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LEGAL, COMMERCIAL AND FINANCIAL CONSIDERATIONS IN LICENSING NEGOTIATIONS. US AND EEC ANTITRUST LAWS CONCERNING INTERNATIONAL LICENSING 1/

by

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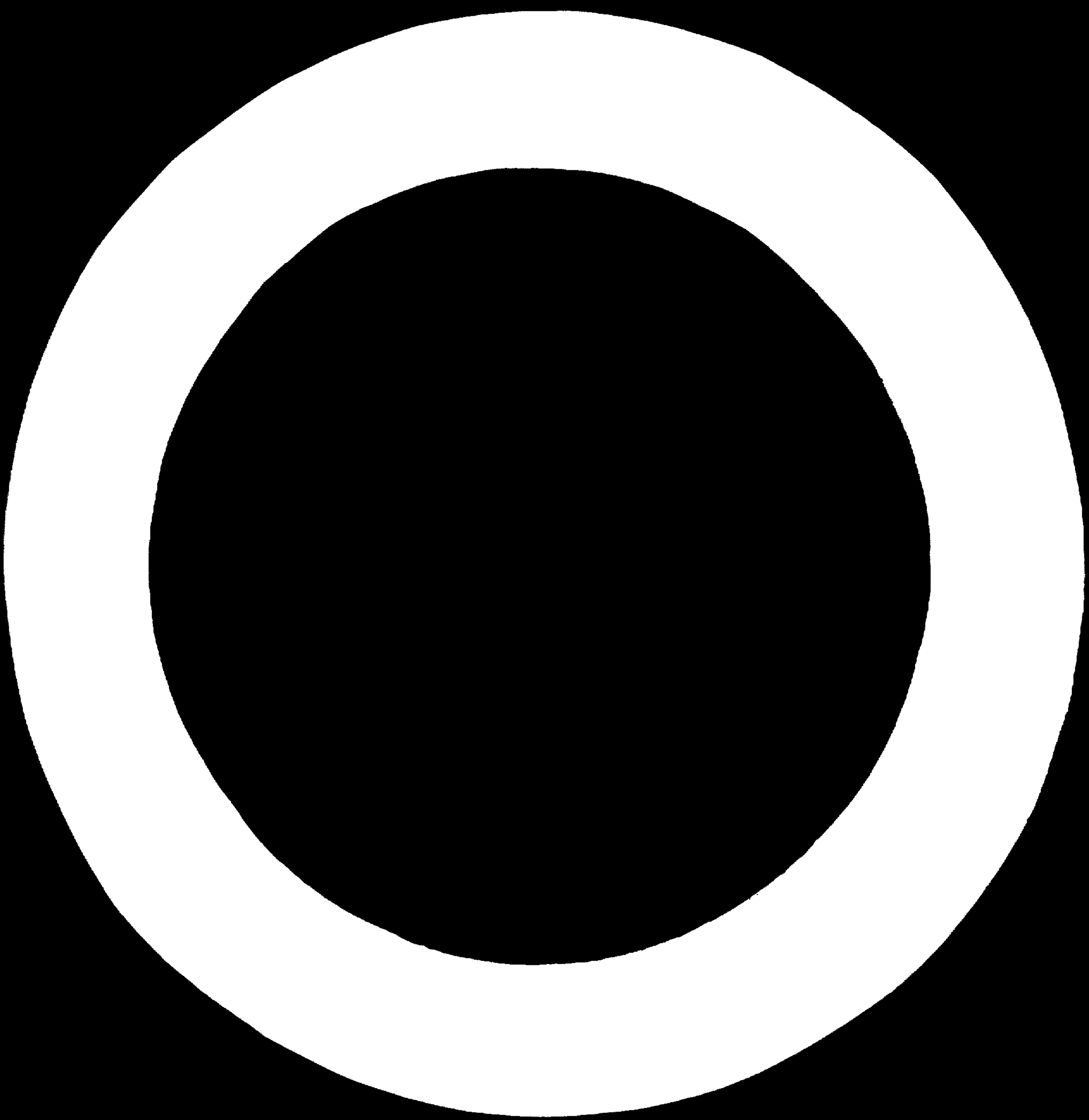

Legal, commercial and financial considerations in licensing negotiations. US and EEC antitrust laws concerning international licensing.

Ever since the end of the Second World War we observe that the growth of technological knowledge plays a more and more important role in the industry everywhere in the world. Moreover, the necessity to develop new rational techniques at an ever accelerated pace leads to a rapidly growing exchange of technical knowledge in the international field. Such exchange of new technical information may help to avoid double work; many tasks in new technological fields, such as space research or atomic energy, require tremendous costs which can no longer be borne by the industry of one nation, and thirdly, there is the large number of developing nations which should participate in every facet of the modern industrial world.

The exchange or the transfer of technical knowledge is possible in various ways. The mere export of goods implies in itself a transfer of technical skills. Engineers and technicians of the firms in the receiving country acquire new information merely by operating new machines. A much more intense exchange or transfer of technical knowledge is brought about where a firm establishes a plant in another country, producing its goods under a new invention provided that the host country has access to the technical know-how and the patented process.

However, both ways to bring goods into other countries often meet with considerable difficulties. There may firstly be trade and tariff barriers or other outright prohibitions, for instancewith regard to the transfer of payments, capital or labour needs, management problems, law and tax difficulties.

Licensing agreements appear to constitute a middle approach to foreign markets, occupying a position between export sales and overseas manufacturing [1]. It is noticeable, that there is a considerable increase in the number of licensing agreements concluded between firms in industrialized countries and firms in developing countries. It is also noticeable that whereas formerly international licensing was a domain of big firms, nowadays medium and small firms have entered this field. The Association of German Machine Builders (Verein Deutscher Maschinenbau-Anstalten e.V. - VDMA) found that, in 1971, more than one fifth of all international licensing agreements were concluded by firms with 300 to 499 employees. The agreements had been concluded by firms in 74 countries in all continents, but mainly in Japan, Great Britain, Spain, the United States, India, Brazil, and France [2]. To give another example, enterprises in Japan concluded 2.500 international licensing agreements in the period from 1950 to 1963, or 1.430 agreements during the years from 1961 - 63, mainly in the

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1) Barnes, Das Lizenzwesen im internationalen Handel, (1968), p. 1; Martin/Grützmacher, Der Lizenzverkehr mit dem Ausland, (4th ed. 1971), p. 9

2) Martin/Grützmacher, op. cit. p. 9

area of electrical engineering, electronics, in the chemical and the petrochemical industries. During the same time exports increased considerably. In 1961 the export of goods manufactured under foreign licenses reached a peak of 2 billion dollars [3].

There are obvious advantages to international patent or know-how licensing agreements, as compared to export or manufacturing abroad. Firstly, licensing is characterized by relatively small investments in comparison with funds required to establish a distribution system for export sales or in acquiring plant and equipment needed for foreign manufacture [4]. Secondly licensing is often regarded as a marketing tool which can very effectively be employed to secure entrance or greater penetration into various foreign markets. This is important because despite of many efforts in recent years to lower or to remove tariffs, government restrictions are still a determining factor in international trade. Thirdly, in granting a licence, a firm not only avoids many difficulties and hazards connected with any financial or business activity in a foreign country, but may have the advantage that its products are being manufactured and marketed by personnel that has been made familiar with production and sale in its own country [5].

However, a number of aspects have to be considered before an international licensing agreement can be

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3) Helmeth in Ergebnisse einer Studientagung im Gottlieb Duttweiler-Institut vom 17. - 19. Mai 1972 (henceforth quoted as Duttweiler), p. 88.

4) Barnes, op. cit., p. 16

5) Barnes, op. cit., p. 17, 18

concluded in order to avoid later mishaps which may lead to considerable difficulties or even to the total failure of the licensing agreement, with the accompanying financial losses.

I.

1. There are, firstly, the legal considerations which have to be taken into account. The law pertaining to international licensing agreements is more complicated than most other sectors of law because it provides for an exchange of technical information across national borders. Consequently, the parties to an international licensing contract have i.a. to apply - and to familiarize themselves with - many foreign legal systems [6]. The difficulties are in part also based on the fact that licensing contracts do not constitute a separate species within the law of contracts in any country. These kinds of agreements may contain so manifold and divers provisions with regard to the kinds of restrictions that it is necessary to treat licensing agreements as conctracts sui generis. Of course, a great number of problems have been settled by legal decisions in this field, but there are still many open questions because the codified laws contain only few express provisions. This is true of all the national laws in the western world, and that fact makes international licensing agreements even more complicated [7]. For instance, legal provisions may differ from one country to another. In some countries a licensee who has obtained an exclusive license has the right to sue third parties who violate the patent; in other

6) v. Beringe, Lizenzverträge mit dem Ausland, Der Betrieb 1957, Beilage 8/57, Heft 18.
7) Haver-Mailänder, Lizenzvergabe durch deutsche Unternehmen in das Ausland (1967), p. 31.

countries this right does not exist. Under German law the licensor may fix the price at which the licensee may sell the manufactured goods on the market (Sec. 20 subsec. 2 no. 2 of the German Act Against Restraints of Competition), while under American law such a provision is, in view of the Line Material and the Huck Manufacturing decisions [8], practically prohibited. The European Commission, again, has thus far not declared its view with regard to such provisions [9], but it is very doubtful whether the European Commission would allow such restrictions .

In addition to licensing regulations there are provisions governed by public law which also pertain to these kinds of agreements, and which concern tax, customs, foreign trade and other regulations.

Thus there may be cases where the turnover and income taxes to be paid by both parties in their respective countries may reach a level which would make a profitable business impossible. However, a great number of countries have concluded double taxation agreements which provide for reductions of the taxes which have to be paid by the parties to a licensing agreement, mostly in the form of either deductions for the taxes which have been paid in the other country, or in the form of a division of the taxes paid between the two countries in question [10].

In the field of foreign exchange controls there is again a wide variety of the legal provisions. Under

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8) U.S. v. Line Material, 333 U.S. 287 (1948); U.S. v. Huck Manufacturing Co., 382 U.S. 197 (1965).

9) The Official Notice of Dec. 24, 1962 does not mention price-fixing provisions in the list of restrictions which are not regarded as violating Article 85 of the EEC-Treaty. On the other hand, that list of restrictive provisions is not exhaustive.

10) See for further details Haver-Mailänder, op.cit. p. 122-159. A table of the countries which have concluded double taxation agreements can be found on p. 138/139.

the German Law Pertaining to Foreign Trade (Außenwirtschaftsgesetz) of Sept. 1, 1961 international licensing agreements are, in principle no longer subject to permission. [There are notification obligations to the Federal Bank (Bundesbank) of royalties from abroad in excess of 500 Deutsche Mark and certain restrictions as to licensing agreements with Eastern Bloc countries which concern war material [11]]. In many other countries there is no similar liberalization in the field of foreign exchange. The transfer of royalties is subject to permission, which is sometimes granted only after an examination whether they are adequate or not [12]. Other countries, including those of the Eastern Bloc, require advance permission for the licensing agreement itself [13].

Further, customs provisions may e.g. apply where a licensor obliges his foreign licensee to supply him with goods manufactured under the licensing agreement abroad, because he may want to sell them in his home country.

Antitrust laws governing international licensing agreements play an ever increasing role. The two probably most important sets of rules, i.e. the antitrust laws of the United States and of the European Communities concerning international licensing, will be handled in the second and third parts of this paper.

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11) Haver-Mailänder, op. cit. p. 160.

