European Community Law — 1975

Government is regulating more and more the terms of license agreements.

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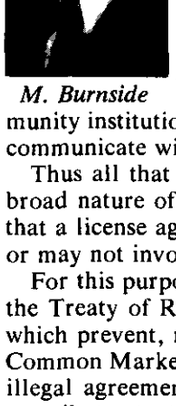
In attempting to give an account of recent developments in the law of the European Community relating to Patent Licensing, we are faced with two difficulties.



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To discuss the matter in any detail would take far too long for the purposes of a review of this nature. It would involve close consideration of aspects of Community Law with which Patent practitioners, and indeed lawyers in general, are unfamiliar. The other principal difficulty is the lack of clear guidelines as to the implications of Community Law. This is partly due to the fact that the subject is developing rapidly, but a contributory cause is the nature of the community institutions themselves, and the way in which they communicate with their "public".

Thus all that we shall attempt to do is to explain the broad nature of the issue so that readers will appreciate that a license agreement which they are considering may or may not involve a problem under Community Law.

For this purpose we shall refer briefly to Article 85 of the Treaty of Rome. Article 85(1) says that agreements which prevent, restrict or distort competition within the Common Market are illegal. Under Article 85(3) such an illegal agreement may be exempted on the basis that it contributes to technical or economic progress and that consumers receive a fair share of the resulting benefits.

The only way in which exemption can be obtained is by registering the agreement at Brussels and obtaining a decision from the Commission that it is permissible. Thus one first must decide whether an agreement falls within Article 85(1). The Commission of the EEC will give an opinion, if requested. Should it conclude that an agreement does not fall within Article 85(1), it is given "negative clearance". If however, an agreement does fall within Article 85(1), it may be given "exemption" under Article 85(3). Of course, if the parties to an agreement do not think that it falls within Article 85(1), they may never ask the Commission for an opinion.

In 1962, the Commission issued a notice (called the Christmas Message) setting out conditions in a Patent License Agreement which, they felt, were not incompatible with Article 85, and would not therefore necessitate registration.

In 1972, the Commission gave decisions in respect of four Patent and Know-How licensing agreements which had been registered for negative clearance or exemption. The cases concerned are set out below.

A. Raymond & Co.'s Agreement
Davidson Rubber Co.'s Agreement
Burroughs A.G. and Etablissements L. Delplanque et Fils' Agreement
Burroughs A. G. and Geha-Werke G.m.b.H.'s Agreement

Some of the conditions in these agreements objected to by the Commission had been indicated in the Notice of 1962 as being permissible. For these and other reasons, there is a generally accepted view that the Notice of 1962 can no longer be relied upon as expressing the views of the Commission. It has, however, never been formally withdrawn. It is not proposed to discuss here these 1972 decisions. It is sufficient to say that none of the later decisions of the Commission are inconsistent with the decisions given in 1972.

The two decisions which we will discuss are the following:

The Agreement between Kabel-Und Metallwerke Neumeyer A.G. and Les Etablissements Luchaire S.A. (referred to as the Kabelmetal case)

Zuid-Nederlandsche Bronbemaling en Grond-Boringen BV v. Heidemaatschappij Beheer N.V. (referred to as the Bronbemaling case)

In the Kabelmetal case, the Commission was considering a patent and know-how licensing agreement between the German company Kabel-Und Metallwerke Neumeyer A.G. and the French company Luchaire S.A. The licensor had developed a range of special techniques for machining steel parts obtained by a cold extrusion process. It had a large number of patents in all EEC countries, excepting Ireland, Denmark, and Luxembourg. Luchaire was the exclusive licensee for the manufacture in France of products obtained by the patented processes. It also had the exclusive rights to sell these products in certain countries outside the EEC, and a nonexclusive license to sell the products in certain specified member states of the EEC. At the request of the Commission, the following obligations were deleted from the license agreement.

> An obligation on the part of Luchaire to transfer to Kabelmetal ownership of such improvements, whether patentable or not, as the licensee might make in conjunction with Kabelmetal.
>
> An obligation to sell the products only in certain member states of the EEC.
>
> An obligation not to contest the validity of the licensor's patented processes.

