

# The Maize Seed Decision

*Discussion of the most significant decision by the EEC Court of Justice affecting licensing in the last five years*

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It has taken 24 years for the Court of Justice of the European Communities to make its first judgment on a licensing case, the long-awaited "Maize Seed Case". In the meantime the Commission has been active developing a "case law" and issuing notices and draft regulations on the subject, harshly opposed by European industry and by the Member States because of its restrictive attitude toward technology transfer contracts.

The Commission's regulations started with the Notice on Patent Licensing Agreement of December 24, 1962 (so-called Christmas Notice), which gave the Commission's opinion on a series of obligations in patent license agreements which it considered not to be prohibited by Article 85 (1) of the Rome Treaty. This notice was based on the "scope-of-the-patent" theory well known from the German GWB (Antitrust Law) and, although many had contested the usefulness of that German law, the notice was well received as a workable basis for considering legality of license agreements. However, soon the Commission started to limit the scope of its own notice by decisions on various license agreements, which decisions were never challenged in Court until the Maize Seed case came up.

The Commission issued nine decisions in licensing cases, the results of which were packed into the draft of a group exemption regulation published in March 1979. This draft was completely unsatisfactory and impractical since it mentioned so many "no-nos" that only a very small number of agreements would have been exempted. The general opposition was so definite both from the industry as from the Member States that it was put aside for some time, probably to await the decision in the Maize Seed case and it is now expected to reappear in a revised form.

## THE MAIZE SEED CASE

INRA, a French national institute for agricultural research, developed new maize varieties which were the object of French breeders' rights certified and recognized in France. INRA entered into a first agreement with Mr. Eisele in 1960.

Eisele had the obligation to obtain the registration

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of the breeders' rights in the Federal Republic of Germany which, however, could only be obtained, at that time, in the name of a German applicant. Thus, Eisele obtained the registration in his own name and, in a later agreement with INRA, the exclusive distributorship for Germany. In fact Eisele had an exclusive license to breed the varieties in Germany and INRA had obliged itself (and its general licensee FRASEMA) to prohibit all exports of the varieties concerned into Germany.

Based on these rights, Eisele and his company Nungesser imported and bred seeds of the INRA varieties and sold them in Germany. It must be added that Eisele/Nungesser had the obligation to purchase a large part of the seeds from FRASEMA, and they were limited as to the quantities of seeds to be bred in Germany itself.

These agreements were challenged by the Commission as well as a settlement of a court case against a company called Louis David KG in which the latter obliged itself to only import INRA maize seed with the express consent of Eisele. In particular the Commission prohibited the following provisions of the agreements:

—Those clauses by which Eisele could claim his breeders' rights in order to stop all and any imports of certified INRA maize varieties into Germany or the export thereof into other Member States (exclusive license).

—The clause prohibiting Eisele from breeding and/or selling maize varieties of other breeders than INRA in Germany (noncompetition clause, tie-out).

—The clause obliging Eisele to sell the maize seed to a certain category of resalers only (selective marketing).

—The clause obliging Eisele to breed only one third of the maize seed necessary to cover the German market and to buy the remainder from French imports (quotas, tie-in).

—The clause obliging INRA to prohibit all and any exports of INRA maize seed into Germany as far as certified seed was concerned (absolute territorial protection).

—The clause in the settlement with Louis David KG according to which it was prohibited from selling INRA maize seed in Germany without the consent of Eisele.

Regarding the first point, the Commission repeated its known opinion that exclusive licensing was always a violation of Article 85 (1) since "by licensing a single undertaking to exploit its breeders' rights in a given territory the licensor deprives himself for the entire duration of the contract of the ability to issue licenses to other undertakings in the same territory", and "by undertaking not to produce or market the product

himself in the territory covered by the contract the licensor likewise eliminates himself, as well as FRASEMA and its members, as suppliers to that territory." Of course the Commission seems to forget that nobody can force INRA and/or FRASEMA to license anybody to breed INRA maize seed and that licensing is usually a better means to create competition than keeping all the rights with the owner.

## THE ACTION BROUGHT BEFORE THE COURT OF JUSTICE

Eisele/Nungesser brought an action for the partial annulment of the Commission's decision before the Court of Justice in 1978. The Court had problems making its decision, which took no less than four years to finalize.

