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Changing View of Intellectual Property and Competition Law in the European Community and the United States of America

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ARTICLES

CHANGING VIEW OF INTELLECTUAL PROPERTY AND COMPETITION LAW IN THE EUROPEAN COMMUNITY AND THE UNITED STATES OF AMERICA

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I. INTRODUCTION

The relationship between intellectual property and competition law is often a baffling one. Both fields use similar vocabularies in order to achieve very different ends. The two fields overlap, but often work at cross-purposes as the exclusivity inherent in the acquisition and exploitation of intellectual property rights is incompatible with certain visions of the promotion of competition through the antitrust laws of the United States of America and the competition provisions of the European Community.[1]

The complex and evolving relationship between these two bodies of law bears close study for several reasons. Both bodies of law have strong political and historical traditions and they both must be enforced in a way which gives coherent meaning rather than unintelligible conflict when they overlap. In a

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1. As of November 1, 1993, the coming into force of the Treaty of European Union (TEU) formally changed the name of the European Community to the European Union. *See* TREATY OF EUROPEAN UNION [TEU] art. A, *reprinted in* 1 C.M.L.R. 719 (1992). For reason of convenience to an American audience and because many of the papers refer to events and decisions prior to the TEU, we will continue with the older usage throughout this introduction and symposium except where otherwise noted.

modern global economy, both bodies of law play a vital role in the enhancement of competition and competitiveness in national and international markets and the continued liberalization of international trade. The treatment of intellectual property and competition issues in the United States and the European Community from a comparative perspective also brings a special insight into the different goals of each legal system and how both use legal doctrine to achieve those goals.

II. THE VIEW FROM THE UNITED STATES

The United States Constitution provides the basis for both patent and copyright law.[2] The trademark laws of the United States are scarcely any younger, dating back to the early common law of the republic and an act of Congress in 1871.[3] The commitment to the preservation of competition through the antitrust laws dates back more than a century,[4] and is frequently described as a "charter of freedom" of nearly constitutional dimensions[5] and the "magna carta" of free enterprise.[6]

A. *The Case Law Unfolds*

From the very beginning of the enforcement of the Sherman Act, and later the Clayton[7] and Federal Trade Commission Acts,[8] United States antitrust law has been defined by the willingness of the courts as well as the Justice Department and the Federal Trade Commission to view competition in terms of a tension with the rights conferred by the intellectual property laws. Whether by design or as a result of the litigation strategy of the early antitrust defendants, the Supreme

2. *See* U.S. CONST. art. I, § 8, cl. 8.

3. The first federal trademark law was the Trademark Act of 1871, ch. 230, 16 Stat. 198 (1871). This Act was declared unconstitutional in United States v. Steffens, 100 U.S. 82, 97 (1879). Subsequently, the Trademark Act of 1881, ch. 138, 21 Stat. 502 (1881) was enacted. The trademark laws are now codified in 15 U.S.C. §§ 1051-1150 (1988).

4. The Sherman Act was enacted in 1890. The current version of the statute can be found in 15 U.S.C. §§ 1-7 (1988).

5. *See, e.g.*, United States v. Socony-Vacuum Oil Co., 310 U.S. 150, 221 (1940); Appalachian Coals, Inc. v. United States, 288 U.S. 344, 359-60 (1933); *see also* Northern Pac. Ry. v. United States, 356 U.S. 1, 4 (1958) (antitrust as "charter of economic liberty").

6. United States v. Topco Assocs., 405 U.S. 596, 610 (1972).

7. 15 U.S.C. §§ 12-27 (1988 & Supp. IV 1992).

8. 15 U.S.C. §§ 41-58 (1988 & Supp. IV 1992).

Court defined key antitrust doctrine in a series of cases involving restrictions imposed on the use and licensing of intellectual property rights. The Court rejected most of the proffered defenses based on intellectual property rights as a justification for inherently anticompetitive market behavior and typically held that the defendants' behavior was per se unreasonable. The Supreme Court has rejected the exploitation of intellectual property rights as a defense for otherwise unlawful price fixing,[9] market division,[10] monopolization,[11] resale price maintenance,[12] and tying.[13]

One area that has remained reasonably free from controversy is the use of intellectual property rights as a cover for collusion among competitors. In judging such cases, the courts look beyond the labels applied by the parties and condemn licensing agreements which are mere shams for otherwise unlawful agreements between competitors.[14]

The application of the Sherman Act to foreign commerce also was established in key cases invalidating cartel agreements which were cloaked in the guise of licensing arrangements, patent pools, and joint ventures involving the exploitation of intellectual rights. In *Timken Roller Bearing Co. v. United States*,[15] the Supreme Court held unlawful a joint venture and licensing agreement between partially affiliated United States, British, and French manufacturers of antifriction roller bearings. As part of the licensing of the "Timken" trademark, the parties had agreed to allocate territories, fix prices on the goods manufactured under the trademark, cooperate in the enforcement of each manufacturer's territory against other competitors, and participate in a cartel restricting the imports and exports of bearings to and from the United States.[16] The

9. *See* Timken Roller Bearing Co. v. United States, 341 U.S. 593 (1951); United States v. Line Material Co., 333 U.S. 287 (1948). *But see* United States v. General Elec. Co., 272 U.S. 476 (1926).

10. *See* Palmer v. BRG of Georgia, Inc., 498 U.S. 46 (1990).

11. *See* Transparent-Wrap Mach. Corp. v. Stokes & Smith Co., 329 U.S. 637 (1947); Hartford-Empire Co. v. United States, 323 U.S. 386 (1945).

12. *See* Dr. Miles Medical Co. v. John D. Park & Sons, 220 U.S. 373 (1911).

13. *See* Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502 (1917).

14. *See, e.g., Palmer*, 498 U.S. at 46 (price fixing and division of markets under guise of licensing agreement is *per se* unreasonable).

15. 341 U.S. 593 (1951), *modifying* 83 F. Supp. 284, 306 (N.D. Ohio 1949).

16. *Id.* at 595-96.

