Survey of the Patent-Antitrust Controversy in International Trade

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A SURVEY OF THE PATENT-ANTITRUST CONTROVERSY IN INTERNATIONAL TRADE

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A SURVEY OF THE PATENT-ANTITRUST CONTROVERSY IN INTERNATIONAL TRADE

I. Introduction

Under a patent system, a patentee is given the right to prohibit others from making, using or selling the patented article within a given territory for a specified period of time. A patent can only confer rights within the nation in which it is granted. Thus, a patent owner will have to obtain a patent in each country in which he wishes to retain the exclusive right to exploit an invention.

Legal problems facing a patentee operating in the international sphere are becoming increasingly complex. Not only is the patentee confronted with the necessity to comply with the myriad variations of patent laws peculiar to each nation, but he must also be wary of possible antitrust violations caused by his patent licensing agreements and operations. And, of course, national antitrust laws vary just as patent law formulations do. Thus, to be free of legal difficulties, any American industry operating in Western Europe must be mindful of the patent and antitrust laws of each nation in which it intends to conduct business, as well as the general problems of the patent-antitrust interface.

A survey of recent cases dealing with the patent-antitrust controversy will here be presented. Particular focus will be given to the areas involving: price considerations; territorial limitations; and exclusive licenses. The cases discussed include decisions by European national courts, the EEC Commission, the European Court of Justice, and a United States Court of Appeals. While the cases commented upon do not explore all aspects of the issues, they do serve to illustrate the most recent trends in the international sphere.

II. The Theoretical Background of the Conflict

Before proceeding with an analysis of the decisions in this area, it is necessary to explore the underlying rationale of both patent and antitrust laws, so as to facilitate an understanding of the potential conflict between the two. The right conferred on the patentee to exclude others from producing the article, in effect, allows the patentee a limited legal monopoly with respect to production and sale of that article. Yet, due to a lack of resources, or commercial know-how, a patentee acting alone may be unable to fully exploit his invention to the extent allowable by law. Through licensing agreements, however, the patentee may be able to combine his technical knowledge with the commercial savvy of a licensee. Moreover, such agreements are beneficial to the licensees who are thus able to make, use, or sell patented products without the risk of liability for infringement of the patent. Use of restrictive covenants in these agreements

enables the patentee to bargain away all or only a portion of his original rights.³ Herein lies a possible violation of antitrust laws.

The patent, even though it grants a legal monopoly, is not in itself a problem. The prohibitions of the antitrust laws are generally directed towards a combination of two or more persons effecting some restrictions upon the free flow of commerce. Difficulty arises when the patentee, attempting to exercise profitably his legal grant, conditions his licensing agreements with restrictions. The problem, therefore, becomes one of delineating those restrictions which are both helpful to the parties and acceptable under the antitrust laws. A patent owner's right to impose restrictions on his licensee is not absolute.⁵ Courts have recognized that only a limited monopoly, at most, is conferred by a patent. Hence, certain patent licensing provisions, such as pricing agreements, territorial restrictions, and exclusivity clauses, have come under attack as constituting either patent misuse or antitrust violations. Patent misuse occurs when the patentee attempts to use the patent to secure rights which are beyond those granted by the patent itself.⁶ If misuse is found, the patentee may be denied relief in an infringement action.⁷ However, unjustifiable licensing restrictions having an adverse effect on competition go beyond simple patent misuse. Rather, such restrictions are outside the protection of the patent grant and involve antitrust violations.⁸

Antitrust violations rarely result from the unilateral action of the patentee. Admittedly, when the patentee occupies a dominant position and uses his patent to exploit that position, the law may intervene, despite the lack of concerted activity.¹⁰ However, most antitrust laws require an element of combination: the involvement of more than one party.¹¹ Consequently, once the patentee enters into an agreement with a licensee, restrictions in that agreement will be susceptible to scrutiny for possible antitrust violations.

The rationale underlying a patentee's liability for antitrust violations is

⁴ 309 U.S. at 456.
⁶ A. Neale, supra note 7, at 325. Such relief is denied since he comes before the court with unclean hands. The unclean hands doctrine was first applied in Morton Salt v. G. S. Suppiger Co., 314 U.S. 488 (1942).
⁷ A. Neale, infra note 7, at 325. If the patentee's licensing restrictions have no monopolistic or anticompetitive effects there will be no antitrust violation even though the court may find that the patent was misused. For example, a tying arrangement in a licensing agreement can be a misuse of a patent since the patentee is attempting to extend the scope of his patent monopoly to an item which is not protected by the patent. If, however, the patented tying product has only a small percentage of the relevant product and geographic markets, then there may not be a "substantial effect on competition" in the tied product for purposes of a Clayton Act violation. But where the patentee's hold on the relevant market is such that the tying arrangement does have the requisite effect on competition, an antitrust violation as well as simple patent misuse may be found.
¹⁰ F. Hoffmann-La Roche & Co. A.G. v. Secretary of State for Trade and Indus., [1975] A.C. 295 (1974), discussed in this note at III B(3) infra, provides an example of a patentee's actions being subjected to competition laws even when no licensing agreement is involved.
¹¹ This element of combination is embodied in both § 1 of the Sherman Act, 15 U.S.C. § 1 (1970), and in Article 85 of the Treaty of Rome. Mar. 25, 1957, 298 U.N.T.S. 11, 47. Articles of the Treaty of Rome will be cited without further reference. The provisions of the Treaty and implementing regulations may be found in the CCH Common Market Reporter [hereinafter cited as CCH].
based on the notion that the patent right is not absolute. Although the patent holder is given limited protection from the general operation of antitrust laws, he forfeits such protection by attempting to exceed the scope of the rights originally granted him. Accordingly, the delineation of these rights is the center of the patent-antitrust controversy.

Resolution of this dispute requires distinguishing between those activities which are a legitimate exercise of patent rights and those which are not. In the United States, a patent is properly exercised when its use "is reasonably within the reward which the patentee by the grant of the patent is entitled to secure." By contrast, the basis upon which the European Economic Community determines the propriety of the activity is whether the right asserted is one which goes to the "essence" or "existence" of the patent or merely to the "exercise" of the industrial property right.

Obviously, judicial tests such as those outlined above are not particularly helpful in determining whether a restriction will be upheld by the courts. The problem is compounded in cases of international patent licensing agreements whose formulation requires familiarity not only with the patent and competition laws of foreign countries but also with judicial attitudes concerning these laws. Thus, given the ambiguity and the variety of the standards to be applied, recent cases which have interpreted competition laws with respect to patent licensing agreements take on increasing significance.

III. Price Restrictions

A. Introduction

The sole producers of patented items in any country are the patentee and his licensees. Any unlicensed production of a patented product is unauthorized by the patentee, and, thus unlawful. Since the number of licensees is within the discretion of the patentee, the only competition extant is that expressly allowed by the patentee. If the patentee chooses not to license his patent he is completely insulated from the effects of competition.

Two significant problems involving price fixing result from this situation. If the patentee licenses his product, he may, as a precondition to granting the license, dictate to his licensee the price at which the patented item is to be sold. This practice has been seriously questioned since the very nature of a patent and its concomitant rights indicate that only those individuals licensed will be able to lawfully sell the product and, thus, the only potential for price competition will be the different prices established by the patentee/licensor and licensee. An additional and potentially more dangerous antitrust problem is that of reciprocal

12 See 332 U.S. at 395-96.
price maintenance. This problem arises when both the licensor and licensee are bound by the licensing agreement to charge a minimum price.

Since competition laws vary from nation to nation, and laws are at different stages of development in each country, an analysis of the patent-antitrust interface in an international context is difficult. Nonetheless, the varying national courts' methods of dealing with these problems are sufficiently similar to yield important comparisons. More important than these comparisons, however, is a recognition of the various approaches courts are taking with respect to patent-antitrust problems in the area of pricing.

Three cases decided by European national courts, in the area of price restrictions on patented products, are presented here to give some broad indications of the reception that this type of problem will receive in the courts of Europe. Emphasis will be placed upon those factors judicially considered in determining whether a particular price restriction exceeds the patent right, and those factors courts have considered relevant in determining whether the particular restriction should be allowed will be indicated.

B. Analysis of Recent Decisions

1. Näringsfrihetsombudsmannen v. AB Dubbman and Scason Svenska AB

In Dubbman, the Market Council of Sweden was faced with the question of whether price-fixing and a quota clause in a patent licensing agreement constituted an illegal restraint of trade. In 1968, Fagersta Bruk A.B. acquired a Swedish patent covering anti-skid spikes for automobile tires. Fagersta and a competitor established the AB Dubbman sales corporation and granted to it a license for the exclusive distribution of its patented spikes in Sweden. In 1969, Dubbman, in turn, granted a non-exclusive license to Scason Svenska AB for producing and selling those spikes. Together, Dubbman and Scason controlled 85% of the Swedish market. The actual licensing agreement contained a quota limitation calculated on the basis of the preceding year's sales, and a requirement that the spikes be sold according to a jointly prepared price list.

The Ombudsman for Free Competition brought an action under § 1 of the Swedish Cartel Act "to eliminate the harmful effects of restraints of competition" resulting from the agreement between defendants, Dubbman and Scason. The defendants asserted that the Cartel Act was not applicable to their contract since the agreement had its foundation in a patent right. Moreover, even if the Act were applicable, no harmful effects flowed from the licensing arrangement and, therefore, no violation was involved.

In dealing with the first issue raised by the defendants, the court was con-
fronted with the primary question involved in all patent-antitrust litigation: Are agreements, having their basis in a patent right, subject to legislation prohibiting restraints of trade? According to the Swedish court the answer to this question:

depends on whether the exploitation of the patent, which in and of itself is legitimate, implies a restraint of competition which produces effects in excess of those that are justified by the patent right.\[20\]

Hence, if the exploitation of the patent exceeds this scope the cartel laws apply. It is immaterial that the agreement was premised on a valid patent.

The court concluded that fixing the price at which the licensee could sell the patented item was "probably outside the scope of the patent right,"\[21\] and found this price restriction violative of Sweden's antitrust laws. Such a finding is especially mandated when, as here, the licensor is also bound to observe a set price. In those instances, such an agreement would produce a price cartel, unprotected by the patent right, which is therefore subject to competition laws.

Unfortunately, the court failed to adequately detail its reasons for holding that the clause was beyond the scope of the patent right. Instead, the court merely noted that the failure of one of the parties to abide by the joint price list would have resulted in an action for breach of contract rather than for patent infringement. In other words, the enforcement right was lodged within the contract and was equally available to both licensor and licensee. By contrast, the enforcement right embraced within the patent laws is available only to the patentee. Therefore, the Swedish court felt that the true basis of the price restriction lay in the licensing agreement rather than in the patent right. Thus, the licensing restrictions were not within the appropriate scope of the patent right and, accordingly, were not insulated from an antitrust attack.

