OPINION OF MR ADVOCATE GENERAL DARMON
delivered on 7 July 1987 *

Mr President,
Members of the Court,

1. Is the presence in a licensing agreement of a contractual stipulation by which the licensee undertakes not to challenge industrial property rights having the same content in respect of which he has been granted licenses in several Member States compatible with Article 30 *et seq.* and Article 85 of the EEC Treaty? Those are the terms in which the Bundesgerichtshof has submitted to this Court the question of whether, in principle, a no-challenge clause is valid in Community law. Let us briefly outline the essential points of the dispute in the main proceedings.

2. Mr Heinz Süllhöfer was the holder of a German patent and a utility model applied for in 1965 relating to a manufacturing process and a device for the production of polyurethane panels. Those rights have since expired. Maschinenfabrik Hennecke GmbH produces plant for the manufacture of polyurethane panels. Bayer AG, sole shareholder in Hennecke since 1968, supplies the raw material required for the production of those panels.

3. In 1967, legal proceedings arose between Süllhöfer and Hennecke relating to the validity of the utility model. A settlement, drawn up by Bayer, was reached on 9 April 1968 to put an end to the dispute. The essential terms of that agreement are as follows:

(a) Süllhöfer granted Bayer and Hennecke a non-exclusive free licence under the utility model and the German patent, and a licence subject to payment of royalties under the corresponding industrial property rights he held in other countries;

(b) Hennecke and Bayer undertook to withdraw the revocation proceedings brought against the patent and agreed to bring no further action directly or indirectly challenging the validity of the industrial property rights in question;

(c) Bayer granted Süllhöfer a non-exclusive licence subject to payment of royalties under its own patent for the manufacture of foam panels;

(d) Finally, Bayer undertook not to bring proceedings against Süllhöfer based on past infringements of that patent.

Subsequently, on 26 May 1975, Süllhöfer brought an action challenging that agreement on the ground of fraudulent misrepresentation, leading to a judgment at

* Translated from the French.

first instance on 11 November 1982. Ruling on an appeal lodged against that decision, the Oberlandesgericht (Higher Regional Court) Düsseldorf considered that the no-challenge clause was invalid under Article 85 (1) and (2) of the EEC Treaty, and held that the whole agreement was thereby voided under Paragraph 139 of the German Civil Code. The Bundesgerichtshof (Federal Court of Justice) has requested the present preliminary ruling in connection with a further appeal on a point of law lodged by Bayer and Hennecke.

4. It is not necessary to dwell at length on an examination of the validity of the clause in the light of Article 30 *et seq.* of the Treaty. Industrial property rights fall under those provisions in so far as the exercise thereof in accordance with national law may give rise to restrictions on imports or exports. The clause in question, however, does not relate to the exercise of the patent rights but prohibits the licensees from challenging those rights. Nor is its nature such that it in itself constitutes an obstacle to trade within the Community. Finally, and most importantly, it is a private agreement and cannot be compared to a State measure of the kind expressly referred to in Article 30 of the Treaty. The criteria for applying those provisions to the clause in question are therefore not met.

5. The nub of the Bundesgerichtshof's question is therefore whether a no-challenge clause is compatible with Article 85 (1) of the EEC Treaty.

6. Let it be said from the outset that in the present case the fact that the industrial property rights were granted to the licensor in *several* Member States is in my view irrelevant in determining whether the agreement is of such a *nature* as to restrict competition. It would merely serve as incontrovertible evidence of the Community dimension of the agreement's effect on competition, if such a point were to be seriously challenged.

7. As the Court stated in the *Windsurfing* judgment, [1] a no-challenge clause

'clearly does not fall within the specific subject-matter of the patent, which cannot be interpreted as also affording protection against actions brought in order to challenge the patent's validity . . . '.

Such a clause extends the patentee's monopoly without constituting one of the normal consequences attaching to the use of a patent. The licensee cannot improve his competitive position because he undertakes not to challenge the patent and thus possibly to free himself from his obligations under the agreement. The clause may also perpetuate a patent granted in error. It is true that the relative effect of the agreement does not preclude the bringing of revocation proceedings by third parties, but the licensee is undoubtedly the person best qualified to act — by using the patent, he can gain very accurate knowledge of any legal and technical defects which may affect its validity. [2] The clause has the concrete effect,

1 — Judgment of 25 February 1986 in Case 193/83 *Windsurfing International* v *Commission* [1986] ECR 611, paragraph 92.

