existing in the State in which the patent was granted, the Commission has made a reasonable assessment of the scope of the patent.

2. The following clauses in patent licensing agreements do not fall within the specific subject-matter of the patent and are incompatible with Article 85 (1) of the Treaty in so far as they restrict competition: quality controls to be exercised by the licensor either in respect of a product not covered by the patent or without being based on objective criteria laid down in advance, an obligation arbitrarily placed on the licensee only to sell the patented product in conjunction with a product outside the scope of the patent, a method of calculating royalties inducing the licensee to refuse to sell separately a product not covered by the patent, an obligation on the licensee to affix a notice of the patent to a product not covered by the patent, a no-challenge clause with regard to the licensor's trademarks and patents, and a clause prohibiting the licensee from manufacturing the patented product in a country where it has no patent protection.

3. In order for an agreement between undertakings to be regarded as affecting intra-Community trade within the meaning of Article 85 (1) of the Treaty, it is not necessary for each individual clause to be capable of affecting such trade. Only if the agreement as a whole is capable of affecting trade is it necessary to examine which are the clauses of the agreement which have as their object or effect a restriction or distortion of competition.

OPINION OF MR ADVOCATE GENERAL LENZ
delivered on 4 June 1985 *

Contents

A — Facts 615

B — Assessment 616

I — Preliminary remarks 616

1. The investigation by the Bundeskartellamt 616

2. The scope of the German patent 617

(a) Proceedings before the German courts 618

* Translated from the German.

(b) Evaluation of the scope of the patent 618
(i) The decision of the Bundespatentamt of 31 March 1978 619
(ii) The decision of the Bundespatentgericht of 28 November 1979 619
(iii) The judgment of the Oberlandesgericht München of 13 January 1983 . 619
(iv) Conclusion: the German patent does not cover the board 620
3. Did separate markets exist for complete sailboards and for components? 620
(a) Existence 620
(b) Extent 621
(c) Conclusion: there was a certain market for components 621
II — The assessment of the licensing agreements in the light of Article 85 (1) of the EEC Treaty (excluding the question of interference with trade between Member States) 622
1. The approval requirement for boards (Article 1 (1) (1)) 622
(a) The agreements 622
(b) Conclusion: the freedom of action of the licensees was restricted 623
(c) The applicant's arguments 623
(d) Assessment 623
(i) Quality controls 623
(ii) Ensuring an adequate degree of difference 624
(iii) Promoting the development of the market, combating patent infringements 625
(e) Conclusion: The Commission decision is correct 625
2. Prohibition on sales of components (Article 1 (1) (2)) 625
(a) The agreements 625
(b) Restriction of the licensees 626
(c) Assessment 626
(i) Possibility of altering the agreements 626
(ii) Whether or not applied flexibly 626
(iii) Combating patent infringements 627
(d) Conclusion: the Commission decision is correct 628
3. Calculation of royalties according to the net sale price of the complete product . 628
(a) The Commission's arguments 628
(b) The applicant's arguments 628
(i) In the case of sales of components their value was taken as a basis 628
(ii) In the case of sales of complete products there was no obstacle to sales 629
(iii) Royalties on sales of boards not permissible 630
(c) Conclusion: The Commission decision is correct only in part 630

4. The notice 'licensed by Hoyle Schweitzer' or 'licensed by WSI' affixed to the boards (Article 1 (1) (4)) 630

(a) Shark and Ostermann not concerned 630

(b) Restriction of trade 630

(c) The applicant's arguments 631

5. The no-challenge clause regarding the trademark (Article 1 (1) (5)) 631

(a) Does not apply to Shark and Ostermann 631

(b) The applicant's arguments 632

(c) Effect on sales 632

(d) Commission decision open to challenge 632

6. Production ban (Article 1 (2)) 633

(a) The original agreement 633

(b) Subsequent amendments 633

(c) Assessment 634

(d) Conclusion: the Commission decision is correct 634

7. The no-challange clause regarding the patents (Article 1 (3)) 634

8. Intermediate conclusion 635

III — Were the licensing agreements capable of affecting trade between Member States? . 635

1. The trade in rigs 636

2. The other points in the Commission decision 636

(a) The royalty clause 637

(b) The production ban 637

(c) The no-challenge clause on patents 637

3. Conclusion: Only the requirement of prior approval and the ban on separate sales retrict competition 637

IV — Article 85 (3) 637

1. Failure to notify under Article 4 of Regulation No 17 637

2. No advantages providing a justification under Article 85 (3) 638

V — The fine (Article 3 (1)) 639

1. Only one infringement meriting a fine instead of five 639

2. The degree of fault 639

(a) Ignorance of the protective scope of the patent — negligent 639

(b) Gravity of the infringement 640

(i) The trade in components was insignificant 640

(ii) The effect of the prohibitive clause was slight 640

(c) The applicant's further arguments 640

3. The Commission's decision to impose a fine on the basis of its own findings 641

C — Conclusions 642

Mr President,
Members of the Court,

A — The proceedings in which I must give my opinion today concern a Commission decision in the area of competition law regarding agreements for the exploitation of patents on sailboards or (this is one of the points in issue) sailboard components.

The following relevant facts should first be mentioned.

Two Americans, Hoyle Schweitzer and James Drake, played a leading role in the development of sailboards. The applicant company was founded by Mr Schweitzer as a family firm. It holds (or held) patents in a number of countries. Where Europe is concerned, it held a patent in the United Kingdom for a 'wind-propelled vehicle'. That patent was however revoked by the competent court in April 1982, and the decision was upheld by a judgment of the Court of Appeal in January 1984. In the Federal Republic of Germany a patent was applied for on 21 March 1969. After lengthy proceedings, the details of which I shall deal with later, a patent was issued on 31 March 1978. It refers to a rig (that is, the sail and rigging) for a sailboard. As I have already intimated, it is in issue in this case whether the patent applies only to the rig (the Commission's view) or whether it covers the rig and the board together as a unit (the view of the applicant). I shall come back to that point later.

The 'Windsurfer' sailboard model developed by the applicant was first distributed in Europe by the Netherlands firm Ten Cate Sports BV. By an agreement with the applicant concluded in 1973 and widened in 1976 that firm became the exclusive licensee for Europe of the applicant's know-how for the manufacture and marketing of the sailboards and of the trade-mark rights existing or applied for. The word marks 'Windsurfer' and 'Windsurfing' and a design mark registered first in the USA and then in France and Germany were also assigned to Ten Cate, with the obligation to use them.

In 1976 and 1977, Ten Cate entered into licensing agreements with two German undertakings (Ostermann and Shark); whether or not it was authorized to do so need not be discussed here. The first of those agreements (I shall discuss them in more detail later) covered the exploitation of the German patent, which was then pending, and of other European patent applications, and the second covered only the exploitation of the German patent appli-

cation. In 1978 the applicant took over those agreements.

The applicant itself concluded licensing agreements with other German firms: on 1 July 1978 with the firm Akutec, on 1 January 1979 with the firms SAN Warenvertriebsgesellschaft mbH (SAN) and Klepper and on 21 August 1980 with the firm Marker (I shall also discuss the contents of those agreements).

In view of the resulting restrictions on the freedom of action of competitors a number of undertakings made complaints to the Commission, apparently brought with the main purpose of assisting the complainants themselves to acquire licences for the manufacture and distribution of sailboards. As a result of those complaints, on 27 January 1981 discussions were held between the Commission, the complainants, representatives of the applicant and Ten Cate and representatives of the licensees referred to above (with the exception of Marker, against which no complaint had yet been made since it commenced production only in 1981).

In the light of the views expressed by the Commission on the licensing agreements the applicant immediately took steps to amend the agreements. That led to the conclusion of new agreements (which are not the subject of these proceedings), in September 1981 with Akutec, in November 1981 with Klepper, in January 1982 with SAN, in February 1982 with Marker, in September 1982 with Ostermann and in March 1983 with Shark. The applicant's declaration of its willingness to take those steps did not however prevent the Commission from initiating competition proceedings against it, by decision of 7 June 1982, and communicating a statement of objections to it in July 1982. In reply the applicant made a written submission in September 1982; an oral hearing was also held in September 1982, and a further exchange of correspondence ensued (in particular since the Commission, in a letter of 20 October 1982, referred to further documents which were to be taken into account in the proceedings).

On 11 July 1983 the Commission adopted its final decision.

Article 1 of the decision lays out the provisions of the agreements between the applicant and Ostermann, Shark, Akutec, SAN, Klepper and Marker which constituted an infringement of Article 85 (1) of the EEC Treaty. Article 3 (1) imposes a fine on the applicant in the amount of 50 000 ECU (DM 113 793) in respect of certain of the infringements of Article 85 (1) set out in Article 1; the other provisions of the decision are not relevant here.

On 13 September 1983 Windsurfing International Inc. (elsewhere abbreviated to WSI) brought an application before the Court for the annulment of the decision or the annulment or reduction in amount of the fine.