Having decided that the patent licensing agreement was subject to the cartel laws, the court then considered whether the agreement contravened these laws. Section 5 of the Cartel Act forbids those restraints of competition which, contrary to the public interest, unduly affect price formation.\[22\] Since the firms involved had a large share of the total market, the court concluded that their contract severely limited competition in Sweden. Moreover, their domination of the industry enabled them to maintain prices at mutually agreeable levels. The timing of the agreement coincided with a reversal in the downward trend of prices that had existed for several years. Furthermore, in the virtual absence of competition, there was a strong possibility of a future price increase to which both parties would be bound. Thus, the court concluded "that when viewed from the standpoint of the general public the price arrangement at issue unduly influences the formation of prices,"\[23\] and, consequently, ordered that proceedings be initiated to remove those undue effects.

Four members of the court dissented, contending that any undue effect on prices was a result not of the agreement but of the patent itself. Since the patent granted a monopoly, the owner could ask and receive a higher price for the

\[20\] Id. at 350.
\[21\] Id. at 351.
\[22\] Id. at 348-49 n.3.
\[23\] Id. at 352.
item than would otherwise be possible. Therefore, if the patentee, as the sole producer, could have freely set prices at any level without exceeding the sphere of legal conduct, there could be no undue effect if the same result were reached under a patent licensing agreement. The public would pay the same price in either case; it could not be claimed that the public interest was harmed.

The key difference between the majority and minority opinion lies in the interpretation each gives to the phrase “undue effects.” Both agreed that prices were affected by the licensing arrangement. But in the eyes of the majority, an “undue effect” operating against the public interest was demonstrated merely by showing that the licensing agreement had already caused price raises and might cause future increases. The dissent, however, claimed that effects are “undue” only if the same pricing policy would have been illegal had the patentee been acting alone. If the resulting prices would be permissible under an unlicensed patent, then they are necessarily within the scope of the patent when licenses are granted. Hence, the dissent would have required an affirmative showing that the “undue effect” arose from the licensing agreement and not from the patent itself.

The weakness in the dissent’s reasoning is apparent. Although the patentee might have kept the patent for his sole use, thereby guaranteeing his right to control prices, he did not in fact choose to do so. Instead, the patentee decided to exploit his patent through licensing agreements and earn additional compensation by way of royalties. It would be inappropriate to allow a patentee to retain the rights he had when acting alone if he has chosen to act through licensees. Thus, in light of the patentee’s free choice regarding the formation of a licensing arrangement, the majority’s approach of focusing on the actual decision of the patentee more clearly reflects sound reasoning.

2. *Re Brake Rollers* 24

Germany, like Sweden, has recently faced problems of price restrictions in patent licensing agreements. However, due to a specific statutory scheme embodied in their antitrust laws, the Germans have dealt with the issue differently. The German Restraint of Competition Act (GWB) 25 is distinctive because it contains provisions directly related to patents and patent licensing agreements. Section 20(1) of the GWB invalidates those restrictions which “exceed the contents of the protected right.” 26 However, the statute further lists certain common licensing restrictions which do not fall into this proscribed category. Accordingly, agreements restricting territory, quantity, or the extent or period of exercise will not be struck down.

In *Re Brake Rollers*, the issue presented to the German Federal Supreme Court was the validity of a reciprocal price maintenance clause in a patent licensing agreement. The German plaintiff and his employee held patents both

24 60 BGHZ 312 (1973). All further references to the case will be made to 13(I) Comm. Mkt. L.R. 129 (1973).


in Germany and abroad for a new type of brake roller designed by the employee. The parties retained their German patent rights, but granted exclusive licenses to the defendant for the remainder of Western Europe. The licensing agreement precluded the plaintiff and the inventor from exercising their patent rights in the defendant-licensee’s territories and established minimum sales prices binding both the licensor and the licensee. The licensee later cancelled the contract, claiming that the invention lacked the novelty essential to the patent grant. Subsequently, the plaintiff brought suit for payment of the license fees.

The court concluded that the agreement clearly fell within the sphere of the GWB. Coverage under the statute was predicated upon the fact that the licensing agreement prevented the defendant from importing into Germany, as well as binding the plaintiff to maintain minimum sale prices on the domestic market. However, even though the court found that the agreement was subject to the GWB, it was unclear whether the license restraints actually violated the GWB. Nonetheless, it was apparent that the outcome would be the same whether the arrangement was viewed as a restriction only on the licensor or as a reciprocal price maintenance agreement.

Section 20(2)(ii) of the Act provides that obligations on a licensee with respect to pricing do not violate § 20(1) of the competition law. Yet, because § 20(2)(ii) refers only to restraints on a licensee, it was held not controlling in situations, such as here, in which the restrictions had been placed on the licensor as well. In the absence of specific legislation, the court determined that “controls on the licensor must therefore be dealt with in accordance with the provisions of the law generally.”

In this respect the court examined the underlying objectives of § 20(2)(ii) to determine their applicability to the validity of licensor restrictions. The court found that the law was intended to promote the licensor’s interests, not to inhibit them. Due to the very nature of patent licensing agreements, the licensor has a special concern in compelling the licensee to maintain a stated price. The licensor’s royalties are often based on a percentage of the price. Additionally, the licensor will want to set his prices at a level at which the licensee will not undercut the licensor’s own sales. The court held that § 20(2)(ii) of the GWB recognized that these interests of the licensor outweighed the requirement of maintaining free competition, and thus allowed the licensor to impose such restrictions. However, in the court’s view, it could not be assumed that the legislature had intended that the interests of the licensee be given a similar priority.

Thus, neither the language nor the underlying objectives of § 29(2)(ii) could be interpreted as granting validity to the restrictions in question when they are viewed as a unilateral restraint on the licensor. The court logically concluded that if the restriction were analyzed as one involving reciprocal price maintenance, the result would remain unaltered. Since a reciprocal arrangement by its nature involves restrictions on the licensor, which had already been shown to be unsupportable under § 20(2)(ii), this result was inescapable.

By considering the reciprocal price arrangement in “the light of general

27 Id.
28 Id. at 134.
legal principles," the court found again such an arrangement to be without support. Though German law does allow price maintenance agreements in some situations, the normal justification for such arrangements does not apply to patent licensing agreements. The purposes of a typical price maintenance agreement can only be achieved if all parties observe the controlled price. According to § 20(2)(ii), the court determined that in a licensing agreement the licensee is not concerned with having the licensor maintain a fixed price. The licensee's interests simply require that under the terms of the agreement he be able to meet or approximate the prices charged by the licensor. Similarly, the licensor's interest in receiving adequate compensation for his patent can be assured without his observance of a set price. Therefore, since the justifiable interests of the parties to a patent licensing agreement can be fulfilled without resort to reciprocal price maintenance, the employment of such a pricing system is not allowed. Hence, the price maintenance clause, reciprocal or otherwise, was void under either § 1 or § 15 of the GWB.29

In deciding this case the court did not consider the actual or potential effects of the agreement on competition in the Federal Republic. It restricted itself to analyzing the provisions of the GWB that deal with patent licensing and the general legal principles that apply to price maintenance agreements. However, even when discussing the applicability of general principles of law, the court interpreted those principles only in light of the legitimate interests that the GWB was intended to protect. It therefore seems that, in Germany, questions concerning the validity of restrictions in patent licensing agreements will be answered in accordance with either the express provisions or the underlying purposes of § 20 of the GWB; potential harm to competition in an individual case will be given very little consideration.30

29 Since the parties provided in the agreement that any invalid provision would be replaced by another aimed at comparable commercial ends, the decision of this court did not render the licensing agreement unenforceable.

30 In addition to violating German law it was also alleged that the licensing agreements violated the competition laws of the Common Market, Articles 85 and 86 of the Treaty of Rome. According to EEC case law the existence of patent rights depends on national law but the exercise of such rights is subject to the provisions of the EEC Treaty. Thus, the invalidity of an agreement such as this could be premised on violation of either German law or EEC law.

Article 85 outlaws agreements which are liable to affect trade between member-States and which restrict competition within the Common Market. In particular, this includes agreements which "directly or indirectly . . . fix purchase or selling prices." Thus, a price-fixing agreement for a patented article seems to fall clearly within this prohibition. However, in this case the agreement was found not to violate Article 85(1), since an agreement is void under this section only if it "noticeably" affects trade between member-States. In Brake Rollers the number of brakes manufactured was too small to have an appreciable effect on trade between nations. Thus the agreement was not held void under Article 85.

Furthermore, no violation of Article 86 was found. Under this provision, any abuse of a dominant position within the Common Market, such as "directly or indirectly imposing unfair purchase or selling prices," is prohibited. However, a patentee, who has obtained a legal monopoly, does not necessarily have a dominant position in the EEC under Article 86. Since the parties in this case did not control the brake roller market they were found not to have the required dominance and therefore Article 86 was inapplicable.

Consequently, while in this case EEC law did not have any effect on the agreement, it is possible that an agreement restricting prices for patented products may be declared void not only under national law but also under Common Market law.
Both Brake Rollers and Dubbman involved price restrictions in patent licensing agreements. However, the pricing policy of a patentee may come under attack even when the patent has not been licensed. Thus, a violation of competition law can be based not only on an improper agreement, but also on a wrongful exploitation of the patent itself. The following discussion of the Roche case, a recent British decision, clearly illustrates this point.

The Roche case, as it came before the House of Lords, involved a procedural question; however, the facts of the case have important implications in the patent-antitrust controversy. Directly involved was the application of the Monopolies and Mergers Act 1965 to a patented article.

Roche held British patents for the drugs Librium and Valium. The Secretary of State for Trade and Industry believed that the company was charging excessive prices for these drugs and referred the matter to the Monopolies Commission for an investigation and report. The Commission determined that Roche had control of over one-third of the market for its product and, therefore, the monopoly conditions necessary for application of the Monopolies and Restrictive Practices (Inquiry and Control) Act 1948 were present.

In accordance with § 7(2) of the Act, the Commission then proceeded to make several findings essential to its report to the Secretary of State. It determined, first, that the pricing practice under investigation was "a result of, and for the purpose of preserving" monopoly conditions. Additionally, the Commission found that the practice "operate[d] and may be expected to operate against the public interest." In reaching this conclusion the Commission took into consideration the costs involved in sales promotion, overhead, and research and development, noting that:

[s]ome of the cost figures referred to—in particular those for research and promotion costs—grossly exceed the levels that should be taken into account to arrive at fair prices.

The Commission found that Roche had already recovered a higher percentage of current research costs and was working with a higher profit margin than could
possibly be justified in light of the public interest. Therefore, they recommended to the Secretary of State that Librium and Valium be sold for no more than 40% and 25% of their respective 1970 prices.