The action only concerned the first and fifth point made hereinbefore, i.e. the exclusivity and the absolute territorial protection whereas the other points of the decision were not challenged. From the five contentions made by Eisele we shall only consider contentions 3 and 4 since the others are not relevant in this connection.

*Contention 3 (A)* brought forward that plant breeders' rights were not comparable with other industrial property rights and that the uncontrolled marketing of the variety implemented a risk of degeneration likely to cause considerable damage to the whole of agriculture in the territory in question. The Court of Justice, however, turned down this contention mainly on the ground that there are other products in a similar condition such as foodstuffs, beverages and pharmaceutical products and that the breeders' position is not different from the situation of a pharmaceutical company. Breeders' rights must, thus, be considered in the same manner as other industrial property rights.

*Contention 3 (B)* is by far the most important in our context since it deals with the applicability of Article 85 (1) to exclusive licenses. The claimants' argument was that no grower or trader would be ready to take the risk of launching the new product on a new market if it were not protected against competition from the holder of the breeders' rights and from his other licensees. The Court's considerations were split in two: the first one deals with the so-called "open exclusive license" which was recognized, in the particular case, not to be in itself incompatible with Article 85 (1) of the Treaty, and the second one deals with the "absolute territorial protection" which was considered as intolerable in view of the large former decision practice of the Court of Justice regarding the territoriality of industrial property rights.

In the first case of the "open-exclusive license" the Court held that in fact the effort in time, money, and risk of a grower was such that a certain security by way of an exclusive right was justified in that particular case.

In the second case the Court held that the agreements in question were effectively intended to restrict competition from third parties on the German market by using the breeders' rights and that these measures have to be considered as an infringement of Article 85 (1) of the Treaty. The Court mentions the

case "Grundig/Consten" and further cases, although in fact these do not directly concern the situation involved.

*Contention 4* challenged the refusal by the Commission to grant exemption under Article 85 (3) of the Treaty since, in the opinion of the claimants there were sufficient reasons to justify an exemption. The Court, however, rejected this contention in toto saying that since the products involved are seeds intended to be used by a large number of farmers for the production of maize, an important product for human and animal feedstuffs, absolute territorial protection manifestly goes beyond what is indispensable to the improvement of the production or distribution or the promotion of technical progress as is demonstrated in particular in the present case by the prohibition of any parallel imports of INRA maize seeds into the Federal Republic of Germany, even if those seeds were seeds bred by INRA itself and marketed in France.

## POSITION OF OTHER LICENSEES NOT CLARIFIED

Although the decision results are quite clear, doubts may remain regarding the situation of other licensees of the same licensor in various countries outside the exclusive licensee's territory.

In fact the Court has declared to be void the decision of the Commission in as far as it entails:

—An obligation upon INRA or those deriving rights through INRA to refrain from having the relevant seeds produced or sold by other licensees in Germany.

—An obligation upon INRA or those deriving rights through INRA to refrain from producing or selling the relevant seeds in Germany themselves.

This seems to be a very clear answer regarding the position of other licensees: they may be prevented from producing in Germany and from selling *directly* into Germany. Why in fact should the licensor (INRA) or its general licensee (FRASEMA) be treated in another way than other licensees.

However, in two paragraphs of the Court's considerations there seems to be a different opinion since there it is said that an "open-exclusive license" does not infringe Article 85 (1) i.e. "as long as parallel importers and licensees for other territories are not involved". This is contradictory to the decision itself. It is also contradictory to the considerations of the Court in paragraph 57 where it deals with the right to grant exclusive licenses and where it says that the prospective licensee would not be certain that other licensees would not be his competitors within his own territory and thus refuse to take out a license in the first place.