B — Having regard to the extensive written and oral submissions which have been made, my views on that application, which the Commission contends should be dismissed, are as follows.

I — I should like to start with a number of *preliminary remarks.*

1. The first of these relates to the fact that the licensing agreements now in issue were

also the object of an *investigation by the German Bundeskartellamt* [Federal Restrictive Trade Practices Authority].

After the applicant in these proceedings had been given the opportunity to state its views, that authority, in a decision of 30 September 1981 with an extensive statement of grounds, held that it must be assumed that the German patent held by the applicant applied only to the rig and not to a complete sailboard unit. On that basis, and because the contracts with the German licensees related to a complete sailboard unit, the Bundeskartellamt came to the conclusion that restrictions going beyond the content of the industrial property rights of the applicant were unlawfully imposed on the licensees. That applied to the right of the licensor to lay down requirements regarding the board itself (which constitutes a restriction within a particular type of use), the prohibition on the marketing of rigs without approved boards and the obligation of licensees to affix the notice 'manufactured under licence by Hoyle Schweitzer' to the boards. It was also true with regard to the fact that royalties were to be paid according to the value of the whole sailboard unit (since in that way the value of the board itself, not protected by patents, was included). WSI was therefore prohibited from applying the licensing agreements for the German patent regarding a rig for a sailboard in so far as the licensees Ostermann, Shark, Akutec, SAN, Klepper and Marker were required:

(a) to fit licensed rigs only to boards whose prototype was approved by WSI or by its president,

(b) to market rigs only in combination with boards, as complete sailboard units,

(c) to affix to boards the notice 'manufactured under licence by Hoyle Schweitzer', and

(d) to pay royalties calculated on a percentage of net sales or rental income of complete sailboard units (rig and board).

An action against that decision before the Kammergericht Berlin [Superior Court of Justice, Berlin] was apparently discontinued before a decision was reached.

2. The second preliminary remark concerns the *scope of the German patent*, which is referred to along with the British patent (which clearly applies to the whole sailboard unit) in all the licensing agreements (in the agreement with Shark, indeed, only the German patent is mentioned).

As I have already indicated, the Commission, like the Bundeskartellamt, proceeds on the basis that the German patent covers only the rig and not the board itself. That is an essential factor in its evaluation of the licensing agreements from the point of view of competition law, since in that evaluation it is important to know what the actual scope of the patent is and which of the restrictions imposed on the licensees go beyond it. The applicant considers that conclusion to be incorrect. In its view the German patent also covers the whole sailboard unit. Referring to the principles regarding the protection of industrial property to be drawn from Article 36 of the EEC Treaty it argues that should any doubt arise in that respect, its resolution is a matter for the competent national courts, and not for the Commission.

If it is desired to clarify that point in advance, since it is relevant in several

respects to the legal assessment of the Commission decision, I think the following points can be accepted.

(a) The applicant referred to legal proceedings on this point in German courts; it is now clear that the resolution of the issue in that manner is unlikely, and it therefore does not appear reasonable to require the Commission to await the conclusion of those proceedings.

As is known, when the applicant became aware of this problem, towards the end of 1980, it brought a test case for infringement of its German patent against an undertaking offering boards in Germany. After a decision of the competent Landgericht [Regional Court] the matter came before the Oberlandesgericht [Higher Regional Court], Munich, which in its judgment of 13 January 1983 rejected the arguments of the applicant (I shall come back to that judgment later). The applicant did not wish to let the matter rest there, but brought the case before the Bundesgerichtshof [Federal Court of Justice]. However, that court, the highest court of appeal, will no longer have the opportunity to resolve the issue, since, as we have been told, the applicant decided to withdraw its claim in October 1983, after concluding a licensing agreement with the defendant.

Two other relevant legal actions have been brought by non-licensed undertakings. The first was an action for a declaration that the marketing of boards and sails of sailboards did not constitute a patent infringement; the second sought a similar declaration with regard to the marketing of masts. In the first proceedings, we were told, the claim was upheld by the Landgericht; in the second proceedings the Landgericht apparently came to the view that in such a case there was indeed a patent infringement. Appeals were then brought in both proceedings. Here, too, however, it is clear that the issue will not be resolved in the near future, since, according to the applicant in these proceedings, both appeals are in abeyance pending the outcome of settlement negotiations.

(b) With regard to the actual problem of determining the scope of the German patent and the question whether the Commission is guilty of an error of assessment in that regard, it is not necessary to discuss the whole of the arguments presented by the parties on this point. It should simply be borne in mind that the applicant (aside from its clearly irrelevant reference to the fact that in other countries the boards themselves are covered by patent protection) attaches particular importance to a communication of the German Patentamt [Patent Office] of 21 August 1973 which holds out the possibility of a patent for the combination of board and rig; in so far as the proceedings for the grant of a patent are concerned the Commission, on the other hand, places particular emphasis on the alterations to the patent claims and patent descriptions proposed by the Patentamt on 24 January 1974, to which the applicant expressly agreed on 18 February 1974 and which in the Commission's view restrict the patent to the rig itself. Even though no particular grounds were stated for them, these alterations were certainly not mere changes of wording, as the applicant contends.

From the relevant decisions made available to us it can be inferred with sufficient certainty that the Commission's assessment must be regarded as correct.

(i) With regard to the decision of the Patentamt of 31 March 1978 it is therefore not only the fact that a patent was granted referring to a 'rig for a sailboard' that is relevant. Particular significance must be attached to what was said in that decision concerning the aim of the invention (it refers to a particular arrangement of the rig), its novelty and advanced nature (here reference is made on the one hand to the split boom and to the joint by which the foot of the mast is fixed, that is, only to parts of the rig, and on the other hand to the manoeuvrability of the rig) and its advantages and level of inventiveness (where only remarks regarding the handling of the rig and its component parts are made).

(ii) Certain statements of the Bundespatentgericht [Federal Patents Court], in its decision of 28 November 1979 regarding appeals brought against the above-mentioned decision of the Patentamt, are also relevant. On the question of what should be regarded as the inventive new feature reference is made only to the sail and to the split boom of the sailboard. The court agreed that the invention amounted to a technical step forward, and spoke of it as a *new rig arrangement*. Furthermore, in reference to the level of inventiveness the court stated that the essential feature of the invention was the outward curving booms (that is, components of the rig).

Similarly, in a royalty decision of 11 June 1980 (referred to in a letter of the Bundeskartellamt of 5 March 1981) the Bundespatentgericht expressed the view that the board itself was not part of the combination protected by the patent.

(iii) Convincing support for the point of view held by the Commission may be found in remarks made by the Oberlandesgericht München in its judgment of 13 January 1983 referred to above (from which it may be inferred that the applicant would have been unsuccessful in the proceedings before the Bundesgerichtshof), in which the court came to the conclusion that the board itself was not part of the combination protected by the patent.

The court arrived at that view (without concentrating on the wording of the patent application) mainly on the basis of an evaluation of the whole of the content of the patent description and the general technical context. Accordingly, and with particular reference to the aim of the invention, the description of the solution, its advantages and the state of the art, it held that the inventive thought lay only in the particular arrangement of the rig. With regard to the fact that the rig was developed for use with the board, the court held that according to the Bundesgerichtshof the purpose of a device (use with a particular object) is not sufficient to make that object part of the protected combination if the inventive thought is not also reflected in that object itself (here, the board), and in that respect the fact that the board is adapted to the rig is not alone sufficient. Finally, the Court found confirmation of the correctness of its opinion in various elements of the grant procedure, in particular in the alterations proposed in the examiner's decision of 24 January 1974 (exclusion of the whole sailboard unit from the patent description, reference to a 'rig for a sailboard' rather than to a 'sailboard'), and in the patent class chosen.

(iv) It must therefore be accepted that (without being guilty of unlawful interference in national patent law, inconsistent with Article 36 of the EEC Treaty) the Commission was entitled to proceed on the basis that the German patent had the scope described by it (that is, did not cover the board), and that in so far as the exploitation of the German patent is concerned the assessment of the licensing agreements from the point of view of competition law must be carried out on that basis.

3. My final preliminary remark has to do with the market situation existing at the time, to which the licensing agreements in issue relate. It is relevant in a number of respects to the legal assessment of the agreements, and it is therefore not surprising that during the proceedings there was considerable dispute on this point.

The applicant takes the view, supported by statements from persons with particular knowledge of the sector in question, that at that time (apart from sales of replacement parts for the repair of previously sold units) there was a market only for complete sailboards; separate markets for boards on the one hand and rigs on the other did not exist. The Commission considers that to be incorrect. Even if it must be recognized that the market for sailboards in Europe at first developed in such a manner described, in the second half of the 1970s, it must be accepted that even at the material time separate markets for components did exist to some extent.

(a) In attempting to gain some appreciation of the situation (unfortunately the Commission, as it stated itself, neglected to carry out a detailed market study), the following findings may be made on the basis of the information provided in the pleadings (with their annexes) and in the light of the supplementary material provided at the Court's request.

