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# EUROPEAN COMMUNITY COMPETITION LAW AND LICENSING AGREEMENTS

*Ben Smulders\**

## I. INTRODUCTION

I will start by summarizing a number of general principles which govern the relationship between Community law and intellectual property.

The main purpose of the European Economic Community is to achieve a free and integrated Common Market.<sup>1</sup> With a view thereto, the European Economic Community Treaty (EC Treaty) created four fundamental freedoms: the freedom of movement of goods, services, persons, and capital between the member states.<sup>2</sup> In order to achieve these freedoms, national barriers to intra-Community trade must be abolished. The competition rules of the EC Treaty have as their principal purpose to prevent these barriers from being replaced by restrictive agreements or monopolistic behavior of undertakings.<sup>3</sup>

Of the provisions of the EC Treaty designed to achieve a free and integrated market, the provisions concerning the free movement of goods are the most important as far as intellectual property rights are concerned. These provisions are laid down in Articles 30 to 36 of the EC Treaty. Article 30 provides: "Quantitative restrictions on imports and all measures having equivalent effect shall . . . be prohibited between Member

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1. TREATY ESTABLISHING THE EUROPEAN COMMUNITY [EC TREATY] art. 2.: It shall be the aim of the Community, by establishing a Common Market and progressively approximating the economic policies of Member States, to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increased stability, an accelerated raising of the standard of living and closer relations between its Member States.

*Id.*

2. See *id.* art. 3(a), (c); see also *id.* arts. 9-37 (movement of goods); *id.* arts. 59-66 (movement of services); *id.* arts. 48-58 (movement of persons); *id.* arts. 67-73(h) (movement of capital).

3. See *id.* arts. 85-94.

States."<sup>4</sup> Quantitative restrictions may result in "a total or partial restraint" on imports.<sup>5</sup> "Measures having equivalent effect" under Article 30 comprise "[a]ll trading rules enacted by Member States, which are capable of hindering, directly or indirectly, actually or potentially, intra-Community trade . . . ."<sup>6</sup>

Article 36 of the EC Treaty, however, provides for certain exceptions to the free movement of goods, one of which refers explicitly to intellectual property:

The provisions of Articles 30 to 34 shall not preclude prohibitions or restrictions on imports, exports or goods in transit justified on grounds of . . . the *protection of industrial and commercial property*. Such prohibitions or restrictions shall not, however, constitute a means of arbitrary discrimination or a disguised restriction on trade between Member States.<sup>7</sup>

The competition rules of the EC Treaty comprise two main sections: (1) "rules applying to undertakings" which are found in Articles 85 through 90,<sup>8</sup> and (2) "aids granted by the States" which are found in Articles 92 through 94. The rules on competition should be regarded as one part of the complex Community system which is designed to break down national barriers and create a unified domestic market where conditions of free competition prevail (*i.e.*, the so-called "market integration function" of the EC competition rules).<sup>9</sup> Arguably, these rules also have a long-term effect—that of encouraging the expansion of efficient firms and sectors of the Community economy at the expense of those less able to meet demand (*i.e.*, the so-called "efficiency function" or "broader dynamic role" of the EC competition rules).<sup>10</sup>

4. *Id.* art. 30.

5. Case 2/73, *Geddo v. Ente Nazionale Risi*, 1974 E.C.R. 865, 1 C.M.L.R. 13 (1973).

6. Case 8/74, *Procurer du Roi v. Dassonville*, 1974 E.C.R. 837, 2 C.M.L.R. 436 (1974); *cf.* EC TREATY art. 30. The scope of this broad definition of "measures having equivalent effect" has been limited in a recent judgment of November 24, 1993, in Case C-267/97, *Keck* (not yet reported).

7. EC TREATY art. 36 (emphasis added).

8. *Id.* arts. 85-90. Article 85, which deals with cartels, and Article 86, which concerns the abuse of dominant position, are the main provisions applying to undertakings.

9. See *supra* notes 1-3 and accompanying text.

10. See, e.g., VALENTINE KORAH, AN INTRODUCTORY GUIDE TO EC COMPETITION

The protection of intellectual property rights in the European Community is guaranteed by Article 36 of the EC Treaty. This has resulted in a profusion of case law in the Court of Justice of the European Communities (ECJ) which, since the beginning of 1968, has drawn a fundamental distinction between the *existence* of these rights and the *exercise* thereof.<sup>11</sup> For example, the ECJ has repeatedly held that the EC Treaty does not affect the existence of intellectual property rights, as recognized by the legislation of a member state,<sup>12</sup> but that there are none the less circumstances in which the exercise of such rights may be restricted by the prohibitions laid down in the treaty.<sup>13</sup>

First, restrictions may be applied through Article 30 if the exercise of the right invoked is not justified by protection of the rights which constitute the *specific subject matter* of that property. It is the protection of that specific subject-matter that is guaranteed by Article 36, which expressly derogates from Article 30.<sup>14</sup> Second, restrictions may be applied through Article 85 if the exercise of the right is "the object, the means of implementation or the consequence of an agreement,"<sup>15</sup> or through Article 86 if the exercise involves the "abuse of a dominant position."

The ECJ has further held that the holder of an intellectual property right in one member state may not prevent the importation of goods protected by that right from another member state if the goods were marketed there by him or with his *consent*, for the first act of putting the product on the market in the latter member state *exhausts* the holder's rights.<sup>16</sup>

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LAW AND PRACTICE 1 (4th ed. 1990); see also CHRISTOPHER W. BELLAMY & GRAHAM D. CHILD, COMMON MARKET LAW OF COMPETITION ¶¶ 1-025 through 1-029 (3d ed. 1987).

11. See, e.g., Case 262/81, Coditel SA v. Cine-Vog Films (Coditel II), 1982 E.C.R. 3381, 1 C.M.L.R. 49 (1983); see also Case C-10/89, SA CNL-Sucal NV v. HAG GF AG, 1990 E.C.R. 3711, 3 C.M.L.R. 571 (1990).

