

Brooklyn Journal of International Law

Volume 20

Issue 1

SYMPOSIUM:

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

Article 9

9-1-1993

COMMENTARY

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Recommended Citation

Valentine Korah, *COMMENTARY*, 20 *Brook. J. Int'l L.* 161 (1993).

Available at: <https://brooklynworks.brooklaw.edu/bjil/vol20/iss1/9>

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COMMENTARY

*Valentine Korah**

I am delighted to collaborate with Brooklyn Law School for the first time. Thank you so much for inviting me to comment.¹ Of course, I am delighted to collaborate with the Queen Mary and Westfield College, but that comes more often to a London Professor of law.

I. INTELLECTUAL PROPERTY IS THE ALLY OF COMPETITIVE POLICY

I was particularly delighted to hear Charles Rule state that intellectual property rights are the ally, not the enemy, of competition.² I share his view. If you perceive the transaction *ex ante*, before investment has been made in developing the technology, work or whatever, it is clear that Jefferson was right, and we need protection from “free riders” as an incentive to investment in creative effort. Few firms would consider investment worthwhile unless each could appropriate the results. On the other hand, if the matter is perceived *ex post*, after the investment that led to the right has been made, the right can be seen only as a barrier to entry, since by that time incentives to invest have become irrelevant.

On your side of the Atlantic, Tad Lipsky’s famous speech on the “Nine No-Nos” of patent licensing, given at the beginning of the Reagan Administration, clearly recognized the need for incentives.³ Such notions are embodied in the theories of

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1. On the day of the Symposium there was little time for comments, so I delivered a briefer version of the following notes.

2. Charles Rule, Speech at the *Institute of Advanced Legal Studies* Winter Symposium (Nov. 1, 1993).

3. Abbott B. Lipsky, Special Considerations Concerning International Patent

law and economics which have been commonly taught in North America since the 1950s. In the United Kingdom, it arrived more recently. On the continent of Europe, economics of law is still seldom taught. Usually, it is after students have left law school and are taught by their clients that they come to understand business realities and the importance of law and economics. So it is understandable, although unfortunate, that European scholars and officials should be skeptical about the desirability of intellectual property rights.

II. MULTIPLE AIMS OF ARTICLES 85 AND 86⁴

The competition rules are seen in Europe as serving more goals than just economic efficiency. We have already heard about the importance of market integration, but there is also an interest in freedom of access for competitors, whether or not that increases competition or is an advantage to consumers. For example, the Frieberg School of Economics, just after the Second World War, had a horror of exclusive rights which were perceived, *ex post*, as barring access to markets. This conflicted with the German constitution, which guarantees citizens' access to markets.⁵ This is particularly important, since German law and thinking have been very influential in the Competition Department of the European Commission, DG IV, especially in the 1960s and 1970s.

III. HOSTILITY IN THE 1970S

At the very beginning, in 1962, the European Commission did issue a notice on exclusive patent licenses that was favorable to individual intellectual property rights.⁶ But the first European Commission decisions on intellectual property licensing from 1972 were hostile to many restrictions of conduct if

and Know-How Licensing and Joint Research and Development Activities; Current Antitrust Division Views on Patent Licensing, Address at National Institute on Critical Issues in *International Antitrust and Unfair Competition* (Nov. 5, 1981) in 50 ANTITRUST L.J. 515 (1982).

4. TREATY ESTABLISHING THE EUROPEAN ECONOMIC COMMUNITY, EC TREATY arts. 85-86.

5. GRUNDGESETZ [Constitution] [GG] art. 12 (F.R.G.).

6. See JAMES P. CUNNINGHAM, *THE COMPETITION LAW OF THE E.E.C.* 256 (1973).

the licenses were important to the market—for example, exclusive sales territories with ancillary export bans on other licensees, restrictions on challenging the validity of the patent licensed, strong feedback clauses, and tie-ins.⁷ Throughout this period from the early 1970s until 1984 when Dr. Johannes was responsible for the department dealing with intellectual property in DG IV, the Competition Department of the European Commission, the attitude followed American thinking and was hostile to intellectual property rights. However, Dr. Johannes was succeeded by Signor Guttuso, who is more liberal and understands the need to protect firms that invest from free riders.