Under the Monopolies and Mergers Act 1965, the Secretary of State is empowered to act on the report of the Commission by regulating the prices charged for goods or services. However, the Secretary cannot exercise this power "unless it appears ... that [the] prices charged ... are, or have been, such as to operate, or to be expected to operate against the public interest." The Secretary of State did find that Roche was operating against the public interest and ordered the price reductions recommended by the Commission. Although both the original order and a subsequent one expired because they were not approved by both Houses of Parliament, a third order passed and became permanent. Roche executives indicated that they would disregard the order, claiming it was ultra vires. The Secretary of State obtained an injunction requiring Roche to charge only the allowed amount. Meanwhile, Roche brought an action against the Secretary of State to invalidate the order, alleging that the Commission did not observe the "requirements of natural justice" and that the price levels fixed were arbitrary and penalizing.

The case was eventually settled out of court, with Roche agreeing to pay the government the amount of excess profits between 1970-1973, totaling £3,750,000. In return, Roche was allowed to raise its prices on the drugs to a level still well below the prices they had been charging prior to the ordered price cut.

Obviously, the Roche case has important implications for any company holding a British patent. The monopolistic practices forming the basis of this action resulted from the defendant's exercise of its two British patents. If the Commission follows a similar procedure in the future, it need find only that a company with a patent has a monopoly in the United Kingdom. Such a determination carries with it the concomitant authority to investigate that company's pricing arrangements. Although a company can attain a monopolistic position by virtue of government granted patents, those patents will afford their owner no protection from British competition law. The law, clearly, gives the government the power to regulate prices, and that power may be employed whenever prices operate or may be expected to operate against the public interest. In Roche, the government determined that the price levels were against that interest because the firm was making more than what the government deemed to be a fair profit.

Although research and development costs may be weighed in determining

40 Id. ¶ 213-15.
41 Id. ¶ 237.
42 Monopolies and Mergers Act 1965, c. 50, § 3(4) (c).
44 Id. at 348-49.
45 Times (London), Nov. 13, 1975, at 1, col. 4.
46 At time of the Roche case § 3(1) of the Monopolies and Restrictive Practices (Inquiry and Control) Act 1948, 11 & 12 Geo. 6, c. 66, provided that monopoly conditions existed if a company controlled one-third of the market in the United Kingdom. This Act was repealed and the Fair Trading Act 1973, c. 41, provides in § 6(1) that a monopoly situation shall be deemed to exist when one company supplies one-quarter of the goods in the United Kingdom, thus increasing a company's susceptibility to investigation.
the reasonableness of profit, the contention that a company uses its profits to expand its research and development in the public interest will not be unassailable.\textsuperscript{47} Even when it is claimed that huge investments will ultimately benefit the consumer, there is a limit to what a patentee may charge when viewed in light of the government's statutory power to regulate prices.\textsuperscript{48}

If a company has a monopoly with respect to a product, it is quite possible that it may charge prices in excess of what can be regarded as a fair price. Since there is no price competition in such a situation and, thus, no incentive to keep prices at a fair level, the government is charged with the responsibility of protecting the consumer. The government will base its actions primarily on its determination of what constitutes a fair profit, irrespective of the existence of a patent. If more than a fair profit is being made on a patented article, the producer will be susceptible to the scrutiny and sanction of the British government.

\begin{flushleft}
\textbf{C. Comparison of Recent European Decisions Involving Patents and Price Restrictions}
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In these three cases, the varying national courts limited the extent to which a patentee or his licensee could fix the prices of patented products. However, the circumstances under which a price restriction was deemed illegal, or was subjected to governmental control, were different in each case. In Germany, the GWB clearly permits a restriction on the licensee requiring him to charge a specified price for the patented article, whereas a similar provision restricting the right of the licensor will not be tolerated. Conversely, the Swedish Court in Dubbman found restrictions on both the licensor and licensee to be invalid. The Roche case went even further in that no restrictive licensing agreements were involved. Rather, the patentee, as the sole user of his patent, was restricted from setting arbitrarily high prices.

Although each case was decided on its own particular facts and under different laws, it is important both to understand why the courts found these restrictions to be illegal, and to note what factors the courts looked to in their determinations of invalidity. The German courts view patent restrictions primarily in the light of the GWB and its underlying objectives. This approach arises from the rather unique fact that patents and patent licensing agreements are specifically treated in provisions of the GWB. Such provisions note that certain restrictions are per se illegal, while others are per se legal. Thus, the courts analyze the restriction in question to determine if it falls into one of the two categories. If the restriction lies somewhere between these extremes, however, and if it is not found to be a natural concomitant of one of the particular exceptions, then it is regarded as outside the patent right and, thus, invalid. The actual harm caused by the restriction is of little probative value in German judicial thinking.

On the other hand, both the Swedish and the United Kingdom cases

\textsuperscript{47} \textit{REPORT} \textsuperscript{47} \textit{J} 224.

\textsuperscript{48} In his opinion, Lord Morris expressed the philosophy behind the granting of this regulatory power. He noted that one of the functions of the Secretary of State is to promote the public interest in the face of monopolistic conditions. [1975] A. C. at 342.
emphasize the effect the price restriction has on the consumer. The interests of the public take precedence over the interests of the patentee in Sweden and England. The Swedish and English courts both looked to a combination of the following factors in order to determine whether the activities were against the public interest: (1) Whether a monopolistic situation was in instance; (2) whether the practice in question was carried out for the purpose of preserving the monopolistic condition; (3) whether there was an actual adverse effect on prices; and, (4) whether the price charged resulted in excess profits for the patentee. In view of these factors, the Swedish court found the agreement to constitute an illegal restraint of trade. Likewise, the British court found that the patentee was operating against the public interest and should be denied the freedom to set the price at which his product will be sold.

These cases are of particular importance to American patent owners involved in international trade, whether they own patents in other countries and are exploiting the patents themselves, or are making use of a patent licensing agreement in order to exploit foreign patents. These foreign courts seem to have gone beyond the United States courts in determining which antitrust considerations should override a patentee's freedom to set prices.\(^4\) Thus, since the trend abroad seems to be towards declaring pricing restrictions illegal, it would be wise to avoid such restrictions when drafting a foreign licensing agreement, unless the foreign law specifically permits them.

The American patent owner who chooses to operate abroad must also be cautious in setting his own pricing policies. As the Roche case indicates, the English position with respect to unilateral price setting by the patentee is diametrically opposed to the American outlook. According to the United States approach, a patentee "can manufacture and sell at such price as he may choose."\(^5\) Moreover, absent any overriding unlawful conduct, a patentee can usually charge whatever the market will bear for patented products and licenses.\(^6\) In Great Britain, however, the patentee's position is not so secure; he may not always enjoy the unrestricted freedom in pricing which he has in the United States. He may only charge a price that permits recovery of a fair profit.

The foreign courts are moving in a direction which strongly favors antitrust policy over patent protection in cases involving price restrictions. Thus, American patent owners who hold international patents or who are involved in international licensing agreements should pay particular attention to any price restrictions despite their validity under United States law.

IV. Division of Markets Through Territorial and Exclusive Licenses

As the previous section indicates, pricing problems in the patent area are adequately dealt with under national antitrust laws. However, it is important

\(^{4}\) In United States v. General Elec. Co., 272 U.S. 476 (1926) the Supreme Court upheld an agreement by which a patentee set the price at which his licensee was to sell the product. The Court was given the opportunity to reverse in United States v. Huck Mfg. Co., 382 U.S. 197 (1965), aff'g mem. 227 F. Supp. 791 (E.D. Mich. 1964), but instead upheld the G.E. doctrine by an equally divided Court.


\(^{6}\) Carter-Wallace, Inc. v. United States, 449 F.2d 1374, 1383 (Ct. Cl. 1971).
to note that when the patentee's or licensee's activities occur within an area covered by a supra-national organization, like the European Economic Community, those activities will be subject to the competition laws of both the EEC and the individual nations. In order for EEC law to apply, however, the conduct in question must affect trade between Member States. Under these circumstances it is more likely that pricing agreements will be scrutinized under national laws, since attempts to fix prices will usually have a greater and more direct effect on trade within a country than on trade between countries.

The typical effect of exclusivity and territorial arrangements, however, is the compartmentalization of trade along national lines, thereby affecting the flow of goods between countries. This inhibition of international trade is a prime example of the problems which the EEC was designed to eliminate, as evidenced by its fundamental goal of achieving the free movement of goods between Member States. Thus, while exclusivity and territorial agreements are not solely a problem of the EEC, as the American decision discussed below demonstrates, they are a central concern to that organization. For this reason, many of the recent decisions in this field have been rendered by EEC courts which are able to rely not only on their antitrust laws but also on principles of free movement of goods.

A. Territorial Restrictions

1. Introduction

An important antitrust consideration in international patent licensing is the potential use of licensing agreements to allocate exclusive national markets. Territorial exclusivity ensures that there will be no competition between licensees; it thus conflicts with the underlying principles of antitrust laws.

The partitioning of markets can be accomplished by expressly restricting the licensee from exporting the patented article to certain areas. The same result, however, can be accomplished without express agreement. Since patents are granted by individual countries, registration can only confer rights within the boundaries of the grantor nation. Therefore, the holder of parallel patents in several different nations has a set of separate national rights which are compartmentalized by territories. By licensing the patent rights for each foreign country to a different licensee, the licensor can effectively partition the international market into exclusive national territories. Should one of his licensees, or any other third party, attempt to import the patented goods into one of those areas,
the local licensee, as the possessor of the patent rights for that country, can bring an infringement action against the importer. This will generally be the case unless the applicable competition law views the patentee's rights as being exhausted at the time of the first sale. Under such a theory, exhaustion results in the loss of the ability of a licensee or patentee to exclude others from using or reselling the particular patented item. Thus, after the initial marketing, a patentee will have no right to control the goods and cannot prevent their importation since his rights are exhausted as to those goods.\(^6\)

Antitrust laws in the United States and abroad condemn a division of markets because of the consequent elimination of competition.\(^6\) Therefore, if a de facto division results from the patentee's employment of his legal power to license, the question is raised as to what extent antitrust considerations will control in analyzing the legality of the resulting arrangements.

What follows is an examination of three cases dealing with the effect of various antitrust laws on territorial restrictions in patent licensing arrangements.

2. Analysis of Recent Decisions

a. Castrol Ltd. v. Tunbridge Tyre Services Ltd. and R. C. Bateman\(^6\)

The Castrol case, decided by a district court in Holland in 1973, involved the attempted territorial division of the Common Market by a holder of parallel patents. The plaintiff, Castrol, was an English company which held patents for certain lubricants in both England and Holland. The defendants, Tunbridge and Bateman, purchased the product, which had been patented and marketed in Great Britain, and sold the item in Holland without the consent of the Dutch patentee. Subsequently, Castrol sought to enjoin the sale, claiming that under the Dutch Patent Act it had the exclusive right to market the lubricants in Holland. Section 30(2) of the Dutch Patent Act provides that if a product:

\[
\text{[H]}\text{as been put on the market in a regular manner, the acquirer and subsequent acquirers do not infringe the patent by selling . . . the product for or on behalf of their enterprise.} \quad 63
\]

Castrol asserted that since the imports were first marketed in England, not Holland, they did not meet the infringement exceptions under the Act, and must, therefore, be prohibited.