12. See, e.g., Case 144/81, Keurkoop v. Nancy Kean Gifts, 1982 E.C.R. 2853, 2 C.M.L.R. 47 (1982).

13. Case C-10/89, SA CNL-Sucal NV v. HAG GF AG, 1990 E.C.R. 3711 § iv(i), 3 C.M.L.R. 571 (1990).

14. See Case 192/73, Van Zuylen Freres v. Hag AG, 1974 E.C.R. 73, § III(A), ¶ 6, 2 C.M.L.R. 127 (1974).

15. See, e.g., Case 22/71, Beguelin Import Co. v. S.A.G.L. Import Export, 1971 E.C.R. 949, § IV, ¶ 7, 1972 C.M.L.R. 81.

16. Case 192/73, Van Zuylen Freres v. HAG AG, 1974 E.C.R. 73, § v(4), 2

Consent to marketing may arise whenever there is a link between two owners of intellectual property rights, whether that link is "legal, financial, technical or economic."<sup>17</sup> In *Pharmon BV v. Hoechst AG*, for example, the ECJ assumed, within the context of the exhaustion doctrine, that there had been no "consent" in the event that (patented) goods were marketed in the Common Market pursuant to a compulsory license.<sup>18</sup>

## II. THE RELATIONSHIP BETWEEN THE LICENSING OF INTELLECTUAL PROPERTY RIGHTS AND ARTICLE 85 OF THE EC TREATY

There is an important connection between the application of Articles 30 and 36 of the EC Treaty, on the one hand, and Article 85 on the other. If an infringement action is permitted under Articles 30 and 36, contractual restrictions with the same effect may be considered as no more than a *reflection* of the legal rights of the owner of the intellectual property right.<sup>19</sup> In this event, the restraints following from the agreement fall within the specific subject matter of the intellectual property right, as guaranteed by Article 36. This should generally be sufficient to hold that Article 85(1) does not apply.<sup>20</sup> For example, if the same person holds an intellectual property right in all member states, a prohibition on exports to the Community in a license granted to another person outside the Community falls outside the prohibition in Article 85(1),

C.M.L.R. 127 (1974).

17. *Id.* ¶ 4; see also Case 19/84, *Pharmon BV v. Hoechst AG*, 1985 E.C.R. 2181, [1986] Common Mkt. Rep. (CCH) ¶ 14,206 (1978).

18. Case 19/84, *Pharmon BV v. Hoechst AG*, 1985 E.C.R. 2181, [1986] Common Mkt. Rep. (CCH) ¶ 14,206 (1984).

19. Bastiaan van der Esch, *The Principles of Interpretation Applied by the Court of Justice of the European Communities and their Relevance for the Scope of the EEC Competition Rules*, 15 *FORDHAM INT'L L.J.* 366 (1991/1992).

20. Article 85 applies to agreements, decisions, and practices by associations of enterprises and associations that affect trade between member states and result, intentionally or not, in restrictions in competition within the Common Market, which are prohibited. These include: the direct or indirect fixing of purchase or selling prices or of any other trading conditions; the limitation or control of production, markets, technical development or investment; market-sharing or the sharing of sources of supply; the application to parties to transactions of unequal terms in respect of equivalent supplies, thereby placing them at a competitive disadvantage; or the subjecting of the conclusion of a contract to the acceptance by a party of additional supplies which, either by their nature or according to commercial usage, have no connection with the subject of such contract.

because the licensor could have achieved the same results by exercising his intellectual property right, which has not been exhausted by the marketing of products with his consent outside the Community.<sup>21</sup> However, when the same person grants a license to another person inside the Community, the exhaustion of rights principle applies, and in such circumstances an export prohibition will generally fall within Article 85(1).<sup>22</sup>

The foregoing does not mean that every territorial restriction in a license agreement is prohibited per se. This will always have to be examined in the specific legal and economic context in which it arises. For example, exclusivity provisions granting a licensee territorial protection against the licensor, and to some extent, against other licensees, may under certain circumstances remain outside the scope of Article 85(1). The *Maize Seed* case<sup>23</sup> makes this clear. That case was concerned with the licensing of a plant breeder's right, but the rule of the case is regarded as applicable to other intellectual property rights and to know-how.<sup>24</sup> The Court, accepting the argument that the grant of exclusive rights for a limited period is capable of providing an incentive to innovative efforts, stated the following:

In fact, in the case of a license of breeders' rights over hybrid maize seeds newly developed in one Member State, an undertaking established in another Member State which was not certain that it would not encounter competition from other licensees for the territory granted to it, or from the owner of the right himself, might be deterred from accepting the risk of cultivating and marketing that product; such a result would be damaging to the dissemination of a new technology and would prejudice competition in the Community between the new product and similar existing products.<sup>25</sup>

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21. See Case 51/75, *EMI Records Ltd. v. CBS U.K. Ltd.*, 1976 E.C.R. 811, 2 C.M.L.R. 235 (1976); Case 270/80, *Polydor Ltd. v. Harlequin Record Shops*, 1982 E.C.R. 329, 1 C.M.L.R. 677 (1982).

22. See *id.*; EC TREATY art. 85(1).

23. Case 258/78, *LC Nungesser KG v. Commission (Maize Seed)*, 1982 E.C.R. 2015, 1 C.M.L.R. 278 (1983); see also Case 262/81, *Coditel SA v. Cine-Vog Films SA (Coditel II)*, 1982 E.C.R. 3381, 1 C.M.L.R. 49 (1983); Case 193/83, *Windsurfing Int'l, Inc. v. Commission*, 1986 E.C.R. 611, 3 C.M.L.R. 489 (1986).

24. See, e.g., Case 161/84, *Pronuptia de Paris GmbH v. Schillgallis*, 1986 E.C.R. 353, 1 C.M.L.R. 414 (1986) (franchise agreements); Case 262/81, *Coditel SA v. Cine-Vog Films SA (Coditel II)*, 1982 E.C.R. 3381, 1 C.M.L.R. 49 (1983).