Timken Court rejected the argument that these restrictions were "reasonable" or "ancillary" to a legitimate joint venture or licensing agreement.[17] The Court further rejected the notion that structuring a cartel as a "joint venture" or "license" would bestow any antitrust immunity for such an agreement.[18] Rather, the Court held that the trademark licenses were secondary to the real purpose of allocating territories among competitors.[19] The Court further noted that the restrictions imposed went far beyond those implicit in the trademark act, since the parties set price and territorial terms for the sale of non-trademarked bearings.[20]

Similarly, in *United States v. National Lead Co.*,[21] the court prohibited a series of restrictive licensing agreements between competitors which were not ancillary to any legitimate underlying agreement. The court focused on the fact that the licenses included terms that were beyond the scope of the patent grant, indefinite in nature and duration, and applied to as yet ungranted patents.[22] The court ultimately concluded that the licenses were merely part of a broader agreement in restraint of trade.[23]

Finally, in *United States v. Singer Manufacturing Co.*,[24] the Supreme Court condemned a cross-licensing agreement between Singer, the dominant United States sewing machine manufacturer, and two competing European manufacturers. The Court held that the purpose and effect of the agreement was to restrict entry by competing Japanese manufacturers and to facilitate the continued division of world markets between the parties.[25]

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17. *Id.* at 597.
18. *Id.* at 597-98.
19. *Id.*
20. *Id.* at 598-99; *see also* United States v. Holophane Co., 119 F. Supp. 114 (S.D. Ohio 1954), *aff'd per curiam*, 352 U.S. 903 (1956) (division of territories involving trademark license).
21. 63 F. Supp. 513 (S.D.N.Y. 1945), *aff'd*, 332 U.S. 319 (1947).
22. *Id.* at 523-24.
23. *Id.* at 532; *see also* Hartford-Empire Co. v. United States, 323 U.S. 386 (1945) (maintenance of monopoly power through complex series of licensing agreements); United States v. General Elec. Co., 82 F. Supp. 753 (D.N.J. 1949) (prohibiting licensing schemes to implement unlawful cartel and market division agreements); *accord* United States v. Imperial Chem. Indus., Ltd., 100 F. Supp. 504 (S.D.N.Y. 1951).
24. 374 U.S. 174 (1963).
25. *Id.* at 194-97; *accord* Zenith Radio Corp. v. Hazeltine Research, Inc., 395

B. Enforcement Policy Changes

Over the years, the attitude of the Justice Department as to the proper relationship between intellectual property rights and competition law has varied dramatically, often leading to confusion and a pronounced gap between the legal doctrine and the enforcement policies of the government. From the beginning of World War I to the conclusion of World War II, United States antitrust policy fluctuated wildly in terms of its attitudes and enforcement posture towards combinations between competitors, the desirability of large powerful firms, and the use of intellectual property rights to achieve these objectives.[26] It was not until World War II that the Sherman Act was used aggressively to attack international and foreign cartels and their accompanying licensing practices. Only then did the hostility to intellectual property rights become a consistent feature of United States antitrust policy.[27] This hostility toward the acquisition and exploitation of intellectual property rights on competition law grounds continued into the late 1970s, despite controversy regarding the wisdom of this policy, both in the United States and abroad.[28]

That hostility culminated in two key developments in United States antitrust law during the 1970s. First, a 1975 lunch speech by an official of the Antitrust Division received widespread attention by announcing the "Nine No-Nos" of licensing which would result in the almost certain challenge of the license on antitrust grounds.[29] Second, the Carter

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U.S. 100 (1969) (condemning patent pool designed to exclude imports into Canadian market and facilitate continued division of international markets); *Hartford-Empire Co.*, 323 U.S. at 386 (licensing agreement as part of scheme to monopolize); United States v. Crown Zellerbach Corp., 141 F. Supp. 118 (N.D. Ill. 1956) (horizontal territorial allocation under guise of licensing agreement condemned).

26. *See generally* TONY FREYER, REGULATING BIG BUSINESS: ANTITRUST IN GREAT BRITAIN AND AMERICA 1880-1990, at 159-232 (1992).

27. *See supra* notes 16-25 and accompanying text.

28. *See, e.g.*, United States v. Imperial Chem. Indus., Ltd., 105 F. Supp. 215 (S.D.N.Y. 1952); United States v. General Elec. Co., 82 F. Supp. 753 (D.N.J. 1949); United States v. General Elec. Co., 80 F. Supp. 989 (S.D.N.Y. 1948).

29. The official stated that the Justice Department would prosecute as per se antitrust violations any of the following restrictions in a licensing agreement:

1) requiring a licensee to purchase unpatented materials from the licensor;
2) requiring a licensee to assign any patent which may be issued after the licensing arrangement is executed;

administration published the 1977 Antitrust Guide for International Operations which expressed more formally the administration's hostility toward restrictive licensing arrangements.[30]

C. *The Current Posture*

Four principal factors led to dramatic change over the past seventeen years. First, United States antitrust doctrine itself began to change. In the landmark decision, *Continental T.V., Inc. v. GTE Sylvania, Inc.*,[31] the Supreme Court announced that nonprice vertical restraints between firms at different levels of production would no longer be treated as *per se* unreasonable. Instead, such agreements would be examined under a very broad rule of reason test which balances the effects of any restrictions on intrabrand competition with the procompetitive effects of restricted distribution on interbrand competition.[32] Following *Sylvania*, the lower courts began to look with favor on such vertical restraints, except in those limited circumstances where the defendant had substantial market power and could not come forward with any plausible procompetitive justification.[33] Most licensing agreements came to benefit from this change as the courts now tend to view them as

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3) attempting to restrict a purchaser of a patented product in the resale of that product;
4) restricting a licensee's freedom to deal in the products or services not within the scope of the patent;
5) agreeing not to license other persons without the licensee's consent;
6) requiring mandatory package licenses;
7) requiring royalties in an amount not reasonably related to the actual sales covered by the patent;
8) placing restrictions on the sale of products made by the use of a patented process; and
9) requiring resale price maintenance for the sale of the patented products of the licensee.

Bruce Wilson, Department of Justice Luncheon Speech, Law on Licensing Practices: Myth or Reality? (Jan. 21, 1975), *in* Abbot B. Lipsky, *Current Antitrust Division Views on Patent Licensing Practices*, 50 ANTITRUST L.J. 515, 518-24 (1981).