Defendants asserted that the products in question had been lawfully placed on the market within the meaning of the Act. Although the goods had been initially circulated in England, they were circulated with the consent of the same person who owned the Dutch patents. Therefore, subsequent trading in the product in Holland could not be an infringement. Citing the recent EEC case,
Deutsche-Grammophon Gesellschaft mbH v. Metro-SB-Grossmärkte GmbH & Co. K.G., the defendants argued that products patented "in one member-State... and put on the market in that member-State by the patentee, could not be barred in another member-State" simply because the patentee or his licensee also held parallel patents in that other member-State. In short, the defendants claimed that Castrol had exhausted his patent rights.

The court found defendants' arguments convincing and denied the injunction. The court stated it would be incompatible with the reasoning of Deutsche-Grammophon for a Dutch patentee to be able to use its patent rights to prohibit importation into Holland of a product which the patentee had already marketed in Great Britain under a parallel patent.

Although the court in Castrol summarily dealt with the legal principles involved, the case is, nonetheless, important for the issues that it did raise. It illustrated the questions which arose with respect to patents in view of other recent EEC decisions on free trade and industrial property rights. Furthermore, the case raised the issue of whether patents, like trademarks and copyrights, will also be denied national protection in the interest of unifying the Common Market. In addressing these issues the court concluded, however, that patent rights should receive treatment similar to that accorded other industrial property rights such as copyrights and trademarks. Consequently, protection was denied.

The court supported its decision by noting that the trend, as evidenced by the Deutsche-Grammophon case, was clearly against the patentee's ability to prohibit imports. In the Deutsche-Grammophon case, a German company held a copyright on certain records that its French sales subsidiary marketed in France. These goods were later purchased by the defendant and imported back into Germany where they were sold in competition with the records plaintiff himself had placed on the domestic market. Deutsche-Grammophon, like Castrol, sued to enjoin the sale of its own goods, claiming a violation of its industrial property rights. The European Court of Justice found that, under Article 36 of the Treaty of Rome, prohibition of imports based on the assertion of industrial property rights is not justified if it goes beyond the protection of those rights that comprise the specific object of the industrial property. Since the Dutch court in Castrol found these same principles to apply in the patent area, the plaintiff's actions could not be sustained. However, it reached this conclusion without even attempting to define the specific object of a patent. Thus, the task of explaining this central concept by which the exhaustion of a patent is determined was left to the EEC Court in Centrafarm BV v. Sterling Drug Inc.

64 10 COMM. MKT. L.R. 631.
65 13(1) COMM. MKT. L.R. at 220.
66 Article 35 of the Treaty provides in part:
   The provisions of Articles 30 to 34 shall not preclude prohibitions or restrictions
   on imports, exports or goods in transit justified on grounds of... the protection of
   industrial and commercial property. Such prohibitions or restrictions shall not, how-
   ever, constitute a means of arbitrary discrimination or a disguised restriction on
   trade between Member States.
b. Centrafarm BV v. Sterling Drug Inc.

The *Centrafarm* case presented essentially the same problem dealt with in *Castrol* and revealed that the national court in that case had correctly interpreted the EEC's trend toward disallowing national protection of industrial property rights when it would impinge on the free movement of goods within the Common Market. The plaintiff-appellee, Sterling Drug, Inc., held national patents throughout Europe for the drug Negram. Sterling licensed the patents for Germany, England, and the Netherlands to its subsidiaries located in those countries. The defendant-appellant, Centrafarm, purchased the drug in England and Germany where it had been marketed by Sterling's national subsidiaries and subsequently imported the drug into Holland without the consent of Sterling's local subsidiary.

In response, Sterling and its Dutch subsidiary, Winthrop BV, sued for infringement of the Dutch patent. They alleged that, since under the patent they possessed the exclusive right to sell the product in Holland, the sale of the imported goods infringed their patent. The Dutch district court held that, under the Dutch Patent Act, a patentee exhausts his rights when he first puts the patented item on the market, whether at home or abroad. Thus, the Dutch patentee had no right to attempt to control the resale of the goods in Holland. The appellate court, however, reversed the decision and, on final appeal, the Hoge Raad (Dutch Supreme Court) stayed the proceedings and referred several questions to the European Court of Justice.\(^{69}\)

The first question referred to the EEC court dealt with the enforcement of national patent rights in light of their anticompetitive effect. Specifically, whether a party, holding parallel patents in several member-States, may successfully assert his national patent right in any of those states when such rights would enable him to prevent importation of products lawfully marketed by his licensees in other member-States. Since a patentee's success in allocating territories through licensing agreements rests on his ability to enforce his national patent rights, the Court, in essence, was being asked whether a patent right could continue to be used as a tool for partitioning the Common Market.

The answer to this question hinged primarily on the Court's interpretation of the principle of free circulation of goods, as embodied in Articles 30 through 36 of the Treaty. As the Court noted, although Articles 30 through 35 prohibited measures restricting free movement of goods between member-States, Article 36 excepts restrictions that serve to protect industrial property. Thus, the Court did not completely deny protection to national patent rights. However, even permissible restrictions under Article 36, including the assertion of patent rights, would not be allowed if they constituted "a means of arbitrary discrimination or a disguised restriction of trade between Member States."\(^{70}\) Consequently, the

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69 Under Article 177 of the Treaty of Rome the European Court of Justice is given jurisdiction to give preliminary rulings on questions involving the interpretation of the Treaty. When a question on Community law arises in a court of a member-State whose decisions are appealable, that court may request the EEC Court to give an interpretation. However, when such a question arises in a national court of last resort the court must request a ruling and the proceedings in the member-State court will be stayed while the Court of Justice considers the matter.

70 Article 36.
Court concluded that, while Article 36 did recognize and protect the existence of national industrial property rights, the exercise of these rights might sometimes be prevented in order to achieve the economic goals of the EEC.

Given this qualification, the Court indicated that Article 36 would allow the exercise of industrial property rights "only to the extent that such derogations from the free movement of goods [were] justified for the protection of the rights which constitute the specific object of such property." The "specific object" of the patent was to ensure adequate compensation to the patentee by granting him the exclusive right to manufacture and initially market his patented product "either directly or by the grant of licenses to third parties..."

By contrast, the Court noted that when national laws provide that a local patentee's rights are not exhausted upon the initial marketing of the patented product in another member-State, the patentee can prevent the importation of goods for intended distribution within his domestic market. However, the exercise of these national rights has the potential of hindering the free movement of goods between states. Nonetheless, reliance on national laws in order to exclude imports might be justifiable for reasons of protection of industrial property when the protection is invoked against a product coming from a member-State in which it is not patentable and has been manufactured by third parties without the consent of the patentee or where the original patentees are legally and economically independent of each other...

In either of these situations the domestic patentee has not received any compensation for the goods that he seeks to exclude; thus, his actions are permissible. However, justification would not exist for attempting to prohibit imports which the patentee himself, or someone under his authority, had placed on the market in another member-State. In those circumstances, a partitioning of national markets would result, thereby maintaining a restriction on trade between member-States "without such a restriction being necessary for [the enjoyment of] the substance of the exclusive rights deriving from [his] parallel patents." In short, since all the marketing abroad was being done by the patent owner, or through his assignees or licensees, the patentee would have already received remuneration, the substance guaranteed by the patent right. Under EEC patent concepts, once this compensation is received there is no longer a valid reason for restricting imports.

Thus, in answer to the first question raised by the Hoge Raad, the EEC Court held that:

the exercise by a patentee of the right given him by the laws of a member-State to prohibit the marketing in that State of a product protected by the patent and put on the market in another member-State by such patentee or with his consent would be incompatible with the rules... relating to the free movement of goods in the Common Market.\[76\]

72 Id.
73 Id. (emphasis added).
74 Id. at 504.
75 Id.
The Hoge Raad also sought the EEC Court’s position on a possible modification of its holding. In the *Centrafarm* case, the price of imports originating from one member-State, England, had been kept at artificially low levels due to government regulations. Consequently, Centrafarm was able to make large profits by purchasing the drug at controlled prices in England and reselling it at higher prices in Holland. As a result, Sterling argued that these circumstances should at least warrant a qualification of the Court’s opinion.

In rejecting this contention, the Court acknowledged that one of the goals of the EEC is to eliminate factors that would be likely to distort competition. Furthermore, the Court found that one such factor is a unilateral measure used to control price, such as the English government employed. Therefore, the existence of such factors in one member-State could not justify the maintenance or the introduction by another member-State of measures incompatible with the rules on the free movement of goods *inter alia* relating to industrial and commercial property.\(^76\)

Thus Sterling’s argument was rejected.

The final question posited for EEC resolution concerned the application of Article 85,\(^77\) an antitrust provision of the Treaty, to the current dispute. Basically at issue was whether Article 85 extended to “agreements and concerted practices between the holder of parallel patents in different member-States and his licensees, if the totality of the agreements and concerted practices\(^77\) had the aim of regulating market conditions for the patented product. In answering this question the Court initially implied that Article 85 as well as Article 36 might be used to strike down Sterling’s arrangements. In repeating its *Grundig*\(^79\) doctrine, the Court stated that the exercise of an industrial right might be

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\(^{76}\) *Id.* at 505.

\(^{77}\) Article 85 of the Treaty provides in part:

1. The following shall be prohibited as incompatible with the common market: all agreements between undertakings, decisions by associations of undertakings and concerted practices which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the common market, and in particular those which:

   (a) directly or indirectly fix purchase or selling prices or any other trading conditions;

   (b) limit or control production, markets, technical development, or investment;

   (c) share markets or sources of supply; . . .

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

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

   —any agreement or category of agreements between undertakings;

   —any decision or category of decisions by associations of undertakings;

   —any concerted practice or category of concerted practices; which contributes to improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit, and which does not:

   (a) impose on the undertakings concerned restrictions which are not indispensable to the attainment of these objectives;

   (b) afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products in question.

\(^{78}\) 13(II) COMM. Mkt. L.R. at 506.

prohibited, i.e., the patentee and his individual licensees might not be able to assert their patent rights against identical imports, if such an exercise of the rights was the "object, means, or consequence" of an anticompetitive agreement. Yet the Court ultimately qualified its views and prevented Article 85 from applying to Sterling's system of agreements between the parent and its subsidiaries. Article 85 would not be applied to agreements between firms if: (1) they are in the form of parent and subsidiary; (2) if they form an economic unit within which the subsidiary has no real autonomy; and, (3) if the aim of the agreements is to establish an "internal distribution of tasks." Since Sterling's arrangements met these prerequisites they were at least immune from an Article 85 violation.

