note 3, art. 3(6).}
\footnote{258 EEC Treaty art. 85(1)(a).}
\footnote{259 Reg. 240/96, supra note 1, recital (24).}
licensed products, as well as some other formerly forbidden practices, have not been, and can not be, removed from the black list. Further, unfair price fixing is also prohibited by the anti-abuse-of-dominant-position provisions of Article 86 of the Treaty of Rome.\textsuperscript{260} On the other hand, price-suggesting should be distinguished from mandatory price restrictions.\textsuperscript{261} The licensor or the licensee, absent any intention to impose and mandate price terms, should be free to recommend selling price guidelines to the other party.

B. Non-Competition Covenants

Clauses placing restraints on competition with the licensor, with the licensee, with their affiliated parties or with unrelated parties remain on the black list. Article 3(2) of the Regulation provides that the EU competition rules shall apply where:

one party is restricted from competing within the common market with the other party, with undertakings connected with the other party or with other undertakings in respect of research and development, production, use or distribution of competing products without prejudice to the provisions of Article 2(1)(17) and (18).\textsuperscript{262}

This is almost identical to Article 3(9) of the Know-how Regulation.\textsuperscript{263} The corresponding provision in the Patent Regulation is Article 3(3).\textsuperscript{264} This article arguably could be interpreted as banning non-competition clauses with respect to not only competing products but also the licensed product or its improvements, because it did not refer to the words “competing products” to limit the scope of impermissible non-competition covenants.\textsuperscript{265} The new Regulation, just as the Know-how Regulation did, makes it clear that it is with respect to competing products that non-competition clauses are prohibited.\textsuperscript{266} The words “without prejudice to the provisions of Article 2(1)(17) and (18)” refer

\textsuperscript{260} See EEC Treaty art. 86(a).
\textsuperscript{261} It appears that the Treaty of Rome and the new Regulation refer to, e.g., prices predetermined by the licensor, not to recommended prices. In the latter case, the licensee would not be "restricted in the determination of prices." Reg. 240/96, supra note 1, art. 3(1); see also EEC Treaty arts. 85(1)(a), 86(a).
\textsuperscript{262} Reg. 240/96, supra note 1, art. 3(2).
\textsuperscript{263} See Reg. 556/89, supra note 4, art. 3(9).
\textsuperscript{264} See Reg. 2349/84, supra note 3, art. 3(3).
\textsuperscript{265} See id.
\textsuperscript{266} See Reg. 240/96, supra note 1, art. 3(2).
to two permissible practices which are white-listed in Article 2.\textsuperscript{267} Despite the Article 3(2) general prohibition of non-competition covenants, the licensor is nevertheless not precluded (a) from imposing an obligation on the licensee to use his or her best endeavours to exploit the licensed technology, and (b) from exercising his or her right (i) to terminate the exclusivity, (ii) to stop communicating improvements to the licensee should the licensee enter into the type of competition with the licensor referred to in Article 3(2), and (iii) to require the licensee to prove that the licensed know-how is not being used for the production of competing products.\textsuperscript{268}

Because of the provisions of Article 2(1)(17) and (18), and of Article 2(2), these practices are treated as not being restrictive of competition, and not requiring an individual notification for exemption if they are in fact causing an effect on competition.\textsuperscript{269} On the other hand, it can sometimes be difficult to draw a clear line between, e.g., a no-competition clause and a best-effort use clause insofar as their objective effects are concerned.\textsuperscript{270} A best-efforts obligation, which in itself is considered not inconsistent with the block exemption,\textsuperscript{271} is often favored and sometimes abused by the licensor. Requiring the licensee to use his or her “best endeavors” to manufacture and market the licensed product can have the effect of greatly reducing and even eliminating the licensee’s ability to engage in research and development as well as production, use and distribution of different and competing products, and can also be questionable under Article 7(4) if doing so would have the effect of preventing the licensee from using competing technologies.\textsuperscript{272}

Another problem with the prohibition of non-competition clauses is that the Regulation and its predecessors fail to distinguish between intra-group and inter-group agreements as well as between vertical and horizontal agreements. Where a technology transfer agreement is between, for example, a U.S. parent company as licensor and a wholly-owned subsidiary within the EU as licensee, the parent company may be said to have a legitimate interest in requiring the subsidiary not to engage in the development, production and marketing of products.