30. Antitrust Division, Dep't of Justice, Antitrust Guidelines for International Operations 1977, *reprinted in* 4 Trade Reg. Rep. (CCH) ¶ 13,110 (1988).

31. 433 U.S. 36 (1977).

32. *Id.* at 57-59.

33. *See, e.g.*, Graphic Prods. Distribs., Inc. v. Itek Corp., 717 F.2d 1560 (11th Cir. 1983); Cowley v. Braden Indus., Inc., 613 F.2d 751, 756 (9th Cir. 1980), *cert. denied*, 446 U.S. 965 (1980).

vertical in nature, except in the limited circumstances where such arrangements appear to be a disguise for collusion between competitors.[34]

Second, a growing movement has questioned whether an intellectual property right alone confers any meaningful market power within the meaning of United States antitrust law. Older Supreme Court decisions making the automatic link between the presence of intellectual property rights and market power have been questioned by a growing number of Justices.[35] Lower courts have begun to follow the lead of these bold dissenters on issues like the legality of tying by firms with intellectual property rights.[36] One court even went so far as to find that a law firm committed legal malpractice by not seeking jury instructions on a theory of tying that had never been accepted by a majority of the Supreme Court.[37] Congress also contributed to this trend by amending the patent laws in 1988 to make proof of patent misuse involving tying congruent with the antitrust laws in requiring the proof of market power as a requirement of misuse.[38]

Third, the protection and exploitation of intellectual property rights both domestically and abroad has become a critical part of the United States trade policy, as the United States international trade patterns have shifted away from manufacturing towards the export of services and the licensing of technology. The United States has made the enforcement of intellectual property rights a top priority through various disparate policy initiatives. These include the strengthening of the intellectual property laws through statutory amendments,[39] the

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34. Even horizontal licensing agreements have been held to be lawful under a full rule of reason analysis where there was a plausible gain in efficiency and consumer welfare from the agreement. *See* Broadcast Music, Inc. v. Columbia Broadcasting Sys., Inc., 441 U.S. 1 (1979).

35. *See, e.g.*, Jefferson Parish Hosp. Dist. No. 2 v. Hyde, 466 U.S. 2, 38 n.7 (1984) (O'Connor, J., concurring).

36. *See* Mozart Co. v. Mercedes-Benz of N. Am., Inc., 833 F.2d 1342 (9th Cir. 1987), *cert. denied*, 488 U.S. 870 (1988); A.I. Root Co. v. Computer/Dynamics, Inc., 806 F.2d 673 (6th Cir. 1986).

37. A.O. Smith Corp. v. Lewis, Overbeck & Furman, 979 F.2d 546 (7th Cir. 1992).

38. 35 U.S.C. § 271(d) (1988).

39. *See* 15 U.S.C. § 1051(a)(1) (1988); 17 U.S.C. §§ 101-810 (1988); 35 U.S.C. § 105 (Supp. II 1990); 35 U.S.C. § 271(g) (1988); Trademark Counterfeit Act of 1984, Pub. L. No. 98-473, 98 Stat. 2178 (1984).

creation of the Court of Appeals for the Federal Circuit to handle the appeals of intellectual property matters on a nationwide and uniform basis,[40] the vigorous use of section 337 of the Trade Act of 1930 to exclude imports infringing United States intellectual property rights,[41] the conditioning of trade concessions on the enforcement of intellectual property rights by the recipient nations,[42] and the threat and use of section 301 of the Trade Act of 1974 as a unilateral measure to investigate and retaliate against foreign governmental practices which injure United States intellectual property rights.[43] Intellectual property rights also have been the driving force behind United States negotiating strategies in the GATT,[44] the United States-Canada Free Trade Agreement,[45] the North American Free Trade Agreement,[46] and bilateral investment and commercial treaties.[47]

Finally, the Antitrust Division during the Reagan and Bush administrations became a powerful force in changing attitudes about the competitive significance of intellectual property rights. The Nine No-Nos vanished and were replaced by an attitude of positive praise for the full protections of the intellectual property rights and the procompetitive benefits of their full exploitation. These new attitudes were expressed in articles and speeches,[48] new international guidelines,[49] new research and development joint venture guidelines,[50] the filing

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40. 28 U.S.C. § 41 (1993).

41. 19 U.S.C. § 1337 (1988). In fact, § 1337 has proved to be such a powerful weapon that a dispute resolution panel of the GATT found that the law violated the national treatment provisions contained in Article III of the GATT. *See* Kenneth W. Abbott, *International Decision: GATT Dispute Settlement Panel*, 84 AM. J. INT'L L. 274, 277-79 (1990).

42. *See* 19 U.S.C. §§ 2462, 2702 (1988); 19 U.S.C. § 3202 (Supp. III 1991).

43. 19 U.S.C. § 2411(d)(3)(B)(i) (1988).

44. Agreement on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods, *reprinted in* 33 I.L.M. 81 (1994).

45. Free Trade Agreement, Jan. 2, 1988, Can.-U.S., art. 2004, 27 I.L.M. 281.

46. North American Free Trade Agreement, Sept. 15, 1992, arts. 1701-21, 32 I.L.M. 605.

47. Model Bilateral Investment Treaty (BIT) and Sample Provisions from Negotiated BITs, *in* 1 BASIC DOCUMENTS OF INTERNATIONAL ECONOMIC LAW 649-64 (Stephen Zamora & Ronald A. Brand eds. 1990).

48. *See, e.g.*, Charles F. Rule, *The Administration's View: Antitrust Analysis After the Nine No-Nos*, 55 ANTITRUST L.J. 365 (1986).

49. Antitrust Division, U.S. Dep't of Justice, Antitrust Enforcement Guidelines for International Operations—1988, *reprinted in* 4 TRADE REG. REP. (CCH) ¶ 13,109 (Nov. 10, 1988).

