JUDGMENT OF THE COURT (Sixth Chamber)
12 May 1989 *

In Case 320/87

REFERENCE to the Court under Article 177 of the EEC Treaty by the Sø- og Handelsret (Maritime and Commercial Court), Copenhagen, for a preliminary ruling in the proceedings pending before that court between

Kai Ottung

and

(1) Klee & Weilbach A/S

(2) Thomas Schmidt A/S

on the interpretation of Article 85 of the EEC Treaty,

THE COURT (Sixth Chamber)

composed of: T. Koopmans, President of Chamber, T. F. O'Higgins, G. F. Mancini, C. N. Kakouris and F. A. Schockweiler, Judges,

Advocate General: G. Tesauro
Registrar: H. A. Ruhl, Principal Administrator

after considering the observations submitted on behalf of

Klee & Weilbach A/S and Thomas Schmidt A/S, the defendants, by S. Lassen, of the Copenhagen Bar,

* Language of the case: Danish.

the United Kingdom, by H. R. L. Purse, Treasury Solicitor, acting as Agent,

the Commission of the European Communities, by its Legal Adviser A. McClellan and by I. Langermann, a member of its Legal Department, acting as Agents,

having regard to the Report for the Hearing and further to the hearing on 9 November 1988,

after hearing the Opinion of the Advocate General delivered at the sitting on 25 January 1989

gives the following

Judgment

1 By order of 23 September 1987, which was received at the Court Registry on 14 October 1987, the Sø- og Handelsret referred to the Court for a preliminary ruling under Article 177 of the EEC Treaty a number of questions on the interpretation of Article 85(1) of the EEC Treaty, with a view to determining the compatibility with that provision of certain clauses contained in a licensing agreement.

2 The questions were raised in proceedings concerning certain clauses in a licensing agreement under which Kai Ottung, a civil engineer, the plaintiff in the main proceedings, granted to A/S Anton Petersen & Henius Eftf (hereinafter referred to as 'the licensee') the exclusive right — which was subsequently assigned to the defendants in the main proceedings — to exploit two control devices which he had designed for use on brewery tanks. When the agreement was entered into, the licensee's business was concerned mainly with the sale of brewery equipment.

3 Under clauses 1 and 2 of that agreement the licensee undertook, for an indeterminate period, to pay royalty for each device sold. Under clause 5 of the agreement, as amended by an addendum, the agreement may be terminated only

by the licensee's giving six months' notice expiring on 1 October of any year. When such termination takes effect, the licensee is permitted to manufacture only a number of devices corresponding to the orders received as at the date of expiry of the agreement, less the number of devices, if any, in stock.

4 The agreement was entered into after a patent application had been filed in respect of one of the control devices, fitted with a non-return valve for the admission of air, but before the patent was granted in Denmark. During the years following the grant of the patent, the licensee paid the agreed royalty when selling the devices developed by Mr Ottung, most of which incorporated the non-return valve for the admission of air. The Danish patent expired on 12 April 1977 and the last patent in respect of the same devices granted in a Member State expired on 15 March 1980. As from the end of 1980, the defendants in the main proceedings ceased paying the royalty, on the ground, *inter alia*, that all the patents had expired; however, they did not terminate the licensing agreement pursuant to clause 5, maintaining that the discontinuance of royalty payments was tantamount to termination.

5 In the course of the proceedings before the national court, Mr Ottung claimed that the defendants should be ordered, as from 1 January 1981, to pay him the royalty provided for in the agreement or, in the alternative, royalty of a lower amount to be fixed by the court. In support of those claims, he argued in particular that the licensing agreement had been entered into for an indeterminate period and could not cease to apply until the defendants had terminated it in accordance with clause 5.

6 Considering that the dispute raised certain questions concerning the interpretation of Article 85(1) of the EEC Treaty, the Sø- og Handelsret submitted the following questions for a preliminary ruling:

'(1) Does a contractual obligation under which a licensee of a patented invention is to pay royalty for an indeterminate period, and thus even after the expiry of the patent, constitute a restriction of competition of the kind referred to in Article 85(1) of the Treaty of Rome where the agreement was entered into after the patent application was submitted and immediately before the grant of the patent?

In that connection, is it of any significance that the grantor cannot terminate the agreement whereas the licensee can bring it to an end by giving a certain notice of termination and, according to the terms of the agreement, is thereafter not entitled to exploit the patent?

(2) To be answered if Question 1 is answered in the affirmative:

Does a contractual obligation under which a licensee of a non-patented product is to pay royalty for an indeterminate period, and thus even after the patent for products also covered by the licensing agreement has expired, specifically in respect of that product constitute a restriction of competition of the kind referred to in Article 85(1) of the EEC Treaty where it is established that the non-patented product complements the product for marketing purposes and that the agreement was entered into after the patent application was submitted and immediately before the grant of the patent?

In that connection is it of any significance that the licensee only entered into the agreement to pay royalty in respect of the non-patented product because otherwise he would not obtain a licence for the patented invention?

(3) To be answered if Question 1 is answered in the affirmative:

Does a contractual obligation under which, for the use of a design protected by the law of copyright or under the Marketing Law, a licensee is to pay royalty for an indeterminate period, and thus even after the expiry of the patent on the product in question, constitute a restriction of competition of the kind referred to in Article 85(1) of the Treaty of Rome where it is established that the agreement was entered into after the patent application was submitted and immediately before the grant of the patent?