It may be concluded from the catalogues and advertisements submitted by the Commission with its defence that as early as 1979 and 1980 components of sailboards (boards, rigs and parts thereof) were offered for sale separately. A similar pattern is revealed by information obtained by the Commission after the written procedure from countries in which there is no patent protection for sailboards. It must thus be accepted that in France and Belgium there were markets for sailboard components as early as 1979 and 1980. Information provided by a number of French undertakings (I shall leave aside that contained in the letter of 15 February 1985, since at the hearing the applicant disputed it vigorously and on good grounds) show that as early as 1978 boards were sold separately and that there were sales of rigs and parts of rigs from at least 1981.

Further relevant information on this problem may be inferred from the royalty accounts of the applicant's European licensees, which were submitted to us. They show that sailboard components were also sold (in the case of Ostermann indications of this may be found in 1977, in the case of Ten Cate and Akutec from 1979 and in the case of Marker from 1981), and the accounts of Shark in particular make it clear that deliveries of rigs and parts of rigs took place as early as 1978. The attempts made in late 1980 and 1981 by dealers and other manufacturers to order rigs or parts of rigs from the applicant's German licensees, referred to by the Commission, are also

significant in this regard. Contrary to the applicant's contention, they cannot simply be disregarded on the ground that they reflect an artificial demand provoked by the German patent situation; patents, too, are market factors, and when they influence the development of the market that must be taken into account in the same way as other market conditions.

The applicant's contention, as I have stated it above, is therefore untenable, as is its attenuated version, put forward towards the end of the procedure with the support of statements from experts in the field, according to which from 1981 at the earliest there was a very small market for special boards and particular rigs (for example, for children) or parts of rigs (for example, sails).

(b) With regard to the extent and significance of the market for sailboard components at the time in question, however, that information is not sufficient to provide a reliable picture, and in so far as a few figures have come to light, they give the impression that, measured against sales of complete sailboards (the Commission estimated sales in Germany in 1980 at 80 000), that market was not important even towards the end of the period in question. Citing a large Belgian undertaking (without further specification, naturally) the Commission stated that sales of sailboard components amounted to 8% in 1979 and 17% in 1980 of the sales of complete units. From French undertakings (who place some value on confidentiality) we have generally similar information regarding sales of sails in 1981, sales of boards from 1978 to 1981 and sales of rig components in 1981 (of the information contained in the letter of 15 February 1985 mentioned above regarding sales of complete units, boards alone and rigs alone by a French undertaking only those which relate to 1982 can be taken into account, since, as the applicant's representatives stated at the hearing without contradiction, the figures for previous years were clearly arrived at simply by applying the percentages calculated for 1982). In so far as the applicant's licensees in Europe are concerned, the royalty accounts (in so far as they are kept in detail) show that sales of sailboard components amounted to less than 10% of total turnover (in the case of Ostermann and Ten Cate, in respect of whom higher values are not to be found before 1981). No different or more striking picture is to be found in the case of Shark (where even in 1981 sales of rigs and rig components did not exceed a few hundred) or with regard to the (unsuccessful) orders for rigs, mentioned by the Commission, which in 1980 and 1981 related to only a few hundred rigs (an Akutec telex of November 1981 speaks only of *concern* over the delivery of 10 000 rigs to other manufacturers).

That is not in the least surprising, but rather to be expected, if it is borne in mind that for all practical purposes windsurfing in Europe only developed in the middle of the 1970s and became more widespread towards the end of that decade, so that only then did a certain number of devotees have sufficient experience to give rise to a demand for special purchases and special combinations of equipment.

(c) It must therefore be concluded (and that conclusion must be taken as a premise

in further examination of the case) that at the time in question there was not only a market for complete sailboards, but also to a certain extent a market for components which was clearly more than a simple replacement part market (the applicant estimates the replacement part market at about 1 — 3% of the total market). That market for components may have been quite small even in 1981 (the latest French statistics, which only exist since 1981, indicate that separate retail sales of rigs *now* amount to about 20% of total turnover). Is hard to speak (as the Commission did in its decision, at page 13 of the published version) of 'brisk demand' for sailboard components; it is not unreasonable to assume that at that time over 90% of demand was for complete units.

II — The assessment of the licensing agreements in the light of *Article 85 (1) of the EEC Treaty* (excluding the question of interference with trade between Member States)

I now come to the main section of the examination required by the action, the question whether the Commission's assessment, from the point of view of competition law, of various clauses of the licensing agreements (contained in Part A IV 1, 2 and 3 and Part B I 1 (a) to (g) of the decision) is tenable or whether, as the applicant contends, it is to be criticized.

1. *Article 1 (1) (1) of the decision* ('the obligation on the licensees to exploit the licensed patents only for the manufacture of sailboards using boards which had been given WSI's prior approval')

(a) In this respect it must be recalled that according to its agreement with Ten Cate (which relates only to the German patent application) Shark was obliged to manufacture and distribute rigs only for and in connection with sailboards consisting of several parts. When that agreement was taken over by WSI in 1978 a clause was added to it to the effect that a licence for one-piece boards would not be refused if they met the quality standard and could be clearly distinguished from existing licensed products. In a letter of 20 October 1980 WSI accordingly gave its approval for a one-piece sailboard having the same appearance as one previously produced by Shark in three pieces.

The agreement with Ostermann (which covered industrial property rights existing and applied for in a number of countries) gave authorization for the manufacture and distribution of Ostermann's existing specified sailboard types, and required the approval of the licensor (originally Ten Cate, later WSI) for subsequent alterations.

The agreement with Akutec (which related to the British patent and the German patent application) authorized the manufacture and distribution of a sailboard precisely described in the annex and made alterations subject to the approval of the licensor (in that regard paragraph 13 of the agreement stated that approval would not be 'unreasonably withheld' if the alterations did not 'deteriorate the quality of the product or infringe upon the rights of Ten Cate').

Similar provisions were contained in the agreements with SAN and Klepper (in which the conditions for approval, along with quality requirements, speak generally of 'the rights of any other licensee') and with Marker (in which reference is made to

the German patent for a 'wind-propelled apparatus', as well as to the British patent).

(b) It is thus clear that the freedom of action of the licensees was restricted: they could not, without more, exploit the inventive thought in the context of its technical field of application, which concerns only one and not several separate markets. It is also clear, having regard to my remarks on the scope of the German patent, that the restriction of their freedom of action with regard to the boards themselves was certainly not covered by the specific subject-matter of the patent and could therefore be caught by Article 85 (1) of the Treaty.

(c) It must however be examined whether the logical conclusion, that the licensing agreements are inconsistent with Article 85 (1), is affected by the applicant's attempts at justification.

As we know, the applicant points out that the agreements apply equally to the German and British patents, and that the latter covers the entire sailboard unit. If it could therefore exert influence on the arrangement of the whole sailboard unit under the British patent, that must apply to the licensing agreements, since manufacturing and marketing were carried on in a uniform manner by all licensees and since at that time, moreover, in general only complete units were sold. Quite apart from the scope of the British patent, it is important to bear in mind that rigs can only be used together with boards. If the board is of insufficient quality the safety and efficiency of the whole unit is impaired. Seen from that point of view, it must be accepted that the licensor had an interest in ensuring an adequate level of quality for the whole sailboard unit. If the quality level is low, not only does the reputation of the licensor suffer but its royalties decline. It should also be borne in mind that under Californian law the licensor is responsible to a large extent for the safety of the whole sailboard unit. The applicant contends, moreover, that if the approval requirement also serves to ensure fair competition between the licensees, it cannot be regarded as restrictive of competition within the meaning of Article 85, any more than the endeavour to ensure by that means that a wide range of products is offered, which is necessary in order to develop the market and combat patent infringers (who nevertheless had a market share in Germany of 30%, according to the Commission's own information). It should also be taken into account that in practice new models were often manufactured without prior approval, that the applicant never refused approval for model alterations on the basis of quality requirements, and that in spite of the clause in question all licensees had brought on to the market a series of different units which did not, moreover, differ from each other more than did models produced by non-licensed undertakings.

(d) Like the Commission, however, I have the impression that these attempts to remove the clause in question from the field of application of Article 85 (1) cannot succeed.

(i) First, it may be considered that in so far as patent protection exists, agreements regarding the exploitation of an invention are excluded from Article 85 (1) only where

it is permitted, according to objective criteria, to implement technical ideas (the technically faultless exploitation of the invention, as it is referred to in the 1962 Commission communication regarding patent licensing agreements (Official Journal 1962, p. 2922)), while restrictions based on quality requirements must in any event be evaluated under Article 85 (3). In the long run that question does not however have to be dealt with definitively here. That is, even if it is assumed that quality controls regarding the whole sailboard unit (without regard to the scope of the patent and irrespective of the fact that even the British patent clearly does not contain particular features with regard to the board) were justified in principle (since the interest of a patent holder in the proper implementation of the inventive thought and the optimal exploitation of the patent, having regard to the fact that the board and the rig form a functional unit and the fact that at that time marketing was mainly carried out jointly, also justifies it in ensuring that the boards themselves are free of defects which would affect the use of the invention), in view of what the Commission has shown to be the practice it remains doubtful in this case whether the restriction of the licensees' freedom of action was really a matter of such controls. Nor does it seem acceptable that such a concern should be pursued by means of a vague approval clause which brings with it the danger that its use by the licensor (who is also a competitor of the licensees) may result in a division of areas of competition; objective criteria defined in advance are preferable for such a purpose. In so far as the applicant goes on to justify its quality controls by reference to California tort law, there is no evidence that liability for patent licensors is in fact as extensive as the applicant asserts. It may also be observed in that regard that the fact that Community competition law prohibits clauses of the type in question must surely have some effect on liability under American law where claims by buyers of the licensed object in the common market are concerned.

