PROPOSED DUTCH LAW ON THE IRAN-US CLAIMS SETTLEMENT DECLARATION

A Reaction to Mr Hardenberg's Article

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1) In his technically thorough article, *Mr Hardenberg* concludes that the above proposed law, once enacted, would not be compatible with the *Claims Settlement Declaration* (see under no. 14 in article). Since, according to Mr Hardenberg, this Declaration can be regarded as a Treaty under public international law, the Hague judge should examine the compatibility of the Law with the Treaty and conclude that the two are in conflict.

2) First, I will comment on this judicial review. In my opinion, such a review cannot take place here since the Netherlands is not a Party to the Treaty. Although Mr Hardenburg, in the beginning of his article, admits that the Netherlands was not a Party to that Treaty (see under no. 2), at the end he nevertheless construes the participation of the Netherlands through what he calls a 'détour': via an exchange of Notes between the Netherlands and the United States concerning the so-called 'Security Account' and the reference made therein to the *Claims Settlement Declaration*, the Netherlands would have become a Party to the Treaty (see under nos. 13 and 14).[1]

Mr Hardenberg expands his view in his reply[2] as follows:

'The meaning of the exchange of Notes between the Netherlands and the United States is based on the Annex in which Iran and the United States jointly designate the Dutch Central Bank. It therefore is not only an arrangement between the Netherlands and the United States. The Netherlands has accepted the designation and hence has acceded to the Agreement contained in the Annex and consequently has even spoken twice in the Tractatenblad *under the heading 'Data' about the Declarations of Algiers as being the documents to which the Note and the Agreement respectively 'refer'.*

Such an interpretation goes, in my opinion, beyond the purpose of the exchange of Notes and the limited scope of the reference made to the *Claims Settlement Declaration.*

The field of application is set forth in Article 1, para. 1, of the Agreement between Iran and the United States contained in the Annex to the exhange of Notes, reading:

"The Governments of the Islamic Republic of Iran and the United States of America, desiring to give effect to ***certain provisions*** *of the Declaration of the Government of the Democratic and Popular Republic of Algeria of 19th January 1981, have selected, as a mutually agreeable central bank, De Nederlandsche Bank at Amsterdam, to assume the* ***management*** *of a bank which shall act as* ***Depositary*** *of the funds in the* ***Security Account established by the foregoing Declaration***". (emphasis added)

The purpose of the exchange of Notes was to formalise the concurrence of the Government of the Netherlands in the appointment of the Dutch Central Bank for the task defined in the above quoted Article 1, para. 1, subject to the provisions of the Agreement contained in the Annex.

Under the heading 'Data', the *Tractatenblad* reproduces both the Algiers Declaration which, *inter alia,* covers the release of the hostages and the lifting of the freeze on, and return of, part of Iran's assets, and the Claims Settlement Declaration. The *Algiers Declaration* is referred to in the above quoted Article 1, para. 1, of the Agreement contained in the Annex, whilst the *Claims Settlement Declaration* is referred to in Article 2, para. 3, of the Agreement. The latter provision defines the purpose of the Security Account:

'The Security Account has as its sole purpose to hold funds in order to secure payment of, and to pay, claims in accordance with awards rendered by the Tribunal pursuant to the [Claims Settlement] Declaration . . .'.

These references to the *Algiers Declaration* and the *Claims Settlement Declaration* in the Agreement contained in the Annex do not mean that the Declarations are incorporated *in toto* in the Agreement. The Agreement merely has as its purpose the laying down of rules for the functioning of the Dutch Central Bank as Depositary of the funds in the Security Account. Since the Dutch Central Bank is involved, the assumption of such task needs the concurrence of the Dutch Government.

A banker would be disturbed if he were told that his agreement to function as depositary for a payment mechanism, provided in an agreement between two parties, meant that he had become party to that agreement as well. The Agreement

HeinOnline -- 12 Int'l Bus. Law. 341 1984

contained in the Annex can be compared with a separate agreement which the parties would conclude with the banker. The Declarations referred to in the Agreement contained in the Annex can be compared with the agreement between the two parties in which the banker does not take part.

3) The reasons why the proposed Law was drafted are well known. Iran and the United States came into a serious conflict in which Iran took American hostages and the United States put a freeze on Iranian assets. The conflict was solved through Iran's freeing of the hostages and the United States partially lifting the freeze and returning part of the assets.

The conflict resulted in claims of Iranian nationals against the United States and American nationals against Iran as well as claims of Iran against the United States and *vice versa.* The conflict was so serious that none of the parties wished to submit its claims to the judges of the country of the other party. In this situation, the parties decided to subject their claims to impartial arbitration in a third, neutral country. It is to the credit of the Netherlands that it was selected as the place for this arbitration.

When the arbitration began, the question arose as to what legal status it had. Iran, the United States and the Netherlands tried in the beginning to provide clarity on the legal status of the Tribunal by way of a tri-partite agreement. Because of a number of political reasons, not relevant to the question of the legal status, the agreement did not come about.

The question of the Tribunal's legal status, however, became more relevant when Iran began taking action in Dutch courts to challenge the awards of the Tribunal based on the arbitration provisions in the *Code of Civil Procedure* (notably Section 649).[3] The Netherlands legislator wisely intervened by drafting a special Law.

In a letter dated March 22, 1984, addressed to all members of the Dutch Parliament, Iran objected to the proposed special Law. Now Iran takes the position that the arbitral proceedings before the Tribunal and the awards rendered by it, cannot be governed by Dutch arbitration law. It offered to withdraw the actions for setting aside awards, which it had submitted to The Hague judge, in exchange for a withdrawal of the proposed special Law. When it filed the actions, Iran apparently was of the opinion, however, that the awards were subject to Dutch arbitration law. Its change of opinion would seem not to be in its interest in view of possible enforcement of the awards abroad. See No's 5 and 8 below.

4) Since the *Declarations* label the proceedings of the Tribunal as 'arbitration', it seems natural to look to Dutch arbitration law for guidance. This approach is supported by the stipulation in the *Claims Settlement Declaration* that the UNCITRAL Arbitration Rules are applicable. Article 1, para. 1, of the Rules, which was not altered by the Declaration or the Tribunal itself, states:

> '*These Rules shall govern the arbitration except that where any of these Rules is in conflict with a provisions* **of the law applicable to the arbitration** *from which the parties cannot derogate, that provision shall prevail.*' (emphasis added)

It is a generally accepted rule in international arbitration that '*the law applicable to the arbitration*', in principle, means the law of arbitration of the country where the arbitration takes place, unless the parties have expressly agreed that another country's arbitration law is applicable (the latter is quite exceptional). In this case, there is no such deviating agreement between the parties. Consequently, Article 1, para. 2, of the UNCITRAL Rules, implies that Dutch arbitration law is applicable.

5) Mr Hardenberg's reply[4] states: '*The UNCITRAL Arbitration Rules are written for arbitration of private law and hence refer to the law applicable to the arbitration. In the present case the Rules are applicable "except to the extent modified by the parties (i.e., by the Treaty) or by the Tribunal to ensure that this agreement can be carried out" (Art. III.2 Claims Settlement Declaration).* The Tribunal, therefore, is its own legislator, like any other body of international law, both as to the substance (Art. V of the Claims Settlement Declaration) and as to the procedure. This is the '*law applicable to the arbitration*'.'