In previous cases the Community Court had discussed the applicability of provisions of the Treaty of Rome to rights arising from the existence of national industrial property rights. This case gave the Court the opportunity to examine the status of parallel patents in relation to the EEC antitrust laws and the linchpin of the EEC's existence, the principle of free movement of goods.

Under Article 36 of the Treaty, patents, as well as other national industrial property rights, are exempted from the principle of free movement of goods. However, this protection is not absolute; only those rights which constitute the "specific object" of the industrial right are so exempted. The Court regards the "specific object" of patents as, inter alia, the right to produce and first put into circulation the patented products either directly or through a licensee. Since the patentee receives adequate compensation when he or a licensee puts the product on the market, his rights are thereby exhausted. Allowing him the right to prohibit importation from another member-State would be incompatible with the rules relating to free circulation espoused in Articles 30 through 36 of the Treaty of Rome. The substance of the patent right in no way requires that the patentee be able to prohibit imports when they have been lawfully marketed by him or with this approval. If he were allowed to do so he would, in effect, be permitted to partition the EEC countries into national markets, in violation of the policy of the Community.

It is important to note that the prohibition against the exercise of industrial property rights applies only when the product is first sold in another member-State by the patentee or with his consent. Thus, it would not apply if the product is not patentable in the state where it is placed on the market or if it is not manufactured with the consent of the patentee. Similarly, it will not apply if the patent owner in the first state is legally and economically independent from the foreign manufacturer whose goods he opposes, for in such a situation the patent owner has not received adequate remuneration. The fact that the prices in two countries are different because of governmental intervention is of no consequence; the principle of allowing the free movement of goods takes precedence.

The Court also pointed out that Article 85 may invalidate separate licensing agreements, if, when viewed together, they are intended to manipulate national patent rights in order to partition the Common Market. The Court exempted "internal arrangements" within economic units, like Sterling's multinational operations, because under EEC law there can be no competition between
members of the same economic unit; hence there is no competition to be restricted.

Therefore, in the Common Market countries territorial restrictions have been variously attacked under the principle of free movement of goods, embodied in Articles 30-36, or under the antitrust provisions of Article 85. The choice as to reliance on one of these two approaches may depend on whether there is technically a restriction of competition as defined by the EEC's view toward multinational operations. Thus, patent agreements are particularly vulnerable if they contain territorial restrictions relating to the Common Market. In contrast to the American approach, as evidenced by the discussion of the following case, the courts within the Common Market may rely upon a broader range of laws to invalidate territorial restrictions. Even if such restrictions do not violate national or Community antitrust legislation, they may be struck down by the Community's additional weapon as a hindrance to the free movement of goods.


Similar problems, as those discussed in the EEC cases, have been confronted by companies who are operating in the United States and Europe. Although after Centrafarm it is settled that in the EEC an owner of parallel patents cannot prevent the importation of patented goods produced under his parallel patent, a recent United States decision by the Court of Appeals for the Fourth Circuit reached the opposite conclusion. In the controversial Dunlop decision, the court held that it was not a violation of American antitrust law for a patentee to grant territorial licenses abroad and in the United States in such a manner as to divide world markets.

In Dunlop Co., Limited v. Kelsey-Hayes Co., the plaintiff, an English company, held various patents for disc brakes in the United States as well as in other countries. In Europe, the plaintiff, Dunlop, granted licenses to several automobile manufacturers, and in the United States it entered into an exclusive licensing agreement with Bendix Corporation for the production of disc brakes. Due to the exclusive nature of the agreement, Dunlop was prohibited from directly licensing another American manufacturer, Kelsey-Hayes. Consequently, Kelsey-Hayes entered into a sublicensing agreement with Bendix. Two years later Kelsey-Hayes cancelled the sublicensing agreement, but continued to manufacture the disc brakes. Dunlop then brought suit claiming that Kelsey-Hayes was infringing upon four of its patents. The defendant contended that the patents were invalid and denied infringement. Moreover, it asserted that Dunlop was guilty of inequitable conduct and had violated the antitrust laws of the United States.

Dunlop was refused relief in the District Court. Upon appeal, the Court of Appeals held that one patent was invalid, because it was anticipated by prior art, and that the other patent was valid but not infringed.

In its cross-appeal, Kelsey-Hayes again asserted that Dunlop had violated

81 For a discussion of the controversy surrounding the Dunlop decision see text accompanying notes 97 to 105, infra.
the antitrust laws of the United States. Kelsey-Hayes accused the plaintiff of illegally dividing world markets by virtue of its foreign licensing agreements which forbade the foreign licensees from exporting to the United States. The appellate court, however, characterized these agreements as mere territorial licenses granted by the patentee, and summarily concluded that, since licenses restricting territories within the United States did not violate the antitrust laws, licenses restricting foreign territories would also be allowed. Consequently, defendant's cross-appeal failed.

Upon a careful consideration of the United States patent laws, however, it becomes apparent that the court of appeals did not give satisfactory consideration to the antitrust claim of the defendant. The court predicated its decision on § 261 of the Patent Act of 1952 which applies only to American patents and licenses which are granted under those patents. Patent laws can only affect a patentee's rights within the country granting the patent; the United States' laws, in fact, have no application to foreign patents. Thus, if the United States allows territorial restrictions under its patent laws it does not necessarily follow that the patentee can impose world-wide territorial restraints.

The rights conferred by § 261 seem only to be applicable to United States patent holders and their licensees. They are able to use this law as a defense against allegations of antitrust violations. However, in a case such as this, in which the alleged antitrust violations involve the patentee's actions with respect to his foreign patents, it is doubtful that the patentee should be able to claim the protection of an act which deals with domestic patents.

3. The Application of Articles 36 and 85 of the Treaty of Rome to Territorial Restrictions in Patent Licensing Agreements

The holder of parallel patents is often provided with the opportunity to effectively divide world markets. This is accomplished by granting licenses to one person in each country, and by then allowing the other licensees, or the patentee himself, to prohibit imports through assertion of rights under the patent laws of their nation. This was precisely what the patentee attempted to do in both the Castrol and Centrafarm cases. When the question was presented to the European Court in the Centrafarm case, the Court clearly indicated that parallel patents could not be used to achieve a division of national markets within the Common Market.

There is admittedly a conflict between the industrial property rights and the provisions of the Treaty relating to the free movement of goods and competition. The conflict between the patent right and the rules of competition was first dealt with in Parke, Davis & Co. v. Probel. There it was alleged that a patent holder was violating Article 85 by asserting his Dutch patent rights in an attempt to prohibit imports of an identical drug. This second drug was manufactured by a

82 35 U.S.C. § 261 (1970) allows the patentee to grant an exclusive right under the patent "To the whole or any specified part of the United States."
85 7 COMm. MKT. L.R. 47 (1968).
third party in Italy, where pharmaceuticals could not be patented.

Under Articles 36 and 222 of the Treaty of Rome, the existence of national industrial property rights cannot be denied by the EEC Court. However, the exercise of such rights can be prevented when it conflicts with the goals of the Community. In Parke, Davis, the Court pointed out that the national character of the patent right was likely to create obstacles to competition within the Community when the right was used contrary to Article 85. That Article prohibited "all agreements between undertakings, decisions by associations of undertakings, and concerted practices" which might affect trade between member-States and which had the object or effect of distorting competition within the EEC. Yet the patent right, "taken by itself and independently of any agreement of which it [might] be the subject," did not fall within one of the three categories of "contract or concert" attacked under Article 85(1); it is merely a legal status conferred by a country to products meeting certain standards. Thus, the exercise of the right would not be prevented in the absence of some form of anticompetitive agreement. Since no agreement was involved in Parke, Davis, the defendant was allowed to assert his national right against the infringing import.

In Centrafarm, of course, the defendant argued that Article 85 should be applied because agreements with respect to patent licensing arrangements were obviously present. As the Court indicated, however, mere "agreements" are not enough; they must be anticompetitive as well. Since it was determined that there could be no competition between members of a single economic unit who were simply abiding by an "internal distribution of tasks," Article 85 would not apply. It thus appears that Article 85 would be of little avail in attacking parallel patent holders who form licensing agreements solely with their subsidiaries in attempting to divide the EEC. As Centrafarm indicates, though, the use of Article 85 is unnecessary since the principle of free movement of goods under Article 36 can be used to strike down parallel patent arrangements, whether the parties are parents and subsidiaries or independents.

Article 36 explicitly recognizes the conflict between the free circulation of goods within the Community and the protection of national industrial property rights. Deutsche-Grammophon held that a restriction on imports which was imposed by virtue of a national copyright would only be permitted if it protected rights which formed the "specific object of the property right." In Centrafarm the Court applied this test to patents as well, and in order to determine whether the restriction was allowed, the Court defined the specific object of a patent in economic terms: it is the right to receive adequate compensation for one's invention by producing the article and being the first to place it on the market. This was the test the Court employed in deciding whether the territorial restrictions would be allowed.

The Court approached the problem of parallel patents, then, as involving an issue of free movement of goods rather than pure antitrust considerations. One of the overriding goals of the EEC is to break down barriers which result in

87 Id.
restricting the movement of goods between member-States; a patentee's exercise of his national rights to prohibit imports, clearly, results in such a restriction. If the patentee or someone authorized by him puts the article on the market in any member-State where he already has a patent, he receives his reward and his patent rights are "exhausted" throughout the entire Community. It is not within the scope of patent protection to stop the free flow of goods between States once this specific object of the right has been attained.

4. The Validity of Territorial Restrictions in Light of the Convention for the European Patent for the Common Market

The Centrafarm case thus makes the EEC Court's position fairly clear on the problem of patents and territoriality. These judicial guidelines have now been augmented by the Convention for the European Patent for the Common Market, 89 signed on December 15, 1975. Under this agreement, a person will have a choice of obtaining national patents with limited territorial effect or a Community patent which will encompass the entire Common Market. 90 On the question of territorial restrictions, the Convention forbids the splitting of the EEC into national markets. The rights conferred by a Community patent are exhausted after the first sale in the EEC if the product is marketed in a member-State by the patentee or with his consent. 91 However, the Convention, like the Centrafarm case, provides that if a third party markets the product without the explicit consent of the patentee, the patent rights are not exhausted. 92 Licenses for part of the Common Market are permissible under the Convention 93 but it will not be possible to partition the Common Market into national markets by granting such licenses; once the licensee puts the product on the market anywhere in the EEC another licensee of the same patentee cannot prevent its importation. 94

The Convention also contains provisions on national patents. Article 81, 95 which deals with the exhaustion of rights conferred by national patents, is consistent with the Centrafarm decision. The Article provides that a national patent right will be exhausted when the product has been marketed by the owner or with his express consent in the State where the right is held, or in any other Contracting State. Furthermore, if the patentee in one State has economic connections with another individual

where one of them is in a position to exert a decisive influence on the other, directly or indirectly, with regard to the exploitation of a patent, or where a third party is in a position to exercise such influence on both persons . . . 96

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90 Article 6 of the Convention provides that the Contracting States retain their rights to grant national patents. Id. at L17/3.
91 Article 32, id. at L17/9.
92 Id.
93 Article 43, id. at L17/12.
94 Article 32, id. at L17/9.
95 Article 81, id. at L17/21.
96 Id.
then the right is exhausted as to both when it is put on the market in a member-State by either one.