12) Those countries include e.g. Argentine, Australia, Chile, France, Greece, Great Britain, Mexico, Sweden, Switzerland, Spain, South Africa; cf. Haver-Mailänder, p. 160.

13) Japan, Yugoslavia, Norway, Austria, Poland, Czechoslovakia, Hungary, the German Democratic Republic and the USSR, cf. Haver-Mailänder, p. 160; cf. further Martin/Grützmacher, op. cit. p. 19 et sequ.

2. Apart from the legal aspects of international licensing agreements, some of which have been mentioned above, there are the commercial aspects involved. The following may be regarded as the most important ones:

a) The choice of the proper partner is certainly the most important point. "A license arrangement is like a marriage" 14). It is the most important task to find the proper partner abroad, and it should be pursued with utmost care. It is necessary, first of all, to ascertain that the licensee has the capabilities to manufacture under the licensed patent or know-how, and that these capabilities continue during the entire period of time for which the licensing agreement has been concluded. If this point is not considered carefully enough, the products which the licensee manufactures may not be of the necessary quality and thus destroy a reputation which the licensor may previously have had in that country, or they may later, during the period of validity of the agreement, deteriorate because, in the course of time, the licensee may loose his interest in the agreement or because he is not willing or able to replace machinery which is necessary for the manufacture of the goods.

Even the best legal provisions in the licensing agreement are no substitutes for the initial careful investigation, because the costs of a suit in a foreign country may be prohibitive, or because the licensee may have become bankrupt.

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14) Siech, Lizenzfertigung im Ausland (1961), p. 35.

b) The choice of the proper patent or know-how to be licensed to an enterprise in another country is most important. Not every know-how or patented knowledge can be licensed into any country. A licensing agreement which concerns very advanced technological knowledge must meet general industrial conditions in which such advanced techniques are applicable. Therefore, it seems necessary to determine first of all whether the protected technical knowledge will be understood and well applied in the receiving country.

Secondly, a firm needs to know which knowledge might or even should be licensed at a given point of time. Thus, a firm is well advised to revise its protected technical knowledge regularly. This is the precondition for an active licensing policy which, of course, has its advantages both for the licensor - in the form of royalties - and the licensees - access to new technical knowledge - and which has furthermore advantages with regard to the advance of our knowledge in general, and to the common good[15].

c) In addition there are other factors, as for instance the political and industrial conditions, as well as the social structure in the foreign country in question, all of which may be said to constitute the "licence climate"[16] in which an agreement would have to function. Any licensing agreement involves - compared with other kinds of agreements - considerably high risks, and these risks are higher in international licensing. The sole method to avoid or at least to minimise these risks is the most careful study of all relevant factors before a licensing contract is concluded.

3) Narrowly connected with the commercial aspects are the financial aspects of international licensing. On the part of the licensor the first reason for the grant of a licence would certainly be in the financial field i.e. that he is able to receive a remuneration in the form of royalties. While this is certainly an important reason there are other motives which may even have priority. Thus, the licensor may have found out that it is cheaper to have a licensee in a foreign country manufacture the goods where e.g. the wages and production costs are lower, and then to export it into other countries, including the licensor's own country. Or else, a licensor may find that it is

15) Siech in Duttweiler, op. cit., p. 80; Martin/Grützmacher, op. cit. p. 11

16) Siech, op. cit. 53

not in line with his production to manufacture certain products for which he has obtained patents, and that, rather than disturbing his production line or leaving valuable new technical knowledge unused, it might be advisable to grant licenses. Financial advantages may be connected with international licensing by assembling funds from the royalties in the country of the licenses which could be used in various ways, as e.g. for reinvestments, purchase of goods or raw materials, research, training etc.

Other financial aspects for the licensor may be the necessity to keep up with his competitors which may already manufacture abroad or are about to do it, or a precaution for times where a domestic production may be hampered or made impossible.

The financial aspects on the part of the licensee may also vary. The most important point is to "buy" access to new technical knowledge which the licensee himself could not have acquired at all or not at that price. Equally, he may want to obtain an advantage over his competitors by virtue of buying rather than developing new technical products or processes. Another financial aspect for entering into a licensing agreement may be a high customs level which forces the licensee to seek means to manufacture in the country rather than import the goods.

It is acknowledged that the developing countries benefit from the process of transfer of technology and know-how through licensing arrangements but some countries have stated after the investigation of the transferred knowledge that it was outmoded inadequate or already used in the country.[16a] The UNCTAD group of experts examined the various restrictive practices with the objective to maximize the benefits from international trade and investment for developing countries. With this objective

16a) Restrictive business practices in relation to the trade and development of developing countries, Report by the ad hoc group of experts, UNCTAD-doc.TD/B/C.2/119 of April 26, 1973 in mind the group adopted a classification in determining the likely adverse or detrimental effects of particular practices on developing countries into categories, category A that is where the restrictions on the basis of knowledge and past experience are likely to have significantly adverse effects in developing countries as well as in developed countries, and category B is where the adverse effects are less clear. The group examined the various restrictive business practices in the context of patent, know-how and trademark licensing arrangements. As to patent licensing arrangements it's list of Category A contains the following practices:

a) restrictions requiring that the licensee does not contest the validity of the patents involved in the licence and any other patents of the licensor,
b) restrictions as to the use of the subject matter of a patent and any unpatented know-how-licence which directly relates to the working of the patent once a patent has expired,
c) restrictions on exports whether or not protected by patents in other markets and
d) the charging of royalties on patents after their expiring.

In the know-how group Category A comprised

a) restrictions on exports to certain markets or permission to export only to certain markets
b) the requirement of prior approval of the licensor for exports and
c) restrictions on the level of production.

The group also inserted restrictions or a prohibition on the use of know-how after the termination or expiry of the contract in question and requirements that the licensee pay royalties during the entire duration of manufacture of a product or the application of the process involved on the A-list.

In connection with the question of restrictive business practices in relation to trademarks the group stated that consumer protection aspects were also involved. In its list as to practices which should not be retained or imposed in the trademark field range the following practices:

a) the prohibition or restriction of exports by the licensee of goods which are covered by a trademark licensing arrangement
b) the tying of the supply of imports of a product bearing a particular trademark to the trademark owner and thereby prohibiting imports from a third party or a licensee
c) the use of protection afforded under the trademark system to restrict a licensee's activities and
d) obligations to use a particular trademark with the know-how supplied.

The group discussed several other practices with a restrictive character which were common to patents, know-how and trademark licensing arrangements. Among those the following practices were classified as coming within Category A

1) restrictions tying the purchase of goods such as raw-materials and equipment to the licensor or a person designated by him
2) requiring the licensee to accept additional patents or know-how not desired by him as a condition of obtaining a licence and requiring the payment of royalties for such patents or know-how
3) higher royalty charges on goods produced for exports vis-a-vis goods for the domestic market
4) the fixing of the price or prices of a product or products manufactured by the licensee

5) restrictions on obtaining patents and know-how or trademarks from other licensors with regard to the sale or manufacture of competing products and
6) obligations to use the distribution channels of the licensor.

For all of you which may assist your various governments in improving licensing regulation and - if the case may be - licensing legislation the report of the United Nations Conference on Trade and Development on Restrictive Business Practices in relation to the trade and development of developing countries and another report which was made by the Committee of Experts on Restrictive Business Practices within the frame of OECD, its title: Restrictive Business Practices Relating to Patents and Licenses[17] are of utmost interest. It was on the basis of this report that on the 22nd of January 1974 the Council of OECD adopted a recommendation concerning action against restrictive business practices relating to the use of patents and licenses. This recommendation runs as follows:

The Council,

Having regard to Article 5 (b) of the Convention on the Organisation for Economic Co-operation and Development of 14th December, 1960;

Having regard to the Resolution of the Council of 5th December, 1961, concerning Action in the Field of Restrictive Business Practices and the Establishment of a Committee of Experts /OECD/C (61) 47 (Final)/;

Having regard to the Recommendation of the Council of 5th October, 1967, concerning Co-operation between Member Countries on Restrictive Business Practices Affecting International Trade /C(67) 53 (Final)/;

Having regard to the Recommendation of the Council of 14th and 15th December, 1971, concerning Action against Inflation in the Field of Competition Policy and, in particular, Section I, paragraph 1, sub-paragraph (i) (c) thereof /C(71)205(Final)/;

[17]) Restrictive Business Practices relating to Patents and Licences, OECD, Paris 1973

Having regard to the Recommendation of the Council of 3rd July, 1973, concerning a Consultation and Conciliation Procedure on Restrictive Business Practices Affecting International Trade /C(73)99(Final)/;

Having regard to the Report by the Committee of Experts on restrictive Business Practices of 11th September, 1972, on Restrictive Business Practices relating to Patents and Licences and, in particular, paragraph 49 therefore /RBP(71)3(2nd Revision)/;

Recognising that it is desirable to scrutinize and remedy the harmful effects of abusive restrictive business practices relating to the use of patents and licences since economic development is dependent on the dissemination of scientific and technological innovation through patents and that by granting licences subject to unjustifiable restrictions firms can use the rights attaching to the patents to exercise excessive economic power;

I. RECOMMENDS to the Governments of Member countries:

1. That they should be particularly alert to harmful effects on national and international trade which may result from abusive practices in which patentees and their licensees may engage, and, in particular, from the following:

(a) when negotiating or operating patent pools or cross-licensing agreements, unjustifiably imposing territorial, quantity or price restrictions or attempting to dominate an industry, market or new industrial process;

(b) by means of territorial restrictions in patent licences affecting international trade, unjustifiably prohibiting exports of patented products or unjustifiably restricting trade in or exports of the patented products to specified areas;

(c) by means of clauses concerning tied sales, obliging the licensee to obtain goods from the licensor or his designated sources, when the tied sales are not justified, for instance, by technical reasons concerning the quality of the goods manufactured under the licence;

(d) by means of grant-back clauses, unjustifiably requiring the licensee to assign or grant back to the licensor exclusively all improvements discovered in working the patents when the effect of this practice is to reinforce the dominant position of the licensor or to stifle the licensee's incentive to invent;

(e) by means of clauses unjustifiably limiting competition, preventing one or more parties to the patent licensing contract from competing with other parties to the contract, or with third persons, in other industrial fields not covered by the licensed patent;

(f) arbitrarily grouping and licensing all patents in a particular field and refusing to grant licences for only some of the patents or using other forms of package licensing when these practices are coercive in character and when the selection of the patents is not negotiated for the convenience of the parties;

(g) contrary to national law, fixing the prices of patented products by means of patent licences.

2. That they should give consideration to the desirability and feasibility of compulsory licensing of patents and, where possible, related know-how as a remedy to restore competition where such patents have been misused contrary to their restrictive business practices law, when such a remedy is not already provided for in their legislation.

3. That they should give consideration to the desirability and feasibility of making available to the competent authorities procedures for the registration of international licensing agreements, when such procedures are not already provided for in their legislation.

II. INSTRUCTS the Committee of Experts on Restrictive Business Practices to keep under review the application of the present Recommendation and to report to the Council when appropriate.

In this first part of the paper the most important legal, commercial and financial considerations in licensing negotiations also with reference to licensing practices vis-a-vis developing countries have been discussed.

We will now discuss in more detail the question, whether and when such agreements violate the Antitrust Laws of the United States of America and of the European Common Market (The EEC).

II.

The roots of Monopoly-law lie in Europe: laws against the abuse of Monopoly power date back into mediaeval time. Proper Antitrust Law has a long standing in the United States, but it has - as a matter of fact - developed within the European nations only aftær World War II.