(ii) In so far as the approval clause to which objection is made also refers to the rights of other licensees and their protection (according to the applicant it is a matter of preventing slavish imitation within the meaning of the Gezetz gegen den unlauteren Wettbewerb [Law on unfair competition] and of guaranteeing other industrial property rights (licensees' patents and registered designs)), in my view the Commission was correct to point out that the observation of legal limits of this nature is a matter solely for the licensees, and it is not up to the licensor to take on a protective function on the basis of its patent right. If such action is nevertheless provided for (the argument that it is intended to avoid claims for damages by other licensees does not seem to me to be convincing), in a clause such as that referred to, the wide discretion given to the licensor creates a serious danger that it may be used to ensure an adequate degree of difference between the products of the various licensees, that is, to regulate the market in a way inconsistent with competition.

Evidence that that took place in this case may be found in a number of documents which make clear the practice of the applicant. I refer in that regard to the applicant's letter of 17 July 1978 to Shark, in which it was emphasized that new products (in particular boards or hulls)

would only be approved if they '*differ substantially* from other licensed products' (a requirement which had already been emphasized when the applicant took over the Shark agreement). Reference may also be made to another letter of the applicant of 13 July 1978, in which it was stated that the board under consideration was too similar to the Windsurfer and that that was contrary to the applicant's licence policy. It should also be recalled that in November 1979 the applicant, apparently in reply to a complaint from Klepper, brought Akutec's attention to the fact that its model was too similar to a Klepper model (it asked Akutec to enter into contact with Klepper, so that Klepper could state its position to the applicant). Finally, I refer to a complaint made to the Commission on 20 January 1981 by an undertaking which had sought to obtain a licence, according to which the negotiations failed because the applicant required, as a condition of any agreement, that that undertaking's board should be different from the Windsurfer.

(iii) Finally, in so far as the applicant attempts to justify such differentiation by appealing to considerations of market development and the combating of patent infringements, the reply must be that since a restriction of the freedom of action of licensees is involved the first ground could at most have some relevance under Article 85 (3), and that with regard to the second concern other measures compatible with competition law must be preferred.

(e) With regard to the first clause considered in the Commission decision it must therefore be concluded that since they are not covered by the actual subject-matter of the patent (not even that of the British patent) the restriction of licensees to a specific board type and the requirement of the licensor's prior approval for any alteration must be regarded as impermissible restriction of the freedom of action of the licensees and thus as limitation of competition, material to the application of Article 85 (1) of the EEC Treaty. That finding is all that is necessary for the moment; the applicant's arguments regarding the actual effect of the restrictions may at most be relevant to the question of the seriousness of the infringement, which I shall deal with later.

2. *Article 1 (1) (2) of the decision* (the obligation on the licensees not to supply rigs manufactured under the German patent separately)

(a) Such an obligation may clearly be seen in the agreement with Shark, which (in paragraph 3) speaks of the manufacture and distribution of rigs *only* for and in connection with multiple part sailboards, including replacement parts. The agreements with Ostermann and Akutec must be understood in the same way; in the case of Ostermann the agreement speaks of the manufacture and sale of its existing sailboard types, while in the Akutec agreement the product covered by the licensing agreement is defined as a specific 'sailboard'.

At first sight the three other agreements do not seem quite so clear, since in describing the product covered by the agreement they speak not only of a 'specific free sail system, sailboat apparatus' but also of 'components thereof' (the applicant placed particular emphasis on this in support of its contention that licensees were free to sell components).

The agreements in their entirety (and the interests of the licensor) make it clear, however, that the latter phrase was intended to refer to ordinary sales of spare parts, and not to the regular sale of rigs separately. Paragraph 11 (according to which the licensee 'will not manufacture or sell any item, or part thereof, within the scope of the licensed patents except for product as defined in paragraph 1 A hereof') is perhaps not entirely conclusive in that regard, since, as the applicant contends, that could also mean the prohibition of sales of sand and ice yachts. The Commission's interpretation is however supported by paragraph 2 of the agreements, which provides that 'in the event one or more components of the product are manufactured by or for a licensee outside the Federal Republic of Germany and are then brought into the Federal Republic of Germany and assembled with the remainder of the components to form a completed product and royalties are paid on the completed product, then such shall be deemed within the license grant.' In that regard reference may also be made to the obligation placed on the licensee by paragraph 8 ('to place the legend "manufactured under licence from Hoyle Schweitzer" on the *hull* of each product'); I shall come back to that requirement in another connection. Since that labelling requirement was so important for the applicant, it cannot be presumed that it was waived where only rigs were sold; it must be understood as presupposing the obligation, in general, to sell complete units.

(b) In view of the scope of the German patent a clause of such a nature clearly constitutes a restriction on the freedom of licensees, which is not covered by the specific subject-matter of the patent and is therefore caught by Article 85 (1). It must also be acknowledged that it influenced market relationships and competition, since it prevented manufacturers of boards from selling them to dealers to be made up into complete sailboard units or producing such complete units themselves using purchased rigs.

(c) Here too the impression cannot be dispelled that the applicant's arguments in defence of its conduct do not defeat the Commission's finding.

(i) In so far as it is asserted, with regard to the agreement with Shark, that until 1983 the applicant unsuccessfully endeavoured to alter that agreement, originally concluded by Ten Cate (in order to bring it into line with the agreements concluded by the applicant itself), and that Shark did in fact sell rigs separately to a significant extent (as may be inferred from the royalty accounts), it must be replied that the modification of the Shark agreement along the lines of the agreements entered into by the applicant itself would clearly not have led to any fundamental change with regard to the point now in issue. The actual conduct of Shark (and the applicant's lack of reaction) may at most be relevant in assessing the gravity of the infringement; it does not affect the finding that according to the content of the agreement a restriction of competition was intended (which is sufficient for the application of Article 85 (1)).

(ii) the applicant goes on to submit that in reality the freedom of the other licensees to sell components was not restricted, and refers in that connection to the layout of the form used for royalty accounts, which contains a separate heading for sailboard components; it may be observed that

according to what we know of the matter such sales were limited in extent (as in the case of Ostermann, Akutec and Market), which suggests the conclusion that such sales were nothing more than ordinary sales of replacement parts (the layout of the account form and the existence of a special price-list for components are not inconsistent with that conclusion).

Furthermore, a number of documents cast light on the use of the agreements in practice and entirely substantiate the Commission's view. In a letter of 7 February 1980, for example, SAN informed a customer that deliveries of replacement parts (specifically, split booms) were restricted to 3% of deliveries of complete units. Reference may also be made to a circular sent by the applicant to its European licensees on 1 March 1980, in which it was recommended that parts should not be supplied to dealers who might use them to complete other boards; in view of the possibility of termination of the licensing agreement that recommendation certainly had some weight. In a telex of 1 May 1980, furthermore, the applicant strongly requested Klepper not to sell rigs to a competitor; Klepper replied that it too was of the view that rigs should not be supplied to unlicensed manufacturers or dealers, and that any inquiry from that other manufacturer would therefore meet with a negative reply. The discussion at a meeting between the applicant and the licensees on 9 October 1980 (to the effect that licensees should offer the complete product, that replacement parts might make up 10 to 15%, and that new clients should only be supplied with complete boards) followed the same pattern. Mention should also be made of telexes sent by the applicant on 29 October 1981 to Akutec and Klepper, in which it is stated that the sale of rigs or rig components to undertakings who combined them with boards or sails was contrary to the licensing agreement (its significance is not affected by the fact that in a telex sent to the licensees on 13 April 1982 — that is, after the material period — it was emphasized that the sale of rigs to other manufacturers was not prohibited so long as a higher court had not confirmed the applicant's view regarding the scope of the German patent).

(iii) Finally, the applicant cannot be heard to argue that it was at most a matter of preventing assistance being given to patent infringements (according to the applicant, a number of court decisions show that on several occasions other undertakings infringed the applicant's patents by using parts of licensees' rigs in the manufacture of so-called 'mixed rigs'), and that it should be borne in mind that the licensees themselves had no interest in supplying rigs, since by so doing they would help their competitors to sell boards (the most expensive part of a sailboard) and their own sales of complete units would suffer.