I cannot share such an interpretation of the 'law applicable to the arbitration'. The UNCITRAL Arbitration Rules were designed to facilitate the arbitration of disputes arising out of international trade transactions.[5] In almost all cases, these arbitrations are governed by the arbitration law of the place of arbitration. International trade arbitration includes arbitration between States and foreign private parties The view that a national arbitration law governs international arbitrations between States and foreign private parties was recently stated clearly by the now almost past President of the Iran-US Claims Tribunal, *Mr Justice Gunnar Lagergren*, in the *BP v. Libya* award:

> '*The Tribunal cannot share the view that the application of municipal procedural law to an international arbitration like the present one would infringe upon such prerogatives as a State party to the proceedings may have by virtue of its sovereign status. Within the limits of international law, the judicial or executive authorities in each jurisdiction do, as a matter both of fact and of law, impose limitations on the sovereign immunity of other States within such jurisdictions. Clearly, in some legal systems the degree of control exercised by the courts over arbitral proceedings is greater than in others, and at times extensive. By providing for arbitration as an exclusive mechanism for resolving contractual disputes, the parties to an agreement, even if one of them is a State, must, however, be presumed to have intended to create an effective remedy. The effectiveness of an arbitral award that lacks nationality — which it may if the law of the arbitration is international law — generally is smaller than that of an award founded on the procedural law of a specific legal system and partaking of its nationality. Moreover, even where the arbitrators do, as the Tribunal does in this instance, have full authority to determine the procedural law of the arbitration, the attachment to a developed legal system is both convenient and constructive.*

HeinOnline -- 12 Int'l Bus. Law. 342 1984

The Tribunal has fixed Copenhagen as its seat. For the reasons stated in the foregoing, and having particular regard to the wide scope of freedom and independence enjoyed by arbitration tribunals under Danish law, the Tribunal considers that the procedural law of the arbitration is Danish law. The Tribunal is not competent to establish conclusively the nationality of its Award, for this can only be decided by the courts of Denmark and of other jurisdictions in which enforcement of the Award may be sought. However, the Tribunal deems this Award to be Danish, and the proceedings have been conducted in a manner designed to be consistent with this view and intent'.[6]

It should be emphasized that the law applicable to the arbitration must be distinguished from the law applicable to the substance of the dispute. The latter law can be a national law but may also involve rules of international public law.[7]

The vast majority of cases pending before the Tribunal are arbitrations of the *BP v. Libya* type. They involve contracts between the Iranian State or State entities on the one hand and American contractors on the other. These arbitrations fit well into the framework of the UNCITRAL Arbitration Rules and the applicability of a national arbitration law. Therefore, it is not unintentional that Article 1, para. 2, of the UNCITRAL Arbitration Rules, was not modified by Iran and the United States in the Declaration. The Tribunal has not done so either. A modification of this provision by the Tribunal would also not be in the interest of ensuring that the agreement would be carried out. For, if the Tribunal would modify the provision, for example by declaring that the arbitration is governed by the rules of international arbitrations of public law (whichever they may be), this would be to the detriment of the United States nationals, and, in particular, Iran. If a United States national prevails against Iran, he can, for the time being, seek recovery from the Security Account. Iran, however, does not have such security. If a losing United States party is unwilling to pay, Iran has to seek enforcement of the award in a country where it can find assets of, and jurisdiction over, the United States party. Iran will then discover that enforcement is very difficult, if not impossible, since the primary international Convention in the field, the *New York Arbitration Convention of 1958*, does not apply to awards which are not governed by a national arbitration law.[8] It is submitted that, within this perspective, the Tribunal would be acting against its mandate as laid down in the Declaration if it were to modify Article 1, para. 2, of the UNCITRAL Arbitration Rules. Within these limits, the Tribunal cannot be '*its own legislator*'.

A few arbitrations involve both Iran and the United States as parties. Although these arbitrations would seem to be in the category of public international law arbitrations, it is arguable that Iran and the United States have also by agreement implicitly subjected this category of arbitrations to Dutch arbitration law through the reference in Article 1, para. 2, of the UNCITRAL Arbitration Rules.

6) Evidently, the foregoing is also the view held by the Tribunal. The Tribunal deposits its awards with the Registry of The Hague District Court. This deposit is in conformity with the proviso of the *Dutch Code of Civil Procedure, Section 639*, which establishes that within eight days of the date of the award, the same shall be deposited with the Registry of the Court of the district wherein the award was made. Mr Hardenberg labels this deposit as merely '*a sensible measure providing for properly keeping the award on record for many years to come*'. This argument does not sound very convincing. If the Tribunal had perceived that its awards would not be governed by Dutch arbitration law, then the Peace Palace would have been the more logical '*dépositaire*'.

7) Mr Hardenberg correctly points to the problem of the arbitration agreement. This uncertainty is precisely the reason, however, why a special Law should be enacted. It is clear that *Section 620 et seq. of the Code of Civil Procedure* cannot simply be applied to the arbitration proceedings before the Tribunal. Yet, the legislator can, by analogy, offer a solution for a problem which must be solved.

It is arguable that an arbitration agreement can be considered to be present if one regards Iran and the United States as also representing the interests of their subjects when bringing about the *Claims Settlement Declaration.* This view is supported by the provisions which the Tribunal has added to Article 1 of the UNCITRAL Arbitration Rules, reading:

'The Claims Settlement Declaration constitutes an agreement in writing by Iran and the United States, on their own behalfs and ***on behalf of their nationals*** *submitting to arbitration within the framework of the Algiers Declarations and in accordance with the Tribunal Rules'.(emphasis added).*[9]

From the legislative point of view, it is possible for the Dutch legislator to establish that the decisions of an arbitral tribunal on its own competence cannot be challenged in court. The Dutch legislator does not wish, and rightly so in my opinion, that the Dutch judge should enter into the discussion as to whether or not, in the case at issue, there is a valid arbitration agreement. The primary concern of the Dutch legislator is to safeguard the fundamental principles of due process. There is also the '*safety valve*' of public policy, by which the legislator obviously means the so-called international public policy.[10]

8) Mr Hardenberg doubts whether the awards of the Tribunal are enforceable in other countries, notably under the *New York Arbitration Convention of 1958* (see under no. 12). Regarding the New York Convention, Mr Hardenberg refers to Article I, para. 2, of the Convention, which mentions '*permanent arbitral bodies*' and correctly states that for permanent arbitral bodies, also, there is the prerequisite of voluntary submission. It is indeed questionable whether the New York Convention can be applied, although, as already stated, it is arguable that Iran and the United States acted as also representing the interests of their subjects. Whether or not this interpretation is accepted will depend on the judge of the country where enforcement is sought.

But the special Law can be of support in another respect. It establishes that, in the country of origin, the

HeinOnline -- 12 Int'l Bus. Law. 343 1984

proceedings and awards of the Tribunal are subjected to Dutch arbitration law, as amended. As mentioned, the applicability of a national law to an arbitral award is one of the prerequisites that makes the *New York Arbitration Convention* applicable. A foreign judge will not readily deviate from this point of view.

If the special Law would not be enacted, this could give rise to considerable disparity in interpretation by the judiciary in the various contracting States, and, as observed earlier, may be to the detriment of United States nationals, and, in particular, Iran.

9) Mr Hardenberg takes the view that the solution to the problem he raises should be sought through the enactment of the same type of Law as that introduced for the enforcement of awards rendered under the auspices of the *International Centre for Settlement of Investment Disputes* (ICSID) (see under nos. 9 and 11). This proposal, however, fails to take into account that whereas the special ICSID Law is concerned with the enforcement of the ICSID awards only, the purpose of the proposed Law is twofold: enforcement of awards *and* due process.

Contrary to what the author asserts under no. 9, that ICSID awards '*are binding and not subject to any appeal or other remedy*' the Washington Convention of 1965, which gives rules for ICSID, contains extensive remedies in Articles 50-52 ('*interpretation, revision and annulment of the award*'). These remedies are not dealt with by the arbitral tribunal that made the award, but by a separate *ad hoc* Committee appointed by the Chairman of the ICSID Administrative Council. Neither the *Claims Settlement Declaration* nor the *UNCITRAL Arbitration Rules* provide for such remedies.[11] It is therefore necessary, in my opinion, that provisions be made for some control, be it restricted to the absolute minimum, over the arbitral proceedings and awards of the Tribunal.