We find a greater awareness of the free trade problems in European countries in this post-war period; it is seen that restrictions of competition can effectively harm both national and international competition. Consequently, antitrust legislation has emerged in most European countries, for instance in 1945 in France, in 1957 in Germany, in 1960 in Belgium, in the Netherlands in 1956, in Great Britain in 1948, 1956, 1965, 1968 and 1973, in Luxembourg in the 70ies, also in Spain, in Austria, in the whole of Scandinavia, in Ireland, even in Jugoslavia.

Antitrust regulation is of great importance in free trading areas such as the Common Market and the EFTA, for contractual restraints of competition may hamper the achievement of economic unity - one of the main goals of a "COMMON MARKET".

The Antitrust Rules of the United States and those of the Rome Treaty are particularly of interest, the former because of the thorough experiences gained in almost eight decades of continuous application, the latter because it is the first time that Antitrust rules are part of a legislation designed to bring about one Common Market between several sovereign states.

1. In the United States, the development of the Antitrust Law began with the enactment of the Sherman Act in 1890 [17].

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17) Act of July 2, 1890, Chap. 647, 26 Stat. 209, as amended; 15 U.S. Code, Secs. 1 - 8

nnex IV Section 1 of that Act declares every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several states, or with foreign nations, to be illegal.

nnex IV Section 2 provides that any person who shall monopolize or attempt to monopolize or combine or conspire with any other person or persons to monopolize any part of the trade of commerce among the several states or with foreign nations is guilty of a crime. The intent to monopolize may not be inferred from monopoly power thrust upon a business by reason of superior skills, better products, natural advantages, efficiency, low margins of profits or patent and other legal monopolies. What is intended to be prohibited is possession of power to control prices ~~and~~ to foreclose access to the market provided that such power has been obtained, maintained, or used by methods from which an attempt to exercise that power may be presumed. The attempts and combinations or conspiracies to monopolize do not require proof of the possession of power to achieve the desired result. What is required is a finding of the specific intent.

The Sherman Act was later followed by the Clayton and the Federal Commission Acts after it had become evident that the Sherman Act was not a sufficiently shaped tool to cope with the various kinds of restraints of competition.

Annex IV

Section 3 of the Clayton Act [18] declares it unlawful for any person engaged in commerce to lease or to sell goods, whether patented or unpatented, for use, consumption or resale within the United States, or to fix a price charged therefor , or discount or rebate upon, such price, on the condition, agreement or understanding that the lessee or purchaser thereof shall not use or deal in the goods, or other commodities, of a competitor or of competitors of the lessor or seller, where the effect of such lease or sale or such condition, agreement or understanding may be to substantially lessen competition or tend to create a monopoly in any line of commerce.

Annex IV

Under Section 5 of the Federal Trade Commission Act[19], unfair methods of competition in commerce, and unfair or deceptive acts or practices in commerce, are declared unlawful. The three Acts apply equally to commerce among the several states and with foreign nations[20].

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18) Act of Oct. 15, 1914, Chap. 323, 38 Stat. 730, as amended; 15 U.S. Code, Secs. 12-37, 29 U.S. Code, Sec. 52

19) Act of Sept. 26, 1914, Chap. 311, 38 Stat. 717, as amended; 15 U S. Code, Secs. 41-58.

20) Cf. the text of Sec. 1 Sherman Act and Section 1 (2) of the Clayton Act resp. Sec. 4 of the FTC-Act.

These principal provisions of the American antitrust law are also applicable to patent and know-how licensing agreements. American courts and the Federal Trade Commission have, in a long series of cases, dealt with the problems arising from a concurrence between these provisions and the monopoly right which an inventor receives through the grant of a patent. They have made it clear from early cases that this patent right may not be abused to achieve positions which are outside the scope of the patent monopoly.

The doctrine of patent misuse is based on the maxim that "he who comes into equity must come with clean hands". If the plaintiff in an infringement suit is guilty of that conduct which is considered misuse of his patent he will be denied the relief he is seeking. Such conduct consists essentially of subverting patent law policy by seeking to restrain commerce in patented or unpatented articles or patented articles not within the monopoly granted by the patent.

Article 1 Section 8 of the American Constitution provides

> "The Congress shall have power to prompte the progress of science and useful arts by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries".

The Supreme Court of the United States has consistently held that the primary purpose of the American patent laws is not the creation of private fortunes for the owners of patents but is to promote the progress of science and useful arts by holding out a reasonable award to inventors and giving them an exclusive right to their inventions for a limited period to stimulate the efforts of genius. The grant of a patent does not allow the patentee to establish restraints or other practices contrary to the concepts of a free competitive market which do not directly benefit the patentee.

Restrictions which go beyond the scope of the patent are judged by the standards of the antitrust law. In setting limits to the exercise of patent right the courts in recent times have increasingly stressed the point that a patent, through having many of the legal attributes of property, is at the same time a franchise or legal privilege conditioned by a public purpose[21].

The attempts made by American courts to draw a borderline between the interests of the patentee in the monopoly right granted for his invention and the aim of the antritrust laws in the maintenance of free competition are characterized by two different approaches. In the General Electric case[22] the court answered in the affirmative the question whether a patentee who manufactured himself was allowed to fix the selling prices of his licensee in a licensing agreement, stating"that he may do so, provided the conditions of sale are normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly"[23]. The principles of this reasonable reward doctrine apply even to-day, though the decision is questioned.

Wherever it is found that clauses in licensing agreements serve not so much the legitimate interests of the patentee, but are included in order to pursue the aims of the parties to exclude competition as between them, the agreements are considered to be illegal.

While the reasonable reward doctrine may be regarded as the antitrust approach, the other approach is based on the aspects of patent law and employs the

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21) Mercoid Corp. v. Mid-Continent Inc. Co., 320 U.S. 661 at 666 (1944)

22) United States v. General Electric Co. et. al., 272 U.S. 476 (1926)

23) Id. at 490

term "scope of the patent". The Supreme Court stated in the Line Material case[24] that "the precise terms of the grant define the limits of a patentee's monopoly and the area in which the patentee is freed from competition of price, service, quality or otherwise"[25]. Wherever restrictions were found which went beyond that scope of the patent, it was held that such agreements were subject to all the limitations which the general law imposed on them, and that they were not saved by any provision in the patent laws because it related to an invention[26]. The controlling issue therefore is always whether the licensing agreements of the parties were limited to the proper exercise of their legal rights to share their technology, or whether they constituted part of a program among competitors for the illicit allocation of manufacturing and sales territories, prices, quantities, fields of use and the like.

Some examples may show how American Courts distinguished between legal and illegal international licensing agreements:

a) Territorial limitations
   Section 261 of the Patent Law states:
   "The patentee may grant and convey an exclusive right under his patents to the whole or any specified parts of the United States." However, once the patentee or licensee sells the patented product or the product produced by the patented process the purchaser is free of any such restriction and may re-sell or use the product in any part of the United States.

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24) United States v. Line Material Co., 333 U.S. 287 (1948)

25) Id. at 300

26) Mercoid Corp. v. Mid.-Continent Investment Co., 320 U.S. at 666 (1944)

In respect to extraterritorial limitations Deepsouth Packing Co. v. Laitram Co. (Anm. 32 L. ED 2 d 273 of May 1972) seems to give the best advice to the patentee. Here it was decided that "to the degree that the inventor needs protection in markets other than those of this country the wording of 35. U. S. C. 154 and 271 reveal a congressional intent to have him seek it abroad through patents secured in countries were his goods are being used."

In the field of foreign commerce a number of international agreements concerning cross-licensing and pooling were held to be in violation of the Antitrust Laws. It was found that they were emp-loyed to divide world markets, usually reserving to each partici-pating firm its own national market. A drastic example is the National Lead case[27]. The court found more than 60 agreements between 22 manufactures of titanium pigments in a number of countries and between them a very close cooperation which had led to the absolute suppression of competition. Patents and patent applications were promptly interchanged and made available to the others in order to maintain and consolidate the position on the world market. Similarly, in the ICI-case[28] it was found that the defendants had divided the world market with the aim of eliminating competition between them by means of patent licensing agreements. They had claimed that the division of territories was a mere by-product of a legitimate exploitation of valid patents. In the view of the court, however, the

27) United States v. National Lead Co. 63 F. Supp. 513 (S.D.N.Y. 1945); mod. and aff'd, 333 U.S. 319 (1947)

28) United States v. Imperial Chemical Industries, Ltd., 100 F. Supp. 504 & S.D.N.Y. 1951); Deceree in 105 F. Supp. 215 (S.D.N.Y. 1952).

agreements were, irrespective of their per se legality, instruments designed and intented to accomplish a world-wide allocation of markets, and their object was to achieve an unlawful purpose - the illegal restraint of American foreign commerce in violation of Sec. 1 Sherman Act[29].

29) International licensing agreements were considered to be illegal for similar reasons in the cases United States v. Singer Mfg. Co., 374 U.S. 174 (1963) and Zenith Radio Corp. v. Hazeltine Research, Inc. 395 U.S. 100 (1969)

b) In the same manner quantity restrictions which may legally be included in licensing agreements [30] were found to have been employed as means for illegal quota allocations between the patentees. In the case of the Phoebus cartel it was found that the General Electric Co. had formed a world-wide patent pool for the manufacture of bulbs with a number of - mainly - European firms, under which territories had been assigned to the pool members. The court concluded that it was all too evident that the primary purpose of the agreements was to restrict competition in the United States by dividing markets between the U.S. and foreign countries [31].

c) Price fixing was considered to be lawful after the case which was decided in 1926 United States v. General Electric [272 US 476]. But in the series of decisions this power of the licensor to fix the prices at which the licensee may sell the patented products has been more and more questioned. In 1969 the thentime assistant Attorney General McLaren declared at George Washington University: "We believe that when the question is properly brought to the Supreme Court again the Court will completely overrule the General Electric doctrin."

d) As to field-use and manner-of-use limitations the following may be said: The General Talking Pictures Corporation v. Western Electric Comapany Case [305 US 124/1938) approved the field-of-use limitation. Justice Brandeis stated in that decision: "If where a

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30) United States v. E.I. du Pont de Nemours, 118 F. Supp. 41 (D. Del. 1953), aff'd. on other grounds, 351 U.S. 377 (1956)

31) United States v. General Electric Co., 82 F. Supp. 753 (D.N.J. 1959).

patented invention is applicable to different uses the owner of the patent may legally restrict a licensee to a particular field and exclude him from the others." The decision was later narrowed by denying the enforcement of a field of use limitation against a purchaser of a patented product. The doctrin of exhaustion which exhausts the patent monopoly after the first sale of a patented product may also be applicable to the field-of-use limitations. If the General Electric Case which allowed price fixing falls then the General Talking Pictures Case will not stand.

As to the manner-of-use limitations in US v. GLAXO Group Ltd. [302 F. supplement 1, 1969] stated that an agreement for sale of bulk drugs to seller's licensee/distributor with a covenant that the licensee would not resell the drugs in bulk without seller's permission, was a per-se violation of the Sherman Act.

e) As a last example grant-back clauses may be mentioned which are by themselves legal restrictions in patent licensing agreements [32]. In the National Lead case [33] grant-back clauses were found to extend to all of the patents in the titanium pigment industry. The court found that these clauses were part of a scheme to eliminate competition in the industry through the control of the patents and held that agreements creating a worldwide pool of all present and future patents of the participants constituted a violation of Section 1 Sherman Act. While an exchange of present and future patents was not in itself a violation of that Act, it had, in this case, become an instrument of restraint used to continue the mastery of the market which the enterprises had achieved by means

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32) Transparent Wrap Machinery Corp. v. Stokes Smith Co.; 329 U.S. 637 (1947).