25. Case 258/78, *LC Nungesser v. Commission (Maize Seed)*, 1982 E.C.R.

Economic reasons outweighed the disadvantages of the restriction of competition.<sup>26</sup>

The Court drew a distinction between open exclusive licenses and licenses eliminating competition from third parties.<sup>27</sup> Open exclusive licenses merely involve an obligation on the part of the licensor not to compete himself within the licensed territory and not to grant additional licenses for that territory.<sup>28</sup> This type of license falls outside Article 85(1) if it can be shown that, without such protection, the licensee might be deterred from accepting the risk of manufacturing and marketing a newly developed product.<sup>29</sup> However, licenses restricting the freedom of parallel importers and other licensees to sell in the licensed territory are caught by Article 85(1), although they may, in certain circumstances described hereinafter, qualify for exemption under a so-called block exemption or for individual exemption under Article 85(3).<sup>30</sup>

The Court dealt again with the question of exclusive licenses in *Coditel / Cine Vog-II*.<sup>31</sup> This case concerned an exclusive license to exhibit a film. Having considered the nature of the right in question, and particularly the fact that the exhibition of a film is something that may be indefinitely repeated, the Court said:

[T]he mere fact that the owner of the copyright in a film has granted a sole licensee the exclusive right to exhibit that film in the territory of a Member State and, consequently, to prohibit during a specified period its showing by others, is not sufficient to justify the finding that such a contract must be regarded as the purpose, the means or the result of an agreement, decision or concerted practice prohibited by the Treaty.

The characteristics of the cinematographic industry and of its markets in the Community, especially those relating to dubbing and subtitling for the benefit of different language groups, to the possibilities of television broadcasts, and to the

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2015, 1 C.M.L.R. 278 (1983).

26. *Id.* § IV(1).

27. *Id.* § B, ¶ 19.

28. *Id.*

29. *Id.* ¶ 58.

30. *Id.* § C(6).

31. Case 262/81, *Coditel SA v. Cine-Vog Films SA (Coditel II)*, 1982 E.C.R. 3381, 1 C.M.L.R. 49 (1983).

system of financing cinematographic productions in Europe serve to show that an exclusive exhibition license is not, in itself, such as to prevent, restrict or distort competition.<sup>32</sup>

In this case, the Court did not make the distinction between open exclusive licenses and licenses eliminating competition from third parties on which it relied in *Maize Seed*.<sup>33</sup> However, this may be explained by the specific nature of the intellectual property right at issue.

Article 85 has been applied to two categories of regularly occurring agreements—patent and know-how licenses—for which the Commission has established so-called “block exemptions” by regulation. Agreements satisfying the terms of such block exemptions are exempt from the prohibition of Article 85(1) and do not require notification.<sup>34</sup>

Exclusivity and territorial provisions in patent and know-how licenses which cannot be brought outside Article 85(1) on the basis of *Maize Seed* may still qualify for exemption under Commission Regulation 2349/84<sup>35</sup> or Commission Regulation 556/89.<sup>36</sup> Commission Regulation 2349/84 provides for an exemption under Article 85(3) for certain patent licenses and agreements combining patent and know-how licenses (the latter are covered only insofar as the licensed patents are necessary for achieving the objects of the licensed technology).<sup>37</sup>

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32. *Id.* § 3, ¶ 18.

33. *See supra* notes 23-24 and accompanying text.

34. *See infra* notes 41-56 and accompanying text.

35. Commission Regulation 2349/84, 1984 O.J. (L 219) 15.

36. Commission Regulation 556/89, 1989 O.J. (L 61) 1.

37. Commission Regulation 2349/84, *supra* note 35.

The Regulation is structured as follows. Article 1 provides for an exemption for several clauses relating to exclusivity and territorial protection which may fall under Article 85(1). Article 2 contains a so-called “white list” of clauses which generally do not fall under Article 85(1). To the extent that particular circumstances may bring any of those clauses within the prohibition of Article 85(1) they are also exempted. Article 3 contains a “black list” of unacceptable provisions which do not qualify for exemption under the Regulation as a whole. Article 4 provides for an accelerated notification procedure, known as the “opposition procedure,” for obtaining individual exemption for agreements which contain restrictions of competition which are not exempted by Article 1 or Article 2 and which do not appear on the “black list” of Article 3. Article 5 excludes certain agreements from the scope of application of the Regulation, including license agreements between competitors who hold interests in a joint-venture, if the license agreements relate to the activities of the joint-venture. However, due to a changed policy of the Commission vis-à-vis concentrative and cooperative joint-ventures, these license agree-



Article 1(1) of the Regulation provides for an exemption for six different territorial restrictions.<sup>38</sup> The first three paragraphs of Article 1(1) relate to territorial restrictions in the relationship between the licensor and the licensee. The licensor may undertake not to grant any other licenses in the licensed territory, insofar and for as long as one of the licensed patents remains in force. Article 1 further permits an obligation on the licensor not to exploit the licensed invention in the licensed territory himself for the same period. The licensee may be obliged not to exploit the licensed invention in territories within the Common Market which are reserved for the licensor, insofar and as long as the patented product is protected in those territories by parallel patents. "Exploitation" embraces all the means of exploitation afforded by national patent law, in particular manufacture, use, and sale.

The next three paragraphs of Article 1 relate to territorial restrictions in the relationship between licensees.<sup>39</sup> The licensee may be obliged not to manufacture the licensed product or use the licensed technology in territories within the Common Market which are licensed to other licensees, insofar and as long as the licensed product is protected in those territories by parallel patents. With regard to sales, a distinction is drawn between active sales, where the licensee pursues a policy of active sales promotion, and passive sales, where the licensee merely responds to orders received. The licensee may be obliged not to pursue an active sales policy of putting the licensed product on the market in the territories within the Common Market which are licensed to other licensees for as long as there are parallel patents in those territories. Further, during a five-year period, measured from the date at which the licensed product was first marketed in the Community by the licensor or one of his licensees, the licensee may be restricted from putting the product on the market in other licensees' territories, even by making passive sales in response to orders which the licensee has not actively solicited.

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ments may now fall under the block exemption. See *infra* note 56. Articles 6, 7, and 8 contain transitional provisions. In the circumstances set out in Article 9, the Commission may withdraw the benefit of the Regulation.

38. Commission Regulation 2349/84, *supra* note 35, art. 1(1).

39. Commission Regulation 2349/84, *supra* note 35, art. 1(1).

Commission Regulation 556/89<sup>40</sup> provides for an exemption for pure know-how licensing agreements and mixed know-how and patent licensing agreements which do not qualify for exemption under Commission Regulation 2349/84, either because the licensed patents are ancillary to the licensed know-how, or because there is no patent protection in particular member states. Know-how probably cannot be regarded as intellectual property within the meaning of Article 36, but it is treated in many respects similar to patented technology.