Mr Hardenberg states in his reply[12] that control by a national judiciary over arbitration has nothing to do with the question of whether a Treaty provides for remedies. While the Washington Convention of 1965 does provide for remedies, the Declaration does not do so. In his opinion, '*within the framework of a dispute about the enforcement, a judge can always refuse to enforce truly exorbitant decisions, which are unthinkable in the present case*'. It is submitted that a minimum control by another body is indispensable for any form of decision making. For international arbitration, the action for setting aside in the country of origin is the most appropriate remedy.[13] What is more important is that, unless a majority of States adopts a Law as suggested by Mr Hardenberg, there is not likely be a legal basis for enforcement of Tribunal awards in most countries. It can be expected that few States are willing to follow Mr Hardenberg's suggestion. Is it therefore not simpler to declare Dutch arbitration law, as amended, applicable, and to rely in other countries on the *New York Arbitration Convention* of 1958?

10) I would conclude by saying that Mr Hardenberg's arguments have not convinced me that the proposed Law is wrong. Mr Hardenberg, in my view, overlooks the unique character of the Tribunal as established by the *Algiers Declarations*. The proposed Law shows a pragmatism which should satisfy all parties concerned (Iran, United States, the Dutch judges and parties and their counsel). The absence of this special law could lead to great uncertainty, notably concerning what law would apply, from which uncertainty none of the involved would benefit.[14] The Dutch legislator did what he could and should do, under the circumstances, and with an agreeable result.

Footnotes

The views expressed in this contribution are the sole responsibility of the author.

1 Published in *Tractatenblad* [Official Dutch Treaty Series], 1981, no. 155.

2 My reaction was originally published in *Nederlands Juristenblad* (Netherlands Lawyers' Journal), 1984, pp. 170-172, after Mr Hardenberg's article, *id.* pp. 167-170. In the same issue of the Journal, Mr Hardenberg was given the opportunity to reply to my reaction *id.* p. 172 (hereafter Mr Hardenberg's reply). According to the Journal's policy, no answer to a reply ('duplique') is allowed. In this English version of my reaction, I will take the opportunity of the 'duplique'.

3 See, generally, P. Sanders, 'National Report on the Law and Practice of Arbitration in the Netherlands', in *Yearbook Commercial Arbitration* Vol. VI (1981), pp. 60-85.

4 See supra note 2.

5 P. Sanders, 'Commentary on the UNCITRAL Arbitration Rules', in *Yearbook Commercial Arbitration* Vol. II (1977) p. 172 at p. 175.

6 Award of October 10, 1973, reported in *Yearbook Commercial Arbitration* Vol. V (1980), p. 143 at p. 147.

7 See, for example, Tribunal Decision in Case A-18, dated April 6, 1984, in *Iran v. United States* (dual nationality case), p. 14 *et seq.*

8 See A.J. van den Berg, *The New York Arbitration Convention of 1958* (Deventer, 1981) pp. 28-43.

9 The Provisionally Adopted Tribunal Rules (March 9, 1983) are published in *Yearbook Commercial Arbitration* Vol. VIII (1983), pp. 234-255.

10 See the Explanatory Note to the proposed Law pp. 9-10.

11 The UNCITRAL Rules do provide for interpretation of the award (Article 35) and correction of the award (Article 36) by the arbitral tribunal itself.

12 *Supra*, n. 2.

13 See *The New York Arbitration Convention of 1958, supra* no. 8 pp. 355-357.

14 If the special Law is not enacted, it may happen that the same situation occurs as has arisen in the case *SEEE v. Yugoslavia.* In this case an award was rendered in the Canton Vaud in Switzerland on September 1, 1957. Because it is unclear whether the arbitration law of the Canton Vaud is applicable to the award, SEEE is still, more than twenty-five years later, trying to enforce the award in various countries. The Dutch Supreme Court even had to decide twice on this case. See *Yearbook Commercial Arbitration* Vol. I (1976) pp. 195-198. A special Law for the arbitral proceedings and awards of the Tribunal may hopefully avoid such drama.

HeinOnline -- 12 Int'l Bus. Law. 344 1984

EXCLUSIVE LICENSES AS RESTRAINTS OF TRADE

Under US and Common Market Antitrust Law

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A. INTRODUCTION

This article examines the treatment of exclusive licenses of patented or unpatented technology as restraints of trade in the United States under Section 1 of the *Sherman Act*, and in the European Economic Community under Article 85 of the *Treaty of Rome.*

The focus is on the simple one-way arrangement in which the licensor agrees to grant no further licenses within a particular territory, and to refrain from competing with the licensee within that territory. By making the license exclusive, the parties thereby ensure some degree of protection for the licensee in the manufacture, sale, and use of the relevant product or process within the exclusive territory.

They may also seek to strengthen this protection by limiting competition from direct sales by licensees from other territories, or from the customers of those licensees who purchase for re-sale or use within the exclusive territory. Territorial restrictions of this sort present distinct, but related issues, which will also be discussed in the sections that follow.

In both the United States and the Common Market, exclusive licenses remain a subject of ongoing interest to the legal, business, and scientific communities. There have also been significant developments in this area within the past few years, summarized below, which imply at least a partial convergence of the American and European approaches to this issue:

(1) Recent decisions in the United States, reinforced by the general trend of antitrust authority, confirm that the 'rule of reason' will ordinarily apply to alleged restraints of trade involving exclusive licenses and territorial restrictions in licensing agreements. This ensures that the procompetitive benefits of those arrangements will be taken expressly into account, and it also suggests that they are likely to be found reasonable if legitimate commercial factors warrant their use;

(2) The European Court of Justice, in its *Maize Seed* and *Coditel* decisions, has rejected the position of the EEC Commission that exclusivity is always a restriction of competition. While reaffirming the invalidity of territorial restraints on 'parallel imports', the Court has fashioned an approach toward exclusive licenses which incorporates elements of the rule of the reason as applied by courts in the United States, and which should make it easier and more attractive for potential licensors and licensees to enter into such arrangements.

Despite these developments, it seems fair to conclude that courts and commentators in the United States distinguish less explicitly than do their counterparts in Europe between mere exclusivity, on the one hand, and other territorial restrictions ancillary to licensing agreements. Nevertheless, what is most striking is the growing similarity between their respective approaches toward exclusive licenses, which appears to arise from the common recognition that those licenses may have significant procompetitive effects, and may be motivated by legitimate commercial factors which need to be identified and taken into account in order to avoid adversely affecting competition and unduly retarding innovation.

Before turning to the substantive law, it will therefore be helpful to look briefly at some of the policy reasons typically given for and against exclusive licensing.

B. POLICY FACTORS

There is widespread agreement that licensing trends to be procompetitive and beneficial by promoting dissemination of new products, ideas, and technology.

The American Bar Association recently summarized some of the relevant considerations as follows, with particular emphasis on the positive role of licensing in helping small and medium-sized firms do business abroad:

> *Licensing — the transfer of specified rights to exploit the licensor's patent or know-how — serves an important function in both foreign and domestic commerce. It allows licensors to derive additional income from their intangible property through royalties. It permits licensees to use or market otherwise unavailable processes and patents. And it serves the needs of society in general by permitting technology of all kinds to be more fully utilized and by creating opportunities for competition that would otherwise not exist.*
>
> *In addition, in the international area, licensing is frequently the only means by which an American company can do business abroad. This is particularly true for small and medium-sized firms that may be blocked from exporting to foreign markets by tariffs and nontariff barriers and that lack the large amount of capital often required*

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for direct foreign investment. For this reason, the transfer of intangible property rights through licensing agreements with foreign firms constitutes an important segment of this country's overseas business activity.[1]

In evaluating restrictive licenses, the question usually asked is *'whether the public interest in encouraging licensing outweighs the possible negative effects of the restrictions'.*[2]

The possible negative effects of an exclusive license are fairly clear. By agreeing to grant no further licenses, the licensor limits his own options, as well as those of third parties who might wish to obtain similar licenses within the exclusive territory. Exclusive licenses can also facilitate allocation of markets, and the suspicion may naturally arise that they are intended to do so.