The Centrafarm case and the Convention seem to be in harmony on the question of permitting territorial restrictions within the EEC. Both recognize that the critical factor is whether the patentee has received adequate compensation for his creative effort. Once this end has been achieved, his rights are exhausted. The owner of parallel patents in the EEC or the owner of a Community patent is, therefore, precluded from effecting a partition of the Common Market into national markets.

5. The Unsettled American Position on the Issue of Territoriality

Unfortunately, the situation under United States law is not as clear. The Court in the Dunlop case held that an owner of parallel patents in the United States and abroad could restrict its foreign licensees from exporting to the United States by express agreement and not be guilty of an antitrust infringement under United States law. In Brownell v. Ketcham Wire and Mfg. Co.,97 the Court of Appeals for the Ninth Circuit reached a similar conclusion. Since there has been no Supreme Court decision which would settle the issue, Dunlop and Brownell would seem to represent the state of the law in the United States. However, there is a great deal of controversy over whether these decisions can be relied upon.98 Furthermore, the allocation of markets by restrictions in patent licensing arrangements has also been denounced by Justice Department officials.99 Such officials have indicated that the Justice Department is not in agreement with the Dunlop and Brownell decisions. Since a patentee can rely on his remedies against patent infringement or can employ § 1337 of the Tariff Act of 1930100 to prohibit infringing imports, obtaining an agreement to prohibit a licensee from

97 211 F.2d 121 (9th Cir. 1954). The court in Brownell also reasoned that since the law provides for limited licenses in the United States, import and export restrictions on foreign licensees would be allowed.
98 It has been pointed out that other American cases, although not directly on point, strongly imply that territorial restrictions in international patent licensing agreements will not be allowed. In Keeler v. Standard Folding Bed Co., 157 U.S. (1895), the Supreme Court held "that while a patentee may restrict the territory of sale by his licensee to one part of the United States, he cannot restrict the territory of resale of the article." W. Fugate, supra note 13, at 273. If this principle were applied to international agreements, although the patentee would have power to restrict his licensee's sales territory, the absence of control over resale would allow third parties to purchase the goods from the licensee and import them into other "exclusive" territories. Thus, the patentee's attempts to partition world markets would effectively be circumvented. In United States v. National Lead Co., 63 F. Supp. 513 (S.D.N.Y. 1945), modified and aff'd., 332 U.S. 319 (1947). The district court condemned world territorial allocations noting that they could not be justified simply because they resulted from the granting of patent licenses. In its opinion the court stated that, "it is now well settled that a license may not be used to extend the patent monopoly..." 63 F. Supp. at 524. This case involved cross-licensing agreements with territorial restrictions, therefore, despite the fact that it was subsequently affirmed by the Supreme Court, it is not definitive as to the legality of unilateral licensing restrictions. It does, however, leave little room for speculation. Finally in Timken Roller Bearing Co. v. United States, 341 U.S. 595 (1951), the Supreme Court held that the division of international territories could not be effected under the guise of trademark licensing agreements. These decisions seem to indicate that export restrictions in a patent licensing agreement which attempted to divide world markets should not be upheld. For a further discussion of this problem see W. Fugate supra note 13, at 272-76.
exporting into the United States would appear to go beyond the rights granted to the patentee by law.\textsuperscript{101} Moreover, the Department officials indicate that even if there is no express restriction involved, there may be an antitrust violation if the patentee simply licenses someone under some national patents and refrains from licensing him under others.\textsuperscript{102} In this case the ability of national licensees to assert their patent rights in their respective countries to exclude imports of the patented article could result in de facto territorial restrictions.

However, the Justice Department does not seem ready to categorize any type of territorial restriction as a per se violation.\textsuperscript{103} It is the economic effect on actual or potential competition which is of primary importance. Some of the factors which may be of importance in the analysis are the size of the parties in the industry, the share of the market affected by the license, and the number of licensed products and their dollar value. Other relevant considerations are the length of time of the agreement, whether there are reciprocal or cross-licenses, and whether there are other types of restrictions placed on the parties.\textsuperscript{104} The focus will be on the primary purpose of the agreement, whether the parties believed the restriction to be a necessary one, and the adverse economic consequences which flow from the agreement.\textsuperscript{105}

Thus, the state of the law in the United States seems to be far from settled and, given the attitude of the Justice Department, it does not seem advisable for a patentee to act in reliance on the \textit{Dunlop} and \textit{Brownell} decisions. It should not be forgotten that a patentee is given the right to enjoy only a limited monopoly and that his rights must be balanced against the effect that the territorial restrictions may have on competition.

\section*{B. Exclusivity}

\subsection*{1. Introduction}

Inherent in all patents is an element of exclusivity which allows its holder to prevent all others from making, using or selling the patented product. However, a question arises as to whether the patentee also has the right to grant an exclusive license to his licensee. The granting of exclusive licenses can have two distinct types of anticompetitive effects. There is an obvious anticompetitive effect within the area for which the license is granted since the licensor guarantees to the licensee that no one else within that particular territory will be permitted to manufacture or sell the product. Moreover, if the licensor grants several exclusive licenses covering different regions he can divide world markets. In other words, the granting of exclusive licenses enables the patentee to restrict both the number of licensees marketing his product and the areas in which those licensees will be permitted to operate. This dual elimination of competition causes such licensing agreements to come into direct conflict with antitrust laws.

When an exclusivity clause is challenged as a contravention of the anti-

\begin{itemize}
\item \textsuperscript{101} Davidow, \textit{supra} note 99, at 535.
\item \textsuperscript{102} Davidow, \textit{id.} at 536; Stern, \textit{supra} note 2, at 582-83.
\item \textsuperscript{103} Davidow, \textit{id.} at 555; Stern, \textit{id.} at 583.
\item \textsuperscript{104} Stern, \textit{id.} at 584.
\item \textsuperscript{105} Davidow, \textit{supra} note 99, at 537.
\end{itemize}
trust laws two determinations must be made. Initially, it must be decided if an exclusivity clause is within the scope of the patent right and, thus, afforded protection from antitrust prohibitions. If it is determined that the clause is outside the scope of the patent right it will be subject to the competition laws. The latter conclusion necessitates a finding as to whether, on the facts of the particular case, the antitrust laws have been contravened.

There are three possible approaches open to a court in dealing with an exclusive licensing agreement: (1) The exclusivity clause may be regarded as not only within the scope of the antitrust law, but also as a per se violation of that law; (2) conversely, the court may grant a type of per se legality to such an agreement by determining that it falls outside the scope of the competition law; and (3) an intermediate approach would regard the clause as susceptible to antitrust prohibitions, but the determination of its validity is made on the facts of each case with a view toward the particular market situations extant at the time.

In recent years several cases on the legality of exclusive licenses have been presented to the EEC Commission. In the 1962 Notice on Patent Licensing Agreements, the Commission determined that exclusive patent licensing would not be scrutinized under the antitrust laws of the Common Market. However, the following three cases indicate that the Commission has reversed its position and chosen to adopt the most flexible approach as outlined in (3) above, under which it examines exclusive licensing arrangements in light of Article 85.

2. Analysis of Recent Decisions

a. Re the Agreement between Kabel-und Metallwerke Neumeyer A.G. and Les Etablissements Luchaire S.A.

In the Kabelmetal case, the EEC Commission ruled that an exclusive patent and "know-how" licensing agreement violated Article 85(1) of the Treaty of Rome. However, because the agreement brought substantial public benefits, the Commission granted an antitrust exemption under subsection 3 of Article 85.

The German company, Kabelmetal, held patents in various countries governed by the EEC for special techniques used in manufacturing steel components. Kabelmetal entered into a patent licensing agreement with Luchaire, a French concern, granting it an exclusive license in France for the manufacture of steel parts made from the patented process. The agreement also gave Luchaire the exclusive right to sell those products in Spain and Portugal and a non-exclusive right to sell the products in all countries of the EEC. Furthermore, the
licensing arrangement provided that both parties would exchange all relevant information pertaining to the use of the licensed processes and that Kabelmetal would give Luchaire technical assistance in return for a non-exclusive license or any improvement patents subsequently registered by Luchaire. Finally, Kabelmetal promised that it would not grant a license to anyone else on terms more favorable than those granted to Luchaire, i.e., a most-favored-licensee clause.

In analyzing the agreement, the Commission noted that although patent rights are essentially national, a patent licensing agreement within the EEC could be subject to Article 85(1) of the Treaty of Rome. It was necessary in Kabel-metal to determine the applicability of Article 85(1) to the particular patent licensing agreement.

Article 85(1) covers agreements which are likely to affect trade between member-States and whose object or effect is the prevention, restriction, or distortion of competition within the Common Market. The Commission readily admitted that not all licensing agreements are prohibited by this Article; for example, a patentee like Kabelmetal might authorize the use of its invention for a specific part of the EEC on a non-exclusive basis. However, the Commission based its determination on the principle that only restrictions which are “of the essence” of the patent are exempt from the prohibitions of Article 85. The Commission found that an agreement whereby Kabelmetal restricted its right to grant other licenses was not “of the essence” of the patent and therefore might be a restriction on competition as prohibited by Article 85(1). Competition would be hindered because Kabelmetal’s grant of an exclusive license in a territory would restrict its freedom to grant other licenses. Its patented invention could only be used by one firm in that territory. Thus, in Kabelmetal, other firms desiring to use Kabelmetal’s patented process in France would be unable to obtain a license from the German patentee because of this restriction. This would not only affect domestic trading within France, but the restriction would have the further consequence of preventing potential French licensees from exporting to other countries in the EEC. Thus, the agreement had the potential of affecting trade between member-States in “such a way as to hamper attainment of the objectives of a single international market.”

Moreover, the exclusivity clause not only restricted Kabelmetal’s freedom, but also affected other firms wanting to use the process within the Common Market. In addition, the Commission determined that the exclusive license “appreciably restricts competition within the Common Market” since: (1) the patent covered important techniques; (2) the number of competing firms which used a comparable process was small; and, (3) Luchaire and Kabelmetal held a substantial share of the market for the products in the EEC.

The Commission also scrutinized the most-favored-licensee clause contained in the agreement but found that it was not prohibited by Article 85(1). Since it would not tend to discourage Kabelmetal from granting other licenses, the clause did not have as its object or effect an appreciable restriction of competition within the Common Market. The Commission warned, however, that if

109 14(II) COMM. Mkt. L.R. at D47.
110 Id. at D45.
the facts were such that other licensees would only accept a license on terms more favorable than those given to Luchaire, such a restriction might bring about a restraint on competition and, therefore, be prohibited.