IV. CHANGING VIEWS IN THE COMMISSION

The Commission's exemption for patent licensing adopted in 1984⁸ was far more restrictive than that for know-how licenses was in 1989.⁹ Thought is now being given to amalgamating them and making the new regulation wider still. For instance, treating the black-listed clauses, which are currently drafted to exclude the application of the group exemptions, as bad in themselves has been considered, but no longer as preventing the application of the group exemption to other clauses, such as the exclusive territory and associated export bans. Clauses that are currently black-listed may even be made subject to the opposition procedure. If they are, exemption would be obtained under the regulation if the agreement be notified and the Commission does not oppose the exemption within six months.¹⁰ If it will be necessary to enforce the agreement, this provides a complete answer to a European defense based on Article 85(2),¹¹ so it is much more helpful than a comfort letter stating that an agreement merits exemption but that the file is being closed.

7. Davidson Rubber Co., 11 Common Mkt. Rep. (CCH) D52 (1972).

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

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

10. The procedure has been little used until now, largely because it is difficult to avoid a black-listed clause, in which case, the opposition procedure does not apply.

11. EC TREATY art. 85(2).

V. CHANGING VIEWS IN THE COURT

It seems to me that the recent judgments of the Community Court have also become far less hostile to intellectual property rights. In the early cases, the Court was extremely scathing about trademark rights. In *Sirena v. Eda*,¹² for example, the Advocate General said:

Originally, a trade-mark provided the consumer with some guarantee of the quality of a product, but nowadays it is tending more and more . . . to become nothing more than an aid to advertising.

From the human point of view, the debt which society owes to the 'inventor' of the name 'Prep good Morning' is certainly not of the same nature, to say the least, as that which humanity owes to the discoverer of penicillin.¹³

In the second *Hag* case,¹⁴ Advocate General Jacobs quoted these passages and commented that this was an invidious comparison between a trivial mark and an important discovery. He added that:

[A]t least in economic terms, and perhaps also "from the human point of view," trade marks are no less important, and no less deserving of protection, than any other form of intellectual property. They are, in the words of [W.R. Cornish] "nothing more nor less than the fundament of most marketplace competition"

. . . Whereas patents reward the creativity of the inventor and thus stimulate scientific progress, trade marks reward the manufacturer who consistently produces high-quality goods and they thus stimulate economic progress. Without trade mark protection there would be little incentive for manufacturers to develop new products or to maintain the quality of existing ones. Trade marks are able to achieve that effect because they act as a guarantee, to the consumer, that all goods bearing a particular mark have been produced by, or under the control of, the same manufacturer and are therefore likely to be of similar quality

12. Case 40/70, 1971 E.C.R. 69, 1971 C.M.L.R. 260.

13. *Id.* It is interesting to note that this is an unfortunate example as Sir Alexander Fleming did not apply for a patent for the original formulation of penicillin.

14. Case C-10/89, SA CNL-Sucal NV v. Hag GF AG, 1990 E.C.R. 3711, 3 C.M.L.R. 571 (1990).

. . . A trade mark can only fulfill that role if it is exclusive. Once the proprietor is forced to share the mark with a competitor, he loses control over the goodwill associated with the mark¹⁵

The Court followed Francis Jacobs and, after deciding to reconsider its judgment in *Hag I*,¹⁶ said:

Trade mark rights are, it should be noted, *an essential element in the system of undistorted competition* which the Treaty seeks to establish and maintain. Under such a system, an undertaking must be in a position to keep its customers by virtue of the quality of its products and services, something which is possible only if there are distinctive marks which enable customers to identify those products and services. For the trade mark to be able to fulfill this role, it must offer a guarantee that all goods bearing it have been produced under the control of a single undertaking which is accountable for their quality.¹⁷

This is a complete U-turn from the invidious comparison in *Sirena*¹⁸ and the much criticized judgment in *Hag I*.¹⁹ The European Community Court has come closer to the economic thinking in the United States.

The Court seems to be less hostile nowadays also towards copyright. In *Musik Vertrieb Membran v. GEMA*,²⁰ the Court applied much the same rule as in *Merck & Co. v. Stephar BV and Petrus Stephanus Exler*,²¹ but in *Coditel I*,²² it considered that the rules for the free movement of *services* did not prevent the exclusive copyright licensee from restraining a

15. *Id.* at 3731-32.