The structure and approach of the Regulation resembles that of the block exemption for patent licenses. For example, it only applies to agreements to which only two undertakings are parties.<sup>41</sup> Article 1 of the Regulation exempts exclusive and territorial provisions. It further contains a list of definitions. Know-how is defined as "a body of technical information that is secret, substantial and identified in any appropriate form."<sup>42</sup> The terms "secret," "substantial," and "identified" are also defined.<sup>43</sup> Agreements, involving licensing know-how which do

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40. Commission Regulation 556/89, *supra* note 36, ¶ 2747.

41. Commission Regulation 556/89, *supra* note 36, ¶ 2747.

42. Commission Regulation 556/89, *supra* note 36, ¶ 2747.

43. Commission Regulation 556/89, 1989 O.J. (L 61) 1:

[T]he term "secret" means that the know-how package as a body or in the precise configuration and assembly of its components is not generally known or easily accessible, so that part of its value consists in the lead-time and licensee gains when it is communicated to him; it is not limited to the narrow sense that each individual component of the know-how should be totally unknown or unobtainable outside the licensor's business . . . .

*Id.* art. 1(7)(2).

[T]he term "substantial" means that the know-how includes information which is of importance for the whole or a significant part of (i) a manufacturing process or (ii) a product or service, or (iii) for the development thereof and excludes information which is trivial. Such know-how must thus be useful, i.e. can reasonably be expected at the date of conclusion of the agreement to be capable of improving the competitive position of the licensee, for example by helping him to enter a new market or giving him an advantage in competition with other manufacturers or providers of services who do not have access to the licensed secret know-how or other comparable secret know-how . . . .

*Id.* art. 1(7)(3).

[T]he term "identified" means that the know-how is described or recorded in such a manner as to make it possible to verify that it fulfills the criteria of secrecy and substantiality and to ensure that the licensee is not unduly restricted in his exploitation of his own technology. To be identified the know-how can either be set out in the license agreement or in a separate document or recorded in any other appropriate form at the

not meet the definition of know-how, do not qualify for exemption. Article 2 contains the "white list" of clauses which generally do not fall under Article 85(1), but which are exempted if, in particular circumstances, Article 85(1) applies.<sup>44</sup>

The exempted territorial restrictions largely correspond to those exempted in the block exemption for patent licenses.<sup>45</sup> The differences consist in the duration of the exemption and the conditions attached to it. The exemption pursuant to Commission Regulation 2349/84 is subject to the existence of (parallel) patents in the licensed territory, the territory reserved for the licensor and the territories licensed to other licensees.<sup>46</sup> The "know-how regulation" also applies if there are no patents in force in these territories.<sup>47</sup> Therefore, this regulation can benefit those drafting mixed know-how and patent licensing agreements which contain territorial restrictions extending to countries where there is no patent protection.

In Commission Regulation 2349/84, the duration of the exemption is tied to the duration of the patents.<sup>48</sup> In the "know-how regulation," the exemption for territorial restrictions is granted for a period of ten years, with the exception of the exemption for restriction on passive sales between licensees and restrictions covered by patents.<sup>49</sup> In the relationship between the licensor and the licensee, the period of ten years starts to run from "the date of signature of the first license agreement entered into" by the licensor for the licensed

latest when the know-how is transferred or shortly thereafter, provided that the separate document or other record can be made available if the need arises . . . .

*Id.* art. 1(7)(4).

44. Commission Regulation 556/89, *supra* note 36, art. 2. The clauses which preclude application of the regulation are contained in Article 3. Article 4 provides for the "opposition procedure." Article 5 excludes certain agreements from the scope of application of the regulation, including licensing agreements made in connection with a joint-venture. The changed policy of the European Commission in this respect has already been mentioned. Article 6 lists some special agreements which may also benefit from the regulation. Article 7 allows the Commission to withdraw the benefit of the Regulation in particular circumstances. Articles 8, 9, and 10 contain transitional provisions.

45. Compare Commission Regulation 556/89, *supra* note 36, and Commission Regulation 2349/84, *supra* note 35.

46. Commission Regulation 2349/84, *supra* note 35, ¶ 9.

47. Commission Regulation 2349/84, *supra* note 35, ¶ 9.

48. Commission Regulation 2349/84, *supra* note 35, ¶ 12.

49. Commission Regulation 556/89, *supra* note 36, art. 1(2); Commission Regulation 2349/84, *supra* note 35, ¶ 12.

territory in respect of the same technology.<sup>50</sup> Between licensees the period of ten years starts to run from the date of signature of the first license agreement entered into by the licensor within the Community in respect of the same technology.<sup>51</sup>

The exemption for a restriction on "passive sales" between licensees is granted for a period of five years from the date of signature of the first license agreement entered into by the licensor within the Community in respect of the same technology.<sup>52</sup> The exemption is extended beyond the period of ten years in respect of territorial restrictions which concern countries where the technology is protected by "necessary" patents—*i.e.*, patents necessary for achieving the objects of the licensed technology.<sup>53</sup> Accordingly, mixed know-how and patent licensing agreements which do not qualify for exemption under Commission Regulation 2349/84, for example, because they contain territorial restrictions which concern territories where there is no patent protection, retain an exemption tied to the duration of the patents in those territories where there is patent protection.<sup>54</sup> The exemption for know-how expires when the know-how is no longer "secret or substantial."<sup>55</sup>

#### *A. Modification of the Block Exemptions: Commission Regulations 151/93*

Finally, on December 23, 1992, the Commission adopted Regulation 151/93 to modify the existing block exemption regulations for, amongst others, patent and know-how licenses.<sup>56</sup> This modification was the result of the more lenient approach adopted by the Commission towards joint ventures, with the object to improve the production and exploitation of the results of research and development and the development of technical know-how through joint-ventures.<sup>57</sup> The block exemptions will

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50. Commission Regulation 556/89, *supra* note 36, art. 1(7).

