

EEC Licensing After 10 Years

An update on patent licensing in EEC, with a review of significant litigation

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This article is almost entirely concerned with a study of some recent cases decided by the European Court of Justice, but in assessing the position of patent licensing in Europe in 1983, it is also necessary to consider the attitude of the Commission of the European Economic Community as expressed in published decisions of the Commission and the proposed Block Exemption Regulation for Patent License Agreements. Certain new patent conventions or statutes are also relevant.

Previous issues of *Les Nouvelles* have discussed the attitude of the Commission in a number of articles. Thus, in the September 1977 issue, at page 223, there is an article by the present writer on EEC Antitrust Law and Licensing that gives references to other articles on the subject in earlier issues. There are subsequent articles in March 1978, page 1 by A.N. Wise and A.P. Seyler; in June 1980, page 114 by P.A. Aepli; and in September 1981, page 207 by E. Zimmerman. The last reference is particularly worthy of study as it is by a member of the Commission's legal services and is a broad overview of the subject. The recent article by Pierre Hug in the March 1983 issue of *Les Nouvelles* should also be read, although the present writer disagrees with some of the conclusions drawn with respect to the Maize Seed case.

The Block Exemption Regulation for Patent License Agreements was first published in draft form by the Commission in 1977, and is analyzed in the article by Wise and Seyler mentioned above. It is not yet law—a Formal Draft was published in 1979 and discussed with interested circles at a three-day meeting in Brussels in October 1979 where there were some very strong criticisms. Then the Commission decided that they would postpone further action until a decision had been given by the European Court of Justice in the Maize Seed case¹ and this has caused further delays since this was not decided by the European Court of Justice until May 1982.

Part of the proposed regulation is concerned with restrictions on manufacturing exclusivity and export/import bans. The criticisms here were to some extent objections that, in principle, the Commission was attempting to construe certain articles of the Treaty of

Rome in a way not sanctioned by any decision of the European Court of Justice and in a way that was contrary to what had been agreed by the member governments when the Common Market Patent Convention had been signed in 1975. The disagreements between the Commission had been signed in 1975. The disagreements between the Commission, the member governments and the nongovernmental organizations at Luxembourg before this convention will be referred to later. It was argued that part of the proposed regulation was contrary to what had been agreed by the member governments in the Common Market Patent Convention and the hope was expressed that the decision in the Maize Seed case would resolve these disagreements. It is unclear that this hope has been fulfilled but, in any event, it is submitted that there are other recent decisions of the Court of Justice that are more important in considering the use of industrial property in Europe than the Maize Seed case.

Busy Decade

These activities on the part of the Commission took place within the last decade. In the same period, we have seen the coming into force of the European Patent Convention and the signing of the Common Market Patent Convention. This latter convention is not yet in force but it contains articles that attempt to codify the law with respect to exhaustion of rights under national patents (Article 81) and to set out what is permissible contractual licensing (Article 43).

The European Economic Community is not a federation of states as is the United States of America. Without attempting to explain the differences in detail, the Common Market Patent Convention was passed at a diplomatic conference where there were present representatives from all the member states, interested nongovernment organizations, and officials of the Commission. There were sharp disagreements as to what the convention should say and the Commission certainly objected to some of the compromises that were reached.

It may be difficult for non-European readers, and indeed for many European readers to realize the importance attached in the mid-1970s by Commission officials and important representatives of nongovernmental organizations to the subject of manufacturing exclusivity and import/export bans within the Common Market. What the Common Market Patent Convention was supposed to have settled on these subjects has been hotly debated as is evidenced by the fact that in advising the Court of Justice in the Maize Seed case and *Merck v. Stephar*², the Advocate-General felt it

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necessary to refer to this convention which by then had been signed almost 10 years earlier and is still not in force. The majority of law reports that set out the text of a decision of the European Court of Justice do not give the opinion of the Advocate-General, but it is sometimes given in the Common Market Law Reports (CMLR) published by the European Law Centre, London, England, and is always given in the official series of law reports of the ECJ itself the European Court Reporter (E.C.R.).

CASES DECIDED BY THE EUROPEAN COURT OF JUSTICE

Before considering the recent case law, some explanation of the way the court works may be helpful. Apart from the judges, there are four Advocates-General. They generally have the same status as the judges in that, for example, they receive the same salary. Their function has no real parallel in a common law legal system and it includes advising the court after the submission of the parties.