\textsuperscript{267} Id.
\textsuperscript{268} See supra notes 219–27, 241–42 and accompanying text.
\textsuperscript{269} See Reg. 240/96, supra note 1, art. 2(1)(17), (18), 2(2).
\textsuperscript{270} Cf. id. arts. 2(1)(17), 3(2).
\textsuperscript{271} See id. art. 2(1)(17).
\textsuperscript{272} See id. art. 7(4).
other than those licensed, and to have every reason to offer to the subsidiary no more protection than is necessary in order to induce investment. It appears, however, that a clause to that effect in a vertical transaction, even one between a parent company and its subsidiary, would still be barred, hardly justifiably, by the catch-all language of Article 3(2) of the present Regulation, even if “the transaction [that] is wholly vertical . . . is unlikely to be anti-competitive.” Indeed, in a vertical patent and/or know-how licensing agreement between parties which are not already competitors or are even unlikely to become potential competitors, a non-competition clause would hardly have any anti-competitive effect, and could be “justified by the need to encourage a sole or exclusive licensee to exploit the technology.”

C. Barriers to Parallel Trade

Like Article 3(11) of the Patent Regulation and Article 3(12) of the Know-how Regulation, Article 3(3) of the new Regulation outlaws clauses under which “one or both of the parties are required without any objectively justified reason” to accept or place restraints on satisfying demand from users or resellers and on parallel trade, or to “do so as a result of a concerted practice between them.” More specifically, under Article 3(3), neither the licensor nor the licensee may be mandated by such a clause “to refuse to meet orders from users or resellers in their respective territories who would market products in other territories within the common market.” Required or agreed refusal to meet the demand of users, resellers or parallel exporters has an anti-competitive effect and is incompatible with the block exemption unless it can be objectively justified in particular circumstances.

Further, neither party may be mandated to place impediments to parallel imports by making it “difficult for users or resellers to obtain the products from other resellers within the common market.” For example, neither party may exercise intellectual property rights or take other measures “so as to prevent users or resellers from obtaining outside, or from putting on the market in the licensed territory prod-

\[273\] Korah, supra note 77, at 266.
\[274\] Id.
\[275\] See Reg. 240/96, supra note 1, 3(3); Reg. 556/89, supra note 4, art. 3(12); Reg. 2349/84, supra note 3, art. 3(11).
\[276\] Reg. 240/96, supra note 1, art. 3(3)(a).
\[277\] See id.
\[278\] See id. art. 3(3)(b).
ucts which have been lawfully put on the market within the common market by the licensor or with his consent.\textsuperscript{279} Artificial impediments to parallel importation can be anti-competitive in the same way as is refusal to meet the users’ demand for parallel exports. Such parallel imports can be impeded only if accompanied with an “objectively justified reason.”\textsuperscript{280}

The language of Article 3(3) may in fact ease the prohibition on agreements requiring the licensor or licensee to refuse to meet demand from users in their territories who would resell within the common market by incorporating an objective justification defense.\textsuperscript{281} Whether a practice constitutes an objectively unjustifiable refusal to satisfy demands of resellers for parallel exportation may not be so easy to prove. On the other hand, Article 3(3) clarifies the prohibition on arrangements under which one or both parties are expected to make it difficult for parallel importers to obtain the licensed products from other resellers within the EU.\textsuperscript{282} This is accomplished by specifically black-listing the exercise of intellectual property rights or the adoption of other measures to prevent such importers from procuring outside the licensed territory products that have been lawfully marketed within the Community by the licensor, or from reselling such products so procured in the licensed territory.\textsuperscript{283}

The exemption for territorial exclusivity under Article 1 does not grant the licensor or the licensee a right to prevent resellers from exporting or importing parallel licensed products.\textsuperscript{284} In accordance with a generally accepted doctrine prevalent in European countries, once such products are lawfully placed on the market by either party, that party’s right to control such products is then considered to have become exhausted.\textsuperscript{285} As a consequence of allowing territorially exclusive licenses which provide incentives for the use of new technology, general consumers “will be allowed a fair share of the benefit resulting from the improvement in the supply of goods on the market.”\textsuperscript{286}