16. Case 192/73, Van Zuylen v. Hag AG, 1974 E.C.R. 731, 2 C.M.L.R. 127 (1974).

17. Case C-10/89, SA CNL-Sucal NV v. Hag GF AG, 1990 E.C.R. 3711, 3758, 3 C.M.L.R. 571 (1990) (emphasis added).

18. Case 40/70, 1971 E.C.R. 69, 1971 C.M.L.R. 260.

19. *See* Case 192/73, Van Zuylen v. Hag AG, 1974 E.C.R. 731, 2 C.M.L.R. 127 (1974).

20. Joined Cases 55 and 57/80, 1981 E.C.R. 147, 2 C.M.L.R. 44 (1981).

21. Case 187/80, 1981 E.C.R. 2063, 3 C.M.L.R. 463 (1981). *Merck* marks the high point of hostility towards intellectual property rights. The Court gave no reasons for its judgment; it said merely that Merck must take the consequences of its decision to market the drug in Italy. This was a conclusion not a reason.

22. 1980 E.C.R. 881.

cable television company from rediffusing a television program in Belgium.

In *Coditel II*,²³ it went further and stated that the exclusive territories licensed to different distributors did not infringe upon Article 85(1), provided that excessive charges were not possible.²⁴ It extended these judgments in *Warner Bros. v. Christensen*²⁵ to the leasing of disks, although these were clearly goods rather than services, and, as in the *Coditel* cases,²⁶ it referred to the custom of the industry and need for an adequate reward. I wonder whether the *Merck*²⁷ judgment would be followed these days. It is possible to distinguish it, but not on any basic reasoning.

There has been much discussion of the *Magill* case.²⁸ I have no objection to the conclusion, only to the reasoning of the Court of First Instance. In *Keurkoop v. Nancy Kean Gifts*,²⁹

23. Case 262/81, *Coditel v. Cine-Vog Films*, 1982 E.C.R. 3381, 1 C.M.L.R. 49 (1983). I also mentioned the *Maize Seed* judgment, Case 258/78, *Nungesser v. Commission*, 1982 E.C.R. 2015, 1 C.M.L.R. 278 (1983), where the European Court of Justice ruled that an open exclusive license of plant breeder's rights did not, in itself, infringe Article 85(1). An open exclusive license is one in which the licensor agrees not to license anyone else for the territory, nor to exploit the rights there itself. A restriction on a licensee for another area selling within the territory prevents the license from being open, and absolute territorial protection "manifestly" goes beyond the protection that can be exempted under article 85(3). It is difficult to reconcile the parts of the judgment on 85(1) and (3). I use words like "manifestly" when I cannot articulate a reason for an arbitrary decision. The judgment *Coditel II* rules that even absolute territorial protection may not infringe article 85(1).

24. This is an impossible test for a national court to apply. Few films make a profit, and it is the hope of a huge profit on the occasional success that motivates investment in production. The successes are the by-product of the failures. Producers would not invest in the failures if they could tell in advance which they would be. How can a court second guess how profitable successful films should be?

25. Case 158/86, 1988 E.C.R. 2605, 3 C.M.L.R. 684 (1990).

26. See *supra* notes 22-24 and accompanying text.

27. Case 187/80, 1981 E.C.R. 2063, 3 C.M.L.R. 463 (1981).

28. The *Magill* case is a collective reference to three cases: Case T-69/89, *Radio Telefis Eireann v. Commission*, 4 C.M.L.R. 586 (Ct. First Instance 1991); Case T-70/89, *British Broadcasting Corp. v. Commission*, 4 C.M.L.R. 669 (Ct. First Instance 1991); and Case T-76/89, *Independent Television Publications Ltd. v. Commission*, 4 C.M.L.R. 745 (Ct. First Instance 1991). Various criticisms of the Court's reasoning were spelled out by Ronald Myrick in a talk given at Fordham Law School in April 1993. Ronald E. Myrick, *Influences Affecting the Licensing of Rights in a Unitary European Market*, 4 FORDHAM INTELL. PROP., MEDIA & ENT. L.J. 81 (1993).

29. Case 144/81, 1982 E.C.R. 2853, 2 C.M.L.R. 47 (1983).

the Court stated that in the present state of European Community law, before it has been harmonized, it is for national law to define the extent of its intellectual property law, and it ruled that a right to a design that had been found abroad, rather than created, might justify a restraint on imports where the right had not been exhausted although such rights were unusual in that they were granted to those who had not financed any investment.