51. Commission Regulation 556/89, *supra* note 36, art. 1(2).

52. Commission Regulation 556/89, *supra* note 36, art. 1(2).

53. Commission Regulation 556/89, *supra* note 36, art. 1(4).

54. Commission Regulation 2349/84, *supra* note 35, ¶¶ 2, 4.

55. Commission Regulation 556/89, *supra* note 36, art. 1(3).

56. Commission Regulation 151/93, ¶ 6, 1993 O.J. (L 21). This regulation amended four regulations, among them, Commission Regulation 2349/84 and Commission Regulation 556/89 relating to patent and know-how licenses.

57. *Id.* ¶ 5; *see, e.g.*, Commission Decision 90/410 of 13 July 1990, Elopak/Metal Box-Odin, 1990 O.J. (L 209), 4 C.M.L.R. 832 (1990).

now also apply to the marketing of products by joint-ventures obtained as a result of joint research and development, unless the market share of the companies involved in the joint-venture exceeds ten percent and their total turnover on a world-wide basis exceeds one billion ECU.<sup>58</sup>

The Commission is currently exploring the possibility of merging the two block exemption regulations into one regulation at the date of expiration of Regulation 2349/84.<sup>59</sup> As a result, mixed know-how and patent licensing agreements will be covered by only one regulation (instead of two). Furthermore, it is envisaged to take more account of the market force of the respective parties to the licensing agreements. Thus, companies enjoying a dominant position in the relevant market and wishing to obtain an exclusive license would no longer be able to benefit from the block exemption. Instead, they should seek an individual exemption after having notified the Commission of the agreement. Conversely, companies with only a small market share which have entered into a licensing agreement containing certain clauses mentioned on the "black list" could nevertheless rely on the block exemption. The new regulation will hopefully further legal certainty and transparency.

### III. THE RELATIONSHIP BETWEEN THE LICENSING OF INTELLECTUAL PROPERTY RIGHTS AND ARTICLE 86 OF THE EC TREATY

In the *Tetra Pak I* case,<sup>60</sup> the issue before the European Community Court of First Instance (CFI) concerned the relationship between Article 85(3) and Article 86. More specifically, the CFI confirmed that the Commission was entitled to condemn as abusive under Article 86 behavior consisting of the *acquisition of a license* to a milk sterilization process. The license in question enjoyed the benefit of the block exemption provided for in Regulation 2349/84. The effect of the acquisition was to prevent one of Tetra Pak's potential competitors from entering the relevant market. While agreeing that Article 85 and Article 86 pursue the same objectives, the Court

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58. Commission Regulation 151/93, *supra* note 56, ¶¶ 6, 7.

59. See *supra* note 55 and accompanying text. The dates of expiration are December 31, 1994, and December 31, 1999, respectively.

60. Case T-51/91, *Tetra Pak Rausing SA v. Commission*, 1990 E.C.R. II-309, 4 C.M.L.R. 334 (Ct. First Instance 1991).

nevertheless stressed that they constitute two separate legal instruments, each of which deals with a different situation. The fact that a given behavior may fall under Article 85(3) does not mean that such behavior cannot fall under the prohibition of Article 86 if it leads to the strengthening of a dominant position by preventing access of a new entrant on the market. Requiring in all cases from the Commission that it adopts, on the basis of Article 9 of Regulation 2349/83, a decision whereby the benefit of the block exemption *is withdrawn before* it can apply Article 86 would amount, given the non-retroactive character of the withdrawal of the exemption, to acceptance that an abuse of a dominant position could be exempted under Article 85(3). The CFI therefore upheld the Commission decision in which it had ruled that Tetra Pak had infringed Article 86. This judgment of the CFI has not been challenged before the CJE.

From the *Magill* case of the CFI, it can be inferred that a *refusal to license* may also constitute an abuse of a dominant position under Article 86 of the EC Treaty.<sup>61</sup> *Magill* concerned the refusal of ITP, RTE, and BBC, respectively the publishers of the "TV Times," "RTE Guide," and "Radio Times," to permit other publishers to publish and sell comprehensive advance weekly television guides in the United Kingdom and Ireland. The parties justified their refusal to allow third parties to use their listings (which detailed the program content, the time and date of its transmission, and the relevant channel) on the grounds of protection of their copyright in the listings, which the parties obtained from the relevant television companies. The parties did, however, agree to provide daily and weekly newspapers with their program schedules for free on request, and the newspapers were licensed to publish the daily listings subject to certain conditions concerning the format of publication.<sup>62</sup>

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61. See Case T-69/89, RTE v. Commission, 1991 E.C.R. II-485, ¶¶ 67, 71, 4 C.M.L.R. 586 (Ct. First Instance 1991). The *Magill* case is actually made up of three decisions: Case T-69/89, RTE v. Commission, 1991 E.C.R. II-485, 4 C.M.L.R. 586 (Ct. First Instance 1991); Case T-70/89, BBC v. Commission, 1991 E.C.R. II-535, 4 C.M.L.R. 669 (Ct. First Instance 1991); and Case T-76/89, ITP v. Commission, 1991 E.C.R. II-575, 4 C.M.L.R. 745 (Ct. First Instance 1991) [hereinafter *Magill Case*]. Without BBC joining them, RTE and ITP appealed to the ECJ. Its judgment is expected by the end of 1994.

62. *Magill Case*, *supra* note 61.

It is worthwhile to examine in some detail the judgment of the CFI in the *ITP* case.<sup>63</sup> The Court first discussed market definition under Article 86 and found that weekly listings and weekly TV guides for each of the copyright holders constituted distinct submarkets within the market for television program information in general.<sup>64</sup> In addition, the Court stated that daily and weekend listings published in newspapers were only substitutable to a limited extent for weekly advance information to viewers.<sup>65</sup> Finally, the Court said that the existence of ITP's weekly guide and the comprehensive guides elsewhere in the EC showed that there was a specific demand from viewers and from third parties wishing to publish weekly TV guides.<sup>66</sup>

The Court then discussed the concept of dominant position under Article 86. The Court found that ITP enjoyed, as a consequence of its copyright, the exclusive rights to reproduce and to market ITV and Channel 4 listings, which enabled it to secure a monopoly on weekly publication of listings.<sup>67</sup> The Court further stated that ITP held a dominant position in the market for weekly listings and in the market for magazines in which such listings were published in both Ireland and Northern Ireland.<sup>68</sup> The Court determined that third parties wishing to publish a general TV listings magazine were in a situation of economic dependence on ITP; therefore, ITP was in a position to control potential competition.<sup>69</sup>

The final aspect of Article 86 that the Court examined was the notion of abuse of dominance. The Court began by explaining that the determination of the procedures under which copyright is protected is a matter for national rules and that only the legitimate exercise of such rights is justified by Article 86.<sup>70</sup> The Court further explained, however, that the basic rule that the exercise of an exclusive right to reproduce a protected work is not itself an abuse does not apply when the

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63. Case T-76/89, *ITP v. Commission*, 1991 E.C.R. II-575, 4 C.M.L.R. 745, (Ct. First Instance 1991).