50. Antitrust Division, U.S. Dep't of Justice, Joint Research and Development

of amicus briefs in private antitrust litigation, the issuance of business review letters stating that the Division would not challenge particular intellectual property arrangements, and support for innovative legislation that specified that the full rule of reason applied to research and development joint ventures and provided for the registration of agreements in return for the detrebling of any damages if the agreement were found to violate the rule of reason.[51]

The schizophrenia between antitrust and intellectual property thinking unfortunately will continue for at least another generation in the United States, regardless of the specific antitrust policies adopted by the Clinton administration or any administrations which follow. The case law is not internally consistent, judicial views vary widely, enforcement policy changes on a regular basis, and external events, such as the trade policy needs of the United States, exert an unyielding pressure on both antitrust and intellectual property law. Predictions remain dangerous and the forecast appears cloudy for the foreseeable future.

III. THE VIEW FROM THE EUROPEAN COMMUNITY

The antitrust laws of the United States of America have long been an important inspirational source for lawmakers in other countries wanting to adopt or to reform legislation dealing with monopolies and restrictive trade practices. Among the economists and lawyers from the founding member states[52] of

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Ventures—1980, *reprinted in* 4 Trade Reg. Rep. (CCH) ¶ 13,121 (Dec. 11, 1984).

51. 15 U.S.C. §§ 4301-04 (Supp. 1993). This legislation recently has been expanded to cover production joint ventures as well. National Cooperative Production Amendments of 1993, Pub. L. No. 103-42, 107 Stat. 117 (1993).

52. The founding members of the European Economic Community are Belgium, France, The Federal Republic of Germany, Italy, Luxembourg, and the Netherlands. The European Community now includes six other member states: England, Ireland, Denmark, Spain, Portugal, and Greece.

As of the coming into force of the European Economic Area Agreement (EEAA) on January 1, 1994, the competition rules of the European Union (EU) will apply throughout the EEA territory. The European Commission has issued new forms for notifying restrictive agreements. *See* 1993 O.J. (L336) 1. Under the EEAA, enforcement of the competition rules will be shared by the Commission and the EFTA Surveillance Authority (ESA), under a complex set of rules. In Article 85 cases, TREATY ESTABLISHING THE EUROPEAN ECONOMIC COMMUNITY [EC TREATY] art. 85, (Article 53 EEAA), the ESA has jurisdiction when the effects of the agreements in question are limited to the EFTA countries (Austria, Finland, Icethe European Economic Community who drafted the Community's rules for competition (Articles 85 through 90) and the free movement of goods (Articles 30 through 36) or advised their respective governments on these provisions, were a number (perhaps a majority) who had studied at famous law schools in the United States and were very familiar with, and drew inspiration from, United States antitrust laws. An antitrust lawyer from the United States is apt therefore to recognize in the Community's provisions for competition similar, if not identical, conceptual tools to those employed by United States antitrust laws. The uninitiated might perceive a close kinship between the two sets of legislation. However, the same conceptual tools are used for different ends by the United States and the European Community. The fundamental premises underlying Community law differ from the basic philosophy that motivates United States antitrust law.

The United States Attorney General's National Committee to Study the Antitrust Laws in 1953 stated that "[t]he basic philosophy of the Sherman Act remains above partisan controversy as a 'charter of freedom,' a constitution governing the economy of the United States."[53] The motive for antitrust policy is the American mistrust of unchecked power and there is a "broad consensus that competition among independent private entrepreneurs is the healthiest basis for industrial and commercial activity."[54]

There is no such consensus about competition in the European Community. This is reflected in various ways, notably by the absence of a doctrine of per se illegality of certain restrictive practices under the Community's competition rules and the Commission's power in Article 85(3) to exempt agreements that restrict or distort competition contrary to Article 85(1).

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land, Norway, and Sweden), or if they affect trade between the EU and the EFTA countries, and the companies entering into the agreements achieve more than 33% of their total EEA income from the EFTA countries. Different allocation rules apply in Article 86 cases, EC TREATY art. 86, (Article 54 and 56(2) EEAA) and merger cases (Article 57 EEAA). The Commission has jurisdiction in all cases not specifically assigned to ESA. As a general point, the entry into force of the EEAA means that business enterprises will need to change the way they do business in the EFTA countries to comply with EU law. Most EU laws on the internal market became immediately binding on the EFTA countries on January 1, 1994.

53. A. D. NEALE & D. G. GOYDER, THE ANTITRUST LAWS OF THE U.S.A.: A STUDY OF COMPETITION ENFORCED BY LAW 440 (3d ed. 1980).

54. *Id.* at 475.

The antitrust laws in the United States might condemn restrictive trade practices that competition law in the Community would tolerate and vice versa.

It is questionable therefore whether, beyond a superficial level, the legal treatment of particular restrictive trade practices under the different systems in the European Community and the United States can be compared. This does not negate the comparative endeavors of legal scholars, but only raises a caution about how far or deeply a comparison can be pressed before it ceases to be relevant or valid.

A. *Fundamental Goals of the European Community*

The Treaty establishing the European Economic Community, known as the Treaty of Rome,[55] was signed in Rome on March 25, 1957. The purposes of the Community, as amended by the Treaty of the European Community, are given in Article 2:

> The Community shall have as its task, by establishing a common market and an economic and monetary union and by implementing the common policies or activities referred to in Articles 3 and 3a, to promote throughout the Community a harmonious and balanced development of economic activities, sustainable and non-inflationary growth respecting the environment, a high degree of convergence of economic performance, a high level of employment and of social protection, the raising of the standard of living and quality of life, and economic and social cohesion and solidarity among Member States.[56]

The activities referred to in Article 3 include the elimination of quantitative restrictions on the import and export of goods between member states, all other measures having equivalent effect, and the creation of a system for ensuring that competition in the internal market is not distorted. Rules for the elimination of quantitative restrictions and equivalent

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55. TREATY ESTABLISHING THE EUROPEAN ECONOMIC COMMUNITY [EC TREATY].