33) cf. supra note 28

of the illegal international agreements. In a similar case [34] is was found that defendants had cooperated in obtaining and licensing patents covering the manufacture of glass products so successfully that they had, in 1938, acquired more than 600 patents which were brought into a pool together with about 250 patents of the other pool members. The result was that in that year 94 % of the glass containers manufactured in the United States were made on machinery licensed under the pooled patents.

The above mentioned cases show very clearly that the anti-trust laws constitute effective means to curb attempts to include restrictions in national and international patent licensing agreements which go beyond the scope of the patent respectively beyond the reasonable reward which the licensor may draw from his invention. Freedom of competition may be limited only insofar as it is inherent in the patent monopoly.

It was not the purpose of this paper to describe in detail the extensive jurisdiction of American Courts in patent licensing agreements, in know-how-agreements and in trademark licensing agreements. We had practically to devote a whole seminar to go into all those details; but a conclusionary remark may be allowed.

A licensor in order to avoid collision with the antitrust laws in the United States should refrain from imposing restraints which could generally control the competitive decisions of his licensees. For instance to use package licensing patterns, that means to insist that more patents are taken by the licensee than he desires or to prohibit licensees to enter into competition in specified markets or with other parts, or that they resell at prices and to

34) United States v. Hartford Empire Co., 323 U.S. 386 (1945)

those channels specified by the licensor or that they may be required to purchase certain products from the licensor or persons he may specify. Any of such restraints may be violative to the antitrust laws. Reviewing the bulk of decisions in that field, in the United States one is inclined to remember Justice Brandeis's answer "If you are walking along a precipice no human being can tell how near you can go to that precipice without falling over because you may stumble on a loose stone, you my slip and go over. But anyone can tell you where you can walk perfectly safely within convenient distance of that precipice."

III.
The EEC Rules

The coming into force of the EEC-Treaty in 1958 has brought about far-reaching changes in the law governing licensing contracts. While the different national legal systems had already been facing the problem of delimiting the protection of industrial and commercial property rights and the protection of free competition in such a way as to safeguard the interests of both fields, another dimentsion has been added to this problem by the EEC Community Law: The nine national economies shall be united in one Common Market. This requires as final goal the harmonization of national legal and economic systems with the Community Law.

It is the industrial property rights which are widely based on the so-called principle of territoriality, on which the EEC-Treaty is taking effects. In this regard the impact of the treaty is not limited to enterprises in the member countries but is indirectly taking effect on the licensing practices of business firms outside of the Common Market, viz. if such firms grant licenses under industrial property rights to enterprises in the Common Market. For the rest there will be many agreements concluded in the new member countries that will now also come under the respective rules of the EEC treaty.

A. The Community Law does not contain any detailed rules on industrial and commercial property rights. The prepatory work for the enactment of a European patent- and trade-mark law has advanced considerably but has not come to a conclusion. Moreover, it should be pointed out, that the project of a European patent law does not intend to substitute the national patent laws by a European patent law, but provides for the co-existence of the European and the national patent laws. It is provided that the owners of protected rights may freely choose the law to be applied. This way of solving the problem adds another dimension to the question as to how the conflict between the differing objectives of the patent legislation and the legislation against restraints of competition could be solved. Due to the already mentioned principle of territoriality, which has fundamentally been preserved, the exhaustion of the patent right upon the first sale of a patented article does not affect parallel patents granted in other countries Consequently, the holder of parallel patents is on principle entitled to proceed against any buyer of his product who exports this product to other countries where parallel patents exist.

Annex I

1. The Community Law recognizes as a matter of principle the industrial property rights granted under the national legal systems, when it provides in Article 222 that the EEC-Treaty does not affect the national provisions on the protection of property, including industrial property rights, and when it recognizes in Article 234 the continuation of agreements having been entered into between EEC member countries and other countries; this also includes the Paris Convention. Article 36 is likewise based on the maintenance of industrial and commercial property: notwithstanding the general prohibition of import and export restrictions contained in Articles 30 - 34, Article 36

permits such restrictions "that are justified for reasons.. of industrial and commercial property". But pursuant to Article 36, sentence 2, the restrictions resulting from industrial property rights may not be used as a means of arbitrary discrimination nor as a concealed restriction of the trade between member countries.

2. Thus, industrial property rights are, on the one hand, generally recognized. On the other hand, pursuant to Article 5 (2), the member countries are bound to abstain from any measures that are apt to jeopardize the realisation of the Treaty's objectives. Pursuant to Article 3 (f) one of these objectives is "the establishment of a system to ensure that competition is not distorted in the Common Market. Art. 85 and 86 specifically prohibit all practices restraining competition.

3. Approximately 3.500 licensing agreements have been registered at the Commission's Offices. It has so far rendered decisions in a few individual cases.

ex II

a) In its publication on the treatment of patent licensing contracts of December 1962 the Commission has listed a number of contract stipulations which, in its opinion, should be excluded from the prohibition in Art. 85 (1).

In the opinion of the Commission Art. 85 (1) is, however, only inapplicable to such agreements insofar as no patent pools, cross-licensing or multi-parallel licensing is involved.

ex III

b) A further clarification has been brought about by Regulation No. 67/67 on the application of Art. 85 (3) of the Treaty to specified categories of exclusive dealing agreements. Under this Regulations the Commission under certain conditions generally exempts exclusive dealing agreements to which only two enterprises are parties. This exemption is inapplicable, however, if parallel imports are impeded, particularly "where the contracting parties exercise industrial property rights in a way to prevent dealers or consumers from obtaining products covered by the contract, properly marked or marketed, in other parts of the Common Market, or from selling them in the territory covered by the contract (Art. 3 b No. 1 of the Regulation No. 67/67)."

B. 1. Notwithstanding this clarification, so far four licensing agreements have been brought before the European Court of Justice for a decision as to their compatibility with the Community Law. In the Grundig/Consten case [35] appeal had been lodged against a decision of the Commission; the three other cases - Parke, Davis [36], Sirena v. Eda [37] and Deutsche Grammophon v. Metro [38] were actions for injunction before national courts which requested the European Court of Justice for preliminary decisions on matters of Community law.

Annex VI A new case is pending before the European Court of Justice The decision in that case Centrapharm v. Sterling Drug Incorp. case Nr. 15 - 74 and 16 - 74 will be of greatest importance for the development of patent and trademark law within the Community [39].

a) The Grundig case concerned the distribution system of the German producer of electrical appliances, Grundig, whose sole importer for France - Consten - enjoyed absolute territorial protection. In a supplementary agreement Consten was authorized to have the trade mark GINT (GRUNDIG INTERNATIONAL) registered in France in its own name. All

35) Cases 56 and 58/64, report vol. XII, p. 321= Guide to Legislation on Restrictive Business Practices,OECD, Paris (in the following: Guide), E.E.C. 3.0 No. 2.
36) Case 24/67, report vol. XIV, p. 85 = Guide E.E.C. 3.0 No. 6.
37) Case 40/70 =Guide E.E.C. 3.0 No. 8
38) Case 78/70, decision of June 8,1971=Guide E.E.C.3.0. No. 9
39) E.E.C. Official Gazette 9.4.74 No. C 41/9 -11

appliances made by Grundig bear this trade mark. Consten had agreed to retransfer the registered trade mark with all pertinent rights and duties to Grundig, or to abandon it as soon as it ceased to be the sole agent for Grundig.

The Commission held that the exclusive distributorship and the supplementary agreement on the registration and use of the trade mark GINT constituted a violation of Art. 85 (1) which could not be exempted under Art. 85 (3). The European Court of Justice upheld the decision of the Commission.

The decisive point for the European Court of Justice was that Consten did not claim an industrial property right originally owned by it but one that it had acquired by way of agreement, the availment of which right for the sake of obstructing parallel imports the Court considered to be abusive. The conflict between the safeguarding of industrial property rights, on the one hand, and of the enforcement of the Community system of competition, on the other, has been solved by the Court by distinguishing between the e x i s t e n c e of the industrial property right, which remains unaffected, and the e x e r c i s e of such right, which may come under the rules of competition of the Treaty.

b) These principles have been confirmed by the European Court of Justice in its decision in the Parke, Davis[40] case. The European Court of Justice emphasized in this case that the existence of a patent right is solely a matter governed by the national law of the respective country, and that only the exercise of these rights may become subject to the Community law. The court added that since "the rules relating to the protection of industrial

40) Parke, Davis &Co. v. the Probel, Reese, Beintema-Interpharm, and Cantrafarm companies; Judgment of the European Court of Justice, Case No. 24/67, CCH Common Market Reporter para 8054 (Febr. 29, 1968).

property have not yet been rendered uniform within the framework of the Community, the national scope of industrial property protection and the differences between the laws in this matter are likely to create obstacles both to the free movement of patented products and to competition within the Common Market".[41)]

c) In the Sirena [42)] case the European Court of Justice went several steps further. As a matter of fact, some controversies exist as to the bearing of this decision. These controversies are last not least attributable to the special features of the case.

In this decision the European Court of Justice emphasized in making reference to Art. 36 of the EEC-Treaty and Regulation No. 67/67 that industrial property rights should not be abused in a way as to bring about an absolute territorial protection.

41) Id. at 7825, 7826. The German Federal Supreme Court followed these arguments in its decision of Febr. 29, 1968 in the "Voran" case; 49 Entscheidungen des Bundesgerichtshofes in Zivilsachen 331

42) Sirena GmbH v. Eda GmbH et al.; Judgment of the European Court of Justice, Case No. 4o/70 (Febr. 18, 1971).

The Court further reasoned:

"The trade mark law as a legal institution cannot in itself meet the pre-requisites of an agreement or a concerted practice in the meaning of Article 85 (1). But the exercise of the rights thereunder may be subject to the prohibition contained in the relevant provisions of the Treaty as soon as it has been found that they are the object, means or consequence of a cartel agreement. If the right to use a certain trade mark is exercised in one or several member countries by means of transfers to enterprises, it must be examined, therefore, in any individual case whether such an exercise does or does not meet the pre-requisites of a prohibition under Art. 85.

This may particularly apply, where trade mark owners or any persons to whom they have transferred the right to use the trade mark enter into agreements which offer the possibility of preventing imports from other member countries. If the simultaneous transfer of national trade marks, which protect the same article, to several users effects the restoration of unsurmountable barriers between the member countries, this may be regarded a practice which impairs the trade between member countries and interferes with the competition in the Common Market." 43)

In analogy to the preceding decisions, the European Court of Justice distinguishes again between the existence and the exercise of a right, whereby the exercise may come into the scope of application of Art. 85 (1) as soon as it is the object, means or consequence of a cartel agreement. It remained unclear, however, whether and on the basis of which facts the Court assumed the existence of a cartel

43) Guide E.E.C. 3.0.No.8

agreement. On the one hand, it has not been made quite clear, whether the transfer of trade marks will only be subject to the application of Art. 85 if they are a constituent part of a wider contract system, as e.g.. in the Grundig/Consten case, or whether parallel agreements for the transfer of trade marks, which are concluded between several firms, are in themselves sufficient.[44] In the Sirena case it is questionable, on the other hand, whether Sirena had actually claimed a contractually authorized use of the trade mark, or whether the respective trade marks had not meanwhile become the o r i g i n a l property of Sirena after the contractually transferred trade mark had expired. It was just from the latter point of view that the decision stimulated criticism.[45]

d) The last decision by the European Court of Justice rendered on <u>June 8, 1971,</u>[46] deals with the right of distribution enjoyed by German record manufacturers on the basis of their quasi-copyright pursuant to Section 85 of the German Copyright Act.

