

Patent Licensing in Europe

The changing scene: Procedural implications of the new EEC Patent Regulation

BY JOHN COOK*

(Members will be generally familiar with the Patent Licensing Regulation of the EEC. There is a brief account of the New Regulation in Les Nouvelles, September 1984, at page 154, and the final text of the Regulation is set forth in the December 1984 issue of Les Nouvelles, together with a report of a meeting held by LES Britain/Ireland to discuss the Regulation.

One of the subjects discussed at the conference in London was the new so-called quick clearance procedure. As members will know any agreement falling within article 85(1) has to be notified and an individual exemption may be granted under article 85(3). To reduce the need for notifications the Block Exemption Regulation for Patent Licensing Agreements was adopted by the Commission in July 1984. There is a category of agreements where the need for notification is questionable or, to put it another way, it is debatable whether they fall within the exemption of the Block Exemption Regulation and whether they can be notified and dealt with under the quick clearance procedure.

An excellent analysis of the subject was given in a paper by Mr. John Cook. Since the paper was given on October 30, 1984 the draft regulation for Research and Development Agreements has been adopted by the Commission together with a revised version of the Specialization Block Exemption Regulation and both of these also contain the quick clearance procedure.—MICHAEL BURNSIDE)

Broadly speaking, the new Regulation creates three categories of patents and related agreements:

1. "White" agreements containing obligations that fall within Articles 1 and 2 of the Regulation.

2. "Black" agreements that contain any of the black-list obligations in Article 3.

3. "Gray" agreements that contain obligations restrictive of competition but which fall neither within Articles 1 and 2 nor Article 3.

These categories have procedural as well as substantive implications. White agreements benefit from the block exemption without notification to the Commission, though the exemption can be withdrawn pursuant to Article 9 of the Regulation. Black agreements cannot

benefit from the block exemption and must be notified to the Commission in the normal way if an individual exemption is sought under Article 85(3) of the Treaty.

"Gray" agreements are defined negatively, by reference to the "white" and "black" categories. A novel and interesting procedure is created for them by Article 4. It has become known as the opposition procedure and operates to confer a conditional exemption upon a gray agreement which may mature into full exemption if no opposition is raised by the Commission.

The opposition procedure therefore produces a wide safety net for agreements that cannot be categorized as white provided that none of the black-list obligations (Article 3) appear in them. Were it not for this new procedure such agreements could not benefit from block exemption. It must be remembered that notification (other than pursuant to Article 4) would give no provisional validity or immunity from Article 85(1) and (2) except in the case of old agreements, and, probably, pre-accession agreements. The opposition procedure impinges on the general rule hitherto that an agreement containing restrictive obligations beyond those specified in a block exemption cannot benefit from that exemption in any way.

In view of the lack of resources of the Commission to deal with the backlog of notifications seeking individual exemption, the delays in reaching decisions and the legal uncertainties accompanying informal resolutions by the Commission, the absence of any general system of provisional immunity for notified agreements similar to that provided for furnished agreements under the Restrictive Trade Practices Act 1976¹ was strongly criticized.²

The Commission response has been to develop the opposition procedure first seen in Article 4 of the Patent Regulation. It also appears in Article 7 of the draft Research and Development block exemption, and indications suggest that it will become a standard procedure. It seems a sensible, valuable, and practical solution that does not involve any amendment to Article 85 of the Treaty itself. If a gray agreement is duly notified to the Commission and the Commission raises no opposition, within the next six months, to the application of the block exemption the agreement benefits from block exemption despite containing obligations within Article 85(1) and outside Articles 1 and 2 of the Regulation. An important feature of the new procedure is that Article 4.4 permits it to be used for existing agreements.

1. Section 35

2. For example, 8th Report "Competition Practice". House of Lords Select Committee on the European Communities, paras. 30-8.

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CONDITIONS TO BE FULFILLED BEFORE A GRAY AGREEMENT CAN BENEFIT FROM THE BLOCK EXEMPTION

1. The agreement must fall within the gray category and not be tainted with black-list obligations.

2. Notification must be in accordance with Regulation 27, e.g.:

(a) The required number of certified copies of the agreement must be supplied.

(b) Form A/B must be used; Form A/B was held to be a prerequisite to an individual exemption in *Distillers* (case 30/78).

[Given the wording of Article 4.1 it might be said that every requirement in Regulation 17 becomes mandatory. Strict compliance is advisable.]

3. The notification must put the Commission on notice by expressly referring to Article 4. If a communication is made in relation to an existing notified agreement it must also refer to the notification.

4. Information supplied with the notification or communication must be "complete and in accordance with the facts."

[This obligation is uncertain in extent. By what criteria does a party judge what constitutes complete information? It is not sufficient to answer the questions on Form A/B as Regulation 17 requires.] Must a complete set of know-how be provided to give complete information on a patent agreement?