\textsuperscript{279} Id.
\textsuperscript{280} Id. art. 3(3).
\textsuperscript{281} See Reg. 240/96, supra note 1, art. 3(3).
\textsuperscript{282} See id.
\textsuperscript{283} See id. art. 3(3)(b).
\textsuperscript{284} See id. art. 1.
\textsuperscript{286} Reg. 240/96, supra note 1, recital (17).
the other hand, it is to protect the interests of consumers that the Commission believes that "it is right to exclude from the application of Article 1 cases where the parties agree to refuse to meet demand from users or resellers within their respective territories who would resell for export, or to take other steps to impede parallel imports." 287

D. Customer-Sharing Clauses

Customer restrictions are prohibited under Article 3(4) of the new Regulation, which provides:

[Block exemptions shall not apply where] the parties were already competing manufacturers before the grant of the licence and one of them is restricted, within the same technical field of use or within the same product market, as to the customers he may serve, in particular by being prohibited from supplying certain classes of user, employing certain forms of distribution or, with the aim of sharing customers, using certain types of packaging for the products, save as provided in Article 1(1)(7) and Article 2(1)(13) . . . . 288

The above rules outlawing customer-sharing clauses are rather stringent and reflect the Commission's concern about customer and market allocation arrangements which are thought to possess the potential for restricting competition and free trade within the common market. 289 The Commission states that restrictions whereby parties who are competitors for the contract products "allocate customers within the same technological field of use or the same product market" should render the agreement ineligible for block exemption, no matter whether the allocation is achieved "by an actual prohibition on supplying certain classes of customer or through an obligation with an equivalent effect . . . ." 290

The comparable provisions in the prior laws are Article 3(7) of the Patent Regulation and Article 3(6) of the Know-how Regulation. 291

287 Id.
288 Id. art. 3(4).
289 See, e.g., Reg. 556/89, supra note 4, recital (16) (stating that field of use restrictions may not constitute a disguised means of customer sharing); 1994 Draft Reg., supra note 34, recital (18) (similarly prohibiting "customer allocation" in the disguised form of field of use restriction).
290 Reg. 240/96, supra note 1, recital (23).
291 See Reg. 556/89, supra note 4, art. 3(6); Reg. 2349/84, supra note 3, art. 3(7).
However, neither provision in the prior laws confined the prohibition of customer restrictions to agreements between competitors. Further, the Patent Regulation simply prohibited customer sharing arrangements without any reference to a relevant field of use or product market. Under the new Regulation, the Article 3(4) prohibition of customer allocation applies only to arrangements between parties which were already competitors at the time when their licensing agreement took effect. Customer restrictions between parties which were not already competing manufacturers are not per se black-listed, although they remain subject to individual assessment by the Commission, in particular under the opposition procedure. In addition, the prohibition on customer restrictions under the new Regulation, like under the Know-how Regulation, is explicitly limited to a given technical field of use or a given product market.

E. Output Limitations

The new Regulation continues to black-list clauses aimed at imposing output restrictions by providing, in Article 3(5), that the block exemption does not apply where "the quantity of the licensed products one party may manufacture or sell or the number of operations exploiting the licensed technology he may carry out are subject to limitations, save as provided in Article [1] (1)(8) and Article 2(1)(13)." The Commission believes that output restrictions should be outlawed not only because they limit the extent to which the licensee may exploit the licensed technology, but also because they "have the same effect as export bans." This provision is in essence the same as Article 3(5) of the Patent Regulation and Article 3(7) of the Know-how Regulation. However, Article 3(5) of the Patent Regulation did not contain any "save" exception. The "save" exceptions in Article 3(5) of the new Regulation, with reference to Articles 1(1)(8) and 2(1)(13), would allow quantity restrictions when the licensed products are used to manufacture or market the licensee's own and different products, and

---

292 See Reg. 556/89, supra note 4, art. 3(6); Reg. 2349/84, supra note 3, art. 3(7).
293 See Reg. 240/96, supra note 1, art. 3(4).
294 See infra notes 318–53 and accompanying text.
295 See Reg. 240/96, supra note 1, art. 3(4).
296 Id. art. 3(5).
297 Id. recital (24).
298 See Reg. 556/89, supra note 4, art. 3(7); Reg. 2349/84, supra note 3, art. 3(5).
299 See Reg. 2349/84, supra note 3, art. 3(5).
would also legalize restrictions on the supply of the licensed products to a particular customer if the terms of the license itself were intended to allow that customer access to an alternative supplier in the licensed territory.\footnote{See supra notes 193–96, 216–18 and accompanying text.}