In that respect the Commission correctly observed that the sale of rigs by licensees cannot lead to indirect patent infringement, and that the patent does not therefore justify any restriction of the freedom of action of licensees on that basis. Furthermore, with reference to the contention that where it must be concluded that their customers use rigs for the manufacture of mixed rigs, licensees are obliged

in good faith to refrain from assisting that activity, it is clear that the restriction of the freedom of action of licensees was not limited to such cases but applied across the board.

Where the interests of the licensees are concerned, it must be acknowledged that the applicant's analysis of them may be correct. Support for its view may be found in a deposition submitted by the applicant according to which SAN, acting in its own interest, did not wish to supply rigs; further support is provided by the statement in the same deposition that at a meeting in 1979 in which the applicant did not take part the licensees agreed not to sell rigs separately and to limit supplies of replacement parts to a fixed percentage. Reference may also be made to a letter of 8 February 1980 from SAN (according to which the licensees had agreed not to supply an excessive number of split booms), to the fact that in the contested decision itself it is stated that the licensees sometimes justified their refusal to supply rigs by stating that their range contained no separate rigs or that their capacity was taken up by their own requirements, and finally to the fact that a number of the licensees apparently manufacture boards themselves. On the other hand, it must be recalled that Shark has sold rigs to dealers and other manufacturers since 1978; furthermore, the possibility cannot be excluded that the interests of some other licensees do not correspond to the applicant's description (since, like Akutec and Marker, they do not distribute products of their own), and it must be borne in mind that the interests of licensees might change according to developments in the market, but that the licensing agreements would not permit them to react.

(d) The conclusion, therefore, can only be that the finding of competition law contained in Article 1 (1) (2) of the decision has not been refuted.

3. *Article 1 (1) (3) of the decision* (the obligation on the licensees to pay royalties for rigs manufactured under the German patent only on the basis of the net selling price of a complete sailboard)

(a) On that point the preamble to the decision states that because the German patent only relates to the rig, it is illegitimate to claim royalties for sales in Germany of components not covered by the patent because this imposes costs on the licensees which depress their sales without there being any compensating advantages due to the patent. The Commission adds that where the royalties were calculated on the basis of the price of a complete sailboard, the cost of the royalties for the rig alone was excessive and made it difficult to sell rigs separately. The clause served to reinforce the obligation only to sell complete sailboards, and this reduced the outlets of other board manufacturers.

(b) Here it should be conceded that at first sight this is a compelling argument, so that it also seems right to find an infringement against Article 85 (1) in the case of the method of calculation of the licence royalties and its application. Yet if the arguments put forward on that point are taken as a whole, it is clear that the applicant's criticism of the Commission's assessment is correct at least in part.

(i) In the first place, analysis of the agreements shows that it is simply not the case that royalties were calculated *only* on the basis of the price of a complete sailboard. This in any event applies to the original agreement concluded with

Ostermann, which expressly stipulates that the *royalty for replacement parts* was 8% of the net ex-factory price (when the applicant took over the agreement it was amended in such a way that 5% of the price of a complete sailboard was payable in each case). The same must be true of the agreements with SAN, Klepper and Marker because the relevant definition of the product also included components of sailboards, and since the royalties were calculated on the basis of the price charged for the 'product' it may be assumed that where components were sold their price was the appropriate basis of calculation. That also seems to have been the case in practice at least in so far as may be seen from the royalty accounts of Ostermann and Marker (if this cannot be established in the case of Klepper and SAN, that may be due to the fact that they in fact only sold complete sailboards; in SAN's case, it is also conceivable that since only a total figure is given for sailboards and components, components are included in that figure).

The situation admittedly appears to be quite different for Shark and *Akutec* if the text of the agreements alone is anything to go by. In the agreement with Shark there is mention of a royalty amounting to 10% of the net sales proceeds of sailboards incorporating the rigs, and in the agreement with *Akutec* it is said that the royalty is determined by the price charged for the 'product' (though this is defined as 'specific free sail system sailboat apparatus'). Here too, however, practice shows — as is also indicated by the fact that the royalty calculations for sailboards and components are different — that in sales of components only the price of the component was taken into account for the royalty calculations. This may be seen from the abundant documentation relating to Shark (which also makes it clear that the royalties were calculated where applicable on the basis of the price of rigs or components of rigs — booms or sails). The same may be assumed in the case of *Akutec*, since a telex message dated September 1979 expressly requests that undertaking to give separate figures for sailboard components, and the royalty accounts for 1981 itemize sails, for example, separately.

For that reason it is difficult to agree with the Commission's finding in its decision that the method of calculation of the royalties represented an obstacle to the separate sale of rigs and thereby imposed an additional restriction on the licensees' freedom of action.

(ii) Further, I think that it is difficult to maintain that, where complete sailboards were sold and royalties were calculated on that basis, that was a restriction of competition because it meant that costs were also imposed on the sailboards.

Here it should be pointed out that, as has already been established, the market situation prevailing at the material time was such that in the overwhelming majority of cases complete sailboards were sold. In view of that situation it was in fact the obvious thing to do to arrange for the royalty calculations to be made on this basis, and not only for book-keeping reasons (which evidently led SAN to retain this method even after its agreement had been amended). Moreover it is significant that the amended licensing agreements provide for a correspondingly higher royalty in relation to the price of a rig alone (12.5% for Ostermann and Shark, rising subsequently to 14% in Shark's case, and 15% in all the other agreements). In view of the fact that this was accepted without demur and that German courts and authorities have not found it excessive either (as may be seen from a letter from the Bundeskartellamt [Federal Patent Office] to the

Kammergericht [Superior Court of Justice, Berlin] dated 18 March 1982, and from a judgment of the Oberlandesgericht München [Higher Regional Court, Munich] of 4 November 1982 on an action for damages), it is not easy to see how the manner in which royalties were actually raised under the contracts criticized by the Commission can be held to constitute an anti-competitive barrier to the sale of rigs.

(iii) In regard to the manner in which royalties were raised, the only actual cause for criticism is therefore that *royalties were due on the sale of boards*, which the German patent situation did not permit, and that this may have created difficulties for the separate sale of boards.

In this regard it is quite out of the question to argue as the applicant has done that the value of the invention consisted in the fact that it made it possible to sell a complete sailboard and that the sale of boards was only possible because a licence had been granted for rigs and rigs supplied by the licensees were already on the market. The answer to that is simply that it conflicts with the legal position governing the German patent. It determines what restrictions on the licensees' freedom of action are permissible, and it appears to leave no room for introducing a cross-royalty because of the advantages afforded by the grant of the legally protected right to supply rigs.

(c) Thus it may be concluded with regard to Article 1 (1) (3) of the decision that the Commission — evidently because it misinterpreted the agreements — has made assessments which are untenable in part and that its complaint that the method of calculating the royalties was in the result contrary to competition law does not, with one small exception, appear well founded.

4. *Article 1 (1) (4) of the decision* (the obligation on the licensees to affix to the boards of sailboards marketed by them a notice stating that they were 'licensed by Hoyle Schweitzer' or 'licensed by WSI')

In that connection it is stated in the preamble to the decision that in the case of sailboards manufactured and marketed in Germany, such a notice gave the false impression that the board was manufactured on the basis of certain industrial property rights or in accordance with certain technical know-how made available by the licensor. In addition, the licensees were restricted in representing themselves as technically independent, with regard to the board and in consolidating their reputation, and this affected their position in the market.

(a) One criticism which may immediately be made on that point is that the above-mentioned obligation (to affix a notice to *sailboards*) only existed under the agreements with SAN, Klepper, Akutec and Marker.

By contrast, the licensing agreement concluded with Shark merely refers — without any further indication — to 'notice: licensed by Ten Cate', and the case of the agreement with Ostermann is surely similar — it merely refers to an obligation on Ostermann to display the licence notice on its products and in its advertising. Since, however, displaying a licence notice is not in itself objectionable provided a false impression is avoided, both the last-mentioned agreements must be treated as irrelevant for the purposes of this discussion for the simple reason that they do not provide for the incorporation of the notice in a component of the sailboard not covered by the patent.

(b) However, it may also be questioned whether the duty to affix a notice contained

in the other agreements actually influenced competition (that is all that is at issue in Article 85). That does not appear to me to be wholly beyond doubt. In fact it is difficult to believe that purchasers' decisions were decisively influenced by the notice; after all, it was to be found on all sailboards manufactured and marketed under licence in Germany. For them other considerations (the technical sophistication and price of sailboards and all aspects of advertising) were more important, and in that regard the licensees, who use their own trade-marks as indeed is recognized in the agreements, had a free hand. In particular they were perfectly free to make it clear in advertising and in conversations with customers that the board of the sailboard incorporated their own technical know-how. It may even be argued that the mention of the American licensor's name actually helped the sale of the sailboards. It may therefore be said that the duty to affix a notice, to which objection has been taken, has not had any significant influence on the position in the market, and in this connection it is not irrelevant that the figures presented to the Court on the turnover of licensees from 1978 to 1980 show a strong rise, if not a very strong rise, for at least four of them (the precise figures may not be revealed at present for reasons of confidentiality).