*All of these considerations seem to allow the conclusion that it is legal to prohibit licensees to export products manufactured under a license from a particular licensor into other territories where an exclusive license has been granted to others.*

## CONSEQUENCES FOR DRAFTING LICENSE AGREEMENTS

It has been said that the Maize Seed Judgment of the Court of Justice was largely a confirmation of the Commission's practice. This is inaccurate. In fact the

Court has clearly stated that at least in cases where the licensee has to invest certain amounts of money, work, and risk to promote a product in his territory, including in particular registration of products in accordance with local rules and regulations (not only pharmaceuticals but also food products, electrical appliances, water purification plants, etc. the regulation of which is still not harmonized), it is legal and not a violation of Article 85 (1) to grant exclusive licenses.

As stated above, the Court has clearly said *in the decision itself* that the licensor may prohibit licensees from exporting licensed products direct into another licensee's territory, whereas it did not mention the case of the licensor prohibiting the export, by other licensees, into his own territory. It is believed that this conclusion can be inferred, however, since the licensor would, otherwise, in many cases refuse to license anyone within a reasonable reach of his own market.

The Court has clearly confirmed, on the other hand, that absolute territorial protection by controlling the flow of goods beyond the point of first marketing is a clear infringement of Article 85 (1) and should not, as a rule, be exemptable. In view of the practice of the Court of Justice regarding industrial property rights and territoriality within the EEC, this had to be expected and it is not advisable in any case to utilize such clauses. This confirmation is not, however, a confirmation of a Commission practice but of a longstanding practice of the Court itself.

That is all the Court of Justice has decided. It did not have to rule on:

- Noncompetition clauses (tie-out).
- Selective marketing.
- Tie-in and quota.

Thus, these issues remain undecided at the Court of Justice level.

However, as a matter of fact, it is prudent to avoid such clauses in license agreements in any way related to the European Community, because of the practice of the Commission. No doubt these points will be mentioned in the forthcoming Group Exemption.

#### THE FREE TRADE COUNTRIES

It will be of interest to the reader to know the situation of the Free Trade Countries (i.e. Austria, Norway, Portugal, Sweden and Switzerland). In fact, up to the decision of the Court of Justice in *re Polydor/Harlequin*, the Commission was of the opinion that the

Court's practice regarding the territoriality of industrial property rights was also applicable to the Free Trade Countries. The Court ruled in that decision that products being marketed in a Free Trade Country are not considered as part on the EEC market and that thus industrial property rights in a country of the EEC could be used against the importation of such products. This case concerned copyrights (records) and is certainly to be applied by analogy for patents and other industrial property rights.

As a last remark it should be emphasized that a forthcoming Regulation for the Group Exemption of Patent License Agreements should be drafted in a way allowing a large percentage of existing and normally concluded license agreements. Otherwise, it will not contribute to the simplification of exemption procedures and to an increased legal certainty which has already done great harm to the licensing business in Europe.

#### I. Decisions of the EEC Commission in Licensing Cases

- Burroughs/Delplanque	Dec. 22, 1971
- Burroughs/Geha-Werke	Dec. 22, 1971
- Raymond/Nagoya	June 9, 1972
- Davidson Rubber Co.	June 9, 1972
- Kabelmetall/Luchaire	July 18, 1975
- Bronbemaling/Heidemaatschappij	July 25, 1975
- AOIP/Beyard	Dec. 2, 1975
- Breeders' Rights (Maize Seed Case)	Sept. 21, 1978
- Vaessen/Morris	Jan. 26, 1979

#### II. Decisions of the Court of Justice of the European Communities re Industrial Property and Licensing Cases

- Grundig/Consten	July 3, 1966
- Parke, Davis & Co.	Feb. 29, 1968
- Sirena/EDA	Feb. 18, 1971
- Deutsche Grammophon/Metro	June 8, 1971
- Van Zuylen Freres/Hag	July 3, 1974
- Centrpharm/Sterling Drug	Oct. 31, 1974
- Centrpharm/Winthrop	Oct. 31, 1974
- EMI/CBS (3 decisions)	June 15, 1976
- Terrapin/Terranova	June 22, 1976
- Hoffman-La Roche/Centrpharm	May 24, 1977
- Centrpharm/Amer. Home Prod.	Oct. 10, 1978
- Merck/Stephar	July 14, 1981
- Pfizer/Eurimpharm	Dec. 3, 1981
- Polydor/Harlequin	Feb. 9, 1982
- Nungesser + Eisele (Maize Seed)	June 8, 1982