SUPPOSE THE CONDITIONS ARE FULFILLED

114 The Commission has six months to oppose the application of the exemption to a notified agreement. The six-month period runs from receipt of the notification or from the date of postmark if registered post is used (cf Article 3) of Regulation 17. Use of registered post is advisable to give certainty and immediacy.

The Commission must oppose if requested to do so by a member state. In other cases the Commission has a discretion. Member states' requests must be based on the competition rules of the Treaty.

Once opposition is taken Article 4 suggests it can be resolved in one of three ways:

1. The Commission may accept that the agreement fulfills the conditions for block exemption without amendment and withdraw its opposition with the result that the exemption is taken to have applied from the date of notification (Article 4.7).

2. The Commission may accept that the agreement fulfills the conditions for block exemption if amendments are made. The exemption will then apply from the date when the amendments take effect (Article 4.8).

[In (1) and (2), if opposition was taken at the request of a member state it may be withdrawn only after consultation with the Advisory Committee.]

3. The opposition may be maintained. If so, the consequences of notifying the agreement are governed by Regulation 17.

[NB A white agreement or a gray agreement that has survived opposition, or not been opposed, may have the benefit of the block exemption withdrawn from it pursuant to Article 9 of the Regulation.]

One of the important questions raised by the opposition procedure is the status of the act by which the Com-

mission resolves an opposition in one of the ways above. Is it a decision capable of challenge? By whom? Is it equivalent to an informal settlement? What analogies can be drawn from decisions of the European Court as to the procedural safeguards, if any, to be read into this administrative procedure?

LEGAL EFFECT OF NOTIFICATION PURSUANT TO ARTICLE 4

Generally speaking, until Article 85(3) is applied to an agreement by a block exemption or an individual decision, national courts are free to, and indeed must, apply the prohibition in Article 85(2) to agreements or concerted practices falling within Article 85(1) of the Treaty. It is important, therefore, to ascertain the exact legal effect of the opposition procedure.

Does a notified agreement benefit from exemption immediately on notification, or is the immunity from Article 85(2) delayed until the lapse of the six months during which the Commission may oppose? Is the absence of opposition a condition precedent to the exemption applying, or is it a condition subsequent? Common sense suggests that the exemption applies but may be lost if the Commission opposes within the six months allowed. This avoids any awkward hiatus between notification and the end of the six-month period. After all, most gray agreements are not likely to be opposed.

This also ensures that legal certainty follows on the act of notifying an agreement to the Commission. There is no express provision in Article 4 to resolve the question: Article 4.7, however, provides that if opposition is withdrawn without an agreement undergoing amendment the benefit of exemption applies from notification. It would seem odd if a gray agreement to which no opposition had been taken were in a worse position. There seem to be few linguistic arguments that can be made on the wording of Article 4 itself to help resolve the question.

Particularly, if the act of raising opposition changes the legal status of a notified gray agreement it may be argued that that act is a challengeable decision within Article 173 of the Treaty. The Commission would no doubt reply that the act of opposition does not take away any legal entitlement to, or reasonable expectation of, the block exemption since there is always the liability to the act of opposition within the six months after notification.

The act does not therefore have sufficient legal effects to warrant the conclusion that it is a challengeable decision. It would be undesirable from the Commission's point of view if every act of opposition had to be fully reasoned since circumstances may demand that an agreement is opposed at short notice and/or by the dispatch of a standard form opposition letter.

Few procedural requirements/safeguards are built into the opposition procedure, from the initial act of opposition to the resolution of opposition in one of the ways mentioned above. The Court has, however, recognized a right to be heard in circumstances where there has been no express requirement to do so. (Case 17/74 - *Transocean Marine Paint*). Moreover, in the case of, inter alia, decisions by the Commission, Article 190 requires reasons to be given.

CONCLUSION

In conclusion, the new opposition procedure purports to be a purely administrative one designed:

1. To provide a greater measure of legal certainty for notified agreements which fall within Article 4.1.
2. To speed up and simplify the process of reaching decisions on whether an agreement fulfills the conditions of Article 85(3) of the Treaty.

It is difficult, therefore, to assess, in cases of opposition, what limitations may be read into the apparent administrative process of the opposition procedure as a consequence of the fact that that process inevitably af-

fects, to some extent, the legal status of the opposed agreement and third parties. However, the great majority of gray agreements notified under the opposition procedure are likely to be innocuous and unopposed. After all, the Regulation has identified in Article 3 a list of prohibited restrictions incompatible with Article 85(3). Moreover, only agreements meeting the requirements of Articles 1 and 2 of the Regulation but containing other restrictive clauses (other than black-list clauses) can benefit from the "marginal relief" given by Article 4. In the case of unopposed agreements the Article 4 procedure should achieve its aims and the caveats outlined above should not cause concern.