The European Court of Justice did not further discuss the question whether Art. 85 (1) had been violated. It only stated that the exercise of an exclusive right of distribution might come under the prohibition laid down in the above rule whenever it proved to be the object, means, or consequence of a cartel agreement causing a division of the Common Market.

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44) Deringer, Urteilsanmerkung in AWD 1971, p. 180

45) Cf. e.g. Völp, WRP 1971, Heft 7

46) Deutsche Grammophon GmbH v. Kommanditgesellschaft Metro - SB - Großmärkte; Judgment of the European Court of Justice, Case No. 78/70 (June 8, 1971)

As regards Art. 86, the European Court of Justice repeated its point of view, formerly held in the Parke, Davis and Sirena cases, that the use of an exclusive right alone does not allow to assume the existence of a market-dominating position. Nor does the difference between the fixed price and the price for the re-imported product allow the inference about an abuse, although it may be an indication of such an abuse if the difference is great and can not otherwise be explained by reasons of fact .
The Court stated also, that it constituted a violation of the Treaty [47], if the owner of a copyright or of a related exclusive right tried to prevent the sale of goods on the domestic market which had, prior to that sale, been distributed by him or with his consent in another member country.

This decision has caused considerable concern. In fact, this was the first time the European Court of Justice decided that the exercise of an industrial property right could not only be limited by Art. 85 or 86, but that such restriction was to be derived from the general purposes of the EEC Treaty. This development of the law was, however, to be expected after the Court had underlined the general purposes of the Community laws in its decision in the Sirena case where it had also been rather doubtful whether the trade-mark right was exercised on the basis of a cartel agreement.

47) At this point the Court made reference to Art. 36 instead of Art. 85. Art. 36 has earlier been mentioned in the Sirena case, cf. p. 32

2. Finally, the decisionsof the European Court of Justice as to the perceptibility of a restriction are also important for the assessment of licensing agreements. The wording of Art. 85 (1) makes no difference as to the intensity of a restriction of competition. However, in its decisions on exclusive dealing agreements the European Court of Justice emphasized that Art. 85 (1) is only applicable to perceptible restrictions.[48)]

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48) Case 5/69 - "Völk v. Verwaecke" and "Konstant"; case 1/71 - "Cadillon v.. Höss" ABLEG Nr. C 76, p. 9 of July 27, 1971. ".. In order to fulfill the conditions of Art.. 85 of the Treaty, an agreement first has to be likely to affect trade among the member countries adversely. This criterion is met if, on the basis of a whole set of objective legal or factual circumstances, it is foreseeable with sufficient probability that the agreement, either directly or indirectly, influences trade among the Member countries actually or potentially in a manner detrimental to the achievement of the objective of a uniform inter-state market.

Furthermore, the prohibition laid down in Art. 85 (1) is only applicable where the agreement has the purpose or the effect of preventing, restricting or distorting competition within the Common Market. In assessing whether these conditions are fulfilled, the factual framework within which the agreement had been concluded has to be considered. It is possible that an exclusive dealing agreement, even if absolute territorial protection is provided for, may have no adverse effects on the achievement of the objective of a uniform inter-state market due to the weak position held by the parties on the market for the products concerned in the protected territory. This applies even more where such agreement prohibits neither parallel imports by third parties into the protected area nor the re-export of the products concerned by the licensee.

It is, however, up to the national courts to examine whether these conditions are met in each single case.

Should the agreement come under the prohibition laid down in Article 85 (1), it would also have to be examined whether Regulation No. 67/67 of the Commission relating to group exemption may affect unnotified agreements of this kind.

This jurisdiction may also be extended to licensing agreements and should apply analogously even where the exercise of an industrial property right is not restricted under Art. 85 but by the general principles of the EEC Treaty.

3. The attempt to draw conclusions from the decisions of the European Court of Justice is rather questionable.

   a) The essential rules to be followed by the European Court of Justice are Art. 5, 36 and 85, 86 as well as the establishment of a system of undistorted competition, all of which do not distinguish among the various industrial property rights. In the decisive parts of its decisions, the European Court of Justice does not refer to the trademark, the patent etc. but generally to industrial and commercial property and/or industrial property rights. For this reason it may be assumed that the conclusions of the European Court of Justice are applicable not only to the property right involved in the particular case in hand but to all industrial property rights.

   b) It is conspicuous that all decisions make a difference between the existence of the rights which is guaranteed, and the exercise of the rights, which may be restricted. This formula seems convenient and convincing but it conceals the problem. For distinguishing the concept of existence from that of exercise does not yet mean that the contents of the two terms are delimitated against each other. In addition, the content of one concept can hardly be defined without referring to the other. A right whose existence is guaranteed but which cannot be exercised is not only largely useless in practice but also changes its content.

After this review of the decisions by the European Court of Justice in this field a few decisions rendered by the Commission shedding additional light on this difficult and controversial theme shall be mentioned. These are the following:

1. "Burroughs/Delplanque" and "Burroughs/Geha-Werke"
   (IV/5400 and IV/5405)
   Decisions of December 22, 1971
   (Official Gazette No. L 13/50 and 53 of January 17, 1972
   = Guide E.E.C. 3.1 No. 37
   Negative clearance

2. "Davidson Rubber Co." (IV/17.545, inter alia)
   Decision of June 9, 1972
   (Official Gazette No. L 143/31 of June 23, 1972
   = Guide E.E.C. 3.1 No. 40
   Negative clearance

3. "Raymond/Nagoya" (IV/26.813)

   Decision of June 9, 1972
   Official Gazette No. L 143/39 of June 23, 1972
   = Guide E.E.C. 3.1 No. 41
   Negative clearance

To 1. As to the Burroughs decisions:

The Commission stated that an exclusive licence to manufacture may constitute a restraint of competition coming under the prohibition laid down in Article 85 (1) of the Treaty of Rome. In the above individual cases, however, the potential restraint of competition was not considered to be appreciable. Either licensee, the Commission stated, held only a small share of his home market, and the licensing agreements concluded by Burroughs with Common Market firms left both licensor and licensees free to sell the products throughout the Common Market. The other obligations accepted by the licensor and the licensees did not seem to imply restraints of competition.

To 2. Davidson Rubber Co.

This decision concerned several patent and know-how licensing agreements for the exclusive manufacture of seamless armrests and bolsters for motor cars. The agreements were held by the Commission to come under Article 85 (1) of the Treaty of Rome because the licensor, by granting exclusive licences, was restricted from granting further licences and third parties would thereby be prevented from applying the process concerned within the Common Market. Exemption was, however, granted by the Commission after the clauses requiring the licensees in the EEC not to export products manufactured under the Davidson process into other EEC member countries had been cancelled.

To 3. Raymond/Nagoya

This decision concerned a licence granted by the German subsidiary of the French company Raymond to the Japanese company Nagoya for the production in Japan of plastic fixtures used in the manufacture of cars under a process developed by Raymond. Nagoya is not allowed to export the products concerned - which are not standardised but are specifically developed for each model of cars - to the Common Market unless they are built into Japanese cars. In this case, the Commission considered that competition within the Common Market was not affected since it appeared unlikely that the fixtures supplied by Nagoya would be sold to the Common Market while the same products could be easily obtained direct from Raymond.

IV.

Some concluding remarks

Attention is frequently drawn to the contrasting aims of patents policy and competition policy, the one tending at first sight to create monopolies, while the other seeks to combat them. In fact, there is no necessary conflict between patents policy and competition policy provided the fundamental objectives of the two systems are properly expressed. A patents policy intended to promote research and the practical application of inventions in the general interest is fully in harmony with competition policy, provided that the exclusive rights conferred by a patent are exploited to work the invention in accordance with patents law and not unduly to limit competition.

From the point of view of the underlying principles of patent and restrictive business practices laws, the original conception of the monopoly granted to an inventor as the inventor's right to absolute ownership of his work, has gradually been superseded by the public interest aspects of the invention.

It is clear that the control of restrictive business practices relating to patents and licences is increasingly necessary since economic development is dependent on progress in science and technology and today most enterprises apply research and development policies. Patents can ce powerful weapons in market competition and large firms with a proliferation of patents can exert an undue influence on the market. By granting or refusing licences to other firms or by granting licences subject to burdensome restrictions, firms can use the rights attaching to the patent not only to develop and disseminate new knowledge but also to exercise excessive economic power.

The danger is greater today when very complex technology is required for industry and inventions may have application in various fields. Basic patents of broad scope covering significant inventions have still been granted in recent times. The amount of commerce, national and international, affected by patent and technology licensing runs into millions of dollars yearly. A large company, or particularly a combination of large companies, holding hundreds or thousands of patents relating to important technology may be able to exercise dominance in an industry and subject it to excessive conditions or royalties. The tremendous number of patents held by large companies may, in itself, prevent a testing of the validity of the patents in the courts. Industry development may well be retarded by abuse of patents. The development of industries of certain countries may be adversely affected by territorial restrictions imposed by combinations of patent holders. For all of these reasons it is necessary today that countries pay more attention to the problems raised by restrictions relating to patents and licences and to apply the provisions of their restrictive business practices legislation more systematically than in the past.

A national enforcement agency will be less and less able to proceed against the partners of international agreements because the more agreements come into existence, the greater are the chances that necessary evidence is stored in the vaults of enterprises in foreign countries. Thus the need for better cooperation between the national authorities in this field will become more and more obvious. An important step in that direction was certainly the Recommendation of the Organization for Economic Co-operation and Development relating to restrictive practices in connection with patents and licences which I mentioned. In this Recommendation the Member Countries have been asked, as you will recall, to be "particularly alert to harmful effects on national and international trade which may result from abusive practices in which patentees and their licensees may engage" and to report to the Council when appropriate. It can only be hoped that this recommendation develops into an effective instrument to proceed against international restraints of competition. Of course, the Recommendation can only be a first step on this way which will hopefully one day lead to an international convention in which the signatories oblige themself to cooperate in this field.