On the other hand, the eexclusive licensee may be entitled to issue sublicenses, and the possible negative impact is obviously diminished to the extent that he does. Absent territorial restrictions, he may also face competition from sales by licensees from other territories, or from their customers who purchase for re-sale or use within the exclusive territory.

Moreover, without exclusivity it might be difficult or impossible to obtain licensees. so that the apparent restriction may actually have significant procompetitive benefits by encouraging licensing which would otherwise be unlikely to take place.

This is generallly most obvious where the commercial development of the licensed technology requires substantial investment or business risk on the part of the licensee, either because it is not yet capable of being fully implemented or marketed successfully, or due to vigorous competition from other products or processes within the territory.

There may also be other circumstances where legitimate commercial factors suggest the need for exclusivity, and where licensing would be less likely without it. The important point is that exclusive licenses may in fact promote competition, and the challenge for antitrust policy is to avoid deterring those arrangements which are reasonably calculated to do so.

As one court in the United States recently commented:

. . . (I)t has been argued that overly restrictive antitrust review of patent licensing practices might lead a patentee to license less widely than he might otherwise do, or indeed, not to license at all . . . Less widespread licensing could lead to decreased use of the patented product, less present competition for the patentee, and reduced competition in the patented product after the expiration of the patent . . . Exclusive licenses . . . have been defended on this ground . . . It would appear that neither patent nor antitrust policy would in the long run be served by prohibiting restrictions necessary to promote wider use of the patented product.[3]

The sections that follow examine how the relevant authorities are attempting to resolve this problem in the United States and in the European Economic Community.

C. UNITED STATES

(1) General Approach: Rule of Reason vs. Per Se Rule

Section 1 of the *Sherman Act, 15 U.S.C. § 1*, prohibits *'every contract, combination . . ., or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations . . .'*

In applying this broad language, the Supreme Court has repeatedly made clear that only *unreasonable* restraints of trade are unlawful.

While certain practices, such as price-fixing among competing firms, are considered so clearly anti-competitive as to be inherently unreasonable, or unlawful per se, the basic approach under the Sherman Act is to assess the reasonableness of an alleged restraint of trade by looking closely at all the circumstances of the particular case to evaluate the competitive effect of the restriction.

The standard formulation of this judicial 'rule of reason' is the statement by Justice Brandeis in *Chicago Board of Trade v. United States*, 246 US 231, 238 (1918):

The true test of legality is whether the restraint imposed is such as merely regulates and perhaps thereby promotes competition or whether it is such as may suppress or even destroy competition. To determine that question the court must ordinarily consider the facts peculiar to the business to which the restraint is applied; its condition before and after the restraint was imposed; the nature of the restraint and its effect, actual or probable. The history of the restraint, the evil believed to exist, the reason for adopting the particular remedy, the purpose or end sought to be attained, are all relevant facts. This is not because a good intention will save an otherwise objectionable regulation or the reverse; but because knowledge of intent may help the court to interpret facts and to predict consequences.

Particularly in recent years, courts in the United States have become increasingly aware that mechanically relying on per se rules may actually prove to be anti-competitive, by deterring legitimate commercial practices with desirable economic effects. As a result, they have shown a much greater sensitivity to the need to employ sound competitive analysis by use of the rule of reason in evaluating alleged restraints of trade.

A good example is *Continental TV, Inc. v. GTE Sylvania, Inc.*, 433 US 36 (1977), where the Supreme Court specifically addressed this issue in overruling one of its own prior decisions which applied the per se rule to 'vertical' territorial restrictions, and held that franchise agreements, limiting sale of the manufacturer's products to specified locations, should be analyzed under the rule of reason because of their tendency to enhance interbrand competition. To underscore the importance of looking carefully at the competitive impact of the alleged restraint before determining whether per se treatment might be warranted, the Court emphasized that *'departure from the rule-of-reason standard must be based upon demonstrable economic effect rather than . . . upon formalistic line drawing.'* 433 US 36, at 58-59.

The same approach is evident in the area of restrictive licensing, as demonstrated by *Moraine Products v. ICI America, Inc.*, where the court expressly rejected application of the per se rule to an agreement not to grant sublicenses without mutual consent. As in *Continental*, the determining factor was the concern that

HeinOnline -- 12 Int'l Bus. Law. 346 1984

per se treatment might unfairly upset desirable commercial practices by establishing an unwarranted presumption of illegality:

The continuing debate between patent and antitrust champions has not so conclusively established the anticompetitive purpose or effect of a mutual agreement not to grant sublicenses that this, or any other court, can properly eschew economic analysis and rule a priori that ... the ... license contract was illegal per se. Such a narrow focus on the specific terms of a licensing arrangement would ignore the body of sophisticated legal and economic literature to the effect that truncated judicial vision has frequently upset desirable commercial practices. It would draw a line differentiating legal and illegal practices upon a presumption not fairly drawn from the factual realities of drug research and marketing.[4]

Decisions such as *Continental* and *Moraine* reflect the general trend of antitrust authority in the United States, and the considerations emphasized by the courts in those cases have also had a major effect on the substantive law, summarized below, which has developed for evaluating exclusive licenses and licenses with territorial restrictions.

(2) Exclusive Licenses and Territorial Restrictions

(a) Domestic Patent Licensing

Exclusive licenses for all or part of the United States have traditionally been considered lawful, either on the theory that they are inherent in the patent grant, authorized by statute, or reasonably adapted to valid use of the patent monopoly.[5]

Whatever the rationale, the effect is ordinarily to apply a standard no more strict than the rule of reason and to find exclusive licenses reasonable.[6]

A recent decision which illustrates this approach is *United States v. Studiengesellschaft Kohle*, where the court discussed the propriety of exclusive licenses in light of the Supreme Court's prior ruling in *Continental*, and noted that that case *'is a message to lower courts that antitrust violations should be based upon economic effects rather than upon formal distinctions.'*[7]

In analyzing those economic effects, the court in *Studiengesellschaft Kohle* specifically identified and relied upon the following procompetive benefits of exclusive licenses in support of its holding that a restriction on sale of the unpatented product of a patented process was valid under the rule of reason:

Exclusive licenses are tolerated because they normally threaten competition to no greater extent than is threatened by the patent itself ... Equally important from the perspective of the rule of reason, many potential licensees might be unwilling to undertake the expense necessary to develop and promote a product but for assurances against attempts by later licensees to exploit the early licensee's development and promotion ... An exclusive license protects licensees against such 'free rider' problems, and thereby serves the interests of both the patentee and the public by facilitating more rapid and widespread use of new inventions ... The same considerations that lead courts to validate exclusive licenses lead us to approve the restriction at issue here.[8]

The opinion in *Studiengesellschaft Kohle* is noteworthy for expressly taking into account the legitimate commercial factors underlying exclusive licenses, and for focusing so directly on their positive effects, including the tendency to promote dissemination of new technology by encouraging licensing which might otherwise be unlikely to take place.

As previously indicated, however, the result in that case is also consistent with most other decisions which typically validate exclusive licenses under the antitrust laws.

What if the parties attempt to go further, and furnish additional protection by including territorial restrictions in the licensing agreement?