The Know-how Regulation referred to both exceptions.\footnote{See Reg. 556/89, supra note 4, art. 3(7).} The latter one, which regarded the restriction on the quantity of the licensed products which the licensee could supply to a particular customer, was listed on the Article 4 grey list.\footnote{See id. art. 4(2).} It required individual assessment by the Commission through the opposition procedure.\footnote{See id.} In contrast, this same restriction is white-listed under Article 2 of the present Regulation.\footnote{See Reg. 240/96, supra note 1, art. 2(1)(13).} The common point in both the new Regulation and the Know-how Regulation is that quantity restrictions on the supply to a given customer are not automatically outlawed.\footnote{See Reg. 240/96, supra note 1, recital (23). The Know-how Regulation contained no comparable statement in the recital section.} The Commission recognizes that the Article 3 black list should not apply to such a type of quantity restriction.\footnote{Reg. 240/96, supra note 1, art. 3(6) (emphasis added).}

F. Compulsory Assign-Backs

Article 3(6) of the new Regulation still prohibits clauses whereby “the licensee is obliged to assign in whole or in part to the licensor rights to improvements to or new applications of the licensed technology.”\footnote{Reg. 240/96, supra note 1, art. 2(1)(13).} The corresponding provisions in the two prior laws are Article 3(8) of the Patent Regulation and Article 3(2)(a) of the Know-how Regulation.\footnote{See Reg. 556/89, supra note 4, art. 3(2)(a); Reg. 2349/84, supra note 3, art. 3(8).} It has always been the Commission’s position that “a restrictive effect on competition arises” in circumstances involving mandatory assignment of all or a part of the improvements to the originally licensed technology back to the licensor.\footnote{Reg. 240/96, supra note 1, recital (20).}

Unlike the Know-how Regulation, the new Regulation does not specifically black-list obligations on the licensee to grant the licensor an exclusive license for improvements which are severable from the licensed technology, if such grant would prevent the licensee from
exploiting his or her own improvements himself or herself and/or from licensing such improvements to third parties.\textsuperscript{310} Also absent in the new Regulation, but contained in the Know-how Regulation, is the specific prohibition of clauses requiring the licensee to grant back to the licensor a license, even if non-exclusive and reciprocal, for improvements which are not severable from the licensed technology, where (a) the licensor prohibits the licensee from using the licensed technology beyond the term of the agreement and (b) the licensor under the grant-backs would have a longer duration to exploit the licensee's improvements than the licensee's time limit to exploit the licensed technology.\textsuperscript{311} Although they are eligible for automatic block exemption, the removal of these two grant-back practices from the black list indicates that they are no longer deemed to be automatically impermissible, i.e., illegal per se.

Article 2(1)(4) of the new Regulation white-lists grant-backs of licenses, but not assignments, of improvements as long as they are two-way arrangements.\textsuperscript{312} In order for such reciprocal grant-backs to be eligible for automatic block exemption, it is not necessary for them to be non-exclusive if the improvements are not severable from the licensed technology; non-exclusivity is required only in the case of severable improvements so as to allow the licensee to use or license such improvements.\textsuperscript{313} It follows that non-mutual grant-backs, or non-exclusive grant-backs involving severable improvements, constitute questionable but not automatically prohibited practices, the exemption of which will be subject to individual notification to, and assessment by, the Commission.\textsuperscript{314}

G. Territorial Exclusivity Beyond Permissible Durations

Finally, Article 3(7) of the new Regulation prohibits clauses whereby the licensor is required not to license other parties to exploit the same technology in the licensed territory, "albeit in separate agreements or through automatic prolongation of the initial duration of the agreement by the inclusion of any new improvements, for a period exceeding that permitted under Article 1(2) and (3). . . ."\textsuperscript{315} It also prohibits