64. *Id.* ¶ 2.

65. *Id.* ¶ 4 (noting that the weekly schedule was finalized two weeks before publication).

66. *Id.* ¶ 6.

67. *Id.* ¶ 5.

68. *Id.* ¶ 57.

69. *Id.* ¶ 69.

70. *Id.* ¶ 61.

right is exercised in such ways and circumstances to pursue an aim manifestly contrary to the objectives of Article 86.<sup>71</sup> The Court found that ITP's conduct prevented the emergence of a new product likely to compete with its own magazine.<sup>72</sup> In reaching this conclusion, the Court considered it significant that ITP had authorized free publication of daily listings and weekly highlights, and had authorized free weekly listings in other member states.<sup>73</sup> This exclusion of competition went beyond what was "necessary to fulfill the essential function of the copyright" under Community law.<sup>74</sup> Thus, the Court concluded that although program listings were protected by copyright under national law, ITP's conduct was not related "to the actual substance of its copyright."<sup>75</sup>

The Court next discussed the application for annulment of compulsory licensing. The Court stated that ITP's infringement of Article 86 justified the imposition of specific measures.<sup>76</sup> Further, the Court recognized that the powers conferred on the Commission to require undertakings to cease an infringement must be exercised in the "most efficacious manner best suited to the circumstances of each given situation."<sup>77</sup> The Court stated that by ordering compulsory licensing, the Commission did not deprive ITP of its choice of measures to desist from infringement and recognized ITP's rights to require specific standards of licensees.<sup>78</sup>

Finally, the Court discussed the Berne Convention and the notion of proportionality. The Court held that the Berne Convention,<sup>79</sup> which gives exclusive rights to reproduce protected works to an author, did not apply in this case.<sup>80</sup> The Court reasoned that the provisions of the Convention could not be relied upon to justify restrictions on a system of freedom of

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71. *Id.* ¶ 63.

72. *Id.* ¶ 65.

73. *Id.*

74. *Id.* ¶ 66.

75. *Id.* ¶ 67.

76. *Id.* ¶ 79.

77. *Id.*

78. *Id.* ¶ 80.

79. Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1886, as revised at Paris, July 24, 1971, 102 Stat. 2853, 828 U.N.T.S. 221.

80. Case T-76/89, ITP v. Commission, 1991 E.C.R. II-575, 4 C.M.L.R. 745, (Ct. First Instance 1991).



competition established and implemented by the EC Treaty.<sup>81</sup> With regard to proportionality, the Court held that the obligations imposed by the Commission were within its powers and were appropriate and necessary measures in order to bring the infringement to an end; as such, the Court found that the obligations were proportionate.<sup>82</sup>

The CFI manifestly tried to distinguish this case from the ECJ's ruling in the *Renault* and *Volvo* cases.<sup>83</sup> In these cases the ECJ clarified the criteria for permissible refusals to license design rights. It observed that the right of the owner of a registered design to prevent third parties from manufacturing and selling, or importing without consent, products incorporating the design constitutes the very subject matter of the owner's exclusive rights, which national law may legitimately grant.<sup>84</sup> Accordingly, compelling the owner to grant a license to third parties, even in return for a royalty, would deprive the owner of the substance of that exclusive right, and therefore refusal to grant such a license cannot in itself constitute an abuse of a dominant position.<sup>85</sup> However, the exercise of such a right is subject to Article 86 if such exercise involves abusive conduct within the meaning of Article 86.<sup>86</sup> The ECJ cited as examples of such abusive conduct any "arbitrary refusal to supply spare parts to independent repairers, the fixing of prices for spare parts at an unfair level, or a decision no longer to produce spare parts" for cars which are still in circulation.<sup>87</sup> Car manufacturers should, therefore, have the right to refuse licenses to independent producers wishing to supply parts to which they hold the registered designs, so long as they do not abuse this power.<sup>88</sup>

At least one distinguished commentator, Professor Waelbroeck, has argued that the reasoning of the CFI in the

81. *Id.* ¶ 87.

82. *Id.* ¶¶ 92-94.

83. *See id.* ¶¶ 46-49. Compare *id.* with Case 53/87, *Consorzio Italiano Della Componentistica di Ricambio Per Autoveicoli And Maxicar v. Regie Nationale Des Usines Renault*, 1988 E.C.R. 6039, 4 C.M.L.R. 265 (1990) and Case 235/87, *Volvo AB v. Erik Veng Ltd.*, 1988 E.C.R. 6211, 4 C.M.L.R. 122 (1989) (U.K.).

84. Case T-76/89, *ITP v. Commission*, 1991 E.C.R. II-575, 4 C.M.L.R. 745, (Ct. First Instance 1991).

85. *Id.* ¶ 47.

86. *Id.* ¶ 46.

87. *Id.*

88. *Id.* ¶¶ 46-48.