The result in this area is not quite so clear, primarily because of the traditional per se rule against territorial division of markets among competitors. The ABA Monograph points out, however, that (1) there is authority supporting territorial limitations on initial distribution of a patented product manufactured under license within the United States, and (2) after the first sale of the patented product, it is likely that any such restrictions will be evaluated by the rule of reason in accordance with the Supreme Court's decision in *Continental*.[9]

(b) International Patent Licensing

Courts and commentators generally agree that a patentee may grant exclusive licenses under separate patents issued in different countries, since he is merely parcelling out rights which are by their nature territorial.[10] The result can be a fairly effective degree of protection by enabling each licensee to proceed against infringing products under the national law of the country issuing the patent.[11]

Should the parties wish to go further, there are a number of precedents upholding territorial limitations on exports and imports.[12] Although certain of these decisions have been criticized, it seems likely that restrictions of this sort will also be evaluated by the rule of reason, and may therefore be found lawful if justified by legitimate commercial factors.[13]

(c) Know-How

In the area of unpatented technology, often referred to as 'know-how', exclusive licenses and territorial restrictions may also be permitted if they are reasonably ancillary to a genuine transfer of technology:

Restraints upon a know-how licensee are permitted if they are 'ancillary' to the lawful purpose just discussed, and an analysis of the cases indicates that the type of restraint here in question, viz., a territorial limitation upon the licensee's sale of products made by use of the secret process should be considered 'ancillary' if (1) the subject matter of the license is substantial, valuable, secret know-how; (2) such restraint is limited to the 'life' of the know-how, ie. the period during which it retains its secrecy; and (3) such restraint is limited to those products only which are made by use of the know-how ...[14]

(d) Other Intellectual Property

A like rule applies to exclusive licenses of other forms of intellectual property, such as copyright.[15] Indeed, the Supreme Court has recently underscored the general inapplica-

HeinOnline -- 12 Int'l Bus. Law. 347 1984

bility of per se treatment to copyright licenses, noting that, '*although the copyright laws confer no rights on copyright owners to fix prices among themselves orr otherwise to violate the antitrust law, we would not expect that any market arrangements reasonably necessary to effectuate the rights that are granted would be deemed a per se violation of the Sherman Act.*'[16]

(e) Summary
As this brief review indicates, the rule of reason is the prevailing method for evaluating exclusive licenses and licenses with territorial restrictions. The next section takes a closer look at some of the specific factors which courts are likely to emphasize in applying that rule.

(3) Evaluation of Reasonableness

To illustrate what is unreasonable, there are a number of well-known older decisions, often collectively referred to as the 'Cartel Cases', in which various patent, know-how, and other licensing practices were found to be among the means used to implement unlawful market-allocation agreements among competitors.[17]

The decisions are long, and their facts complex, but the following quotation from the District Court's opinion in *National Lead* helps convey the flavour of them:

> *Agreements creating a world-wide patent pool of all present and future patents of the parties, covering an entire industry, and embracing a division of the world into exclusive territories within which each of the parties is to confine its business activities, with respect to patent protected commodities, as well as unpatented, for the purose and with the effect of suppressing imports into and exports from the United States, are unlawful under the Sherman Act; they constitute an unreasonable restraint of trade.*[18]

Because these cases involve unlawful conspiracies and extreme situations, they contrast sharply with the ordinary exclusive license or properly limited territorial restriction, and tend to reinforce the inference that these arrangements are likely to be found reasonable if related to a genuine transfer of technology and supported by legitimate commercial factors.[19]

In less dramatic circumstances, however, what distinguishes those restrictions which promote competition from those which do not?

The decision in *Studiengesellschaft Kohle* suggests that one consideration which may be decisive is whether the restriction plays an important role in attracting potential licensees, by offering some measure of protection from future competition in exchange for the licensee's efforts in developing and promoting the licensed technology.

As noted earlier, this is likely to be most apparent, and therefore to be given greater weight, where the licensee is called upon to incur a substantial business risk in practicing the license, either because of the current state of the art, or due to existing competition from other products or processes. As covered more fully below, both of these factors were also significant in the develpment of a 'rule of reason' by the European Court of Justice in the *Maize Seed* decision.

Another major element, to be balanced against the one just discussed, is the degree of the restraint. Is the license merely exclusive, or does it contemplate additional territorial restrictions potentially leading to a closed market?

One commentator in the United States recently considered this question in the context of know-how licensing, and suggested an analysis which also seems consistent with the longstanding concern within the European Economic Community, discussed in the next section, to eliminate territorial restrictions which interfere with the flow of 'parallel imports' across national borders:

> *Assuming that it is sometimes reasonable to prohibit a licensor or licensee from exporting to the other's territory, is it also reasonable to require either to refuse to deal with buyers from the protected territory who are prepared to purchase f.o.b. in the other territory in order to save money? Is it reasonable to prohibit either party from selling to a third party known to be likely to resell the product in the protected territory? It does not seem inevitable as a matter of law or policy that allowing the milder form of market division in the first situation requires toleration of the completely closed territories that would result from the latter two types of restrictions.*[20]

The ABA Monograph, at 18-25, suggests that the following factors are among those that might properly be taken into account in evaluating the reasonableness of territorial restrictions in patent-licensing agreements:

(1) Does the restraint exceed the scope of the patent grant in time or subject matter?
(2) Are the licenses, and licensing restraints, reciprocal?
(3) Is the restraint part of some larger pattern of competitive restrictions?
(4) Are the licensor and the licensee actual or potential competitors with respect to the licensed techology?
(5) Is the licensed technology of substantial value?
(6) Is the time period of the restraint reasonable?
(7) Does the restraint primarily benefit the licensee rather than the licensor?
(8) Is the restraint necessary in order to obtain licensees, or to induce the patentee to grant licenses?
(9) Is there a less restrictive alternative?

In the final analysis, no list can be entirely satisfactory, and the determination of what is reasonable will necessarily depend on the facts and circumstances of the particular case.

While this does not offer the superficial comfort and predictability of a per se rule, or provide any immunity from antitrust attack, it does ensure prospective licensors and licensees the opportunity to defend their arrangements, fairly and on the merits, should it ever be necessary to do so. It also means that courts will look closely at the economic benefits of those arrangements in order to avoid adversely affecting competition and unduly retarding innovation, and it suggests that they are likely to be found reasonable if legitimate commercial factors warrant their use.

D. EUROPEAN ECONOMIC

HeinOnline -- 12 Int'l Bus. Law. 348 1984

COMMUNITY
(1) General Approach:

Articles 85(1) and 85(3)

Article 85(1) of the Treaty of Rome, the basic counterpart to Section 1 of the Sherman Act, prohibits *'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 . . .'*

An agreement which violates Article 85(1) is 'automatically void', in accordance with Article 85(2), unless the Commission issues an exemption under Article 85(3), which it may do if the prohibited agreement, decision, or concerted practice nevertheless:

> . . .(C)ontributes 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 . . . 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.

It is sometimes said that Article 85(3) *'represents a kind of built-in rule of reason in EEC antitrust law'*,[21] which makes it unnecessary to devise such an approach judicially, under Article 85(1), as courts in the United States have long done under the Sherman Act.

However, there are important theoretical and practical differences which limit the analogy, regardless whether articles 85(1) and 85(3), taken together, contain substantive standards which are in some respects similar to the rule of reason in the United States.

An agreement which comports with the rule of reason is legally valid since it is not viewed as being in restraint of trade within the meaning of Section 1 of the Sherman Act. The same holds true for agreements or concerted practices which do not amount to a 'restriction or distortion of competition' under Article 85(1). In each case, such arrangements may lawfully be entered into and implemented by the parties on their own initiative, without any additional formalities or antitrust implications arising under either provision.

In contrast, the elements of Article 85(3) come into play where there is a violation of Article 85(1), by an agreement or practice which otherwise amounts to a prohibited restriction or distortion of competition. Moreover, in order to obtain an exemption in accordance with Article 85(3), the relevant agreement or practice must be notified to the Commission, and it is considered legally invalid and unenforceable unless and until an exemption is subsequently forthcoming.[22] Applying for an exemption can also be a lengthy process, so that even if an application is ultimately approved, the result is likely to be a substantial amount of legal uncertainty for a protracted interim period.[23]

(2) EEC Commission

In its first major pronouncement on exclusive licenses, in 1962, the Commission took the position that an exclusive patent license was not prohibited by Article 85(1).[24]

However, it subsequently modified this approach, and by 1972 had abandoned it entirely, taking the view that an exclusive license is inherently restrictive of competition because it limits the licensor's freedom to grant additional licenses, and prevents third parties from gaining access to the licensed technology within the exclusive territory.