56. TREATY ESTABLISHING THE EUROPEAN COMMUNITY, (as amended, most recently at Maastricht by the Treaty of European Union), Feb 2, 1992, art. 2, *reprinted in* THE TREATY OF ROME CONSOLIDATED AND THE TREATY OF MAASTRICHT 588 (Neville M. Hannigan & Joe M. Hill eds., 1992) [hereinafter EC TREATY MAASTRICHT].

measures are set down in Articles 30 through 36.[57] Competition rules that apply to undertakings are given in Articles 85 through 90.[58] These rules regulate the exercise of intellectual property, including its exploitation by assignment or license. Various legislative measures and an extensive jurisprudence accommodate the enforcement and exploitation of intellectual property with the corpus of rules designed to eliminate unjustifiable barriers to intra-Community trade.

B. Intellectual Property and Community Law

The power to grant or recognize the existence of intellectual property is a sovereign act. In the European Community, each member state retains this sovereign power. In other words, each member state can grant a patent of invention, the validity of which can be challenged only before its national courts on the basis of its national law.[59] This can produce a diverse, complex legal situation, where, for example, patents for the same invention (parallel patents) expire on different dates in the member states or where, due to the way patent claims are interpreted by national courts of the member states, a parallel patent is enforceable in one member state but not in another. Moreover, but for the intervention of Community law, a person holding parallel patents in different member states could exercise his monopoly rights in each State to exclude from the market genuine products available in other member states. That is to say, the patentee could use his discrete national rights to prevent a common market for the patented goods from being established. How to reconcile intellectual property with the concept of a common market envisaged in Article 2 posed a fundamental problem for the Community.

The European Court of Justice resolved the issue by ruling, early in the life of the Community, that Community law regulates the *exercise* of intellectual property, but safeguards its *existence*. The different forms of intellectual property available in the member states exist for different, quite specific purposes. The jurisprudence of the Court of Justice defines

57. *See infra* text accompanying notes 62-63.

58. *See infra* text accompanying note 64 and notes 65-71 and accompanying text.

59. Even a European patent is a "bundle" of national patents.

what the property comprises and, correspondingly, what Community law safeguards.[60] With respect to a patent of invention, for example, the Court has ruled that in order to reward the creative effort of the inventor, a patent guarantees the patentee the exclusive right to use an invention with a view to manufacturing industrial products and putting them on the market for the first time, either directly or by the grant of licenses to third parties.[61]

C. Elimination of Quantitative Restrictions and Equivalent Measures: Articles 30 to 36

Where a government, public authority, firm, or private individual restricts by value or amount the export or the import of goods, or obtains a court order to that effect, this is a quantitative restriction. An equivalent measure is virtually any trading rule, any system of preferment, or any system of inspection, sanctions, approvals, or court orders, which hinders, directly or indirectly, actually or potentially, the flow of goods in intra-Community trade.

The basic rule may be summarized as follows: goods produced or available in the Community may be imported or exported free from unnecessary interference by governments, public authorities, or private individuals. A member state may not inhibit, directly or indirectly, the free movement of goods on the internal market unless the state can justify its interference by reference to one or more of the grounds given in Article 36, which include public morality, public policy or public security, protection of health and life of humans, animals or plants, protection of national treasures possessing artistic, historic or archaeological value, or the *protection of industrial*

60. *See, e.g.*, Case 78/70, Deutsche Grammophon GmbH MbH v. Metro-SB-Grossmärkte GmbH & Co. KG, 1971 E.C.R. 487, 1971 C.M.L.R. 631 (1971) (copyright in sound recordings); Case 187/80, Merck & Co. v. Stephar BV, 1981 E.C.R. 2063, 3 C.M.L.R. 463 (1981) (patent of invention); Case 16/74, Centrafarm BV v. Winthrop BV, 1974 E.C.R. 1183, 2 C.M.L.R. 12 (H.R. 1974) (Neth.) (registered trademark right); Case C-10/89, SA CNL-Sucal NV v. Hag GF AG, 1990 E.C.R. 3711, 3 C.M.L.R. 571 (1990) (registered trademark right); Case 53/87, Consorzio Italiano v. Regie National des Usines Renault, 1988 E.C.R. 6039, 4 C.M.L.R. 265 (1990) (registered design right); Case 144/81, Keurkoop BV v. Nancy Kean Gifts BV, 1982 E.C.R. 2853, 2 C.M.L.R. 47 (1983) (registered design right).

61. *See, e.g.*, Case 16/74, Centrafarm BV v. Winthrop BV, 1974 E.C.R. 1183, 2 C.M.L.R. 12 (H.R. 1974).

and commercial property.[62] Even then, a prohibition or restriction on exports, imports, or goods in transit must not be applied arbitrarily by the state nor constitute a disguised restriction on trade between member states.

In the competitive struggle, intellectual property may be used to claim or retain market power. It can also be used to prevent the free movement of goods in trade between member states. If the owner of a German patent of invention brings an action for infringement of his patent in the German courts and obtains a judicial order preventing a product covered by his patent from being imported into Germany from Holland, this would result in a measure equivalent to a quantitative restriction. An import ban would be justifiable under Article 36, as being necessary for the protection of industrial property (the patent in action), if the product had been made in Holland by an infringer of the Dutch patent. But if the patented product was put on the Dutch market by a Dutch licensee of the German owner, then the owner could not use his German patent to keep the product in question out of Germany. Both German and Dutch patent rights would be exhausted vis-à-vis the particular product[63] and a judicial order inhibiting the free movement of this product between member states would not be justifiable under Article 36.

The rules on the free movement of goods within the European Community are important for parties negotiating contracts for territorial rights there. Articles 30 through 36 limit the protection that intellectual property can give the licensor in a territory he reserves for himself or the licensee in a territory granted exclusively to him by the licensor against protected products marketed by the other, or indeed by an authorized third party. When products protected by intellectual property are placed on the market within the Community by the proprietor or by his licensee, the products are released thereby from the protective rights relating to them ("exhaustion of rights") and are free to circulate on the Community's internal market. Any attempt by licensed parties to restrict the circulation of

62. EC TREATY MAASTRICHT, *supra* note 56, art. 36, at 605 (emphasis added).

63. With regard to goods imported into the European Community from third, nonmember countries, see *Re* Patented Bandaging Material, 2 C.M.L.R. 359 (H.O.G. 1988) (F.R.G.).

such products also may violate the rules on competition in Articles 85 and 86.