2 — See the judgment of 16 June 1968 in *Lear* v *Adkins*, US Supreme Court Reports 23 LEd2d 610, paragraph 12, which states 'Licensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor's discovery.'

erga omnes, of reducing the chances that a 'doubtful' patent will be revoked. The terms of the judgment in *Windsurfing* were particularly clear in that regard:

'... in view of the fact that it is in the public interest to eliminate any obstacle to economic activity which may arise where a patent was granted in error'.[3]

8. It would be very hard not to deduce from the general nature of those words that there is a presumption of incompatibility with Article 85 (1). It was no doubt the fact that no-challenge clauses are normally such as to restrict competition that led to their being included in the 'blacklist' in Article 3 of Commission Regulation (EEC) No 2349/84 of 23 July 1984 (Official Journal 1984, L 219, p. 15), thus depriving them of the benefit of the exemption for certain categories provided for in Article 1 of that regulation.

9. Can the seriousness of that effect on competition be outweighed by other fundamental considerations? German law accepts the validity of such clauses, apparently in order to prevent licensees from using information derived from their knowledge of the patent.[4] I have already suggested that, on the contrary, their privileged position has the major advantage of providing the most effective challenge to patents which may have been granted in error. The theory of 'licensee estoppel', by which a person granted a right may not challenge that right, has been abandoned in the United States since the ruling in *Lear* v *Adkins*[5] on grounds[6] stressing the need to ensure the possibility of challenge.

10. Any attempt to ascertain what practical advantages there might be in a no-challenge clause from the patentee's point of view, apart from that of protecting a 'doubtful' patent from challenge, must lead to the conclusion that there are very few indeed. Proceedings brought against a manifestly 'strong' patent will normally be dismissed, and the licensee's temerity may be further punished by a penalty for abuse of process. Admittedly, certain situations are conceivable where a no-challenge clause, although covered by Article 85 (1), might qualify for an individual exemption under paragraph 3. Such might be the case for agreements by which undertakings in the field of advanced technology, whose financial and human resources are sometimes limited, attempted to forestall any strategy of vexatious litigation employed by powerful licensees. Given the field of activity of such undertakings, application might well be made to the Commission for an exemption.

11. I cannot, however, agree with the Commission's suggestion that the clause should be held compatible with Article 85 (1) in so far as the following four conditions are all fulfilled:

(i) the clause is included in a settlement putting an end to litigation pending before a national court,

(ii) there are no other clauses restricting competition,

3 — Case 193/83, cited above, paragraph 92.

4 — Alexander: *Brevets d'invention et règles de concurrence du Traité CEE*, Brussels, 1971, p. 117, paragraph 48.

5 — Cited above, Note 2.

6 — See, especially, paragraphs 11 and 12 of the decision.

(iii) the clause relates solely to the right in issue, and

(iv) that right is manifestly unlikely to be revoked.

I shall limit my consideration to the first and last criteria. First of all, giving a special status to settlements putting an end to litigation might give rise to fictitious disputes whose aim was to achieve an otherwise prohibited agreement. It would then be necessary to determine the real nature of the dispute in each case. The complexity of such a result would make it difficult to reconcile with the requirements of legal certainty. I do not, moreover, see what legal basis could justify a special status for an agreement of that type which, like any contract, is a private act. The criterion relating to the 'strength' of the right appears attractive in theory, inasmuch as it would limit the validity of the clause to cases where there is no likelihood of perpetuating a 'doubtful' right. A serious disadvantage would, however, be presented by the fact that the assessment thereby required would involve subsequent judicial verification at odds with the conciliatory approach which makes it possible to come to an amicable settlement of a dispute. This condition is, moreover, noticeably in contradiction with the first. If the patentee agrees to an amicable settlement, thereby accepting in part his adversary's claims, his right is generally unlikely to be of the unchallengeable nature required by the hypothesis.