In certain cases, the Commission nevertheless continued to hold that there was no actual violation of Article 85(1), where the effect of the restriction on competition within the Common Market was not considered appreciable.[25]

In other cases, it found a violation, but exempted the agreement, after territorial restrictions prohibiting exports to other countries within the Community were deleted, because without exlusivity the licensee might not have been willing to make the investment necessary to develop the licensed process and penetrate new markets.[26]

In *AOIP/Beyrard*,[27] the Commission issued one of its most explicit statements concerning the requirements for exemption of an exclusive license, and it also touched briefly on the propriety of related territorial restrictions on exports:

> *Under Article 85(3), the prohibition in Article 85(1) may be declared inapplicable in the case of a clause in a patent licensing agreement whereby the licensor grants the licensee the exclusive right to manufacture certain products within a specified part of the territory of the common market. This is particularly the case when the exclusivity provides a stimulus for the licensee to penetrate a territorial, or product, market which has not yet been exploited by the licensor. An exemption can also be granted in an appropriate case for a prohibition on exports applicable to the first sale only and of limited duration, the object of which is the mutual protection of the parties or of other licensees.*

The Commission elaborated on these themes in 1979, in an 'Official Notice of Proposed Exemption for Patent Licensing Agreements':[28]

> *. . . The territorial protection that arises from exclusive sales rights and related export bans can only be allowed if it is requisite for ensuring the expansion of technical progress. The Commission accepts that this protection is necessary for the majority of undertakings as a determining factor to facilitate decisions on investments relating to the development and marketing of new technologies. For undertakings with very high turnovers this protection would not, on the other hand, see appropriate, having regard to their extensive financial resources . . . Subject to this restriction, territorial protection may be allowed for the full duration of all patents extant at the time of the licensing agreement . . . Further, the protection can be conceded only for products in which intermediate trade is possible . . . Lastly, the regulation assumes that the licensee himself undertakes investment for the manufacture of the licensed product . . . It therefore does not apply to mere sales licenses.*

Between 1962 and 1979, the Commission therefore completely changed its original position that exclusive licenses do not restrict competition under Article 85(1), and instead took the contrary view that

HeinOnline -- 12 Int'l Bus. Law. 349 1984

they may only be permitted as an exemption, under limited circumstances, pursuant to Article 85(3).

(3) European Court of Justice

Throughout this period, there was no opinion from the European Court of Justice on the question of exclusive licenses.

However, the Court did establish certain general principles, summarized below, which attempted to reconcile the protection given to industrial and intellectual property rights under national law with the interests of the Common Market, as a whole, in eliminating internal barriers to trade among Member States:[29]

(a) It distinguished clearly between the existence of industrial and intellectual property rights, to be determined by national law, and the exercise of those rights, which may be prohibited by Article 85 whenever it involves an agreement or concerted practice which might have the effect of partitioning the Common Market;

(b) It also emphasized the importance of encouraging 'parallel imports' (goods initially sold in one Member State which are subsequently offered for resale in another) by consistently holding that all of the patent or other similar rights granted to a single licensor by the national laws of the various Member States are exhausted after the first authorized sale in any Member State. The result is that any effort by a licensee in State A to invoke the law of that State to exclude products previously sold under license in State B is invalid under Article 30 as inconsistent with the principle of free movement of goods throughout the Community.[30]

Finally, in 1982, the Court considered the question of exclusive licenses for the first time in *L.C. Nungesser v. EEC Commission*, popularly known as the *Maize Seed* decision.[31]

In that case, a French public agency, INRA, developed a new type of hybrid maize seed, and entered into an agreement with Eisele by which he registered breeder's rights in Germany, and obtained the exclusive right to produce and distribute INRA maize seed varieties in that country.

INRA also agreed to take appropriate steps to prevent its maize seed from being introduced into Germany except through Eisele, and importation and re-sale in the Federal Republic by third parties was in fact effectively prohibited.[32]

The Commission opposed these arrangements, taking the position, discussed earlier, that exclusivity is always a restriction of competition, so that the validity of Eisele's rights would depend solely on whether the conditions for an exemption were fulfilled. It also determined that an exemption was inappropriate because the territorial protection afforded Eisele did not satisfy the requirements of Article 85(3).

The plaintiffs, supported by the Governments of France, Germany, and the United Kingdom, argued that the grant of an exclusive license is an inherent part of the industrial property right, which therefore cannot be a violation of Article 85(1), and that competition within Germany would be adequately safeguarded by application of the exhaustion principle developed by the Court in its prior decisions.[33]

The Government of the United Kingdom also pointed out that the Commission's approach might make owners of industrial property rights reluctant to grant exclusive licenses, which could deter investment and the spread of new technology.[34]

In resolving this issue, the Court made clear that it was addressing the question of industrial property rights generally, and not just breeder's rights. It also noted, however, that it would be necessary to '*take into consideration . . . the specific nature of the products which form the subject matter of breeder's rights*' in making its ruling.[35]

The starting point for the Court's analysis, and the heart of its opinion, is the distinction between an 'open exclusive license' and a license with 'absolute territorial protection'.

According to the Court, an 'open exclusive license' is where the licensor merely agrees to grant no further licenses for the same territory, and not to compete with the licensee within that territory. In contrast, a license with 'absolute territorial protection' contemplates further restrictions aimed at eliminating competition from sales by licensees from other territories, and from parallel importers who purchase from those licensees for re-sale or use within the exclusive territory.[36]

In adopting these definitions, the Court essentially made the distinction relied on throughout this article between a license which is merely exclusive, on the one hand, and a license which incorporates additional territorial restrictions on the other.

With respect to the open exclusive license granted to Eisele, the Court categorically rejected the Commission's formalistic view, and held that it was not a restriction of competition within the meaning of Article 85(1). The parties' agreement was therefore valid to the extent it required INRA '*to refrain from having the relevant seeds produced or sold by other licensees in Germany, and . . . to refrain from producing or selling the relevant seeds in Germany (itself).*'[37]

In explaining its ruling on this issue, the Court specifically emphasized the need to take into account the underlying circumstances of the particular case, including INRA's years of research and experimentation in developing the hybrid maize seed, and the novelty of the product involved, which justified the Governments' concern about promoting the spread of new technology.

It also noted that without the protection afforded by exclusivity, Eisele might not have been willing to accept the risk of cultivating and marketing the product in Germany, which would have impaired interbrand competition between the new hybrid maize seed and other pre-existing varieties.[38]

However, on the question of absolute territorial protection, the Court found that the parties' effort to prevent INRA maize seed from being introduced into Germany by anyone other than Eisele '*manifestly goes beyond what is indispensable for the improvement of production or distribution or the promotion of technical progress, as is demonstrated in particular in the present case by the prohibition . . . of any parallel imports of INRA maize seed into Germany, even if those seeds were bred by INRA itself and marketed in France.*'[39]

It therefore upheld the Commission on this point, affirming the denial of an exemption, and clearly re-

HeinOnline -- 12 Int'l Bus. Law. 350 1984

confirming the continued vitality of its own position against restrictions which adversely affect parallel imports.

The major practical problem not fully resolved by the *Maize Seed* decision is whether, and under what circumstances, it may be permissible to limit direct exports by other licensees into the territory of an exclusive licensee. The real significance of the opinion, though, is the way the Court approached the question of the open exclusive license under Article 85(1).