*Magill Case* is difficult to reconcile with that in the earlier pair of cases, *Volvo* and *Renault*.<sup>89</sup> If one were to accept that the essence of copyright is to allow its holder to exclude third parties from reproducing a protected work, it is in his view hard to see how the refusal to authorize third parties to reproduce that work can in itself amount to an abuse.<sup>90</sup> This difficulty does not disappear even when the refusal results in protecting the copyright holder against competition in the market in which he sells the protected work or even in a secondary market.<sup>91</sup> The Court of First Instance could, according to Professor Waelbroeck, be criticized for drawing an artificial distinction between, on the one hand, permissibly refusing to grant a license within the specific scope of an intellectual property right and, on the other, abusively preventing the emergence of a new product.<sup>92</sup> However, he seems to ignore that in the *ITP* case copyright interests were clearly outweighed by the interests of consumers in obtaining information.<sup>93</sup> In general, the Commission considers it incontestable that the exploitation of an intellectual property right can be incompatible with Article 85 or 86, in appropriate circumstances.<sup>94</sup> The purpose of Article 86 is to ensure that dominant companies do not use their economic and commercial assets, of which intellectual property rights can be part, to eliminate or drive out competitors.<sup>95</sup> If the situation were otherwise, the Commission would be unable to control the behavior of a dominant company which was, for example, using its intellectual property rights deliberately to eliminate from the market a dependent competitor or to control the markets in which it faced competition. In particular, it cannot be correct that the licensing policy engaged in by a dominant company which is discriminatory or which charges royalties which are excessive, is intended to drive a competitor from, or prevent a competitor from appearing in, the market of

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89. Michel Waelbroeck, *Annual Review of EEC Competition Cases 1989-1991*, in 1991 *FORDHAM CORP. L. INST.* 111, 136 (Barry Hawk ed., 1992).

90. *Id.*

91. *Id.*

92. *Id.*

93. *Id.*

94. *See, e.g.*, Commission Regulation 418/85 of 19 December 1984 on the Application of Article 85(3) of the Treaty to Categories of Research and Development Agreements, 1985 O.J. (L 53).

95. *See supra* notes 65-82 and accompanying text.

a dependent competitor or to control the market of a dependent competitor or to control the markets in which it faces competition.

Sir Leon Brittan, member of the European Commission, who, at the time of the *ITP* judgment, was responsible for the Commission's competition policy, welcomed the judgment as clarifying the relationship between national intellectual property laws and Community competition law. He stated in a press release on July 11, 1991, "Companies cannot unreasonably sit on their intellectual property in order to stifle enterprise and prevent the emergence of new forms of competition."<sup>96</sup>

Indeed, as pointed out above, one of the main concerns of the European Commission has been that the exercise of an exclusive right, such as copyright, will prevent a new product, for which there is clear demand, from being introduced in a downstream market.<sup>97</sup> Copyright in literary and artistic works create no dependence among competitors or in downstream market. But the same right in functional or utilitarian works, as in the *Magill* case, can sometimes create such dependence. It is, of course, acknowledged that, at present, copyright is *the* vehicle for the protection against misappropriation of a variety of functional or utilitarian material in the fields of telecommunications, computing, information technologies, and databases. However, it may not be the ideal regime.

Unfortunately, the more a work is functional and the less it is literary, the greater is the risk of dependence, and the risk, correspondingly, of dominance and of anticompetitive conduct. If, as in the *Magill* case, the timetable's contents are copyrighted, because there is no other way of listing the information in chronological order, it is impossible to write a better timetable. If the line of code to enter the rival computer's interface is protected by copyright, then access to that computer can

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96. *Commission Welcomes Important Ruling by Court of First Instance (RTE, BBC and ITP)*, RAPID (EC Press Releases), July 11, 1991, available in LEXIS, Europe Library, Rapid File.

97. See *supra* notes 61-82 and accompanying text. Compare the Court's reasoning in *Hofner* and *Porto di Genova*, two recent cases concerning Article 90 of the EC Treaty. Case C-41/90, *Hofner v. Macotron GmbH*, 1991 E.C.R. I-1979, 4 C.M.L.R. 306 (1993); Case C-179/90, *Merci Convenzionali Porto di Genova SpA v. Siderurgica Gabrielli SpA*, 1991 E.C.R. I-5889.

be blocked, consumer choice can be limited, and competition made difficult or impossible.

The Commission's concerns about the application of the competition rules in the field of computer software are set forth in "Commission Conclusions Decided on the Occasion of the Adoption of the Commission's Proposal for a Council Directive on the Legal Protection of Computer Programs":

Companies in a dominant position must not abuse that position within the meaning of Article 86 of the Treaty. For example, under certain circumstances the exercise of copyright as to the aspects of a program, which other companies need to see in order to write compatible programs could amount to an abuse. This could be the case if a dominant company tries to use its exclusive rights in one product to gain an unfair advantage in relation to one or more products not covered by these rights.<sup>98</sup>

In short, the Commission regards it as of great importance to uphold the principle that the refusal by a dominant company to license copyright material may, in the light of all relevant circumstances, constitute an abuse. To hold the contrary would gravely impair Commission capacity to supervise effective competition, particularly in the computer and telecommunications industries. Nevertheless, the general difficulty with the *Magill* judgment is that it provides little guidance on how intellectual property owners in a dominant position can distinguish between, on the one hand, a new product for which there is a potential customer demand and where there may be an obligation for a dominant company to grant a license and, on the other hand, the right to refuse to grant a license in respect of the subject matter of the intellectual property right.<sup>99</sup>

#### IV. THE RELATIONSHIP BETWEEN THE LICENSING OF INTELLECTUAL PROPERTY RIGHTS AND THE COMMISSION'S POLICY ON STANDARDIZATION

An important consideration in the successful management of standardization involving intellectual property rights must be the application of the competition rules of the EC Treaty

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98. 1989 O.J. (C 91) 16.

99. *Magill Case*, *supra* note 61.

and specifically the application of Articles 85 and 86. The issues which arise may be divided into two categories: those which relate to the constitution and operation of the standard-making body under Articles 85 and 86 and those which relate to a refusal to grant licenses to use an intellectual property right or to the offer of terms and conditions for such licenses under Articles 85 and 86. The Commission has expressed its view on the subject in its Communication on Intellectual Property Rights and Standardization of October 27, 1992.<sup>100</sup>

Standard-making bodies must be mindful of the requirements of Article 85 regarding, in particular, the fixing of royalty rates or other trading conditions in respect of standards which they make available, and they must avoid creating opportunities for exchange of competitively sensitive information or for restrictive practices relating to quantities, prices, and customer and territory sharing.

