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Article 5

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COMMENTARY

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I have two comments to make. The first one relates to the role that the European Community's rules on free movement of goods play in the application of the European Community competition rules to licensing agreements of intellectual property rights. The second one is directed specifically at the decisions of the Court of First Instance in *Radio Telefis Eireann v. Commission, British Broadcasting Corporation v. Commission*, and *Independence Television Publications Ltd. v. Commission*,[1] referred to below as the *Magill* case, which is under appeal to the European Court of Justice (ECJ).

I. FREE MOVEMENT OF GOODS RULES

It is tempting but wrong to compare United States antitrust laws with European Community competition rules without appreciating that other European Community policies affect the outcome of the application of the letter to agreements such as licensing agreements in the field of intellectual property rights. Care must be taken not to ignore the fact that European Community competition rules, unlike United States antitrust law, are part of a great design, namely the creation of a single European market. Thus, under European Community law, there are two sets of rules which must be examined

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1. Cases T-69/89, 1991 E.C.R. II-485, 4 C.M.L.R. 586 (Ct. First Instance 1991); T-70/89, 1991 E.C.R. II-535, 4 C.M.L.R. 669 (Ct. First Instance 1991); T-76/89, 4 C.M.L.R. 745 (Ct. First Instance 1991), respectively.

together in the context of these agreements. These are the European Community competition rules[2] and the free movement of goods rules.[3]

It is necessary to understand the impact of the free movement of goods rules in the development of European Community competition rules as applied to the licensing of intellectual property rights. This issue arose for consideration early, in cases such as *Etablissements Consten SARL & Grundig-Verkaufs v. Commission*[4] in respect of trademark licensing. As explained earlier by Ben Smulders, the ECJ developed the doctrine of the "specific subject matter" of the intellectual property right in order to identify those aspects of the right which is protected by Article 222[5] and by the derogation provided in Article 36[6] from the prohibition of Articles 30 to 34.[7] Anything else done by the owner of the right in question would be an *exercise* of the right and therefore subject to the full force of both sets of rules. For example, if the owner of the right decided to produce or market the goods protected by the intellectual property right in another member state, he would be deemed to have exhausted the right to object to those goods freely circulating in the Community and returning to the territory where he held the rights.[8]

As far as the European Community competition rules are concerned, unlike the United States, there are two fundamental principles which underpin the European approach to

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2. *See* TREATY ESTABLISHING THE EUROPEAN ECONOMIC COMMUNITY [EC TREATY] arts. 85-86.

3. *Id.* arts. 30-36.

4. Joined Cases 56 & 58/64, 1966 E.C.R. 299, 1966 C.M.L.R. 418.

5. EC TREATY art. 222 states: "This Treaty shall in no way prejudice the system existing in Member States in respect of property."

6. EC TREATY art. 36 states:

> The provisions of Articles 30 to 34 inclusive shall not be an obstacle to prohibitions or restrictions in respect of importation, exportation or transit which are justified on grounds of public morality, public order, public safety, the protection of human or animal life or health, the preservation of plant life, the protection of national treasures of artistic, historical or archeological value or the protection of industrial and commercial property. Such prohibitions or restrictions shall not, however, constitute either a means of arbitrary discrimination or a disguised restriction on trade between Member States.

7. EC TREATY arts. 30-34.

8. *See, e.g.*, Case 144/81, Keurkoop v. Nancy Kean Gifts, 1982 E.C.R. 2853, 2873, 2 C.M.L.R. 47 (1983).

competition matters. First, the notion, originating from German competition law, of market access and, second, the principle of market integration. It must not be forgotten that the European Community comprises twelve different markets with different cultures, language and traditions. Integration is not likely to be achieved quickly unless positive steps are taken to encourage products to enter the market of another member state even though this may only be possible by permitting some restriction on competition to operate in the market place.

Thus, in each case, where a licensing agreement of an intellectual property right arises for investigation as to its anticompetitive effects, the European Commission and the European Court of Justice will consider the agreement in its specific legal and economic context. This is particularly so in cases of new technologies where the European Community competition authorities are very much aware that their role is to facilitate the development of these new industries and not to create obstacles to their dissemination. The ECJ has therefore approached the definition of the "specific subject matter" of an intellectual property right in a pragmatic fashion. The law has developed taking into account differences in the nature of the rights in respect of various industries. Thus in *Coditel v. Cine Vog Films (II)*,[9] the Court considered the nature of the right in question and noted that the showing of a film is something that may be indefinitely reproduced. So the Court was able to rule that "[t]he 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 system of financing cinematographic production in Europe serve to show that an exclusive exhibition licence is not, in itself, such as to prevent, restrict or distort competition."[10]

Similarly, in the context of plant breeders' rights, the ECJ in the *Maize Seed*[11] case accepted that unless some territorial protections were guaranteed, the licensee would be deterred from taking a risk of cultivating and marketing the product.

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9. Case 262/81, 1982 E.C.R. 3381, 1 C.M.L.R. 49 (1983).

10. *Id.* at 3401.

11. Case 258/78, Nungesser v. Commission, 1982 E.C.R. 2015, 1 C.M.L.R. 278 (1983).

Thus, a strict application of Article 85(1)[12] to this type of licensing agreement would be damaging to the dissemination of new technologies.

In respect of patent licensing agreements, legislative provision has been made in the form of Commission Regulation 2340/84,[13] which provides a type of "standard form contract." By ensuring that the terms of the agreement fall within the scope of the Regulation, this enables the parties to a patent licensing agreement to obtain an automatic exemption for the agreement from the prohibition of Article 85(1) of the Treaty.[14] This ensures legal certainty as to the validity of the agreement. The block exemption regulations are reviewed periodically thus ensuring that they can evolve to meet the proven needs of the market. The terms of the Regulations reflect the balance between the two policies of maintaining a competitive market but also seeking to foster market integration. Thus, restrictive clauses, that is, clauses relating to matters such as royalties and restrictions on sub-licensing which protect the "subject matter" of a patent, the essence of the property right, are declared compatible with Article 85(1).[15]

II. REFUSAL TO LICENSE

As explained by Ben Smulders, in the *Magill* case,[16] the Court of First Instance approved the European Commission's Decision[17] that a refusal to license a copyright work is not part of the "specific subject matter" but an exercise of the right in question and therefore subject to the full force of the European Community competition rules under Article 86.[18] The refusal by an undertaking in a dominant position, that is the holder of the copyright in the work, the work being the compilation of program schedules, is therefore an abuse within the meaning of Article 86.[19] This reasoning is difficult for those of us familiar with copyright law since copyright is a bundle of

12. EC TREATY art. 85(i).
13. 1984 O.J. (L 219) 15.
14. EC TREATY art. 85(i).
15. *Id.*
16. *See supra* note 1.
17. Commission Decision of 21 December 1988 Relating to a Proceeding Under Article 86 of the EC Treaty, 1989 O.J. (L 78) 43.
18. EC TREATY art. 86.
19. *Id.*

rights one of which is the *exclusive right of the owner to copy the work*. If the owner is forced to license the copyright, then it is submitted that the essence of that right has been denied—the right has been expropriated. However, where the owner has exercised the right freely by licensing others to reproduce the protected work, then refusal to license a particular party could be regarded as an abuse—a form of discrimination. In this instance, the copyright owner forfeits his right to protection as he has made a conscious decision not to reproduce the work exclusively but to allow others to do so. No doubt the judgment of the ECJ, expected very soon, will clarify the position.