\textsuperscript{310} See Reg. 556/89, supra note 4, art. 3(2)(b).
\textsuperscript{311} See Reg. 556/89, supra note 4, art. 3(2)(c). The Article 3 black list of the new Regulation does not contain an equivalent of Article 3(2)(c) of the Know-how Regulation.
\textsuperscript{312} See Reg. 240/96, supra note 1, art. 2(1)(4).
\textsuperscript{313} See supra notes 157–74 and accompanying text.
\textsuperscript{314} See supra note 1, art. 4(1).
\textsuperscript{315} Id. art. 3(7).
clauses whereby either party is required not to exploit the same technology in the other party’s territory or the territory of third licensee(s) for periods exceeding those permitted under Articles 1(2) and (3) or Article 1(4).\textsuperscript{316} Article 1(2) through (4) sets forth various time limits of block exemptions for different obligations respectively within the categories of pure patent licenses, pure know-how licenses and mixed agreements.\textsuperscript{317}

The above provision of Article 3(7) is basically the same as Article 3(11) of the Know-how Regulation.\textsuperscript{318} The relevant provision in Article 3(10) of the Patent Regulation, however, merely outlawed clauses which required the licensee not to passively put the licensed products on the market in territories licensed to other licensees for a period of time exceeding the permissible time limit, namely, longer than five years after the products were first put on the market by the licensor or any of his or her licensees.\textsuperscript{319} In contrast, the new Regulation, like the Know-how Regulation, prohibits all types of arrangements that would extend any type of exempted territorial exclusivity beyond the permissible duration under Article 1(2), (3) or (4), i.e., not only with regard to prolonged restrictions on passive selling in other licensee’s territories, but also with regard to any other prolonged exclusive territorial restrictions exceeding the permissible time limits.\textsuperscript{320}

IV. THE GREY LIST: ARTICLE 4 OPPOSITION PROCEDURE

The new Regulation, like the Patent and Know-how Regulations, continues to provide, in Article 4, a so-called opposition procedure for agreements containing the so-called grey obligations.\textsuperscript{321} These may be individually assessed and approved by the Commission, or may become exempted simply because of a failure to oppose such obligations by the Commission within a given period of time.\textsuperscript{322} Article 4 merely lists an illustrative and non-exhaustive grey list of practices suitable for the opposition procedure. In appropriate cases, any practices that are neither white-listed nor black-listed but are nevertheless restrictive of competition may by implication be considered part of the Article 4

\textsuperscript{316} See id.

\textsuperscript{317} See supra notes 101–11 and accompanying text.

\textsuperscript{318} See Reg. 240/96, supra note 1, art. 3(7); Reg. 556/89, supra note 4, art. 3(11).

\textsuperscript{319} See Reg. 2349/84, supra note 3, arts. 1(1)(6), 3(10).

\textsuperscript{320} See Reg. 240/96, supra note 1, art. 3(7).

\textsuperscript{321} See id. art. 4. Grey obligations are obligations restrictive of competition which are neither explicitly covered by the white list block exemptions of Articles 1 and 2 nor directly prohibited by the black list in Article 3.

\textsuperscript{322} See id. art. 4(1).
grey list. Under the Article 4 opposition procedure of the prior two Regulations, parties could notify the Commission of such agreements or obligations, which would then be considered approved or individually exempted if the Commission took no action to oppose exemption within six months. That reviewing period has been dramatically reduced to four months in the new Regulation, which represents another important change. The new Regulation provides:

The exemption provided for in Articles 1 and 2 shall also apply to agreements containing obligations restrictive of competition which are not covered by those Articles and do not fall within the scope of Article 3, on condition that the agreements in question are notified to the Commission . . . and that the Commission does not oppose such exemption within a period of four months.

The Commission believes that obligations or practices which are not automatically covered by the exemption because they are not explicitly exempted by the Regulation nor specifically excluded from exemption, "including those listed [sic] in Article 4(2) [of the Regulation], may, in certain circumstances, nonetheless be presumed to be eligible for application of the block exemption." It believes it is “possible for the Commission rapidly to establish whether this is the case” for a particular agreement; and that agreements notified to the Commission which contain such obligations should be “deemed to be covered by the exemption provided for in this Regulation where . . . the Commission does not oppose the application of the exemption within a specified period of time,” which is now four months.