By looking closely at all the circumstances in the case before it, and focusing explicitly on the procompetitive potential of exlusivity, including the tendency to promote the development and spread of new technology, the Court's analysis is very similar to recent cases, such as *Studiengesellschaft Kohle*, which have considered this issue in the United States.

Moreover, in emphasizing the importance of encouraging competition between new technologies and preexisting products or processes, the decision also brings to mind the rationale of the Supreme Court in *Continental* concerning the desirability of fostering inter-brand competition. As one commentator in Europe recently put it:

> *It seems to me that the Court accepted the evil of the 'small' restraint of trade, namely exclusivity, in order to make comeptitioh possible between the new maize seed and competing products within the territory of the license; expressed differently, the enhancement of competition through the licensing agreement made the restraint of trade inherent in the exclusivity appear justified.*[40]

In short, the Court seems to have fashioned something very much like a 'rule of reason', incorporating significant elements of that principle as developed and applied in the United States, for evaluating whether an exclusive license restricts competition within the meaning of Article 85(1).

Following the *Maize Seed* decision, the Court again employed this approach in the *Coditel* case, holding that '*a contract whereby the owner of the copyright in a film grants an exclusive right to exhibit that film for a specific period in the territory of a Member State is not, as such, subject to the prohibitions contained in Article 85 of the Treaty.*'[41] Instead '*it is . . . for the national court to ascertain whether . . . the manner in which the exclusive right conferred by that contract is exercised . . . (has) the object or effect . . . to prevent or restrict the distribution of films or to distort competition within the cinematographic market, regard being had to the specific characteristics of that market.*'[42]

The Commission has since made an effort to take these principles into account in the latest revision of its proposed group exemption for patent-licensing agreements, which cites the *Maize Seed* opinion, and sets out the Commission's view of the scope and effect of that decision as follows:

> Obligations undertaken by the licensor not to operate in the licensed territory and not to grant further licenses there do not fall within the scope of Article 85(1) where such obligations are necessary for the introduction and protection of a new technology in the licensed territory, in view of the scale of the research that has been undertaken and of the risk that is involved in manufacturing and selling a product which is unfamiliar to consumers in the licensed territory at the time the agreement is made. This may also be the case where the obligations are necessary for the puyrpose of introducing and protecting a new process for manufacturing a product already known.[43]

On the other hand, the Commission has also issued a decision granting an exemption, in *Rockwell-Iveco*,[44] which indicates that it may still view an exclusive license as a prohibited restriction of competition, at least when combined with other restraints and when the technology involved is largely unpatented. In that case, which involved the transfer of know-how to a proposed joint venture for the production and marketing of rear-drive axles for trucks, the Commission cited exclusive manufacturing and distribution licenses as among those restrictions which violated Article 85(1) because '*Rockwell and Iveco are . . . no longer free to enter into contractual relations with other prospective licensees in the territories concerned.*'[45]

It therefore remains to be seen how this 'rule of reason' may develop, and whether clear principles will emerge for distinguishing those specific practices which do not restrict competition, within the meaning of Article 85(1), from those which are only valid if exempted by the Commission pursuant to Article 85(3). In particular, it seems unlikely that the Court will significantly modify its traditional position against restrictions on parallel imports. On the other hand, as noted previously, the legality of properly limited territorial restraints on direct exports by licensees from other territories has not yet been fully resolved, so there my be some room for application of a 'rule of reason' in that area as well.

What can be said at this point is that, like courts in the United States, the European Court of Justice has demonstrated a clear sensitivity to the legitimate commercial factors and policies underlying exclusive licenses. In the process, it also appears to have made it easier and more attractive for potential licensors and licensees to enter into this kind of an arrangement by reducing, at least to some extent, the need to apply to the Commission for an exemption in every such case.

Footnotes

1 Antitrist Section, American Bar Association, Monograph No. 6, *US Antitrust Law in International Patent and Know-How Licensing*, 1-2 (1981) ('ABA Monograph').

2 *Id.* at 12.

3 *Mannington Mills, Inc. v. Congoleum Industries, Inc.*, 610 F. 2d 1059, 1071 (3 Cir. 1979).

4 538 F. 2d 134, 144-45 (7 Cir.), *cert. denied*, 429 US 941 (1976).
See also the new legislative package recently introduced by the Reagan Administration, which appears in CCH Trade Regulation Reports, No. 614, Part II (September 19, 1983), at 1-34. Among other things, this proposal would flatly prohibit courts from condemning any intellectual property licensing agreement without considering its procompetitive benefits, by specifically providing that 'agreements to convey rights to use, practice, or sublicense patented inventions, copyrights, trade secrets, trademarks, know-how, or other intellectual property shall not be deemed illegal per se in actions under the antitrust laws.' *Id. at 16.*

5 See the authorities cited and discussed in the ABA Monograph at 11-15.
The relevant statute is 35 U.S.C. § 261, which provides, in pertinent part, that 'the applicant, patentee, or his assigns or legal representatives may in like manner grant and convey an exclusive right under his application for patent, or patents, to the whole or any specified part of the United States . . .'
There has been a spirited debate about

HeinOnline -- 12 Int'l Bus. Law. 351 1984

whether this provision applies to licenses at all (or is limited to assignments), the extent to which it may sanction domestic territorial restrictions under the antitrust laws, and what implications it may have for restrictive licensing beyond the territorial limits of the United States. The principal authorities which discuss these issues are cited in the ABA Monograph at 14 n. 58.

6 See, for example, *Cataphote Corporation v. De Soto Chemical Coating, Inc.*, 450 F. 2d 769, 774 (9 Cir. 1971), *cert. denied*, 408 US 929 (1972), and *Rail-Trailer Co. v. ACF Industries, Inc.*, 358 F. 2d 15, 16-17 (7 Cir. 1966).

7 670 F. 2d 1122, 1129-30 (D.C. Cir. 1981).

8 670 F. 2d 1122, at 1135.

9 See the ABA Monograph at 14-15 and nn. 59-60, and compare the approach toward 'parallel imports' within the European Economic Comminity, discussed below.

See also Atwood and Brewster, *Antitrust and American Business Abroad* §11.11 (1981) ('Atwood and Brewster'), at 13 n. 28, where the authors note that, 'It has been questioned whether the per se rule against territorial division of markets among competitors . . . leaves any room for the ancillary restraint doctrine in the are of patent licensing where territorial protection is the goal . . . In the circumstances of technology licensing, however, it is fair to view the relationship of the licensor and licensee as vertical rather than horizontal, provided that the licensed technology was a significant factor in making the licensee a realistic potential competitor. This in turn would justify properly limited territorial restraints within the field of the licensed technology.'

10 See *United States v. Westinghouse Electric Corporation*, 648 F. 2d 642, 648 (9 Cir. 1981), and Atwood and Brewster §§ 11.07, 11.13.

11 See, for example, Atwood and Brewster § 11.07, at 7 n. 10, where the authors point out that 'the exhaustion doctrine, which in domestic patent cases holds that the patentee may not exert his patent prerogatives after the first sale of the patented product, does not prevent the American patentee from excluding imported goods covered by his patent, since sales abroad under the foreign patent do not in any sense exhaust the American patentee's rights under his separate United States patent.' Compare the discussion of the European Economic Community's 'exhaustion' doctrine, below.

12 *Dunlop Company, Limited v. Kelsey-Hayes Company*, 484 F. 2d 407, 417 (6. Cir. 1973), *cert. denied*, 415 US 917 (1974); *Brownell v. Ketcham Wire + Mfg. Co.*, 211 F. 2d 121, 128-29 (9 Cir. 1954); *American Optical Co. v. New Jersey Optical co.*, 58 F. Supp. 601 (D. Mass. 1944).