The opinions of the Advocates-General are not binding on the court, although they are often followed and they are usually much easier to understand than the decisions of the court itself. Any opinion will set out the facts, the relevant legislative provisions, and an analysis of the arguments of the parties in a much fuller way than the decision of the court itself.

The functions of the Advocate-General and the other court officials are explained in, for example, *The Foundations of European Community Law* by T.C. Hartley, Clarendon Press, Oxford, England, 1981, at page 29. In *Merck v. Stephar* and the Maize Seed case, the Advocate-General felt it necessary to discuss certain parts of the C.M.P. Convention, although the decision of the court carefully avoided any reference to this convention.

The few cases discussed are selected in the sense that they have been chosen to help answer some fairly basic questions concerning licensing in Europe. Is it necessary to have patents in all EEC countries? Is it possible to impose import/export bans as between different licensees in the Common Market? Is it possible to grant exclusive manufacturing licenses within the different Common Market countries?

Many readers will be aware of the Maize Seed case by name since a decision has been awaited for some years. Thus, the Commission's decision was given in 1978, an appeal was filed to the Court of Justice in November 1978, and its decision was given in May 1982. The facts are complicated and the reasoning of the court is not easy to follow. Any very extended analysis is probably unnecessary because it is submitted that the case is not nearly as important as it might have been, had it been decided in a different way and some years ago.

First the facts: INRA, a French public institution for research and development in the field of plant breeding, had developed new hybrid maizes that were the subject of French plant breeders' rights and were certified in France. By virtue of a community regulation they could be traded anywhere in the community. In 1960, INRA entered into an agreement with a German plant breeder, Mr. Eisele, by which he was

commissioned to represent INRA before the German authorities to have corresponding German plant breeders' rights registered.

Plant breeders' rights under German law could not be obtained by foreigners at that time and INRA later assigned the rights to Eisele. In 1965, they concluded an agreement in which Eisele was granted exclusive breeding and distribution rights in Germany for those and other INRA maize seeds also registered in Eisele's name. In that agreement, INRA agreed to take all necessary precautions to prevent all exports of INRA maize seeds to Germany other than those exported under its agreement with Eisele.

Successful Attack

On this basis Eisele distributed INRA maize seeds supplied by INRA's French licensee in Germany. INRA, its licensee, and Eisele successfully attacked French and German parallel exporters and importers by invoking the plant breeders' rights registered in Eisele's name and by relying upon Eisele's contractual exclusivity. An infringement suit filed by Eisele against a German parallel importer was settled and the importer agreed not to market INRA seeds in Germany without Eisele's consent.

In brief, the type of fact pattern covered by the decision is where one has a manufacturing patentee or exclusive licensor in one country (France) who has granted an exclusive manufacturing and selling license in another Common Market country (Germany). The French licensor and the German licensee agreed to mutual import and export bans.

The Commission's attack was based on Article 85 and the argument, of great theoretical legal importance, centered around the proposition as to whether an exclusive manufacturing license was outside the scope of Article 85(1) and did not have to be notified, or whether it was within and therefore had to be notified and exemption requested under Article 85(3).

The court distinguished between an open exclusive license and an exclusive license with absolute territorial protection. In open exclusive licenses it said that the exclusivity is a matter only between the licensor and the licensee, in that the licensor agrees not to grant other licenses for the licensed territory and not to enter into competition with the licensee. In the second case, the licensor agrees to prevent all competition in the licensed products from third parties. The exclusivity is thus aimed at all possible competition within the licensed territory.

The court held that an open exclusive license was compatible with Article 85(1) of the Treaty and is, therefore, permissible and valid. Exactly what this means is not altogether clear and many readers may think that this type of problem is only of limited interest in the field of licensing since most licensing does not involve exclusive licensing.

Interested circles in Europe had hoped that the court's decision would settle the debate concerning the meaning of Article 43 of the Common Market Patent Convention. The opinion of the Advocate-General discussed the significance of Article 43 at some length, but the court's decision completely ignored any reference to this convention. The Advocate-General

also referred to the proposed Block Exemption Regulation for Patent License Agreements:

"In conclusion I should like to submit the following observations: There are deep differences of opinion between the Commission, certain private groupings and national experts about the proposed regulation granting block exemptions for patent-licensing agreements.