Paragraph 2 of Article 4 then provides an illustrative and non-exhaustive grey list of practices that are covered neither by the white list

323 See Reg. 556/89, supra note 4, art. 4(1); Reg. 2349/84, supra note 3, art. 4(1).
324 See Reg. 240/96, supra note 1, art. 4(1). The four month reviewing period for the Commission runs from the date when the notification referred to above takes effect in accordance with the terms of Commission Regulation (EC) No. 3385/94, i.e., from the date on which the Commission receives such notification, or from the postmark date where the notification is sent by registered mail. See Reg. 240/96, supra note 1, art. 4(3); see also Commission Regulation 3385/94 of 21 December 1994 on the Form, Content and Other Details of Applications and Notifications Provided for in Council Regulation 17, arts. 1–3, 1994 O.J. (L 377) 28, 28–29. At the maximum, the EC Commission has a period of four months within which it may oppose the exemption. See Reg. 240/96, supra note 1, art. 4(3).
325 Id.
326 Id. recital (25).
327 Id.
nor by the black list, but are appropriate for application for exemption under the opposition procedure. The examples so listed concern the tying of quality specifications, licenses, goods or services which are not technically necessary, as well as no-challenge or no-contest clauses. Article 4(2) states:

2. Paragraph 1 shall apply, in particular, where:
(a) the licensee is obliged at the time the agreement is entered into to accept quality specifications or further licences or to procure goods or services which are not necessary for a technically satisfactory exploitation of the licensed technology or for ensuring that the production of the licensee conforms to the quality standards that are respect by the licensor and other licensees;
(b) the licensee is prohibited from contesting the secrecy or substantiality of the licensed know-how or from challenging the validity of patents licensed within the common market belonging to the licensor or undertakings connected with him.

It should be kept in mind that restrictions on the quantity of supplies to a particular customer, which were specifically grey-listed under Article 4(2) of the Know-how Regulation, are no longer subject to the requirements of the opposition procedure; rather, such restrictions are covered by the white list in Article 2. The Patent Regulation did not even contain any examples of practices potentially exemptible through the opposition procedure. Also notable is the fact that tying and no-contest clauses, which are now specifically “up-graded” to the grey list, were both black-listed under the prior Regulations. Given the broad coverage of Article 4(1) and the illustrative nature of Article 4(2), it is safe to assume that all those clauses and practices which were formerly specifically forbidden under either the Patent Regulation or the Know-how Regulation or both, and which are no longer on the black list under the new Regulation but are not automatically exempted either,
are eligible for the potential benefits of being exempted through the opposition procedure.\textsuperscript{333}

A Member State of the EU may request the Commission to oppose an exemption, and such a request must be justified on the basis of considerations relating to EU competition rules.\textsuperscript{334} Should there be such a request from a Member State, the Commission must then oppose the exemption within two months after the notification is transmitted to that Member State.\textsuperscript{335} Where the Commission opposes the exemption within four months absent any request to do so from a Member State it may “at any time” withdraw its opposition.\textsuperscript{336} Should the Commission oppose the exemption, however, at the request of a Member State it may withdraw the opposition “only after consultation of the Advisory Committee on Restrictive Practices and Dominant Position,” a committee responsible for opinions with regard to the enforcement of Articles 85(1) and 86 of the Treaty of Rome.\textsuperscript{337} Should the opposition be withdrawn because the parties have shown that the conditions of Article 85(3) of the Treaty of Rome are fulfilled, the exemption shall apply retroactively from the date of the notification.\textsuperscript{338} Should, however, the Commission withdraw its opposition because the parties concerned have amended the agreement in such a manner that it now falls within the scope of Article 85(3), the exemption will apply only from the date when the amendment takes effect.\textsuperscript{339}

\textbf{Conclusion}

From the point of view of industries and businesses, the new block exemption Regulation in its approved form is a laudable development in two major senses. First, the new Regulation has dramatically curtailed the Article 3 black list, expanded the white list, especially in Article 2, and at the same time removed clauses which were formerly grey-listed as examples from Article 4 to the white list of Article 2.\textsuperscript{340} Secondly, the Commission has made an important compromise to