(c) I therefore take the view that the correctness of the finding in the Commission decision with regard to a notice of the licence is justly challenged. If that view is accepted there is no further need to examine the applicant's attempts to justify the clause, which are not very persuasive on the whole in any case (such as the argument that the sailboard is the most obvious place for such a notice because the sail already carries another device; or that because such a notice was always permissible for sales in the United Kingdom a different practice for the German market would make the task of production more difficult; or that the grant of licences made the marketing of the whole sailboard possible in the first place).

5. *Article 1 (1) (5) of the decision* (the obligation on the licensees to acknowledge the word marks 'Windsurfer' and 'Windsurfing' as well as a design mark (so-called 'logo') as valid trade-marks)

In this connection the preamble to the decision expresses doubts as to whether those marks, which were used by Ten Cate, are sufficiently distinctive or at least whether they have fallen into common usage as generic terms (which would militate against their registration or maintenance as valid trade-marks under the law of all the Member States). The Commission goes on to state that in relinquishing the possibility of bringing these circumstances into play the licensees renounced the opportunity to use names or symbols which were important for public recognition in their advertising, thus giving a competitive advantage to the licensor and Ten Cate.

(a) In this regard it is important in the first place that the decision — as is emphasized by the Commission at page 20 of its rejoinder — is not concerned with the clause prohibiting the use of the trade-mark but merely with the exclusion of the right to challenge the validity of the trade-marks. However, if that is the case it was wrong to cite the agreements with Shark and Ostermann in this connection, because, if I am not mistaken, they do not contain any obligation to recognize the trade-marks (in the sense of a no-challenge clause) but only prohibit the use of the mark. Those

licensees were therefore at liberty to challenge the validity of the above-mentioned marks, and if they were successful in doing so there would be no room for the application of the prohibition on the use of the marks.

(b) On the other hand it quickly becomes apparent that two of the applicant's arguments against the finding cannot be accepted.

The first is that the annex to the licensing agreements only sets out the *American* marks, so that the clause at issue referred only to them. That argument is not in fact very convincing, first because of the fact that the marks referred to are registered in most of the Member States (see the applicant's statements at page 30 of the application), and secondly because of the fact that as the agreements did not relate to the American market the licensees were not active there. Furthermore, in its argument that marks used in Europe were indeed at issue, the Commission rightly referred to another clause of the licensing agreements (point 12 of the agreement) stipulating that printed material using the marks may only be used over a short period and must then be destroyed.

The same applies to the submission that the purpose of the clause at issue was merely to ensure the recognition of the validity of the trade-marks as long as they had not been declared invalid, in order to prevent the marks from being turned into generic designations, which was what the patent infringers were trying to bring about. On that point, as the Commission correctly stated, a quite different clause would have been required in order to prevent generic designations from arising. Secondly, in answer to the argument that the licensees were perfectly entitled to seek to have the above-mentioned marks declared void in Europe, it may be pointed out that the applicant's representative in the discussions with representatives of the Commission in January 1981 stated that point 12 of the agreement with SAN (which is identical in content with clauses in the agreements with Akutec, Klepper and Marker) was to be regarded as a *no-challenge clause* in trade-mark law.

(c) Here, too, it must be asked whether the no-challenge clause at issue has in fact had a significant effect on the competitive position of the licensees. Perhaps, as the applicant considers, generic designations have already grown up in the various languages, and consequently (this would need further investigation) there is no serious tendency for the English designation of the sport to have any influence. Furthermore, it may be assumed that the licensees possessing their own trade-marks have enough alternative ways of using advertisements to encourage the sale of their products, and it may be useful to refer once again in this connection to the growth in their turnover from 1978 to 1980, described above. The Commission has not produced any facts showing any adverse effect on the competitive position of the licensees.

(d) I am therefore of the view that the finding in Article 1 (1) (5) of the decision is open to challenge as a whole (and therefore not only with regard to the agreements with Shark and Ostermann) and that in that connection it is not sufficient, as the Commission considers, to refrain from setting a fine.

6. *Article 1 (2) of the decision* (the provision for termination of the licensing agreements should the licensee start production in a territory not covered by a patent, which only applied to the agreements with Akutec, SAN, Klepper and Marker)

(a) If reference is made only to the texts of the agreements submitted to the Court, it is clear that the agreement with Akutec in fact provided (point 2 A) that the licensee had the right 'to manufacture *only* at the site where the product is being manufactured on the date of execution of this agreement' and that (at point 20 A 4) provision is made for the termination of the agreement in the event of a 'change by licensee of manufacturing site.' Taken in conjunction, those clauses can only be understood as meaning that no production (not even purely subsidiary production) may be carried out at another place, in particular outside Germany, and that therefore the provision for the termination of the agreements did not merely apply to the case where a licensee moved his whole production to another place.

The agreements with SAN, Klepper and Marker are alike, in the versions laid before the Court, in providing for the right to manufacture the product in the Federal Republic of Germany (point 2), and they provide further that 'in the event one or more components of the product are manufactured by or for licensee outside the Federal Republic of Germany and are then brought into the Federal Republic of Germany and assembled with the remainder of the component to form a completed product and royalties are paid on the completed product then such shall be deemed within the license grant.' In addition they provide (at point 18 A) for the termination of the agreement first in the event of a 'change by licensee of manufacturing site to a country outside the Federal Republic of Germany' (18 A 4) and secondly in the case of 'manufacture by licensee of all or any component of product in a country outside the Federal Republic of Germany and sale thereof directly to a country outside the territory' (18 A 5). From those provisions too it must undoubtedly be concluded that the licensees had no right to manufacture outside the Federal Republic of Germany even though the products were to be marketed outside that territory.

(b) In the course of the procedure, however, reference was also made to changes which had been made to the agreements in that respect since the end of 1980 (although no documentary evidence of this was produced).

According to the Commission's statements (see page 17 of the statement of objections addressed to the applicant), the agreements with SAN and Klepper were amended in December 1980 so as to provide that production was only permitted at the site where it was already taking place at the time of the conclusion of the agreement. In fact that merely meant — the same applies to the findings in the disputed decision with regard to Marker — that an agreement like that already made with Akutec was the result, and the Commission took the view that no change relevant to the question of legal assessment had taken place.

However, according to the applicant's submissions (minutes of the discussions of January 1981, p. 16), the amendments had the effect that the ban on manufacture and sale (point 18 A 5) in the agreements with SAN, Klepper and Marker was withdrawn and that it was made clear at point 18 A 4 of the agreements (change of manufacturing site to a country outside the Federal Republic of Germany) that under them production was also permissible outside the Federal Republic of Germany. In this regard it is apparent that the facts are not entirely clear. If the applicant's assertions are true

(which, as I have already said, has not been proved), that would at most mean that the ban on manufacture abroad found by the Commission did not exist in respect of the unexpired duration of three of the agreements.

(c) As regards the legal assessment of the clauses of the agreements with which I am concerned here, there can surely be little doubt that the imposition of a ban on manufacture and sale for areas where patent protection does not exist (this alone is what concerns the Commission) making it impossible to sell products without paying royalties constitutes a restriction of the freedom of competition exceeding the scope of the patents, which were confined to two countries. Moreover, I do not see how the applicant's attempts to justify those clauses could possibly succeed.

This applies to its contention that the restriction should be seen in connection with controls on production for the German market (in the sense of quality controls). In this regard it is not only significant that it may be doubted whether quality controls were the applicant's real concern; it is also important to bear in mind what I have said in another connection with regard to the permissibility of direct quality controls and the possibility of obtaining sufficiently relevant results according to objectively-defined criteria. Furthermore, the Commission is right in thinking that it is not immediately obvious why moving production to another site should be thought to jeopardize the quality of the product when the licensees have used components from other undertakings on a large scale wholly in accordance with the agreements.

The same goes for the applicant's contention that considerable investments are required to set up a manufacturing plant and that this explains why manufacturers were content to stay within their traditional local markets and did not engage in production abroad, which was unprofitable. On that point the Commission was right to argue that in the first place, manufacture by subcontractors (a common practice among licensees) is not associated with vast investment costs. More particularly, it is important that undertakings should always be free to take their own decisions in that respect. Where, however, they are prohibited from doing so by contract, they are subject to a restriction on competition and are generally entitled to complain of it.

(d) The only conclusion to be drawn with regard to the finding in Article 1 (2) of the Commission decision is therefore that its validity cannot on the face of it be challenged and that it has also not been shown in these proceedings that it was unfounded with regard to some of the agreements at least from the end of 1980.

7. *Article 1 (3) of the decision* (the obligation on Shark and Ostermann not to challenge the licensed patents)

Finally, the last point raised in this connection may be dealt with in a few words.