Annexes to paper presented by Professor Dr.Günther

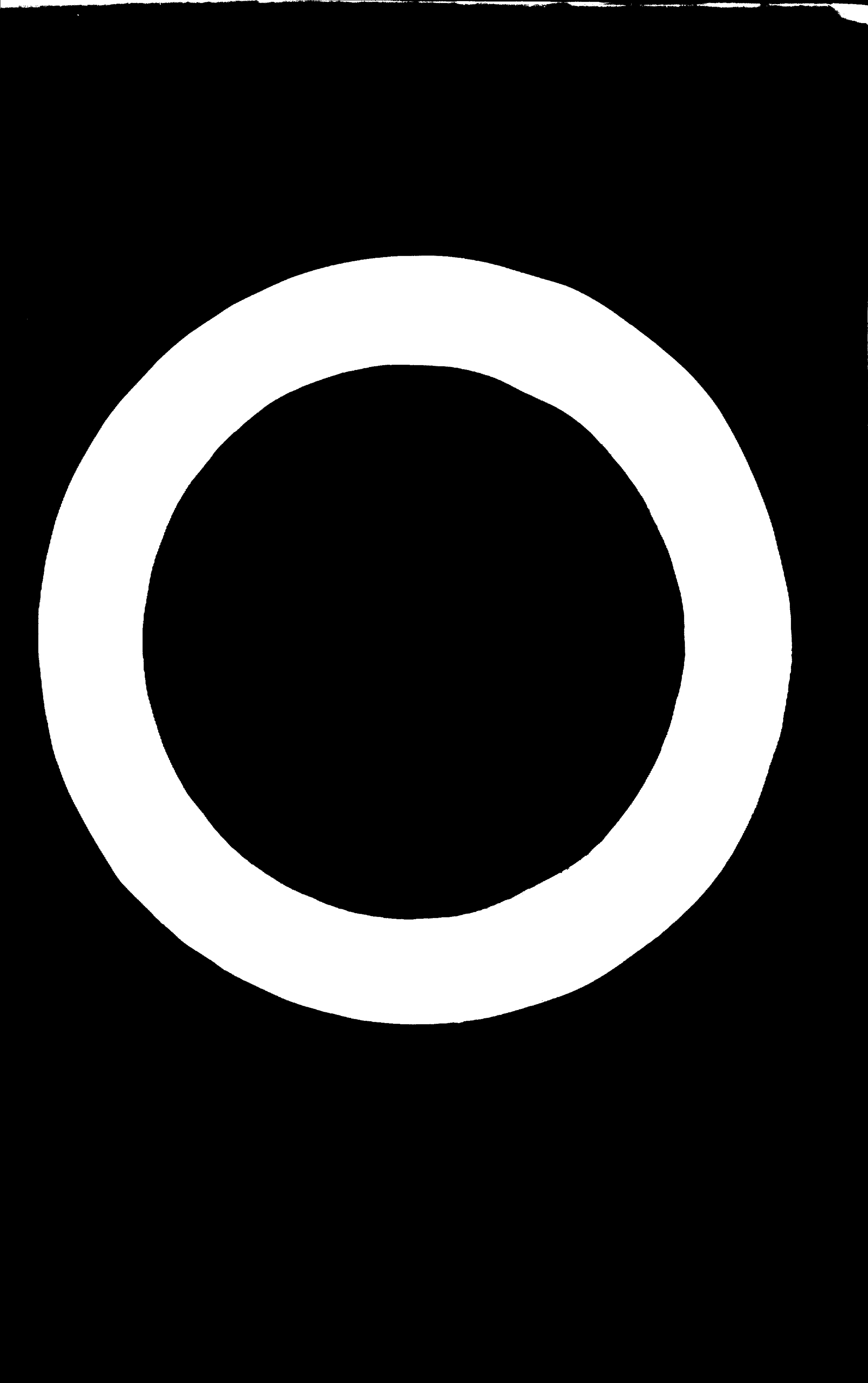
I. EEC-Treaty
Art. 3 f., 5, 36, 37, 85, 86, 87, 222, 234

II. Announcement of the EEC-Commission on Patents and Licences of December 24th, 1962

III. Regulation No. 67/67 of the EEC-Commission on Exclusive Dealing Agreements of March 25th, 1967

IV. Sherman Act Section 1 and 2, Clayton Act Section 3 and 7, Federal Trade Commission Act Section 5

V. German Act against Restraints of Competition
Section 20 and 21
Section 22 (2 versions: as before the 2nd amendment to the A.R.C. and as amended)



ARTICLE 3 EEC-Treaty

For the purposes set out in Article 2, the activities of the Community shall include, as provided in this Treaty and in accordance with the timetable set out therein:

(*a*) the elimination, as between Member States, of customs duties and of quantitative restrictions on the import and export of goods, and of all other measures having equivalent effect;

(*b*) the establishment of a common customs tariff and of a common commercial policy towards third countries;

(*c*) the abolition, as between Member States, of obstacles to freedom of movement for persons, services and capital;

(*d*) the adoption of a common policy in the sphere of agriculture;

(*e*) the adoption of a common policy in the sphere of transport;

(*f*) the institution of a system ensuring that competition in the common market is not distorted;

(*g*) the application of procedures by which the economic policies of Member States can be coordinated and disequilibria in their balances of payments remedied;

(*h*) the approximation of the laws of Member States to the extent required for the proper functioning of the common market;

(*i*) the creation of a European Social Fund in order to improve employment opportunities for workers and to contribute to the raising of their standard of living;

ARTICLE 5 EEC-Treaty

Member States shall take all general or particular measures which are appropriate for ensuring the carrying out of the obligations arising out of this Treaty or resulting from the acts of the institutions of the Community. They shall facilitate the achievement of the Community's aims.

They shall abstain from any measures likely to jeopardise the attainment of the objectives of this Treaty.

ARTICLE 36

The provisions of Articles 30 to 34 shall not preclude prohibitions or restrictions on imports, exports or goods in transit justified on grounds of public morality, public policy or public security; the protection of health and life of humans, animals or plants; the protection of national treasures possessing artistic, historic or archaeological value; or 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.

ARTICLE 37

1.. Member States shall progressively adjust any State monopolies of a commercial character so as to ensure that when the transitional period has ended no discrimination regarding the conditions under which goods are procured and marketed exists between nationals of Member States.

The provisions of this Article shall apply to any body through which a Member State, in law or in fact, either directly or indirectly supervises, determines or appreciably influences imports or exports between Member States. These provisions shall likewise apply to monopolies delegated by the State to others.

2. Member States shall refrain from introducing any new measure which is contrary to the principles laid down in paragraph 1 or which restricts the scope of the Articles dealing with the abolition of customs duties and quantitative restrictions between Member States.

3. The timetable for the measures referred to in paragraph 1 shall be harmonised with the abolition of quantitative restrictions on the same products provided for in Articles 30 to 34.

If a product is subject to a State monopoly of a commercial character in only one or some Member States, the Commission may authorise the other Member States to apply protective measures until the adjustment provided for in paragraph 1 has been effected; the Commission shall determine the conditions and details of such measures.

4. If a State monopoly of a commercial character has rules which are designed to make it easier to dispose of agricultural products or obtain for them the best return, steps should be taken in applying the rules contained in this Article to ensure equivalent safeguards for the employment and standard of living of the producers concerned, account being taken of the adjustments that will be possible and the specialisation that will be needed with the passage of time.

5. The obligations on Member States shall be binding only in so far as they are compatible with existing international agreements.

6. With effect from the first stage the Commission shall make recommendations as to the manner in which and the timetable according to which the adjustment provided for in this Article shall be carried out.

ARTICLE 85

1. The following shall be deemed to be incompatible with the Common Market and shall hereby be prohibited: any agreement between enterprises, any decisions by associations of enterprises and any concerted practices which are likely to affect trade between the Member States and which have as their object or result the prevention, restriction or distortion of competition within the Common Market, in particular those consisting in:

(a) the direct or indirect fixing of purchase or selling prices or of any other trading conditions;

(b) the limitation or control of production, markets, technical development or investment;

(c) market-sharing or the sharing of sources of supply,

(d) the application to parties to transactions of unequal terms in respect of equivalent supplies, thereby placing them at a competitive disadvantage; or

(e) 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.

2. Any agreements or decisions prohibited pursuant to this Article shall be null and void.

ARTICLE 86

To the extent to which trade between any Member States may be affected thereby, action by one or more enterprises to take improper advantage of a dominant position within the Common Market or within a substantial part of it shall be deemed to be incompatible with the Common Market and shall hereby be prohibited.

Such improper practices may, in particular, consist in:

(a) the direct or indirect imposition of any inequitable purchase or selling prices or of any other inequitable trading conditions;

(b) the limitation of production, markets or technical development to the prejudice of consumers;

(c) the application to parties to transactions of unequal terms in respect of equivalent supplies, thereby placing them at a competitive disadvantage; or

(d) 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.

3. Nevertheless, the provisions of paragraph 1 may be declared inapplicable in the case of:

- any agreements or classes of agreements between enterprises,
- any decisions or classes of decisions by associations of enterprises, and
- any concerted practices or classes of concerted practices which contribute to the improvement of the production or distribution of goods or to the promotion of technical or economic progress while reserving to users an equitable share in the profit resulting therefrom, and which:

(a) neither impose on the enterprises concerned any restrictions not indispensable to the attainment of the above objectives;

(b) nor enable such enterprises to eliminate competition in respect of a substantial proportion of the goods concerned.

ARTICLE 87

1. Within a period of three years after the date of the entry into force of this Treaty, the Council, acting by means of a unanimous vote on a proposal of the Commission and after the Assembly has been consulted, shall lay down any appropriate regulations or directives with a view to the application of the principles set out in Articles 85 and 86.

If such provisions have not been adopted within the above-mentioned time-limit, they shall be laid down by the Council acting by means of a qualified majority vote on a proposal of the Commission and after the Assembly has been consulted.

2. The provisions referred to in paragraph 1 shall be designed, in particular:

(a) to ensure observance, by the institution of fines or penalties, of the prohibitions referred to in Article 85, paragraph 1, and in Article 86;

(b) to determine the particulars of the application of Article 85, paragraph 3, taking due account of the need, on the one hand, of ensuring effective supervision and, on the other hand, of simplifying administative control to the greatest possible extent;

(c) to specify, where necessary, the scope of application in the various economic sectors of the provisions contained in Article 85 and 86;

(d) to define the respective responsibilities of the Commission and of the Court of Justice in the application of the provisions referred to in this paragraph; and

(e) to define the relations between, on the one hand, municipal law and, on the other hand, the provisions contained in this Section or adopted in application of this Article.

ARTICLE 222

This Treaty shall in no way prejudice the system existing in Member States in respect of property.

ARTICLE 234

The rights and obligations arising from agreements concluded before the entry into force of this Treaty between one or more Member States on the one hand, and one or more third countries on the other, shall not be affected by the provisions of this Treaty.

To the extent that such agreements are not compatible with this Treaty, the Member State or States concerned shall take all appropriate steps to eliminate the incompatibilities established. Member States shall, where necessary, assist each other to this end and shall, where appropriate, adopt a common attitude.

In applying the agreements referred to in the first paragraph, Member States shall take into account the fact that the advantages accorded under this Treaty by each Member State form an integral part of the establishment of the Community and are thereby inseparably linked with the creation of common institutions, the conferring of powers upon them and the granting of the same advantages by all the other Member States.

Annex II/1
Announcement on patent licence agreements (Dec. 24, 1962)

2. Announcement on patent licence agreements[1]

I. On the basis of the facts known at present, the Commission considers that the following clauses in patent licence contracts are not covered by the prohibition laid down in Article 85, paragraph 1, of the Treaty:

A. Obligations imposed on the licensee which have as their object:

1. the limitation to certain of the forms of exploitation of the invention which are provided for by patent law (manufacture, use, sale);

2. the limitation:

(*a*) of the manufacture of the patented product,

(*b*) of the use of the patented process,

to certain technical applications;

3. the limitation of the quantity of products to be manufactured or of the number of acts constituting exploitation;

4. the limitation of exploitation:

(*a*) in time
(a licence of shorter duration than the patent),

(*b*) in space
(a regional licence for part of the territory for which the patent is granted, or a licence limited to one place of exploitation or to a specific factory),

(*c*) with regard to the person
(limitation of the licensee's power of disposal, e.g. prohibiting him from assigning the licence or from granting sub-licences);

1/ O.J. of 24.12.1962, p. 2922/62.

B. Obligations whereby the licensee has to mark the product with an indication of the patent;

C. Quality standards or obligations to procure supplies of certain products imposed on the licensee – in so far as they are indispensable for the technically perfect exploitation of the patent;

D. Undertakings concerning the disclosure of experience gained in exploiting the invention or the grant of licences for inventions in the field of perfection or application; this however applies to undertakings entered into by the licensee only if those undertakings are not exclusive and if the licensor has entered into similar undertakings;

E. Undertakings on the part of the licensor:

1. not to authorize anyone else to exploit the invention;

2. not to exploit the invention himself.