In principle, the Commission found that the grant of the

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exclusive license fell within the prohibition of Article 85(1). However, the Commission found that an exemption could be granted under Article 85(3) because the licensee Luchaire did not occupy such an important position in the EEC that it had power to eliminate competition in a large part of the relevant product market.

The Commission also held that a restriction that the licensee could only sell the licensed products in certain specified countries outside the EEC did not affect competition within the Common Market, because the products concerned were not suitable for marketing through intermediaries and were therefore unlikely to be reimported into the EEC.

Secrecy Agreement

The licensee had accepted an obligation to keep the know-how secret after the termination of the agreement. Likewise the licensee was obliged to pay royalties for the use of the licensed know-how after expiry of the agreement. These were found to be allowable conditions.

One can summarize this case by saying that an exclusive manufacturing license may be prohibited by Article 85(1), but it may be exempted by the Commission if good cause can be shown. However, any restrictions imposed on the licensees which prevent them selling throughout the Common Market will certainly not be acceptable. One can also argue that a know-how agreement may in many cases be more useful than a patent license agreement, since the Commission found acceptable the concept that the licensee should continue to pay for use of the licensed know-how after expiry of the agreement.

In *Bronbemaling*, the Dutch company "Heidemaatschappij" had filed two patent applications in 1965 and 1967, relating to a process for the installation of a well-point drainage system and a system installed using this process. Three parties opposed the grant of patents on the applications. The opposition was withdrawn after conclusion of agreements in which Heidemaatschappij granted each opponent a license. A condition of the license agreement was that the patentees would not grant licenses to other firms in Holland without the consent of a majority of the existing licensees. The justification stated for the clause requiring consent from the existing licensees, before further licenses were granted, was that the licensees had spent time and money improving the patented process. At a later date two other Dutch companies applied to the patentees for a license and, after consultation with the licensees, the patentees decided that no further licenses should be granted.

The Commission held that the agreements fell within Article 85(1) since they restricted competition. It then held that no exemption could be granted under Article 85(3). There might in the circumstances have been justification for the patentee charging differential royalty rates, as between an existing licensee and a new licensee, but there could be no justification for restriction of his rights to grant further licenses. In other words, there was no justification for a restriction of capacity in the circumstances of this particular industry.

It must be emphasized that these decisions are consistent with each other, although in one an exclusive manufacturing license was permitted, and in the other the existence of several licensees was not found a good enough reason for a clause in an agreement where a patentee bound himself not to grant further licenses unilaterally. In both cases the Commission found that the agreements restricted competition within the meaning of Article 85(1). However, in one case the Commission granted exemption under Article 85(3), while in the other case it did not. In the former case it found that consumers benefited from the restricted agreement, while in the later case there was no such benefit.

Having said this, we must admit that there is still considerable uncertainty as to the acceptability of a number of typical clauses which are often inserted in patent license agreements. The Commission publishes every year a Report on Competition Policy. The Fourth Report on Competition Policy was published in April 1975 and contains a lengthy analysis of acceptable clauses in patent license agreements. This should be consulted and studied in attempts to resolve the existing uncertainties.

We understand that a new notice, to replace the Notice of 1962, is to be expected, and that the contents of this notice will be based on the Commission's policy as expressed in the Fourth Report on Competition Policy.

There are other parts of the world where a patentee's rights are under close scrutiny, and the terms of any license agreement may be considered by a government regulatory agency. The same is becoming true in Europe and there is little sense in attempting to ignore the activities of the Commission of the EEC in its attempts to regulate the relationships between a patentee and his licensees.

Comments on Mexico's New Law

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X. Trade names

Trade names can be protected in regard to the area of effective clientele for a term of five years. These registrations can be renewed indefinitely.

If the use of a trade name is interrupted for a term of one year, the protection will lapse.

XI. Slogans

Slogans can be protected for specific products or establishments. Registration shall be for a nonrenewable term of ten years.

VIOLATIONS

The law considers as administrative violations, a series of acts contrary to the provisions of the law, some of which were considered as crimes in the prior law. Among others are the following:

a. All acts contrary to good business practices, which constitute unfair competition.

b. Indicating that certain products are patented, when they are not.

c. The use of a trademark confusingly similar to a registered mark to cover the same or similar products or