D. Equivalent Measures as Violations of Article 85 or Article 86

In some cases, a measure equivalent to an export or import ban or quota will be caught by the ban on restrictive practices in Article 85 because it results from an agreement between undertakings or a concerted practice,[64] or the measure may constitute the abuse of a dominant position contrary to Article 86. In such cases, proceedings will be brought under the competition rules in Articles 85 and/or 86. There is no provision in Articles 30 through 36 for imposing a fine for a violation of the free movement rules, though damages may be recoverable through an action for breach of a statutory duty, an abuse of power, or a misfeasance of public office.[65] On the other hand, breaches of the competition rules may attract heavy fines and leave wrongdoers liable for damages.

A contractual restraint on the free movement of goods between member states is not justifiable on the ground that resale in another member state may infringe intellectual property rights there. It is not a justifiable measure for the protection of the intellectual property in question. For example, in the *Bayo-N-Ox* decision, Bayer AG, Germany, distributed additives for animal feedstuffs directly to the feedstuff manufacturers in the Community through local subsidiaries and licensees.[66] Bayer initiated an agreement under which its German customers would use supplies of a particular additive (Bayo-N-Ox, formulated with the active ingredient "Olaquindox") exclusively for their own feedstuff production in return for reduced prices. Bayer's aim was to protect its own distribution system by preventing parallel trade in the product following the expiration of its patent in Germany, before parallel patents in other countries expired. The company argued that banning the agreement would undermine its parallel patents for

64. *See* EC TREATY MAASTRICHT, *supra* note 56.

65. *See, e.g.*, Bourgoin v. Ministry of Agric., Fisheries and Food, 1 C.M.L.R. 267 (C.A. 1986) (Eng.).

66. Commission Decision 90/38 of December 1989 Relating to a Proceeding Under Art. 85 of the EC TREATY (IV/32.026, Bayo-N-Ox) 1990 J.O. (L 21) 71.

Olaquindox in the other member states. This argument was rejected and Bayer was fined heavily. The EC Commission reiterated the established principle that if the inventor decides to sell the product in a member state in which patent protection does not exist or no longer exists for the product, he must accept the consequences of such a decision in so far as trade within the Common Market is concerned. The right to defend oneself in all the member states of the Community in which patent protection still exists against products of other manufacturers that infringe patent law continues without any restriction.

E. Restrictions in Technology Licenses and Article 85

Competition, that is, workable competition, is a means to an end in Community law, not an end in itself. A system for ensuring that competition in the internal market is not distorted by restrictive agreements between undertakings is set down in Article 85.[67] Subject to the possibility of an exemption pursuant to Article 85(3), Article 85(1) prohibits agreements and concerted practices *which may affect trade between member states* and which have the object or effect of preventing, restricting or distorting competition within the Common Market. It is not enough therefore to show that an agreement between undertakings restricts or distorts competition in a member state. A restrictive agreement is prohibited by Article 85 only to the extent that it is capable of endangering, either directly or indirectly, in fact or potentially, trade between member states.

Community competition law has no doctrine of *per se* legality, or *per se* illegality. It has no "rule of reason." Restrictive terms in a patent license are not immune to the prohibition in Article 85 only because the restraints in question might be

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67. Any consensual arrangement, including an agreement "binding in honor only" and an "understanding" on a commercial matter, between two or more undertakings will constitute an agreement between undertakings for the purposes of Article 85(1). An "understanding," if it does not amount to an agreement, may well develop into a concerted practice. An "undertaking" is any commercial enterprise, including a sole trader, a partnership and a company with limited liability. But a subsidiary company which lacks any real autonomy in determining its line of conduct on the market and which is integrated with its parent company is not an "undertaking" for the purposes of Article 85(1).

said to fall within the "scope of the patent" or could be regarded as being reasonably adapted to secure pecuniary reward for the patentee's monopoly. An agreement must be assessed in its legal and economic context to determine whether, in fact or probability, the agreement affects interstate trade or restricts competition to a perceptible degree.[68] This means, in the case of a licensing agreement, that regard must be had to the respective sizes of the undertakings which are parties to the agreement in question and their respective market shares, the nature of the product or technology, whether the license is exclusive or nonexclusive, and the economic context in which the agreement will be performed, including whether the agreement is part of a network of territorial licenses.

It is beyond the resources of most undertakings, or their legal advisors, to assess an agreement in the manner required by Article 85. Undertakings that are prospective parties to a license will draft the contract so that, if it should fall within Article 85(1), it will benefit from the block exemption given in one or another of the regulations on technology licensing agreements.[69] These regulations are mutually exclusive, though similar in structure. Each regulation gives a block exemption to bilateral, exclusive manufacturing licenses with export bans. Each lists obligations that are regarded as not caught by Article 85(1), or if caught, are exempt. Certain obligations, such as price fixing and maximum quantity, if included in a licensing agreement or practiced concertedly by the license parties, will put the agreement beyond the block exemption. The block exemption in each regulation does not apply to patent pooling agreements, joint venture agreements, cross-licenses between competitors, except where the parties are free from territorial restraints, pure software licenses, or licensing agreements in respect of plant breeders' rights. Sub-licenses, assignments for a royalty, and licensing agreements wherein connected undertakings assume the rights or obligations of the licensor or the

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68. Guidance on this task is given in the Commission's Notice on Agreements of Minor Importance. This notice is a policy statement, not a legal act or measure of the Community.

69. *See, e.g.*, Commission Regulation 2349/84 of 23 July 1984 on the Application of Article 85(3) of the Treaty to Certain Categories of Patent Licensing Agreements, 1984 J.O. (L 219) 15; Commission Regulation 556/89 of 30 November 1988 on the Application of Article 85(3) of the Treaty to Certain Categories of Know-How Licensing Agreements, 1989 J.O. (L 61) 1.

licensee, are expressly included in the regulations. Finally, each regulation empowers the EC Commission to withdraw the exemption where, for example, an arbitration award does not meet the conditions for an exemption laid down in Article 85(3), or if the licensee fails to exploit the licensed patent or technology adequately.