Following its determination that the exclusivity clause was in violation of Article 85(1), the Commission analyzed the public benefits flowing from such a restriction and, in light of its analysis, granted the clause an exemption under Article 85(3). This section provides that an agreement which violates Article 85(1) may be exempted from the prohibition if it improves the production or distribution of goods, or promotes economic progress and allows consumers a fair share of the resulting benefit. It must also be demonstrated that the restriction imposed is indispensable to the attainment of the objectives and does not provide the parties with the opportunity to eliminate competition to any substantial extent.

In Kabelmetal, the Commission felt that the exclusivity clause actually served to benefit Common Market trade. By eliminating possible French competitors of Luchaire, the exclusivity clause increased the value to the French licensee and thereby created an additional incentive to undertake the contract. The exclusivity arrangement, therefore, promoted economic progress because it enabled another manufacturer, Luchaire, to use the patented process which had licensing not been available. Kabelmetal would have been the sole firm using the process in the Common Market. The exclusive licensing arrangement was also found to promote technical progress, since under its terms Kabelmetal would provide technical assistance to Luchaire which might result in improvements to the patented process. Finally, there was a benefit to consumers because more and improved products would be available to them. This was particularly for consumers in France who would then have a distributor close at hand.

The Commission found that this exclusive licensing restriction within France was indispensable to the attainment of these justifiable objectives. Since the patented technique was relatively new and would be competing with established processes, considerable investment would be needed to promote sales. Since the necessity for such outlays would discourage potential licensees, Kabelmetal provided an additional incentive by guaranteeing that other firms would not directly compete with the licensee in France. Thus, the new licensee, Luchaire, would not be faced with a situation in which the demand for the products would have already been met by its competitors. The Commission found that without this added incentive, Kabelmetal might have been unable to find a willing licensee. In addition, the agreement did not give Luchaire the power to eliminate competition because several other firms were using other, similar techniques. Therefore, all the conditions of Article 85(3) were satisfied and an exemption was permitted.

While earlier decisions by the Commission had indicated that an exclusivity clause might run afoul of Article 85(1),"111 Kabelmetal stated that the reason for

susceptibility to the antitrust provision was that these restrictions on the licensor were not "of the essence" of the patent. This is the first articulation of the standard used to determine whether a licensing provision is subject to Article 85. However, it is not a particularly helpful principle since the Commission failed to define "of the essence." The Commission simply made it quite clear that an exclusivity clause was subject to the competition laws without detailing its reasoning. Therefore it appears that those bound by such a clause cannot claim an exemption by virtue of its being a related patent right.

However, as the Commission pointed out, not all restrictive clauses are violative of Article 85. Applying the Commission's criteria, it seems that the most-favored-licensee clause of the agreement was not "of the essence" of a patent. Thus, it too was within the scope of Article 85(1). Yet because this clause did not "appreciably affect competition," the Commission held that it did not violate Article 85(1).

In deciding whether the agreement "appreciably" restricted competition within the Common Market, the Commission looked to the actual market situation, the number of competitors and their market share, and to the actual and presumed effect on competition. Nonetheless, even if all the facts point to a restriction on competition under Article 85(1), subsection 3 of the Article allows the Commission to look at the agreement to determine whether the restrictions are indispensable for attaining economic progress in light of the market background of the particular case.

b. Zuid-Nederlandsche Bronbemaling en Grondboringen BV v. Heidemaatschappij Beheer NV

In the subsequent Bronbemaling case, the EEC Commission found that an agreement not to grant further licenses without the approval of present licensees was invalid under Article 85(1). However, unlike Kabelmetal, the agreement in Bronbemaling failed to merit an exemption under Article 85(3).

The defendant, Heidemaatschappij, applied for two patents in Holland for the installation of a well-point drainage system. Three firms initially opposed the patent grant, contending that the process was already in use and thus no longer patentable. The claims were withdrawn, however, and the defendant-applicant agreed to license his patents to the firms, undertaking not to grant licenses to other Dutch companies without the consent of a majority of the parties to the agreement. Later, the plaintiff, Bronbemaling, and another firm applied to the defendant for a license. The defendant consulted the other licensees and decided not to grant the requested licenses. The applying firms were told that, in the light of market forecasts and the opinion of existing licensees, there was no need to increase production of the invention.

Consequently, Bronbemaling brought an action in a Dutch court alleging that defendant-patentee's refusal to grant a license and his exercise of monopoly rights, derived from the patent, prevented the plaintiff from becoming a com-

petitor of the defendant. Such a result was in breach of Articles 85 and 86 of the Treaty of Rome.

Upon petition to the Commission,\textsuperscript{113} the defendant-licensor argued that a restriction on his freedom to grant future licenses was “of the essence” of the patent right and therefore not subject to Article 85. Moreover, the licensees had already spent time and money improving the invention in the belief that they possessed the exclusive right to use this process. The Commission, however, decided that the investments by the licensees did not convert the restriction in question into one which was “of the essence” of the patent right. Such expenditures might justify reducing the royalties owed to the licensor, but they would not justify restricting his capacity to license other parties. Thus, the Commission decided that only restrictions which are “of the essence” of the patent right are exempted from Article 85; since this restriction was not “of the essence” the agreement in question came within the scope of Article 85.

Because the agreement restricted the defendant’s ability to grant licenses to other firms in Holland, the Commission concluded that it hindered competition within the Common Market. In addition, the Commission found that the restrictions were substantial; major construction contracts often specified that only the patented drainage process was to be used and, therefore, only licensed firms would be able to do the work. Moreover, since firms in Holland may have been deprived of a license because of the restrictive arrangement, they were not in a position to export. Therefore, the agreement affected trade between member-States.

As in the \textit{Kabelmetal} case, the Commission turned its attention to Article 85(3) in determining the propriety of granting an exemption. In this case, however, none of the criteria essential to qualifying for an exemption were met. The agreement in no way promoted economic or technical progress;

\[\text{o}n\text{ contrary, by allowing the number of firms authorized to exploit the patented process to be restricted they hinder wider use of the process and prevent know-how from being enriched by a broader range of experience.}\textsuperscript{114}\]

Thus, the exclusivity clause was of no benefit to consumers because it restricted competition.

Here, as in \textit{Kabelmetal}, the Commission decided that the exclusive agreement was not “of the essence” of the patent right and was therefore subject to Article 85(1). It found that the effect of the licensing agreement was to restrict competition to a substantial degree. In addition, they removed all other Dutch firms from the exporting market, thus affecting trade between member-States. Clearly, the two conditions of Article 85(1) were met: (1) trade between member-States was affected and, (2) competition within the Common Market was restricted. In determining the propriety of an exemption under Article 85(3), the Commission looked to market conditions as it had done in \textit{Kabelmetal}. However there were two pivotal differences between the \textit{Kabelmetal} and

\textsuperscript{113} For an explanation of the EEC’s process of notification see note 108 \textit{supra.}

\textsuperscript{114} 14(II) COM. MKT. L.R. at D72.
Bronbemaling cases. The process in Kabelmetal was new; it was necessary to make the license more attractive so that a licensee would risk investing his time and money in a market situation in which he would be uncertain about his sales potential. By contrast, the process involved in the Bronbemaling case was a well-known and widely used method that others now wished to exploit. In this case, the agreements virtually eliminated competition; only the licensor and his licensees could effectively bid on large construction contracts requiring the use of the patented drainage system. In Kabelmetal various other processes were available which could be used to produce products similar to those manufactured under the patented technique. It is this factual difference which enabled the Commission to reach different conclusions.

c. Re AOIP/Beyrard

In its most recent decision regarding a patent licensing agreement, the Commission again, as in Bronbemaling, declared an exclusivity clause to be in violation of Article 85(1) of the EEC Treaty. In re AOIP/Beyrard Beyrard held various French patents for rheostats, speed changers and switching devices. He granted the Association des Ouvriers en Instruments de Precision, AOIP, an exclusive license for the manufacture and sale of the patented products in France. A later agreement encompassed two improvement patents and provided that the licensee could grant sublicenses with the approval of Beyrard. The agreement also imposed several suspect restrictions, such as export prohibitions, a no-challenge clause,116 a non-competitive clause,117 and a requirement to pay royalties even when the patents were not being exploited.

Although the agreement covered several patents, AOIP only used one of the patents. When that patent expired, the licensee refused to pay future royalties. However, Beyrard insisted that the agreement was binding until the date of the expiration of the most recent patent. AOIP brought suit before the Tribunal de Grande Instance, Paris, asserting that the agreements were anticompetitive under Article 85(1). The lower court dismissed the case and the Paris Court of Appeals upheld the order. The plaintiff-licensee then brought the matter to the Commission’s attention under Article 3 of Regulation 17.118

After examining the exclusivity clause in light of Article 85(1), the Commission found that the agreement restricted the licensor’s freedom to exercise the rights granted by the patent and, therefore, could not “call into question the very existence of that right.”119 The restrictions affected the exercise rather than the existence of the right. Since the exclusivity clause prevented the licensor from granting other licenses in France, it granted to AOIP a monopoly in the French market. Due to the fact that the licensee had approximately 7% of the domestic market and 17.6% of the French exports to other EEC countries, the restriction

116 The no-challenge clause prohibited “the licensee from challenging the validity of the patents directly or indirectly.” Id. at L6/12.
117 Under the non-competition clause the parties agreed “to refrain from all forms of competition with each other in the fields covered by the agreement.” Id. at L6/9.
118 For an explanation of the EEC’s process of notification see note 108 supra.
on competition was found to be substantial. Moreover, because a large portion of AOIP's business did involve export sales, and since AOIP itself held a relatively large share of the market in the Benelux countries, the Commission concluded that the restrictive agreement affected trade between member-States. This conclusion was also supported by the fact that the exclusivity clause prevented companies from all countries, not merely France, from obtaining patent licenses which would allow them to operate in France. Therefore, the exclusivity clause was prohibited by Article 85(1).

Citing the Kabelmetal case, the Commission acknowledged the potential for exemption of exclusive licensing agreements under Article 85(3). However, the Commission determined that exemptions could only be granted if all the restrictions warranted an exemption. Since the "no-challenge" and "non-competition" clauses in the contract did not contribute to economic or technical progress, but in fact hindered it, they could not be exempted. Their invalidity thus tainted the whole arrangement.

A careful reading of the decision indicates that the Commission's handling of Beyrard is slightly different from its approach in the two earlier cases. Instead of portraying an exclusivity clause as not "of the essence" of the patent, the Commission referred to such restrictions as affecting the exercise rather than the existence of the patent right, which might prove to be a more manageable test. This case also offers a somewhat new rationale as to how an exclusive license affects trade between member-States. The undesirable effect arises not only from the inability of other French companies to export the patented products, but also from the inability of foreign companies within the EEC to obtain a license in France. Thus, "effect" is not only viewed in terms of the value of exports to the rest of the EEC, but also in terms of the importance of allowing foreign entrants access to the market of a member-State.