\textsuperscript{333} Compare Reg. 240/96, supra note 1, art. 4(1), (2); with Reg. 556/89, supra note 4, art. 4(1), (2) and Reg. 2349/84, supra note 3, art. 4(1), (2).
\textsuperscript{334} See Reg. 240/96, supra note 1, art. 4(5).
\textsuperscript{335} See id.
\textsuperscript{336} Id. art. 4(6).
\textsuperscript{337} Id.
\textsuperscript{338} See id. art. 4(7).
\textsuperscript{339} See Reg. 240/96, supra note 1, art. 4(8).
\textsuperscript{340} Compare id. arts. 2–4 with Reg. 556/89, supra note 4, arts. 2–4 and Reg. 2349/84, supra note 3, arts. 2–4.
industries by finally agreeing to remove from the new Regulation proposed provisions on the 40% market share thresholds which it attempted to introduce into the new law.

On the other hand, parties to a technology transfer agreement cannot simply sit back and relax merely because their agreement in whole, or in most part, comprises white-listed provisions. For one thing, the Commission reserves the right to withdraw the benefit of block exemption in cases where it finds that any of the exempted provisions in effect do not meet the conditions of Article 85(3) of the Treaty of Rome. For another, should the agreement contain both white-listed and non-white-listed provisions, the parties may need to take cautionary steps in order to avoid being caught by the Commission in accordance with Article 85(1).341

The curtailing of the black list and the expansion of the white list are consistent with the object of allowing the licensor and licensee wider latitude to structure their agreements for the transfer of technology without cutting back the legal certainty of block exemption for legal and permissible provisions and practices. Some formerly black-listed provisions, such as the last-to-expire clause covering improvement patents and/or know-how, are not only removed from the black list, but are also eligible for block exemption and de facto inclusion in the white list.342 Two formerly black-listed practices, tying arrangements and no-contest clauses, are now included in the grey list of Article 4 as illustrations of potentially permissible practices. Still some formerly prohibited practices are no longer black-listed—they are simply neither white-listed, nor specifically mentioned in the grey list.

Since the Article 2 white list and the Article 4 grey list are both non-exhaustive, those practices which are now “liberated” from Article 3 may in special circumstances find their way into either category—the grey list or even the white list. It is at least safe to say that obligations or practices which have been removed from the black list may all receive the benefits of Article 4(1) that would enable them to be exempted if the Commission fails to act within four months after they are notified, or two months after the notification is transmitted to a Member State which requests an opposition from the Commission. It

341 Even where an agreement is completely exempted from Article 85(1), it may nevertheless fall under Article 86 should any of its provisions essentially result in an abuse of dominant position by any of the parties. See, e.g., Case T-51/89, Tetra Pak Rausing SA v. Commission, [1990] II E.C.R. 309, [1991] 4 C.M.L.R. 334 (1990). This issue, however, is outside the scope of this article.

342 See Reg. 240/96, supra note 1, art. 8(3). For the full text of Article 8(3), see supra note 249.
is also arguable that a clause which is no longer black-listed may be considered, in proper cases, among the inclusive white list of Article 2. Moreover, restrictions on the quantity of supplies received by a particular customer, and such supply restrictions where the customer is the licensee, which were both included as examples in the Article 4 grey list of the Know-how Regulation, have been “up-graded” into the Article 2 white list. Should this trend continue, the possibility remains for more formerly black-listed practices which are now covered by the grey list, as well as those which were and continue to be covered by the grey list, to become specifically permitted practices under the white list in the future, if the Commission reconsiders or amends the new Regulation. For the most part, these changes were already reflected in the 1994 Draft Regulation and its earlier versions. It was commented about the draft that

The significance of these changes goes beyond their proposed removal from the Black List of these block exemptions. The Commission has rarely granted individual exemptions for practices on the Black List; thus, these changes may signify a more general liberalization of the Commission’s approach to the type of restrictions that would no longer be Black Listed.343

The non-inclusion of the previously proposed 40% market share thresholds in the new Regulation indicates that the Commission has effectively backed down from its prior position and modified its block exemption drafts in an effort to work out, in a practical way, something that industries can accept. The idea of introducing the thresholds was originally based on the Tetra Pak case involving the abuse of dominant position by a Swedish packaging company.344 Industries contested that the prior two block exemptions had generally worked well and that apart from the Tetra Pak case, there had not been any significant case involving the abuse of dominant position.345 Protests from, and consultation with, industries have also revealed the lack of evidence about the block exemption being abused by companies other than Tetra Pak.346 As Fiona Marcq of the Union of Industrial and Employers’ Confederations of Europe (UNICE) remarked: “Our cooperation with the Com-