If an agreement or concerted practice caught by Article 85(1) does not satisfy the conditions for a block exemption, the EC Commission and the parties must seek either a negative clearance or an individual exemption pursuant to Article 85(3). If the EC Commission is not notified, the agreement or concerted practice must not be implemented since to do so would be in violation of Article 85(1).

A block exemption differs from an individual exemption in that it is based on a general, abstract assessment of one type of agreement, carried out by the legislature *ex ante*. This assessment is guided by the probable effects of the category of agreement under normal conditions of competition. No specific investigation is carried out into the conditions of Article 85(3), as must be done before the EC Commission exempts a specific agreement by decision.

F. Legal Consequences of Violating Article 85

Agreements between undertakings and concerted practices caught by Article 85(1) are prohibited, and *no prior decision to that effect is required by Community law*. The prohibition in Article 85 is immediate when the *probable* effect of an agreement between undertakings is an appreciable distortion of competition within the common market which may affect trade between member states. An agreement caught by Article 85(1), but not exempted by decision of the EC Commission or by regulation, is declared void by Article 85(2). A national court in the Community may declare an agreement to be incompatible with Article 85(1), but it cannot exempt the agreement pursuant to Article 85(3). A court can decide whether the agreement satisfies the conditions for a block exemption given by regulation and may be able to sever from the contract any restrictive terms that offend Article 85.[70] Additionally, money owing to

70. *See, e.g.*, Case 319/82, Société de Vente de Ciments et Betons de l'Est S.A. v. Kerpen & Kerpen GmbH and Co. KG, 1983 E.C.R. 4173, 1 C.M.L.R. 511 (1983);

or paid by a party to a contract prohibited by Article 85 might well be unrecoverable. However, a third party who suffers loss or damage caused by a prohibited agreement or concerted practice can sue for the loss and seek an injunction against continuance of the violation.

G. Intellectual Property and Article 86

The prohibition in Article 85(1) of agreements and concerted practices which prevent, restrict, or distort competition applies to all markets and all undertakings.[71] It is cast in such general terms that it catches both economically "good" agreements and agreements without any redeeming features. It applies to the behavior of all undertakings under normal conditions of competition and prohibits them from disturbing effective competition through agreements or concerted practices, but not through unilateral conduct. A correcting mechanism is provided by Article 85(3), under which agreements having favorable effects may be exempted from the ban in Article 85(1).

Article 86 is structured differently. It does not apply to all markets, but only to those markets on which one or more undertakings occupy a dominant position. It is directed only to undertakings in a dominant position and not to other undertakings. It only prohibits conduct in the nature of an abuse, although this may be unilateral conduct on the part of a single undertaking. It protects from further adverse effects competition which has already been weakened as a result of an undertaking or undertakings having a dominant position. The fact that Article 85 is applicable to an agreement or concerted practice does not preclude the application of Article 86 thereto. Indeed, both Article 85 and Article 86 may be applicable, since an agreement which falls within Article 85(1) can also constitute the abuse of a dominant position. In other words, Articles 85 and 86 can be applied concurrently where an undertaking

Case 56/65, Société Technique Miniere v. Maschinenbau Ulm GmbH, 1966 E.C.R. 235, 1966 C.M.L.R. 357 (1966); Chemidus Wavin Ltd. v. Société pour la Transformation et l'Exploitation des Resines Industrielle S.A., 1977 F.S.R. 181 (Eng. C.A.).

71. For a comparison of Articles 85 and 86, see the opinion of Advocate-General Kirschner in Case T-51/89, Tetra Pak Rausing S.A. v. Commission, 1990 E.C.R. 309, 316-46, 4 C.M.L.R. 334 (Ct. First Instance 1990).

in a dominant position concludes an agreement restricting competition.[72]

Intellectual property may assist its proprietor to attain or maintain a position of market dominance, as in *A.B. Volvo v. Erik Veng (UK) Limited*,[73] where the proprietor owned design rights for spare parts for which there are no substitutes, and held a significant share of the relevant market. In *Volvo*, the proprietor of certain registered designs for panel bodies of motor vehicles refused to license the defendant to import and sell such panels. Veng imported panels protected by registration of the designs and manufactured without Volvo's authority and marketed these panels in the United Kingdom. Volvo sued Veng for infringement.

One of the questions referred to the European Court of Justice was whether the proprietor of a registered design in respect of body work panels should be presumed to be abusing his dominant position where he refused to grant to third parties a license to supply such body work panels, even though the third parties were prepared to pay a reasonable royalty for all the articles sold under that license. The Court accepted the proposition that if a substantial car manufacturer holds registered designs which, under the law of a member state, confer on it the sole and exclusive right to make and import replacement body panels required to effect repair of the body of a car of its manufacture (and if such body panels are not replaceable by body panels of any other design), that manufacturer is in a dominant position within the meaning of Article 86. The manufacturer is in a dominant position because the manufacturer owns the sole and exclusive right and because it is impossible for the consumer to obtain a substitute product.

An undertaking in a dominant position should behave with circumspection lest it abuse that position. Classic examples of abusive behavior are refusing to supply, tying, predatory pricing, and economic discrimination. But a refusal by the proprietor to license his intellectual property rights is not in itself

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72. *See, e.g.*, Case 395/87, Ministere Public v. Jean Louis Tournier and Jean Verney, 1989 E.C.R. 2521, 4 C.M.L.R. 248 (1989) (concerning the system of royalties of the French copyright management company SACEM).

73. Case T-30/89, Hilti A.G. v. Commission, 4 C.M.L.R. 16 (Ct. First Instance 1992); Chiron Corp. v. Organon Teknika Ltd. (No.2), 1993 F.S.R. 324 (English High Court, Patents Court).

abusive of a dominant position afforded by the right. The right to prevent and to authorize infringements goes to the very existence of intellectual property. Community law does not require the proprietor to license third parties, even in return for a reasonable royalty. This does not mean however that, in exercising his intellectual property rights, a proprietor in a dominant position can behave arbitrarily or fix prices at an unfair level. If such conduct in the exercise of an exclusive right by an undertaking in a dominant position in the common market, or a substantial part of it, is liable to affect trade between member states, it may constitute an abuse within the meaning of Article 86.[74]

A violation of Article 86 may afford a defense to a contractual action for breach of a licensing agreement or give a cause of action to a third party for the breach of a statutory duty. Injunctive relief may be sought by a person whose business is threatened by a violation of the competition rules.