Article 86 is also of relevance, both to the standard-making body itself, together with its members as undertakings likely to be in a collective dominant position within the Common Market or in a dominant position in their national markets, and to the individual undertaking, member or non-member, holding an intellectual property right. Abuse of a dominant position by a standard-making body and its members could manifest itself by the activities of imposing unfair purchasing prices, *i.e.*, royalty rates to rightholders, or selling prices (rates including royalties for the use of standards) or other unfair trading conditions. Paragraphs (b), (c), and (d) of Article 86 also define other potential types of abuse of a dominant position by a standard-making body.

The same test will apply to the individual undertaking owner of an intellectual property right which the standard-making body wishes to use as the basis for a standard. However, whereas the definition of product market and the establishment of dominance in the relevant market are factors on which a considerable jurisprudence now exists at Community level, there has been as yet no decision on the application of Article 86 in the standard field.

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100. Communication from the Commission—Intellectual Property Rights and Standardization, COM(92)445 final.

The finding of dominance depends heavily on the definition of the relevant product market. The concept of the relevant product market implies that there can be effective competition between the products which form part of it, and this presupposes that there is a sufficient degree of interchangeability between all products forming part of the same market insofar as specific use of such products is concerned. Obviously, however, the narrower the relevant product market, the greater the likelihood that dominance will be established. Once the relevant product market is determined, it must be assessed *inter alia* in light of the structure of demand and supply for each product in the relevant market, and this analysis may lead to the conclusion that an undertaking is dominant in the market for its own product.

The question is the extent to which a rightholder is anticompetitive, by refusing to allow the technology to become the basis for a standard. In order to demonstrate abuse of a dominant position it would be necessary to establish that the relevant market contained the technological right in question and that the owner of the right to that technology occupied a position of dominance in relation to that market. If the criteria for establishing relevant market and dominance were met, the next step would be to evaluate the behavior of the rightholder in refusing to allow the technology to become the basis for a standard.

Until now, the Court of Justice has always maintained that a mere refusal to license an intellectual property right, absent other instances of abusive behavior, will not be actionable under Article 86.<sup>101</sup> That may be because intellectual property rights are, by their nature, exclusive property rights, and except in very limited and specific circumstances, as laid down in national legislation or international conventions, do not have to be made available to others by means of compulsory licenses, unless it can be demonstrated that the exercise of the right involves certain abusive conduct.<sup>102</sup>

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101. See, e.g., Case 22/78, Hugin v. Commission, 1979 E.C.R. 1869, 3 C.M.L.R. 345 (1979).

102. See Case 53/87, Consorzio Italiano Della Componentistica di Recambio Per Autoveicoli And Maxicar v. Regie Nationale Des Usines Renault, 1988 E.C.R. 6039, 4 C.M.L.R. 265 (1990); 235/87, Volvo AB v. Erik Veng Ltd., 1988 E.C.R. 6211, 4 C.M.L.R. 122 (1989) (U.K.).

Therefore, Article 86 cannot permit the expropriation of rights for the purpose of using the technology as the basis of a standard where no other circumstances establish abuse of a dominant position, and taking into account particularly whether there are other viable technologies available.

The problem of expropriation should therefore be addressed before the final selection of technology on which the standard is to be based. If the standard in question had been adopted, implemented, and made mandatory by a Community instrument, refusal to license the technology necessary to use the standard would, *a fortiori*, create difficulties.

A main objective of Article 86 is to ensure that dominant companies do not create conditions of trading in which they are able to stifle or eliminate competition. If no standard exists, the holder of an intellectual property right cannot be dominant in respect of the standard. If competition exists on the market for the product whose technology the standard-makers seek to use, the standard-maker is merely prevented from using that particular choice of technology as the solution to a specific problem.

The unusual situation where the standard-maker is not able to choose an alternative technology must be examined. For technical or financial reasons, the standard-maker could attempt to demonstrate the absolute necessity of licenses being available for the use of a particular technology. It could also be claimed that alternative technologies produce inferior results. In the case of technical necessity, objective evaluation of the scope of the patent in question should reveal whether the patent is so broad as to render all other substitute technologies not viable. It is relatively rare for a patent to cover such a broad innovative area that alternative means to achieve the same result cannot be found. As to financial necessity, excessive pricing of its technology by the dominant company could be indicative of abusive behavior, but this factor is not of relevance in a case of mere refusal to license. It should be noted, however, that excessive prices asked for by a dominant company could amount to a *de facto* refusal to license.

If it were demonstrable that no other viable technology existed, it would fail to be resolved whether the standard-making body, or potential users of the standard, would be placed at a competitive disadvantage *vis-a-vis* the owner of the intellectual property right by the fact that no standard could be made

in that area, or that the standard adopted was less efficient than the proprietary technology. Although it could be argued that consumers' rights were compulsorily licensed to serve as the basis of standards, in the long-term, investment in research and development in the standardized industrial sectors would dry up within the European Community. Non-Community entities with extensive research activities would be encouraged to keep their technology out of Community markets, while low cost manufacturing centers outside the Community would benefit from cheap licenses to use Community technology.

Therefore, any application of Article 86 in the field of public standardization must be balanced against the policy objective of maintaining the Community's strength in research and development.

## V. CONCLUSION

I conclude by referring to an incident in the story of *Le Petit Prince* by Antoine de Saint-Exupéry. The protagonist was asked by the Little Prince to draw a sheep. He made several attempts, but each was rejected: the first sheep was too sickly, the second had horns, the third was too old, and so forth. His patience exhausted, he drew instead a picture of a box with three holes and told the Little Prince that the sheep was inside. The Little Prince responded, "That is exactly the way I wanted it!"<sup>103</sup>

In describing for you the state of European Community law in the field of licensing agreements, I have drawn you a sheep. I am sure, however, that in whatever way I draw the sheep, there will be those of you who will see it differently, who will disagree with my interpretation, who will not be satisfied unless you can look in the box yourselves. The foregoing illustrates the tension which exists between, on the one hand, competition, and, on the other hand, the policy objective of maintaining the Community's strength in research and development through an adequate level of intellectual property protection. Needless to say, the everlasting debate over the

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103. ANTOINE DE ST-EXUPÉRY, *THE LITTLE PRINCE* 8-10 (Katherine Woods trans., 1943).



appropriate balance between these two seemingly conflicting interests will not be resolved for some time.