13 See Atwood and Brewster §§ 11.14, 11.15.

14 *Shin Nippon Koki Co. v. Irvin Industrues, Inc.*, 1975 Trade Cases * 60347, at 66440 (N.Y. Supreme Ct. 1975). See also *Dr Miles Medical Company v. Park + Sons Company*, 220 US 373, 402-07 (1911); *A + E Plastik Pak Co. v. Monsanto Company*, 396 F. 2d 710, 714-15 (9 Cir. 1968); *Thoms v. Sutherland*, 52 F. 2d 592 (3 Cir. 1931); *Foundry Services Inc. v. Beneflux Corporation*, 110 F. Supp. 357 (S.D.N.Y.), *rev'd on other grounds*, 206 F. 2d 214 (2 Cir. 1953); ABA Monograph at 31-39; Davidow, 'Antitrust and International Know-How Licensing', 14 Vand. J. Trans. L. 363 (1981).

15 See, for example, *Wilson Industries, Inc. v. Chronicle Broadcasting Co.* 1982-83 Trade Cases § 65012 (N.D. Cal. 1982), and *United States v. Chicago Tribune — New York News Syndicate, Inc.*, 309 F. Supp. 1301 (S.D.N.Y. 1970).

16 *Broadcast Music, Inc. v. Columbia Broadcasting System, Inc.*, 441 US 1, 19 (1979).

17 See *Timken Roller Bearing Company v. United States*, 341 US 593 (1951); *United States v. Imperial Chemical Industries, Inc.*, 100 F. Supp. 504 (S.D.N.Y. 1951); *United States v. General Electric Co.*, 82 F. Supp. 753 (D.N.J. 1949); and *United States v. National Lead Co.*, 63 F. Supp. 513 (S.D.N.Y. 1945), *aff'd*, 3332 US 319 (1947).

18 63 F. Supp. 513, at 527.

19 See the ABA Monograph at 15-18, and Atwood and Brewster § 11.11.

20 Davidow, 'Antitrust and International Know-How Licensing', 14 Vand. J. Trans. L. 363, 369-70 (1981) (footnote omitted).

21 Letter from U.P. Tepke, 15 Int'l. Law. 342, 343 n. 8 (1981). See also Gleiss and Hirsch, *Common Market Cartel Law* (3rd American ed. 1981), at 93.

22 See Article 4 of Regulation 17, the 'First Regulation Implementing Articles 85 and 86 of the Treaty', February 6, 1962, as amended, CCH Comm. Mkt. Rep. § 2431. The rules concerning the legal status of an agreement which has been notified to the Commission for an exemption under Regulation 17 are discussed in Gleiss and Hirsch, *Common Market Cartel Law* (3rd American ed. 1981), at 249-258, 439-441.

23 One commentary notes that 'the Commission on the average takes more than 6 years to grant an exemption'. Gleiss and Hirsch, *Common Market Cartel Law* (3rd American ed. 1981), at 258.

See also the Commission's own report on its processing of notifications of restrictive agreements during the period January 1, 1973 through December 31, 1982, which appears at CCG Comm. Mkt. Rep. § 10492 (No. 477, June 21, 1983). Although numerous applications were apparently resolved without formal decision, of those formally acted upon, 31 were granted and 32 were denied. More importantly, as of December 31, 1982, 3,715 applications and/or notifications were still unresolved and awaiting decision. According to the Commission, 'many of the pending cases concern patent licensing agreements, which will for the most part be dealt with as a group by the future block exemption regulation on this type of agreement.'

24 Official Notice on Patent Licensing Agreements, December 24, 1962, CCH Comm. Mkt. Rep. § 2698.

25 See, for example, *Raymond-Nagoya*, June 9, 1972, CCH Comm. Mkt. Rep. § 9513; *Burroughs-Geha*, December 22, 1971, CCH Comm. Mkt. Rep. § 9486; *Burroughs-Delplanque*, December 22, 1971, CCG Comm. Mkt. Rep. § 9485.

26 See *Kabelmetal-Luchaire*, July 18, 1975, CCH Comm. Mkt. Rep. § 9761; *Davidson Rubber*, June 9, 1972, CCH Comm. Mkt. Rep. § 9512. Compare *Bronbemaling-Heidemaatschappij*, July 25, 1975, CCH Comm. Mkt. Rep. § 9776, where an exemption was denied because the restraint involved had no beneficial economic effect 'such as might be expected of an exclusive license having the prime purpose of facilitating penetration of a new market'.

27 December 2, 1975, CCH Comm. Mkt. Rep. § 9801 (footnotes omitted).

28 March 3, 1979, CCH Comm. Mkt. Rep. § 10118, at 10399-400.

29 See, for example, *Tepea B.V. v. EEC Commission*, June 20, 1978, CCH Comm. Mkt. Rep. § 8467; *Centrafarm B.V. v. Winthrop B.V.*, October 31, 1974, CCH Comm. Mkt. Rep. § 8247; *Centrafarm B.V. v. Sterling Drug, Inc.*, October 31, 1974, CCH Comm. Mkt. Rep. § 8246; *Deutsche Grammophon GmbH v. Metro-SB-Grossmärkte GmbH*, June 8, 1971, CCH Comm. Mkt. Rep. § 8106; *Grundig, Consten v. EEC Commission*, July 13, 1966, CCH Comm. Mkt. Rep. § 8046.

30 Compare the 'exhaustion' doctrine in the United States, discussed at Note 11, above, which applies a similar rule to goods sold under patent within the United States, but permits exclusion of imports initially sold abroad under foreign patent. Consistent with this approach, there may also be a greater tendency in the EEC to find that the national rights granted by Member States have not been exhausted, so as to permit blocking of imports, where the products being excluded originate outside of the Common Market in a non-Member State. See *Polydor Limited v. Harlequin Record Shops Limited*, February 9, 1982, CCH Comm. Mkt. Rep. § 8806.

31 June 8, 1982, CCH Comm. Mkt. Rep. § 8805.

32 *Id.* at 7512-14.

33 *Id.* at 7529-31. Compare Articles 32 and 43 of the Convention for the European Patent for the Common Market, signed December 15, 1975 (CCH Comm. Mkt. Rep. §§ 5802 C, 5804 D), which expressly authorize exclusive licenses, and also preserve the exhaustion principle.

34. *Id.* at 7529.

35 *Id.* at 7542-43.

36 *Id.* at 7544.

37 *Id.* at 7544-45.

38 *Id.*

39 *Id.* at 7545-46.

40 H. Lutz, 'Lizenzverträge und sachlich notwendige Wettbewerbsbeschränkungen nach EG-Kartellrecht', Recht der Internationalen Wirtschaft (July 1983), at 487. The language in the text is the author's translation from the original German, which reads as follows:

Mir scheint, daß der EuGH das Übel der 'kleinen' Wettbewerbsbeschränkung, nämlich der Ausschließlichkeit, hingenommen hat, um den Wettbewerb zwischen dem neuen Maissatgut und seinen Konkurrenzprodukten im Lizenzgebiet zu ermöglichen; order anders ausgedrückt: die Wettbewerbsförderung durch den Lizenzvertrag ließ die in der Ausschlieılichkeit liegende Wettbewerbsbeschränkung gerechtfertigt erscheinen.

41 *Coditel SA v. Cinè Vog Films SA*, October 6, 1982, CCH Com. Mkt. Rep. § 8865, at 8185.

42 *Id.*

43 Proposal for a Commission Regulation (EEC) on the Application of Article 85(3) of the Treaty to Certain Categories of Patent Licensing Agreements, Rev. 84/CC/1, at 3-4 (footnote omitted).

44 Decision of July 13, 1983, O.J. Eur. Comm., No. L224, at 19 (August 17, 1983), CCH Comm. Mkt. Rep. § 10509 (August 30, 1983).

45 *Id.* at 24-25, CCH Comm. Mkt. Rep. § 10509 at 11146-47.

HeinOnline -- 12 Int'l Bus. Law. 352 1984