It is clear that, as I have shown, the licensees were subjected to a restriction on their freedom of action which should be regarded as anti-competitive because it deprived them of the right to remove a hindrance to their economic activity (the condition that they should only manufacture or sell sailboards or sailboard components subject to payment of a royalty). I also agree with the Commission when it says that for the purposes of justifying such clauses under competition law the relations between the licensor and the licensee in private law — which are often what makes a challenge to patent law rights possible in the first place — cannot take precedence

over the public interest in ensuring the greatest possible freedom of activity. Moreover, little credence can be attached to the applicant's submission that such clauses are conducive to an increase in competition because they make the grant of licences more likely. In fact this is contradicted by its own subsequent conduct since unlike Ten Cate it went on to conclude a number of licensing agreements not containing no-challenge clauses.

Against that, it must be conceded — although this does not in any way affect the fundamental validity of the Commission's finding — that such clauses are deprived of much of their significance from the outset where a patent has been granted (as in this case under German law) following an exhaustive investigation and where opposition proceedings were unsuccessful. In addition it is surely questionable whether the licensees really had an interest in challenging the patent (and whether therefore there was a real restriction on their freedom of action) since if they did so that might lead in certain circumstances to the opening up of the whole market sector to all comers and produce a considerable increase in the competition.

8. At the end of this important part of the discussion the following intermediate conclusions may be drawn:

It appears that the Commission cannot be criticized in its finding that the requirement of prior approval (Article 1 (1) (1)), the ban on moving the place of production (Article 1 (2)) and the no-challenge clause with regard to the licensed patents are of such a nature as to produce a restriction on competition. The Commission's finding on the method of calculation of the royalties (Article 1 (1) (3)) may be said to be too broad. The only cause for complaint is that royalties were due even on the sale of separate boards (which were not covered by the German patent). I further take the view that there is no reason to regard the obligation to affix the notice 'licensed by Hoyle Schweitzer' or 'licensed by WSI' and the no-challenge clause relating to the trademarks used (Article 1 (1) (4) and (5)).

III — Were the licensing agreements capable of *affecting trade between Member States?*

The findings contained in Article 1 of the decision cannot in any event be upheld unless it is also established that the clauses they criticize were capable of affecting trade between Member States and in addition, as the Court has held, might do so *significantly* (meaning that they had some force).

At point B I 1 (h) of the preamble to its decision, the Commission sought to show that this was true of the clauses of the licensing agreements to which it objected. It pointed in particular to the strong position of the licensees and Ten Cate in the German market and argued that the effect of the offending clauses was to render trade in board and rigs between Germany and the other Member States more difficult. The applicant denies that assessment. In the first place, it claims that it is especially significant that the market for components of sailboards was practically non-existent at the material time and that the separate demand for rigs in Germany could not be regarded as normal and was essentially arti-

ficial. In the second place, it relies on the fact that the market share of locally produced sailboards on the principal markets (Federal Republic of Germany, France and the Netherlands) was 70 to 80% and concludes that international trade in that field was of purely marginal significance.

1. In dealing with that point of contention I would dispose of the question of the *demand for rigs* alone (in the Federal Republic of Germany) by referring to what I have already said, which is that even if the demand is traceable to the special patent situation prevailing in the Federal Republic of Germany, still it certainly cannot be dismissed as 'artificial.' It must also be accepted that although it is difficult to avoid the impression that the market for sailboard components was on a fairly modest scale at the time it cannot be maintained that it was so insignificant that it could be completely ignored for the purposes of the criterion of a significant effect on intra-Community trade, which has not been subjected to any very strict requirements by the Court of Justice. Besides, if the applicant's statements regarding the market shares of locally produced sailboards are in fact true it is clear on that basis also that trade between Member States existed on a scale which is wholly relevant for the purposes of Article 85 (1) if that trade was affected.

If that is so the Commission's assessment of the clauses dealt with in Article 1 (1) (1) and (2) can scarcely be challenged. If the licensees were restricted in their freedom to *use boards*, that was capable of affecting trade between Member States because it was thereby made more difficult for the licensees to obtain boards from manufacturers in other Member States. On the basis of what is known of the licensees' production arrangements, it may also be assumed that it would not have been against the interests of most of them (since they did not manufacture themselves) to obtain supplies in that way. Furthermore, such supplies were undoubtedly available and in their interest (for instance from a large manufacturer in France), and it may certainly be assumed on the basis of the licensees' market shares in Germany that the distortion of trade associated with the restriction was on a quite significant scale. The same goes for the ban on the separate sale of rigs. It is true that at the material time there could not be said to be any foreign demand worth mentioning (as has already been established, the documents submitted by the Commission in annexes 8 and 9 to its defence relate only to rig *components*). Against that, however, it must be added that the ban may have had the effect of reducing the outlets of foreign board manufacturers in Germany (where boards could be assembled together with rigs purchased separately to produce whole sailboards), and it cannot even be ruled out that that was the case to an appreciable extent.

2. On the other hand, it appears extremely doubtful whether the criterion at issue is also applicable to the other clauses referred to in Article 1 of the contested decision (here admittedly I leave out of account altogether those referred to at points 4 and 5, in particular because the growth in licensees' turnover is not consistent with a diminution in their freedom of action).

(a) As we have seen, the *royalty clause* is open to criticism at least in so far as royalties were payable on boards not covered by the German patent (that is because it put an unwarranted difficulty in the way of the separate sale of boards). Here, however, — apart from the fact that the market in boards was not in any event very large — it should be borne in mind that it is unknown to what extent the licensees had any interest in such sales (for they must have been primarily concerned with exploiting the invention — producing rigs — and selling whole sailboards), and that the size of the intra-Community trade in that product is also unknown.

(b) As regards the restriction of the right to undertake *manufacture in a territory not covered by a patent*, the Commission clearly accepts itself that the main concern in every case was with production for local markets and that this therefore has hardly any bearing on trade between States. Moreover, it appears extremely questionable whether the ban constituted a real impediment since it is surely doubtful that the licensees already had an interest in developing additional foreign production capacity when they had only just begun trading (this they have evidently not done even now although the amended agreements give them every right to do so).

(c) Finally, with regard to the *no-challenge clause* dealt with in Article 1 (3) of the decision, the preamble merely states that the clause reinforced the licensor's patent right against all competitors. Yet in the first place, it is questionable whether those rights can be said to have been reinforced in any real way since all other licensees and indeed any third parties were wholly at liberty to challenge the patent. It must also be acknowledged that this clause was clearly devoid of the slightest significance, as is shown in particular by the fact that Ostermann continued to refrain from challenging the patent even when the amended contract left it entirely free to do so and even after that concern was taken over by the applicant's largest competitor.

3. The view I therefore come to is that if the Commission's findings in Article 1 of its decision are critically appraised in the light of all the criteria applicable under Article 85 (1), only those contained in Article 1 (1) (1) and (2) (prior approval of the boards by the applicant and the ban on separate sales) can be upheld. For the rest, the applicant's submissions in this regard should be upheld and the findings contained in Article 1 of the contested decision declared void.

IV — *Article 85 (3)*

The decision also expresses a position on the question — this requires thorough examination pursuant to Article 85 — whether, if the agreements are not compatible with Article 85 (1), they may be exempted from the prohibition it contains by virtue of Article 85 (3). In the Commission's view that was not possible because both the formal requirements of that provision (notification to the Commission) and its substantive requirements were unsatisfied. Because the applicant considers that that assessment is also unfounded, a few remarks are in order on that point as well.

1. Article 4 of Regulation No 17 provides that in the case of agreements concluded after the entry into force of the regulation (such agreements are at issue here), a decision in application of Article 85 (3) may

only be taken if they have been notified to the Commission. As the licensing agreements in this case were not notified, it must be considered whether they are covered in this regard by the exception in Article 4 (2), which applies, as we know, to agreements to which not more than two undertakings are party where those agreements, *inter alia*, impose restrictions on the exercise of the rights of the assignee or user of industrial property rights.

The Commission takes the view that this is not the case, and indeed it must immediately be admitted that nothing has been said in argument which might invalidate it.

In that regard it is sufficient to point out that the restrictions dealt with in Article 1 (1) (1) and (2) (prior approval of the boards and the ban on separate sales, which are all that is now at issue) exceed the scope of the applicant's patent rights and therefore do not concern their exercise alone, because in any event the German patent does not cover the board. This much is clear as regards the requirement of approval for the boards (because it concerns the market for boards); but the same also goes for the clause prohibiting rigs from being sold separately because it directly affects the market for boards.

In its argument to the contrary, the applicant clearly achieves nothing by saying that a board is unusable without the rig and that it is therefore necessary to have a complete combination, in which the board is also important, in order to exploit the invention. In the first place, it should not be forgotten that even at the time when the agreements were in force separate markets in sailboard components were present to some extent. In the second place the Commission is right in stressing that the exceptions to the requirement of notification must be interpreted strictly because they were introduced for restrictions on competition thought to be generally harmless. On that basis, however, there can be no justification for applying the words 'exercise of the rights' in Article 4 of Regulation No 17 broadly and without any reference to the clear scope of a patent.

2. In addition it is questionable whether the agreements satisfy the requirements of Article 85 (3), in particular the requirement of an improvement in the production or distribution of goods or the promotion of technical or economic progress and the requirement that the agreements must not impose obligations which are not indispensable to the attainment of those objectives.