Nevertheless, there may soon be some limitations to this doctrine. In a somewhat unclear passage in *Terrapin (Overseas) Ltd. v. Terranova Industrie*,³⁰ the Court suggested that a national court might find the doctrine of confusion used in German trademark law was unduly wide, and Advocate General Jacobs made that point far more clearly in *Hag II*.³¹ The doctrine of exhaustion itself, as described by Judge Bellamy,³² limits the scope of national intellectual property rights, save in so far as justified by European Community law. Although the Court insists that it does not undermine the existence of the right but only its exercise, that distinction cannot be drawn by logical analysis and gives the Community Court complete discretion, save at the extremes.

It seems to me that in *Magill*,³³ the Court of First Instance should have stated that there are limits beyond which national law cannot create intellectual property. As Hugh Hansen³⁴ says, there was neither an original creation, nor sweat of the brow to justify an exclusive right in listing. United Kingdom law no longer grants such a right, so Irish law is now probably alone in doing so. I would love to publish a compendium of three excellent books on European Economic Community competition written by Bellamy and Child,³⁵ Nicholas

30. Case 119/75, 1976 E.C.R. 1039, 2 C.M.L.R. 482 (1976).

31. Case C-10/89, SA CNL-Sucal v. Hag GF AG, 1990 E.C.R. 3711, 3 C.M.L.R. 571 (1990).

32. Judge Christopher Bellamy spoke at the symposium in London in the fall, but was unable to submit a paper for publication. David Keeling spoke in Judge Bellamy's place in the spring symposium in New York. For the contents of the Bellamy/Keeling speech, David Keeling, *Intellectual Property Rights and the Free Movement of Goods in the European Union*, 20 BROOK. J. INT'L L. 127 (1994).

33. See *supra* note 28.

34. Hugh Hansen, Remarks at the ESC conference on competition law held in Brussels (Nov. 1993) (Mr. Hansen is a professor at Fordham Law School and did not give a formal talk at the conference.)

35. BELLAMY AND CHILD, COMMON MARKET LAW OF COMPETITION (1993).

Green³⁶ and Barry Hawk.³⁷ Can anyone believe that their refusal to grant me a license would be abusive? Those authors invested both skill and effort.

VI. THE EXTENSION OF ARTICLE 90 TO INTELLECTUAL PROPERTY RIGHTS

Nicholas Green's horror scenario concerns me greatly. I cannot believe that intellectual property rights *will be* abused merely because they *may be* abused.³⁸ That goes far further than the compulsory license in *Magill*³⁹ where the Court of First Instance accepted that it had in fact been abused. Indeed, the television companies now publish combined listings and, through a joint venture, have entered the market Magill TV Guide Ltd. wanted to open. In Europe, there are many industries that are protected by national law, and the Community Court may have been willing to save its citizens from the inefficiency of many nationalized industries, but now that it is being less hostile toward intellectual property rights, I cannot believe that it would do the same to them.

I can see that on a literal reading of Article 90(1),⁴⁰ the holder of an intellectual property right is an undertaking to whom the State has granted an exclusive right. So there is some danger that Nicholas Green is right. Indeed, I raised the same spectre at a conference 18 months ago.⁴¹ I was cheered by the disbelief of an articulate audience. I was told that intellectual property rights had gotten away. In cases of exhaustion, the Court has frequently stated that the existence, as opposed to the exercise, of the right is not subject to the application of the Treaty.⁴²

Thank you, Chairman.

36. NICHOLAS GREEN ET AL., *THE LEGAL FOUNDATIONS OF THE SINGLE EUROPEAN MARKET* (1991).

37. 2 BARRY E. HAWK, *UNITED STATES, COMMON MARKET AND INTERNATIONAL ANTITRUST: A COMPARATIVE GUIDE* (1990).

38. EC TREATY; Case 9260/89, *ERT*, 1991 E.C.R. I-2925, went that far under Article 90 in relation to the exclusive right to televise programs.

39. *See supra* note 28.

40. EC TREATY art. 90(1).

41. This conference was organized by ESC in Cambridge in September 1992.

42. I do not think that is because Article 222 applies to intellectual property rights and not to property in the public sector. Indeed, according to the gossip, the original function of Article 222 was to enable national governments to nationalize their industries. I think the distinction is based on policy.