II. This announcement is without prejudice to the appraisal from a legal point of view of clauses other than those referred to at I(A) to (E).

Moreover a general appraisal does not appear possible for agreements relating to:

1. joint ownership of patents,
2. reciprocal licences,
3. parallel multiple licences.

The appraisal of the clauses referred to at I(A) to (E) is confined to clauses of a duration not exceeding the period of validity of the patent.

III. The object of this announcement is to give enterprises some indication of the considerations by which the Commission will be guided in interpreting Article 85, paragraph 1, of the Treaty and in applying it to a number of clauses often found in certain patent licence contracts. So long as and in so far as such contracts do not contain restrictions other than those resulting from one or more of the clauses mentioned above, the Commission considers that they are not affected by the prohibition laid down in Article 85, paragraph 1. Generally speaking this specific information will remove the incentive for firms to obtain a negative clearance for the agreements in question, and will make it unnecessary to have the legal position established by an individual decision by the Commission; moreover there is no longer any need to notify agreements of this nature.

This announcement is without prejudice to any interpretation that may be made by other competent authorities and in particular by the courts.

A decision is to be made later on the question of the application of Article 85, paragraph 1, of the Treaty to clauses of the types mentioned above which are contained in contracts relating to joint ownership of patents, to the grant of reciprocal licences or parallel multiple licenses, to agreements relating to the exploitation of other industrial property rights or of creative activities not protected by law and constituting technical improvements, and to any clauses other than those mentioned above.

This announcement is without prejudice to the interpretation of Article 4, paragraph 2, sub-paragraph 2(*b*) of regulation No. 17.

Annex II/2

Announcement of the EEC-
Commission on patent licence

IV. The undertakings listed at I(A) do not fall within the scope of the prohibition laid down in Article 85, paragraph 1, because they are covered by the patent. They only entail the partial maintenance of the right of prohibition contained in the patentee's exclusive right in relation to the licensee, who in other respects is authorized to exploit the invention. The list at I(A) is not an exhaustive definition of the rights conferred by the patent.

The obligation imposed on the licensee to mark the product with an indication of the patent (point I(B)) is in accordance with the patentee's legitimate interest in ensuring that the protected articles are clearly shown to owe their origin to the patented invention. Since the licensee may also make distinguishing marks of his own choice on the protected article, this provision has neither the object nor the effect of restricting competition.

The licensee's undertakings, mentioned at I(C), concerning the observance of certain quality standards for the protected products or for semi-manufactures, raw materials or auxiliary materials, could not restrict competition which has to be protected (la concurrence à protéger) to the extent that they are intended to prevent the technically incorrect working of the invention. The undertaking to procure supplies of certain products can be left out of account, except when quality cannot be established by objective standards. In that case, such an undertaking has the same scope as quality standards.

The undertakings given by the licensee and mentioned at I(D) do not in any case have any restrictive effect on competition when the licensee retains the possibility of disclosing experience gained or of granting licences to third parties and is entitled to participate in the licensor's future acquisitions in the field of experience and inventions. With regard to undertakings given by the licensor concerning the disclosure of experience or the grant of a licence, as mentioned at I(D), these seem to be unexceptionable from the point of view of the law relating to competition, even without that limitation. Thus point I(D) only covers the obligation to disclose experience or to grant licences; this is without prejudice to the appraisal from a legal point of view of any restrictions imposed on the interested parties concerning the utilization of such experience or inventions.

By the undertaking mentioned at I(E) – not to authorise the use of the invention by any other person – the licensor forfeits the right to make agreements with other applicants for a licence. Leaving out of account the controversial question whether such exclusive undertakings have the object or effect of restricting competition, they are not likely to affect trade between member states as things stand in the Community at present. The undertaking not to exploit the patented invention oneself is closely akin to an assignment of the right and accordingly does not seem to be open to objection.

5. Regulation No. 67/67[1] of the Commission

on the application of Article 85 (3) of the Treaty to certain categories of exclusive dealing agreements, as amended by Regulation No. 2591/72[2].

THE COMMISSION OF THE EUROPEAN ECONOMIC COMMUNITY,

HAVING REGARD to the Treaty establishing the European Economic Community, and in particular Articles 87 and 155 thereof;

HAVING REGARD to Article 24 of Regulation No. 17 of 6 February 1962;

HAVING REGARD to Regulation No. 19/65/EEC of 2 March 1965 on the application of Article 85 (3) of the Treaty to certain categories of agreements and concerted practices;

HAVING REGARD to the Opinions delivered by the Advisory Committee on Restrictive Practices and Monopolies in accordance with Article 6 of Regulation No. 19/65/EEC;

WHEREAS under Regulation No. 19/65/EEC the Commission has power to apply Article 85 (3) of the Treaty by regulation to certain categories of bilateral exclusive dealing agreements and concerted practices coming within Article 85;

WHEREAS the experience gained up to now, on the basis of individual decisions, makes it possible to define a first category of agreements and concerted practices which can be accepted as normally satisfying the conditions laid down in Article 85 (3);

WHEREAS, since adoption of such a regulation would not conflict with the application of Regulation No. 17, the right of undertakings to request the Commission, on an individual basis, for a declaration under Article 85 (3) of the Treaty would not be affected;

WHEREAS exclusive dealing agreements of the category defined in Article 1 of this Regulation may fall within the prohibition contained in Article 85 (1) of the Treaty; whereas since it is only in exceptional cases that exclusive dealing agreements concluded within a Member State affect trade between Member States, there is no need to include them in this Regulation;

WHEREAS it is not necessary expressly to exclude from the category as defined those agreements which do not fulfill the conditions of Article 85 (1) of the Treaty;

WHEREAS in the present state of trade exclusive dealing agreements relating to international trade lead in general to an improvement in distribution because the entrepreneur is able to consolidate his sales activities; whereas he is not obliged to maintain numerous business contacts with a large number of dealers, and whereas the fact of maintaining contacts with only one dealer makes it easier to overcome sales difficulties resulting from linguistic, legal, and other differences; whereas exclusive dealing agreements facilitate the promotion of the sale of a product and make it possible to carry out more intensive marketing and to ensure continuity of supplies, while at the same time rationalising distribution; whereas, moreover, the appointment of an exclusive distributor or of an exclusive purchaser who will take over, in place of the manufacturer, sales promotion, after-sales service and carrying of stocks, is often the sole means whereby small and medium-size undertakings can compete in the market; whereas, it should be left to the contracting parties to decide whether and to what extent they consider it desirable to incorporate in the agreements terms designed to promote sales; whereas there can only be an improvement in distribution if dealing is not entrusted to a competitor;

WHEREAS as a rule such exclusive dealing agreements also help to give consumers a proper share of the resulting benefit as they gain directly from the improvement in distribution, and their economic or supply position is thereby improved as they can obtain products manufactured in other countries more quickly and more easily;

WHEREAS this Regulation must determine the obligations restricting competition which may be included in an exclusive dealing agreement; whereas it may be left to the contracting parties to decide which of those obligations they include in exclusive dealing agreements in order to draw the maximum advantages from exclusive dealing;

WHEREAS any exemption must be subject to certain conditions; whereas it is in particular

1. O.J. of 25.3.1967, p. 849/67.
2. O.J. of 9.12.1972, No. 276/14

advisable to ensure through the possibility of parallel imports that consumers obtain a proper share of the advantages resulting from exclusive dealing; whereas it is therefore not possible to allow industrial property rights and other rights to be exercised in an abusive manner in order to create absolute territorial protection; whereas these considerations do not prejudice the relationship between the law of competition and industrial property rights, since the sole object here is to determine the conditions for exemption of certain categories of agreements under this Regulation;

WHEREAS competition at the distribution stage is ensured by the possibility of parallel imports; whereas, therefore, the exclusive dealing agreements covered by this Regulation will not normally afford any possibility of preventing competition in respect of a substantial part of the products in question;

WHEREAS it is desirable to allow contracting parties a limited period of time within which they may, in accordance with Article 4 of Regulation No. 19/65/EEC, modify their agreements and practices so as to satisfy the conditions laid down in this Regulation, without it being possible, under Article 4 (3) of Regulation No. 19/65/EEC, to rely thereon in actions which are pending at the time of entry into force of this Regulation, or as grounds for claims for damages against third parties;

WHEREAS agreements and concerted practices which satisfy the conditions set out in this Regulation need no longer be notified; whereas Article 4 (2) (a) of Regulation No. 27, as amended by Regulation No. 153, can be repealed, since agreements which it was possible to notify on Form B 1 would normally come within the scope of the exemption;

WHEREAS agreements notified on Form B 1 and not amended so as to satisfy the conditions of this Regulation should be made subject to the normal notification procedure, in order that they may be examined individually;

HAS ADOPTED THIS REGULATION:

ARTICLE 1

1. Pursuant to Article 85 (3) of the Treaty and subject to the provisions of this Regulation it is hereby declared that until 31 December 1982 Article 85 (1) of the Treaty shall not apply to agreements to which only two undertakings are party and whereby:

(a) one party agrees with the other to supply only to that other certain goods for resale within a defined area of the common market; or

(b) one party agrees with the other to purchase only from that other certain goods for resale; or

(c) the two undertakings have entered into obligations, as in (a) and (b) above, with eachother in respect of exclusive supply and purchase for resale.

2. Paragraph 1 shall not apply to agreements to which undertakings from one Member State only are party and which concern the resale of goods within that Member State.

ARTICLE 2

1. Apart from an obligation falling within Article 1, no restriction on competition shall be imposed on the exclusive dealer other than:

(a) the obligation not to manufacture or distribute, during the duration of the contract or until one year after its expiration, goods which compete with the goods to which the contract relates;

(b) the obligation to refrain, outside the territory covered by the contract, from seeking customers for the goods to which the contract relates, from establishing any branch, or from maintaining any distribution depot.

2. Article 1 (1) shall apply notwithstanding that the exclusive dealer undertakes all or any of the following obligations:

(a) to purchase complete ranges of goods or minimum quantities;

(b) to sell the goods to which the contract relates under trade marks or packed and presented as specified by the manufacturer;

(c) to take measures for promotion of sales, in particular
- to advertise,

- to maintain a sales network or stock of goods,
- to provide after-sale and guarantee services,
- to employ staff having specialised or technical training.

ARTICLE 3

Article 1 (1) of this Regulation shall not apply where

(*a*) manufacturers of competing goods entrust each other with exclusive dealing in those goods;

(*b*) the contracting parties make it difficult for intermediaries or consumers to obtain the goods to which the contract relates from other dealers within the common market, in particular where the contracting parties:

(1) exercise industrial property rights to prevent dealers or consumers from obtaining from other parts of the common market or from selling in the territory covered by the contract goods to which the contract relates which are properly marked or otherwise properly placed on the market;

(2) exercise other rights or take other measures to prevent dealers or consumers from obtaining from elsewhere goods to which the contract relates or from selling them in the territory covered by the contract.

ARTICLE 4

1. As regards agreements which were in existence on 13 March 1962 and were notified before 1 February 1963, the declaration contained in Article 1 (1) of inapplicability of Article 85 (1) of the Treaty shall have retroactive effect from the time when the conditions of application of this Regulation were fulfilled.

2. As regards all other agreements notified before the entry into force of this Regulation, the declaration contained in Article 1 (1) of inapplicability of Article 85 (1) of the Treaty shall have retroactive effect from the time when the conditions of application of this Regulation were fulfilled, but not earlier than the day of notification.