The Commission's assessment to that effect appears in any event to be correct as regards the clause prohibiting the separate sale of rigs because it did nothing but impose restrictions and no beneficial effects such as those required in Article 85 (3) were discernible. Moreover, the same applies to the requirement of prior approval referred to in Article 1 (1) (1) of the decision. For even if it is held that the licensor had a legitimate interest in maintaining a certain level of quality (which might be relevant as 'improving the production of goods') that would require that objectively-defined and specific criteria should have been laid down in advance. Since these agreements contain a general and indefinitely-worded requirement of prior approval, they are incompatible with Article 85 (3) particularly if its practical application gives the impression of being concerned more with the division of the markets than with questions of quality.

Here too the applicant's arguments appear to be irrelevant; it claims that its policy in granting licences made a substantial contribution to the rapid growth in the German market and that because of the importance it attached to a wide choice of models there had been an expansion in production. In truth it is not easy to see that those arguments contain anything of relevance for the purposes of Article 85 (3). Furthermore, it must be assumed that similar economic results could have been produced by means of licensing agreements not containing unlawful restrictions since it can be taken for granted that the licensees were already concerned to stimulate the expansion of the markets by means of competition in the variety of their products.

V — *Article 3 (1) of the decision* (imposition of a fine on the applicant in respect of the infringements of Article 85 (1) found in Article 1 (1) (2), (3) and (4), and in Article 1 (2) and (3))

As I said at the outset, the applicant seeks in any event to have this part of the decision declared void or at least to have the amount of the fine reduced (which is possible under Article 172 of the EEC Treaty). The arguments put forward in this connection make it necessary for me to state my views as follows.

1. First it should be borne in mind that Article 15 (2) of Regulation No 17 permits such fines to be imposed (within certain limits which it specifies) where undertakings intentionally or negligently infringe Article 85 (1) of the Treaty. It goes on to state expressly that regard is to be had to the gravity and the duration of the infringement.

If my earlier assessment of the decision is right, it must be accepted that only one of the infringements of Article 85 (1) for which the Commission thought a fine should be imposed remains, namely the obligation not to sell rigs separately. That fact alone would be enough to make a substantial reduction in the fine appropriate since it is already clear that in setting the amount of the fine, the Commission was influenced by the consideration that four further infringements required a fine.

2. Further, if the applicant's contentions regarding the subjective requirements of Article 15 and the 'gravity of the infringement' are entertained and the question is raised whether they provide grounds for cancelling the fine altogether, or whether at least further arguments for reducing the fine have become apparent, the answer I suggest is as follows:

(a) The applicant is clearly of the opinion that fault cannot be alleged against it because it could reasonably take the view that the German patent, like patents in other countries, encompassed the whole sailboard and that it was therefore justified in including terms for the manufacture and marketing of the whole sailboard in its licensing agreements.

This, however, is difficult to accept. In general it should be said that different patent situations are not at all unusual since, as was well known to the applicant, the apparatus it had developed enjoys no patent protection at all in some countries. As regards the German legal position in particular, the Commission was right to point to the amendments made to the patent claim and the patent description in January 1974, which also provided the basis for the

interpretation of the patent specification in June 1974. They make the assumption that the German patent also included the board appear at least *negligent*. Furthermore, an allegation of fault cannot be cast aside by referring to language problems and the fact that the applicant relied on the British patent when granting the licences, which were drafted by American lawyers and referred both to the German and the British patent. In that regard it is sufficient to note that the applicant had a German lawyer for the patent application procedure in Germany. He was in a position to take an opinion on the scope of the German patent, and, as the Court was told, he gained the applicant's express approval for the amendments made to the patent claim in January 1974.

(b) It must, however, be accepted that in assessing the level of the fine from the point of view of the 'gravity of the infringement', two points at least which are not mentioned in the decision should have been borne in mind.

(i) It would follow from the account which I sought to give of the market situation that separate markets for sailboard components existed from 1979/1980 at the earliest and that they were on a very modest scale. In the light of those facts it would have appeared quite normal at the time when most of the licensing agreements were concluded to assume that whole sailboards would usually be sold, and contractual terms to that effect could not be regarded as imposing unlawful restrictions. Since the demand for rigs among licensees has only been proven for the end of 1980 and the beginning of 1981, it must at least be held that the Commission's finding in its decision that the ban on the separate sale of rigs (which excluded suppliers of boards from the market) *significantly* affected the market as early as 1978 and 1979 and had a *major effect* in 1980 and 1981 is overstated and cannot be accepted in that form.

(ii) As regards the practical effects of that clause, it should first be stated that if there really was a demand for rigs alone, it was clearly not rigorously applied (as is shown by the case of Shark). Secondly, it is evident that because the Commission did not question the licensees on that point, no reliable information is available as to whether they actually had any interest in the sale of separate rigs. At all events it is noteworthy that in a statement (by Mr Spanjer) submitted by the applicant it is said that SAN did not itself wish to sell rigs, and that the statement also mentions that the licensees had spontaneously agreed (the applicant was not involved) in 1979 not to sell rigs separately.

(c) Against that I would say that other arguments canvassed by the applicant do not afford grounds for criticism of the decision to impose a fine and for further reducing the amount of the fine.

That applies to its claim that the Commission has *never adopted such a decision before*. That argument is certainly not sufficient as an answer to the allegation of negligence.

The same goes for the fact that the applicant expressed its readiness immediately after its discussions with the Commission in January 1981 to amend the offending agreements. On that point the Commission was right to point out that that is only relevant in connection with the *duration* of the infringement. In fact that circumstance was taken into consideration

since the Commission found infringements under Article 85 (1) only in respect of the period up to 1981.

The same also applies to the fact that the applicant is a comparatively small undertaking and that the patent infringers in Germany had a market share of about 30% (the effect of this is that the applicant loses the same amount in royalties). In that regard it is surely sufficient to point out that the Commission imposed a fine well below the upper limit set in Article 15 of Regulation No 17 (1 000 000 Units of Account or 10% of the turnover in the preceding business year).

The same finally applies to the applicant's assertion that the restrictive practice at issue was created at the licensees' initiative and that they had put pressure on the licensor. No clear evidence of that has been supplied, and in particular the correspondence laid before the Court of Justice at its request suggests nothing of the kind, let alone that it was the licensees who expressed interest in this clause when the agreements were drafted. In so far as the applicant went on to advance the contention that the imposition of a fine on it alone was discriminatory, it must first be doubted whether an argument first put forward in the oral proceedings can in any event be considered. It may also be held that the Commission has shown convincing grounds, in view of the legal position and the parties' interests, for a different treatment of the applicant on the one hand and the licensees on the other.

3. If, following what I have said, it is concluded that although it would be inappropriate to declare Article 3 (1) of the decision void in its entirety a significant reduction is none the less called for in view of the fact that only *one* infringement meriting a fine (the ban on the separate sale of rigs) is to be found, then it should also be examined for the sake of completeness whether there would also be grounds for reducing the fine if the Commission's assessment of the other clauses in respect of which it imposed a fine were held to be correct in the light of Article 85 (1).

First, with regard to the clause stipulating that *royalties* were also due on the sale of boards, I suggest that it should be borne in mind, as the Commission clearly did not, that any market for boards was on an insignificant scale at the time and also that it is not clear that the licensees had any interest in such sales, which might be made more difficult by the royalty clause.

As regards the obligation to affix a *licence notice to the board*, again it should be noted that as is shown by the trend of the licensees' turnover figures, it cannot have done any harm to their possibilities for development.

With regard to the *ban on manufacture in a territory not covered by a patent*, it must be a cause for criticism that no inquiry was carried out into whether it ever had any practical significance or whether, as seems probable, the absence of an interest on the part of the licensees made it a dead letter.

Finally, in regard to the *no-challenge clause* under patent law, it is significant that the clause was included in the licensing agreements by Ten Cate and that it clearly was difficult for the applicant to make

amendments (which Ostermann and Shark did not themselves demand) when it took over those agreements. Furthermore it must be acknowledged that the applicant itself did not have an interest in the inclusion of such clauses (they are wholly absent from the licensing agreements which it initiated itself); similarly, it is to be assumed that they were also of no significance to Shark and Ostermann since they never considered challenging the patent even later when they were no longer prevented from doing so.

I therefore come to the conclusion that the fine should be reduced even if the Court does not follow the view expressed here and accepts the Commission's legal assessment of the facts.

C — In conclusion, my opinion may be summed up as follows:

It is my conviction that the application brought by Windsurfing International is well founded in part. Accordingly, Article 1 (1) (3) (in so far as it extends to more than the charging of royalties on the boards), Article 1 (1) (4) and (5), and Article 1 (2) and (3) of the Commission decision should be declared void. In addition the fine imposed upon the applicant in Article 3 should be reduced quite substantially, and the sort of figure that occurs to me is 10 000 ECU. Finally I consider that such an outcome to the proceedings makes it appropriate to order each party to bear its own costs.