Taken together, Articles 85 and 86 form a comprehensive system for the regulation of the competitive implications of the use and abuse of intellectual property in the European Community. An analysis of these rules demonstrates many of the same tensions between the promotion of competition and the exclusivity inherent in intellectual property rights that is found in United States antitrust law, but must always be analyzed in light of the differing fundamental goals of the Community.

IV. THE SYMPOSIUM

In order to better analyze the changing developments in this critical field, a joint symposium was planned and presented by the Brooklyn Law School Center for the Study of International Business Law and the Intellectual Property Unit of the Centre for Commercial Law Studies at Queen Mary and Westfield College, University of London. This was the third joint symposium held by Brooklyn Law School and Queen Mary College and published in the *Brooklyn Journal of International Law*.[75] The symposium was conducted in London on

74. *See* Case 238/87, Volvo v. Erik Veng Ltd., 1988 E.C.R. 6211, 4 C.M.L.R. 122 (1989); Case T-30/89, Hilti A.G. v. EC Commission, 4 C.M.L.R. 16 (Ct. First Instance 1992).

75. The proceedings of the past joint symposia are printed in *International*

November 1, 1993 at the Institute Of Advanced Legal Studies and on April 15, 1994 in New York City at Brooklyn Law School. This unique format included the same principal speakers at each event plus different sets of British and American commentators in London[76] and New York City.[77]

Following introductions as to the competition principles in the United States and the Economic Community, Professor Leo Raskind addressed the difficult subject of the United States antitrust aspects of licensing intellectual property rights and the changing and conflicting standards for both antitrust and misuse policy.[78] Ben Smulders of the European Commission Legal Service then contrasted the European Community view of restrictions in intellectual property licenses under the Treaty of Rome and the overriding needs of the European Community to achieve a single unified market free from artificial divisions along national lines.[79]

The focus then turned to the tripartite relationship between competition, intellectual property, and international trade principles. Professor Jerome Reichman of Vanderbilt University Law School continued his work in the international trade field in analyzing the competitive effects of the existing forms of intellectual property rules and the gaps in the current thinking that fail to protect incremental, but commercially valuable innovation.[80] In the afternoon, David Keeling,

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Securities Regulation: Recent Developments in the United States, the United Kingdom, and the European Community, 16 BROOK. J. INT'L L. 1-221 (1990) and *Taxing the Transfer of Information*, 17 BROOK. J. INT'L L. 1-86 (1991).

76. Professor Valentine Korah, University College, University of London; Professor Gerald Dworkin, Kings College, University of London; Professor Rosa Greaves, University of Durham; and Alison Firth, Queen Mary and Westfield College, University of London, served as commentators on the principal papers at the London symposium. Professors Korah, Greaves, and Firth were kind enough to prepare comments in written form which are presented at 20 BROOK. J. INT'L L. 161, 121 and 157 (1994).

77. Professor Samuel Murumba, Brooklyn Law School, Professor Joel Reidenberg, Fordham University School of Law, Professor Eleanor Fox, New York University School of Law; and Gerald Sobel, Partner, Kaye, Scholer, Fierman, Hays & Handler, commented on the principal papers in New York City. The publication deadlines for this special symposium issue did not permit the inclusion of these comments.

78. Leo J. Raskind, *Licensing Under U.S. Antitrust Law*, 20 BROOK. J. INT'L L. 49 (1994).

79. Ben Smulders, *European Community Competition Law and Licensing Agreements*, 20 BROOK. J. INT'L L. 25 (1994).

80. Jerome H. Reichman, *Beyond the Historical Lines of Demarcation: Competi-*

referendaire to Advocate General Francis Jacobs of the European Court of Justice, continued his interest in the fields of competition and intellectual property law by examining the effect of the European Community rules on the free movement of goods and services on the exploitation of intellectual property rights in the Community.[81]

The final panel turned its attention to the effect of intellectual property rights on the acquisition and abuse of market power. Charles F. Rule, of the Washington, D.C. firm of Covington & Burling and the former head of Antitrust Division of the Department of Justice, continued his interest in altering the perception of hostility between intellectual property and competition regimes and critiqued notions that intellectual property rights automatically or presumptively conferred unlawful market power within the meaning of section 2 of the Sherman Act. Nicholas Green, Barrister with the Brick Court Chambers, responded by addressing the less hospitable treatment of intellectual property rights under Article 86 of the Treaty of Rome.[82]

The speakers each illustrated the need to understand the relationship between intellectual property and competition within their own systems on a comparative basis. Intellectual property and competition policy are core components of a legal system which cannot exist in a vacuum. Both the United States and the European Community have to find a way to reconcile both sets of rules and policies in a meaningful way that implements the underlying goals and values of each system. We are pleased to present the following special symposium issue of the *Brooklyn Journal of International Law* as a step towards greater clarity and appreciation for the virtues of

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tion Law, Intellectual Property Rights, and International Trade After the GATT's Uruguay Round, 20 BROOK. J. INT'L L. 75 (1994).

81. David T. Keeling, *Competition, Intellectual Property, and Free Movement of Goods: A Community View*, 20 BROOK. J. INT'L L. 127 (1994). In London, Judge Christopher Bellamy of the Court of First Instance spoke on this topic. *See generally* CHRISTOPHER BELLAMY & GRAHAM D. CHILDS, COMMON MARKET LAW OF COMPETITION 319-87 (4th ed. 1993).

82. Nicholas Green, *Intellectual Property and Abuse of a Dominant Position Under Community Law*, 20 BROOK. J. INT'L L. 141 (1994); *see also* NICHOLAS GREEN, COMMERCIAL AGREEMENTS AND COMPETITION LAW: PRACTICE AND PROCEDURE IN THE UK AND EEC 676-733 (1986). At Brooklyn Law School, Professor Rosa Greaves of the University of Durham presented Mr. Green's paper.

each system and its approaches to a difficult but important area of the law.