343 Tritell & Lesser, supra note 22, at 2.
344 See generally Tetra Pak, [1990] II E.C.R. at 309.
345 See Industry Heralds Victory, supra note 2.
346 See id.
mission on this instrument has finally achieved something that is acceptable to industry. . . . We no longer have any problems."347

While the Regulation is designed to provide legal certainty for technology licensing provisions, it continues to authorize, as the prior two Regulations did, the Commission to withdraw the benefit of the exemption if, in particular circumstances, the agreement has certain anti-competitive effects "which are incompatible with the conditions [for exemption] laid down in Article 85(3) of the Treaty."348 The Commission may be particularly likely to find such effects where: (a) the agreement shields the licensed products from effective competition from identical or substitutable products in the licensed territory, especially where the licensee's market share would exceed 40%; (b) the licensee refuses to meet unsolicited orders from resellers outside of the licensed territory absent any justifiable reason; (c) the parties undertake to create impediments to legitimate parallel trade; and/or (d) the licensor, in requiring the licensee to produce a minimum quantity or to use his or her best efforts to exploit the licensed technology, uses the agreement to prevent a formerly competing licensee "from using competing technologies."349 One may find it hard to comprehend why it is necessary to refer to the obligation or concerted practice of impeding legitimate parallel exportation and importation in Article 7, given the fact that such obligation or practice has already been black-listed under Article 3(3).350

Finally, the issue remains unsettled as to whether the presence of one or more black-listed clauses in an agreement invalidates the entire agreement or just those clauses which are specifically prohibited. The new Regulation does not provide a clue. It does state in recital (25) that an agreement that is "not automatically covered by the exemption because [it] contain[s] provisions that are not expressly exempted" is eligible for application of the block exemption.351 A judge who is conservative is more likely than not to interpret this statement this way: if an agreement as a whole is "not automatically covered by the exemption" simply because it includes grey-listed clauses, then one may have

---

347 Id.
348 Reg. 240/96, supra note 1, art. 7. Cf. Reg. 556/89, supra note 4, art. 7; Reg. 2349/84, supra note 3, art. 9.
349 See Reg. 240/96, supra note 1, art. 7(1)–(4).
350 See supra notes 273–79 and accompanying text.
351 Reg. 240/96, supra note 1, recital (25).
more reasons to conclude that an agreement containing black-listed clauses is not automatically exempted in its entirety, either.  

On the other hand, a liberal judge may find that recital (25) does not mean that the entire agreement is "not automatically" exempted when it contains grey-listed (i.e., not specifically exempted) clauses; rather, it merely refers to the non-automatic exemption of the agreement insofar as those grey-listed provisions are concerned, not the remainder of the agreement. By the same token, a liberal judge is likely to conclude that an agreement as a whole will not be invalidated simply because some of its clauses or provisions are black-listed, and that as long as it contains provisions which are expressly exempted by the white list, those provisions should nevertheless be covered by the exemption. This latter interpretation would be consistent with a proposed provision contained in an earlier version of the new Regulation, the May 1994 draft, which provided that where an agreement contained both clauses which were exempted and those which were not, the block exemption would still apply to those clauses that were covered, while the remaining clauses would be subject to Article 85(1) of the Treaty. While such an express provision is not contained in the new Regulation, it appears reasonable that a category of clauses should not in itself affect the status of another category. An agreement which embodies white-listed clauses as well as grey-listed and/or black-listed clauses should be considered automatically covered by the exemption insofar as it concerns the white-listed clauses only, unless such grey-listed and/or black-listed clauses in whole or in part are inseparable from the remainder of the agreement. In any event, where a proposed licensing agreement does contain permissible, questionable and prohibited provisions, the parties are advised to delete or revise the prohibited provisions—the Commission has rarely granted individual exemption for black-listed practices—and then notify the Commission of the entire revised agreement in accordance with the opposition procedure of Article 4.

352 See id.
353 See May 1994 Draft Reg., supra note 77, art. 4.