ARTICLE 5

As regards agreements which were in existence on 13 March 1962, notified before 1 February 1963 and amended before 2 August 1967 so as to fulfil the conditions of application of this Regulation, the prohibition in Article 85 (1) of the Treaty shall not apply in respect of the period prior to the amendment, where such amendment is notified to the Commission before 3 October 1967[1]. The notification shall take effect from the time of receipt thereof by the Commission. Where the notification is sent by registered post, it shall take effect from the date on the postmark of the place of dispatch.

ARTICLE 6

The Commission shall examine whether Article 7 of Regulation No. 19/65/EEC applies in individual cases, in particular when there are grounds for believing that:

(*a*) the goods to which the contract relates are not subject, in the territory covered by the contract, to competition from goods considered by the consumer as similar goods in view of their properties, price and intended use;

(*b*) it is not possible for other manufacturers to sell, in the territory covered by the contract, similar goods at the same stage of distribution as that of the exclusive dealer;

(*c*) the exclusive dealer has abused the exemption:

(1) by refusing, without objectively valid reasons, to supply in the territory covered by

1. The first sentence of Article 5 is replaced by the following:
'As regards agreements, decisions or concerted practices for exclusive dealing already in existence at the date of accession, to which Article 85 (1) applies by virtue of accession, the prohibition in Article 85 (1) of the Treaty shall not apply where they are modified within six months from the date of accession so as to fulfil the conditions contained in this Regulation'.
(Conditions of Accession)

74. 10. 10

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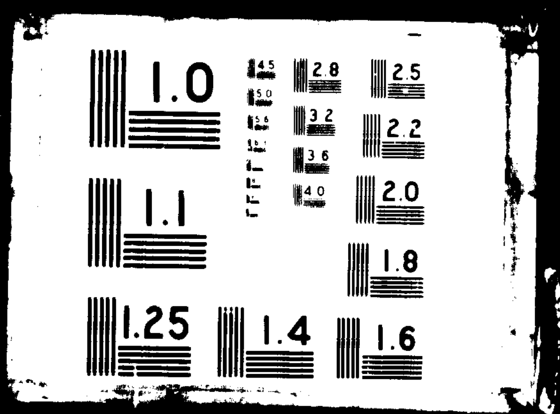

the contract categories of purchasers who cannot obtain supplies elsewhere, on suitable terms, of the goods to which the contract relates;

(2) by selling the goods to which the contract relates at excessive prices.

ARTICLE 7

1. Article 4 (2) (*a*) of Regulation No. 27 of 3 May 1962, as amended by Regulation No. 153, is hereby repealed.

2. Notification, on Form B 1, of an exclusive dealing agreement which does not fulfil the conditions contained in Articles 1 to 3 of this Regulation shall, if such agreement is not amended so as to satisfy those conditions, be effected before 3 October 1967, by submission of Form B, with annexes, in accordance with the provisions of Regulation No. 27.

ARTICLE 8

Articles 1 to 7 of this Regulation shall apply by analogy to the category of concerted practices defined in Article 1 (1).

ARTICLE 9

This Regulation shall enter into force on 1 May 1967.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 22 March 1967.

For the Commission
The President

WALTER HALLSTEIN

SECTION 1 OF THE SHERMAN ACT (15 U.S.C. § 1)

Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations is hereby declared to be illegal.

SECTION 2 OF THE SHERMAN ACT (15 U.S.C. § 2)

Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a misdemeanor. . . .

SECTION 3 OF THE CLAYTON ACT (15 U.S.C. § 14)

It shall be unlawful for any person engaged in commerce, in the course of such commerce, to lease or make a sale or contract for sale of goods, wares, merchandise, machinery, supplies, or other commodity, whether patented or unpatented, for use, consumption, or resale within the United States . . . or fix a price charged therefor, or discount from, or rebate upon, such price, on the condition, agreement, or understanding that the leasee or purchaser thereof shall not use or deal in the goods, wares, merchandise, machinery, supplies, or other commodity of a competitor or competitors of the leasor or seller, where the effect of such lease, sale, or contract for sale or such condition, agreement, or understanding may be to substantially lessen competition or tend to create a monopoly in any line of commerce.

Annex IV/2

SECTION 4 OF THE CLAYTON ACT (15 U.S.C. § 15)

Any person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws may sue therefor in any district court of the United States in the district in which the defendant resides or is found or has an agent, without respect to the amount in controversy, and shall recover threefold the damages by him sustained, and the cost of suit, including a reasonable attorney's fee.

SECTION 7 OF THE CLAYTON ACT (15 U.S.C. § 18)

No corporation engaged in commerce shall acquire, directly or indirectly, the whole or any part of the stock or other share capital and no corporation subject to the jurisdiction of the Federal Trade Commission shall acquire the whole or any part of the assets of another corporation engaged also in commerce, wherein any line of commerce in any section of the country, the effect of such acquisition may be substantially to lessen competition or to tend to create a monopoly.

SECTION 5 OF THE FEDERAL TRADE COMMISSION (15 U.S.C. § 45)

(a)(1) Unfair methods of competition in commerce, and unfair or deceptive acts or practices in commerce, are hereby declared unlawful.

. . . (b) Whenever the Commission shall have reason to believe that any such person, partnership, or corporation has been or is using any unfair method of competition or unfair or deceptive act or practice in commerce, and if it shall appear to the Commission that a proceeding by it in respect thereof would be to the interest of the public, it shall issue and serve upon such person, partnership, or corporation a complaint stating its charges in that respect and containing a notice of hearing. . . . If upon such hearing the Commission shall be of the opinion that the method of competition or the act or practice in question is prohibited by this Act it shall make a report in writing in which it shall state its findings as to the facts and shall issue and cause to be served on such person, partnership, or corporation an order requiring such person, partnership, or corporation to cease and desist from using such method of competition or such act or practice.

. . . (2) Any person, partnership, or corporation who violates an order of the Commission to cease and desist after it has become final, and while such order is in effect, shall forfeit and pay to the United States a civil penalty of not more than $5,000 for each violation, which shall accrue to the United States and may be recovered in a civil action brought by the United States. Each separate violation of such an order shall be a separate offense, except that in the case of a violation through continuing failure or neglect to obey a final order of the Commission each day of continuance of such failure or neglect shall be deemed a separate offense.

ARC

Section 20

(1) Agreements concerning the acquisition or exploitation of patents, registered designs, or protected seed varieties are of no effect insofar as they impose upon the acquirer or licensee any restrictions in his business conduct which go beyond the scope of the right to protection; restrictions pertaining to the type, extent, quantity, territory or period of exercise of such right shall not be deemed to go beyond its scope.

(2) Subsection (1) shall not apply to

1. restrictions imposed upon the acquirer or licensee insofar and so long as they are justified by any interest of the seller or licensor in technically satisfactory exploitation of the protected matter,

2. obligations of the acquirer or licensee with respect to the price to be charged for the protected article,

3. obligations of the acquirer or licensee to exchange practical experience or to grant licenses for improvements in, or applied uses of, an invention insofar as these obligations are in accordance with identical obligations of the patentee or licensor,

4. obligations of the acquirer or licensee not to challenge the right to protection,

5. obligations of the acquirer or licensee relating to the "regulation" of competition in markets outside the area to which this Act applies,

insofar as these restrictions do not remain in force beyond the expiration of the right which is acquired or in respect of which a license is granted.

(3) Upon application, the cartel authority may authorise an agreement of the nature described in subsection (1) if the freedom of economic action of the acquirer or licensee or other enterprises is not unfairly restricted, and if competition in the market is not substantially restrained by reason of the extent of the restrictions involved. Section 11(3) to (5) shall apply, as appropriate.

(4) Sections 1 to 14 remain unaffected by the foregoing provisions.

Section 21

(1) Section 20 shall apply, as appropriate, to agreements concerning the assignment or the exploitation of legally unprotected inventions, manufacturing processes, technical designs, and other technological achievements, as well as legally unprotected advances in cultivation methods in the field of plant breeding, insofar as they constitute trade secrets.

(2) Section 20 shall apply, as appropriate, to agreements concerning seed varieties appearing in the special list of sorts (Section 37 of the Seed Act) between a plant breeder engaged in the maintenance of parent stock and a seed multiplier or a seed-multiplying enterprise.

Chapter 3

Market-Dominating Enterprises

Section 22 (old)

(1) Insofar as an enterprise has no competitor or is not exposed to any substantial competition in a certain type of goods or commercial services, it is market-dominating within the meaning of this Act.

(2) Two or more enterprises are deemed market-dominating insofar as, in regard to a certain type of goods or commercial services, no substantial competition exists in fact between them in general or in specific markets, and they jointly meet the requirements of subsection (1).

(3) In regard to market-dominating enterprises the cartel authority has the powers set forth in subsection (4) insofar as these enterprises abuse their dominating position in the market for these or for any other goods or commercial services.

(4) If the conditions set forth in subsection (3) exist, the cartel authority may prohibit abuse by market-dominating enterprises and declare contracts to be of no effect; Section 19 shall apply, as appropriate. Prior to such action, the cartel authority shall call upon the participants to desist from the abuse to which objection is made.

(5) Insofar as the conditions set forth in subsection (1) exist in regard to a Konzern within the meaning of Section 15 of the Joint Stock Companies Act,* the cartel authority may use its powers under subsection (4) with regard to each Konzern.

Chapter 3

Market Dominating Enterprises

Section 22 (new)

(1) An enterprise is market dominating within the meaning of this Act insofar as, in its capacity as a supplier or buyer of a certain type of goods or commercial services,

1. it has no competitor or is not exposed to any substantial competition, or

2. it has an overriding market position in relation to its competitors; for this purpose besides its market share in particular its financial strength, its access to the supply or sales markets of goods and services, its links with other enterprises as well as legal or actual barriers to the market entry of other enterprises shall be taken into account.

(2) Two or more enterprises shall also be deemed market dominating insofar as, in regard to a certain type of goods or commercial services, no substantial competition exists between them for factual reasons in general or in specific markets and they jointly meet the requirements of subsection (1).

(3) It shall be presumed that

1. an enterprise is market dominating within the meaning of subsection (1), if it has a market share of at least one-third for a certain type of goods or commercial services; this presumption shall not apply when the enterprise recorded a turnover of less than DM 250 million in the last closed business year;

2. the conditions specified in subsection (2) are satisfied if, in regard to a certain type of goods or commercial services

   (a) three or less enterprises have a combined market share of 50 percent or over, or

   (b) five or less enterprises have a combined market share of two-thirds or over;

this presumption shall not apply, insofar as enterprises are concerned with recorded turnovers of less than DM 100 million in the last closed business year.

As regards the calculation of the market shares and turnovers, Section 23 (1), sentences 2-6, shall apply analogously.

Annex V/4

(4) In regard to market domination enterprises, the cartel authority shall have the powers set forth in subsection (5), insofar as these enterprises abuse their dominating position in the market for these or any other goods or commercial services.

(5) If the conditions laid down in subsection (4) are satisfied, the cartel authority may prohibit abusive practices by market dominating enterprises and declare agreements ineffective ; Section 19 shall apply analogously. Prior to such action, the cartel authority shall request the parties involved to discontinue the abuse to which objection was raised.

(6) Insofar as the conditions laid down in subsection (1) are satisfied in regard to an affiliated company (Konzernunternehmen) within the meaning of Section 18 of the Joint Stock Companies Act, the cartel authority may use its powers under subsection (5) in relation to each affiliated company (Konzernunternehmen).

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