12. The exception proposed by the Commission therefore appears to involve real uncertainty, both practical and theoretical. In my view, the need to provide an interpretation which helps to resolve the dispute in the main proceedings makes it necessary to specify, in the light of the Court's case-law, the scope of the *basic* incompatibility of the no-challenge clause with the common market.

13. In *Remia* v *Commission*[7] the Court stated, with regard to non-competition clauses included in an agreement for the transfer of an undertaking:

'In order to determine whether or not such clauses come within the prohibition in Article 85 (1), it is necessary to examine what would be the state of competition if those clauses did not exist.'

It was held that such clauses[8]

'... in principle have the merit of ensuring that the transfer has theeffect intended. By virtue of that very fact they contribute to the promotion of competition because they lead to an increase in the number of undertakings in the market in question'.

In that case you did not consider that the anticompetitive character inherent in the very nature of such clauses precluded a search for the positive *effects* which they might in fact have on competition.

7 — Judgment of 11 July 1985 in Case 42/84 *Remia* v *Commission* [1985] ECR 2545, paragraph 18.

8 — Cited above, paragraph 19.

14. In *Pronuptia*[9] the Court stated that

'The compatibility of franchise agreements for the distribution of goods with Article 85 (1) cannot be assessed *in abstracto* but depends on the provisions contained in such agreements',

and examined the *effect* of the clauses with regard to the agreement and the possible restrictions of competition.

15. To rule out such an approach, given the fact that no-challenge clauses are normally such as to restrict competition, would be to take a formalist approach incompatible with the aims of the Treaty which, in the words of Mr Advocate General Roemer,

'only prohibits anything which might run counter to the implementation of its principles'.[10]

16. Does the fact that the clause has features which generally restrict competition and that it is included in the 'blacklist' in Article 3 of Commission Regulation No 2349/84 render the presumption of its incompatibility with the common market irrebuttable? I do not think so, and in that respect I agree, thought not for the same reasons, with the position adopted by the Commission in this regard when it accepts that, apparently by way of exception, Article 85 (1) is not applicable, as it previously found in its *Raymond-Nagoya* decision after examining the concrete effects of the clause in that case in the light of the economic context of the agreement.[11]

17. It would thus be unjustifiable to prohibit a no-challenge clause which is essential to the equilibrium of an agreement the effects of which proved in reality not to restrict, and even to encourage, competition. So, on the assumption that, since no royalties were charged for the licence, the licensees were placed in a situation similar to that in which they would have been if there had been no patent, it is difficult to see how competition might be affected. In other words, just as a non-competition clause may be compatible with Article 85 (1) if it ensures that the transfer of an undertaking has the effect intended, a no-challenge clause may fall outside that provision if it is crucial for the equilibrium of an agreement which has neither as its object nor as its effect the prevention, restriction or distortion of competition.

18. In the present case, the national court might consider, after examining the agreement as a whole, including the actual significance of the granting of a licence subject to payment of royalties for other countries, that the clause in question does not come within the scope of Article 85 (1). In such cases, rather than mechanically applying the rules, which would mean ignoring the concrete issues of competition at stake, it is preferable to take those issues into account, subject to the court's verification, in order to ensure that the objectives of the treaty are respected.

9 — Judgment of 28 January 1986 in Case 161/84 *Pronuptia* [1986] ECR 353, paragraph 14.

10 — Judgment of 30 June 1966 in Case 56/65 *Société technique minière* v *Maschinenbau Ulm* [1966] ECR 235, Opinion at p. 259.

11 — Commission Decision 72/238/EEC of 9 June 1972 (*Journal Officiel* L 143, 23.6.1972, p. 39).

19. I therefore propose that the Court should rule as follows:

'The inclusion in a licensing agreement of a contractual stipulation by which the licensee undertakes not to challenge the validity of technical industrial property rights in respect of which he has been granted licences

(a) does not fall within Article 30 *et seq.* of the EEC Treaty; but

(b) is normally incompatible with Article 85 (1) of the Treaty.

However, such a clause may fall outside the scope of the latter article if its inclusion is held to be crucial for the equilibrium of an agreement the effects of which prove in reality not to restrict competition.'