It should also be noted that the facts of this case were different from those in Kabelmetal and Bronbemaling, though unfortunately the Commission gave no consideration to the distinction. In this case, the licensee was free to grant sublicenses if he had the approval of the licensor. Furthermore, the licensor could not withhold his approval if the royalties which the licensor would receive from the sublicensee were at least equal to the royalties guaranteed in the agreement. In fact, here the licensee, AOIP, did grant a number of sublicenses for the patents in a large number of countries. This kind of provision would assuage the undesirable results that inhere in an exclusive license. Whether it would mitigate the harmful effects to such an extent as to warrant a change in the outcome of a decision would probably depend on the facts of the individual case, but it does seem that such a provision at least deserves some attention.

3. The EEC Commission’s Application of Article 85 to Exclusive Patent Licensing Arrangements

On December 24, 1962 the Commission of the European Community issued the Notice on Patent Licensing Agreements. This Notice announced that
certain clauses in patent licensing agreements would not fall under Article 85(1) of the Treaty of Rome. Among those found deserving of this exemption were agreements by the licensor that he would not license another to use the patented invention. As the three cases above indicate, the Commission no longer adheres to this view. The Notice therefore should not be relied upon by attorneys when drawing up a patent licensing agreement with companies doing business in the Common Market.

Article 85 does not address itself to patent licensing agreements. In the Parke, Davis\footnote{121}{7 Comm. Mkt. L.R. 47.} case the Court stated that, although the existence of patent rights is not affected by Article 85, their exercise may be subject to Article 85. If a clause of the agreement goes beyond what is necessary to protect the "essence" of the patent right, it may infringe Article 85(1). Beyrard employed a slightly different test. A restriction on the licensor does not go to the existence of the patent. It is a contractual obligation which affects the patentee's ability to exercise his patent rights. Although this may only be a matter of semantics, it makes the test easier to apply and leads to a result which seems less favorable to the patent owner. According to Beyrard, a contractual obligation which restricts the patentee in his exercise of the right "cannot call into question the very existence of that right."\footnote{122}{19 E.E.C. O.J. at L6/12.} By expressing the criteria in these terms, the Commission indicated that any contractual limitation on the freedom of the licensor relates to the exercise of the patent right and is therefore automatically susceptible to Article 85; it can no longer be successfully argued that such a restriction is not "of the essence" of the patent and thus freed from antitrust scrutiny.

It is also important to note that, although the cases recognize that exclusive licenses may have anticompetitive effects, the Commission has not yet characterized such licenses as being per se illegal under Article 85.\footnote{123}{But see Cawthra, Patent Licence Agreements in the EC—Two New Decisions of the Commission, 6 I.I.C. 418 (1975).} In fact it would be anomalous if the Commission did so, because the Convention of the Community patent expressly permits exclusive licensing of a Community patent.\footnote{124}{Convention for the European Patent for the Common Market, Dec. 15, 1975, Article 93, 19 E.E.C. O.J. L17/12.} Thus, it is not likely that the Commission will outlaw all exclusive licenses. The Patent Convention provides, however, that its provisions will at all times be subject to the Treaty of Rome and, therefore, Article 85 must be considered when an exclusive license is granted even under a Community patent.\footnote{125}{Article 93, id. at L17/24.} Under Article 85, an exclusive license may be susceptible to the prohibitions of subsection 1 but will not be declared illegal unless it is found that the arrangement: first, restricts competition with the Common Market; and, second, has the possibility of affecting trade between member-States.

In the three cases surveyed, the necessary restraint on competition was viewed as a possible result of the licensor's inability to grant future licenses in a given territory. In Kabelmetal, the small number of competing firms, the parties' substantial share of the relevant market, and the importance of the patented
process, all contributed to the finding that there was a substantial restriction on competition. In *Bronbemaling*, the exclusive licensees' hold on 7% of the relevant market in France, and 17.6% of the export market, was sufficient for the Commission to conclude that there was a considerable restriction on competition within the EEC. Therefore it seems that market share, type of product, and number of competitors are factors to be considered in determining whether an argument has a substantial effect on competition.

In both *Kabelmetal* and *Bronbemaling* the Commission found that the licensing restrictions also affected trade between member-States because other firms within the country covered by the exclusive agreement would be unable to use the process and to export to other countries in the EEC. In *Beyrard*, the Commission deemphasized this aspect and highlighted the fact that firms in other Common Market countries would be unable to obtain licenses in France. Viewing the situation from either of these two perspectives, it seems that an exclusive licensing agreement by its very nature will always tend to affect trade between the member-States, unless the product is such that it would not normally be exported.

Even if the two criteria of Article 85(1) are met, there still exists the possibility for exemption under Article 85(3). Once again the Commission has noted the necessity to focus on the facts of the particular case. In *Kabelmetal*, the German patentee's exploitation of his invention hinged on finding a licensee for a relatively new process that would be competing with well established techniques. It would be necessary for the potential licensee to invest in sales promotion for the product. In a situation such as this, the exclusivity clause provided an indispensable incentive to the prospective licensee without which he might be unwilling to assume the risks attendant with introducing the new product. Thus, the exclusivity restriction aided in bringing a new entrant into the market. This in turn would help to improve the production and distribution of goods and result in a more favorable situation for consumers. Consequently, the Commission felt that an exemption should be granted.

The Commission used the same criteria in the *Bronbemaling* case. There, however, the process was already being widely used and the licensing restrictions, instead of prompting more companies to use the process, kept other competitors out of the market. In *Beyrard*, the Commission did not determine the countervailing merits of the exclusivity clause since the other clauses in the agreement clearly deserved no exemption under Article 85(3). Thus, the different results reached in the three cases seem to be solely a function of different factual situations rather than a matter of changes in the Commission's criteria for exemption.

This survey of exclusivity cases indicates that the trend of the Commission in recent years is to look at exclusive licensing arrangements with increasing severity. Of course the *Kabelmetal* decision indicates that the Commission is still willing to exempt such an agreement under Article 85(3), but the subsequent decisions show that there must be some solid justification for granting exclusive rather than non-exclusive licenses.

Therefore, although exclusive licenses have not been declared per se illegal,
and are expressly permitted under Community patents, exclusive licensing agreements or arrangements giving present licensees veto power over the grant of new licenses provide an open invitation for the Commission to thoroughly examine the contracts and quite possibly hold them invalid. Since the 1970 Notice on Minor Agreements stated that only those agreements which have an "appreciable" effect on competition will come under Article 85(1), if the market share for the patented product is small then the agreement will probably be upheld. Otherwise, it seems that it will fall under Article 85(1) and the only possible escape is by an exemption under Article 85(3). Unless the exclusivity clause is indispensable for attaining economic and technical progress within the EEC, as the Commission indicated in Bronhemaling and Beyrard, the entire agreement may be struck down because of the infectious invalidity of the exclusivity. Thus, unless the licensee's share of the market is so small as to avoid a violation of Article 85(1), or unless an exclusivity clause is essential under Article 85(3) to bring new entrants onto the market, it will be wise to avoid the limitation on the licensor rather than risk the loss of a entire licensing agreement.

V. Conclusion

The cases here surveyed indicate that patents do not afford their owners complete immunity from antitrust laws. While it is true that by virtue of a patent right a patentee is able to engage in some conduct that might otherwise be objectionable under competition laws, the patent does not insulate all of the patentee's actions from the reach of antitrust laws. The patent-antitrust controversy has centered on determining what constitutes a legitimate exercise of the patent right, and is thereby protected, and what exceeds that legitimate exercise and is susceptible to antitrust scrutiny.

Recent decisions in the patent-antitrust area evidence the willingness of the courts to consider the conduct of the patentee as subject to competition laws. The national and EEC courts have framed their inquiry in terms of whether the given restriction is "within the scope of the patent right," or is protected by the "specific object of the right," or extends only to the "exercise and not the existence" of the industrial property right. Regardless of which test the courts purport to employ, however, they have reached similar conclusions. The trend has been towards a definite narrowing of the area which is considered to be a legitimate exercise of the patent right. Indeed, patent licensing agreements have been held invalid under antitrust laws.

A determination that a patent licensing agreement falls within the scope of the competition laws does not mean that the agreement automatically violates those laws. Here none of the cases declare that the restrictions are per se illegal, but the economic justifications for the arrangements vary according to the tribunal and the type of conduct involved in the particular case. In the EEC, for example, the ability of the owner of parallel patents to partition the Common Market has been readily condemned under the principle of the free movement of goods. Once it is determined that the patentee's rights have been "exhausted;"

and that the practice affects trade between member-States, the practice is deemed illegal, and no justification for such partitioning will be accepted. However, when considering agreements in terms of Article 85, the EEC Commission and Court look to the actual market situation. It will always be necessary to consider the market shares of the parties to the agreement to determine if an "appreciable" amount of commerce has been restrained. Therefore, the agreement is valid if only a small market percentage is involved. The restriction must also affect trade between member-States, but the Commission has no difficulty in finding that this condition is satisfied unless the product is not one that can be exported. The Commission will not grant exemptions under Article 85(3) unless the agreement is indispensable for the attainment of economically justifiable ends. In the recent cases this indispensability has been found to exist only when the agreement imposed a restriction that was vital to bringing a new entrant onto the market with a new product. Therefore, although the Commission does consider the actual economic situation, it has adopted fairly strict standards as to what it will deem acceptable under Article 85.

National court decisions in the United States and abroad generally give a great deal of consideration to the purposes and the economic consequences of the conduct. Their approach is more flexible than that of the ECC. These courts examine carefully the actual and potential effects on competition, prices, and supply of goods. This involves a consideration of such factors as market share, dollar amount involved, profits, the length of time that the agreement will be in force, and the purposes of the agreement. In other words, national courts look thoroughly into the realities of the situation and for many of the courts the interest of the consumer is a paramount consideration. If a patent licensing agreement or conduct of a patentee has adverse economic consequences or eliminates competition it will be struck down by the antitrust laws.

The decisions discussed herein are evidence of the increasing scrutiny that patent and patent licensing agreements are receiving under the antitrust laws of various nations. As the cases indicate, American patentees operating in the international sphere should be particularly cautious, since activities which are legal under American law may be found to violate foreign competition laws. Particular attention must be given to patent arrangements within the Common Market due to the existence of parallel systems of national and Community law, either of which may be applied to activities taking place within the EEC. Additionally these cases signify an international trend toward invalidating patent-related restrictions under antitrust laws. As such they emphasize the ever-increasing necessity for patentees to be aware of the possible judicial resolutions of the patent-antitrust controversy.

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