In that connection is it of any significance that the licensee only entered into the agreement to pay royalty for exploitation of the copyright or for protection against passing off under the Marketing Law because he would obtain a licence for the patented invention?

(4) To be answered if Question 1 is answered in the negative:

Does a provision in a licensing agreement according to which a licensee is not entitled to sell the product in question after the termination of the agreement constitute a restriction of competition of the kind referred to in Article 85(1) where the licensing agreement relates to a patented product and the patent has expired and where the agreement was entered into after the patent application was submitted and immediately before the grant of the patent?

7 Reference is made to the Report for the Hearing for a fuller account of the facts of the case and the observations submitted to the Court, which are mentioned or discussed hereinafter only in so far as is necessary for the reasoning of the Court.

The first question

8 With respect to the first limb of the first question, it should first be observed that Article 85(1) prohibits as incompatible with the common market agreements between undertakings 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.

9 It must be assumed that the national court considers that trade between Member States is likely to be affected in the circumstances with which the main proceedings are concerned.

10 Restrictions which are imposed by the proprietor of a patent upon the reproduction, use or exploitation of a patented invention otherwise than under a licence granted for that purpose and which derive from the application of national legislation intended to protect industrial property rights cannot in themselves be regarded as preventing, restricting or distorting competition within the common market within the meaning of Article 85(1).

11 The possibility cannot be ruled out that the reason for the inclusion in a licensing agreement of a clause imposing an obligation to pay royalty may be unconnected with a patent. Such a clause may instead reflect a commercial assessment of the value to be attributed to the possibilities of exploitation granted by the licensing agreement. That is even more true where, as in the main proceedings, the obligation to pay royalty in respect of two devices, one being patented after the agreement was entered into and the other being complementary to the first, was embodied in a licensing agreement entered into before the patent was granted.

12 Where the obligation to pay royalty was entered into for an indeterminate period and thus purports to bind the licensee even after the expiry of the patent concerned, the question arises whether, having regard to the economic and legal context of the licensing agreement, the obligation to continue to pay royalty might constitute a restriction of competition of the kind referred to in Article 85(1).

13 An obligation to continue to pay royalty after the expiry of a patent can result only from a licensing agreement which either does not grant the licensee the right to terminate the agreement by giving reasonable notice or seeks to restrict the licensee's freedom of action after termination. If that were the case, the agreement might, having regard to its economic and legal context, restrict competition within the meaning of Article 85(1). Where, however, the licensee may freely terminate the agreement by giving reasonable notice, an obligation to pay royalty throughout the validity of the agreement cannot come within the scope of the prohibition contained in Article 85(1).

14 For the purpose of the national court's assessment of the legality of the clause at issue, it is irrelevant that the licensor is bound by a clause preventing him from terminating the agreement.

15 It must therefore be stated in reply to the first limb of the first question submitted by the national court that a contractual obligation under which the grantee of a licence for a patented invention is required to pay royalty for an indeterminate period, and thus after the expiry of the patent, does not in itself constitute a

restriction of competition within the meaning of Article 85(1) of the Treaty where the agreement was entered into after the patent application was submitted and immediately before the grant of the patent.

16 In view of the answer given above, there is no need for a separate answer to be given to the second limb of the first question or to the second and third questions.

The fourth question

17 In its fourth question, the national court asks whether a clause in a licensing agreement which prevents the licensee from manufacturing and marketing the products in question after definitive termination of the agreement constitutes a restriction of competition within the meaning of Article 85(1).

18 A clause in a licensing agreement prohibiting the manufacture and marketing of the products in question after termination of the agreement weakens the licensee's competitive position since it places the licensee at a disadvantage in relation to its competitors, who may freely manufacture the products concerned after the patent has expired. To that extent the clause in question may, depending on the legal and economic context in which the agreement was concluded, restrict competition within the meaning of Article 85(1).

19 However, it is for the national court to verify, having regard to the relevant information at its disposal, in particular the position occupied by the undertakings concerned in the market for the products at issue, whether the licensing agreement is liable to appreciably affect trade between the Member States.

20 It must therefore be stated in reply to the fourth question that a clause contained in a licensing agreement prohibiting the manufacture and marketing of the products after the termination of the agreement comes within the prohibition laid down in Article 85(1) only if it emerges from the economic and legal context in

which the agreement was concluded that it is liable to appreciably affect trade between Member States.

Costs

21 The costs incurred by the Commission of the European Communities and the United Kingdom, which have submitted observations to the Court, are not recoverable. Since these proceedings are, in so far as the parties to the main proceedings are concerned, a step in the action pending before the national court, the decision on costs is a matter for that court.

On those grounds,

THE COURT (Sixth Chamber),

in reply to the questions submitted to it by the Sø- og Handelsret, by order of 23 September 1987, hereby rules:

(1) A contractual obligation under which the grantee of a licence for a patented invention is required to pay royalty for an indeterminate period, and thus after the expiry of the patent, does not in itself constitute a restriction of competition within the meaning of Article 85(1) of the Treaty where the agreement was entered into after the patent application was submitted and immediately before the grant of the patent.

(2) A clause contained in a licensing agreement prohibiting the manufacture and marketing of the products after the termination of the agreement comes within the prohibition laid down in Article 85(1) only if it emerges from the economic and legal context in which the agreement was concluded that it is liable to appreciably affect trade between Member States.

Koopmans O'Higgins

Mancini Kakouris Schockweiler

Delivered in open court in Luxembourg on 12 May 1989.

J.-G. Giraud
Registrar

T. Koopmans
President of the Sixth Chamber