The Commission makes no secret of the fact that it looks forward to the court's decision in order to establish certain guiding principles in this field. However, I do not think that it would be appropriate in this first case to lay down principles in the field of plant breeders' rights which would be likely to prejudice future developments."

Once again the decision of the court ignored the invitation to comment on the Block Exemption Regulation. Indeed it is not altogether clear that the decision had a direct bearing on patent license agreements as has been assumed by a number of commentators, for example, in the article Restrictive License Agreements under the EEC Law of Competition. The Maize Seed case by Oliver Axster; *The Business Lawyer*, Vol. 38, November 1982, 165. Already the German judge (Dr. U. Everling) in a speech late in 1982 to the Deutsche Liga für Internationales Wettbewerberecht has said that the court carefully avoided making any ruling that applied to patent licensing.

Facts Apply

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It cannot be emphasized too strongly that the facts in the Maize Seed decision apply very much to a European company. In one Common Market country (in this case France) there is a "patentee" who is manufacturing; he wishes to license another company in another Common Market country (in this case Germany), and the problem is the extent to which competition between them may be regulated or controlled. Any non-European company that grants a license for the whole of the Common Market is basically setting up a factual situation that is so far removed from the situation in Maize Seed that it may have little relevance in assessing the legality of the license agreement.

In short, this decision has not settled the contentious problems that it was hoped it would, and if we want to know the views of the Court of Justice on permissible import/export bans generally in the Common Market and what is the lawful exercise of an industrial property right, there are other recent decisions that are much easier to understand.

Merck v. Stephar has a very simple set of facts. Merck manufactured and marketed in all the Common Market countries a new drug for which it held patents in all the Common Market countries except Italy and Luxembourg. It had not been possible to patent the drug in Italy at the appropriate time. The manufacture and sale in Italy of the drug took place with the approval and consent of Merck. Merck attempted to prevent the importation of the drug from Italy into Holland on the basis that it was an infringement of their Dutch patent rights.

The case therefore falls very much within the

situation envisaged in Article 85(1) of the Common Market Patent Convention on the one hand, and is distinguished from *Parke-Davis v. Probel*³ in that the sales in Italy took place with the consent of the patent owner, whereas in *Parke-Davis* there was no such consent. The arguments centered around the meaning of Article 36 of the Rome Treaty. The Advocate-General thought it necessary to discuss at some length the deliberations that took place before the C.M.P. Convention was signed:

"However, both during the preliminary negotiations for the Luxembourg Conference which finally led to signature of the convention and during the conference itself, differences of opinion again appeared concerning the tenor and scope of the provisions on the exhaustion of patent rights, . . . The French delegation and, following it, the British delegation, had already insisted, in their comments on the first preparatory conference documents that the exhaustion rule should be limited to cases where the patented product had been brought into circulation by the patent proprietor or with his consent in a member state where the patent itself is effective, whereas exhaustion should not ensue when the patented product was brought into circulation for the first time in a territory where no patent exists. In these cases, it should be possible to use the patent to its full extent, in the opinion of both delegations, who were supported by a number of observer delegations from industrial and professional associations, against deliveries from the territory where no patent exists to the territory where there is patent protection. The main reason put forward for this proposal, as in the present submissions, was that the exhaustion of patent rights is by definition only possible if a patent exists . . . The Commission in particular, and also the German delegation, took the view that they could not concur in this proposal, having regard to community law and the decided cases."

The court found no need to discuss the Common Market Patent Convention. It simply relied on its own earlier case law and most of these cases were concerned with trademarks, copyright or the like. It can be said that the basic issues are that, on the one hand, there cannot be exhaustion of a patent right that has never existed and, on the other hand, the exhaustion principle is not the sole criterion. The essential point is that a patent right cannot be exercised against parallel imports if the product has been brought on the market by the patentee or with his express consent.

Both Points

The court dealt with both points fairly shortly. On the exhaustion argument it said that the proprietor of a patent for a drug, who sells the drug in a first member state where patent protection exists and also markets it in another member state where he has no patent, is precluded from using the right granted to